

COMPETITIVE STRATEGIES ADOPTED BY PRIVATE HOSPITALS IN NAIROBI

BY

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DECLARATION

I declare that this Management Research Project is my original work and has never been presented for a degree in any other college or University other than the University of Nairobi.

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DEDICATION

This research project is dedicated to:

My wife Wambui

Thank you for your love and support.

My daughters Wangari and Wangui.

To you I bestow the forte of boundless scholarship.

My parents Gaturu and Wangari

Your power, generosity and humanity have moved me countless times.

It is my hope that this project will make you proud.

The rest of my family

Your inspiration was not in vain

To the Almighty God

Thank you

Jeremiah 29:11

Wise men – The greatest glory is not in never failing, but in rising every time we fall. Thus never measure the height of a mountain until you have reached the top, then you will see how low it was.

ABSTRACT

The evolution of business strategy was driven by the practical needs of the businesses and strategic planning process was associated with the problems faced by the managers in the 1950's and 1960's. They faced the challenges of coordinating decisions and maintaining control in increasingly large and complex enterprises (Henderson 1989).

Organizations on the other hand consume resources from the environment (as inputs), transform them (throughput process) and release them (as output) to the same environment (Porter, 1985; Ansoff and McDonnell, 1990; Thompson and Strickland, 1998; Johnson and Scholes, 1999). Firms need to constantly adjust to the political, economical, social cultural and the technological changes in the external environment. Ansoff and McDonnell, (1990) agree that due to globalization and increased international competition many firms have been forced to make dramatic adjustments to their strategies. Those that do not change experience a strategic problem, which arises out of maladjustment of an organization to its environment (Ansoff and McDonnell, 1990). Aosa (1998) supports this argument that failure of a firm to adjust to its environment jeopardizes its future success.

Given the changing environment, organisations employ various competitive strategies. Competitive strategies are concerned with creating and maintaining a competitive advantage in each and every area of the firm's business. The generic strategies that can be applied to all industries as they are not industry specific include overall cost leadership, differentiation and focus strategies.

The health care system in Kenya comprises of two sectors, one that is official and another that is unofficial. The official sector falls within the regulatory purview of the Ministry of Health; while the unofficial one comprises of those health institutions and providers who the Ministry of Health has no control, i.e. the traditional healers. This Research project has focused on the official system specifically targeting the private hospitals in Nairobi.

The hospitals in Kenya operate in an environment that has seen dramatic changes in the last two decades. Wamalwa (2006) observes that the hospitals in the third world marked a radical turn in the 1980's. She observes that liberalization in Sub-Saharan Africa

introduced the concept of Structural Adjustments Programmes (SAP) that brought in the cost sharing in public hospitals (Wamalwa, 2006). It allowed doctors working in public hospitals to engage in private practice during their free time and this move further increased competition for provision of health care in hospitals. In order to establish how the private hospitals in Nairobi have been responding to environmental changes and how they position themselves competitively in the industry, the researcher has carried out an empirical study of competitive strategies adopted by private hospitals in Nairobi. The researcher focused on competitive strategies adopted by private hospitals in Nairobi.

The objectives of the study were to identify environmental changes that have affected the private hospitals; to establish the competitive strategies adopted, and identify the challenges faced in implementing their competitive strategies. The study will be beneficial to researchers, proprietors of private hospitals and policy makers who will get pertinent information for policy making and planning.

The study employed a descriptive research design to establish the competitive strategies adopted by private hospitals in Nairobi. It also combined the use of a cross – sectional survey design. The population for this study were the private hospitals in Nairobi. The researcher did a census survey. He surveyed twenty seven hospitals (27) as provided by the Kenya Medical directory (2010) as private hospitals admitting in-patient capacity of twenty beds or more. Two methods of data collection, the primary data and secondary data collection methods. The study used primary data that was collected by use of questionnaire containing both structured and non-structured questions.

The data collected was entered and analyzed using the Statistical Package for Social Sciences (SPSS) and Micro Soft Excel. Descriptive statistics mainly the Measures of the Central Tendency (Mean, frequencies, and percentages) were used to describe the findings. The findings have been presented using charts and tables where applicable.

It was found that economic and technological factors have to large extent been a determinant in the actions that the hospitals have taken. On the other hand, the political – legal and socio-cultural factors have been a determinant to a moderate extent.

The other environmental analysis established that knowledge of patients and competitive activities by the other hospitals to a large extent affect the competitive strategic actions that the organizations have taken in the last two decades. The other two aspects of

activities of various suppliers in the hospital industry and availability of alternative medical services were found to a moderate extent affect the competitive strategic actions that the hospitals have taken in the last two decades.

In a nutshell, it was noted that the hospitals have to a large extent used all the broad competitive strategies save for one that can be argued has been used to a moderate extent. Service differentiation strategy was used to a very large extent by most players in this industry. This was followed by Focus strategy in that most hospitals have remained focused on the segment that they have served well.

An analysis on the service differentiation strategies adopted indicated that the hospitals to a large extent have adopted various differentiation strategies/activities in order to remain competitive. The differentiation strategies/activities that were scored highly included those aimed at enhancing of the meeting of the customer needs that were scored followed by employment of high skilled staff, offering unique services at investment in special technologies and development of unique physical appearance and attention to physical infrastructure.

Patient diagnostic and treatment costs and remuneration of doctors and other supportive staff were found to a large extent posing a challenge to the implementation of strategy in the private hospitals. Other aspects were found to a moderate extent pose a challenge to implementation of strategy. These included huge investment in capital diagnostic equipment, shortage of specialist clinicians and high training costs . Competition from other hospitals, entry by other hospitals and alternative medical care providers were seen as a challenge to a moderate extent.

Given the focus on private hospitals in Nairobi that has an in-patient bed capacity of more than 20 beds, this study might not apply to the private hospitals that are involved in only the provision of casualty services and to similar hospitals that are outside Nairobi. Further research is recommended to focus on other hospitals of similar nature that are based outside Nairobi. This is because those hospitals operate under different environment and have a different customer base in terms of their characteristics.

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LIST OF ABBREVIATIONS

IFC	-	International Finance Corporation
MOH	-	Ministry of Health
SPSS	-	Statistical Package for Social Sciences
WHO	-	World Health Organization
USD	-	United States Dollar

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategic planning process was introduced in the 1960's with many of the concepts that form the understanding of its practice today developed during the first half of the twentieth century. (Ansoff and McDonnell, 1990; Andrews, 1971; Porter, 1985). This included work by Fredrick Taylor on efficiency, the transformation from production to demand driven firms, introduction of the organizational structures and the growth on forecasting and measurements (Feurer and Chaharbaghi, 1997). According to Ansoff and McDonnell (1990), the initial focus was on the diversification of the firm. However with the passage of time, the firms were faced by new strategic challenges. These included technological turbulences, changing international competition, growth saturation, political pressures among others.

It therefore became evident that to the firms that these challenges could not be solved by diversification alone; and there was need for strategic managers to turn to competitive strategies in their historic business to optimize the total business portfolio. Ansoff (1965) had even defined strategy in terms of diversification decisions by the firm.

The evolution of business strategy was driven by the practical needs of the businesses and strategic planning process was associated with the problems faced by the managers in the 1950's and 1960's. They faced the challenges of coordinating decisions and maintaining control in increasingly large and complex enterprises (Henderson 1989). He argued that while the introduction of budgeting offered some basic control mechanisms for the firm, the managers were still faced by challenges of capital investment for more than one year. These investments however reflected coordination and control in periods characterized by stability and expansion. The aim of the strategist was to exploit the efficiencies of a large sized firm while controlling risks. (Ansoff and McDonnell, 1990).

In the 1970's, firms were faced by other challenges of macroeconomic instability, increased international competition and a turbulent technology (Mintzberg, 1994). Their ability to plan for more than five years became no longer possible as they could not forecast that far ahead.

Pearce and Robinson (2000) observe that firms are dependent on the environment for their resources and as outlets for their products and services. The relationship between the firm and the environment is critical to the success of the firm and the strategic manager must establish a match between the two. The competitor environment forms an important component of the external environment and focuses on the firms against which they compete directly. Competitive intelligence according to Hubbard (2000) helps the firm to understand the intentions of its competitors and the strategic implications that results from their actions.

Firms in the same industry do not compete using the same strategies and if they do so, they are referred to as strategic groups (Hanson and Benson, 1994). Porter (1980) observes that in the 1980's and 1990's the role of strategy in building a competitive advantage resulted in a shift towards the internal aspect of the firm. The competences and capabilities of the firm became the primary source of profitability and the basis for formulating long term strategy (Mintzberg, 1994). The environment has continued to evolve with time; creating new interest in the dynamics of competition, through game theory and complexity theory of business. Firms have continued to battle with the core dilemma of competitive strategy formulation; how can they take long term decisions on products, technology and investments in physical and human capital, when the business environment continues to change at an ever accelerating rate? There is need for the firms to continuously re-align their competitive strategies to match the environment; in the realization that even long periods of stability can be ended by one successful move by a competitor.

1.1.1 Environmental Challenges

Organizations consume resources from the environment (as inputs), transform them (throughput process) and release them (as output) to the same environment. (Porter, 1985; Ansoff and McDonnell, 1990; Thompson and Strickland, 1998; Johnson and Scholes, 1999). They become environmental dependent and operates as open systems. Any threat to the flow of a firm's input through negative environmental forces is tantamount to killing the firm (Wamalwa, 2006). Pearce and Robinson (2000) observe that the estimates

of the impact of these complex and dynamic environment (external) considerations, through proper analysis ensure the success of the firm into the future.

Firms need to constantly adjust to the political, economical, social cultural and the technological changes in the external environment. Ansoff and McDonnell, (1990) agree that due to globalization and increased international competition many firms have been forced to make dramatic adjustments to their strategies. Those that do not change experience a strategic problem, which arises out of maladjustment of an organization to its environment (Ansoff and McDonnell, 1990). Aosa (1998) supports this argument that failure of a firm to adjust to its environment jeopardizes its future success.

The environment changes continuously creating opportunities and threats for the firm; which is expected to adjust its strategy to take advantage of the opportunities and protect itself against the environmental threats.

The research project identified the environmental challenges affecting private hospitals in Nairobi in their response to environmental changes in the last two decades.

