Responses By Kenyan Managed Healthcare Organizations To The Challenges Posed By HIV/AIDS Pandemic

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A Research Project submitted in partial fulfillment of the requirements for the Master of Business Administration (MBA) Degree, Faculty of Commerce, University of Nairobi.

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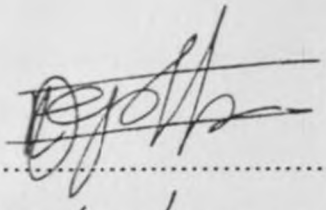
DECLARATION

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



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Date 27/8/2005

Ogolla, Denis Otieno

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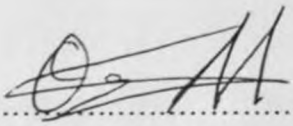
This project has been submitted for examination with my approval as the University Supervisor.



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Date 27/8/2005

Dr Ogutu, Martin

Chairman of Business Administration Dept

University of Nairobi

DEDICATION

To my wife Roselyne and Son Bradley. For your everlasting love, unending support and encouragement.

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Valuable support assistance and guidance have been obtained from various organizations, friends, family members and colleagues thus contributing to the success of the study. It would not be possible to name everybody by name. My heartfelt gratitude to all of you in general. I however feel obliged to mention a few names here to acknowledge their special contribution.

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Special thanks goes to Dr. M. Ogutu who taught me various concepts of Strategic Management and guided me through the entire research project as my supervisor.

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Finally, special thanks to my parents Mr. John Joseph Ogolla and Mrs. Clementine Ogolla for giving me the best education possible and instilling in me virtues that have allowed me to succeed.

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ACRONYMS USED IN THE STUDY

AIDS	Acquired Immune Deficiency Syndrome
CEO	Chief Executive Officer
EPO	Exclusive Provider Organization
HIV	Human Immunodeficiency Virus
HMO	Health Maintenance Organization
MBA	Master of Business Administration
MCO	Managed Healthcare Organization
MD	Managing Director
NASCOP	National Aids and STI Control Program
PPO	Preferred Provider Organization
URTI's	Upper Respiratory Tract Infections
VCTT	Voluntary Counseling Testing and Treatment

ABSTRACT

The study looked into the responses by Kenyan Managed Healthcare organizations to the challenges posed by the HIV/AIDS pandemic. Specifically, the study attempted to identify the challenges the HIV/AIDS pandemic has presented to Kenyan Managed Healthcare Organizations and the strategies these organizations have developed to respond to these challenges. A cross sectional census survey of Kenyan Managed Healthcare organizations was conducted. The population of interest was the eleven Managed Healthcare Organizations that were awaiting registration by the Commissioner of Insurance. The data was collected using a structured survey questionnaire that was personally administered to the CEO's /MD's as well as various departmental heads of each of the Managed Healthcare Organizations. Two organizations were found to have recently ceased operations in Kenya hence nine organizations were operational. Only six responded to the questionnaire. The data collected was analyzed using descriptive statistics like proportions and mean scores.

The study revealed that the main business challenges HIV/AIDS pandemic presented to managed healthcare organizations included the high cost of treatment of HIV and related conditions, pressure to offer more services to HIV positive people and tendency of doctors to treat HIV related conditions within the context of plans in which HIV is excluded. The main strategy employed by the managed healthcare organizations was the exclusion of HIV related treatment. The extent of application of this strategy is however different. The high cost of treating and managing HIV/AIDS related ailments was singled out as the major reason for excluding HIV related ailments.

The challenge of the high cost of treatment of HIV has implications on the recommendations of the study. Managed Healthcare Organizations would need to continue excluding HIV/AIDS related treatment while offering medical plans to companies with limited budgets. However added benefits could be offered to these patients. Efforts must however be made to convince companies to extend their medical budgets in order to take on medical plans that would cover HIV/AIDS related treatment as this had great benefits.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 HIV Infection

Human Immunodeficiency Virus (HIV) infection is an infection caused by one of the two related **retroviruses (HIV-1 and HIV-2)** resulting in a wide range of clinical manifestations varying from asymptomatic carrier states to severely debilitating and fatal disorders related to defective cell mediated immunity (Beers, 1999). HIV-1 was identified in 1984 as the cause of a widespread epidemic of severe immuno-suppression called **Acquired Immunodefficiency Syndrome (AIDS).**

HIV transmission requires contact with body fluids containing infected cells or plasma. HIV may be present in any fluid or exudates specifically blood, semen, vaginal secretions, breast milk, saliva or wound exudates. Although theoretically possible, transmission by saliva or droplet nuclei produced by coughing or sneezing is extremely rare, if it occurs (Beers, 1999).

Over the preceding decade, rapid changes have occurred in the availability of services for, and the treatment of, persons with HIV infection, and in the characteristics of the population of persons newly infected with HIV. The swift pace of change means that existing data on health care services to people with HIV infection quickly become outdated. Policy-makers involved in funding, establishing, developing, and managing health care programs for persons with HIV infection, as well as health care providers, their patients, and the patients' families, have a need for current information about patterns of service delivery.

By 2002 over 25 million people in sub-saharan Africa were estimated to be HIV positive. In Kenya, the figure stood at over 1.25 million people (Nascop, 2002). This has had the effect of reversing previous health gains with resultant reduction in life expectancy from 62 years to 46 years. This has had a negative effect in all sectors of society with a tremendous effect on organizations. Negative effects of HIV on organizations have included increased organizational costs due to higher and higher medical bills either directly for self funded schemes or in form of higher premiums for

those with medical insurance, reduced human productivity of those infected due to both psychological and medical reasons, increased absenteeism of staff due to sick offs, social pressure on employers to avoid discrimination against HIV positive individuals during recruitment, promotion or ensuring staff discipline, need for increased effort by employers to educate staff on HIV infection and many others.

1.1.2 Managed Healthcare Organizations

Managed Healthcare is a concept of healthcare delivery and financing where an enrolled population pays a fixed annual fee (capitation) to a medical provider for access to health services as needed (Patel, 2005). Organizations practicing managed healthcare are referred to as Managed Healthcare organizations (MCO'S). Managed Healthcare Organizations take various forms. The more common ones include, Health Maintenance Organizations (HMO's), Preferred Provider Organizations (PPO's) and Exclusive Provider Organizations (EPO's) (Thakker, 2003).

A Health Maintenance Organization (HMO) is a company that aims to ensure health of its members by providing an appropriate cost effective mix of curative and preventative medical services for a fixed annual fee per member (Patel, 2005). The annual fees create a pool of funds from which the provider draws to provide its various services as needed. Insurance companies also create pools of funds that are used to pay for medical care as needed, but they do not otherwise manage the health needs of their clients. Thus while insurance companies only finance healthcare, HMO's do both healthcare delivery and healthcare financing.

A Preferred Provider or Exclusive Provider Organization is an organization that uses a network of health care providers from whom members of that plan receive their care. Care provided by a non-member health care providers may not be reimbursed at all. as with EPO's or there may be a higher co-pay required when using a non-member health care provider as with PPO's (Schouten, 1997).

HMOs may be either open or closed panel organizations. A closed- panel HMO employs its health care providers, who usually are paid a salary and work full-time for that HMO. An open-panel HMO contracts with many physicians in the community

and the member may choose any one of those physicians (Schouten, 1997). While many HMOs pay their health care providers a salary to work for that plan, under Managed Healthcare, health care providers may also be paid either a pre-negotiated fee for each service provided, or paid by capitation. Capitation is a payment system wherein the health care insurance plan or the provider is paid a fixed amount of money each month for each person enrolled in that health care plan. The health care provider is paid whether or not they see that individual patient. The more sick people that enroll with that health care provider, the less money they make, the healthier the "panel," the more money they make, because they do not have to provide as much care. The incentive under this type of reimbursement is for the health care provider to provide less care, in contrast to traditional fee-for-service plans.

Another control on cost utilized by Managed Healthcare plans is the use of primary health care providers as "gatekeepers," so a specialist can only be seen if the primary care provider agrees to make the necessary referral. Because providing health care for people living with HIV may be very expensive, the rapid increase in Managed Healthcare plans may have a great impact on the quality of care available to people living with HIV (Reschovsky, 2000).

Looking at the local scenario, by 1990, Kenyans knew very little about HMO's, PPO's, EPO's or even TPA's (Third Party Administrators). Traditional fee for service was the most common health finance system. Some employed Kenyans and their dependants had health insurance and went to a doctor of their choice who would then claim from the insurance companies. The system appeared to be consumer friendly but had a major flow i.e. cost. Since 1990, the average cost of a hospital bed, drugs and specialist doctors inpatient visits has risen by approximately 500 %. The consequence of this has been that the average Kenyan cannot afford decent care, the government has been unable to manage the national healthcare delivery system, health insurance premiums and out of pocket health expenses have shot up dramatically, there has been increased pressure on companies to provide comprehensive in and out patient staff medical benefits and there has been an increase in the number of "Harambees" to meet medical expenses. (Thakker, 2003)

In addition to this, the 1990's were very difficult economic times for many organizations in Kenya. Spiraling Inflation rates, increased competition, freeze by donors and other governmental partners, high unemployment rates, negative publicity abroad due to human rights abuses, widely publicized acts of terrorism and its resultant effects on the tourism sector and others, led to negative economic growth rates. Many companies thus employed cost cutting strategies in order to survive. Health budgets were not spared. As many companies shopped for quality healthcare at affordable rates for its employees, the concept of managed healthcare became a very attractive option (Patel, 2005).

The Kenyan public health sector was also undergoing difficult times. Medical personnel, drugs, equipment and consumables for diagnostic facilities such as X-ray departments and laboratories were all in short supply. Corruption was rife in the Ministry of Health and various public hospitals. In 1994 the government called on the private sector to assist it in healthcare delivery to the masses (Thakker, 2003). There was thus a great demand for a viable alternative. Costs in various private hospitals such as Nairobi Hospital, Agakhan Hospital and Mater Hospital were out of reach for this clientele. The managed healthcare concept offered a viable option. The introduction of cost sharing in the public health sector in the late eighties meant that people were paying, albeit small amounts, for a service that was not being provided as they expected, given the bureaucracy, lethargy and general lack of concern that characterizes the public sector. There was thus the need for a viable alternative.

The managed healthcare concept was by 1995 attracting a lot of attention in Kenya. The first managed healthcare organization to be founded in Kenya was Avenue Healthcare, which was registered in 1995. Since then, there has been a proliferation of Managed Healthcare organizations over the last decade. These include AAR, Prosperity Health, Resolution Health, Health First International, Strategies Health among others. Managed Healthcare Organizations have thus become a growing force to reckon with in healthcare financing and delivery especially in urban centers. The major players are Avenue Healthcare, AAR and Strategies Health. These three players use the HMO model of managed healthcare and run their own outpatient clinics and hospitals that provide medical care to their members. (Thakker,2003). The other smaller Managed Healthcare organizations use the EPO or PPO model.

New legislations affecting MCO's are also likely to have an impact on the strategies Managed Healthcare Organizations adapt. For example, the insurance act (Cap 487) was amended on 19th December 2003. The Commissioner of insurance was mandated through parliament to regulate the Managed Healthcare Industry and come up with ways to ensure compliance by all MCO's. The amended act came into effect on 19th December 2004. Consequently various MCO's have applied to the commissioner of insurance and await registration. The commissioner of insurance published a list of these organizations in the Daily Nation of February 7th 2005. (See Appendix Two). Although the amended act has not been implemented, various issues such as the deposition of several millions of shillings into the central depository fund, the separation of healthcare delivery and healthcare financing and other amendments to the act are likely to affect access to working capital by MCO's and their ability to control costs thereby influencing their strategies in dealing with the HIV/AIDS pandemic.

