STRATEGIES ADOPTED BY PRIVATE HOSPITALS IN NAIROBI TO GAIN COMPETITIVE ADVANTAGE

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DECLARATION

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

Signed... Date 19 · 11 · 2011

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This research project has been submitted for examination with my approval as university supervisor.

Signed... Date 21-11-2011

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DEDICATION

To my grandfather the late Mr. Elijah Nyegenye Odongo whose wise counsel and entrepreneur spirit played a major role in the desire to expand my knowledge in the field of Business Administration. It is my hope that through this work his legacy will live to inspire many more.

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Finally, despite all the ups and downs, working on this study has been a great learning experience and has enriched my knowledge tremendously.

ABSTRACT

The ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors. The business strategy perspective argues that achieving competitive advantage hinges on pursing a coherent competitive strategy. Strategists aver that firms should have the inside to outside approach, whereby strategies are realigned towards making of goods and services that cultivate their own niche in the market and form structures that sustain those markets. Markets are points of exit for the firm's products, and through measures like advertising and adoption of appropriate strategy, new markets are opened.

The research objective of the study was to establish the strategies adopted by private hospitals in Nairobi to gain competitive advantage. The research design for the study was a survey of all private hospitals operating in Nairobi. Data was collected using a questionnaire which consisted of both open and closed ended questions. The data collected was analyzed using descriptive statistics and classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables and graphs.

The study established that in order to gain competitive advantage, the hospitals used differentiation, focus, cost leadership strategies. They also improve the quality of services being offered, using uninterrupted power and water supply e.g provision of generator and large storage tanks and opening of more branches across the country. In order to counter threats and maintain competitiveness, the hospitals analyzed the threats posed by new

entrants, substitute products, power of buyers, power of suppliers and competition from other hospitals.

The study concludes that the hospitals need to understand their operating environment sufficiently so that they can come up with strategies which will enable them to gain competitive advantage. The hospitals need to continue incorporating all the employees in the formulation and implementation of the strategies so that they all feel to be part and parcel of the process. The hospitals also need to adopt only strategies which will minimize the costs the hospitals incur.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In today's increasingly competitive world, customer satisfaction is very essential to excel in the market. Today's market is more complex, hence to survive, a company not only needs to maximize its profit but also needs to satisfy its customers (Slater and Olson, 2001). In a fast-changing environment the firms' competitive position is constantly being challenged by the emergence of new technologies, products, markets and competitors. Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage. Successful firms apply these concepts in new organizational strategies that put into question many conventional tenets on organization and business management. These strategies involve a decentralized and responsive organization, based on co-operative relationships not only within the firm but also in its relations with customers, suppliers and competitors. However, firms are also increasingly resorting to traditional mechanisms through the use of contingent workers and arms'-length subcontracting relationships.

1.1.1 Concept of Strategy

A strategy is a pattern or plan that integrates an organization's major goal, policies and actions into a cohesive whole (Porter, 1980). Strategic management is therefore concerned with deciding on a strategy and planning how the strategy is to be put into effect through strategic analysis, strategic choice, strategic implementation and control. The strategic management process allows an organization to take advantage of key environmental opportunities, to minimize the impact of external threats, to capitalize upon internal strengths and overcome weaknesses. A large number of research studies have concluded that organization's that have adopted strategic management are likely to be more profitable and successful than those that do not (Fred, 1996). One of the most prevalent questions within strategic management is how firms are able to attain profits that allow them to gain superior competitive performance compared to their competitors. Porter's (1980) model of competitive strategy proposed that firm's position within an industry was an important factor in attaining competitive advantage.

Johnson and Scholes (2000) define strategy as "the direction and scope of an organization over long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations". He concludes that strategy can be seen as the matching of the resources and activities of an organization to the environment in which it operates. This is sometimes known as search for strategic fit. Mintzberg (1988) proposes five formal definitions of strategy as plan, ploy, pattern, position and perspective. Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific 'maneuver' intended to outwit an opponent or competitor. Strategy is a pattern, specifically a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as 'environment' for a business firm, usually a market. Strategy is a perspective, its contents consist not just a chosen position but an ingrained way of perceiving the world.

An organization's strategy consists of the business approaches and initiatives it undertakes to attract clients and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. Firms also develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1985). The competitive aim is to do a significantly better job to its clients. The success of every organization is determined by its responsiveness to the client needs. The competitive aim is to do a significantly better job of providing what customers are looking for, thereby enabling the company to earn a competitive advantage and outsmart rivals in the market place. The core of a company's marketing strategy consists of its internal initiatives to deliver satisfaction to customers but also includes offensive and defensive moves to counter the maneuvering of rivals, actions to shift resources around to improve the firm's long term competitive capabilities and market position, and tactical efforts to respond to prevailing market conditions. Assuming that there are a number of providers, customers will choose which offering to accept on their perception of value-for-money.

According to Porter (1980), the ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors. The characteristics of the competitive context are considered to be the factor that most strongly influences the type of strategy a company pursues or can formulate, and the level of profitability. It is also accepted that a company's ability to be competitive and profitable depends not only on the type of strategy it formulates and implements, but also on the way in which it is formulated

(Rogers *et al.*, 1999). According to Kotler (1994), positioning is the act of designing the company's offering and image so that it occupies a distinct and valued place in the target customer's mind.

The concept of strategy is therefore built around winning. Strategy helps to achieve success whether in business or otherwise, success in this context refers to the realization of objectives that are desired. Effective strategy is formulated around four factors. These are, the goals and objectives are simple, consistent and relate to the long term, there is profound understanding of the competitive environment, there is an objective appraisal of the resources available and that there is effective implementation (Ennew and Waite, 2007).

1.1.2 Competitive Advantage

According to Bourgeo, (1980) the purpose of a competitive strategy is to build a sustainable competitive advantage over an organization's rivals. A competitive strategy defines the fundamental decisions that guide the organization's marketing, financial management and operating strategies. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

Achieving competitive advantage is recognized as the single most important goal of a firm (Porter, 1980). Thus, organizations need to identify how to secure an advantageous competitive position where other players have not. Without achieving a competitive advantage, a firm will have few economic reasons for existing and finally will wither away. Adding value for customers, employees, and owners has become a central theme in strategic management for service companies. To create value for these stakeholders, a firm should achieve a competitive advantage over its competitors by adapting itself to the uncertain industry environment, understanding the changing needs of customers, and responding to new market entries (Barney, 1991).

