

---

**COMPETITIVE STRATEGIES ADOPTED BY  
PRIVATE HOSPITALS IN MOMBASA**

---

**BY**

**VICTORIA N. MBURU**

UNIVERSITY OF NAIROBI  
LIBRARY

**A MANAGEMENT RESEARCH PROJECT REPORT SUBMITTED IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD  
OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA),  
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**OCTOBER 2007**

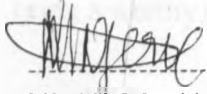
University of NAIROBI Library



0306664 4

## DECLARATION

This management research project is my original work and has not been presented for a degree in any other university



-----  
VICTORIA N. MBURU

D61 P/7964 02

7/11/07

-----  
DATE

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



-----  
PROF. EVANS AOSA / JACKSON MAALU  
SCHOOL OF BUSINESS  
UNIVERSITY OF NAIROBI

7/11/07

-----  
DATE

## DEDICATION

To my Dad Ephraim Mburu and mum Annie Wairimu, who worked to ensure I never missed a day at school and most of all, taught me the value of Education.

To my loving husband whose support and inspiration I could not do without and for being a worthy study partner all through the entire course.

To our lovely kids, born in the course of this study, who gave me a reason to smile all through.

## ACKNOWLEDGEMENT

To God almighty for seeing me through the entire course

To my supervisors Prof. E. Aosa and Mr. J. Maalu for introducing me to the world of Strategic management

To the respondents without whom this study would not have been complete

To my fellow MBA students and especially my study group members Francis, Maurice and Kinuu for making the course much more interesting

# TABLE OF CONTENTS

<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 BACKGROUND .....	1
1.1.1 HEALTHCARE SECTOR IN KENYA.....	3
1.1.2 HEALTHCARE INSTITUTIONS IN MOMBASA .....	8
1.2 STATEMENT OF RESEARCH PROBLEM .....	8
1.3 RESEARCH OBJECTIVE .....	9
1.4 IMPORTANCE OF THE STUDY .....	9
1.5 SCOPE OF THE STUDY .....	10
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>11</b>
2.1 THE CONCEPT OF STRATEGY .....	11
2.2 COMPETITIVE STRATEGIES .....	14
2.2.1 COST LEADERSHIP STRATEGY .....	16
2.2.2 DIFFERENTIATION STRATEGY .....	17
2.2.3 FOCUS STRATEGY .....	18
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	<b>22</b>
3.2 POPULATION .....	22
3.3 DATA COLLECTION.....	23
3.4 DATA ANALYSIS .....	24
<b>CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS</b> .....	<b>25</b>
4.1 INTRODUCTION .....	25
4.2 COMPETITIVE STRATEGIES ADOPTED BY PRIVATE HOSPITALS IN MOMBASA .	26
4.2.1 DIFFERENTIATION STRATEGIES.....	29
4.2.2 LOW-COST LEADERSHIP STRATEGIES .....	32
4.2.3 FOCUS STRATEGIES .....	34
4.3 FACTORS THAT INFLUENCE THE ADOPTION OF THE STRATEGIES BY PRIVATE HOSPITALS IN MOMBASA .....	36
<b>CHAPTER FIVE: SUMMARY, CONCLUSION &amp; RECOMMENDATION</b> ....	<b>40</b>
5.1 SUMMARY.....	40
5.2 CONCLUSIONS.....	43
5.3 LIMITATIONS OF THE STUDY .....	43
5.4 RECOMMENDATIONS FOR FURTHER RESEARCH .....	43
<b>REFERENCES</b> .....	<b>45</b>
<b>APPENDIX 1: LETTER OF INTRODUCTION</b> .....	<b>48</b>
<b>APPENDIX 2: QUESTIONNAIRE</b> .....	<b>49</b>

## CHAPTER ONE: INTRODUCTION

### 1.1 Background

Creating new forms of competitive advantage has become a major area of concern for management as the competitive environment continues to change rapidly and unpredictably. Organizations have had to undertake strategy formulation and implementation amidst many challenges the most critical being competition. Today's managers are under pressure to improve productivity, quality and speed in their organizations. Porter (1998) argues that today's dynamic markets and technologies called into question the sustainability of competitive advantage. Even where there has been operational improvements, rarely has these gains resulted into sustainable profitability. Yet organizations have to ensure they remain competitive amidst all the dynamics of the market. Therefore, organizations have to choose unique and valuable competitive strategies rooted in the systems and activities that are much more difficult to match; the competences have to be distinct.

Competition in any industry arises due to similarity in the products or services aimed at the same customer group. This applies even in the healthcare industry. Their principle product is providing medical services to their patients. This industry can be divided into private and public healthcare institutions both of which may target the same customers. It is in the light of competition that the different players strategize in order to outsmart their rivals, not just to continue existing but also to make profits. The nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products or services, and the jockeying among current contestants (Porter, 1979). To establish a strategic agenda for dealing with these contending currents and to grow despite them, an organization must understand how they work in its industry and how they affect the organization in its particular situation.

Porter's five forces framework can be used to analyze the sources of competition in the healthcare industry, as they very much apply in this sector.

Unavailability of drugs supplies in public hospitals as shown by Wassuna (1999) and the public expectation of good health facilities have resulted to a growth in the population of private hospitals. The competition of the new healthcare institutions has become even more aggressive especially with the ever-changing technology in healthcare provision. Whatever the case, it is clear that an effective strategy must take into account the distinctive competences of a firm that will give it a competitive advantage over its competitors. The competitive advantage of a firm is usually reflected in its superiority in the resources it possesses and the performance outcomes of the activities it undertakes (Day and Wensley, 1988). Resource based and environmental models of competitive advantage suggest that "firms can obtain sustainable competitive advantage by implementing strategies that exploit their internal strengths through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses" (Barney, 1991).

Healthcare institutions have a big enough job in carrying out the important, complex work of saving lives and improving patient health. Yet along with fulfilling their principal charge, these organizations must also deal with a raft of day-to-day business and operational issues. Resources, from people to facilities to funds, are growing scarcer, while uninsured populations burgeon. Competition exerts unrelenting pressure to control costs.

Some of the major external factors healthcare institutions have to grapple with include: economic and demographic trends; regulation; public and private purchaser behavior; plan and hospital market characteristics (i.e., number and type of competitors); payment methods;

medical technology; labor supply among other factors. The internal forces can be viewed from analyzing the strengths and the weaknesses that an organization processes. Add to these challenges an increased focus on improving patient safety, and the ceaseless introduction of new technology in this particular industry, and there is little wonder that private healthcare institutions are desperate for ways to improve efficiency and streamline operations. It is in the light of these challenges that Private Healthcare institutions especially hospitals are going out of the way to ensure they formulate and adopt competitive strategies that will help keep them ahead of the competition.

### **1.1.1 Healthcare Sector in Kenya**

The key players in Kenya's health system are the central government (through the Ministry of Health), non-governmental organizations (NGOs), private for-profit healthcare organizations, and local government authorities. Besides being the main employer, the government controls approximately 53% of all health facilities in the country, while private companies, religious organizations, and the Ministry of Local Government control the rest of health facilities. The public sector has a dominant representation in health centers (79%), sub-health centers (92%), and dispensaries (60%). The NGO sector leads in health clinics, maternity and nursing homes (94%) and medical centers (86%) (IEA/ SID, 2001).

Since independence in 1963, Kenya has continued to design and implement policies aimed at promoting coverage of and access to modern healthcare in an attempt to attain the long-term objectives of health for all. The development and expansion of health services and facilities in terms of spatial coverage, training of personnel, and in tertiary healthcare delivery services since independence has been commendable. Though the physical infrastructure for health provision in Kenya has expanded rapidly, distribution and coverage remains uneven



especially in rural areas (IEA/ SID, 2001). Maintenance of public sector health facilities has been a big problem and a major burden for the Ministry of Health. Healthcare policy reforms have therefore been adopted as a strategy of supplementing government budgets to revitalize healthcare delivery systems. The most notable health reforms the Government has adopted include decentralization and cost sharing. The health achievements between 1960 and 1992 have been encouraging. However, since the early 1990s, there has been a declining trend in the health status of the population although there has been a massive expansion of health infrastructure since independence, increasing population and demand for healthcare outstrips the ability of the government to provide effective health services. Provision of effective health services requires that the government address issues of inadequate health personnel, financing, drugs, health infrastructure, inefficiency in health delivery, and inequality in delivery of healthcare. While this has been noted significantly in the public healthcare institutions, there has been a lot of improvement in the private healthcare providers; both in numbers and quality of services that they are offering

The private healthcare sector comprises the activities of agents who are largely outside the control of government. This includes individuals who privately own health facilities and seek to make profit in the healthcare sector, clinics and hospitals owned by private employers and those operated by religious missions and other non-governmental organizations (NGO's). These agents play a significant role in provision of health services in Kenya. The impression in many countries is that private healthcare is expanding and this has made many countries to adopt a pluralistic health system.