1.1.3 Managed Healthcare Organizations and HIV

Medical covers in general and especially those offered by HMO's have exclusions that usually include HIV/AIDS and related ailments (Thakker,2003). However, increased numbers of HIV positive people demanding medical care, growing acceptance of work colleagues who are both infected and affected, enactment of legislation against discrimination of HIV positive people, conflicting medical ethical positions pitting patient confidentiality against necessity to alert those at risk and many other related issues have presented both business opportunities and threats for HMO's.

The ability of health care policy-makers to stay well-informed about HIV-related services delivery is limited by the rapidity with which the epidemic has evolved and complicated by wide variations in patterns of treatment across regions of the country, socioeconomic groups, and systems of health care (Schouten, 1997).

A potential advantage of Managed Healthcare is that effective case management can be incorporated into all aspects of a person's health care. Under traditional fee-for-service plans, there is no coordination of care. To lower costs, Managed Healthcare

plans employ case managers to coordinate care and eliminate overlap and duplication, encourage compliance, and possibly encourage preventative care. If a person develops PCP pneumonia or any other opportunistic infection associated with HIV / AIDS, the health care provider and insurer loses money under Managed Healthcare. Consequently, there is a direct financial incentive to keep a person healthy under Managed Healthcare plans. HMOs place a greater emphasis on prevention, because they make more money when their members are healthy. Managed Healthcare plans have tended to limit mental health benefits, which can have a direct impact on the medical needs of many people living with HIV/AIDS.

Another important factor concerning Managed Healthcare for people living with HIV is the potential restriction on physician choice and access to competent, sensitive, well-informed, and motivated health care providers (Schouten,1997). Additionally, "gatekeepers" may prevent unnecessary referrals to specialists, such as, gastroenterologists, pulmonologists, and ophthalmologists. This "gate-keeping" function is however looked upon negatively by patients who sometimes insist on being seen by a specialist for any ailment which can effectively be managed at the primary care level. However, this perception by the patient has to be effectively addressed by HMO's hoping to succeed in the business arena.

1.2 Problem Statement

Before the HIV/AIDS pandemic became widespread, many Managed Healthcare Organizations were thriving. Using various preventive healthcare techniques, they were able to keep their members healthy and thus costs were down. It was otherwise uncommon for MCO's to collapse. Human Immunodeficiency Virus infection and the resultant Acquired Immune Deficiency Syndrome however proved a relatively expensive disease to manage due to the need for expensive Anti Retroviral therapy and opportunistic infections HIV positive people recurrently suffer from (Schouten, 1997).

MCO's are largely profit making organizations whose main business selling point over other health financing mechanisms is the management of health needs of its clients so as to provide quality care at affordable rates. The high and often

unpredictable cost of management of HIV positive people has to be addressed when MCO's are designing products to offer into the market. However, various aspects such as a patients right to refuse investigations to determine their HIV status, patient confidentiality issues, legislations preventing discrimination against HIV positive people among others all come into play. Indeed, various MCO's such as Mediplus, Medivac and Healthplan, which have not effectively addressed some of these issues, have ended up collapsing.

The HIV/AIDS infection is one of the areas that have been extensively studied especially as regards medical aspects. Casado and others (2001) compared the changes in health related quality of life in patients who were initiating their first antiretroviral therapy and patients who had been previously treated with antiretroviral drugs and who were started on Highly Active Antiretroviral Treatment. Few studies have been done in Kenya to quantify the HIV/AIDS challenge and responses. Muraah (2003) studied how Kenyan pharmaceutical firms have responded to the challenges of the HIV/Aids pandemic. Waita (2003) investigated how large private manufacturing companies have responded to the challenges of the HIV/Aids pandemic. Rarieya (2001) explored the social responses of pharmaceutical firms to the HIV/AIDS pandemic.

MCO's have also been extensively studied. Safran and collegues compared group and staff model HMOs with Individual Practice Association models (Reschovsky, 2000). Schouten (1997) looked at the impact Managed Healthcare has had on people living with HIV and specifically looked at quality comparing it to Cost.

None of these studies looked at the impact of HIV/AIDS to the business of firms in the MCO sector and broader scope of the strategic responses they have undertaken to better face that challenge. This research would be of value to the management of MCO's and various other partners in healthcare delivery in better managing the challenges posed by the HIV/AIDS pandemic.

Given the above scenario, the study proposes to address the following questions; What Challenges does the HIV / AIDS pandemic pose to Kenyan MCO's? What strategies have Kenyan MCO's put in place to tackle these challenges?

1.3 Objectives

This study has two major objectives:

1. To identify the challenges the HIV / AIDS pandemic has presented to Kenyan Managed Healthcare Organizations.
2. To identify the strategies Kenyan Managed Healthcare Organizations have developed to respond to these challenges.

1.4 Importance of the Study

The study is important for the following reasons:

1. To the staff and management of MCO's as a means of documenting the challenges of the HIV / AIDS pandemic and strategies undertaken to address them.
2. Other Partners in Healthcare delivery for example NGO's who can draw useful lessons on various strategies used by the private sector in combating the HIV /AIDS pandemic.
3. The Government of Kenya in formulating policies necessary to combat the HIV scourge.
4. Scholars to whom the study can form a basis for further research. It will also contribute to the available literature in the Strategic Management field.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

The study will attempt to establish the HIV / AIDS related environmental turbulence in Kenya's Managed Healthcare Industry and the industries responses to this turbulence. As a foundation for this study, this section will review literature on environmental challenges to organizations, environment and strategy relationship as well as organizational responses to environmental challenges

2.1 Environmental Challenges To Organizations

The external environment plays a significant role in the in the growth and profitability of firms (Kotha, 1995). Environmental conditions currently affecting firms are different from those of past decades (Hitt, 1997). Many companies now compete in global rather than domestic markets. Technological changes and the explosion in information gathering and processing capabilities demand more timely and effective competitive actions and responses (Hamel, 1989).

Pearce and Robinson (1997) argue that there are a host of external factors that influence a firms choice of direction and action and ultimately its organizational structure and internal processes. These factors constitute the external environment and can be divided into three interrelated subcategories that is the remote environment, the industry environment and the operating environment. The remote environment consist of factors that originate beyond and usually irrespective of any firms operating situation and include economic, social, political, technological and ecological factors.

The concept of industry environment has been brought to the foreground of strategic thought and business planning by Michael E. Porter. The nature and degree of competition in an industry hinges on five forces (Porter, 1980). These are the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services and the degree of rivalry in the industry. To establish a strategic agenda for dealing with these contending currents and to grow

despite them, a company must understand how they work in its industry and how they affect the company in its particular situation.

East African Breweries experienced competitive forces in the mid 1990's that is competition from Castle Breweries; threat of substitute products, power of suppliers such as Novo-Nordisk which was supplying yeast; threats of potential entrants and power of buyers leading to strategic change. (Njau, 2000). To meet these challenges, E.A. Breweries introduced new brands with unique features and set competitive prices so as to increase both sales revenue and its market share. Business Process Re-engineering was done to improve productivity and efficiency in the factory; clear brand positioning messages used to target specific market and entered the Tanzanian market (Njau, 2000).

The operating environment, also called the competitive or task environment, comprises factors in the competitive situation that affects a firms success in acquiring needed resources or in profitably marketing its goods and services. Among the most important of these factors are the firms competitive position, the composition of its customers, its reputation among suppliers and creditors, and its ability to attract capable employees (Pearce, 1997). The operating environment is typically much more subject to the firms influence or control than the remote environment. Thus firms can be much more pro-active (as opposed to reactive) in dealing with the operating environment than in dealing with the remote environment.

Most firms face external environments that are growing more turbulent complex and global, which makes them increasingly more difficult to interpret. To cope with what are often ambiguous and incomplete environmental data and to increase their understanding of the general environment, firms engage in a process called external environmental analysis. This process includes four activities that is scanning, monitoring, forecasting and assessing (Hitt, 1997). Analysis of the external environment leads to identification of opportunities and threats.

Ansoff and McDonnell (1990) define environmental turbulence as a combined measure of the changeability and predictability of the firms environment. They go on to describe a scale of environmental turbulence from level 1 turbulence (repetitive

environmental turbulence) where successive challenges are a repetition of the past, change is slower than the firms ability to respond and the future is expected to replicate the past , to level 5 turbulence (Surprising environmental turbulence) where events are discontinuous and novel, change is faster than the firms ability to respond and the future is unpredictable and filled with surprises.

The forces of the external environment are so dynamic and interactive that the impact of any single element cannot be wholly disassociated from the impact of other elements. For example, an increase in OPEC oil prices may be a result of a combination of economic, political, social and technological changes. Despite the uncertainty and dynamic nature of the business environment, an assessment process that narrows, even if it does not precisely define, future expectations is of substantial value to strategic managers (Pearce, 1997).

2.2 Environment And Strategy Relationship

Strategy is the positioning and relating of the firm or organization to its environment in a way which will assure its continued success and make it secure from surprises (Ansoff, 1990).

Strategy can also be defined as "The game plan management has for positioning the company in its chosen market arena, pleasing customers and achieving good business performance." (Thompson, 1998)

Johnson and Scholes (2002) define strategy as "the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations.

The various definitions of strategy all bring out the importance of the external environment in as far as the formulation of strategy is concerned. There thus exists a very strong relationship between strategy and the environment. Strategy is concerned

with matching a firm's resources and capabilities to the opportunities that arise in the external environment (Grant, 1998).

The organization draws its resources, which include employees, managers, supplies, finance and many others from a competitive business environment. It has to compete with other firms for labor, supplies, finance and other resources. It must then use these inputs in some organized way to produce various products and services, which can be marketed effectively, and in many cases profitably (Thompson, 2003).

Corporate strategy is the pattern of major objectives, purposes or goals and essential policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and what kind of company it is to be (Lynch, 2000). Every organization has to manage its strategies in three main areas that is the organizations internal resources, the external environment that the organization operates and the organizations ability to add value to what it does (Lynch, 2000).

When a firm sustains profits that exceed the average for its industry, the firm is said to posses a competitive advantage over its rivals (Porter, 1980). Competitive advantage may be defined as the significant advantages that an organization has over its competitors (Lynch, 2000). Such advantages allow the organization to add more value than competitors in the same market. A company has competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces. Thus a competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

Competitive strategy is concerned with creating and maintaining a competitive advantage in each and every area of business (Porter, 1980). For each functional area of the business, such as production, marketing and human resource, the company will have a functional strategy. It is important that this is designed and managed in a coordinated way so that they may inter-relate with each other and collectively allow competitive strategy to be implemented properly (Thompson, 2003).

There are two basic frameworks of strategies that can be adopted by firms to respond to challenges in the external environment thus acquiring competitive advantage. Various models of strategy development in organizations fit into these frameworks. These are -:

2.2.1 Strategic Fit Framework

This is developing strategies by identifying opportunities in the external business environment and adopting resources and competencies so as to take advantage of these (Johnson, 2002). Hence opportunities in the external environment are identified and strategies follow. According to the strategic fit framework, it is important to achieve the correct positioning of the organization, for example in terms of the extent to which it meets clearly identified market needs.