1.1.2 Competitive Strategies

Competitive strategies are concerned with creating and maintaining a competitive advantage in each and every area of the firms business. According to Hamel and Prahalad (1989), the firm forms a comprehensive master plan stating how the corporation will achieve its mission and objectives, maximizing on competitive advantage. This view is supported by among others Pitts and Lei (2003) who argue that competitive advantage can be built through low cost leadership or through the differentiation of its products. Porter (1990) agrees with this view and observes that information can create a competitive advantage through cost leadership or differentiation. He observes that a firm has a competitive advantage if it can attract customers and defend itself in the industry better than its competitors. Clarke and Huckman (2009) argue that specialization improves performance by introducing simplicity and repetition into the individual worker's routine. Fayol (1916) proposes that specialization belongs to the natural order; arguing that specialization supports the success of the firm. The importance of focus for was supported by Taylor (1911) by matching workers to specific tasks, maintaining that

organizing work in this way improved productivity and innovation. Porter (1980) summarizes these arguments; that there are three generic competitive strategies that a firm can adopt. They include; overall cost leadership, differentiation and focus strategies. He refers to them as generic strategies as they can be applied to all industries as they are not industry specific. Generic strategies are also applicable to the hospital industry.

Porter (1980) he argues that industry competition is rooted in its underlying economics, forces that go beyond the established rivals in the industry. They include the bargaining power of customers, the bargaining power of suppliers, the threat of new entrants, the threat of substitute products and services and rivalry among existing competitors. Their collective strength determines the profit potential of an industry; as they form the business environment.

Hamel and Prahalad (1989) argue that in a dynamic environment, the emphasis on the fit between internal sources and external opportunities may be insufficient to drive long –run competitiveness. In place of strategic fit and resource allocation, they argue for stretch and leverage. Muriithi (2000) supports this view observing that strategic decisions by a firm aim at achieving some advantages over competition, stretching the firms' resources to create opportunities. The hospitals industry is in the process of a global transformation with mergers, acquisitions, outsourcing and downsizing being common in the world today.

Privatization is allowing enterprises to take over functions that were initially a domain of the government. Hospitals are taking on a more global perspective, making international boundaries fade in importance as patients can seek for healthcare across international borders. This Research Project has established the competitive strategies adopted by private hospitals in Nairobi in response to environmental change in the last two decades. It has also identified the environmental changes that have taken place in the last two decades and the challenges experienced by private hospitals in strategy implementation.

1.1.3 The Hospital Industry in Kenya

Hospitals were originally supposed to be warehouses for people dying of tuberculosis, smallpox, cancer and other infectious diseases according to World Health Organization (2006). Advances in diagnosis and treatment of chronic diseases in the last two decades are however undercutting this earlier mission. In spite of these advances, the health care delivery in Sub-Saharan Africa remains the worst in the world; according to a report by the International Finance Corporation (1995).

The health care system in Kenya comprises of two sectors, one that is official and another that is unofficial. The official sector falls within the regulatory purview of the Ministry of Health; while the unofficial one comprises of those health institutions and providers who the Ministry of Health has no control, i.e. the traditional healers. This Research Project has focused on the official system specifically targeting the private hospitals in Nairobi. The healthcare sector has experienced a rapid growth since Kenya attained independence in 1963; driven majorly by the government's commitment to make healthcare affordable and accessible to the majority of the population (Berman and Benson, 1995). This has largely been achieved through an increase of budgetary allocation that is non-restrictive to private healthcare providers. The Kenya Health Policy framework implementation and action plans (1996) provide three broad categories of Health care Facilities by type. They include the hospitals, health centres and sub-health centres.

It identifies and defines hospital by the complexity of healthcare services offered that include in-patient reimbursement and presence of visiting specialist physicians. Hospitals provide curative, preventive and promotive healthcare services for inpatients and outpatients.

There are three main health care providers in Kenya, who include the public hospitals, mission hospitals and the private hospitals. The public hospitals are owned by the government through the Ministry of Health. Christian Health Organization of Kenya and the Episcopal Conference of Kenya serve as national coordinators of the networks of

missions hospitals across the country. The mission hospitals were established with a mission to fill in the gaps that had been left out by the Ministry of Health due to constrained resources. They are mainly funded by donors from church organizations and private partners. Their very survival is at stake today due to the macro-environmental changes that have been taking place in the health care industry in the last two decades (Mburu, 2007; Wamalwa, 2006) The Private hospitals are owned by individuals and mainly established to offer their services for profit. They significantly vary in size and also in the type of services that they offer to their clients.

Berman and Benson (1995) submits that the government offers 27% of healthcare, private hospitals 36% mission hospitals 22% and private nursing homes 14%. At 36% the private hospitals play a critical role in meeting the gap for a more and higher quality health care in the country. Mburu (2007) states that the public hospitals are characterized by drug shortages, lack of essential supplies and long delays due to failing government funding coupled with increasing population.

The mission hospitals are mainly concentrated in the rural areas and have not been expanding due to declining funding by donors and church organizations. This scenario has consequently favoured the growth of private hospitals in their pursuit for profits. Most of the private hospitals are based in urban areas where the patients have better ability to pay for healthcare services that they offer. Mburu (2007) observes that owing to their sizes and physical distribution in the country, private hospitals are significant contributors to national health care.

According to the International Finance Corporation (1995) private hospitals are motivated by their pursuit for profits, growth and stability and they are therefore viewed as competitors by all those who seek their healthcare services. The researcher has established the competitive strategies adopted by private hospitals in Nairobi in their response to macro environmental changes in the hospital industry in the last two decades. The preferences of their clients have changed over the last two decades (Kotler, 2004) and in a fast paced world, patients want to go back to work as soon as possible even after

major surgical procedures. In their efforts to meet their client's preferences, the private hospitals are compelled to re-align their strategies and compete against others offering similar healthcare services. Mburu (2008) says that the hospital environment in the third world has experienced the most drastic changes from the 1980s. This has compelled the private hospitals to re-look at their strategies and compete among themselves in pursuit for profits, stability and growth.

1.2 Statement of the Problem

With the advent of globalization, the international borders have continuously become less important in provision of healthcare services and it is much easier today for patients to seek for services across international borders. The political, economical, social cultural and technological environments continue to evolve, putting pressure on private hospitals to adjust their strategies so as to capture, keep and grow the segments of patients seeking healthcare international borders.

The public hospitals offer 27% of health care to the population, private hospitals offer 36%, mission hospitals 22% and private nursing homes 14% (Berman and Benson, 1995). Mburu (2007) observes that public hospitals are faced by shortage of drugs, lack of essential supplies and long delays due to falling government funding coupled by an increasing population. She argues that the mission hospitals are mainly concentrated in the rural areas and have not been expanding due to declining funding from donors and church organizations. This scenario has favoured the growth of private hospitals in urban places in their pursuit for growth and profits. International Finance Corporation (1995), observe that private hospitals are viewed as competitors by those who seek their healthcare services because of their pursuit for profitability, stability and growth.

Competitive strategies are concerned with the creation and maintenance of a competitive advantage in each and every area of business. Pitts and Lei (2005) argue that competitive advantage can be built through overall low cost leadership or through the differentiation of its products. A hospital has a competitive advantage if it can attract patients and defend itself better than the other hospitals. Clark and Huckman (2009) argue that focus

improves performance by introducing simplicity and repetition into individual workers routine.

Firms depend on the environment for raw materials, labor and markets for their products, services and ideas (Kotler, 2004). They operate as open systems and are affected by changes that take place in the environment. It is important for firms therefore to continuously re-align their strategies in tandem with changes in the external environment. (Ansoff, 1975; Johnson and Scholes 1999).

The hospitals in Kenya operate in an environment that has seen dramatic changes in the last two decades. Wamalwa (2006) observes that the hospitals in the third world marked a radical turn in the 1980's. She observes that liberalization in Sub-Saharan Africa introduced concept of Structural Adjustments Programmes (SAP) that brought in the cost sharing in public hospitals (Wamalwa, 2006). It allowed doctors working in public hospitals to engage in private practice during their free time and this move further increased competition for provision of health care in hospitals. In order to establish how the private hospitals in Nairobi have been responding to environmental changes and how they position themselves competitively in the industry, the researcher has carried out an empirical study of competitive strategies adopted by private hospitals in Nairobi.

Previous research work has tended to look at other industries and their responses to environmental changes. Opiyo (2006) looked at the pharmaceutical industry; how pharmaceutical importers respond to the challenge of illegal trade in the pharmaceutical industry. The research project confirmed that the illegal trade in pharmaceuticals is growing and has forced firms to cut down the profit margins and address the issue of quality medicine to their customers through workshops. Nganga (2004) looked at strategic responses for GSK and Muturi (2008) looked at strategic management practices in Karen hospital. Omondi (2006) looked at competitive strategies adopted by Airlines in Kenya.

The research focuses on competitive strategies adopted by private hospitals in Nairobi. The research will benefit the faculty through additional knowledge in this area.

The research questions for this study were:

- a) What are the environmental changes that have affected private hospitals in Nairobi in the last two decades?
- b) How have the private hospitals in Nairobi responded to the environmental changes?
- c) What challenges have the private hospitals in Nairobi faced in responding to the environmental changes

1.3 Research Objectives

The objectives of the study are;

- i) To identify environmental changes that have affected the private hospitals in Nairobi in the last two decades.
- ii) To establish the competitive strategies adopted by private hospitals in Nairobi in response to the environmental changes.
- iii) To identify the challenges faced by private hospitals in implementing their competitive strategies

1.4 Importance of the Study

This study will be valuable to several stakeholders. Firstly, to researchers as it will form a basis for further research in the area of competition in private hospitals.

Secondly, the research will help the proprietors of private hospitals to be proactive in anticipating changes in the environment through better understanding of competitive strategies.

Finally to the policy makers in the hospital industry who include the ministry of Health, for profit private hospitals and faith based mission hospitals .The study will provide pertinent information for policy making and planning.

CHAPER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses the concept of strategy, Dimensions of strategy, Forces that shape Industry strategies, competitive strategies and challenges encountered in implementing competitive strategies.

2.2 The Concept of Strategy

Strategy is about winning. Collins (2006) observes that the concept of strategy is multi – dimensional and that it embraces all the critical activities of the firm. It provides a firm with a sense of unity, direction and purpose and facilitates the necessary changes induced by the environment (Hart and Majluf, 1996). Because of this, there is no single definition of strategy and what exists is a range of conceptual frameworks on it. The word strategy was introduced in the early nineteenth century with its origins from a Greek word “strategio” which means the art of war (Feurer and Chaharbaghi, 1997). From a traditional perspective therefore, strategy has strong roots from the military sciences. It is from these origins that the concept of business strategy came from and that explains to a large extent why we have many dimensions of the word strategy that includes the scope of a firm, its content, its ownership, philosophy, process and implementation of strategy.

