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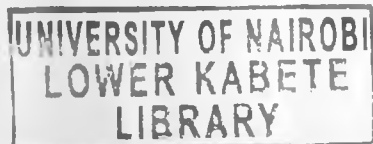
HOSPITAL TO CHANGES IN THE EXTERNAL ENVIRONMENT

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT
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DECLARATION

I declare that this research project is own account of own research and has not been presented for examination before for the award of any other degree or qualification in any university.
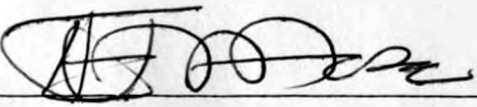
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D61/63123/2010

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

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DEDICATION

To my beloved husband and my precious children, of whom I am proud, to whom I am

grateful, for whom I live my life and with whom life is a joyful adventure.

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ABSTRACT

Organizations without exception are environment serving and environment dependent. They are therefore open systems that interact with their environment to secure the resources necessary for survival, adaptation and growth. Organizations policies and incentives depend on their role and functions as well as the beliefs and experiences of those who interact with them.

Health care industry in Kenya is facing unprecedented trials due to the rapid external environmental changes occurring during recent years. Survival and viability of hospitals today demands appropriately deployed strategic management. Unpredictable and constantly changing competitive environment, Political, economic, social, technological and legal triggers influence hospitals management forcing them to seek entrepreneurially flexible yet stable corporate strategies. How an organization responds to changes within its environment determines its success in the industry and constitutes its strategic responses.

This study discusses the strategic responses that the Aga Khan University Hospital Nairobi (AKUH, N) has adopted to counter the changes in their external environment. The research was an in-depth case study with the objective of establishing what strategic responses the AKUH, N has adopted to counter the changes in the changing external environment. The study was conducted by carrying out in-depth interviews with the AKUH, N management by the use of semi-structured interview guide to obtain primary data. Secondary data was collected from public reports and hospital's own announcements and documents.

The study established a number of strategic responses by the hospital to the external environment which included trainings of the staff, innovation, differentiation, efficiency, geographical expansion, adhering to government policies and regulations and promoting a learning culture within the organization that accommodate continuous change. The recommendation of the study was that it is important for the hospital to be able to identify the real client needs, identify their core business and outsource the non-core services, should continuously scan the environment for threat and opportunity as well as embrace change.

There were limitations to the study such as limited time for data collection due to the respondent's busy schedules and rigidity of information by respondents due to fear of victimization by their superiors and fear of giving out the hospitals trade secrets. Further research on how the AKUH, N manage constant strategic change within their organization was recommended.

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CHAPTER ONE: INTRODUCTION

1.1   Background Of the Study

The external environment consists of events and conditions surrounding an organization that influence its activities. It has a tremendous influence on organizations and profoundly shapes organizational behavior. This is because organizations do not operate in a vacuum but within an external environment. Organizations without exception are environment serving and environment dependent.

Organizations are therefore open systems that interact with their environment to secure the resources necessary for survival, adaptation and growth. This means that the way organizations responds to policies and incentives depends on its role and function as well as the beliefs and experiences of those who interact with it.

An environmental shift may necessitate strategic change to maintain alignment. Such shifts may result from changes in either the macro environment (e.g., new regulations, social forces, demographic changes, etc.) or the industry environment (e.g., new competitors, changes in competitor strategies, etc.). Changes in competition and technology necessitate a change in the knowledge base within the organization if it is to survive (Whipp, Rosenfeld, & Pettigrew, 1989).

Health industry have changed throughout history and will continue to do so, shaped by their patients, staff, technology etc. Diseases come and go, and the expectations of the

public change. Health professionals acquire new knowledge and skills. Predicting the future is an uncertain science (Mckee 1995), but one can be certain that the pace of change in the twenty-first century will be faster than ever.

Aga Khan University Hospital, Nairobi is not immune to the effect of the changing external environment. This is because it is an open system and hence interacts with the environment to secure its resources for its survival and growth. As the AKUH N find itself in the changing environment, its management must reassess their mode of operations and view the industry around them through fresh eyes if they are to succeed and survive in the dynamic environment. They must develop effective responses to enable them secure or improve their position in the future.

1.1.1 Environment Dependence

External environment refers to forces or factors external to an organization that affect the organization's operations. They are those conditions and forces which are external to the business and are beyond the individual business unit, but they all separate within it. Such forces include customers, creditors, politics, etc.

Organizations without exception are environment serving i.e. they depend on environment for their inputs and outputs. An organization gets its resources from the environment and supplies its goods and services to the environment. The external environment provides opportunities as well as threats to the business community. Every organization therefore tries to grasp the available opportunities and face the threats that emerge from the business environment.

An organization gets human resources, capital, technology, information, energy and raw materials from society. It follows government rules and regulations, social norms and cultural values, regional treaty and global alignment, economic rules and tax policies of the government. Consequently, all organizations find themselves dependent in varying degrees, on some elements in their external environment.

Thompson (1967) conceives the environments in terms of several key dimension: the organization's domain, or the claims it stakes out for itself; its task environment, that is , the elements of its environment with which it is most interdependent; and the power and dependence relations implied by the nature of its domain and task environment.

The organization's domain is defined by the claims that the organization makes in terms of its range of products, the customers it serves, and the types of services it renders (Levine & White, 1961). When there exists domain consensus, that is, recognition of the organization's claims by those within the organization and others with whom the organization interacts, the organization has a relatively well-defined role in a larger system. This provides a basis for expectations about what the organization will and will not do, hence providing the organization with a guide for future action.