For strategies to be successful, it must be consistent with the firms goal and values, with its external environment, with its resources and capabilities and with its organization and systems. Lack of consistency between the strategy pursued by a firm and its external and internal environments is a common source of failure (Grant, 1998).

Proponents of this view include Porter and Ansoff. The framework has led to the development of traditional strategy models, such as Michael Porter's five forces model and the generic value chain approach as well as the strategic success hypothesis. They focus on the company's external competitive environment.

Ansoff (1990) argues that strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the firm's success in its future environment. The diagnostic procedure is derived from the strategic success hypothesis, which states that a firms performance potential is optimum when three conditions are met that is aggressiveness of the firm's strategic behavior matches the turbulence of its environment, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firms capability must be supportive of one another.

2.2.2 Strategic stretch Framework / Resource Based View

This is the leverage of the resources and competencies of the organization to provide competitive advantage and yield new opportunities (Hamel, 1993). Hence strategies are developed to create new opportunities by changing the rules of the game. It proposes that strategy development should be entrepreneurial creating a whole new industry space.

Proponents of this view include Hamel and Prahalad. This framework has led to the development of one of the most dominant models of strategy development today i.e. The Resource Based Model. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision-making.

In contrast to the Input / Output Model (I/O model), the resource-based view is grounded in the perspective that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment. Instead of focusing on the accumulation of resources necessary to implement the strategy dictated by conditions and constraints in the external environment (I/O model), the resource-based view suggests that a firm's unique resources and capabilities provide the basis for a strategy. The strategy chosen should allow the firm to best exploit its core competencies relative to opportunities in the external environment.

Economists regard the profits associated with industry attractiveness and competitive advantage as a distinct type of economic profit or rent (Grant, 1998). The Resource Based View of strategy emphasizes economic rent creation through distinctive capabilities. Economic rent, or Economic Value Added (EVA), is what companies earn over and above the cost of the capital employed in their business (Johnson, 2002). It is the measure of the competitive advantage, and competitive advantage is the only means by which companies in competitive markets can earn economic rent. The objective of a company is to increase its economic rent, rather than its profit as such. A company that increases its profits but not its economic rent - as through investments or acquisitions which yield less than the cost of capital - destroys value.

Core competencies are areas of expertise, which are distinctive to that company and critical to the company's long-term growth. (Prahalad, 1990) These areas of expertise could be in any area but has to eventually develop in the critical key areas of the company where the most value is added to its products. Motorola, the Texas based supplier of wireless telecommunications equipment, semi-conductors and direct satellite communications has undergone many transformations from being a leading supplier of TVs and car radios to its current focus on telecommunication. Yet, underlying these transformations has been a consistent focus on technological leadership in electronic components – semiconductors in particular (Grant, 1998).

For organizations to build and sustain competitive advantage, it has to focus on, and build upon these capabilities. These capabilities could be a bundle of skills, Research and Development, which will enable organizations to create leverage so as to compete with competitors.

Therefore core competencies are seen as the collective learning process in the organization especially how to co-ordinate diverse production skills and integrate multiple streams of technologies. They are activities or processes that critically underpin an organizations competitive advantage (Johnson, 2002).

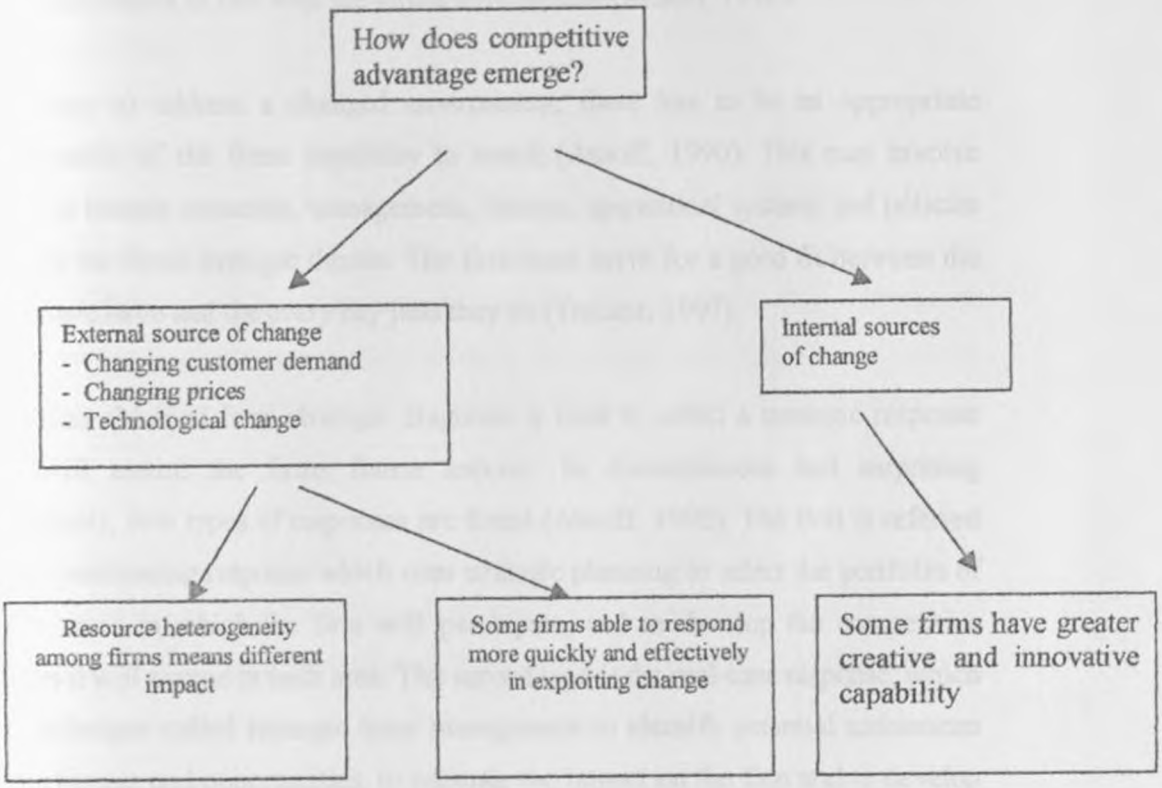
To sustain competitive advantage and growth, firms need to innovate more quickly than their rivals. Outstanding companies are consistently innovating in every area of business, pursuing changes, which create value for their customers. The approach of such firms is to search for new approaches and package them in such a way that they deliver customer satisfactions e.g. in pharmaceutical companies, which are known to have superior research and development, the drug discovery process is a strong driving force for performance excellence.

The skill base is one of the firm's main assets. It is hard for competitors to imitate. The organization has to recognize it, encourage learning and reward efforts, which adds to firm's knowledge. It's a fact that skills are grounded in human capabilities and that new idea for innovation, new products and continuous improvement concepts comes from harnessing this creativity from people. From the resource based view, human resources are the productive services human beings offer the firm in terms of

skill, knowledge, reasoning and decision making abilities. Economists refer to these resources as "human capital" which emphasizes the fact that they are durable and created through investment in education and training (Grant, 1998).

To achieve competitive advantage through people, organizations have to build teamwork, empower people and cater for staff development. This will transform to the patterns of behavior leading to corporate culture. Definitely this will form a strong basis of strategic resource of organizations (Johnson, 2002).

The emergence of Competitive Advantage (Grant, 1998)



2.3 Organizational Responses To Environmental Challenges

The best-formulated and implemented strategies become obsolete as a firms external and internal environments change (David, 1997). Firms must thus respond to various changes in the environment. These responses can be broadly classified as strategic or operational in nature.

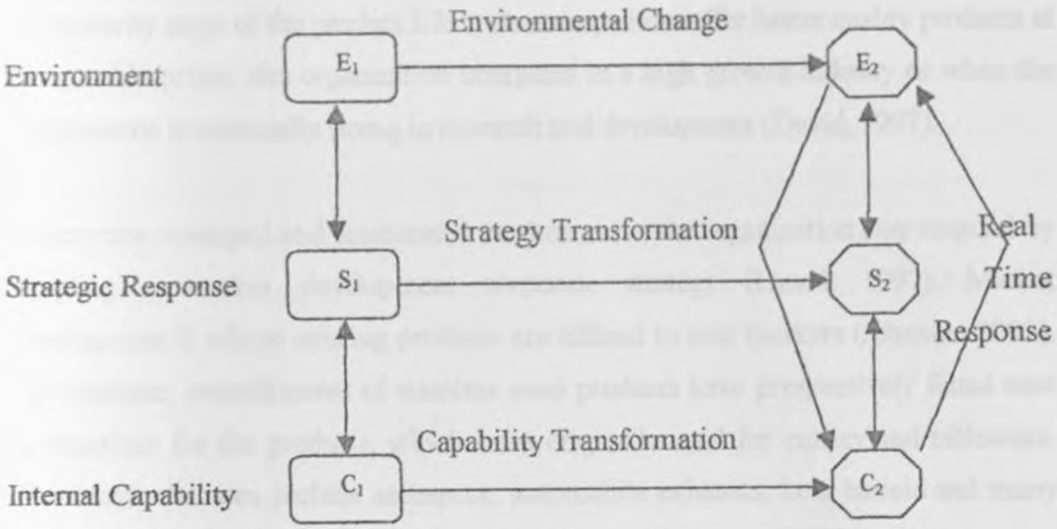
Strategic diagnosis identifies whether a firm needs to change its strategic behavior to assure success in its future environment. If diagnosis confirms the need, the next step is to select and execute specific actions, which will bring the firms aggressiveness and responsiveness in line with the future environment (Ansoff, 1990).

For strategy to address a changed environment, there has to be an appropriate transformation of the firms capability to match (Ansoff, 1990). This may involve changes in human resources, management, finance, operational systems and policies that guide the firms strategic thrusts. The firm must strive for a good fit between the skills people have and the every day jobs they do (Trahant, 1997).

Information obtained from strategic diagnosis is used to select a strategic response which will assure the firms future success. In discontinuous and surprising environments, two types of responses are found (Ansoff, 1990). The first is referred to as the positioning response which uses strategic planning to select the portfolio of business areas in which the firm will participate, and to develop the competitive strategies it will pursue in each area. The second type is the real-time response, which uses a technique called strategic issue management to identify potential unforeseen strategic threats and opportunities, to estimate the impact on the firm and to develop and execute time responses.

To assure effective implementation, the firms also need to design the capability which will enable it to initiate and support the new strategic responses. A firm has two different, complimentary capabilities; management capability and functional capability (Ansoff, 1990).

Managing firms adaptation to the environment (Ansoff, 1990)



As far as strategic responses are concerned, organizations need to develop corporate strategies that are best suited to their strengths and weaknesses in relation to the environment in, which they operate (Lynch, 2000). This corporate strategic responses may involve changes in the organizations products, changes in markets, changes in the organizations structure, strategic alliances or mergers with other organizations, various diversification strategies, retrenchment, diversification or liquidation and many others.

Survival and success of organizations are influenced by their ability to respond to various competing pressures, which include changes in the business environment, the strategic capability of the organization and the cultural and political context (Johnson, 2002).

2.3.1 Strategic Responses

An organization that competes in an industry that is characterized by rapid technological developments, it may respond by pursuing a product development corporate strategy (David, 1997). Product development is where the organizations deliver modified or new products to existing markets (Johnson, 2002). For example Hewlett Packard started in 1939 with a capital of US $ 538 and grew to a Multi National Company with annual sales of over US $ 31 billion by 1996. The company makes computers printers and a wide range of electronic equipment and has always

emphasized on excellence and innovation (Lynch, 2000). Organizations may also adopt new product development corporate strategies if it has successful products in the maturity stage of the product life cycle, competitors offer better quality products at comparable prices, the organization competes in a high growth industry or when the organization is especially strong in research and development (David, 1997).