According to the resource based view of gaining competitive advantage, firms' resources reside within a firm and therefore an advantageous competitive position of a firm is built on value-creating resources that are critical inputs into the production and distribution of its products and services (Barney, 1991). However the heterogeneity of the resource bases of different firms suggests that firms are presented with different opportunities for sharing and adapting their portfolios of assets. As was observed by Barney (1991), competitive advantage stems from internally-developed resources with characteristics of value, rareness, inimitability, and non-substitutability and because resources with such characteristics can neither be commonly traded nor easily acquired by their competitors. Thus, the theory argues out that a firm's competitive advantage emanates from resources unique to a firm such as key competencies, assets, capabilities, resources, information, and knowledge.

1.1.3 The Health Sector in Kenya

The health sector in Kenya has not been able to expand as rapidly as the population to ensure adequate coverage, accessibility and acceptable quality of health services. This situation has been exacerbated by low levels of financial resources, the emergence of new diseases, and the growing appreciation of modern healthcare. Kenya's progress in the health sector has been quite remarkable as compared to other countries in sub-Saharan Africa. High rates of diseases incidence and premature mortality in sub-Saharan Africa are costing the continent dearly. Poor health causes reduction in human energy and makes millions of people less able to cope with life. The economic consequences are immense. Poor health shackles development of human capital, reduces returns to learning, impedes entrepreneurial activities and holds back growth of gross national product.

Today, alongside the government, missionaries, NGOs and private firms provide health services at delivery points that range from dispensaries to hospitals. The government's healthcare delivery system is pyramidal, with the national referral facilities at Kenyatta National Hospital (Nairobi) and Moi Teaching and Referral Hospital (Eldoret) forming the peak, followed by provincial, district and sub-district hospitals, with health centre's and dispensaries forming the base (Government of Kenya, 1965). Health policies and strategies are aimed at reducing incidence of disease and improving the health status of Kenyans. Some progress has been achieved in this regard, as indicated by increase in life expectancy, reduction in mortality rates and improvement in the nutritional well-being of the general population and children in particular. Health policy in Kenya revolves around two critical issues, namely: how to deliver a basic package of quality health services to a growing workforce and their dependants, and how to finance and manage those services in a way that guarantees their availability, accessibility and affordability to those most in need. The overall goal of the government is to promote and improve the health status of all Kenyans by making all health services more effective, accessible and affordable. This is to be achieved by the government increasing its budget to the health sector and creating an enabling environment for increased involvement of the private sector, NGOs and the community in the provision of health services. Government health services are putting more emphasis on preventive than curative medicine.

Human health has a major role to play in economic development. There is a direct link between the health of a population and its productivity, and this relationship has been demonstrated in industrial countries, which are now benefiting from years of investment in health services (Schultz, 1993). Provision of good health services satisfies one of the basic human needs and contributes significantly towards maintaining and enhancing the productive potential of the people. Improving health services reduces production losses caused by worker illness, permits the use of national resources that had been totally or nearly inaccessible because of disease, increases the enrolment of children in school, and increases learning ability. In Kenya, the central government, local authorities, church missions, industrial health units and private institutions and individuals are the main providers of health services.

1.1.4 Private Hospitals in Nairobi

A private hospital is a hospital owned by a for-profit company or a non-profit organization and privately funded through payment for medical services by patients themselves, by insurers, institutions or by foreign embassies. Private hospitals are institutions that provide their services to generate revenue. Effectively, private hospitals compete with public and not-for-profit hospitals, typically they will charge more and so they must offer a better or differentiated service in order to attract their customers - the Paying Patients. The private hospitals charge extra for treatment because of reduced waiting times, better access to treatments, facilities or surgeons not available elsewhere, better accommodation and catering during the patient stay or the exclusivity associated with paying for the best.

Kenya's private hospitals are among the most developed and dynamic in Sub-Saharan Africa. In the health sector where the leading causes of death are HIV/AIDS, acute respiratory infection (ARI), diarrheal diseases, and malaria (World Health Organization, 2004) the private sector and the not for profit sector play critical roles in preventing and treating disease. Even among the poor, the private hospitals are an important source of care. There are thirty two level 3 and above private hospitals operating in Nairobi which address the gap left by the public sector. These are hospitals that have a minimum of 50 beds, an operating theatre, mortuary, a radiology unit and resident medical practitioners or dentists. The contributing factors to its growth include: lack of adequate and quality public health care services; the introduction of user fees in public facilities; and health sector reforms in the 1980s and 1990s that relaxed licensing and regulation of private health care providers and allowed public sector personnel to work in private practice (Muthaka, 2004). Patients prefer to opt to pay extra for treatment in a private hospital because of reduced waiting times, facilities or surgeons not available elsewhere, better accommodation and catering during your stay; or the exclusivity associated with paying for the best. The challenges include the high percentage of the Kenyan population being unable to pay the medical fees thus limiting their clientele. In addition the high remuneration demanded by the staff working in the hospitals as well as the consultants is also a challenge. Further due to the multiplicity of providers in the market, attracting the right kind of paying clientele is an added challenge. The escalating cost of medical equipment, drugs and other consumables have rendered medical care an expensive service.

1.2 Problem Statement

Ensuring that an organization can compete effectively in the marketplace is one of the principal tasks of management. An organization's competitive strategy must be appropriate for its resources, environmental circumstances, and core objectives. The process involves matching the organization's strategies to the business environment the organization faces. One objective of an overall corporate competitive strategy is to put the organization into a position to carry out its mission effectively and efficiently (Schimdt and Wilhelm, 2000). A good corporate competitive strategy should integrate an organization's goals, policies, and action sequences into a cohesive whole, and must be based on business realities. Strategy must connect with firm's vision, purpose and likely future trends.

The private health sector in Kenya is under pressure by external and internal stakeholders to improve the quality of services they offer to their patients and expand in the most cost efficient manner. Patients, government, and the general public are the external stakeholders that affect the industry. Government hospitals have been lagging behind in offering quality services to patients and this therefore forces the patients to turn into private hospitals for treatment.

A number of studies have been done on strategies adopted to gain competitive advantage. Njimu (2006) did a study on the basis of competitive advantage of the School of Business of the University of Nairobi. He found that building the University of Nairobi's name (brand), identification of and ensuring that adequate courses were available created an important basis for competitive advantage. This led to high credibility and increase in revenue into the School of Business. The barriers that impact negatively on sustainable competitive advantage in the School must be removed to successfully implement strategies that will ensure increase in competitive advantage.