Kenya has followed a strategy of pluralism in the health sector for a long time, allowing a large and diverse non-government healthcare sector to develop. The government, on realizing

the potential that exists in the non-governmental sector, has tried to create an enabling environment for private investment in healthcare provision. Private healthcare providers are often assumed to be more efficient and provide a higher quality healthcare alternative than public sector providers. Nongovernmental healthcare providers include religious organizations, for-profit private healthcare enterprises, pharmacies/chemists, and traditional practitioners.

The growth of private hospitals is attributed more to government reforms that took place in the 1980s on the Kenyan health sector. The government was facing a fiscal burden in provision of healthcare, which had to be transferred to private healthcare providers and individuals. The government initiated a cost-sharing program as part of reducing government burden, while it undertook to create a conducive environment for greater private sector involvement in healthcare. This created a two-tier health system in which some people are served by government facilities and others by the private sector. The private healthcare sector has made a remarkable contribution in delivery of healthcare to the public. As Hanson and Berman (1994) note, failure to consider the diversity of private healthcare providers could lead to faulty policy advice because form, behavior, and importance with respect to both size and range of activities is likely to differ significantly between types of providers.

It is important to shed light on the classification of the private healthcare facilities as this somehow affects the strategy they ultimately adopt in their respective institutions depending on their orientation. The not-for profit institutions will adopt strategies that maintain them at a competitive position while not focusing on making monetary gains while many private owned institutions may focus on making the gains while staying ahead of the competition.

Many studies on private healthcare providers have cited the existence of confusing arrays of terminologies over their classification (Oduwo *et al*, 2001; Kumaranayake, 1998; Hursh-Cesar *et al*, 1994). For instance, some health facilities identify themselves as hospitals whereas others with similar features identify themselves as clinics or nursing homes, although the law stipulates what should be hospitals, nursing homes, and clinics. Terminologies used to define the facilities are important as they dictate the regulatory mechanism to be applied for a particular type. Therefore, confusion arises when different facilities with similar features are regulated differently.

Doctors, nurse practitioners, or clinical officers operate most private healthcare facilities. Various studies have classified private healthcare providers according to a number of criteria, with each criterion emphasizing a specific aspect of the sector (Kumaranayake 1998; Hursh-Cesar *et al*, 1994). Commercial orientation, ownership, type of facility, and therapeutic system are used in this paper to classify various types of private healthcare providers

The first and main component of classification of private healthcare providers is by economic orientation, which includes for-profit or not-for-profit facilities (Kumaranayake, 1998; Hursh-Cesar *et al*, 1994). Health facilities run by churches or various religious faiths constitute the main not-for-profit private healthcare providers. Other nongovernmental organizations in this sector include single-purpose organizations such as the Family Planning Association of Kenya (FPAK). Health facilities owned by sole proprietors, partnerships, companies and parastatals, pharmacists and traditional health practitioners form the main for-profit private healthcare providers.

The second category of classification of private health providers is by ownership. Economic agents of different types own private healthcare facilities. These agents include religious organizations, companies, parastatals, private enterprises, and individuals such as pharmacists and traditional healers who own private healthcare facilities. Community-based health workers, community-based distributors of contraceptives, and community pharmacies also fall under this classification.

The third classification of private healthcare providers is by type of facility. This classification produces three broad categories of health facilities: hospitals, health centers, and sub-health centers. However, the Health Management Information System (HMIS) database lists the following types of private health facilities: hospital, health center, sub health center, dispensary, health clinic, maternity home, nursing home, medical center, mobile clinic, special health institutions, health programs and community pharmacies (Government of Kenya, 2001). It is very clear that it is not easy to tell what distinguishes one type of health facility from the other as listed in the database. However, a good guide would be the conditions that the health facilities must meet in order to be licensed by the Medical Practitioners and Dentists Board as a particular type of healthcare facility. The Medical Practitioners and Dentists Act, Cap 253 of the Laws of Kenya has outlined these conditions.

As evidenced above, there is considerable confusion in the terminologies used to classify private healthcare facilities. This project will take the same definition of a hospital to be similar to that of a healthcare institution. No classification presents a sufficiently complete framework for analysis of the private healthcare sector. However the approval by the Ministry of Health is a must for one to qualify as a Hospital.

### **1.1.2 Healthcare Institutions in Mombasa**

Healthcare delivery system in Mombasa is comprised of hospitals, clinics, laboratories and nursing homes among others. The government of Kenya's attempt to avail healthcare to the citizens without having to travel over long distance to seek the same has brought about many qualified personnel to register their practice as hospital, clinic or nursing homes. From the Ministry of Health registration list (2004), Mombasa constituted a total of two hundred and ten (210) hospitals. The government run institutions were thirty five (35), eleven (11) were Mission hospitals, four (4) were Non governmental institution (NGO) run and one hundred and seventy five (175) were private run. While the government has intended to update and review this list every year, the cost of doing so has made it difficult and some closed down hospitals still appear together with new upcoming ones.

### **1.2 Statement of Research Problem**

Strategy is context sensitive .The factors that determine the strategy to be adopted by an organization will depend among other factors the environment under which it operates. Organizations in the same environment may end up adopting similar strategies. There have been several studies done in the past on strategies adopted in various sectors (Gathoga, 2001; Gakombe, 2003; Mwanthi, 2003), however the researcher is not aware of any study that has been done on private hospitals in Mombasa.

Gakombe (2002) carried out an analysis of the Industry forces and Strategic choices adopted by Private hospitals in Nairobi. Ndubai (2003) looked into the competitive strategies applied by retail Sector of the Pharmaceutical industry in Nairobi. In the Kenyan context, a good number of the studies have been done in Nairobi as the headquarters of most of the organizations. However, there is little evidence of study done on the competitive strategies

adopted by private hospitals in Mombasa. In consideration of the fact that organizations are under pressure from their respective environment to adopt competitive strategies to help meet the growing demands on their systems, processes and people, the healthcare sector therefore offers an area of interest to many. The study will seek to establish the competitive strategies that private hospitals in Mombasa have adopted and the reasons why they have adopted them.

### **1.3 Research Objective**

The study had two objectives:

- (i) To establish the competitive strategies adopted by the private hospitals in Mombasa
- (ii) To identify the factors that influence the adoption of the strategies by private hospitals in Mombasa.

### **1.4 Importance of the Study**

Hospitals are a major component of health care delivery system and account for a substantial and increasing portion of total national health care expenditures. Consequently, the strategies that these institutions develop and implement to compete have a significant effect on costs, quality, and access to care.

Specifically the study will be of interest to:

Policy makers and planners as they formulate policies that drive the government's core objective of quality and accessible healthcare for its citizens.

Strategic managers as it sheds light on the competitive dynamics that revolve to shape the different strategies that they adopt.

To managers of healthcare institutions as it will provide insight to key strategic issues in the sector and assist in formulation and implementation of informed and comprehensive competitive strategies.

Scholars as it will contribute to the existing body of knowledge in the field of strategic management in general and competitive strategies in healthcare sector in particular. It is hoped it will also act as a stimulus for further research in this field

### **1.5 Scope of the Study**

Healthcare institutions are widely distributed over Kenyan coastal region. However, this study limits itself to private hospitals operating in Mombasa and the strategies they have adopted.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 The Concept of Strategy

Strategy is management's game plan for business (Thompson and Strickland, 1998). It consists of moves and approaches by which management adopts in order to produce successful organizational performance and hopefully sustain it. Strategy can change depending on the external forces that a firm faces. Mintzberg (1987) viewed strategy as a plan, ploy, a pattern position and a perspective. As a plan, a strategy consciously determines intended course of action. As a ploy, strategy is seen as a maneuver intended to outwit competitor. As a pattern, strategy is seen as a pattern emerging in a stream of actions. As a position, strategy is seen as a means of positioning a firm in its environment. As a perspective, strategy consists of a position, and an ingrained way of perceiving the world' (Burns, 1998).

Strategy involves creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The strategic problem is a mismatch between the external characteristics of an organization and the internal environment. The matching is achieved through the development of the organizations core capabilities. The organization must also continuously and actively adapt in order to meet the demands of the ever-changing environment. Therefore, strategy helps to relate a company to its environment. Since at times the environment changes more turbulently, a firm needs to develop foresight, flexibility and speed in order to respond to these changes in a timely manner.

Ansoff (1988) refers to strategy as the distinctive approaches he firms uses or intends to use to succeed. Bennet (1999) refers to them as the critical success factors.



There is no one single definition of strategy (Ansoff, 1990). However we can observe that in all the different definitions, strategy focuses the decisions of the entire organization in one direction and towards better performance.