The most relevant parts of this larger system from the organization's point of view compose its task environment (Dill, 1958); customers or clients; suppliers of materials, labor, capital, equipment, and work space; competitors for markets and resources; and regulatory groups, including government agencies, unions, and

interfirm associations (Thompson, 1967). These are the individuals and organizations that make a difference to the focal organization by helping or hindering it in setting and attaining its goals.

The task environment is pluralistic, composed primarily of other organizations with their own domains and task environments. But the dependence of the organization on its pluralistic environment introduces threats to its rationality in dealing with their own networks of interdependence; organizations in the task environment may not be counted on for continuing support indefinitely. Thus, dependency on the task environment creates contingencies or potential sources of uncertainty for the organization. In addition, the elements of the task environment may pose constraints on organizational action. These contingencies and constraints imposed by the task environment limit the organization's ability to act.

Thompson (1967) posits that the organization's dependence on an element of its task environment increases in proportion to the organization's need for resources or performance which that element can provide and in inverse proportion to the ability of others to provide the same resource or performance. Dependence is thus related to the concentration or dispersion of elements in the task environment that provide some form of support.

Dependence therefore implies a greater potential for constraint and contingencies imposed by the task environment, creating greater uncertainty for the organization. Thus, one of the key tasks for the organization seeking to achieve rationality is the management of its interdependence.

External environment is dynamic and hence is largely uncontrollable. It changes continuously posing new challenges in terms of opportunities and threats. Appropriate strategic responses are therefore needed to create a fit between the organization and its external environment. Otherwise, the organization will experience a strategic misfit and success will be difficult.

A business therefore interacts and is influenced by the external environment, organizations are therefore affected and shaped by events happening in the external environment in which they functions. Given the changing external environment, organizations that easily adapt and respond to the external environment through effective and timely strategic responses are essentially the ones that survive and prosper.

1.1.2 Strategic Responses

Strategic response is a set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a firm's objective. It requires organization to establish a coherent framework of objectives, mission statement, corporate levels for all parts of organization and at all management levels, if goal congruence and optimal decisions are to be achieved (Pearce & Robinson, 2002).

Depending on the current status of the organization, and its internal operations, management needs to be aware of the process by which it undertakes decisions; this process might be facilitative of, or inhibiting of the generation of appropriate alternatives. Depperu and Gnan (2006) propose that the external environment's demand trends should be carefully evaluated in order to align the most appropriate

strategic response. Since strategy is context specific, Depperu and Gnan (2006) contend that companies should be flexible enough to shift from one method of strategy formulation to another in order to cope with the different competitive contexts.

A classic problem in the field of strategic management has been how to establish and maintain a match between external environmental demands and anticipated internal (organizational) resources. Hofer and Schendel (1978) define strategy as the match an organization makes between its internal resources and skills (competencies) and the opportunities and risks created by its external environment. Since the external environment is constantly changing, often in unpredictable ways, maintaining this match or alignment is no easy task, and usually involves the need to overcome particular internal deficiencies or build new capabilities over time.

Management must therefore work hard and respond effectively through strategies that send consistent messages and align strategies, systems, and processes to achieve high performance. The organization must also be challenged continually to acquire new competencies so that it might be positioned for the future (Hart, 1992). Thus strategic response entails the need to build, continuously, distinctive firm competencies in time to capture emerging external opportunities as well as deal with the risk posed by the external environment.

If well formulated, implemented and evaluated, strategic response could mean the difference between success and failure of an organization. Given the changing and turbulent external environment, the organization must respond in a timely and

effective manner to match their strategic responses with the level of environmental turbulent failure to which they become irrelevant and eventually are eliminated.

1.1.3 Health Care Industry

Today's modern medical practice is in a state of significant evolution transforming from a competitively oligopolic market to one of mature consolidation (Kottler & Keller, 2006). Exposure to legislative, economic, and technical forces has altered the strategic orientation of medical practice. Consumers have witnessed in the last 20 years, the consolidation of small privately held hospitals into vast health care systems and corporations (Longest, 2001). The medical practitioners are continuously calculating their responses to these environmental variables in order to maintain health and viability.

In Kenya, health services are provided through a network of over 4,700 health facilities countrywide, with the public sector system accounting for about 51% of these facilities. The best quality of care is found at national referral hospitals, which represent the apex of the healthcare system and provide diagnostic, therapeutic and rehabilitative services. The two public national referral hospitals are Kenyatta National Hospital in Nairobi and Moi Referral and Teaching Hospital in Eldoret. The equivalent private referral hospitals are the Nairobi Hospital and the Aga Khan University Hospital, also in Nairobi.

While national surveys reveal medical care as an industry is lagging behind other service sector professions in the use of modern practices such as electronic and

internet based processes, environmental triggers including patient preferences and satisfactions are pulling the medical profession toward this technology. Strategic changes that alter the nature of a provider's craft are vital to maintain viability in the primary care industry.

1.1.4   The Aga Khan University Hospital Nairobi

Established in 1958, The Aga Khan University Hospital is one of the most comprehensive University Hospitals in Kenya with leading specialists in every field of medicine.   With dedicated staff, modern facilities, state-of-the-art technology, commitment to quality care, and role in educating future clinicians, the hospital has earned a reputation as a health care leader.