Kimani (2007) researched on the sources of competitive advantage for transport Saving and Credit Cooperative Societies in the Public Service Vehicle industry in the MTN Sacco. He found that the greatest source of competitive advantage was the concentration on core business namely the low cost of loans accorded to members from the society. Otieno (2008) looked at the impact of cultivating competitive advantage through differentiation in radio stations in Nairobi and found out that there is a relationship between differentiation strategy chosen by the radio stations and competitive advantage. Patients are attracted to specific hospitals as a result of the kind of services offered by the hospitals as well as accessibility of the services. The studies done have not considered the strategies that have been adopted by the hospitals to gain competitive advantage and therefore this study was to determine the strategies adopted by level three and above hospitals in order to gain competitive advantage.

1.3 Research Objectives

To determine the strategies adopted by private hospitals in Nairobi in order to gain competitive advantage.

1.4 Value of the Study

The study will be important to the following stakeholders:

To the management of private hospitals, it will form the basis of setting up vibrant strategies which will facilitate the institutions to compete much more effectively. With vibrant competitive strategies, the senior management of the hospitals will be able to set a clear vision that can be achieved within a given time frame. This is because with the available strategies, the management can more accurately set objectives that will be possible to attain. As a result, it is expected that the executives will be able to formulate policies that are more beneficial to their institutions.

To the government, this research will form an invaluable source of reference especially the ministry of medical services and the Ministry of Health in coming up with strategies to guide the public hospitals in providing quality services to the patients who attend the hospitals. Also, investors in the health sector will use the information from this study to make decisions regarding investing in the area. The findings of the research will expose some of the strategies they are likely to implement in their attempt to setup hospital services in Kenya. As a result, the investors will be more endowed with knowledge and prepared to fit in the prevailing health sector environment.

It will also benefit consultants who endeavor to provide assistance to successful running of medical service organizations in developing competitive advantage in their environments. Scholars in the field of health sector will use the information to understand the state of the sector better. They will also use the information as a reference point to research on the strategy formulation and innovations in this and other industries.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Strategy

Different scholars and practitioners have very different definitions or even understanding about what strategy is and how it should be defined. According to Pearson and Robinson (2004), "a strategy is a firm's a game plan". Chandler (1962) in his definition of strategy emphasized the determination of basic long term goals and objectives the adoption of courses of action to achieve them, and allocation of resources as being central to the concept of strategy. Ansoff (1965) recommended growth strategies that firms could use. The growth strategies suggested were market penetration, market development, product development and diversification. In the specific language of Ansoff's Matrix, it has been suggested that for small businesses the most appropriate growth strategies are therefore product development and market development.

According to Andrews (1971), strategists address what the firm might and can do as well as what the firm wants to do. However, he also argues that strategists must address what the firm ought to do. The "ought to do", refers to corporate social responsibility. He suggested that business firms are not responsible to society, but rather that the obligation of social responsibility falls upon the managers of business firms. Porter (1996) defined strategy as "the creation of a unique and valuable position involving a different set of activities that are different from rivals". The essence of strategy is choosing what not to do. Without trade-offs there would be no need for choice and thus no need for strategy. Porter (1996) argues that strategy is about selecting the set of activities in which an organization will excel to create a sustainable difference in the market place. The sustainable difference may be to deliver great value to customers than competitors or provide comparable value at a lower price than competitors. He states 'differentiation arises from both the choice of activities and how they are performed'.

Mintzberg (1988) proposes five formal definitions of strategy as plan, ploy, pattern, position and perspective. Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific 'maneuver' intended to outwit an opponent or competitor. Strategy is a pattern, specifically a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as the 'environment' for a business firm, usually a market. Strategy is a perspective, its content consists not just a chosen position but an ingrained way of perceiving the world. The concept of strategy is therefore built around winning. Strategy helps to achieve success whether in business or otherwise, success in this context refers to the realization of objectives that are desired. Effective strategy is formulated around four factors. These are, the goals and objectives are simple, consistent and relate to the long term, there is profound understanding of the competitive environment, there is an objective appraisal of the resources available and that there is effective implementation (Ennew and Waite, 2007).

2.2 Theories about Strategy

The following three theories can be used to explain the strategic decisions managers or firms take in order to respond to changes in the environment.

2.2.1 Resource-Based Theory

The dominant approach in contemporary strategic management is the resource based view. Economic equilibrium, particularly in the form of competitive equilibrium, is central in this approach (Foss, 2000), not only as a yardstick for welfare analysis (as in neoclassical economics) but also, in a modified version, as the foundational model. The dominance of the resource-based view has meant that the key issue of strategic management is usually defined as the problem of achieving sustained competitive advantage in the sense of earning (efficiency) *rents in equilibrium. This is a special case of a broader view that "the field of strategy is concerned with the conditions under which the microeconomic equilibrium of homogenous firms with zero profits can be overcome" (Knott, 1998).

The resource-based view is an economic tool used to determine the strategic resources available to a firm. The fundamental principle of the resource-based view is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Wernerfelt, 1984). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Hoopes, 2003). If these conditions hold, the firm's bundle of resources can assist the firm sustaining above average returns.

2.2.2 Contingency Theory

Contingency theory is a class of behavioural theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions (Galbraith, 1973).

Instead, the optimal course of action is dependent upon the internal and external situation. Several contingency approaches were developed concurrently in the late 1960s. Contingency theory has defined uncertainty as the variable which makes the organization contingent upon the environment. Hence, organization design, and organizational choice, depends on the concept of uncertainty. Briefly, uncertainty can be associated with the mathematical concepts of probability and fuzziness or propositions of bounded rationality (Nobre, 2008).

These two approaches to uncertainty are complementary to each other since the greater the amount of information that the organization needs to have in order to perform and to complete a task, the greater is the degree of cognition that the organization needs to have in order to process and to manage this information for task execution and completion (Nobre *et al.*, 2009). The contingency theory can therefore be used to explain that each of the changes in the business environment present a unique challenge to managers to come up with responses to fit the situations. Thus, the uncertainty caused by the environment is an important ingredient for a manager's decision.

2.2.3 Resource-Dependent Theory

Organizational success in resource dependent theory is defined as organizations maximizing their power (Pfeffer 1981). Research on the bases of power within organizations began as early as Weber (1947) and included much of the early work conducted by social exchange theorists and political scientists. Generalization of power-based arguments from intra-organizational relations to relations between organizations began as early as Selznick (1949). Resource dependent theory characterizes the links among organizations as a set of power relations based on exchange resources.