Where new untapped and unsaturated markets exist, the organization may respond by adopting a market development corporate strategy (David, 1997). Market development is where existing products are offered to new markets (Johnson, 2002). For example, manufactures of stainless steel products have progressively found new applications for the products, which were originally used for cutlery and tableware. Nowadays, the uses include aerospace, automobile exhausts, beer barrels and many applications in the chemical manufacturing industry (Johnson, 2002).

Environments where market shares of competitors are declining whereas total industry sales are increasing, an organization may respond by adopting market penetration corporate strategies (David, 1997). Market penetration is where an organization gains market share (Johnson, 2002). Procter and Gamble is an example of this, spending heavily on advertising to increase market share of Venizia, its upscale perfume. Microsoft's multimillion dollar advertising campaign to promote Windows is another example (David, 1997).

An organization which faces an environment whereby the distributors are increasingly becoming unreliable or incapable of meeting the firms distribution needs may choose to pursue a forward integration corporate strategy (David, 1997). Forward integration refers to development into activities, which are concerned with the companies outputs, such as transport, distribution repairs and servicing (Johnson, 2002). Alternatively, where an organizations presents suppliers are especially expensive, or unreliable, or incapable of meeting the firms needs for raw materials, the firm may respond by backward integration strategies. In environments where increased economies of scale provide major competitive advantages, the firm may respond by horizontal integration strategies. This refers to gaining ownership or increased control over the firm's competitors. Mergers, acquisitions and takeovers among competitors

allow for increased economies of scale and enhanced transfer of resources and competencies (David, 1997).

Organizations operating in environments that have become unfavorable may respond by one of the defensive strategies, which include joint ventures, retrenchment, divestiture or liquidation. If the organizations internal environment is plagued with inefficiency, poor employee morale or low profitability, the organization may respond by retrenchment. When a government antitrust action threatens an organization, it may respond by divestiture. (David, 1997).

Organizations also respond to the environment by changes in its structure. Rapid changes in any of the five forces affecting the organization will need a structure that is capable of responding quickly. If the work undertaken by the organization is complex with strong inter-relationships, between various parts of the organization, then this will make its ability to respond more difficult to organize and co-ordinate. The structure to handle such demands will need careful consideration depending on the precise nature of the environmental changes. If rapid responses are required, this argues for devolving responsibility towards those closest to the market place (Lynch, 2000).

Strategy is not just about deploying the firm's resources and capabilities; it is also about building resources base to extend its competitive advantage into the future (Grant, 1998). Johnson and Scholes (2002) classify resources into four major groups that is physical resources, human resources, financial resources and intellectual capital.

Competitive advantage is at the heart of a firm's performance in competitive markets (Porter, 1980). The value chain describes the activities within and around an organization, which together create a product or service (Johnson, 2002). The value chain desegregates a firm into its strategically relevant activities to influence the behavior of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing those strategically important activities more cheaply or better than its competitors.

A firm's value chain is embedded in a larger stream of activities known as the value system. The value system is a set of inter-organizational links and relationships, which are necessary to create a product or service (Johnson, 2002). Gaining and sustaining competitive advantage depends on understanding not only a firm's value chain but also how the firm fits in the overall value system. There are special and possibly unique linkages that exist between elements of the value chain and the value systems of the organization. Competitive strategy suggests that it is necessary to search for special and possibly unique linkages that exist or might be developed between elements of the value chain and between value systems associated with the company.

The conventional approach to resource building has focused on gap analysis. Having evaluated a company's resources and capabilities, with regard to relative strengths and weaknesses, the company formulates a strategy that most effectively utilizes the companies resource strengths against key success factors in the company's industry environment. Comparing the chosen strategy against the company's bundle of resources and capabilities, however, may reveal certain resource gaps that need to be closed if the strategy is to be most effective in building competitive advantage (Grant, 1998).

Acquisitions and strategic alliances may play an important role in filling resource gaps. General Motors' strategy during the 1980s placed heavy emphasis on the need to upgrade manufacturing operations through computer integrated manufacturing and improved quality. GMs acquisition of Electronic Data Systems and alliances with Toyota, Fanuc which was into robotics and a number of other technology based companies were means of accessing the necessary resources and capabilities (Grant, 1998).

Though a firm can have a myriad of strengths and weaknesses vis-à-vis its competitors, there are two basic types of competitive advantage a firm can posses; low cost or differentiation. The significance of any strength or weakness a firm possesses is ultimately a function of its impact on the relative cost or differentiation. The two basic types of competitive advantage combined with the scope of activity for which a firm seeks to achieve leads to three generic strategies for achieving above

average performance in an industry (Porter, 1985). These are Cost Leadership, Differentiation and Focus. They are called generic strategies because they are not firm or industry dependent.

Porter's Generic Strategies

Target Scope	*Advantage*	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Cost leadership - A firm seeking to achieve competitive advantage through cost leadership strategy will strive to become the "low cost producer" in its industry (Porter, 1985). Sources of cost advantages are varied and include economies of scale, proprietary technology, preferential access to raw materials, learning thus increased efficiency etc.

Each generic strategy has its risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share (Johnson, 2002).

A firm that attains lower costs of production, hence cost leadership may cut prices, triggering a price war across the industry. No matter who wins, the industry may suffer serious decline in profitability especially if every competitive move is based on price and countermeasure, a retaliatory price cut as happened in the U.S. long distance telephone industry in 1999 (Rao, 2000). To prevent a price war, a firm can reveal its strategic intent – the way it intends to match its rivals price cuts – and reveal its cost advantage that allows it to fight a price war aggressively yet remain profitable. Firms

can also decide to respond to price reductions with non price actions for example, focus on value addition, alert customers to risk of poor quality, cede market share or selective price actions like quantity discounts and product bundling (Rao, 2000).

Differentiation - This is the second generic strategy through which firms can achieve competitive advantage. In differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter, 1985). A firm that can achieve and sustain differentiation will be an above average performer in its industry if its price premium exceeds the extra costs incurred in being unique (Porter, 1985).

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

Focus - The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve competitive advantage in its target segments even though it does not posses a competitive advantage overall (Porter, 1985).

The focus strategy has two variants i.e. cost focus and differentiation focus (Porter, 1985). In both variants, the target segments must have either buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. The focuser can thus achieve competitive advantage by dedicating itself to the segments exclusively.

Firms create and sustain competitive advantage because of the capacity to continuously improve, innovate and upgrade their competitive advantages over time. Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skills and knowledge that are the products of experience. Investment in upgrading resources and capabilities can occur naturally through organizational learning. The concept of Dynamic resource fit has

been used to describe the process through which the pursuit of a strategy not only utilizes a firms resources but also augments them through the creation of skills and knowledge that are the products of experience (Grant, 1998).

The dynamic resource fit may also provide a strong basis for a firms diversification. Sequential product addition, as expertise and knowledge is acquired is a prominent feature in the strategies of Honda in extending its product range from motorcycles, to cars, to lawn mowers and boat engines, and of 3M in expanding from abrasives, to adhesives, to computer disks, to video and audiotapes and a broad range of consumer and producer goods (Grant, 1998).

2.3.2 Operational Responses

Operational responses are the other broad category of responses by the firm to the environment. Operational strategies are concerned with how the component parts of the organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. For example, in AOL/Time Warner, film production, TV scheduling, publishing titles and subscriber recruitment efforts dovetail into higher-level decisions about service bundling and market entry. The integration of operational decisions and strategy is therefore of great importance. (Johnson, 2002).

Operations management is an important element of corporate strategy for three reasons. Firstly, the rewards from successful implementation of such strategies can be very high for example Toyota Motor Corporation became one of the top three global car companies between 1950 and 1990 by focussing on the twin strategies relating to operations and marketing. It introduced a series of operations initiatives that assisted car and truck production-essentially a repetitive, massive manufacturing process. The new procedures were designed to reduce cost, increase quality and control the production process more tightly. Secondly major investments in physical and human resources is necessary to achieve identified results. Thirdly, fundamental changes in people and machines need to be addressed by every company (Lynch, 2000).

Different aspects of the operations have to respond in line with the corporate strategies. In order to achieve superior customer responsiveness for example,

operations involving production may have to achieve customization and rapid response by implementing flexible manufacturing. Materials management need to respond quickly to unanticipated customer demands. Logistics systems capable of this should be developed. (Hill, 2001). A good example is Just-In-Time (JIT) production systems, which can significantly reduce the costs of implementing strategy. With JIT, parts and materials are delivered to production site just as they are needed rather than being stockpiled as a hedge against later deliveries. Harley-Davidson reports that in one plant alone, JIT freed US $ 22 million previously tied up in inventory (David, 1997). Relating to supplier relationships, two different and opposing responses can be adopted by organizations. Organizations such as Toyota have pursued closer relationships with suppliers that is sharing technical and development information in order to lower costs. Others such as General Motors and Volkswagen have more distant relationships with suppliers involving aggressive negotiation to obtain the lowest possible price (Lynch, 2000).

As far as human resource is concerned, training programs that get employees to think like customers is important in achieving superior customer responsiveness (Hill, 2001). Cross training of employees can also facilitate strategy implementation and can yield many benefits. Employees gain better understanding of the whole business and can contribute better ideas in planning sessions (David, 1997).

Particularly in the area of operations, new technology can shape future strategy. The pace of change is growing. There are other environmental difficulties facing some companies, especially lack of awareness of the implications of new manufacturing capacity and the impact of new production techniques. Discontinuities that is major changes in technology and markets can have a substantial impact on strategy. By definition, they are difficult to predict so organizations should sensitize themselves to the environment in this circumstance (Lynch, 2000).

Marketing is also an important aspect as far as operational responses are concerned. In order to achieve superior customer responsiveness, the marketing department must know the customer as well as communicate customer feedback to appropriate functions (Hill, 2001).

Operations strategy therefore has two major contributions to make to corporate strategy. Firstly, it aims to provide manufacturing and related processes that will give the organization competitive advantage and secondly, it supplies co-ordinated support for products so that they will win sales orders in a competitive market place. As a result operations resource analysis and appropriate environmental operational response is important because it can lead to competitive advantage in areas such as variable production to make products that are more precisely tailored to individual customer requirements, lower costs than competitors for the same product performance, product quality that is superior to competition and enhanced services and delivery associated with the product that is superior to rivals (Lynch, 2000).

In summary, organization responses to the environment often involve change. For change to be successful it has to link the strategic, the operational, and the everyday aspects of the organization. This emphasizes the importance of not only translating strategic change into detailed resource plans, critical success factors and key tasks. And the way the organization is managed through control processes, but also of how change is communicated through the everyday aspects of the organization (Johnson, 2002).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study will be a cross sectional survey of Kenyan Managed Healthcare Organizations with a view of establishing the challenges the HIV / AIDS pandemic has presented to Kenyan MCO's and the strategies Kenyan MCO's have developed to respond to these challenges.

Our population of interest will consist of the ten Managed Healthcare Organizations that are awaiting registration by the Commissioner of Insurance (See Appendix 2) together with one additional company (Avenue Healthcare), which has applied separately to the Ministry of Finance for consideration. They can be categorized into three major classes as follows -:

- Health Maintenance Organizations (HMO's)
- Preferred Provider Organization's (PPO's)
- Exclusive Providers Organization's (EPO's)

All the firms in the population of interest are based in Nairobi and have branch offices in various other major towns across Kenya. The study will thus be conducted in Nairobi from the head offices.