Ansoff and McDonald (1965) define strategy as the product and market scope of the organization, a common threat among an organization’s activities.

Andrew (1971) define strategy as a rational decision making process which matches the resources of the organization to the environment. This view is supported by Aldrich (1979) who agrees that the environment has strong deterministic influence on strategy making process in a firm. Mintzberg (1994) however disagrees with this proposition and submits that resources of a firm form the foundation of its strategy.

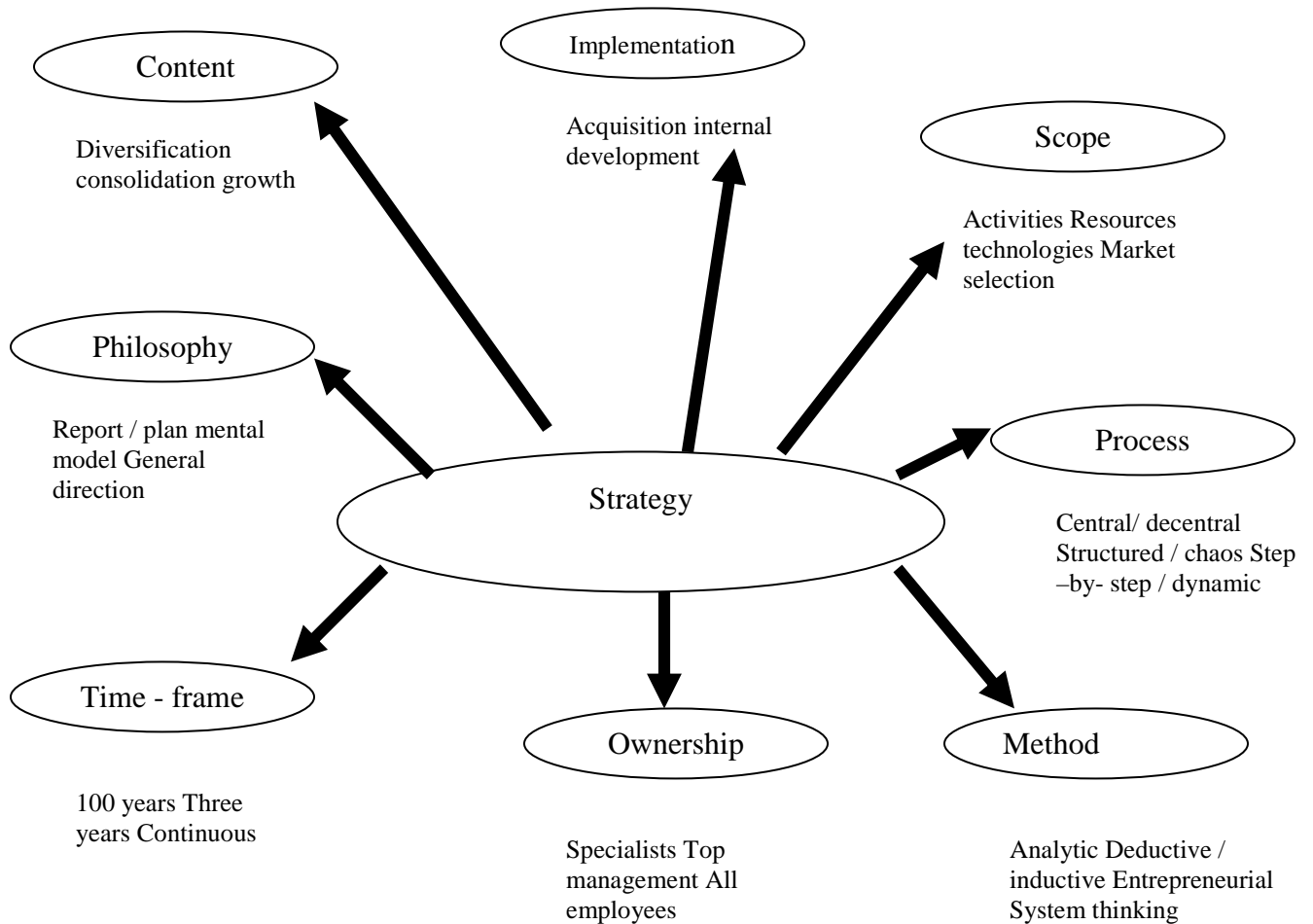
All the different dimensions however have one thing in common. Their intention is to improve the overall performance of the firm against that of competitors in their industry. Muriithi (2006) postulates that strategic decisions are about achieving some advantage for the firm over competition. It stretches the organizational resources and competences to create opportunities on them and compete effectively in the environment.

The essence of strategy is therefore to match the strengths and distinctive competencies within the firm in a way that it enjoys a competitive advantage over rivals competing on the same terrain. Competitive strategy for a firm matches its distinctive competences with the opportunities in the external environment in the industry that it competes (Porter, 1980).

Johnson and Scholes (1999) agree with Porter (1980) in their definition of the word strategy. They define strategy as the direction and the scope of the firm in the long-term. It ideally matches its resources with its changing environment and in particular its markets and clients so as to meet the stakeholder's expectations. Strategy is therefore a plan, the primary means of reaching the firm's focal objective.

Aosa (1992) observes that strategy creates a fit between the external characteristics and internal conditions of a firm to solve a strategy problem. He observes that for a strategy to be effective, it must be consistent with a firm's goals and values, the external environment, the firm's resources and its systems. Lack of consistency between the strategy pursued by a firm and its external and internal environment is a common source of failure (Ansoff, 1965).

Figure 1: Dimensions of strategy



Source: Feurer and Chaharbaghi (1997); Strategy development: past, present and future. Pg 59

Figure 1 demonstrates the different dimensions of strategy development. They exist as there is no agreement on the definition of strategy (Feurer and Chaharbaghi, 2004). The definitions emerge from strategists and practitioners of management as they deal with different perspectives and therefore define it emphasizing different views as they understand them. Peters and Waterman (1982) developed and used the 7S Mckinsey

model in addressing issues in the firm that need to be understood and implemented so as to achieve the goals of the firm.

Feurer and Chahalgan (1997) argue that ownership of strategy formulation and implementation in the firm requires the consideration of a wider value system. Besides the customers and the shareholders, other stakeholders are becoming increasingly important. The different dimensions of strategy are however not mutually exclusive and need to be seen as mutually supportive (Feurer and Chahalgan, 1997). A change of one aspect of strategy would mean that all the other dimensions will need to be looked at to ensure that the firms remain competitive. The internal systems of the firm require being stable but flexible to respond quickly major environmental changes in the industry.

The hospitals Industry need to appreciate the different dimensions of strategy and consider them as they re-align the hospitals as the environment change so as to be competitive in the industry.

2.3 Forces that shape Industry strategy

An industry is composed of those activities of those firms that compose it [Porter 1979]. They are considered as competitors if a change of price or value of one firm's products affects the demand or price of the products of competitor firms.

Therefore changes in the business environment and the moves by competitors' erode competitive advantage of others firms who in turn respond by counter moves. Johnson and Scholes (2002) argue that competition moves in cycles and any competitive advantage that a firm may have is temporary.

The concept of industry analysis provides insight into structures within different competitive environments. The five forces model depicted in figure two assumes that the five competitive forces determine the attractiveness of an Industry. These forces are competitive factors which determine intensity of Industry competition. They are the bargaining of power suppliers, rivalry within a specific Industry, presence of substitute products, the bargaining power of buyers and new entrants in the industry.

The strength of each of these forces varies from Industry to Industry, but when they are considered together they determine long term profitability within an Industry sector (Porter, 1980). These forces affect prices of goods, the required investments, market share, potential profit margins and Industry volume. Pearce and Robinson (2000) argue that a firm must consider how these forces affect it and the Industry. When formulating a competitive strategy, firm's adjusts its strategy so that it can have an advantage.

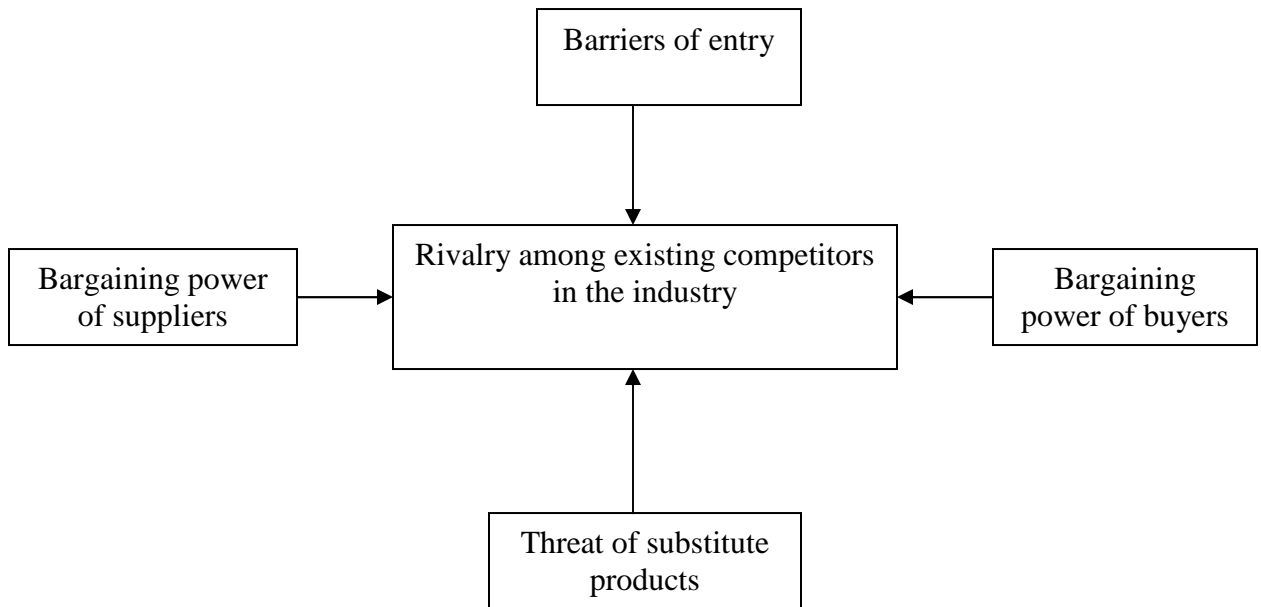
The forces determine the strengths and the weaknesses of a firm, its position in an industry and clarify strategic changes that may yield the greatest pay off.