Resource dependent theory proposes that actors lacking in essential resources will seek to establish relationships with (dependent upon) others in order to obtain needed resources. Also, organizations attempt to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on them. Within this perspective, organizations are viewed as coalitions alerting their structure and patterns of behaviour to acquire and maintain needed external resources. Acquiring the external resources needed by an organization comes by decreasing the organization's dependence on others and/or by increasing other's dependency on it, that is, modifying an organization's power with other organizations (Selznick, 1949).

With resource dependent theory, the environment of the organization is almost as important as the organization itself. The principle is that organizations adopt strategies to gain access to critical resources, to stabilize relationships with the external environment and to secure survival. With this theory, collaborative licensing deals are easy to rationalize. Collaboration allows access to resources (more effectively and more efficiently than without), deals lessen the problems of negotiations with many customers on an individual basis, and survival (managing diminishing budgetary resources) is more assured. Some individual choice over selection has gone, but more is gained for apparently less effort in staff time (Pfeffer and Salancik 1978).

2.3 Generic Business Strategies

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, an organization finds its industry niche and learns about its customers (Porter, 1980). Porter (1985) asserts there are 3 basic business strategies, differentiation, cost leadership, and focus. A company performs best by choosing one strategy on which to concentrate. However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (Hlavacka et al., 2001). Whatever strategy a business chooses, it must fit with the company's goals and objectives to gain a competitive advantage (Ross, 1999).

According to Porter (1985) purports companies must be competitive to become an industry leader, to be successful both nationally and abroad, and these strategies for gaining competitive advantage apply to all industries in most nations. While various types of organizational strategies have been identified over the years, Porter's generic strategies remain the most commonly supported and identified in key strategic management textbooks and in the literature (David, 2000). Porter's (1980) generic strategies can yield competitive advantage and also ensures long-term profitability, the firm must make a choice between one of the generic strategies rather than end up being "stuck in the middle"

2.3.1 Differentiation Strategies

When using this strategy, a company focuses its efforts on providing a unique product or service (Hlavacka et al., 2001). Since, the product or service is unique; this strategy provides high customer loyalty (Porter, 1985). Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image.

According to McCracken, (2002) the key step in devising a differentiation strategy is to determine what makes a company different from a competitor's. Factors including market sector, quality of work, the size of the firm, the image, geographical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm. Some key concepts for establishing differentiation include: speaking about the product to select panels, writing on key topics affecting the company in the association's magazine or newsletter, becoming involved in the community, being creative when composing the company's portfolio, offering something the competitor does not or cannot offer, adding flair and drama to the store layout, providing e-commerce, making access to company information and products both quick and easy, using company size as an advantage, training employees with in-depth product and service knowledge, offering improved or innovative products, emphasizing the company's state-of-the-art technology, quality service, and unique products/services, using photos and renderings in brochures and selecting products and services for which there is a strong local need (Darrow et al., 2001).

The shareholder value model on differentiation holds that the timing of the use of specialized knowledge can create a differentiation advantage as long as the knowledge remains unique (Bertoff, 2002). This model suggests that customers buy products or services from an organization to have access to its unique knowledge. The advantage is static, rather than dynamic, because the purchase is a one-time event. The unlimited resources model on the other hand utilizes a large base of resources that allows an organization to outclass competitors by practicing a differentiation strategy (Haveman, et al., 2001). An organization with greater resources can manage risk and sustain losses more easily than one with fewer resources. This deep-pocket strategy provides a short-term advantage only. If a firm lacks the capacity for continual innovation, it will not sustain its competitive position over time.

2.3.2 Focus Strategies

In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (McCracken, 2002). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements.

A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

2.3.3 Cost leadership Strategies

This strategy focuses on gaining competitive advantage by having the lowest cost in the industry. In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage. For an effective cost leadership strategy, a firm must have a large market share. There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials. Porter (1985) purports only one firm in an industry can be the cost leader and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role.

Lower costs and cost advantages result from process innovations, learning curve benefits, economies of scale, product design reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Bauer and Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share. As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market. The leader then is somewhat insulated from industry wide price reductions (Porter, 1980). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues.

2.4 Forces that Shape Competition

Porter (1980) argues that competition in an industry is determined by its basic underlying economic structure. He suggests that awareness of the five forces that determine the competitive environment can help a company understand the structure of its industry and take a position that is more profitable and less vulnerable to attack. These five competitive forces are:

2.4.1 The Threat of Substitutes

According to Miller (1992) a substitute performs the same or a similar function as an industry's product by a different means. Sometimes, the threat of substitution is downstream or indirect, when a substitute replaces a buyer industry's product. Substitutes are always present, but they are easy to overlook because they may appear to be very different from the industry's product. When the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry's profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability and growth potential.

Substitutes not only limit profits in normal times, they also reduce the bonanza an industry can reap in good times (Whitley 1999). The threat of a substitute is high if: It offers an attractive price-performance trade-off to the industry's product. The better the relative value of the substitute, the tighter is the lid on an industry's profit potential, or the buyer's cost of switching to the substitute is low. Switching from a proprietary, branded drug to a generic drug usually involves minimal costs, for example, which is why the shift to generics (and the fall in prices) is so substantial and rapid. Strategists should be particularly alert to changes in other industries that may make them attractive substitutes when they were not before. Of course the substitution threat can also shift in favor of an industry, which bodes well for its future profitability and growth potential (Stalk, 1992).

2.4.2 The Power of Buyers

Powerful customers can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions. As with suppliers, there may be distinct groups of customers who differ in bargaining power. A customer group has negotiating leverage if: there are few buyers, or each one purchases in volumes that are large relative to the size of a single vendor, (Davidson 2001). Large-volume buyers are particularly powerful in industries with high fixed costs, the industry's products are standardized or undifferentiated, buyers face few switching costs in changing vendors and buyers can credibly threaten to integrate backward and produce the industry's product themselves if vendors are too profitable. Producers of soft drinks and beer have long controlled the power of packaging manufacturers by threatening to make, and at times actually making, packaging materials themselves, (Pfeffer, 1994).

A buyer group is price sensitive if: the product it purchases from the industry represents a significant fraction of its cost structure or procurement budget, the buyer group earns low profits, is strapped for cash, or is otherwise under pressure to trim its purchasing costs, the quality of buyers' products or services is little affected by the industry's product, the industry's product has little effect on the buyer's other costs (Barney, 1991).