Owing to the small number of managed healthcare organizations in Kenya, a census survey will be conducted.

3.2 Data Collection

The primary data collection instrument will be the questionnaire (see appendix one). This will have three major sections as follows -:

Section A : General Information

Section B : HIV/AIDS challenges to Kenyan MCO's.

Section C : Strategies to tackle these challenges.

Part A – Corporate strategic responses

Part B – Functional / Operational Strategic responses

The CEO's as well as the operational departmental heads of the various MCO's will be targeted to answer the questions. The questionnaire will be administered through the drop and pick later method.

3.3 Data Analysis Techniques

Descriptive statistics will be used for data analysis. This includes tables, summary statistics, and percentages.

Percentages, mean scores and content analysis will be used to analyze the challenges the HIV/AIDS pandemic has presented to Kenyan Managed Healthcare organizations thereby looking at the first objective. To address the second objective, which relates to the strategies Kenyan MCO's have developed to respond to these challenges, again content analysis, mean scores and percentages will be used.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.0 Introduction

This chapter presents the data analysis and findings of the study. The general demographic information is presented first. The findings are presented in the order of the objectives of the study, that is, data analysis and findings relating to the challenges HIV/AIDS pandemic has presented to Kenyan Managed Healthcare organizations. This is followed by the analysis and findings on the strategies the organizations have developed to respond to the challenges.

4.1 General Information

The questionnaires were administered to a sample of 11 Managed Healthcare Organizations that formed the study population. Two of the organizations were found to have closed operations in Kenya. Six organizations responded, which translates to 66% response rate.

4.1.1 Year of Establishment of Healthcare Organizations in Kenya

Respondents were asked to state the year of establishment in Kenya of the organizations that they managed. The findings are presented in Table 4.1.

Table 4.1: Year of Establishment of Healthcare Organizations in Kenya

Year of Establishment	Frequency	Percentage
1995 – 1997	3	50.0%
1998 – 2000	0	0.0%
2001 – 2003	3	50.0%
Total	6	100.0%

The findings indicate that all the Managed Healthcare Organizations were established in Kenya in the last decade with three organizations being established between 1995 and 1997, none being established between 1997 and 2000 and another three being established between 2001 and 2003.

4.1.2 Number of Employees in the Healthcare Organizations

Respondents were asked to indicate the number of employees in the organization they manage. The results are shown in Table 4.2.

Table 4.2: Number of Employees in the Healthcare Organizations

Number of Employees	Frequency	Percentage
0 – 100	2	33.3%
101 – 200	3	50.0%
201 – 300	0	0.0%
301 – 400	1	16.7%
401 and Above	0	0.0%
Total	6	100.0%

The findings in Table 4.2 indicate that 33.3% of the healthcare organizations included in the study had employees ranging between 0 and 100, 50% of the organizations had employees ranging between 101 and 200 and 16.7% of the organizations had between 301 and 400 employees. None of the organizations had between 201 and 300 or more than 400 employees.

4.1.3 Number of covered members

Respondents were asked to indicate the number of members their organizations covered. The results are shown in Table 4.3.

Table 4.3: Number of covered members

Number of members	Frequency	Percentage
0 – 15,000	1	16.7%
15,001 – 30,000	2	33.3%
30,001 – 45,000	3	50.0%
45,001 – 60,000	0	0.0%
60,001 and Above	0	0.0%
Total	6	100.0%

The findings in Table 4.3 indicate that 16.7% of the healthcare organizations included in the study had covered members ranging between 0 and 15,000, 33.3% of the organizations had covered members ranging between 15,001 and 30,000 and 50.0% of the organizations had covered members ranging between 30,001 and 45,000. None of the organizations more than 45,000 covered members.

4.1.4 Management/Ownership of Organization

The respondents were asked to state the owners of the organization they manage. The findings are presented in the Table 4.4

Table 4.4: Management/Ownership of Organization

Management/Ownership	Frequency	Percentage
Local	0	0.0%
Foreign	2	33.3%
Local/Foreign Joint Venture	4	66.7%
Total	6	100.0

The findings in the Table 4.4 indicate that two healthcare organizations are foreign owned while four healthcare organizations are local/ foreign joint ventures.

4.1.5 Annual Turnover of the Healthcare Organizations

The respondents were also asked to state the approximate turnover of the organizations they manage. The findings are presented in Table 4.5

Table 4.5: Annual Turnover of the Healthcare Organizations

Annual Turnover	Frequency	Percent
0 – 200 Million	0	0.0
201 – 400 Million	3	50.0
401 – 600 Million	2	33.3
601 – 800 Million	1	16.7
801 Million and Above	0	0.0
Total	6	100.0

The findings point to the fact that three out of the six organizations had an approximate annual turnover of between 201 million and 400 million. Two of the organizations had an annual turnover of between 401 million and 600 million while one of the organizations had an annual turnover of between 601 million and 800 million.

4.1.6 Type of Managed Healthcare Organization

The respondents were requested to state the predominant type of managed healthcare organization they managed. The healthcare organizations were categorized into three major classes, that is, Health Maintenance Organizations (HMO's), Preferred Provider Organizations (PPO's) and Exclusive Provider Organizations (EPO's). The results are shown in Table 4.6.

Table 4.6: Type of Managed Healthcare Organization

Type	Frequency	Percent
Health Maintenance Org.	4	66.7
Preferred Provider Org.	2	33.3
Exclusive Provider Org.	0	0.0
Total	6	100.0

The findings in Table 4.6 show that four out of the six Managed Healthcare Organizations were Health Maintenance Organizations (HMO's) while two were Preferred Provider Organizations (PPO's). None of the organizations was an Exclusive Provider Organization (EPO's).

4.2 HIV/AIDS Challenges to Kenyan Managed Healthcare Organizations

The first objective of the study was to determine the challenges the HIV/AIDS pandemic has presented to Kenyan managed healthcare organizations. This sections presents the analysis and findings related to this objective.

The respondents were asked to state if they considered HIV/AIDS to be a business issue. The data obtained was analyzed by computing proportions. The results indicate that all the six healthcare organizations were in agreement (100%) that HIV/AIDS was a business issue.

The respondents were further asked to state whether they thought HIV/AIDS was a business threat, a business opportunity or both. Again this was analyzed by computing proportions. The results are shown in Table 4.7.

Table 4.7: HIV/AIDS Business Challenge

Challenge	Frequency	Percentage
Business Threat	1	16.7
Business Opportunity	1	16.7
Business Threat and Opportunity	4	66.7
Total	6	100.0

The findings in Table 4.7 show that most of the Managed Healthcare Organizations (66.7%) thought that HIV/AIDS was both a business threat and a business opportunity.

The respondents were also asked to state whether they thought HIV/AIDS was an internal management threat, an internal management opportunity or both. Again the data obtained was analyzed by computing proportions. The results are shown in Table 4.8.

Table 4.8: HIV/AIDS Resource Challenge

Challenge	Frequency	Percent
Internal Management Threat	5	83.3
Internal Management Opportunity	1	16.7
Internal Management Threat and Opportunity	0	0.0
Total	6	100.0

The findings in Table 4.8 show that most of the Managed Healthcare Organizations (83.3%) thought that HIV/AIDS was an internal management threat.

The respondents were then asked to give reasons for their answers. This was an open-ended question and data obtained was analyzed using Content Analysis. Various ideas came out clearly. HIV/AIDS presented business opportunities to the organizations, in

that, a properly structured and instituted care for HIV infected members was envisaged to result in predictable costs and obviate the need for frequent admission. Opportunities were also presented to the healthcare organizations due to the expanded market for specialized services related to HIV/AIDS in diagnosis and treatment. HIV/AIDS presented business threats as it was found to affect membership base, increased the cost of healthcare and resulted in losses due to poorly created products. It was found to cause an internal management threat as it led to loss of productivity due to sick staff therefore affecting and organizations resources. HIV/AIDS also resulted in poor relationship between the affected and unaffected staff, and, caused conflict of perception of the disease diagnosis and management by the staff handling the clients.

The respondents were also asked to state their opinion on the extent to which a number of HIV/AIDS related challenges affected their organizational policies and operations using a five point Likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are presented in table 4.9.

Table 4.9:Effect of HIV related challenges on organizational policies and operations

Factor	Mean Score
High cost of treatment of HIV and related conditions	3.83
Need for regular follow-up of HIV positive people	3.33
Technical aspects of antiretroviral therapy	2.83
Psychotherapy for HIV positive people	3.17
Logistics of enabling medical personnel to keep constantly updated on HIV treatment	3.00
Pressure from the general population to offer more services for HIV positive people	3.50
Pressure from the government to offer more services for HIV positive people	2.50
Pressure from the business community to offer more services for HIV positive people	3.67
Increased business due to awareness of the need for medical services created by the HIV/AIDA pandemic	3.33
Increased business due to pre-employment, insurance or other medical examinations requiring HIV screening	2.33
Grand Mean	**3.149**

The findings in the Table 4.9 point to the fact that HIV/AIDS related challenges affected their organizational policies and operations moderately as suggested by the grand mean which was only 3.149. High cost of treatment of HIV and related conditions had the greatest impact with a mean score of 3.83. Other challenges, which also had a significant impact, were pressure from the business community to offer more services for HIV positive people, pressure from the general population to offer more services to HIV positive people and need for regular follow up of HIV positive people. These challenges had mean scores of 3.67, 3.5 and 3.33 respectively. The factor that had least impact was increased business due to pre-employment, insurance or other medical examinations requiring HIV screening with a mean score of 2.33.

The respondents were also asked to state other challenges or opportunities the HIV/AIDS pandemic presented to the healthcare organizations they manage. This was an open-ended question and data obtained was analyzed using Content Analysis. Many organizations were of the view that there is a tendency of doctors to treat HIV related conditions within the context of plans in which HIV is excluded, inspite of the availability of HIV inclusive plans. This, in essence, increases overall costs, leading to higher expenses borne by the clients. As a result, fewer people receive even non-HIV related treatments, and thus, reduce income receivable by the healthcare organizations. Other business challenges that bedevil the healthcare organizations due to the HIV/AIDS pandemic *inter alia* relate to creation of an a product that caters for HIV/AIDS, incorporation of Voluntary Counseling Testing and Treatment (VCTT). Taking away the stigmatization, honesty of the clients and the providers and, confidentiality among the staff were also mentioned.

4.3 Strategies to Cope with the HIV/AIDS Challenge

The second objective of the study was to determine the strategies Kenyan Managed Healthcare Organizations have developed to respond to the challenges posed by the HIV/ADS pandemic. This sections presents the analysis and findings related to this objective. The section consists of two parts. The first part contains analysis and findings relating to corporate strategies while the second part contains those relating to functional/operational strategies.

4.3.1 Corporate Strategies

Chief Executive Officers (CEO's) and Managing Directors (MD's) of healthcare organizations were asked to indicate if the most popular medical plans they offer had exclusions for HIV related ailments. The data obtained was analyzed by computing proportions. The results indicate that majority of the respondents, five out of the six (83.3%), replied "Yes" whereas only one of the respondents replied "No".

The respondents were then asked to state the reason for having or not having this exclusion. This was an open-ended question and data obtained was analyzed using Content Analysis. The responses indicate that the reason put forth by the CEO who stated that the most popular plans offered by their organization did not have exclusions for HIV related ailments, is that as medical providers in the region, it was imperative for them to factor in HIV/AIDS in the costs because whether excluded or not, care had to be offered in one form or the other.