Strategy could be implicit or explicit in the management of a firm and terms such as mission, vision or strategic intent and goals could mean strategy and thus define the scope and boundaries of an organization. It is hence clear that strategy describes the long-term direction of the firm. It states the types of actions and resources required to achieve the objectives and the strategic controls that are necessary in order to avoid a drift from the desired objectives. It is therefore important to align the strategy with the organizations vision, goals and objectives in order to produce competitive advantage that will bring about value creation. Porter (1980) noted that competitive advantage is the ability of a firm to outperform rivals on the primary performance goal of profitability. He further observed that strategy only makes sense if the markets to which it relates are known. A good strategy can contribute to growth, profitability market penetration, cost reduction, cutting edge differentiation of products and sustained competitive advantage of firms.

While having a sound strategy can bring all of the above, an organization has to ensure it has the means to which it can implement the strategy it intends to adopt. Managers have therefore to evaluate and choose business strategies based on their core competences and value chain activities that help sustain the competitive advantage. A sound strategy involves deploying firm's resources in such an efficient manner so as to optimize the firm's performance even in the future. Johnson and Scholes (2001) state that strategy can be seen as a matching of the activities of the organization to the environment in which it operates or what can be referred to as the search for a strategic fit. Therefore, strategy helps to relate a company to its

environment. Hence, if the environment under which an organization operates is coupled with competition, the strategies adopted should also be competitive in order to survive.

It is therefore clear that competitive strategies should result to competitive advantage; better still, to a sustained competitive advantage. In the current turbulences, many firms have found this difficult to achieve. In many cases, the competitive advantage may be achieved but not sustained; Hence the essence of keen concern when formulating sound strategies. A competitive strategy should help the organization find a position in the industry where it can best defend itself against the forces that can adversely affect it. The management should highlight the strengths and the weaknesses that the firm possesses as this can help clarify the areas where strategic change may yield the greatest payoff. Of importance also is to evaluate the opportunities and threats. This is because organizations do not operate in a vacuum. They are environment dependent (Ansoff and McDonnell, 1990). The organizations external environment consists of all conditions and forces that affect its strategic options and define its competitive situation (Pearce and Robinson, 1997). Forces outside a firm in same environment act uniformly across the firms in same industry. Hence, firms should be concerned on the abilities they possess internally in order to respond to these external forces, as this will make them outsmart their rivals.

Porter (1980) has argued that a firm's strength can be viewed from two perspectives; Cost advantage and differentiation. When a firm applies the two either together or differently, then three generic strategies can result: Cost leadership, Differentiation and Focus. Management can apply strategy at three levels in the organization; the corporate level, at the unit level and at the operational level (Johnson and Scholes, 2002). Corporate strategy is concerned with overall purpose and scope about a firm's mission: business unit strategy is about competing

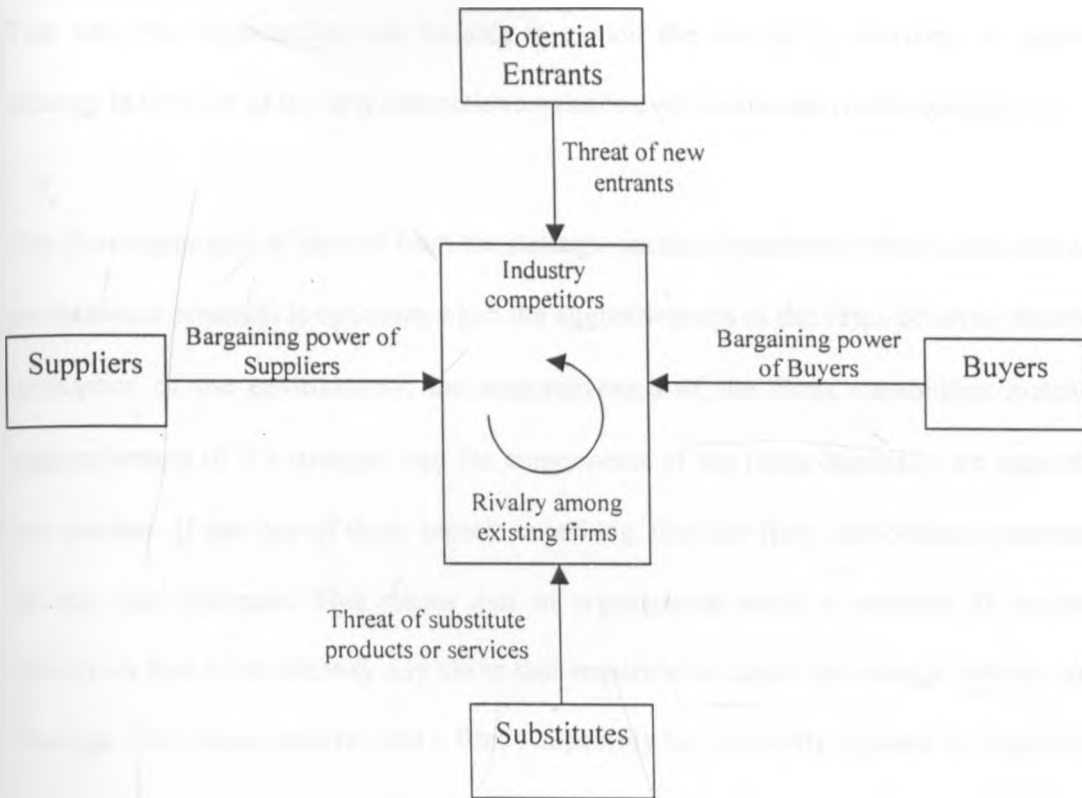
successfully in particular markets while operational strategy is concerned with how the component parts of the organization deliver effectively the corporate and business level strategies in terms of resources, processes and people.

## **2.2 Competitive Strategies**

The essence of strategy formulation is coping with competition (Pearce and Robinson, 1991). Organizations are environment-serving entities (Gakombe, 2002). They depend on the environment for their inputs and discharge their outputs to the environment. The environment is coupled with limited resources whereas needs and wants are unlimited hence competition is inevitable. Strategy is the vehicle that drives the policies that a company formulates towards the end (goals), which it intends to achieve (Porter, 1980). This means that an organization has to consider four key factors that determine how successful it will be in the implementation of these strategies. The organization has to examine its strengths, weaknesses, opportunities and threats there are other factors that will affect the industry under which the organization is a player.

In any industry, there are forces that drive the industry competition. Porter (1979) observed the five forces to be: The buyers and suppliers (through their bargaining power), the threat of substitute products /services and the threat of new entrants. The model has since been revised to include the Government who comes in as both a competitor and a regulator .In the case of the healthcare industry the collective strength of these forces determines the ultimate profit potential of an industry. The profit potential can be measured in terms of long run return on invested capital. Diagrammatically, the forces can be outlined as below.

*Figure 1: Exploring corporate strategy*



*Source: Scholes et al. (1991 pp88)*

An organization has to undertake a competitive strategy in order to create a defensible position against the competitive forces. An organization that adopts a good strategy is well equipped to cope with turbulence and challenges faced by any commercial organization as well as public sector organization. Hence, strategy is seen as a tool of reorienting the organizational thrust. A unique strategy contributes effectively to the competitiveness of business firms.

Due to the dynamism of the environment, an organization needs to further anticipate shifts in the factors underlying the forces and prepare how to respond to them. An organization ought to undertake a Strategic diagnosis where it identifies the strategic changes it needs to undertake in order for a successful transformation to the future competitive environment.

Ansoff (1990) viewed this as a process that requires speed in its adaptation and adoption. This way, the organization will be able to exploit the change by choosing an appropriate strategy in the face of the new competitive balance even before the rivals recognize it.

The above approach is derived from the strategic success hypothesis which states that a firm's performance potential is optimum when the aggressiveness of the firm's behavior matches the turbulence of the environment; the responsiveness of the firm's capabilities matches the aggressiveness of its strategy; and the components of the firm's capability are supportive of one another. If any one of these aspects is lacking, then the firm's performance potential will be less than optimum. This means that an organization needs to monitor its environment closely so that it can identify any shifts that require it to adjust its strategy without any time wastage. This hence requires that a firm's capability be constantly updated to ensure they can support the chosen strategy. There are three general competitive strategies that a firm can adopt (Porter, 1980):

### **2.2.1 Cost Leadership Strategy**

According to Thompson and Strickland (1998), for firms to acquire cost advantage, they need to improve process efficiencies, make optimal outsourcing and vertical integration decisions or avoid some costs altogether. A firm should create value for its buyers that exceed the cost of creating it (Porter, 1998). A business that has one or more value chain activities that truly differentiate it from the competitors and also one that lets them operate at a lower cost will consistently outperform their rivals (Pearce and Robinson, 2000). A low cost leader basis of competitive advantage is to lower overall costs than competitors. Such firms are exceptionally good at finding ways to drive costs out of their business. They strive to have the lowest cost in the industry and offer products/services to a broad market at a lower price.