They identify the greatest opportunities and any threats that significantly determine the consideration of possible diversification. (Pearce and Robinson 2000)

Porter (1980) argues that the industry profitability is determined by the strongest of the competitive forces and therefore the most important consideration when formulating a competitive strategy.

The underlying structure in technology and economic factors give rise to competitive forces. The strategic manager must endeavor to influence the environment in a way to give a firm an advantage and must know what makes the industry succeed.

Figure 2: Graphic presentation of Porter's Five Forces Model.



Source: Porter (1980); Competitive strategy, Free press pg 122

2.3.1 Threats of new entry

The new entry brings new capacity to the industry and usually substantial resources.

The aim of a new firm is to gain some market share from competing companies that already exists.

The success depends on how well the new firm is able to anticipate barriers of entry and possible reaction of existing firms. The barriers of entry may include economies of scale, product differentiation as the firm has to spend heavily to overcome customer loyalty from competition. Other barriers may include access to distribution channels, cost disadvantage due to size and the learning curve. The government limitation of entry to an industry is also important to consider.

2.3.2 Bargaining Power of suppliers and buyers

Suppliers can increase the price of their products or lower the quality of their goods. This exerts pressure on the bargaining power of the firm. In an industry where the suppliers are few and their products are well differentiated, they are usually very powerful

(Thompson, Strickland 1996]. They can affect the competitors' advantage of a firm by periodic changes to the price or quality of their products.

The bargaining power of buyers is considered strong when they can buy in bulk and can easily find an alternative supplier (Porter, 1980).

The buyers are equally strong if the quality of products that they buy is not important to what they sell or it's fraction the insignificant.

Porter (1985) argues that when this is the case, the buyer is so strong to the extent that he can play one supplier against another.

2.3.3 Substitute products

The presence of substitute products limits the potential of an industry. Johnson and Scholes (2002) observes that a competitive strategy need give attention to a product that gives a higher return and therefore reduce price sensitivity in the industry. They postulate that there are different types of substitution. Product to product substitution is the most common; however there is also need substitution, where one product in the market can render the other obsolete as they meet the same needs.

Generic substitution occurs when products in the market compete for the available budget expenditure with other suppliers. Thompson and Strickland, (1996) argue that doing without using the product is some considered as form of substitution.

2.3.4 Rivalry among Competitors

The rivalry among competitors includes price competition, advertisement and product extensions. Competition is considered intense in the Industry if the growth is slow, the products are not well differentiated, products are perishable and the switching costs are low. (Porter, 1980)

When the exit costs for specialized equipments are high, they reduce the intensity of competition and translate to higher profits (Pearce and Robinson, 2000). The cost of specialized equipment is high, thereby increasing the exist costs.

2.4 Strategies

According to Muriithi (2006) strategies are formulated at three levels. The first is the corporate level that describes the overall direction of a firm in terms of its general attitudes on growth and management of its different strategic business unit. It is also responsible for portfolio analysis and parenting strategy. The second is the business that improves the competitive position of a firm and formulates a competitive strategy. Porter (1980) introduced the concept of generic strategies and called them generic as they are applicable to all types of industries. Their purpose is to improve the competitive position of a firm in its industry. They are the overall cost leadership, Focus and differentiation strategies. Functional strategies are the third level and aim at maximizing the resource and productivity for certain strategic business unit. The firm is constantly faced by strategic choices that involve the evaluation of different strategic alternatives and selection of the best strategy to help competitive position firm in the industry.

Firms have strategies that are industry specific that supplement the generic strategies introduced by Porter (1980).

2.4.1. Generic Strategies

As discussed Michael Porter (1985) observes that strategies help a firm to a gain competitive advantage from three main sources which include overall cost leadership, differentiation and focus strategies. These generic strategies are applicable to all any types of industries in a broad or in a niche sense (Porter 1980).

A firm that does not use the differentiation strategy or the overall cost leadership strategy get stuck in the middle. The ideal situation is for a firm to take a tradeoff between the two. The differentiation strategy incurs higher costs in efforts to produce good of high value, while the cost leader lowers the costs by reducing investment in value of goods. A low cost leader produces standard products or services

Mbali (2007) says that the firm's performance is influenced by industry characteristics which determine the price of goods and other conditions which determine whether competition will be based on value of products or cost leadership.

Figure 3: Generic strategies.

Area of competition	Broad	1. Cost leadership	2. Differentiation
	Narrow	3A. Cost focus	3B. Differentiation focus
		Lower costs	Differentiation

Source: Porter (1980) Competitive strategies pg 262

2.4.1.1 Overall Cost Leadership strategy

When a market is composed of many sensitive buyers, cost leadership is an important and effective strategy (Mburu, 2007). The firm is compelled to produce a standard product as the buyers do not care about the differences in value of the products. The firms endeavor to under price competition and gain a bigger market share. The strategy permeates across the whole firm and it is evidenced by high efficiency, low overheads, limited peaks, intolerance to waste and a wide span of control.

This strategy is however easily duplicated by competition and progressively reduce the profits in the industry. Technology and changes in customer preferences also render this strategy ineffective.

Cost leadership strategy target a broad market according to Porter (1980).

Firms gain cost advantage by process efficiency, unique access to low cost materials, vertical integration decisions on some costs (Ansoff, 1965).

Firms that succeed with cost leadership strategy have the capital required to invest in large production assets, high expertise in production and efficient distribution channels. Johnson and Scholes (1999) refers to this strategy as “no frills strategy and argues that the target customers can not to buy the high quality (value added) products or they choice not to. It is also an effective strategy in a markets where other firms choice to follow other strategies or where only a few ways in which a firm can differentiate itself or its products (Thompson and Strickland, 1996)

2.4.1.2 Differentiation Strategy

This strategy is pursued after careful identification of the needs of the customers and their preferences. The products and services have unique features and benefits that meet the customers’ unique needs.

Firms that pursue differentiation enjoy customer loyalty and charge a premium price for their goods and services due to the added value.

This strategy is effective if the customers value the unique features and are willing to pay a premium for them.

Porter (1980) however argues that competition can duplicate the product unique features and therefore render the strategy useless. The firm therefore needs to ensure the durability of the uniqueness of its product. Firms that pursue differentiation strategy successfully have access to leading scientific research, strong Sales teams and corporate reputation for quality among other strengths (Johnson and Sholes, 1999).

2.4.1.3 Focus strategy

A focus strategy depends on an industry segment that is of sufficient size and has good growth potential. This market segment should not be crucial to the success of other competitors. The customers should have preference for distinctive preferences for focus strategy to be successful. In the event that competition recognizes the success of the target segment, they can copy the firm’s strategy rendering it ineffective.

A focus strategy can target a particular group of customers in a certain geographic market or a product line segment so as to serve this segment better than competition. The firm attempts to achieve either a cost advantage or differentiation, and often enjoys a high degree of customer's loyalty. According to Porter (1980) new ventures start with a focus strategy and change as the venture grows.

2.4.1.4 Stuck in the middle

The two strategies are not compatible, and it is not possible to gain a competitive advantage on both fronts. Porter (1985) argues that with more than one generic strategy the firm gets stuck in the middle and will not achieve a competitive advantage. The firms that use multiple strategies succeed by creating separate business units for each strategy.

However there is a different point of view that generic strategies should best be used in combination as the customers seek multi dimension satisfaction within the same products. Firms that are able to meet overall needs of the customers may stand a better chance with competition to firms that faithfully follow a single strategy (Thompson and Strickland, 1996).

Johnson and Scholes (2002) refer to this strategy as a hybrid strategy and simultaneously seek to achieve differentiation and a price power than that of competitors. Many firms use this strategy for entry in new markets that have established competitors.

2.4.1.5 Failure Strategies

According to Johnson and Scholes (2002) most monopolies pursue these strategies. They increase the price of their products or services without any value addition to the customers. The strategy however is not long lasting and unless the firm that pursues it is protected by registration or entry barriers are very high, it is frustrated by competition in the long run.

Porter (1980) argues that the other basis for failure is when the firm is not clear on the fundamental generic strategy that it uses. The firm will get stuck in the middle and ultimately fail to succeed in the industry.

2.4.2 Competitive Strategy

Hospitals do not have an exclusive market, instead they compete with others. However even where hospitals have a large market share, it is not an indicator of its long range potential; as some hospitals will outperform others over time. The hospitals vary by sizes, products, people, location, organization and history and these results to differentiation their performance.

A competitive strategy focuses on how a firm competes successfully in each of the products or business line that the company has chosen to engage in (Porter, 1985).

Competitive strategies help the firms to build sustainable competitive advantages. Porter (1985) observes that a firm has a competitive advantage if it can attract customers and defined itself against competitive forces better than its rivals. Kotler (2004) agrees with Porter that firms that pursue a clear strategy will likely perform well and make the best profits. The competitive advantage needs to be unique and sustainable in an area that is important to the success of the firm. Competitive strategy is being different from others and performing different activities from rivals to deliver a unique mix of value to the customers.

Hamel and Prahalad (1989) agree that the essence of strategy lies in creating a competitive advantage faster than the competitors can mimic the ones the firm possesses. Competitive strategy therefore determines the appropriateness of the firm's activities and determiners whether a firm will succeed (or) fail (Porter, 1980). Kotler (2004) describes a new classification of competitive marketing strategies that were offered by Tracy and Weiserman. They are referred as value discipline and include the following classification

- i) Operational excellence: A firm pursuing this strategy intends to lead the industry in price and convenience with emphasizes in efficiency and cost leadership. The strategy targets the customers who want high quality products but want them cheaply and easily
- ii) Customer intimacy: This competitive strategy segments the markets and pursues to tailor the products of the firm to meet the unique needs of customers. The strategy *builds* relationships with customers and endeavors to

understand their unique needs. As a result of these efforts the customers pay a premium price for the firm's products.

- iii) Product leadership – The firm embraces an innovative competitive strategy by producing a strategy of leading edge products and services. In spite of costs, the strategy offers the state of Art products to its customers.

Kotler (2004) observes that although some companies pursue more than one competitive strategy, those that pursue one excel well due to the single mindedness of the firm. Porter (1980), competition among hospitals in America found that competition in hospitals in the 1960's and 70s increased costs but encouraged the diffusion of new services and technologies.