One of the objectives of the Aga Khan in building the hospital was, initially, for the teaching and training of nurses, with a long-term policy of participating in medical training.   The hospital is now a well established Nurses Training School and is recognized by the University of East Africa for medical Internship and Post Graduate Specialist Medical Training.

Through ongoing partnerships with prestigious overseas institutions, AKU brings international expertise to bear upon the establishment and enhancement of its current and future programmes and services. Additionally, in line with its commitment to the advancement of the status of women, the University seeks similar collaborations to strengthen women-oriented professions such as nursing and teaching. AKU occupies a pivotal place in the Aga Khan Development Network and is contributing in major

ways to social development. It prioritizes higher education and research initiatives particularly relevant to the problems of the developing world.

The aim of the AKUH, N is to enable the provision of high quality patient care and service delivery by creating a virtuous circle of excellent training for its health care staff combined with the best facilities and equipment, to increase the range of medical specialties, and to harness new medical practitioners at the hospital. The goal is to invest in medical education, and health care facilities, to enable the delivery of patient care to international standards in a wider spectrum of medical specialties.

1.2   Research Problem

Organizations do not operate in a vacuum. but within an external environment. They depend on the environment for their inputs and outputs. For example, organizations will depend on the state of technology, substitute products, customers, suppliers and government among others. In addition, the external environment is dynamic and unpredictable. It changes continuously each time posing new challenges in terms of new opportunities and threats. This leads to changes that are so sudden and extensive that often overwhelms the adaptive capacities of resilient organizations, and surpasses the comprehension of seasoned managers (Meyer et al., 1990).

As the pace of changes in external environment accelerates, organizations' survival increasingly depends on devising strategic responses to unforeseen discontinuities. The organizations must be flexible enough to allow adoption of strategies that enhance the strategic fit between the organization and its external environment. For the

organizations to survive, they must craft strategies that are responsive to the external environment.

The health care industry has undergone fundamental change in the past ten years and currently faces an increasingly turbulent environment (Ginn, 1990). This has resulted in an increasingly competitive hospital market. In Kenya, health care is dynamic and more complex than ever, with technological innovations, new treatments, new laws and regulations and new types of healthcare service delivery models. As a result, the health care firms among them The Aga Khan University Hospital, are brimming with signs of change as they scramble to take hold of resources and market both domestic and across borders.

Studies have been done on how various organizations have responded to environmental challenges. For example, Murgor (2008) studied strategic response of sugar companies in Kenya in the face of changing environmental conditions. Abdullahi (2000) studied strategic responses by health maintenance organization while Mwarania (2003) did a survey of environmental development and firm's responses in the health insurance sector in Kenya.

From these studies it was evident that different organizations respond differently to the turbulent external environment with the aim of meeting their objectives. The Aga Khan University Hospital is not an exception to this turbulent external environment. The study therefore aim at answering the following question. What strategic responses had the Aga Khan University Hospital, Nairobi (AKUH, N) adopted to counter changes in the external environment?

1.3   Research Objective

The objective of this research was to establish the strategic responses that the Aga Khan University Hospital Nairobi (AKUH, N) has adopted to counter changes in the external environment.

1.4   Value of the Study

The findings of study will help the management of AKUH, N identify the strategic gaps in their responses to the factors in the external environment. This will enable them rethink their strategies with the aim of managing any strategic gaps and come up with other feasible strategic responses that could be useful in future.

In addition, the findings will help improve on existing literature and contribute to the pool of knowledge on the organizational external environment and strategic responses appropriate in dealing with the dynamic external environment especially in hospital settings. The findings could also form a base for future research such that it could be replicated in a different context at a later date.

The findings will guide the policy makers in health industry by giving them hard data on which they can base their decisions. They will therefore make informed and well balanced decision through their understanding of the external environmental challenges faced by organization which would in turn lead to overall development in the health industry.

CHAPTER TWO: LITERATURE REVIEW

2.1   Introduction

This chapter provides a review of literature that is relevant to this study. It includes different arguments of various scholars and authors about the external environment and strategic responses. It reviews literature on the concept of strategy, organization and the external environment and strategic responses.

2.2   The concept of strategy

Strategy is a pattern or plan that integrates an organization major goals, policies and actions sequences into a cohesive whole (Porter, 1980). It is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholders' expectations (Johnson & Scholes, 2011).

The top management of an organization is concerned with the selection of a course of action from among different alternatives to meet the organizational objectives. The process by which objectives are formulated and achieved is known as strategic management and strategy acts as the means to achieve the objective.

Ansoff (1965) views strategy as decision rules and guidelines required by a firm for its orderly and profitable growth. Ansoff describes strategic decisions as those that are concerned with external rather than internal issues. Examples of these types of

decisions would involve determining what business the firm is in or what business the firm wishes to be in, as well as defining its long term goals and objectives. In contrast to strategic decisions, operational decisions are internally focused and absorb much of the organization's time and effort, as they are the decisions made with regard to the organization's daily functioning. Examples of these types of decisions would be resource allocation, scheduling, monitoring performance and marketing.

Andrews (1971) conceptualizes strategy as the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal polices and plans for achieving those goals, and defines the range of business. The company is to pursue the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customer and communities.

Andrew stresses that strategy formulation is itself a process of organization, rather than the masterly conception of a single mind, that must finally become clear. Therefore strategy is often unfinished. In this way, the role of management is to coordinate the process of choices that happen in organizations. These activities are spread through the hierarchical levels in the complex organizations, whose context should be coordinated by top management. Strategy formulation involves many people at different echelons of various departments, and demands a considerable period of time as well.