The aim of low-cost leadership strategy is to open up a sustainable cost advantage over competitors and then use the firm's lower cost edge as a basis for either underpricing competitors and gaining market share at their expense or earning a higher profit margin selling at the going market (Khalid, 2004). Some challenges of formulating competitive strategies include financial capability, government regulations and the know-how of the executives. Due to the cutthroat competition amongst players in most industries, some players have been left to go flat-out for anything that differentiates them from their competitors. (Akumu, 2000)

### **2.2.2 Differentiation Strategy**

Differentiation requires that a firm develop a product or a service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competitors. This can allow a firm to charge premium price. The buyer feels that the additional cost to buy the product or service is well below what the product or service is worth compared to the other available alternatives. Firms that have been successful in differentiation strategy have shown to possess some internal strength, which can include high research and development capabilities, strong sales team and a corporate reputation for quality and innovation. However the challenge of competitors imitating them or a change in customer's tastes and preferences still exists.

A firm can choose to differentiate its product/service by the way it positions its product in that market or by persuading customers that their products differ significantly from those of competitor. This can be reflected through the marketing strategies that the firm adopts in order to reach their customers. Whichever strategy a firm chooses to adopt, this has the effect

of intensifying competition among the existing firms and also poses a competitive disadvantage for firms that attempt to enter that industry.

### **2.2.3 Focus Strategy**

This strategy is based on the premise that needs of a group can be better serviced by focusing entirely on it. It aims to serve the chosen market more efficiently. This happens when a firm chooses to emphasize one or two key areas of strength. Focus is hence a 'narrow strategy'. Even though Focus strategy does not achieve low costs, it however creates some sense of customer loyalty and this in turn discourages other firms from venturing into the same field unless they adopt a different strategy. For the firm, focus strategy means lower volumes hence less bargaining power of the firm with the suppliers. However, a firm can achieve a sustainable competitive advantage through differentiation from its competitors by utilizing its competitive factors to establish and maintain a unique operational focus by targeting that particular market better.

### **2.3 Factors influencing adoption of strategy**

Like any other commercial organization, Private hospitals face similar competitive forces the difference is only in their nature. Whatever the collective strength of these forces, the management's goal is to find a position where his or her hospital can best defend itself against these forces or can influence them in its favor. For successful strategy formulation, collecting and evaluating information on the competitive forces is necessary. Porter (1979) argues that the nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products or services, and the jockeying among current contestants.

Rivalry amongst existing competitors can take place on basis of price, their way of advertising, new product introduction and increased customer service. An organization may see an opportunity to compete on the above basis hence create pressure causing the others in the same environment to respond likewise or to re-strategize. Intensity of rivalry among competing firms tends to increase as the number of competitors increase, as competitors become equal in size and capabilities demand for industry's products declines and as price-cutting becomes common. Rivalry also increases when consumers can switch brands easily, when barriers to leaving the market are high, fixed costs are high, when rival firms are diverse in strategies and when mergers and acquisitions are common in the industry (David, 2005)

The threat of new entrants and the desire for market share in sometimes an already resource limited market can cause a lot of strain on the resources and work to scale down profits for the competing firms .New entrants to any industry bring new capacity .The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect (Pearce and Robinson, 2000). The barriers to entry may result from a number of factors.

Economies of scale can deter a new entrant especially if it will force the aspirant to either come in on a large scale or to accept a cost disadvantage. In the hospital set up, the economies of scale can act to deter new entry especially if the hospital has to purchase supplies at a higher price in small quantities as compared to his competitor who may be buying the same supplies at lower price but in large quantities.



Product differentiation creates a barrier by forcing any new entrants to spend heavily to overcome customer loyalty. To be identified by the target customers is very important in trying to gain a customer base. To be able to do this, hospitals advertise, offer improved customer service, try to be the first in the industry and to offer different product /services.

The need to invest large financial resources in order to compete creates a barrier to entry, particularly if the capital is required for unrecoverable expenditures in up-front advertising or research and development (Pearce and Robinson, 2000).

Government comes in both as a competitor and as a regulator. The government can either limit or foreclose entry to industries. Public hospitals run by the government work to compete with the private hospitals. Government also plays an indirect role by affecting entry barriers by enacting controls and safety regulations.

Substitutability is also a factor and it limits potential returns in any industry by placing a ceiling on the prices firms in this industry can profitably charge. Hospitals face many substitute providers of healthcare. Hospital outpatients' services compete with all other providers of ambulatory services, health maintenance organizations, doctor owned practices, clinical officers and nurse practices and alternative medicines providers including herbalists. According to National Health Strategic Sector Plan, 70% of Kenyans initially seek assistance from pharmacies once they fall sick. Hospitals hence also compete with over the counter medicines sold in shops, supermarkets, retail chemists and pharmacies. Public health is also a substitute. These institutions endeavor to prevent diseases. Other generic competitors include hospices and Home based care especially for chronically ill. Hensher (1999) notes that advances in technology have enabled more procedures and treatments to be provided on an outpatient or daycare basis hence reduces the need for hospitalization.

Suppliers can exert bargaining power on participants in an industry. The suppliers can do this either by raising their prices or reducing the quality of goods and services. The supplier's power can be high if it is dominated by a few suppliers or if the industry it supplies to is concentrated by many players. It can also be high depending on the importance of the input into the buyers business. When suppliers are unreliable, too costly or unable to meet a firms needs on a consistent basis, a firm can pursue a backward integration strategy in order to gain control or ownership of the suppliers. This strategy is also used when rival firms are unable to negotiate more favorable terms with suppliers. Hospitals are labor intensive; they employ highly qualified and skilled employees. Suppliers of medical equipments, pharmaceuticals and consumables are also key players in the supplier's competitive force.

A group of buyers is powerful especially if it is concentrated or purchase in large volumes as shown by Porter (1979). Customers can force down prices, demand higher quality or more services ultimately affecting the industry profits. Hospitals are almost homogeneous, they offer almost similar services with little if any differentiation especially in the outpatient services and other services like ICU (Intensive Care Unit) and dialysis. Since these products are almost standard and undifferentiated, competition for the buyers of these product is based on an entire hospital package. David (2005) however notes that whenever the bargaining power of consumers is substantial, rival firms may offer extended warranties or special services to gain customer loyalty. Presence of Healthcare Insurance or Management care experts has impacted on increasing buyer power. The above have worked to maintain healthcare costs at manageable levels while ensuring quality and efficiency is not compromised.

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Research design

Given that the population of interest in this study was identified as 14 private hospitals in Mombasa, a census survey was conducted. Ogutu (1983) observes that a census survey provides a more accurate picture.

### 3.2 Population

The Oxford dictionary defines a hospital as an institution providing medical and surgical treatment and nursing care for ill or injured people. This definition suited well the target group.

The target respondents of this study included all the private hospitals in Mombasa that met the target conditions for this study. Various studies have classified private healthcare providers according to a number of criteria, with each criterion emphasizing a specific aspect of the sector (Kumaranayake 1998; Hursh-Cesar *et al*, 1994). Commercial orientation, ownership, type of facility, and therapeutic system are used in this paper to classify various types of private healthcare providers.

The working definition of private hospital adopted for the purpose of this study was any healthcare facility that provided inpatient care. From the list of the private hospitals approved by the Ministry of Health as at 2006, there were one hundred and ninety (190) private hospitals in Mombasa. However, this list classified some of them as clinics, dispensary, nursing homes and hospitals. The clinics and dispensaries were registered as having no inpatient care. Further, about 100 of those registered were doctors' clinics and offer no inpatient care. For the purpose of this project, the number was scaled down to include only

those registered to offer inpatient care by the Ministry of Health. Based on this criterion, 14 private hospitals qualified to meet this criterion in this region and category. This number was representative enough and had diversity in terms of size of the various private hospitals as some were big and others were small therefore captured the different groups of the population.

### **3.3 Data Collection**

Primary data sources were used. The primary data used in this study came from questionnaires to target respondents. The questionnaire used was modified version of one used in a previous study by Gakombe (2002). The respondents consisted of senior managers of the hospitals involved in the formulation of strategies at their institutions. The research was a survey, which has the quality of being more efficient and economical than observation. According to Cooper and Schindler (2003), a few well-chosen questions can yield information that would otherwise take much more time and effort to gather by observation. Further, the participants are uniquely qualified to provide the desired information. It's however important get cooperation from respondents as the quality and quantity of the information secured will depend heavily on the ability and willingness of participants to cooperate.

The research instrument used was a questionnaire, which consisted of both closed and open-ended questions to capture relevant data on strategy formulation, adoption and implementation and to ensure that respondents were not restricted to certain informational details. To help eliminate the possible non-response rate of the executives and further clarification of issues, the questionnaire was personally administered.

### **3.4 Data Analysis**

This study was descriptive in nature, therefore descriptive statistics was used to analyse the data. These included percentages, mean scores, pie charts and tables to assist in description and summary of research findings to establish the competitive strategies adopted by the private hospitals in Mombasa and to identify the factors that influence the adoption of these strategies. As stated by Frankfort (1996), descriptive statistics enable the researcher to summarise and organise data in an effective and meaningful way. They provide tools for describing collections of statistical observations and reducing information to an understandable form. The data was compared with theoretical approaches cited in literature review. Previous studies carried out by Gathoga (2001) and Gakombe (2002) have successfully used this technique.

## CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 Introduction

The scope of this chapter covers the analysis and results of the study. The study had two objectives. The first one was to establish the competitive strategies adopted by the private hospitals in Mombasa, and second was to identify the factors that influence the adoption of the strategies. The research instrument used was a questionnaire, which consisted of both closed and open-ended questions to capture relevant data on strategy formulation, adoption and implementation. A total of 8 hospitals, out of the targeted 14, responded representing a 57% response rate, which the researcher found adequate and sufficient for the purpose of data analysis. The years of operation of the respondent private hospitals is shown in table 4.1 below

**Table 4.1: Number of years in operation**

Number of years in operation	Frequency	Percentage	Cumulative Percentage
Between 1 year and 5 years	1	12	12
Between 6 years and 10 years	3	38	50
Above 10 years	4	50	100
<b>Total</b>	<b>8</b>	<b>100</b>	

*Source: Research data*

From table 4.1 above, it is noted that majority of the respondent private hospitals (50%) had been in operation for over ten years. This indicates that most of the respondent hospitals had been in operation long enough to experience the changes in market dynamics in this region. The oldest respondent private hospital was established in 1891 while the youngest respondent private hospital commenced operations in 2006.

The ownership structure of the respondent private hospitals are shown in table 4.2 below

**Table 4.2: Ownership structure**

<b>Ownership structure</b>	<b>Frequency</b>	<b>Percentage</b>
Charitable/Religious organization	7	88
Family business	0	0
Private limited	1	12
<b>Total</b>	<b>8</b>	<b>100</b>

*Source: Research data*

From table 4.2 it is evident that a majority of the respondent private hospitals (88%) were owned by Charitable or Religious organization and that only one was private limited.

#### **4.2 Competitive strategies adopted by private hospitals in Mombasa**

The study sought to establish the extent to which the hospitals practiced strategic management in their business operations. They were asked of their mission statements, vision and strategic plans. Response on Mission statements are shown in table 4.3 below

**Table 4.3: Vision and Mission statements**

<b>Mission statements</b>	<b>Frequency</b>	<b>Percentage</b>
There is a vision and mission statement	7	88
Did the organization have a vision and mission statement right from inception	1	13
Has your mission statement changed in last 5 years	3	45

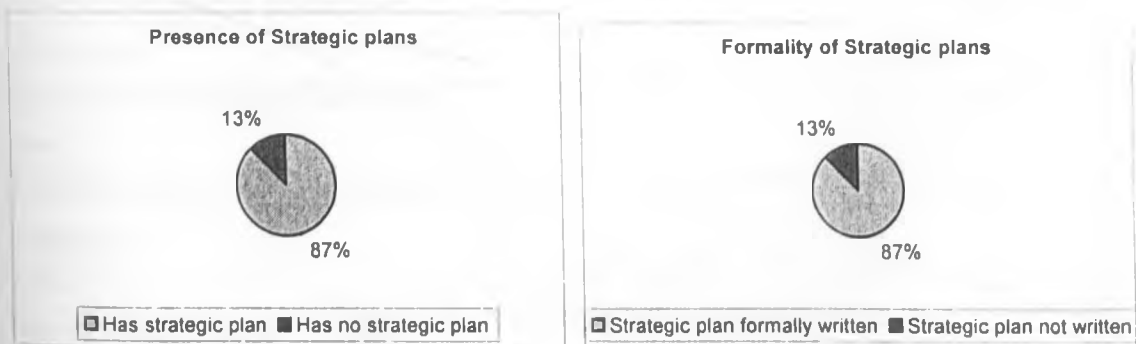
*Source: Research data*

From table 4.3 above, it is noted that out of the 8 private hospitals, 7 (88%) had a formal vision and mission statement. Only one of the respondents had a vision and mission statement at inception. 3 (45%) of the respondents had changed their mission statement in the last five years. They attributed the change in their mission statements to the dynamic market forces. Those with a formal vision and mission statement said that they made their employees aware through formal meetings, workshops and through framed displays at conspicuous locations.

The observations noted above are reflective of the fact that the older hospitals were established when the concept of strategic management had not yet taken root in this industry hence they only developed vision and mission statements much later. The most recently established hospital was the only one that had a vision and mission statement right from inception. This is an indicator that due to market dynamics, private hospitals are embracing strategic management as means of remaining competitive.

Strategic plans at the private hospitals are shown in figure 4.4 below. It is noted that out of the 8 private hospitals, 7 (87%) had a strategic plan all of which were formal.

**Figure 4.4: Strategic plans**



*Source: Research data*



**Table 4.4: Strategic plans**

Strategic plans		Frequency	Percentage
What span of time does your strategic plan cover	Less than 1 year	2	25
	1 – 2 years	3	38
	3 – 4 years	0	0
	5 – 10 years	2	25

*Source: Research data*

From table 4.4 above, it is noted that the respondent hospitals varied in the duration of time that their strategic plans covered. Majority of the respondent hospitals (38%) had strategic plans covering between one and two years. This could be attributed mainly to the dynamic nature of the sector requiring regular review of strategies to address emerging challenges.

Strategies the respondent private hospitals are currently engaged in are shown in table 4.5 below

**Table 4.5: Strategies Adopted**

Strategies Adopted	Frequency (Number of times mentioned)	Percentage
Offering a range of differentiated services I.e. specialist services not common in similar health institutions	6	27
Low cost compared to similar health institutions	8	36
Dealing with all segments/ No specific class	5	23
Targeting a market segment / class of customers	3	14
Total	22	100

*Source: Research data*

From table 4.5 above, it is noted that all the 8 (100%) respondent private hospitals were in one way or the other practicing Porter's generic strategies, namely differentiation, low cost and focus strategies. Low cost strategy was the most mentioned (36%) as the adopted strategy followed by differentiation at 27%, and focus strategy at 14%. It is notable that the private hospitals employed several strategies at any one given time. The specific strategies adopted by the private hospitals are discussed in subsequent sections using Porter's generic strategies framework.

#### **4.2.1 Differentiation Strategies**

Differentiation requires that a firm develop a product or a service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competitors. This can allow a firm to charge premium price. The buyer feels that the additional cost to buy the product or service is well below what the product or service is worth compared to the other available alternatives. Differentiation strategies were cited by the private hospitals as the most significant non-price strategies. As Table 4.6 below indicates, differentiation strategies adopted by the private hospitals included: offering a wide range of specialist services, attracting better-known physicians, physical infrastructure (i.e. consultants offices, wards, theatres), Specialist/diagnostic equipment, efficient service delivery and ambience of hospital. It is noted that all the respondent private hospitals worked hard to create a unique image for their hospitals around the elements listed.

**Table 4.6: Differentiation strategies adopted**

Differentiation strategies	Frequency (Number of times mentioned)	Percentage
Physician allegiance (Attracting prominent physicians)	5	18
Physical infrastructure i.e. consultants offices, wards, theatres	5	18
Specialist/diagnostic equipment	6	22
Efficient service delivery	8	31
Ambience of hospital	3	11
Total	27	100

*Source: Research data*

As table 4.6 above indicates, one of the most cited differentiation strategies employed by the hospitals (31%) involves providing individual physicians and patients with efficient services the groups find desirable and of high quality. These services include highly specialized, inpatient clinical services that utilize the latest technology and “hotel-like” features and amenities (e.g., private rooms, better food, shorter waiting times). 100% of respondent private hospitals had undertaken major physical infrastructure improvement works within the last three years to improve the ambience of their facility and increase capacity of their amenities. One of the respondent hospitals had just recently completed renovations of ten executive patients rooms, while another was planning the third phase of its upgrade project.

Having specialist/diagnostic equipment at 22% was the second-most cited differentiation strategy. The private hospitals have invested in specialist and diagnostic equipment including those for intensive care units, high dependency units, specialist theatres, anesthetic breathing system and lighting among others. For example, with the new equipment and construction of the high specification theatres, one of the respondent hospitals would soon be introducing

laparoscopic surgery that is also known as minimal invasive or keyhole surgery. An overview of specialist services as per table 4.7 below gives an idea about how the hospitals view the market for different types of care and how they position themselves in the competitive environment.

**Table 4.7: Specialist services offered by private hospitals**

Services	Frequency	Percentage
Orthopedics	7	22
Ear Nose & Throat (ENT)	4	12
Radiology	4	12
Ophthalmology	2	6
Cardiology	3	12
Dermatology	3	12
Urology	2	6
Dentistry	2	6
Gastroenterology	2	6
Diabetology	2	6
Total	31	100

*Source: Research data*

It can be seen from table 4.7 above that Orthopedics Care was the most cited (22%) specialist service among the of respondent private hospitals. On the lower end of the spectrum, one can notice that only a few among the private hospitals provide certain services like dentistry and urology. Some explanation has been given as to why only a few in the private sector offer these services. Such services require large human and financial resources and only few hospitals have the necessary resources to invest in facilities to offer these services. But the competition amongst those who offer such services is likely to become intense if the demand

for these services is high and growing. The data we have suggest that a large number of providers in the private sector try to tap the demand for care relating to Orthopedics, ENT and Radiology.