Most sources of buyer power apply equally to consumers and to business-to-business customers. Like industrial customers, consumers tend to be more price sensitive if they are purchasing products that are undifferentiated, expensive relative to their incomes and of a sort where product performance has limited consequences. The major difference with consumers is that their needs can be more intangible and harder to quantify. Intermediate customers, or customers who purchase the product but are not the end user, can be analyzed the same way as other buyers, with one important addition. Intermediate customers gain significant bargaining power when they can influence the purchasing decisions of customers downstream. Producers often attempt to diminish channel clout through exclusive arrangements with particular distributors or retailers or by marketing directly to end users (Kotler, 1997).

2.4.3 The Power of Suppliers

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labor, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices. Companies depend on a wide range of different supplier groups for inputs. A supplier group is powerful if: It is more concentrated than the industry it sells to, the supplier group does not depend heavily on the industry for its revenues, industry participants face switching costs in changing suppliers, suppliers offering products that are differentiated, there being no substitute for what the supplier group provides and the supplier group being credibly threatened to integrate forward into the industry. In that case, if industry participants make too much money relative to suppliers, they will induce suppliers to enter the market (Porter,1980).

2.4.4 Rivalry among Existing Competitors

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential depends on the intensity with which companies compete and on the basis on which they compete. The intensity of rivalry is greatest if: Competitors are numerous or are roughly equal in size and power, industry growth is slow, exit barriers are high, rivals being highly committed to the business and have aspirations for leadership especially if they have goals that go beyond economic performance in the particular industry, firms cannot read each other's signals well because of lack of familiarity with one another, diverse approaches to competing, or differing goals, (Chimhanzi 2004).

The strength of rivalry reflects not just the intensity of competition but also the basis of competition. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability. Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. Price cuts are usually easy for competitors to see and match, making successive rounds of retaliation likely. Sustained price competition also trains customers to pay less attention to product features and service, (Kotler 2000).

Price competition is most liable to occur if: Products or services of rivals are nearly identical and there are few switching costs for buyers, fixed costs are high and marginal costs are low, capacity must be expanded in large increments to be efficient, the product is perishable. Competition on dimensions other than price is on product features, support services, delivery time, or brand image, for instance-is less likely to erode profitability because it improves customer value and can support higher prices. Also, rivalry focused on such dimensions can improve value relative to substitutes or raise the barriers facing new entrants. While non price rivalry sometimes escalates to levels that undermine industry profitability, this is less likely to occur than it is with price rivalry, (MacDonald 1995).

Porter (1980) observes that, the dimensions of rivalry are whether rivals compete on the same dimensions. When all or many competitors aim to meet the same needs or compete on the same attributes, the result is zero-sum competition. Here, one firm's gain is often another's loss, driving down profitability. While price competition runs a stronger risk than non price competition of becoming zero sum this may not happen if companies take care to segment their markets, targeting their low-price offerings to different customers. Rivalry can be positive sum, or actually increase the average profitability of an industry, when each competitor aims to serve the needs of different customer segments, with different mixes of price, products, services, features, or brand identities. Such competition can not only support higher average profitability but also expand the industry, as the needs of more customer groups are better met.

2.4.5 Threat of New Entrants

New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Particularly when new entrants are diversifying from other markets, they can leverage existing capabilities and cash flows to shake up competition. The threat of entry, therefore, puts a cap on the profit potential of an industry. When the threat is high, incumbents must hold down their prices or boost investment to deter new competitors. The threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. It is the threat of entry, not whether entry actually occurs, that holds down profitability, (Slotegraaf and Dickson, 2004).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design was a survey of level three and above private hospitals operating in Nairobi. This survey research design allow for contact with otherwise inaccessible participants. It has been observed that a census is feasible when the population is small and variable. When all items of the population are covered, no element of chance is left and highest accuracy is obtained. Cooper and Emory (1985) contend that surveys are more efficient and economical than observations.

3.2 Population of the Study

The population of the study consisted of all thirty two (32) level three and above private hospitals operating in Nairobi. The population of the study was also the sample size. The private hospitals were chosen as the attraction of the patients to the hospitals depends on the strategies which they have adopted, the kind of services which they offer and also the management of the hospitals which is run professionally.

3.3 Data Collection

The study used primary data which was collected through questionnaires which consisted of both open ended and closed ended questions. A questionnaire is a useful tool for collecting data from respondents because of the need to provide a means of expressing their views more openly and clearly. Respondents were the directors of the hospitals or the supervisors. The questionnaires were administered through "drop and pick" method.

The respondents were expected to give an insight into some of the strategies they have put in place to ensure that they gain competitive advantage over its competitors.

3.4 Data Analysis

The data was analyzed by the use of descriptive statistics to summarize and relate variables which were obtained from the administered questionnaires. The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. This method of analysis was most desirable as it enabled the researcher to have an insight of the most commonly used strategies by the private hospitals. In accomplishing all analysis details with efficiency and effectiveness, the researcher utilized the Statistical Package for Social Sciences (SPSS) software.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The research objective was to establish the strategies adopted by private hospitals in Nairobi in order to gain competitive advantage. This chapter presents the analysis, results and the discussion with regard to the objective. The findings are presented in percentages and frequency distributions, mean and standard deviations.

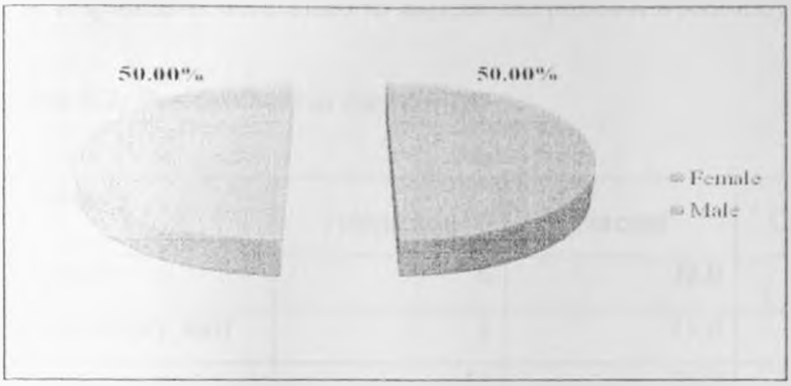
4.2 Hospitals and respondents profile

The hospital and respondents information considered in this study included the respondents' characteristics, gender, age bracket, position held in the hospital, length of continuous service with the hospital, duration of hospital existence and the size of the hospital in terms of bed capacity. A total of 32 questionnaires were issued out. Of the 32 questionnaires issued in the sample, only 20 were returned. The remaining 12 were not returned. The returned questionnaires' represented a response rate of 63%. The completed questionnaires were edited for completeness and consistency.