Chandler (1962) on the other hand defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action

with the allocation of resources necessary for carrying out these goals. Considering Chandler and Andrews' definitions, an organization's strategy typically is thought of as an all-encompassing grand "plan", with intentions of alignment between the organizational external environment and the organizational internal processes and Structure (Miles and Snow, 1978). It is an overall 'plan' which an organization chooses in order to move or react towards the set of objectives by using its resources.

Strategies most often devote a general programme of action and an implied deployed of emphasis and resources to attain comprehensive objectives. An organization is considered efficient and operationally effective if it is characterized by coordination between objectives and strategies (Porter, 1980).

There has to be integration of the parts into a complete structure. Strategy helps the organization to meet its uncertain situations with due diligence. Without a strategy, the organization is like a ship without a rudder. It is like a tramp, which has no particular destination to go to. Without an appropriate strategy effectively implemented, the future is always dark and hence, more are the chances of business failure.

2.3   Organization and the External Environment

Many scholars have recognized the importance of congruence between organizations and their environments (Burns & Stalker, 1961). Organizations are also dependent on their environments (Pfeffer and Salancik, 1978). The notion that as the environment changes organizations should change their strategies has long been held (Thompson, 1967; Miles and Snow, 1978).

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Environment has a greater impact on strategic decision making in more technologically intensive industries than in simpler industries (Jemison, 1981; Kim and McIntosh, 1999). Complexity challenges organizations' abilities to interpret their surroundings and respond to changes in their environments. With rapid change, interpretation and response become all the more difficult tasks for organizations. Complex environments that change rapidly are labeled turbulent environments (Ansoff, 1979).

Smith and Grimm (1987) suggest that a dynamic view of the relationship between the environment and strategic change is necessary to explore this relationship. Zajac and Shortell (1989) address the question the as to whether or not organizations change strategies in response to changing environmental conditions and found that while this is a generally appealing concept relatively little empirical work has been pursued.

While Zajac and Shortell (1989) found general agreement with the notion that organizations change strategies in response to changing environmental conditions, their findings were less than conclusive. Ginsberg and Buchholtz (1990) in their study of health maintainance organizations found that organizations did in part change strategies in response to changing environmental and regulatory conditions.

Kraatz and Zajac (2001) were consistent with their earlier work and the behavioral perspective in their studies of small colleges and found that while the resources held by firm did constrain strategic change, organizations did respond to changing environmental conditions.

Environmental change affects the ways in which organizations interpret strategy and performance. While internal organizational members and membership dynamics are integral contributors to organizational strategies, understanding the context in which an organization is embedded may enhance evaluation and understanding of organizational strategies (Chakravarthy and Doz, 1992). Chan (1986) and Jackson (1991) found to varying degrees that organizational change results from a dynamic combination of environment, strategy, structure, and technology factors.

As environments change rapidly, there is increasing pressure on organizations to produce valuable outputs faster and more efficiently. Gupta and Wilemon (1990:24) argue that the rules of the game of new product development have changed. They suggest that the environment for new product development is characterized by increased competition, new technologies that make existing products obsolete, changing customer needs and shorter product life cycles, higher development costs, and increased need for involvement of customers, vendors, and strategic partners in the development process.

Bourgeois and Eisenhardt's (1988) investigations of rapidly changing environments found that successful firms have an ability to react to environmental changes. Bourgeois and Eisenhardt's finding are also supported by Ginn's (1990) investigation of acute care hospitals in the 1980s. These organizations have the ability to make strategic decisions both carefully and quickly in light of sudden environment changes.

Organizations experiencing rapidly changing environmental face both high complexity and dynamism. Assuming a highly complex and dynamic environment,

implicitly leads to the issue of continuity. Continuity deals with the magnitude of the changes in those parts of the environment that are changing (Tushman & Romanelli, 1985).

Continuity is considered high during relatively incremental changes that build upon previous experiences. Incremental environmental change describes those changes that represent incremental or convergent shifts in salient environmental factors. Continuity is considered low during major changes that break from or are incongruent with previous experiences. Major environmental change describes revolutionary changes in environmental factors. These revolutionary changes tend to reorient or transform affected segments of the environment.

There is less consensus about the abilities of firms to learning from prior experience during periods of incremental environmental shifts than during period's major change (Eisenhardt & Bourgeois, 1988; Bourgeois & Eisenhardt, 1988; Eisner, 1997; Ginsberg & Buchholtz, 1990; Tushman & Romanelli, 1984; Tushman & Anderson, 1985). However, while there are competing theoretical perspectives about the nature of major change in the literature, there appears to be agreement about the disruptive effects of that change (Tushman & Romanelli, 1984; Tushman & Anderson, 1985; Lant & Mezias, 1990).

Since organizations are open systems that depend on the environment for their inputs and outputs, they must relate effectively with the environment for success i.e. for their survival and prosperity. This is because managers cannot control the external environment; they can only react to it through strategies aimed at grasping the

opportunities and facing the threats posed by the external environment. Managers must continuously analyzing their external environment to enable them pursue effective business strategy that fits the dynamic external environment failure to which the organization experiences a strategic misfit and success will be difficult.

2.4   Strategic Responses

Strategic responses are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives (Pearce & Robinson, 2002). It is a reaction to what is happening in the environment of the organization. Firms react to the turbulent external environment differently with the aim of creating a fit between themselves and their external environment.