As another differentiation strategy, the private hospitals compete for “physician allegiance”, which they consider more effective than direct competition for patients. It is a common practice for bigger private hospitals to attract better-known physicians (particularly for specialties such as Cardiology, Urology and Neurology) as a strategy to carve a market niche for themselves. Some private hospitals indicated flying in renowned consultant physicians from as far as Nairobi for specialized clinics every month. Competing for “physician allegiance” involves providing both personal and professional amenities to the physicians.

As per table 4.6, private hospitals in Mombasa have similarly cited ambiance (11%) as one of their differentiation strategies. They paid attention to ambiance of their facilities and this is exemplified through spacious and en-suite wards for some hospitals including provision of digital satellite TV, DVD, well-stocked mini bar, phone and provision for internet browsing in the wards.

#### **4.2.2 Low-cost leadership strategies**

A low cost leader basis of competitive advantage is to lower overall costs than competitors. Such firms are exceptionally good at finding ways to drive costs out of their business. They strive to have the lowest cost in the industry and offer products/services to a broad market at a lower price. The aim of low-cost leadership strategy is to open up a sustainable cost advantage over competitors and then use the firms lower cost edge as a basis for either under

pricing competitors and gaining market share at their expense or earning a higher profit margin selling at the going market.

As per table 4.5, low cost strategy at 36% was the most cited generic strategy by the respondent private hospitals. In fact the two generic strategies (differentiation and focus strategies) the hospitals adopted were partly driven by the low cost strategies. For example, as Table 4.8 below indicates, services based on the latest technology (such as energy efficient machines) or increased amenities were viewed also as cost reduction initiatives in addition to being seen as revenue generators. Hospitals adopted low cost strategies as they sought to provide services attractive to corporate clients, health management organizations and insurance companies. Through selective contracting, these clients have greater leverage to negotiate better hospital charges. Table 4.8 further indicates that other low cost strategies adopted by respondent private hospitals include: workforce rationalization, outsourcing of services, negotiating for better discounts from suppliers and seeking low-cost financing.

**Table 4.8: Low-cost strategies**

<b>Aspects of low-cost strategies</b>	<b>Frequency (Number of times mentioned)</b>	<b>Percentage</b>
Adoption of efficient technology and amenities	8	23
Workforce rationalization	4	11
Outsourcing of services	8	23
Negotiating for better discounts from suppliers	8	23
Seeking low-cost financing	7	20
Total	35	100

*Source: Research data*

Adoption of efficient technology and amenities, outsourcing of services (such as kitchen and laundry services) and negotiating for better discounts from suppliers were the most cited low-cost strategies by the private respondent hospitals at 23%. Seeking low-cost financing (20%) was also a highly considered low cost strategy. It is notable that workforce rationalization was the least mentioned (11%) low cost strategy and this could be attributed to the specialist manpower requirements in the sector.

#### 4.2.3 Focus strategies

As Table 4.9 below indicates, focus strategies adopted by respondent private hospitals included: accreditation by health management organizations, strengthening relationship with specialists, creating niche services and communication strategies that actively promoted the existing specialist services.

**Table 4.9: Focus strategies**

<b>Focus strategies</b>	<b>Frequency (Number of times mentioned)</b>	<b>Percentage</b>
Accreditation by health management organizations (HMOs) and Insurance	8	31
Strengthening relationship with specialists	8	31
Creating Niche Services	3	11
Communication strategies that actively promoted the existing specialist services	7	27
<b>Total</b>	<b>26</b>	<b>100</b>

*Source: Research data*

As a part of their focus strategy, the respondent private hospitals indicated they compete for institutional payers of care. In fact, accreditation by health management organizations

(HMOs) and Insurance was one of the most cited focus strategies (31%). The hospitals sought to have contractual relationships with major health management organizations (HMOs), corporate clients and insurance providers for providing medical care (both general and specialty care). The respondents indicated they consider such contractual arrangements with large employers as an effective strategy for increasing their market share by expanding into attractive sub-markets (i.e., growing, well-insured population), especially for high-cost care such as cardiology, urology and orthopedics treatment. As one respondent confessed, specialized inpatient services were only selectively added in an attempt to maintain market share or achieve plan “must-have” status by providing “one-stop-shopping” as way of claiming market and quality leadership in particular specialties. For example enhancements and expansions to intensive care units (ICUs) and operating rooms were designed primarily to attract and retain physicians who used these facilities daily, as well as to increase hospital efficiency. Strengthening relationship with specialists was also highly cited (31%) as a focus strategy with the respondent hospitals indicating they refocused their attention on strengthening their relationships with specialists who still generate the majority of hospital revenues. As one respondent noted, “cement specialists to your hospital or they will become your competitors.” Finally, efforts to improve specialty care were also designed to attract consumers who have increased choice due to changes in health plan products and provider networks.

Creating niche services is yet another focus strategy used by the respondent private hospitals is the creation of unique services to attract patients with specific requirements to their facility. The so-called niche services include Lamaze lessons for expectant mothers. Niche services can differentiate hospitals from competitors. The private hospitals have also adopted communication strategies that actively promote and market themselves to smaller, specific



consumer or patient segments. Communication strategies adopted by the hospitals include publishing their facility either in magazines or brochures, focused open days for corporate clients and websites. For example a private hospital has in its website positioned itself to attract high end of the market and describes it's facility as having spacious and en-suite with bathtubs and shower. All rooms have split air conditioners, bedside nurse call system and newly upgraded digital satellite TV, DVD, a private balcony overlooking the lush green Leisure Golf Course. Each room has a well-stocked mini bar, phone and provision for Internet browsing.

### 4.3 Factors that influence the adoption of the strategies by private hospitals in Mombasa

The second objective of the study was to establish the factors that influence the adoption of the strategies by the private hospitals in Mombasa. This is because strategy is context sensitive .The factors that determine the strategy to be adopted by an organization will depend among other factors the environment under which it operates. The respondents were asked to indicate to what extent several factors had influenced adoption of their strategies. The responses were put on a Likert scale with the least influencing factor at level 1 and the most inflecting at level 5 and these are summarized in table 4.10 below.

**Table 4.10: Factors influencing adoption of strategy**

No.	Factors influencing adoption of strategy	Likert scale Results
1	Competition among existing healthcare providers	4.8
2	Ownership and economic orientation	4.7
3	Influence of buyers	4.4
4	Physician allegiance	4.2
5	Technological/political/ legal/economic factors	4.0

*Source: Research data*

From table 4.10 above, it is evident that most respondent private hospitals rate competition among existing healthcare providers at a score of 4.8 as the most influencing factor for strategies they adopt. Competition in healthcare industry arises due to similarity in the products or services aimed at the same customer group; the hospitals principle product is providing medical services to their patients. The private hospitals indicated they not only considered other local private hospitals as competition, they also considered public hospitals as strong competition since they offered relatively cheap alternatives for some specialist services.

From table 4.10 above, it is noted that the respondent private hospitals rated ownership and economic orientation as the second most influencing factor on the strategies they adopted. As per table 4.2, 88% of the hospitals were not-for profit institutions owned by religious organizations while 12% were private owned. Religious owned organizations adopted strategies that maintain them at a competitive position while not focusing on making monetary gains while the private owned institutions focus on making the gains while staying ahead of the competition.

Respondents ranked influence of buyers as the third most influencing factor on the strategies they adopt. Private purchasers of medicare have increasingly organized and turned to managed care plans and products (i.e. healthcare management organizations and Insurance companies) to reduce costs while maintaining or improving quality. Presence of healthcare insurance or management care experts has impacted on increasing buyer power. The above have worked to maintain healthcare costs at manageable levels while ensuring quality and efficiency is not compromised. Through selective contracting by means of pre-authorized

hospitals, major health management organizations (HMOs), corporate clients and insurance providers have greater leverage than individual physicians and patients to negotiate better hospital prices. As one respondent indicated, some specialized inpatient services were selectively added to achieve “must-have” status by providing “one-stop-shopping” as way of attracting the influential service buyers and consumers.