4.2.1 Gender

The respondents were required to indicate their gender.

Figure 4.1: Respondents' gender



The results in figure 4.1 indicates that, 50.0% of the respondnets were female while 50.0% were male. The results indicates that there is equal respresentation of the gender in the study.

4.2.2 Respondnets age bracket

The respondnets were required to indicate their age bracket.

Table 4.1: Respondents age bracket

Years	Frequency	Percent	Cumulative Percent
21 - 30	2	10.0	10.0
31 - 40	9	45.0	55.0
41 - 50	6	30.0	85.0
Over 50	3	15.0	100.0
Total	20	100.0	

The findings indicates that 45% of the respondents were between 31 and 40 years, 30% were 41 to 50 years, 15% of the respondents were over 50 years while 10% were 21 to 30 years old. The findings indicates that majority of the respondents were 31 to 40 years old.

4.2.3 Position held in the hospital

The respondents were asked to indicate the position which they hold in the hospital.

Table 4.2: Position held in the hospital

Category	Frequency	Percent	Cumulative Percent
Director	6	30.0	30.0
Supervisory staff	3	15.0	45.0
Management	11	55.0	100.0
Total	20	100.0	

The findings indicate that 55% of the respondents were in the management category, 30% were directors in their respective hospitals while 15% were supervisors in the hospitals. The results shows that majority of the respondents were in the management category. The respondents were required to indicate the duration in which they have worked at their respective hospitals.

Table 4.3: Length of continous service with the hospital

Years	Frequency	Percent	Cumulative Percent
Less than 2	4	20.0	20.0
2 - 5	6	30.0	50.0
6 - 10	5	25.0	75.0
Over 10	5	25.0	100.0
Total	20	100.0	

The length of continuous service with the organization by respondents ranged from a period of less than two years to over ten years. 30% of the respondents said they have worked for two to five years, 25% said they had worked in their respective hospitals for over ten years, another 25% said they have worked for six to ten years, while 20% indicated that they have worked for less than two years. The respondents have worked for over two years thus they have enough knowledge regarding their hospital.

4.2.5 Duration of hospital existence

The respondents were to describe the duration in which their hospital, has been in existence.

Table 4.4: Duration of hospital existence

Years	Frequency	Percent	Cumulative Percent
Under 5	2	10.0	10.0
6 - 10	2	10.0	20.0
11 - 15	6	30.0	50.0
16 - 20	3	15.0	65.0
Over 25	7	35.0	100.0
Total	20	100.0	

The duration in which the hospitals have been in existence varied. 35% of the respondents indicated that their hospital has been in existence for over 25 years, 30% of the respondents said their hospital has been in existence for 11 to 15 years, 15% said the hospitals have existed for 16 to 20 years while 10% indicated that the hospitals have existed for 6 to 10 years while another 10% indicated that the hospital they work for has been in existence for less than five years. The findings indicate that the hospitals existence varied and these could be attributed to the period they were started.

4.2.6 Size of the hospital

The respondents were asked to indicate the size of their hospitals in terms of bed capacity.

Table 4.5: Size of the hospital

Years	Frequency	Percent	Cumulative Percent
Under 50	8	40.0	40.0
51 - 75	3	15.0	55.0
76 - 100	5	25.0	80.0
101 - 125	1	5.0	85.0
126 - 151	1	5.0	90.0
Over 150	2	10.0	100.0
Total	20	100.0	

From the findings in table 4.5, 40% of the respondents indicated that their hospital has bed capacity of less than 50, 25% said that their hospital has 76 to 100 beds, 15% of the respondents indicated the bed capacity in their hospital to range from 51 to 75, 10% said their hospital has over 150 beds, 5% of the respondents indicated that the hospitals have between 101 and 125 beds while another 5% indicated the size of the hospital to have a capacity of between 126 and 151 beds. The results indicate that the size of the hospitals differs and thus the strategies used to gain competitive advantage could be different.

4.3 Business strategies

An organization's strategy consists of the business approaches and initiatives it undertakes to attract clients and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. Firms also develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market. strategy helps to achieve success whether in business or otherwise, success in this context refers to the realization of objectives that are desired.

4.3.1 State of competition in the hospitals

The respondents were to indicate the state of competition among the hospitals.

Table 4.6: State of competition in the hospitals

	Frequency	Percent	Cumulative Percent
Very high	4	20.0	20.0
High	13	65.0	85.0
Fair	3	15.0	100.0
Total	20	100.0	

The analysis shows that, 65% of the respondents indicated the state of competition in the industry to be high, 20% said it was very high while 15% indicated the state of competition to be fair. The findings indicates that competition among the hospitals is high and these was further reinforced by the respondents when they unanimously agreed that their changes in the environment which necessitates the adoption of competitive strategies. The competition among the hospitals could be as a result of these changes in the environment. The strategies used by the hospitals to counter competition differ as some use a combination of strategies. The strategies used include; reduction of the hospital charges in order to attract more patients, improvement of the quality of services being offered, focusing on offering specific services, using uninterrupted power and water supply e.g provision of generator and large storage tanks, opening of more branches across the country and use of differentiation strategy.

4.3.2 Organization strategies adequacy

The respondents were required to indicate whether they consider the organization strategies to be adequate.

Table 4.7: Organization strategies adequacy

	Frequency	Percent	Cumulative Percent
Yes	14	70.0	70.0
No	6	30.0	100.0
Total	20	100.0	

The results indicate that 70% of the respondents consider the strategies adopted to be adequate while 30% were of the view that it was not adequate. The results shows that some of the respondents were not satisfied with the strategies been used by their hospitals and these could be due to non competitiveness of the strategies. In order to enhance customer satisfaction the respondents were of the view that the hospitals should open more branches, expand in order to allow more services, improvement of quality of services offered and timely services to their clients and every staff has to undergo customer care training for them to understand the needs of our customers and strive to exceed their expectation, focus on what the customer or stakeholder wants, entry into market both geographically and product wise, work on the weak areas, seek external audit, bench marking with facilities, feedback system, adopting information communication and technology by all departments, enhancement of marketing and creating awareness of the hospital, services provided and costs, market survey for customer needs, improve customer care skills, invest in people, equipment/facilities and marketing, full involvement of personnel in policy formulation and real time passing of information from top to bottom managers.