The CEO's and MD's whose organizations excluded HIV related ailments in their most popular plans had one main reason to support their sentiments. Cost. Whilst one of the respondents stated that they excluded HIV related ailments in their medical plans due to increased costs necessary to effectively manage these patient, another respondent stated difficulty in coming up with affordable premiums while one more stated the need to maintain an affordable product that could be purchased by a large number of corporate organizations for their staff.

The respondents, whose organizations excluded HIV related ailments in their most popular plans, were further asked to point out if they had medical plans they offered that did not exclude HIV and related conditions. Proportions were used to analyze the data obtained. Three out of the five responses were in concurrence (60%) while two out of the five responses did not concur.

The respondents who concurred to having other medical plans that did not exclude HIV and related conditions were asked to state the percentage of their medical plans it

comprised. Proportions were again used to analyze the data obtained. Two out of the three respondents stated that the plan having inclusions for HIV and related conditions comprised of 0% to 10% of their medical plan business. One out of the three stated that the plan having inclusions for HIV and related conditions comprised of 21% to 30% of the medical plan business. The analysis suggest that even the organizations that exclude HIV related ailments in their most popular medical plans have some plans that do not exclude HIV related ailments but this comprises only less than 10 % of their business in most cases.

Views were also sought from CEO's and MD's to find out whether the government should be involved in regulation of benefits package that HIV infected people are entitled to. Proportions were again used to analyze the data obtained. The results obtained indicate that all the six (100%) CEO's and MD's from the healthcare organizations felt the government should not be involved in regulation of benefits package that HIV infected people are entitled to.

The respondents were then asked to state the reason for their answers. Data obtained was again analyzed using content analysis, as this was an open-ended question. Reasons put fourth brought out the concept that the mandated benefits would inevitably elbow out majority of Kenyans from corporate medical plans due to higher costs. Another important idea was on poverty, which was stated as "...the main killer in Kenya. If the healthcare organizations business was to be stifled by making them pay the costs of a virtually unaffordable (vis-à-vis the Kenyan GDP) pandemic, poverty would increase as jobs would be lost. This sort of action perpetrates the vicious circle of poverty and disease."

Views from other healthcare organizations indicated that the government should be involved in providing broad frameworks within which industry players can develop products rather than making decisions on the specifics of benefit packages. Other views acknowledged related to market driven products. Legislation, they stated, should only provide for a possibility of options, but the provider and the insured should agree on what is affordable between them. CEO's/ MD's were also concerned about bureaucracy within

government, which they thought, would further complicate regulation of benefits of HIV infected people.

Pursuance to the requirement of the insurance amendment act (Cap 487) of 19th December 2003, the respondents were asked to state what they thought would be the effect of separating healthcare delivery from finance on the management of members who are infected by HIV. This was an open-ended question and data obtained was again analyzed using content Analysis. The CEO in one the healthcare organizations declared that bureaucrats had misinterpreted the whole issue of separating healthcare delivery from finance and, this would result in rise in healthcare costs. Another CEO, who echoed these sentiments, opposed the legislation as counterproductive to affordable healthcare.

However another CEO was of the opinion that separating healthcare delivery from finance may not result in too much disruption in care offered as long as the financiers and the providers are like-minded. One more CEO also noted that separation of healthcare delivery from finance would generally lower the cost of healthcare. The financiers would have a bigger client base as well as better care in that treatment will not be compromised because of cost. To the providers, more clients would afford the costs of healthcare and result in less administrative costs.

4.3.2 Functional/ Operational Strategies

The departmental heads in the healthcare organizations were asked to state whether the most popular medical plans they offer had exclusions for HIV related ailments. The data obtained was analyzed by computing proportions. The results indicate that majority of the departmental heads concurred. All departmental heads in five out of the six healthcare organizations concurred (83.3%).

The departmental heads were further asked to state the reasons for having or not having this exclusion. This was an open-ended question and data obtained was again analyzed using Content Analysis. Cost of treating and managing HIV/AIDS related ailments, was singled out as the major reason for the exclusion.

The reason for not excluding HIV related ailments in the most popular medical plans offered by the healthcare organizations related to the demand by clients, including multinationals, who are governed by global HIV policies that they are required to adhere to. Another reason stated was that some clients require a more holistic view to the care of their members and require integrated care that includes HIV/AIDS.

4.3.2.1 Customer Service / Marketing

Customer service/ Marketing managers of organizations, which excluded HIV related conditions were asked to state the extent to which this exclusion influence a number of statements relating to poor customer satisfaction using a five point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are presented in Table 4.10.

Table 4.10: Effect of Exclusion on Poor Customer Satisfaction

Factor	Mean Scores
Patient complaints and dissatisfaction	3.60
Covered company complaints and dissatisfaction	3.20
Non renewal of medical schemes by customers	2.00
Grand Mean	3.26

Results from Table 4.10 indicate that exclusions for HIV/AIDS related treatment had a moderate effect on poor customer satisfaction as indicated by the grand mean of 3.26. Complaints and dissatisfaction from patients had the greatest impact with a mean score of 3.60, while non-renewal of medical schemes by customers had the least impact with a mean score of only 2.00.

The customer service/marketing managers were also asked to point out the extents to which they use a number of methods to inform members about the exclusion using a five

point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are presented in Table 4.11.

Table 4.11: Extent to which Members are informed about Exclusion

Factor	Mean Scores
From initial group presentations to covered members on exclusion before they join the scheme	4.20
From periodic follow up group presentations to covered members after they are already members	4.20
From brokers and sales people	2.80
From contracts which are signed by all members	4.00
From personalized letters to each new member	3.00
Health education	4.00
Medical reports to covered companies	4.00
Grand Mean	3.743

The findings from Table 4.11 reveal that members were quite well informed about the HIV exclusion is indicated by the grand mean of 3.743. The most widely used methods were from initial group presentations to covered members before they join the scheme and from periodic group presentations to covered members after they are already members. Both of these methods had a mean score of 4.2. However, use of brokers and sales people and use of personalized letters to each new member were the least preferred methods of informing members about exclusion with mean scores of 2.8 and 3.0 respectively. However it may be noted that even these mean scores are relatively high.

The customer service/marketing manager whose organization did not exclude HIV related conditions was also asked to give an idea about the extent to which covering HIV management and related conditions contributed to influence a number of statements relating to improved customer satisfaction using a five point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of

mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are presented in Table 4.12.

Table 4.12: Effect of Not Excluding HIV on Improved Customer Satisfaction

Factor	Mean Scores
Patient compliments and satisfaction	4.00
Covered company compliments and satisfaction	4.00
Renewal of medical schemes by customers	4.00
Grand Mean	4.00

From Table 4.12 it is evident that not excluding HIV related treatment had a great effect on improving customer satisfaction as indicated by the grand mean of 4.00.

All the customer service/marketing managers were further asked to point out additional strategies their managed healthcare organizations used to respond to the business challenges posed by the HIV/AIDS pandemic. This was an open-ended question and data obtained was analyzed using content Analysis. The strategies proposed include among other things, education of the clients; peer training at the workplace; instilling of work-based intervention; and, fund management as opposed to setting of fixed premiums.

4.3.2.2 Medical Services

Medical service managers of organizations that had exclusions for HIV related conditions were asked to state, in their opinion, the extent to which exclusion of HIV related ailments affected the patients' health viz-a-vi cost of treatment using a five point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are illustrated in Table 4.13.

Table 4.13 Effect of HIV Exclusion on Health

Factor	Mean Scores
Rapid deterioration of health of HIV positive members	3.60
Increased cost of treatment of other possibly related conditions such as recurrent URTI's and diarrhoea	4.20
Grand Mean	3.90

The findings in Table 4.13 indicate that the effect of the HIV exclusion on the health and cost of treatment was great with a grand mean of 3.9. Increased cost of treatment due to possibly related conditions such us recurrent upper respiratory tract infections (URTI's) and diarrhoea had the greatest impact with a mean score of 4.2.

The medical service managers were also asked to state the extent to which some methods were used to inform members about the exclusion using a five point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are as illustrated in Table 4.14.

Table 4.14: Extent to which members are informed about exclusion

Category	Mean Scores
From service providers as they treat patients	3.20
Already know of exclusion before being seen by the service providers	2.80
Care managers for HMO	5.00
Service presentation	4.00
Contracts	2.00
Grand Mean	3.40

The results illustrated in Table 4.14 reveal that members were quite well informed about the HIV exclusion is indicated by the grand mean of 3.4. The method with the greatest

impact was from care managers, which had a mean score of 5.0. The method with least impact was from contracts, which had a mean score of 2.0.

The medical service managers were then asked to indicate the extent to which added benefits were provided to excluded HIV infected members using a five point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are presented in Table 4.15.

Table 4.15: Provision of Added Benefits

Added Benefit	Mean Score
Free counseling services	3.60
Discounted rates on counseling services	1.00
Free consultation even for HIV related conditions	3.80
Discounted consultation even for HIV related conditions	1.00
Free laboratory investigations for HIV related conditions	1.60
Discounted laboratory investigations for HIV related conditions	1.00
Free X-ray investigations for HIV related conditions	1.60
Discounted X-ray investigations for HIV related conditions	1.00
Free procedures and dressings for HIV related conditions	2.80
Discounted procedures and dressings for HIV related conditions	1.40
Free drugs HIV related conditions	2.00
Discounted drugs HIV related conditions	1.40
Free HIV specialized clinics for HIV related conditions	3.40
Discounted HIV specialized clinics for HIV related conditions	1.00
Free visits to external specialists for HIV conditions	1.40
Discounted visits to external specialists for HIV conditions	1.00
Grand Mean	1.813

The findings in Table 4.15 indicate that the organizations that excluded HIV related conditions rarely provided added benefits to excluded HIV infected members as indicated by the grand mean of 1.813. Free counseling services and free consultation even for HIV related conditions, were the added benefits provided most with mean scores of 3.6 and 3.8 respectively.

Medical service managers whose managed healthcare organizations do not have exclusions for HIV related ailments in their most popular plans were also asked to state the extent to which covering HIV management and related conditions influenced the health and cost of treatment of patients. A five point likert scale (where 1 is no extent at all and 5 is to a very great extent) was used. The data obtained was analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are presented in table 4.16.

Table 4.16: Effect of Not Excluding HIV on Health

Factor	Mean Scores
Improvement of health of HIV positive members	5.00
High overall treatment costs	3.00
Decreased cost of treatment of other possibly related conditions such as recurrent URTI's and diarrhoea	5.00

The findings in Table 4.16 show that coverage of HIV and related conditions had a remarkable influence in leading to an improvement of health of HIV positive members and decreasing the cost of treatment of other possibly related conditions such as recurrent URTI's as indicated by the mean score of 5.00. The respondents also felt that this only moderately affected overall treatment cost as indicated by the mean score of 3.00.

Lastly, the medical service managers were called upon to state other strategies their managed healthcare organizations used to respond to the business challenges posed by the HIV/AIDS pandemic. This being an open-ended question, the data obtained was

analyzed using content Analysis. Strategies proposed included education of the members, their peers and their family members on health awareness; contraction of home-based care providers for terminally ill patients; having an organized set-up for treatment and follow-up of patients to avoid duplication of treatment and use of unconventional treatment; establishment of VCTT clinic to cater for covered members and the general public at large; advice to the companies on HIV related employment issues and fund management as an option.