Yet another influencing factor on strategies adopted by private hospitals in Mombasa is the scramble for “physician allegiance” as a means to patients, which they consider more effective. Healthcare delivery systems involve a variety of actors, including physicians, nurses, hospital administrators, and pharmacists, many of whom interact with each other and with patients. Most, especially physicians, can influence the nature, quantities, and quality of healthcare goods and services delivered and consumed. Physicians’ routine practice of making appointments, diagnosing illness, recommending and administering treatment, offering counseling and health information, charging for services and materials, and referring patients to hospitals greatly affects utilization, efficiency, and quality of healthcare services in hospitals. There is heavy concentration of physicians in Nairobi and this underlies the relatively low physician population ratios in many parts of the country, Mombasa included. Reference to yellow pages directory for example reveals only ten listed physicians in Mombasa currently. It is a common practice for bigger hospitals to attract better-known physicians (particularly for specialties such as Cardiology, Urology and Neurology treatment) as a strategy to carve a market niche for themselves. Competing for “physician allegiance” involves providing both personal and professional amenities to the physicians.

Other factors that influence strategy mentioned by respondents and noted in table 4.10 included specific developments in the policy and regulatory environment, economic and

demographic trends; medical technology among other factors. In response to changes in demographic trend, private hospitals in Mombasa for example have worked on strategies to win over the growing middle class with provision of efficient services that include highly specialized, inpatient clinical services that utilize the latest technology and “hotel-like” features and amenities (e.g., private rooms, better food, shorter waiting times). All the 8(100%) respondent hospitals have undertaken major facility improvement works within the last three years to improve the ambiance of their facility.

## CHAPTER FIVE: SUMMARY, CONCLUSION & RECOMMENDATION

### 5.1 Summary

The first objective of the study was to establish the competitive strategies adopted by private hospitals in Mombasa. The study revealed the private hospitals adopted various strategies and these have been categorized using Porter's (1980) framework of differentiation, low-cost and focus strategies.

Low cost strategy at 36% was the most cited generic strategy by the respondent private hospitals. In fact the two generic strategies (differentiation and focus strategies) the hospitals adopted were partly driven by the low cost strategies. For example, services based on the latest technology (such as energy efficient machines) or increased amenities were viewed also as cost reduction initiatives in addition to being seen as revenue generators. Hospitals adopted low cost strategies as they sought to provide services attractive to corporate clients, health management organizations and insurance companies. Through selective contracting, these clients have greater leverage to negotiate better hospital charges. Low cost strategies adopted by respondent private hospitals included: workforce rationalization, outsourcing of services, negotiating for better discounts from suppliers and seeking low-cost financing.

Differentiation strategies were cited by the private hospitals as the most significant non-price strategies. Most respondents indicated they believed most consumers preferred them as opposed to other private hospitals because of differentiation. Differentiation strategies adopted by the private hospitals included: offering a wide range of specialist services, attracting better-known physicians, physical infrastructure (i.e. consultants offices, wards,

theatres), Specialist/diagnostic equipment, efficient service delivery and ambience of hospital.

The study also revealed focus strategies adopted by private hospitals in Mombasa included: accreditation by health management organizations and insurance companies (including National Hospital Insurance Fund), communication strategies and creating niche services and centers of excellence. As a part of their focus strategy, the private hospitals indicated they compete for institutional payers of care and that they have contractual relationships with major health management organizations (HMOs), corporate clients and insurance providers for providing medical care (both general and specialty care). The hospitals consider such contractual arrangements as an effective strategy for increasing their market share by expanding into attractive sub-markets (i.e., growing, well-insured population), especially for high-cost care such as cardiology and orthopedics treatment. All the respondent hospitals also indicated they refocused their attention on strengthening their relationships with specialists who still generate the majority of hospital revenues. As one respondent noted, “cement specialists to your hospital or they will become your competitors.” Finally, efforts to improve specialty care were also designed to attract consumers who have increased choice due to changes in health plan products and provider networks. Creating niche services is yet another focus strategy used by the private hospitals is the creation of unique services to attract patients with specific requirements to their facility. . Niche services can differentiate hospitals from competitors. The private hospitals have also adopted communication strategies that actively promote and market themselves to smaller, specific consumer or patient segments.

The second objective of the study was to establish the factors that influence the adoption of the strategies by the private hospitals in Mombasa. Research findings indicate most private

hospitals in Mombasa rate competition among existing healthcare providers as the most influencing factor for strategies they adopt. Ownership and economic orientation of hospitals was also established as an influencing factor on the strategies they adopt. Religious owned organizations adopted strategies that maintain them at a competitive position while not focusing on making monetary gains while the private owned institutions focus on making the gains while staying ahead of the competition. Another influencing factor on strategies adopted was the influence buyers. Private purchasers of medicare have increasingly organized and turned to managed care plans and products (i.e. healthcare management organizations and Insurance companies) to reduce costs while maintaining or improving quality. Presence of Healthcare Insurance or Management care experts has impacted on increasing buyer power.

Yet another influencing factor on strategies adopted by private hospitals in Mombasa is the scramble for “physician allegiance” as a means to patients, which they consider more effective. It is a common practice for bigger hospitals to attract better-known physicians (particularly for specialties such as Cardiology, Urology and Neurology treatment) as a strategy to carve a market niche for themselves. Competing for “physician allegiance” involves providing both personal and professional amenities to the physicians. The study also revealed that other factors that influence strategies adopted by the private hospitals included specific developments in the policy and regulatory environment, economic and demographic trends; medical technology among other factors. In response to changes in demographic trend, private hospitals in Mombasa for example have worked on strategies to win over the growing middle class with provision of efficient services that include highly specialized, inpatient clinical services that utilize the latest technology and “hotel-like” features and amenities (e.g., private rooms, better food, shorter waiting times). All the 8(100%)

respondent hospitals have undertaken major facility improvement works within the last three years to improve the ambiance of their facility.

## **5.2 Conclusions**

The strategies hospitals use to compete provide significant insight into broader health care market developments because hospital strategy is shaped by a variety of external forces. Some of the major external factors healthcare institutions have to grapple with include: economic and demographic trends; regulation; public and private purchaser behavior; hospital market characteristics (i.e., number and type of competitors); payment methods; medical technology; labor supply among other factors. Add to these challenges an increased focus on improving patient safety, and the ceaseless introduction of new technology in this particular industry, and there is little wonder that private healthcare institutions are desperate for ways to improve efficiency and streamline operations. It is in the light of these challenges that private hospitals in Mombasa are going out of the way to ensure they formulate and adopt competitive strategies that will help keep them ahead of the competition.

## **5.3 Limitations of the study**

The findings of this study were based on response by eight private hospitals in Mombasa. It is therefore important to appreciate that contextual factors may have affected the results. Confidentiality was also another limitation to the study as some respondents were unwilling to divulge critical information necessary for purposes of this study.

## **5.4 Recommendations for further research**

From the insights gained in the course of the investigation, the researcher proposes further research on Competitive strategies in the health sector in other geographic areas of the



country. Such studies would assist in capturing region-specific contextual factors that determine or influence competitive strategies in health sector and in so doing assist in building up body of knowledge as well as providing good reference material for management practitioners.

## REFERENCES

- Andersen, O. and Kheam, L. (1998). Resource based theory and international growth strategies: an exploratory study. **International Business Review** 7, pp. 163–184.
- Ansoff, I. and Mc Donell, E. (1990). **Implanting Strategic Management**. 2<sup>nd</sup> Edition, Prentice Hall.
- Berman, P. Nwuke, K., Hanson, M. Kariuki, K. Mbugua, J., Omurwa, T, and Ong'ayo, S. (1995). **Kenya: Non-Governmental Healthcare Provision. Data For Decision-Making Project**. Harvard School of Public Health
- Burnes, B. (2000). **Managing Change: A strategic Approach to Organizational Dynamics**. 2<sup>nd</sup> and 3<sup>rd</sup> Editions Financial Times Pitman Publishing, UK
- Cooper, D.R, and Schindler, P. S. (2003). **Business Research Methods**. Tata McGraw Hill Publishing Company. 8<sup>th</sup> Edition
- Gallacchi, A., Njau, M., Nyangaro, P. (1998). **The Shift Of Responsibility Of Healthcare To The Private Sector: A Viable Option?** Nairobi: Health sector support programme.
- Gathiga, W. (2001). **Competitive Strategies Applied By Commercial Banks**. Unpublished MBA Project, University of Nairobi
- Gakombe, K. (2002). **Analysis Of The Industry Forces And Strategic Choices Adopted By Private Hospitals In Nairobi**. Unpublished MBA Project, University of Nairobi
- Hanson, K. and Berman, P. (1994). **Assessing the private sector: Using non-government resources to strengthen public health goals**. Harvard School of Public Health.
- Hursh-Cesar, G., Berman, P., Hanson, K., Rannan-Eliya, R., Rittmann, J. (1994). **Private And Non-Government Providers: Partners For Public Health In Africa**. Conference report, 28 November –1 December 1994, Nairobi

IEA/SID (2001). Kenya at the crossroads: Scenarios for our future. Institute of Economic Affairs, Nairobi and Society for International Development. Rome Italy.