4.3.3 Approach used during formulation and implementation of strategies

The respondents were asked to describe the approach which their organization uses in the formulation and implementation of strategies.

Table 4.8: Approach used during formulation and implementation of strategies

	Frequency	Percent	Cumulative Percent
Top down approach	5	25.0	25.0
Bottom up approach	2	10.0	35.0
Both	13	65.0	100.0
Total	20	100.0	

The findings in table 4.8 above indicate that 65% of the respondents said the hospitals in which they work for uses both top-down approach and bottom-up approach, 25% said they use top-down approach while 10% of the hospitals uses bottom-up approach. The hospitals using both the approaches allowed all members of the organization to be involved and own the strategy, feedback was available if strategy doesn't work, very critical if staff are not involved it will not work, strategies selected are relevant to operating environment, enhances entire opportunities 'buy in' of selected strategies thus making implementation easier, gives a sense of ownership as well as encouraging staff, gives wider view to the whole process, makes everybody aware of what the business is geared and enhances the staff to make an effort to implement and meet the strategic plans in their respective areas, results to ownership by all, the whole organization will be able to merge the vision of the senior management with the skills of the lower employees, Allows for efficiency, innovation, teamwork, flexibility, motivation and project is team driven, more alignment due to the adoption of both top down and bottom up approach and slows down process of strategic change and also increases acceptance of strategic initiatives by staff. However, the adoption of both strategies requires more financial resources to implement,

The respondents further noted that the adoption of top down approach would lead to slow process, many meetings and thus the lower level employees feels like they are not involved, slower dissemination of information to the relevant sections, causes resistance especially in lower level, improve physical infrastructure industry, construction of additional buildings and renovation of existing ones, if strategy is not communicated to lower level staff. They will not have a clue on what the organization is aiming to achieve and hence they will not know what is expected of them and it leads to bad outcome.

4.3.4 Importance of strategic options

The respondents were asked to indicate the importance of strategic options to the hospitals in a five point Likert scale. The range was 'Very important (1)' to 'not important at all' (5). The scores of very important/fairly important have been taken to represent a variable which had mean score of 0 to 2.5 on the continuous Likert scale; (0≤ S.E <2.4). The scores of 'not sure' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5≤M.E. <3.4) and the score of both not important/not important at all have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; 3.5≤ L.E. <5.0). A standard deviation of >1.1 implies a significant difference on the impact of the variable among respondents.

Table 4.9: Importance of focus strategy

	Mean	Std. Deviation
Market focusing i.e. adopting a narrow competitive position	2.3500	1.2680
Market segmentation	2.3500	.9880
Operating in a niche market i.e. geography, buyer characteristics, and product specifications or requirements	1.9500	1.3168

From the findings in table 4.9, the respondents indicated that all the factors had a mean ranking of less than 2.4 (not sure). They agreed that operating in a niche market i.e. geography, buyer characteristics, and product specifications or requirements (mean 1.9500), market segmentation (mean 2.3500) and market focusing i.e. adopting a narrow competitive position (mean 2.3500) was important to the hospitals. The results indicate that the hospitals use the focus strategy when they are offering their services. There was a high variation among the respondents on the importance of the focus factors as indicated by the standard deviation of .9880, 1.2680 and 1.3168 for market segmentation, market focusing and operating in a niche market respectively.

Table 4.10: Cost leadership strategies

	Mean	Std. Deviation
Use of latest technology	2.1500	1.2680
Cost cutting	2.1000	1.1652
Business process rationalization	2.2500	.9104
Staff reduction	3.3000	1.2607
Automation of operations	1.9000	1.0208

On the usage of cost leadership strategies, only one factor had a mean ranking of over 2.4 (staff reduction mean 3.3000) indicating that the respondents were not sure whether the hospital used the strategy to achieve cost leadership strategy. The respondents indicated however that in automation of operations (mean 1.9000), use of cost cutting measures (mean 2.100), use of latest technology (mean 2.1500) and business process rationalization was important to the hospitals in order to gain competitive advantage. There was also a high variation among the respondents as indicated by the standard deviation.

Table 4.11: Differentiation strategies

	Mean	Std. Deviation
Customer service	1.9000	1.4473
Increased advertising	2.2000	.9514
New products/services	2.1000	1.2937
Staff training	2.2500	1.4095

The results on the use of differentiation startegies was that the hospitals considers the strategy to be important as they use customer service (mean 1.9000), new products/services (mean 2.1000), 2.2000 (mean 2.2000) and staff training (mean 2.2500) as a means of gaining competitive advantage. The usage of the strategy will differentiate the hospital from the others in offering services thus having competitive advantage.

4.4 Forces that shape competition

Competition in an industry is determined by its basic underlying economic structure. The awareness of the five forces of the competitive environment can help a company understand the structure of its industry and take out a position that is more profitable and less vulnerable to attack. The respondents were asked to indicate strategies which they use to overcome threats and maintain effective competitiveness for the hospital in a five point Likert scale. The range was 'not at all (1)' to 'very great extent' (5). The scores of not at all/less extent have been taken to represent a variable which had mean score of 0 to 2.5 on the continuous Likert scale; (0≤ S.E <2.4). The scores of 'moderate extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5≤M.E. <3.4) and the score of both large extent and very great extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; 3.5≤ L.E. <5.0). A standard deviation of >1.1 implies a significant difference on the impact of the variable among respondents.

Table 4.12: Threats of new entrants

	Mean	Std. Deviation
Price reduction	2.6500	1.3869
Product differentiation	3.4000	.7539
Capital requirements	3.8000	.9514
Access to distribution channels	3.7000	1.1742
Government policy	3.3500	1.0894

The findings in table 4.12 indicates that in order to counter the threats brought about by new entrants, the hospitals uses capital requirements (mean 3.8000), access to distribution channels (mean 3.7000), product differentiation (mean 3.4000) and government policy (mean 3.3500) to a great extent while price reduction (mean 2.6500) was used to a moderate extent. The results indicate that the hospitals try as much as possible to protect their market share by using various strategies to counter the new entrants influence in the market.