The nature of this competition however changed from the 1980's as the patients become more price conscious and preferred specialized services. The private hospitals expanded, encouraged by their proponents that they are more efficient than the other hospitals run by the government. The study argued that increased competition produced more specialization and a wider diffusion by services, and that some unique facilities like the emergency rooms are more common in private hospitals than in government hospitals.

Mburu (2007) writes that hospitals in the third world marked a radical turn in the 1980's. The structural adjustment programmes through liberalization defined the public sector developments in sub Saharan Africa in the 1980's and 90's.

This brought in the aspect of cost sharing in public hospitals and allowed the doctors working in government hospitals to practice privately thereby accelerating competition in private hospitals. She observes that from the 1980's, globalization defines the healthcare sector policies in Kenya.

According to World Health Organization report (2000), the government provides 50% of healthcare services; the Faith Based Organizations provides 40% while the private sector provides 10%. The Private sector has however been expanding prompted by the

perceived failures and inefficiencies on the part of the government hospitals by the people the system serves.

Firms must be aware of their strengths and distinctive competences that they should match to the opportunities in the environment in coming up with competitive strategies. They should also be aware of their weaknesses so as to shield the firm from competitors. This is because the firm's competitive advantage can decline overtime as a result of major environmental changes. The researcher observes that while competitive strategies involve many different imperatives, the ultimate aim of the firm is its success over competition in the industry in the long term.

2.5 Challenges of strategy implementation

Thompson, Strickland and Pearson (2007) define strategy implementation as a process by which strategies and policies are put into action through development of programmes, budgets and procedures. Gakenia (2007) agrees and argues that there are challenges in strategy implementation. Some firms underestimate the time required for proper strategy implantation while others do not anticipate external factors in the environment that may be out of the control of the firm. Strategic Managers are sometimes very optimistic at the planning stage and do not consider how crucial it is for the coordination of all important tasks for the strategy to be effective. Distraction from competing activities and the ability of the people implementing the strategy can also be a challenge to strategy implementation (Reed and Buckley, 1988).

Aosa (1992) noted that once a strategy has been developed, it needs to be implemented, as it is of no use to the organization unless it translated into an action plan. A number of organizational characteristics however pose challenges to strategy implementation. These challenges according to Burnes (2000) include leadership, organizational structure, culture, policies and the reward system. These challenges are both institutionalized and operational in nature and Ngumo (2006) agrees that some of the challenges include leadership, resources, organization structure, policies, procedures and the reward system.

The lack of involvement of stakeholders may also lead to serious challenges in strategy implementation, including not believing in the strategy and lack of proper communication to those implementing. This is because successful strategy formulation does not guarantee successful strategy implementation.

The challenge of strategy implementation process is an important area of research as even the best competitive strategy will be ineffective if not implemented successfully. Ngumo (2006) observes that the lack of co-ordination and support from other levels of management and resistance from lower levels, coupled by poor planning activities are serious challenges to strategy implementation. He argues that it important to overcome the resistance of powerful groups as they may regard the change of strategy as a threat to their new power.

2.6 Summary of Literature Review

Strategic management process has come a long way since the 1950s when it was started. Nevertheless most the concepts are still valid today and are reflected in basic assumptions in the study of strategic management process in recent days. The earlier work was based on identifying the reasons for a firm's superior performance. This is because the demand for goods and services was higher than the supply (Feurer and Chahalgan 1997). However within the last two decades, this has significantly changed and the focus today is on strategic processes and source for competitive advantage. The dynamics of competition have increased and that means that a firm cannot explain its superior performance through the application of certain techniques.

Feurer and Chaharbaghi (2004) observe that the concept of strategy is multi – dimensional. The competition as well should be viewed as multi – dimensional because the environment is very uncertain (Feurer and Chahalgan 1997). They argue that firms are competitive if they maintain a balance of the different dimensions that affect competitiveness and include the customers, shareholders and the firm's ability to react.

Porter (1985) observes that in a dynamic environment, the underlying conditions of the firm change before the strategy is often implemented. Firms should therefore change their strategy in line with the changes in the dynamic environment. Gakenia (2008) observes that strategy implementation has several challenges and a good strategy formulation can be rendered useless by poor strategy implementation. Nevertheless, she argues that successful strategy should be driven by the possibilities of the future rather than the restrictions of the past.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains how the research was carried out. It covers the research design, population, census, data collection methods, analysis and how the findings were presented.

3.2 Research Design

The study employed a descriptive research design to establish the competitive strategies adopted by private hospitals in Nairobi. It also combined the use of a cross – sectional survey design. According to Donald and Pamela (2003) and Boyd, Westfall and Stasch (1990), a descriptive study aims at determining the what, when and how of a phenomenon which was the concern of this study. Descriptive research is suitable in situations where questions such as how, why and what are investigated on a certain phenomena to give facts of the situation as it is, without interference by the researcher. Bett (2005) and Awinyo (2008) have used descriptive design in related studies.

A cross sectional survey is considered authoritative and comparatively easy to explain and understand using descriptive and inferential statistics to do the data analysis (Saunders, Lewis and Thornhill, 2007). Mulinde (2007) used cross – sectional survey successfully in her MBA research project. Cooper and Schindler (2004) argue that it is not possible to collect same information a second time from the same respondent without some bias. To avoid bias therefore the researcher used the cross sectional survey method for his research project.

3.3 Population

The population for this study is the private hospitals in Nairobi. According to the Kenya Medical Directory (2010), there are twenty seven private hospitals and Nursing Homes in Nairobi which offer in –patient services and have a bed capacity of twenty beds or more (*appendix 3*). These hospitals have data available from patient discharge summaries to demonstrate competitive strategies adopted in provision of healthcare. The patient

discharge summary report contains a lot of information and it is therefore possible to get data from hospitals which admit as opposed to the ones offering outpatient services. With in-patient healthcare services being offered, the admitting hospitals are visited by specialist doctors of different disciplines, demonstrating the strategies being used by the hospital better than those offering outpatient services or having an in-patient bed capacity of less than twenty beds.

The researcher did a census survey. He surveyed twenty seven hospitals (27) as provided by the Kenya Medical directory (2010) as private hospitals admitting in-patient capacity of twenty beds or more. A census study is proposed for use given that the number of private hospitals targeted in Nairobi is small. Census is the collection and analysis of data from every possible case or group of members in a population (Saunders M, Lewis .and Thornhill, 2007). A whole sample will be taken because the total population is small and selecting a sample from a small population would be meaningless (Mugenda and Mugenda, 1999). Appendix 3 attached shows the list of these hospitals.

3.4 Data Collection

The study used two methods of data collection, the primary data and secondary data collection methods.

3.4.1 Primary Data

The study used primary data that was collected by use of questionnaire (appendix 2) containing both structured and non-structured questions. The data collection method was dropped and picked later technique for the completed questionnaires. The questionnaire was accompanied with an introductory letter from the researcher and the supervisor (appendix 1).

The questionnaire was divided into three sections. Part one captured the general characteristics of the hospitals. Part two identified the environmental changes that have taken place in the hospital industry in the last two decades and part three identified competitive strategies being adopted by the private hospitals in Nairobi.

The research targeted respondents from the following hospitals departments that are responsible for strategy development and implementation that include the Finance, Administration, Nursing department, and Pharmacy. The method used was the drop and pick later technique for completed questionnaires. Follow up on phone was done to ensure timely collection of the questionnaires.

3.4.2 Secondary Data

This included in-house magazines in the hospitals related to this study. In –patient discharge case studies were reviewed to establish areas of specialization and methods (strategies) that were used to manage the patients.

3.5 Data analysis and presentation

The data collected was entered and analyzed using the Statistical Package for Social Sciences (SPSS) and Micro Soft Excel. Descriptive statistics mainly the Measures of the Central Tendency (Mean, frequencies, and percentages) were used to describe the findings. Wangombe (2007), Ngugi (2007) and Muhindi (2007) have used this method successfully in their research projects.

The findings were presented using charts and tables where applicable. Before processing the data, the questionnaires were checked for completeness and consistency.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter deals with how the data has been analyzed and the presentation of the findings. The findings are presented in sections that cover the profile of the organization and respondents; environmental factors and issues that have affected the hospitals; response strategies that the hospitals have used and the challenges that the organizations have faced in implementing various strategies. The chapter incorporates the various discussions by other authors and comments given by the respondents in the questionnaires.

4.2 Organization and respondent profile

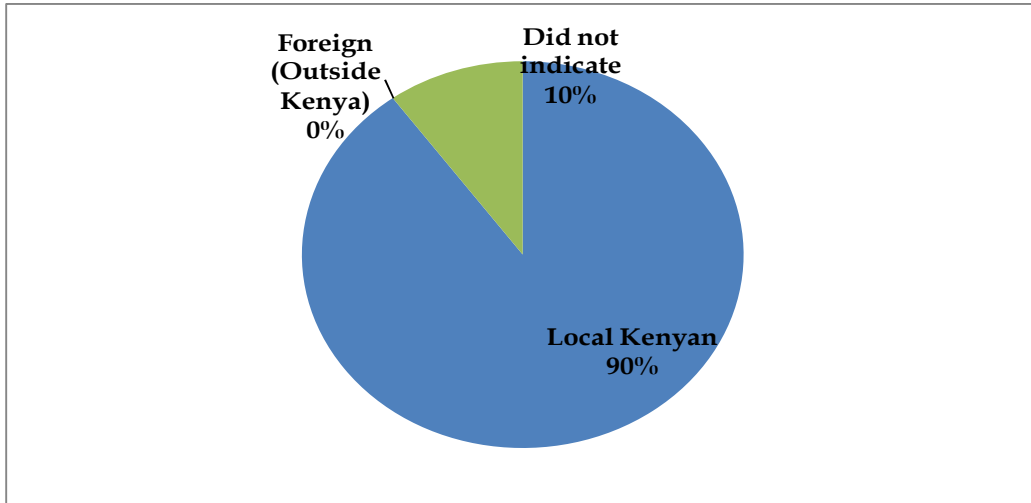
Questionnaires were sent to a total of 27 private hospitals with an in-patient bed capacity of more than 20 beds in Nairobi.

Out of this 20 organizations responded representing a response rate of 74%. The profile of the hospitals and the respondent persons is presented in the ensuing sections. The profile covers place of registration of the hospitals, duration in which the organization has been in operation, turnover and the number of employees in the hospitals. The study also sought to establish the departments in which the respondents worked in.