4.3.2.3 Finance

Finance managers whose managed healthcare organizations had excluded HIV related ailments in their most popular medical plans were asked to state, in their opinion, by what percentage their premiums would increase, if they did not exclude HIV and related conditions. The data obtained was analyzed by computing proportions. The findings are presented in the Table 4.17.

Table 4.17: Increase in Premiums occasioned by Not excluding HIV

Percentage	Frequency	Percent
0% – 20%	0	0.0
21% – 40%	0	0.0
41% – 60%	2	40.0
61% - 80%	2	40.0
81% and over	1	20.0

N = 5

From Table 4.17, 2 (40.0%) of the respondents stated that their premiums would increase by 41% – 60 %, while the same number of respondents, 2 (40.0 %) stated that their premiums would increase by 61% - 80 %. One respondent (20.0%) stated that the premiums would increase by 81% and over.

The finance manager whose managed healthcare organizations did not have exclusions for HIV related conditions in their most popular medical plans were asked to state, in their opinion, by what percentage their premiums would decrease if they did not cover HIV and related conditions. The findings are presented in Table 4.18.

Table 4.18: Decrease in Premiums occasioned by Exclusion of HIV

Category	Frequency	Percent
41% - 60%	1	100

N = 1

Lastly, the finance managers were called upon to state other strategies their managed healthcare organizations used to respond to the business challenges posed by the HIV/AIDS pandemic. This being an open-ended question, the data obtained was analyzed using content Analysis. Finance managers had diverse views that *inter alia* relate to spreading the premium through the entire covered membership; quantifying the risk of HIV/AIDS like any other covered item such as dental and optical care; re-insuring to ensure that they carry minimal risks in their books; negotiating with suppliers for discounts; formulation of optional exclusion covers for corporate clients to include HIV/AIDS and related ailments; and, management of chronic funds (HIV/AIDS) for large companies.

4.3.2.4 Human Resource

Human resource managers were asked to indicate the extent to which HIV has complicated human resource management using a five point likert scale (where 1 is no extent at all and 5 is to a very great extent). The data obtained were analyzed by use of mean scores. Due to the small size of the population of study, standard deviation was not calculated. The findings are as illustrated in Table 4.19.

Table 4.19: Effect of HIV on Human Resource Management

Category	Mean Scores
Pre-employment medical examination	2.00
Increased medical costs	3.17
Absenteeism	2.50
Reduced productivity	2.33
Grand Mean	2.5

The findings in the Table 4.19 show that the respondents' were of the opinion that HIV only moderately affected human resource management as indicated by the grand mean of 2.50. Increased medical costs had the greatest impact with a mean score of 3.17 while pre-employment medical examinations had the least impact with a grand score of 2.00.

CHAPTER FIVE: DISCUSSIONS AND CONCLUSIONS

5.0 Introduction

In this chapter, a summary of results is presented, discussed and conclusions drawn. The chapter also provides the limitations of the study, suggestions for further research as well as recommendations for policy and practice.

5.1 Summary, Discussions and Conclusions.

In this section, the results are summarized, discussed and conclusions drawn. This is done in order of the objectives namely identification of the challenges the HIV/AIDS pandemic has presented to Kenyan Managed Healthcare Organizations and identification of the strategies the organizations have developed to respond to the challenges.

The findings of the study indicated that the managed healthcare organizations were in agreement that HIV/AIDS was a business issue. It was also found that HIV/AIDS related challenges affected their organizational policies and operations. The effect of the challenge was moderate as the grand mean was 3.149.

The business challenge that had greatest impact was the high cost of treatment of HIV and related conditions. Others included pressure from the general population and business community to offer more services to HIV positive people and the tendency of doctors to treat HIV related conditions within the context of plans in which HIV is excluded, inspite of the availability of HIV inclusive plan. An opportunity presented to the healthcare organizations by the HIV/AIDS pandemic was largely on the expanded market for specialized services related to HIV/AIDS in diagnosis and treatment as well as increased awareness of the need for medical services created by the HIV/AIDS pandemic.

The challenges presented above are important in that they affect the very essence of the concept of managed healthcare, which attempts to provide quality care at affordable rates. Issues such as the high cost of treatment of HIV related conditions and the treatment of HIV related conditions in the context of medical plans, which do not cover for this, affect

profit margins of the managed healthcare organizations and thus affect their ability to continue operating profitably. The challenge related to the high cost of HIV related treatment has also been a finding in other researches. Shouten (1997) concluded that HIV/AIDS proved a relatively expensive disease to manage due to the need for expensive Anti Retroviral therapy and opportunistic infections, which HIV positive people recurrently suffer from.

From the foregoing summary and discussion, various conclusions can be drawn. These include the fact that HIV/AIDS results in both opportunities and threats to managed healthcare organizations. It will lead to increased costs to managed healthcare organizations thus affecting their profit margins. It will also lead to pressure from various quarters. Opportunities may also arise from the HIV/AIDS pandemic, which can be exploited by managed healthcare organizations.

Arising from the second objective, the findings indicated that most managed healthcare organizations had exclusions for HIV/AIDS. These organizations however also had some medical plans that did not exclude HIV and related conditions. Most of them however stated that such plans only comprised only 0% to 10% of their medical plan business.

The findings further indicate that all the six CEO's and MD's from the healthcare organizations were of the view that the government should not be involved in regulation of benefits package that HIV infected people are entitled to. In a liberalized economy, the role of the government is more in policy and guidance rather than determining specifics of benefits package. This should be left entirely to the managed healthcare organizations and their customers. The government may however ensure that what is promised by the managed healthcare organizations are delivered.

Customer service/Marketing managers were of the view that exclusion of HIV related ailments had a moderate effect on poor customer satisfaction. However, organizations that did not exclude HIV related conditions had a great effect on improved patient satisfaction. This implies that not excluding HIV related conditions lead to improved

customer satisfaction. Individuals generally tend to get upset when advised that although they have a medical cover, they have to pay for the specific treatment they require at the time due to the exclusion. They usually do not understand the context of the exclusion and thus poor customer satisfaction.

Medical Service managers were of the view that exclusion of HIV related ailments had a great effect on the health of patients and cost of treatment. The grand mean here was 3.9. Covering HIV related conditions had a very great effect on improving the health of HIV positive members and decreasing cost of treatment of possibly related conditions such as recurrent upper respiratory tract infections and diarrhoea. It however also moderately affected overall high treatment costs. Thus while covering HIV results in an apparent increase in overall costs it also may result in reduced costs of treatment of other conditions. A managed healthcare organization that covers HIV related treatment has direct financial incentive to keep these people healthy. Consequently there is increased emphasis on preventive healthcare. This tends to improve the health of HIV positive people.

The main additional benefits provided to excluded HIV positive members included free counseling services, free consultations even for HIV related conditions and free specialized clinics for HIV related conditions.

The Finance managers were of the view that the increase in premiums would range from 40 % to over 80 % if organizations that excluded HIV related conditions were not to exclude them. The Human Resource managers felt that HIV/AIDS had complicated their human resource management to only a moderate extent.

From the foregoing summary and discussion, the following conclusions can be drawn. Firstly, the major strategy employed by the managed healthcare organizations to respond to the HIV/AIDS pandemic is excluding HIV related treatment. The extent of application of this strategy is however different for the various managed healthcare organizations. Secondly, The high cost of treating and managing HIV/AIDS related ailments, was

singled out as the major reason for excluding HIV related treatment. Thirdly, while not excluding HIV related treatment might lead to an apparent increase in overall cost, it also leads to a reduction in the cost of treatment of other conditions.

5.2 Limitations of the Study

The study was done by collecting data from the Managers of Managed Healthcare organizations. However, it would have been important to get the views of other stakeholders in the sector such as employees of the Managed Healthcare Organizations such as doctors and nurses. Views from HIV infected members themselves, the government through the Ministry of Health as well as the National Aids and STI Control Programme (NASCOP) would also have been useful. The views of the parent companies overseas were also not obtained due to logistical reasons.

5.3 Recommendations for Further Study

Arising from the limitation outlined above, a study may be carried out that will collect data from other stakeholders such as employees of the Managed Healthcare Organizations. Data can also be collected from HIV infected members, the government, employee organizations such as trade unions, employers and employers organizations such as the Federation of Kenya Employers (FKE).

One of the findings of the study is that most managed healthcare organizations use exclusions to different extents as a strategy in coping with the HIV/AIDS pandemic. Managed Healthcare organizations are in competition with organizations involved in other methods of health financing such as insurance companies, self funded schemes and third party administrators. A replicative study can be carried out in these organizations that would determine if this is also a common strategy.

Another finding of the study is that HIV/AIDS results in increased costs to managed healthcare organizations. However, it was noted that while covering HIV results in an apparent increase in overall costs it might also result in reduced costs of treatment of other conditions. The study did not however attempt to determine in detail the relative

effect of this decrease viz-a-vi the overall apparent increase in cost. This could be an interesting area of study and it would be appreciated if other researchers could take it up.

5.4 Recommendations for Policy and Practice

The study concluded that HIV/AIDS leads to an increase in overall costs. Business costs must be kept to manageable levels and thus many medical plans offered by Managed Healthcare organizations to companies with limited budgets will continue to exclude HIV/AIDS related treatment. However various additional benefits need to be offered to these patients to continue accessing some level of care. This increases customer satisfaction and thus improves renewal rates. Efforts must however be made to convince companies to extend their medical budgets in order to take on medical plans that would cover HIV/AIDS related treatment. This would spread the risk and further reduce the cost. The effects on overall patient health would also be very significant.

Challenges presented by the HIV/AIDS pandemic have different impacts. The researcher thus recommends that Managed Healthcare Organizations must actively analyze the challenges the HIV/AIDS pandemic presents to their specific organizations and come up with very specific strategies to tackle these challenges and allow them to be successful and profitable in the markets they are competing in.

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APPENDIX ONE: QUESTIONNAIRE

Section A : General Information

1. Name of Organization _____

2. Year of establishment in Kenya _____

3. Position of Respondent in Organization _____

4. Number of employees

( ) 0 – 100
( ) 101 – 200
( ) 201 – 300
( ) 301 – 400
( ) 401 and Over

5. Number of covered members

( ) 0 – 15,000
( ) 15,001 – 30,000
( ) 30,001 – 45,000
( ) 45,001 – 60,000
( ) 60,001 and Over

6. Management / Ownership of Organization

( ) Local
( ) Foreign
( ) Local / Foreign Joint Venture
( ) Other (Please Specify _____)

7. Approximate annual turnover

( ) 0 – 200 Million
( ) 201 – 400 Million

( ) 401 – 600 Million

( ) 601 – 800 Million

( ) 800 Million and Over

8. Predominant type of Managed Healthcare Organization

( ) Health Maintenance Organization

( ) Preferred Provider Organization

( ) Exclusive Provider Organization

( ) Other (Please Specify _____)

Section B : HIV/AIDS challenges to Kenyan MCO's.

9. Do you consider HIV/AIDS to be a business issue ? Yes ( ) No ( )

10. If the answer to question 9 above is no, why ? _____

_____

_____

11. If the answer to question 9 above is yes, is it -:

(a) ( ) A business threat

( ) A business opportunity

( ) or both ?

(b) ( ) An internal management threat

( ) An internal management opportunity

( ) or both ?