According to Miles and Snow (1978), in responding to a given environment firms can be Defenders, Prospectors, Analyzers or Reactors. Defenders have a non adaptive, rigid and risk-aversive strategic orientation. They deliberately reduce innovative and adaptive costs and risks by selecting a stable, narrowly defined product or market domain. Defenders are internally oriented and efficient. They operate in a narrow segment of the total market and concentrate on quality.

Miles and Snow (1978) define prospectors as firms that aggressively seek growth opportunities through product and market development and innovation. Prospectors tend to have changeable policies, making it difficult for managers to rely on historical precedents. Prospector's strategies are inherently riskier than other strategies.

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Sitting between prospectors and defenders, analyzers seek both risk-adjusted efficiency and emerging market opportunities so that the approach is best described as "balanced" (Miles and Snow 1978). Analyzer firms tend to have less discretion than defenders but more than prospectors. In addition, the level of risk associated with analyzer strategies tends to fall between that of prospectors and defenders. These dual strategies reduce the likelihood of outright failure, but also create upper limits to success (Miles and Snow, 1978). Analyzer strategy seems a wise option for organizations situated in a turbulent context where both strategic choice and environmental determinism are high.

Reactors unlike the other three, lack a consistent strategy-structure-culture relationship. Their adaptation to the environment conditions tends to be piecemeal strategic changes despite a paucity of external constraints. In other words, this is a "residual" strategy, arising when one of the other three strategies is inappropriately pursued (Miles and Snow, 1978).

The above review of the relevant literature shows that defenders and prospectors are two basic forms of miles and Snow typology, with Analyzers a hybrid form and Reactors really a collection of inappropriate responses. How company respond to the external environment largely depends on the firm's capacity and management style provided by the corporate level, business and functional level managers.

Miles and Snow (1978) also provide a strong support for the proposition that four different generic strategies exist in a variety of environmental settings. Furthermore, dynamic environments will have a higher proposition of prospectors, while defender

type firms will be predominant in more stable industries. Conflicting evidence has been reported in relation to performance differences among the four strategic types. It seems that variables of both an internal and external nature may influence this relationship, such as, firm size or environmental turbulence.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1   Introduction

This chapter outlines the various stages to be followed by the researcher. It is the blue print of the study as it covers the overall plan aimed at aiding the researcher carry out the research in order to answer the research question. It discusses the research design, data collection and data analysis.

3.2   Research design

The study adopted a case study approach. A case study research method was found to be the best suited to an in-depth understanding of the strategic responses that AKUH, N has adopted to counter changes in the external environment. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context. It allows for an in-depth examination of a phenomenon about a particular subject and its data are usually more detailed, varied and extensive (Yin, 1984).

Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Researchers have used the case study research method for many years across a variety of disciplines. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods.

The qualitative approach was chosen because the qualitative data focuses on naturally occurring, ordinary events in a natural setting. According to Miles & Huberman (1984), qualitative data has also the potential for "richness and holism" revealing complexity and providing thick descriptions that are vivid, nested in a real context.

3.3   Data Collection

The researcher collected both primary and secondary data. The primary data was collected by use of a semi-structured interview guide while secondary data was collected from public reports and the hospital's own announcements and documents. This methodology was chosen because it was considered the best approach to answer the research question.

Through the acquisition of material from different sources, the impact of the respondent subjective opinions was reduced and the multi-faceted authenticity of the cases emerged. The respondents included the CEO and six departmental heads charged with the responsibilities of strategy formulations, implementation and evaluation in AKUH, N.

3.4   Data Analysis

Qualitative data analysis was used in this study. Qualitative analysis involved working with the data collected, organising them, breaking them into manageable units, coding them synthesising and searching for patterns with the aim of discovering pattern, concepts, themes and meanings.

The data was then analyzed using content analysis. This is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate to trends (Nachmias and Nachmias, 1996). Content analysis was used to extract the key theme, concepts and arguments with text with the aim of having a clear understanding of the effects of the external environment and the strategic responses encountered by AKUH, N.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1   Introduction

This chapter presents the data analysis, results and discussion of the research findings. Data analysis was carried out through content analysis. The discussion and findings emanate from the literature review and in-depth interviews as well as public reports and the hospitals own documents and announcements discussed in chapters 2 and 3.

4.2   Changes In The External Environment That Impact On The Aga Khan University Hospital Nairobi

The respondents reported that the major changes from the external environment that impacted on AKUH, N included changes in technology, social, political, and economic factors. Other factors included having to deal with the stiff competition from the ever increasing private clinics, and other major players who included Nairobi hospital and M P Shah Hospital in Nairobi that has taken the competition to another level.

The increasing competition from other players in the industry was sighted as the major challenge for Aga Khan University Hospital Nairobi. The respondents said that unlike five years ago, the industry currently is extremely competitive with many different options for patients seeking care. They said that private clinics are coming up everyday some of them offering very unique services to their patients, personalized treatment and privacy which most patients consider very important. The respondents

raised concern that these private clinics are strategically located within the AKUH, N neighborhood, encircling the hospital to attract the would be customers of the AKUH.

The Kenyan economic situation has remained uncertain and constantly changing for the worst. The respondents felt that Kenyan has not been doing very well economically and this has reflected in AKUH, N operations. The respondent said that the fluctuating exchange rates have resulted to financial losses to the hospital mainly when dealing with imports necessities for the hospital. In additional, the respondent said that the purchasing power of their customers depended upon the economic factors like current income, circulation of money, debt and credit availability and with inflation and the uncertain and unpredictable economic situations in the country the hospitals revenues has responded negatively.