4.2.1 Place of registration/incorporation

All the hospitals that responded, indicated that they were registered locally hence all being Kenyan companies. As indicated in figure 4, this represented 90% of the hospitals that participated in this survey. There were none that are foreign registered. 10% of the respondents did not indicate their place of registration.

Figure 4 – Place of registration



Source: Research data

4.2.2. Years of operation

Another aspect of the organization profile that the research sought to establish was the duration in which the hospital had been in operation. As indicated in table 1, it can be seen that over 85% of the private hospitals that were surveyed had existed for more than 10 years.

Table 1- Years of operation

Years of operation	Frequency	Percentage
1-5	2	10
6-10	1	5
11-15	7	35
16-20	4	20
20 years and above	6	30
Grand Total	20	100

Source: Research data

Overall, 35% of the hospitals have been in operation for between 11 and 15 years; 30% for 20 years and above; 20% for between 16-20 years; 10% for 1-5 years and 5% for 6-10 years.

4.2.3 Turnover

Most hospitals (70%) did not respond to this question. This might be attributed to the sensitivity that organizations generally have in revealing their turnover.

Table 2 - Turnover

Annual turnover (USD)	Frequency	Percentage
Less than 5 Million	3	15
5 Million - 10 Million	1	5
10 Million - 15 Million	0	0
15 Million - 20 Million	2	10
Did not indicate	14	70
Grand Total	20	100

Source: Research data

As indicated in table 2, an analysis by turnover indicated that out of the 6 hospitals that responded, three had an annual turnover of less than 5 million USD, 1 had a turnover of over of between 5 and 10 Million USD and 2 had an annual turnover of between 15 million and 20 million USD.

4.2.4 Number of employees

The number of employees in each hospital was another profile aspect that this study focused on. As tabulated in table 3, majority of the hospitals (40%) indicated that they have a staff compliment of less than 50 staff. Cumulatively however, it can be argued that 65% of the hospitals have a staff compliment of less than 150.

Table 3- Number of employees

Number of employees	Number	Percentage
Less than 50	8	40
51-100	2	10
101-150	3	15
151-200	1	5
251-300	1	5
301-350	2	10
Over 350	3	15
Grand Total	20	100

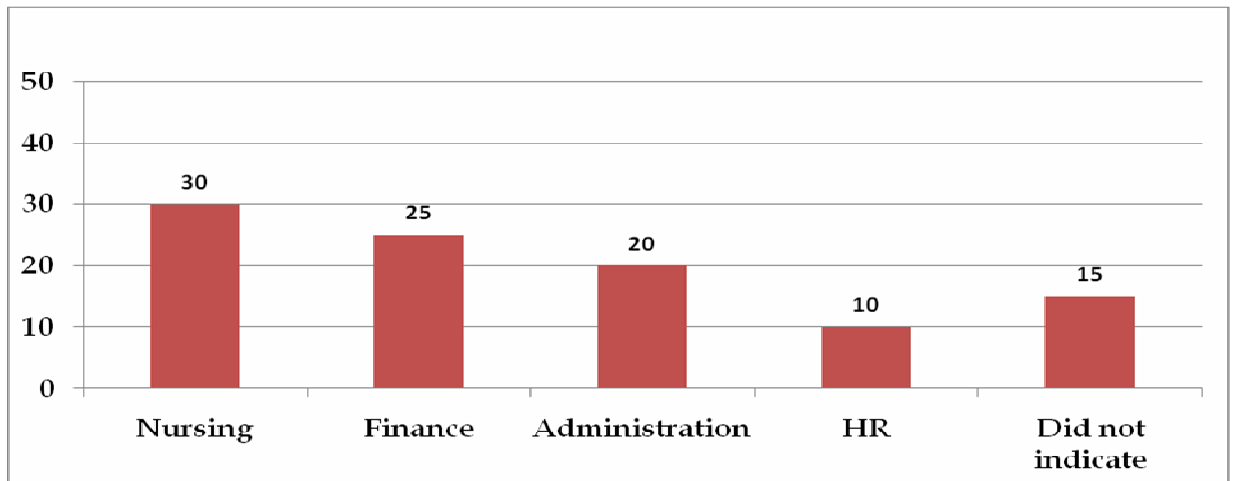
Source: Research data

25% of the hospitals have staff levels of between 301 and 350 and above.

4.2.5 Department of work

As indicated in figure 5, almost a third of the respondents worked in the nursing department, followed by 25% in finance, 20% administration and 10% in the Human Resource (HR). 15% of the respondents did not indicate the department they work in.

Figure 5 – Department of work



Source: Research data

4.3 Findings of the Study

The research study was to identify the environmental changes that have affected the private hospitals in Nairobi in the last two decades, establish the competitive strategies adopted in response to these changes and the challenges faced in the implementation of these competitive strategies.

4.3.1 Environmental changes in hospital Industry

The analysis of these environmental changes has been analyzed at two levels. First is on the broad environmental factors that affect any organization in shaping its competitive strategy. Second, is an analysis based on the specific industry issues that have a bearing on the strategic actions by a hospital?

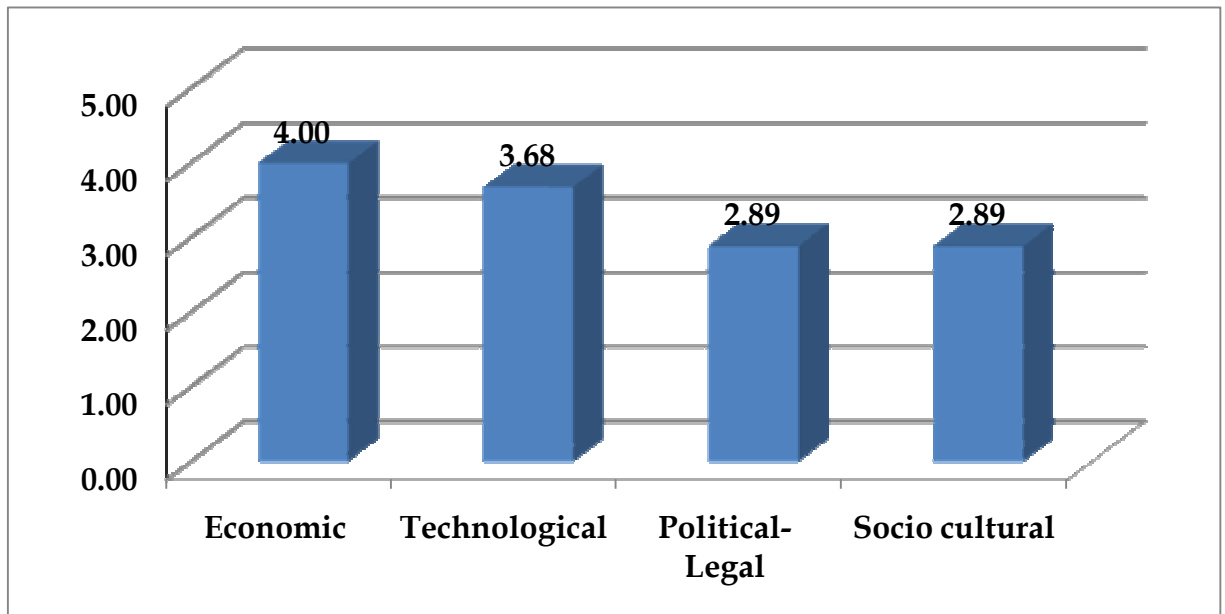
The researcher was interested in determining the extent to which these factors issues/variables have had an effect on the private hospitals in Nairobi. This was measured in way of a five-point Likert scale, where respondents were required to indicate to what extent to which the factors/issues affected the hospital in the strategy (ies) that they have taken to remain competitive.

The range was 'Very Large Extent' (5) to 'No Extent at all' (1). The scores of 'No Extent' and 'Small Extent' have been taken to present a variable which to a small extent (S.E) affects the actions that the hospitals have taken to remain competitive (equivalent to mean score of 0 to 2.5 on the continuous Likert scale; $0 \leq S.E < 2.5$). The scores to 'To Some Extent' have been taken to represent a variable that to a moderate extent (M.E.) affects the hospitals in taking a strategic action to remain competitive (equivalent to a mean score of 2.5 to 3.5 on the continuous Likert scale; $2.5 \leq M.E. < 3.5$). The score of both 'Large Extent' and 'Very Large Extent' have been taken to represent a variable, which to a large extent (L.E.) affects the hospitals adopt a particular strategic action to remain competitive in the market (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$).

It is upon this interpretation that data and findings are presented for the ensuing sections.

The researcher broadly categorized key four environmental factors that affect the strategic direction that an organization takes to remain competitive. These included Political-legal, economic factors, socio cultural and technological factors. This was measured in way of a five-point Likert scale, where respondents were required to indicate to what extent they affected the kind of actions that a hospital had taken. The results are indicated in figure 6.

Figure 6 – Environmental factors



Source: Research data

From figure 6, it can be noted that the economic environment had the highest mean score of 4.00 out of 5.00 followed by technological at 3.68 and political legal and social cultural factors at 2.89 each.

4.3.2 Competitive Strategies adopted by Private Hospitals

The other environmental analysis that was done related to establishing the competitive strategies adopted by the private hospitals in response to the above environmental changes. The findings have been shown in table 4.

Table 4 – Effect of industry issues

	Industry issue effect	Mean score out of 5
a)	Knowledge of the patients who seek treatment	4.00
b)	Competitive activities among existing hospitals in the industry	3.70
c)	Ability of other players entering the hospital industry	3.42
d)	Activities of various suppliers in the hospital industry	3.26
e)	Availability of alternative medical services	3.21

Source: Research data

Knowledge of the patients who seek treatment scored the highest in this category at a mean score of 4.00 out of 5.00. This was followed by competitive activities among existing hospitals in the industry (3.70). Knowledge of patients and competitive activities by the other hospitals can therefore be argued that they to a large extent affect the competitive strategic actions that the organizations have taken in the last two decades.

The other two aspects of activities of various suppliers in the hospital industry (3.26) and availability of alternative medical services (3.21) can be interpreted to mean that they to a moderate extent affect the competitive strategic actions that the hospitals have taken in the last two decades.

The researcher also sought to understand what broad competitive strategies that they have used, specific cost strategies and specific differentiation strategies. The findings are presented and discussed in the following sections.