Give reasons for your answer(s) above

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

12. In your opinion, to what extent do the following factors / challenges affect your organizational policies and operations? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) High Cost of treatment of HIV and related conditions	( )	( )	( )	( )	( )
b) Need for regular follow-up of HIV positive people	( )	( )	( )	( )	( )
c) Technical aspects of antiretroviral therapy	( )	( )	( )	( )	( )
d) Psychotherapy for HIV positive people	( )	( )	( )	( )	( )
e) Logistics of enabling medical personnel to keep constantly updated on HIV treatment	( )	( )	( )	( )	( )
f) Pressure from the general population to offer more services for HIV positive people	( )	( )	( )	( )	( )
g) Pressure from the government to offer more services for HIV positive people	( )	( )	( )	( )	( )
h) Pressure from the business community to offer more services for HIV positive people	( )	( )	( )	( )	( )
i) Increased business due to awareness of the need for medical services created by the HIV/AIDS pandemic	( )	( )	( )	( )	( )
j) Increased business due to pre-employment, insurance or other medical examinations requiring HIV screening	( )	( )	( )	( )	( )

13. What other business challenges or opportunities has the HIV/AIDS pandemic presented to your managed healthcare organization?_____

_____

_____

_____

_____

_____

Section C : Strategies to tackle these challenges.

Part A – Corporate Strategies (Respondents-CEO's, MD's)

14. Do the most popular medical plans you offer have exclusions for HIV related ailments?

( ) Yes

( ) No

15.What is the major reason(s) for having or not having this exclusion?

_____

_____

_____

_____

_____

If your answer to question 14 is Yes, answer questions 16 and 17

16. Do you have any medical plans you offer that DO NOT exclude HIV and related conditions?

( ) Yes

( ) No

17. If yes, what percentage of your medical plan business does this comprise ?

( ) 0 – 10 %

( ) 11 – 20 %

( ) 21 – 30 %

( ) 31 – 40 %

( ) 41 % and Over

18. Do you think the government should be involved in regulation of benefits package that HIV infected people are entitled to ?

( ) Yes

( ) No

19. Give reasons for your answer in question 18 above.: _____

_____

_____

_____

_____

_____

20. The insurance amendment act (Cap 487) of 19th December 2003 requires managed healthcare organizations to separate between healthcare delivery and finance. What effect do you think this will have in the management of your members who are infected by HIV?

_____

_____

_____

_____

_____

Part B – Functional/Operational Strategies (Respondents-Departmental Heads)

21. Do the most popular medical plans you offer have exclusions for HIV related ailments?

( ) Yes
( ) No

22. What is the major reason(s) for having or not having this exclusion?

_____

_____

_____

_____

Customer service/Marketing Managers - **Please answer section I**
Medical service Managers - **Please answer section II**
Finance Managers - **Please answer section III**
Human Resource Managers - **Please answer section IV**

Section I – Customer Service / Marketing

If answer to question 21 above is yes answer questions 23 – 24
If answer to question 21 above is no answer questions 25
Both groups should answer question 26

23. In your opinion, to what extent has this exclusion influenced the following?

Use a five (5) point rating scale where -:

1 = No extent at all
5 = Very great extent

	1	2	3	4	5
a) Patient complaints and dissatisfaction	( )	( )	( )	( )	( )
b) Covered company complaints and dissatisfaction	( )	( )	( )	( )	( )
c) Non renewal of medical schemes by customers	( )	( )	( )	( )	( )

24. In your opinion, to what extents are the following methods used to inform members about the exclusion? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) From Initial group presentations to covered members on the exclusion before they join the scheme	( )	( )	( )	( )	( )
b) From periodic follow up group presentations to covered members after they are already members	( )	( )	( )	( )	( )
c) From brokers or sales people	( )	( )	( )	( )	( )
d) From contracts which are signed by all members	( )	( )	( )	( )	( )
e) From personalized letters to each new member	( )	( )	( )	( )	( )
f) Other (Specify)_____	( )	( )	( )	( )	( )
g) Other (Specify)_____	( )	( )	( )	( )	( )

If answer to question 21 above is no answer questions 25

25. In your opinion, to what extent has covering HIV management and related conditions influenced the following? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) Patient compliments and satisfaction	( )	( )	( )	( )	( )
b) Covered company compliments and satisfaction	( )	( )	( )	( )	( )
c) Renewal of medical schemes by customers	( )	( )	( )	( )	( )

26. What other strategies has your managed healthcare organization used to respond to the business challenges posed by the HIV/AIDS pandemic?

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Section II – Medical Services

If answer to question 21 above is yes answer questions 27 – 29

If answer to question 21 above is no answer questions 30

Both groups should answer question 31

27. In your opinion, to what extent has this exclusion influenced the following?

Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) Rapid deterioration of health of HIV positive members	( )	( )	( )	( )	( )
b) Increased cost of treatment of other possibly related conditions such us recurrent URTI's and diarrhoea	( )	( )	( )	( )	( )

28. In your opinion, to what extents are the following methods used to inform members about the exclusion? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) From service providers as they treat patients	( )	( )	( )	( )	( )

b) Already know of exclusion before being seen by the service providers ( ) ( ) ( ) ( ) ( )

c) Other (Specify)_____ ( ) ( ) ( ) ( ) ( )

_____

d) Other (Specify)_____ ( ) ( ) ( ) ( ) ( )

_____

29. To what extent do you provide the following added benefits to excluded HIV infected members? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) Free counseling services	( )	( )	( )	( )	( )
b) Discounted rates on counseling services	( )	( )	( )	( )	(
c) Free consultation even for HIV related conditions	( )	( )	( )	( )	( )
d) Discounted rates on consultation for HIV conditions	( )	( )	( )	( )	( )
e) Free laboratory investigations for HIV related conditions	( )	( )	( )	( )	( )
f) Discounted laboratory investigations for HIV conditions	( )	( )	( )	( )	( )
g) Free X-ray investigations for HIV related conditions	( )	( )	( )	( )	( )
h) Discounted X-ray investigations for HIV conditions	( )	( )	( )	( )	( )
i) Free procedures and dressings for HIV related conditions	( )	( )	( )	( )	( )
j) Discounted procedures and dressings for HIV conditions	( )	( )	( )	( )	( )
k) Free drugs for HIV related conditions	( )	( )	( )	( )	( )
l) Discounted drugs for HIV related conditions	( )	( )	( )	( )	( )
m) Free HIV specialized clinics for HIV related conditions	( )	( )	( )	( )	( )

n) Discounted HIV specialized clinics for HIV Cond.( ) ( ) ( ) ( ) ( )

o) Free visits to external specialists for HIV conditions( ) ( ) ( ) ( ) ( )

p) Discounted visits to external specialists for HIV cond( ) ( ) ( ) ( ) ( )

If answer to question 21 is No answer question 30

30. In your opinion, to what extent has covering HIV management and related conditions influenced the following? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) Improvement of health of HIV positive members	( )	( )	( )	( )	( )
b) High overall treatment costs	( )	( )	( )	( )	( )
c) Decreased cost of treatment of other possibly related conditions such us recurrent URTI's and diarrhoea	( )	( )	( )	( )	( )

31. What other strategies has your managed healthcare organization used to respond to the business challenges posed by the HIV/AIDS pandemic?

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Section III – Finance

If answer to question 21 above is yes answer questions 32

If answer to question 21 above is no answer questions 33

Both groups should answer question 34

32. In your opinion, by what percentage would your premiums increase if you did not exclude HIV and related conditions?

( ) 0 – 20 %
( ) 21 – 40 %
( ) 41 – 60 %
( ) 61 – 80 %
( ) 81 % and Over

33. In your opinion, by what percentage would your premiums decrease if you did not cover HIV and related conditions?

( ) 0 – 20 %
( ) 21 – 40 %
( ) 41 – 60 %
( ) 61 – 80 %
( ) 81 % and Over

34. What other strategies has your managed healthcare organization used to respond to the business challenges posed by the HIV/AIDS pandemic?

Section IV – Human Resource

35. To what extent has HIV/AIDS complicated your Human Resource management as far as the following factors are concerned ? Use a five (5) point rating scale where -:

1 = No extent at all

5 = Very great extent

	1	2	3	4	5
a) Pre-employment medical examinations	( )	( )	( )	( )	( )
b) Increased medical costs	( )	( )	( )	( )	( )
c) Absenteeism	( )	( )	( )	( )	( )
d) Reduced Productivity	( )	( )	( )	( )	( )

APPENDIX TWO: Excerpt from Daily Nation of February 7th 2005

Republic of Kenya

MINISTRY OF FINANCE

PUBLIC NOTICE

REGISTRATION OF MEDICAL INSURANCE PROVIDERS

I wish to notify members of the public that in accordance with section 150 of the Insurance Act, Cap 487, the following Health Management Organizations (HMO's) have applied to be registered as Medical Insurance Providers under the Act.

1. Prosperity Health (Kenya) Limited of P.O. Box 63907, 00619, Nairobi
2. Health First International Limited of P.O. Box 48350, 00100, Nairobi
3. Trust Mark Insurance Brokers Limited of P.O. Box 19936, 00202, Nairobi
4. Strategies Health Limited of P.O. Box 3550, 00100, Nairobi
5. Safemed Insurance Services Limited of P.O. Box 20498, 00200, Nairobi
6. AAR Health Services Limited of P.O. Box 41766, 00100, Nairobi
7. AON Minet Insurance Brokers Limited of P.O. Box 48279, 00100, Nairobi
8. Resolution Health East Africa Limited of P.O. Box 4469, 00100, Nairobi
9. Alexander Forbes Insurance Brokers Limited of P.O. Box 30076, 00100, Nairobi
10. Liaison Insurance Brokers Limited of P.O. Box 58013, 00200, Nairobi

Their applications are being considered for registration.

SAMMY M. MAKOVE

COMMISSIONER OF INSURANCE

APPENDIX THREE : INTRODUCTORY LETTERS

Dr. Denis Ogolla
P.O. Box 58290
Nairobi, 00200

22/04/2005

To. _____

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Dear Sir / Madam,

RE: REQUEST FOR PARTICIPATION IN RESEARCH WORK

I am a postgraduate student in the Faculty of Commerce, University of Nairobi pursuing a Master of Business Administration (MBA). In order to fulfill the degree requirement, I am currently undertaking a management research project on **Responses by Kenyan Managed Healthcare Organizations to the challenges posed by the HIV/AIDS pandemic.** The study focus is on identification of the challenges the HIV/AIDS pandemic has presented to Kenyan Managed Healthcare organizations and the strategies these organizations have developed to respond to these challenges.

Your organization falls into the population of interest. I would highly appreciate it if you could assist me collect data by filling in the accompanying questionnaire or according me an appointment to come and assist you fill it.

Please be assured that the information you will provide is strictly for academic purposes and the identity of your organization will be treated confidentially. I shall avail a copy of the results to you once the study is complete.

Thank you.

Yours Sincerely,

Dr. Denis Ogolla

UNIVERSITY OF NAIROBI

FACULTY OF COMMERCE

MBA PROGRAM – LOWER KABETE CAMPUS

Telephone 732160 Ext 208
Telegrams "Varsity", Nairobi
Telex 22095 Varsity

P O Box 30197
Nairobi, Kenya

DATE 22/04/2005

TO WHOM IT MAY CONCERN

The bearer of this letter DENIS OTIENO OGOLLA

Registration No: D61/P/7062/03

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

JACKSON MAALE
CO-ORDINATOR, MBA PROGRAM

NAIROBI UNIVERSITY COMMERCE FACULTY * M. B. A. OFFICE * P. O. Box 30197, NAIROBI.