The political and legal environment in Kenya according the respondents is also unpredictable and frequently changing to. The respondent pointed out that government policies and regulations are constantly changing. Some of these policies affect the hospital negatively e.g. the Pharmacy and Poison Board that show qualified pharmacists allowed to dispense drugs to patients. The respondent said that this has drastically reduced their income especially in the pharmacy department.

The respondents also expressed fears of election period and sighted the 2008 elections as one of the most difficult times for the AKUH management as far as the politics was concerned. They stated that the political stability, political ideology, the law and order situation and the practice of the ruling party have always reflected either negatively and positively in their business and hence any change in politics meant drastic

measures for the hospital. This was due to the policies and rules and regulations that the government of the day comes with e.g. tax policies keeps changing to reflect the political will and can either affect the business positively or negatively.

Social-Cultural Environment was also reported to be changing drastically. The custom, traditions, education, tastes and preferences of the customers are changing. It was reported that unlike ten years ago, today's patient is aware and conscious of their rights, quality; work ethics etc and hence want value for their money. It is never business as usual in AKUH, N because each day is a learning experience for the staffs and hence the management is charged with the responsibility of ensuring that the staff meets the customer's expectations. Failure to do that sometimes results in loss of business and even sometimes lawsuits.

One of the most emphasized change by all the respondent was the advancing technology. The respondent pointed out that health care industry thrives on technology. Patients are demanding faster and more accurate treatment and hence physicians need the technology. The hospital need advance machines and equally qualified physicians and technicians and these translate to more costs for the hospital. The responded said that the change in technology has brought with it many challenges because technology is advancing every day and what was referred as latest technology yesterday could become obsolete today and hence a lot of cost is experienced in trying to keep up with the latest technology.

4.3   Strategic Responses That AKUH Has Adopted To Counter The Changes In The External Environment

The Aga Khan University Hospital management realizes that they cannot change the external environment and hence have put up strategies to counter the above challenges posed by the changing external environment.   To respond to the above external environment changes, the respondents reported that the management have implemented several strategies to counter the changing and competitive external environment.

First and foremost, the AKUH, N has made it their priority to always strive to be a market leader to enable them set their business apart from the others in order to beat the ever emerging competition in the industry.   They strive to be a step ahead by providing quality products that are innovative and unique and hence delivering the best solution for customers.

The respondent gave and example of the establishment of the Heart and Cancer Centre (HCC), an ultra-modern medical complex that provides high quality care to patients suffering from heart disease and cancer in an environment of high technology comfort.   It was inaugurated by His Excellency President Mwai Kibaki of Kenya on July 25, 2011 and was the first in the region.   The respondents said that being a market reader has enabled them to become a viable competitor and most hospitals in Kenya are continuously benchmarking themselves with the AKUH, N.

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In addition, the AKUH has differentiated itself in terms of having products/services for every Kenyan. It has products for both high income and middle income earners. The respondents sighted the Pavilion as their executive wing for their executive patients and other high income earners. They also have their general ward for their middle income earners but they emphasized that quality health care is guaranteed for both groups of patients.

To tap all the market segments, AKUH, N have centers across the country and recently converted the Naivasha Laboratory into a Medical Centre. Additionally, the AKUH, N has established diagnostic services in Machakos, Thika and Eldoret and has also recently expanded the diagnostic Imaging services through the acquisition of six diagnostic Centres. These diagnostic centres are located on Muthithi Road (Chiromo Lane), Upper Hill Medical Centre (first floor), Avenue Hospital, Jubilee Insurance House (third floor), Nakuru War Memorial Hospital and Thika X-Ray Centre Building.

To ensure that all the branches of the AKUH provide quality services, the respondents said that all of the branches of the AKUH report directly to the main hospital and all the authorizations are done from the main branch in Nairobi. They added that the physicians who go to attend to patients in these branches are also sent from the main hospital in Nairobi. This has enabled the AKUH maintain their customers despite the competitive business environment.

With the issue of the economy, the respondent reported that the management tries as much as possible to run the hospitals operations efficiently in order to keep the costs

low to allow them provide quality services at the lowest possible price for their customers when the situation calls for it. With the ever raising interest rates as a result of inflation, the respondent said that the hospital management tries as much as possible to diversify its funding sources, reduce over reliance on bank loans and often opting for those with lower interest rates.

To counter the social-cultural changes, the respondents reported that the management has capitalized on training the staff to deal with ever emerging issues and provide the customers with the best experience possible during any interaction. The respondents pointed out that the management realized that the needs, values and priorities of patients are unstable. The managers at AKUH therefore found the need to constantly adjust their management styles to meet these values and needs. This is done through continuous training of the staffs. The respondents said that aim of the management is to create a relationship with their customers so that they are able to learn more about them in terms of the changing tastes and preferences, changing lifestyles etc to enable them give the best product/service for their targeted customer.

To address the issue of low income patients, the AKUH, N have launched a robust Patient Welfare Program (PWP) supported by partners and corporate organizations such as Diamond Trust Bank, Pharmaceutical Society, Lions Club and Naivasha Horticultural Fair amongst others. The PWP ensures that low income patients in need of healthcare, but unable to afford it, can have access to quality healthcare and specialized treatments. The respondent said that this has resulted to the public and the government perceiving the hospital as a good corporate citizen. This positive image

has led to more business and less problems for the hospital despite the unexpected external environment.