4.3.2.1 Broad competitive strategies adopted

Table 5 indicates how the private hospitals have used the broad competitive strategies over the last two decades. In a nutshell, it can be noted that the hospitals have to a large extent used all the broad competitive strategies save for one that can be argued has been used to a moderate extent.

Table 5- Broad Competitive strategies

	Competitive strategies adopted	Mean score out of 5
a)	Service differentiation activities	4.06
b)	Remaining focused on the segment that your hospital serves well	4.00
c)	Cost reduction strategies /activities	3.95
d)	Introduction of other additional services into the hospital	3.74
e)	Entering into other customer segments	3.47

Source: Research data

Service differentiation strategy (4.06) has been used to a very large extent by most players in this industry. This was followed by Focus strategy (4.00) in that most hospitals have remained focused on the segment that they have served well. Others that have been used to a large extent are cost reduction strategies /activities (3.95) and introduction of other additional services into the hospital (3.74). Despite the changing environment, the hospitals surveyed seem to have to a moderate extent ventured into other customer segments

4.3.2.2 Cost strategies adopted

Still under response strategies adopted, the researcher chose to find out the extent to which various cost initiatives were important to the hospital's success. As indicated in table 6, all the aspects under consideration were considered to be important to a large extent.

Table 6 - Cost strategies

	Cost strategies	Mean score out of 5
a)	Purchase of drugs / medical devices	4.32
b)	Price charged to patients by competitors	4.05
c)	Credit facilities to the hospital	3.79
d)	Assignment by suppliers	3.63
e)	Employee remuneration	3.58

Source: Research data

The aspects that attracted the highest ratings were purchase of drugs / medical devices that attracted a mean score of 4.32 out of 5 and the price charged to patients by competitors at a mean of 4.05. Others were credit facilities to the hospital (3.79); assignment by suppliers (3.63) and employee remuneration (3.58) that to a large extent are important in determining the success of the hospital.

4.3.2.3 Service differentiation strategies

An analysis on the service differentiation strategies adopted indicated that the hospitals to a large extent have adopted various differentiation strategies/activities in order to remain competitive (table7).

Table 7- Service differentiation strategies

	Service differentiation strategies	Mean score out of 5
a)	Meeting of customer unique needs	4.37
b)	Striving to meet customers unique needs	4.37
c)	Having of specialist doctors clinics within the hospital	4.37
d)	Employment of high skilled hospital staff	4.16
e)	Offering unique services not by other hospitals offered	3.89
f)	Striving to invest in special technologies not in other hospitals	3.79
g)	Unique physical appearance and attention physical infrastructure	3.63
h)	Having a training medical school	2.17

Source: Research data

The differentiation strategies/activities that were scored highly included those aimed at enhancing of meeting of the customer needs that were scored at 4.37, followed by employment of high skilled staff at 4.16, offering unique services at 3.89, investment in special technologies (3.79) and development of unique physical appearance and attention to physical infrastructure (3.63)

One differentiation activity of having a training medical school was scored lowest at 2.17, an implication that is not used by the hospitals largely due to the inhibiting set up costs of such institutions.

4.3.3 Challenges of Strategy implementation

One other objective for this study was to establish the challenges that hospitals face in implementing various strategies. To answer this, the researcher approached this from two perspectives. First was to get general implementation challenges and challenges that are specific to the medical service industry as discussed in the ensuing section.

4.3.3.1 General implementation challenges

Strategy implementation is usually faced by a number of challenges. The respondents were asked to indicate the extent to which aspects posed as a challenge to the successful implementation of strategy in the private hospital industry. The ratings on the various aspects are indicated in table 8.

Table 8- General challenges in implementing strategy

	General Implementation challenges	Mean score out of 5
a)	Patient diagnostic and treatment costs	3.85
b)	Remuneration of doctors and other supportive staff	3.58
c)	Huge investment in capital diagnostic equipment	3.47
d)	Shortage of specialist clinicians	3.42
e)	High training costs	3.42

Source: Research data

Patient diagnosis and treatment costs (3.85) and remuneration of doctors and other supportive staff (3.58) were found to a large extent posing a challenge to the implementation of strategy in the private hospitals. Other aspects were found to a moderate extent pose a challenge to implementation of strategy. These included huge investment in capital diagnostic equipment (3.47), shortage of specialist clinicians and high training costs that attracted means of 3.42 each.

Other challenges that are related to hospital industry were rated variously as shown in table 9.

Table 9 – Industry related implementation challenges

	Industry related implementation challenges	Mean score out of 5
a)	High price of goods	4.18
b)	Competition from other hospitals	3.40
c)	Ease of Entry of new hospitals.	2.95
d)	Competition from other healthcare providers not trained as healthcare professionals e.g. traditional midwives	2.74

Source: Research data

Only one aspect of high price of goods (4.18) can be argued to a large extent pose as a challenge to the implementation of strategy. Competition from other hospitals (3.40), entry by other hospitals (2.95) and alternative medical care providers (2.74) were seen as a challenge to a moderate extent.

4.4 Discussion

It was found out that economic factors had the highest mean score of 4.00 out of 5.00 followed by technological at 3.68 and political legal and social cultural factors at 2.89 each. It can therefore be argued that the economic and technological factors have to large extent been a determinant in the actions that the private hospitals in Nairobi have taken. On the other hand, the political –legal and socio-cultural factors have been a determinant to a moderate extent. Ansoff (1915) argues that organizations need to match their strategies to the environmental changes. Aosa (1998) agrees that failure to adjust to environmental changes jeopardizes an organization’s future success.

The other environmental analysis that was done related to determining the extent to which specific issues in the medical care/hospital industry affected the way the hospitals

took some specific strategic actions. These actions revolved around Porter's five forces of competition that shape competition in an industry (Porter, 1985). This analysis is also reinforced by Pearce and Robinson (1980) who argue that a firm must consider how these forces affect it and the industry when formulating a competitive strategy, adjusting to them so as to take advantage.

Knowledge of the patients who seek treatment scored 4.00 out of 5.00. This was followed by competitive activities among existing hospitals in the industry (3.70). Knowledge of patients and competitive activities by the other hospitals can therefore be argued that they to a large extent affect the competitive strategic actions that the organizations have taken in the last two decades.

The other two aspects of activities of various suppliers in the hospital industry (3.26) and availability of alternative medical services (3.21) can be interpreted to mean that they to a moderate extent affect the competitive strategic actions that the hospitals have taken in the last two decades.

Overall the above industry specific analysis is in line with Gordon (2004) who observes that the firm performance is influenced by industry characteristic which determine the price of goods and other baseline conditions for competition on value or cost.

To establish competitive strategies adopted by the private hospitals in Nairobi in respond to the environmental challenges, the researcher focused on broad competitive strategies adopted. In a nutshell, it was noted that the hospitals have to a large extent used all the broad competitive strategies save for one that can be argued has been used to a moderate extent. Service differentiation strategy (4.06) was used to a very large extent by most players in this industry. This was followed by Focus strategy (4.00) in that most hospitals have remained focused on the segment that they have served well. Use of focus strategy is in line with what Porter (1980) has postulated, that new ventures start with a focus strategy and change as the venture grows.

Others that have been used to a large extent are cost reduction strategies /activities (3.95) and introduction of other additional services into the hospital (3.74). Despite the changing environment, the hospitals surveyed seem to have to a moderate extent ventured into other customer segments

Still under response strategies adopted, the researcher chose to find out the extent to which various cost initiatives were important to the hospital's success. Cost leadership strategy usually targets a broad market as observed by Porter (1980). Firms can gain cost advantage by improving process efficiencies, unique access to low cost materials, vertical integration decision on some costs altogether (Ansoff, 1965).

In regard to this study, all the aspects under consideration were considered to be important to a large extent. The aspects that attracted the highest ratings were purchase of drugs / medical devices that attracted a mean score of 4.32 out of 5 and the price charged to patients by competitors at a mean of 4.05. Others were employee remuneration (3.79); assignment by suppliers (3.63) and employee remuneration (3.58) that to a large extent are important in determining the success of the hospital.

Firms that pursue successful differentiation strategy have access to leading scientific research, strong sales team and corporate reputation for quality among other strengths. (Johnson and Sholes 1999). An analysis on the service differentiation strategies adopted indicated that the hospitals to a large extent have adopted various differentiation strategies/activities in order to remain competitive.

The differentiation strategies/activities that were scored highly included those aimed at enhancing of the meeting of the customer needs that were scored at 4.37, followed by employment of high skilled staff at 4.16, offering unique services at 3.89, investment in special technologies (3.79) and development of unique physical appearance and attention to physical infrastructure (3.63). These findings are in line with what Porter (1985) emphasizes on for a firm that is seeking to have a competitive advantage through the attraction of customers and clear definition of itself against competitive forces better than

its rivals. One differentiation activity of having a training medical school was scored lowest at 2.17, an implication that is not used by the hospitals largely due to the inhibiting set up costs of such institutions.

To identify challenges faced by private hospitals in Nairobi in implementing their competitive strategies, the researcher identified some general implementation challenges. Strategy implementation is usually faced by a number of challenges. Patient diagnosis and treatment costs (3.85) and remuneration of doctors and other supportive staff (3.58) were found to a large extent posing a challenge to the implementation of strategy in the private hospitals. Other aspects were found to a moderate extent pose a challenge to implementation of strategy. These included huge investment in capital diagnostic equipment (3.47), shortage of specialist clinicians and high training costs that attracted means of 3.42 each.

Only one aspect of high price of goods (4.18) can be argued to a large extent pose as a challenge to the implementation of strategy. Competition from other hospitals (3.40), entry by other hospitals (2.95) and alternative medical care providers (2.74) were seen as a challenge to a moderate extent. Mbali (2007) had identified leadership, resources and organizational structure as major challenges for Mwalimu Sacco. These challenges however do not affect strategy implementation for private hospitals.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings gathered from the analysis of the data, as well as the conclusions reached. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

5.2 Summary of Findings

Out of the hospitals that participated in the survey, 90% of them are registered in Kenya as local companies and 85% of them have been in existence for more than 10 years. 10% of the respondents did not their place of registration. This implies that most of them have been in existence for a long period and therefore the study can be relied on given that the study focused on competitive strategies adopted by private hospitals over the last two decades.

70% of the hospital did not respond to the question on turn over due to the sensitivity of divulging such information while 30% of those who responded indicated their turnover to be 20 million USD and below. 65% of the hospitals have a staff compliment of less than 150 and only a quarter of the hospitals have between 301 and 350 staff and above.