Johnson, G., Scholes, K. Whittington, R. (2005). **Exploring Corporate Strategy: Texts and Cases**. Prentice Hall, 7<sup>th</sup> Edition

Khalid, B (2004). **A Survey Of Competitive Strategies Adopted By Supermarkets In Nairobi**. Unpublished MBA Project, University of Nairobi

Kimalu, P.K., Nafula, N., Damiano, K., Manda, A. B., Mwabu, G and Mwangi, S. K. (2004). **A Review Of The Regulatory Framework For Private Healthcare Services In Kenya**. KIPPRA Working Paper No. 11.

Kumaranayake, L. (1998). **Effective Regulation Of Private Sector Health Service Providers**. London: Health Policy Unit, Department of Public Health and Policy, London School of Hygiene and Tropical Medicine.

Laws of Kenya (1983). **The Medical Practitioners and Dentists Act, Chapter 253**. Nairobi: Government Printer.

Mintzberg, H. and Waters J. (1985). Of strategies, deliberate and emergent. **Strategic Management Journal**, 6, pp. 257-72

Muthaka, D.I., Mwaura S., Damiano, and Manda, K. (2004). **A Review Of The Health Sector In Kenya**. KIPPRA Discussion Paper No. 35

Pearce J & Robinson, R. (2000). **Strategic Management: Formulation, Implementation and Control**. 7<sup>th</sup> Edition, Mc Graw Hill

Porter, M. (1979). How Competitive Forces Shape Strategy. **Harvard Business Review**

Porter, M. (1980). **Competitive Strategy: Techniques for Analyzing Industries and Competitors**. The Free Press , Newyork

Porter, M. (1996). What is Strategy? **Harvard Business Review Vol 6**

Republic of Kenya (2002). **National Development Plan, 2002-2008**. Nairobi: Government Printer.

Wasunna, O (1999). **Healthcare Financing and Delivery, Strategic Policies for 21<sup>st</sup> Century**. Institute of Policy, Research and Analysis

## **APPENDIX 1: Letter of Introduction**

September 2007

Dear Respondent,

### **RE: LETTER OF INTRODUCTION**

This questionnaire is designed to collect views on competitive strategies adopted by private hospitals in Mombasa.

The study is being carried out as part of management research project in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA), School of Business, University of Nairobi.

The information collected will be used strictly for academic purposes only and will be treated with utmost confidentiality. A copy of the final research report will be availed to you upon request.

Thank you for your kind assistance.

Yours Sincerely,

Victoria N. Mburu  
**MBA STUDENT**

Prof. Evans Aosa  
**SCHOOL OF BUSINESS**  
**UNIVERSITY OF NAIROBI**

**APPENDIX 2: Questionnaire**

This questionnaire is designed to collect views on the **Competitive Strategies Adopted by Private Hospitals in Mombasa**. The information collected will be used strictly for academic purposes only and will be treated with utmost confidentiality. Your feedback will assist the researcher come up with useful information concerning the study.

Date.....

**(A) GENERAL INFORMATION**

1. What is your designation?.....  
.....
2. What is the name of the hospital you work for?.....  
.....
3. When did the hospital commence operations?.....  
.....
4. What is the bed capacity of the hospital?.....  
.....
5. How many employees does hospital currently have?.....  
.....
6. What is the ownership structure of the hospital? (*Please tick appropriate*).
  - [ a ]. Charitable/Religious organization
  - [ b ]. Family business
  - [ c ]. Private limited
  - [ d ]. Others (Please state)
7. What range of services does your institution offer?  
.....  
.....  
.....  
.....  
.....
8. Do you have any branches?  
Yes. [ ]      No. [ ]

9. If yes, kindly list those within Mombasa

.....  
.....

**(B) MISSION AND VISION**

10 a) Do you have a mission statement?

Yes. [ ]                      No. [ ]

b) If yes, is it a written statement?

Yes. [ ]                      No. [ ]

c) Did the organization have a mission statement right from inception?

Yes. [ ]                      No. [ ]

d) If yes, has it changed in last 5 years?

Yes. [ ]                      No. [ ]

e) If yes, what caused you to change?

.....  
.....

f) How are staffs made aware of the mission statement?

.....  
.....

**(C) STRATEGY**

11.a) Does your organization have a strategic plan?

Yes. [ ]                      No. [ ]

b) If yes, is the strategic plan formally written?

Yes. [ ]                      No. [ ]

c). What span of time does your strategic plan cover? (*Tick as applicable*)

- |  |   |
|--|---|
| <input type="checkbox"/> ]. Less than 1 year | <input type="checkbox"/> ]. 5 – 10 years  |
| <input type="checkbox"/> ]. 1 – 2 years      | <input type="checkbox"/> ]. 11 – 15 year  |
| <input type="checkbox"/> ]. 3 – 4 years      | <input type="checkbox"/> ]. Over 15 years |

12.a) Which strategy are you currently engaged in? (*Tick as applicable*)

- a ]. Targeting a market segment / class of customers
- b ]. Dealing with all segments /no specific class
- c ]. Offering a range of differentiated services? I.e. specialist services not common in similar health institutions
- d ]. Low cost compared to similar health institutions
- e ]. Others (*please elaborate*)

.....  
 .....

b) In your view, what are some of the challenges you are facing in implementing the above strategy (*rank them with most important coming first*)

.....  
 .....

13. Indicate the nature of the following issues as at the times given

	<u>At opening</u>	<u>Current</u>
Hospital space		
Premises (rented or owned)		
Turnover (Ksh per year)		

**(D) COMPETITION.**

14. a) Do you monitor your competitors' strategies?

- Yes  ]. No  ].



b) How would you rate the importance of following as they relate to the environment under which the hospital is currently operating? ( Indicate ONE answer for each line across )

		Very Low	Low	Moderate	High	Very High
a.	Profitability	1	2	3	4	5
b.	Growth Potential	1	2	3	4	5
c.	Barriers of setting up new Hospital	1	2	3	4	5

15.a) How would you describe the nature of competition in this sector in Mombasa?

- . Weak
- . Strong
- . Very strong
- . Hyper Competitive

b) Who are your biggest competitors?

New upcoming hospitals [ ]      Already existing hospitals [ ]

16. a) Please indicate any services you are currently not offering but intend to offer in the future

.....

.....

b) Are these services being offered by your competitors?

Yes [ ]                      No [ ]

17. Is your hospital accredited by any Health Management Organization(s)

Yes [ ]                      No [ ]

18. Is your hospital registered with the National Hospital Insurance Fund (NHIF?)

Yes [ ].                      No [ ].

19. Does the hospital depend entirely on fees charged for services?

Yes [ ].                      No [ ].

If no, where else do you get funding

.....  
 .....

20. How do you inform the public about your presence and the services you offer? (*tick appropriately*)

- [ a ]. Radio Advertisement
- [ b ]. Word of mouth
- [ c ]. Event sponsorship
- [ d ]. Free medical camps
- [ e ]. Others (kindly specify)

21. a) In your opinion, indicate how your current customers view your prices (as compared to those of competitors in the region)

- [ 1 ]. Very high
- [ 2 ]. High
- [ 3 ]. Fair
- [ 4 ]. Low
- [ 5 ]. Very Low

b) Do your customers seek for price discounts?

Yes [ ]. No [ ].

c) How important do you think a lower price is to your clients?

1 [ ] 2 [ ] 3 [ ] 4 [ ] 5 [ ] (1-not important, 5- very important)

22. Why would a patient prefer visiting with you and not your competitor?

.....  
 .....

23. In the face of changing environmental factors, to what extent would you say the following has affected your organization in the recent years?( *Indicate ONE answer for each line across.*)

		Very Low	Low	Moderate	High	Very High
a	Entry of new healthcare providers	1	2	3	4	5
b	Competition among existing healthcare providers	1	2	3	4	5

c	Technology	1	2	3	4	5
d	Political/ legal factors	1	2	3	4	5
e	Economic factors	1	2	3	4	5

24. Has the hospital undertaken any of the following in the last five (5) years? (*Tick that are applicable*)

- [ a ]. Expand the existing physical infrastructure i.e consultants offices, wards.
- [ b ]. Reduce the patients consultation and/or bed fees.
- [ c ]. Actively promoted any of the existing services.
- [ d ]. Set up marketing/public relations desk.
- [ e ]. Closed any of its departments.
- [ f ]. Acquire new specialist/diagnostic equipment.
- [ g ]. Negotiated for better discounts from suppliers
- [ h ]. Discontinued any of the suppliers from supplying
- [ i ]. Introduced any other major service.

25. a) What are some of the challenges you encounter in operating a healthcare organization? (*State the 3 most important ones*)

.....

.....

b) To what extent would you say the challenges affect your strategy? (*Tick appropriately* )

- [1]. Very much
- [2]. Fairly
- [3]. Mildly
- [4]. Least
- [5]. No effect

26. Do you intend to maintain the current strategies?

Yes [ ]. No [ ].

Why/ why not?

.....

.....

.....

.....

**THANK YOU**