With the constant change in technology, the respondent reported that the AKUH management has chosen to look at the advancing technology as an opportunity rather that a threat. Their research department was reported to be always working on the latest technology constantly working on bringing the next best thing to the market. To accelerate this process, the respondents said that the AKUH, N has been investing heavily in state-of-the-are equipment and constantly maintains existing equipment to ensure that patients get the very best health care. This included investment and upgrading of integrated IT systems to ensure easy retrieval of data and smooth flow of information between health care providers. "Modern facilities and equipment must go hand in hand with high quality" said one of the respondents.

The respondents said that constantly advancing technology has enabled the hospital save time and money by conducting transaction, negotiation, and trade in real time, it has also facilitated the sharing of sensitive information about patient's conditions with expert doctors in other countries for consultation purposes. In addition, modern technology has enabled the AKUH, N to conduct Research and development efficiently and effectively as well as collaborate with other doctors in other developed countries in a matter of seconds.

With political and legal changes, the respondent said that the management tries as much as possible to follow all the policies and regulations of the government of the day to the letter in order to avoid law suits which according to them would spoil the

hospitals reputation as well as waste valuable time which could be instead used constructively to bring in business. The AKUH strategy to counter any political or legal challenges is to work with the government and play their part in building the country by adhering to all rules and regulations set by the government.

"The bottom line of AKUH, N strategies to counter the changing external environment is change" a respondent said. He said that change in AKUH, N is business as usual. AKUH, N is constantly changing to adapt to the changing external environment. He also emphasized that for changes to be effective within the hospital systems, the CEO does not lead the change alone, leaders from variety of functions and levels are involved. Education and development of these leaders is effected to enable them understand their roles in managing and motivating change. The leaders in AKUH, N are therefore equipped with the necessary education, skills and knowledge needed to guide the change process.

4.4   Discussion of Findings

It is evident from the study that change is the only constant in today's life for individuals and organization. The external environmental changes are inevitable and organizations that survive the dynamic external environment are those that create a fit between themselves and their external environment.

In addition, the study demonstrates that organizations do not operate in isolation. They are integrated and interlinked. Organizations are open systems because they get resources from others and give output to others in their external environment. A

business therefore deals with a number of business key environmental forces. These forces from where a business gets resources and supplies resources, forces that influence the business operation, and factor that present opportunities and threats are taken as the business environment.

4.4.1 Comparison with the Theory

Organizations are open systems, they operates within a dynamic external environment which is largely uncontrollable. Consequently, for their prosperity and survival, firms need to adjust to the changes in the external environment through effective and timely strategies that match its capabilities with the environment i.e. matching the organization's strengths and weaknesses to the environmental opportunities and threats (Thompson, 1967; Miles and Snow, 1978).

Zajac and Shortell (1989) found general agreement with the notion that organization change strategies in response to changing environmental condition. From the study, the AKUH, N has survived the unpredictable external environment due to its ability to respond to the changing external environment. The hospital has accommodated and adapted to change with ease due to the fact that their management has encouraged a learning culture within their organization. The AKUH, N strategies are not meant to resist or avoid the changes in the external environment rather they are meant to help the organization adapt to the external environment. The hospital has taken advantage of the opportunities posed by the environment e.g. the technological advancement while shielding themselves from the threats such as legal problems through adhering strictly to the rules and regulations set by the government.

Bourgeois and Eisenhardt's (1988) investigations of rapidly changing environments found that successful firms have an ability to react to environmental changes. The AKUH, N management realizes that the external environment in which it operate is changing and is largely uncontrollable and hence the need to react to the changes by adapting to them through product/market changes, process changes, culture changes, leadership changes etc depending on the specific changes in the external environment, the firms capability and the level of environmental turbulence. Continuous training and learning for managers and other staff is also evident from the results of the study. The management of AKUH, N realizes the need for skills for managing discontinuous and supriseful external environment.

4.4.2   Comparison with other studies

The findings of this study aligned with previous studies done on the organizations and their environment. For example, Murgor (2008), Abdullahi (2000) and Mwarania (2003) all observed that there must be a fit between the organization and its environment. Organizations must match the organization's strengths and weaknesses to the environmental opportunities and threats in order to excel in the rapidly changing external environment.

However, Murgor (2000), Abdullahi (2000) and Mwarania (2003) findings each showed different response strategies to the external environment depending on their industry. Similarly, the findings of this study also show different strategic response to the external environment as compared to the above mentioned studies. The similarity however is the fact that all these different response strategies to the external

environment were all aimed at adjusting to the external environment in order to meet their company's' objectives and to ensure that the company succeeds despite the changing external environment.

These translate to mean that different organization comes up with different strategies to adapt to the external environment depending on their external environment and the industry they are operating in. Consequently, it does not mean that strategies that have been successful in one company will automatically be successful in another. Other factors like industry type, organization size, resources etc will come to play in deciding with strategy will be successful in a certain organization.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND

RECOMMENDATIONS

5.1   Introduction

This chapter summarizes the results of the study, draws conclusions and gives recommendations of the study as well as recommendation for further research which have emerged from the findings and results of the study, as well as outlines the limitations faced while conducting research.

5.2   Summary of Findings

From the findings of this study, it is clear that the AKUH, N is an open system that interacts with its environment. It is dependent on the external environment for its inputs and outputs. The external environment has poses both opportunities and threats to AKUH, N forcing the management to come up with strategic responses aimed at countering these external environmental factors.