Most of the respondents at 66% were from the nursing department, followed by finance at 25%, administration at 20% and only 10% from human resource department.

Overall, it was found out that economic and technological factors were to large extent a determinant in the actions that the private hospitals in Nairobi have taken. On the other hand, the political –legal and socio-cultural factors have been a determinant to a moderate extent. Therefore the hospitals have to align their strategies to these key determinants. Ansoff (1915) argues that organizations need to match their strategies to the

environmental changes. Aosa (1998) agrees that failure to adjust to environmental changes jeopardizes an organization's future success.

5.3 Conclusion

Overall it can be noted that there are a number of general environmental factors that have affected the actions of the private hospitals in Nairobi in the last two decades. Economic and technological factors have to a large extent had an influence on the strategic actions that the private hospitals have taken.

In terms of strategic responses, the hospitals have had mixed responses to the changes in the environment. The key competitive strategic directions that they have taken have had to take the service differentiation and focus. The focus strategy is a confirmation of the fact that the hospitals have not moved to new customer segments. These findings however are not in line with what Johnson and Scholes (2000) observe that a competitive strategy should give attention to the product that gives higher returns and therefore reduce price sensitivity in the industry.

5.4 Limitations of the study

This study targeted private hospitals in Nairobi that has an in-patient bed capacity of more than 20 beds. Given the focus, this study might not apply to the private hospitals that are involved in only the provision of casualty or outpatient services.

Given that the study also focused on the private hospitals in Nairobi, the findings might not be applicable to similar hospitals that are outside Nairobi.

5.5 Recommendation for policy and practice

The research will help the proprietors of private hospitals to be proactive in making decisions when formulating and implementing competitive strategies. It will also help the policy makers in the hospital industry with pertinent information for policy making and planning. This will include the stakeholder in the hospital industry that include faith based mission hospitals, private hospitals and government owned public hospitals.

5.6 Recommendation for further research

Further research is recommended to focus on other private hospitals of similar nature that are based outside Nairobi. This is because they operate under different environments and have a different customer base from those in Nairobi. Further research is also important for Public funded and mission hospital in Nairobi.

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APPENDIX 1 - INTRODUCTORY LETTER

University of Nairobi,
School of Business,
Department of Strategic
Management,
P. O. BOX 30197,
NAIROBI.

06 April 2010

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a management research project on Competitive strategies. The study is entitled:

“ Competitive Strategies Adopted by Private Hospitals in Nairobi ”

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire.

The information/data you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report.

Your cooperation will be highly appreciated.

Thank you in advance.

Yours faithfully,

Gaturu P. Mbugua
Student: D/61/7207/04

Mr. Jeremiah Kagwe
Supervisor

APPENDIX 2: QUESTIONNAIRE
COMPETITIVE STRATEGIES ADOPTED BY HOSPITALS IN NAIROBI
SECTION A – ORGANISATION AND REPOSNDENT PROFILE

- 1) Name of your Hospital (Optional) _____
- 2) Where registered/incorporated
 - a) Local (Kenyan) []
 - b) Foreign (Outside Kenya) []
 - c) Other - specify _____
- 3) Please indicate the years of the hospital's operation in Kenya. (Tick that is applicable)
 - a) 1-5 years []
 - b) 6 -10 []
 - c) 11 – 15 []
 - d) 16 – 20 []
 - e) 20 years and above []
- 4) Please indicate on average the Turnover of your hospital in USD

- 5) Please indicate the number of employees in your organization. (Tick that applies)
 - a) Less than 50 []
 - b) 51 -100 []
 - c) 101 – 150 []
 - d) 151- 200 []
 - e) 201 - 250 []
 - f) 251 - 300 []
 - g) 301 - 350 []

- h) Over 350 []
- 6) Department in which you work. (Tick that applies)
- a) Finance []
- b) Administration []
- c) Nursing Department []
- d) Pharmacy []
- e) Any other (specify) _____

SECTION B – ENVIRONMENTAL CHANGES

7) Organizations are usually affected by different factors that shape the kind of actions that they take to survive in the market. To what extent have the following **ENVIRONMENTAL factors** affected the kind of actions that your hospital has taken to remain competitive in the industry that you operate in?

Use a five point scale where 1 = Not at all; 2 = Little extent; 3 = Moderate extent 4 = Large extent and 5= Very Large extent; (Tick in the appropriate column)

	Factor	(5) Very Large extent	(4) Large extent	(3) Moderate extent	(2) Little extent	(1) Not at all
a)	Political- Legal factors					
b)	Economic factors					
c)	Socio cultural factors					
d)	Technological factors					
e)	Any other (indicate)_____					

8) To what extent have the following issues in the hospital industry affect the kind of actions that your hospital has taken to remain competitive in the industry that you operate in?

Use a five point scale where 1 = Not at all; 2 = Little extent; 3 = Moderate extent 4 = Large extent and 5= Very Large extent; (Tick in the appropriate column)

	Industry issue	(5) Very Large extent	(4) Large extent	(3) Moderate extent	(2) Little extent	(1) Not at all
a)	Ability of other players entering the hospital industry					
b)	Activities of various suppliers in the hospital industry					
c)	Knowledge of the patients who seek treatment					
d)	Availability of alternative medical services					
e)	Competitive activities among the existing hospitals in the industry					
f)	Any other (specify)_____					

SECTION C – RESPONSE STRATEGIES USED?

9) When faced with different external forces, organizations usually adopt various strategies/ activities to survive in the market. To what extent has your hospital used the following strategies to remain competitive in the industry that you operate in?

Use a five point scale where 1 = Not at all; 2 = Little extent; 3 = Moderate extent 4 = Large extent and 5= Very Large extent; (Tick in the appropriate column)

	Strategies	(5) Very Large extent	(4) Large extent	(3) Moderate extent	(2) Little extent	(1) Not at all
a)	Cost reduction strategies /activities					
b)	Service differentiation activities					
c)	Remaining focused on the segment that your hospital serves well					
d)	Entering into other customer segments					
e)	Introduction of other additional services into the hospital					
f)	Any other (specify)_____					

10) In the Overall cost strategy that the hospital applies, to what extent does the hospital consider the following cost cutting measures important to its success?

Use a five point scale where 1 = Not at all; 2 = Less important; 3 = Neither 4 = Important and 5= Very Important; (Tick in the appropriate column)

	Overall cost strategy/activity	(5) Very Importa nt	(4) Importa nt	(3) Neither	(2) Less Import tant	(1) Not at all
a)	Purchase of drugs / medical devices					
b)	Price charge to patients by competitors					
c)	Employee remuneration					
d)	Assignment by suppliers					
e)	Credit facilities to the hospital					

11) Indicate the extent to which the following Service Differentiation strategies have been adopted by your hospital to remain competitive in the industry that you operate in?

Use a five point scale where 1 = Not at all; 2 = Little extent; 3 = Moderate extent 4 = Large extent and 5= Very Large extent; (Tick in the appropriate column)

	Challenge	(5) Very Large extent	(4) Large extent	(3) Moderate extent	(2) Little extent	(1) Not at all
a)	Employment of high skilled ad other hospital staff					
b)	Meeting of customer unique needs					
c)	Offering unique services not by other hospitals offered					
d)	Striving to meet customers unique needs					
e)	Striving to invest in special technologies not in other hospitals					
f)	Unique physical appearance and attention physical infrastructure					
g)	Having of specialist doctors clinics within the hospital					
h)	Having a training medical school					
i)	Any other (please indicate) _____					

SECTION D – CHALLENGES FACED IN IMPLEMENTING VARIOUS STRATEGIES ADOPTED

12) When organizations implement various strategies to remain competitive in their industries, they usually face a number of challenges. To what extent has your hospital faced the **following challenges in implementing** various strategies aimed at making your organization remain competitive?

Use a five point scale where 1 = Not at all; 2 = Little extent; 3 = Moderate extent 4 = Large extent and 5= Very Large extent; (Tick in the appropriate column)

	Challenge	(5) Very Large extent	(4) Large extent	(3) Moderate extent	(2) Little extent	(1) Not at all
a)	Huge investment in capital diagnostic					
b)	Efficient flow of patients from one department to another					
c)	Patient diagnostic and treatment costs					
d)	Remuneration of doctors and other supportive staff					
e)	Shortage of specialist clinicians					
f)	High training costs					
g)	Any other (please indicate) _____					

13) To what extent has your hospital faced the **following industry related challenges in implementing** various strategies aimed at making your organization remain competitive?

Use a five point scale where 1 = Not at all; 2 = Little extent; 3 = Moderate extent 4 = Large extent and 5= Very Large extent; (Tick in the appropriate column)

	Challenge	(5) Very Large extent	(4) Large extent	(3) Moderate extent	(2) Little extent	(1) Not at all
a)	Ease of Entry of new hospitals.					
b)	Competition from other hospitals					
c)	High price of goods					
d)	High price of goods					
e)	Competition from other healthcare providers not trained as healthcare professionals e.g. traditional midwives					
f)	Any other (please indicate) _____					

14) Please share any other comments that you may have about the private hospital industry in Kenya?

Thank you for taking time to complete this questionnaire

**APPENDIX 3: LIST OF PRIVATE HOSPITAL IN NAIROBI WITH BED
CAPACITY OF TWENTY AND MORE BEDS.**

Hospital	Bed Capacity
1. Avenue Hospital	60
2. Chiromo Lane Medical Centre	30
3. City Nursing Home	20
4. Donholm Maternity & Nursing Home	
5. Dorkcare Hospital	
6. Emmaus Nursing Home	23
7. Gertrude's Hospital	72
8. Guru Nanak Ramgarhia Sikh Hospital	
9. Huruma Maternity & Nursing Home	26
10. Huruma Nursing Home	
11. Jamaa Mission Hospital	60
12. Juja Hospital ,	39
13. Kasarani Maternity & Nursing Home	60
14. Lions Eye Hospital	
15. M.P Shah Hospital	108
16. Maria Maternity & Nursing Home	20
17. Masaba Hospital	200
18. Mbagathi Junction	20
19. Metropolitan Hospital, Nairobi	35
20. Mother& Child Hospital	32
21. Nairobi Equator Hospital	40
22. Nairobi West Hospital	220
23. Nairobi Women's Hospital	50
24. St Mary's Mission Hospital	
25. The Aga Khan University Hospital, Nairobi	
26. The Karen Hospital	
27. The Mater Hospital	135