The study revealed that external environment has greatly impacted on the operations of the AKUH, N. The external environmental factors that were highlighted included the unpredictable and constantly changing competitive environment, Political, economic, social, technological and legal factors.   The uncertainty and unpredictability of these factors have directly or indirectly affected the AKUH, N operation either positively on negatively or both.

To counter the above external environmental changes, the AKUH, N management has devised response strategies. These strategies included trainings of the staff, innovation, differentiation, efficiency, geographical expansion, adhering to government policies and regulations and promoting a learning culture within the organization that accommodate continuous change.

5.3 Conclusion

From the results of the study, it is evident that organizations exist in the context of a complex political, economic, social, technological, environmental and legal world. Many of those variables give rise to opportunities and others exert threats on the organization or both.

Managers have very little if any control over the external environment and hence organizations' survival in this dynamic external environment increasingly depends on an effective strategic management team that is able to devise strategic responses that are timely and appropriate to counter the unforeseen discontinuities.

The findings of this study contribute to the pool of knowledge on the external environment and strategy. They study reveals that external environment impact greatly on the operations of organizations and hence to succeed in the changing environment, the management must devise strategies that relates effectively with the environment.

It also validates the fact that change is inevitable if organizations are to survive the dynamic changing external environment. In addition, the findings have revealed useful strategies that can be used by other organization to counter changes in the external environment which includes among others staff training, innovation, differentiation, efficiency etc

5.4   Limitations of the Study

Time was limited since the respondents were senior managers who had very busy schedules and hence kept postponing their appointment with the researcher and during the interview, tended to answer some of the question in a hurry. However the researcher was patient and pleasant enough to persuade them to spare more time and answer the questions comprehensively.

The researcher also felt that some of the respondents were evading some of the questions for fear of victimization or fear of giving out the hospitals trade secrets. However, the researcher assured them that the information was confidential and would be used only for research purpose.

5.5   Implications of the Study

This study implies that, the health care industry is operating in an ever-changing and increasingly competitive business environment and hence apart from the strategies that the AKUH, N has applied, the players in the industry should also consider the following strategies;

The players in the industry must have the ability to identify the real client needs and to drive cost-effective product development and profitable market expansion quicker than the changes in the external environment. To do this, they would need the right talent, vision and leadership capabilities.

Customer's preferences, lifestyle etc are constantly changing and hence organizations must identify what problem their business solves for potential clients. If the business no longer solves the client problems, there isn't a place for it in the market place. The organization therefore need to know what their business excel at and what value they deliver to their customer and continuously work on improving the service to suit the needs the of external environment even if it mean outsourcing the non-core services.

This means that organizations should continuously scan the environment for any threats or opportunities so that they are prepared enough to respond effectively and appropriately with speed that match the environmental turbulence. The organization must also embrace change, they must be flexible enough to allow adoption of strategies that enhance the strategic fit between the organization and its external environment.

Organization focus should be on the long-term advantage and not just on the competition. This is because it is not by competing for market share but by capitalizing on change that today's organizations can survive, achieve sustainability and thrive. Capturing greater market share from the competition is only of critical importance when the game remains unchanged.

5.6   Suggestions for Further Research

It is evident from the findings that the researcher carried out a thorough and an in-depth study of the strategic responses that the AKUH, N has adopted to counter the changes in the external environment. It was interesting to note that most of the strategies that the AKUH, N put in place to counter the external environment had to do with changing to adapt to the changing external environment.

The road to change is never paved with roses, no matter how good the intention or far-reaching the support will be. The task of introducing a change in an existing system is difficult job. Management of these changes is even more difficult (Berger, 1994).   .
Further research therefore is need to establish how the AKUH, N manage these strategic changes within their organization.

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Appendices

Appendix A: An Interview Guide

This part is aimed at gathering the information on the external environmental changes experienced by AKUH, N and the strategic responses that are adopted to counter these external environmental changes.

Section A: Respondent Information

This section will seek to gather background information about the respondent. This will be used in analyzing further the data which will be collected.

1. What is the gender of the respondent?
2. What is the age of the respondent?
3. What is the designation of the respondent?
4. How many years has the respondent worked in the organization?

Section B: The External Environment

This section seeks to gather information on changes from the external environment that impacts on the performance and survival of your organization.

5.   Please explain how changes in the macro-environment have impacted on the performance of your organization, i.e. changes in political-legal, economic, competition, technological, social-cultural and ecological factors.

6. Explain how changes in the industry environment have impacted on the performance of your organization, i.e. competitor rivalry, substitute products, new entrants, supplier power and buyer power.

7. Explain how changes in operation environment have impacted on the performance of your organization, i.e. competitors, customers, suppliers etc.

8. Other than changes mentioned above, which other significant changes poses a threat to the survival of your organization?

Section C Strategic Responses

This section seeks to gather information on the strategic responses adopted by AKUH, N to counter the effects of the changes from the external environment.

9. What strategies does your firm employ to remain competitive?

10. In your opinion, how has AKUH, N responded to the effects of the changes in macro environment, industry environment and operating environment mentioned above?

11. Please indicate where AKUH, N responses will be required over the next five years to enable manage the risks and opportunities associated with environmental changes.

12. Explain any challenges faced in the process of strategy formulation, implementation and evaluation in your organization?

13. Explain how you have managed the above challenges and how you have ensured that the organizations objectives are met despite the challenges.

Thanks for your time and response to my interview questions.