Table 4.13: Power of substitute products

	Mean	Std. Deviation
Relative price performance	3.2000	1.1050
The extent of switching costs	2.9000	1.1192

The analysis indicates that the respondents were moderate on whether the hospital they work for uses the extent of switching costs (mean 2.9000) and relative price performance (mean 3.2000) to overcome the threats thus maintain its competitiveness. The results indicates that the hospitals considers the two factors before determining the prices they will charge so that the customers' does not use the substitute products due to high cost of the normal goods.

Table 4.14: Bargaining power of buyers

	Mean	Std. Deviation
Number of buyers in the locality	3.7500	.8507
Undifferentiated products	2.8000	1.0052
Low profits of the buyers	3.1000	1.2937
Awareness of alternative products	3.9500	.6863
Low switching costs	2.7500	1.2513

The findings on the bargaining power of buyers was that awareness of alternative products (mean 3.9500), number of buyers in the locality (mean 3.7500), low profits of the buyers (mean 3.1000), undifferentiated products (mean 2.8000) and low switching costs (mean 2.7500) was adopted by the hospitals to give more value to customers by ensuring that they give quality services.

Table 4.15: Bargaining power of suppliers

	Mean	Std. Deviation
Few number of suppliers	2.9500	1.23438
Proprietary difference of supplier products	3.3500	1.22582

The results in table 4.15 indicates that the respondents were moderate as to their being few number of suppliers (mean 2.9500) and proprietary difference of supplier products (mean 3.3500). The above findings shows that the hospitals depend on the power of suppliers to a moderate extent in order t overcome the threats posed to them.

Table 4.16: Rivalry among existing competitors

	Mean	Std. Deviation
Numerous rivals	3.0500	1.14593
Low industry growth	3.3500	1.30888
High fixed or storage costs	3.3500	1.26803
High exit barriers	3.3500	1.13671

The strength of rivalry reflects not just the intensity of competition but also the basis of competition. The degree to which rivalry drives down an industry's profit potential depends on the intensity with which companies compete and on the basis on which they compete. The results indicates that the respondents were moderate as to the existence of high exit barriers (mean 3.3500), high fixed or storage costs (mean 3.3500), low industry growth (mean 3.3500) and their being numerous rivals in the industry (mean 3.0500). The results indicates that the hospitals though faced by rivalry among the competitors, they maintain effectiveness by adopting the rivalry strategies to a moderate extent.

4.5 Discussion of the results

The present day business environment is tumultuous and a firm should be able to initiate appropriate strategies to counter the challenges to its business environment. For the private hospitals, the strategies adopted were paramount to attracting patients. The strategies which was used by the hospitals to counter competition was reduction of the hospital charges in order to attract more patients, improvement of the quality of services being offered, focusing on offering specific services, using uninterrupted power and water supply e.g provision of generator and large storage tanks, opening of more branches across the country and use of differentiation strategy. The adoption of the strategies by the hospitals was in tandem with Porter (1980) who noted that the ability of firms to survive in the business environment is dependent upon their selection and implementation of a competitive strategy that differentiates the firm from competitors. The characteristics of the competitive context are considered to be the factor that most strongly influences the type of strategy a company pursues or can formulate, and the level of profitability. It is also accepted that a company's ability to be competitive and profitable depends not only on the type of strategy it formulates and implements, but also on the way in which it is formulated (Rogers *et al.*, 1999).

Further, for the strategies adopted to effectively achieve the firm's objectives, the plans and actions must be strategically fit to the complexities and dynamism of a rapidly shifting environment. This need was evidenced in the case of the private hospitals where it was found that they use focus, cost leadership and differentiation strategies in order to gain competitive advantage over others. At the same time in order to overcome the threats and maintain effective competitiveness which the hospitals are exposed to by their operating environment, the hospitals uses capital requirements, access to distribution channels, product differentiation, government policy and price reduction to counter the threats brought about by competition. The use of a combination of strategies may offer an organization the best chance to achieve a competitive advantage (Hlavacka et al., 2001) and these was achieved by the use of different strategies by the hospitals.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study established that the respondents for the study were directors, supervisory staff and management staff and therefore the results for the study was unbiased as it sort the views of different cadres of employees in the hospitals and at the same time the respondents have worked in the hospitals for more than two years thus understands the strategies used by the hospitals. The hospitals have been in operation for different periods of time, however majority of them have been in operating for ten years. The size of the hospital varies from those with less than fifty beds capacity to over one hundred and fifty one beds and therefore the strategies adopted in order to gain competitive advantage could be different for the hospitals based on their size.

There are some changes in the environment which necessitates the adoption of strategies in order to gain competitive advantage by the hospitals and these could have resulted to the state of competition in the hospitals being high. The strategies which was used by the hospitals to counter competition was reduction of the hospital charges in order to attract more patients, improvement of the quality of services being offered, focusing on offering specific services, using uninterrupted power and water supply e.g provision of generator and large storage tanks, opening of more branches across the country and use of differentiation strategy.

The hospitals use various approaches when formulating and implementing the strategies to be used. However, a larger proportion of the hospitals uses both top-down and bottom up approach due to some benefits which accrue to the hospitals a result of the adoption of both strategies. The adoption of both approaches, though expensive in terms of resources would ensure that the whole organization employees are involved in the process and thus they feel to be part of the process. The study established that the focus, cost leadership and differentiation strategies were important to the hospitals as they adopt the strategies in order to gain competitive advantage over others. In order to overcome the threats and maintain effective competitiveness which the hospitals are exposed to by their operating environment, the hospitals uses capital requirements, access to distribution channels, product differentiation, government policy and price reduction to counter the threats brought about by competition. The findings indicates that the hospitals considers the existence of substitute products, the bargaining powers of the buyers, bargaining powers of suppliers and the effects of rivalry among the existing competitors before determining the prices they were going to charge their customers.

5.2 Conclusions

From the research findings and the answers to the research questions, some conclusions can be, made about the study. The results from the study indicates that in order for the private hospitals to gain competitive advantage over the other competitors in the industry they need to understand their operating environment so that they can come up with the strategies which will counter the challenges. The adoption of an all inclusive approach of formulating and implementing strategic decisions will ensure that the whole organization employees input has been taken into consideration and thus they all work towards the achievement of the desired strategies. The strategies which were used by the hospitals varied and these could be attributed to the size of the hospitals, the resource capability and the market in which the hospitals serve.

The hospitals uses the focus, cost leadership and differentiation strategies in order to gain competitive advantage over its competitors. Sustainable competitiveness of a firm is crucial to its business and therefore the use of the various strategies by the firms to deal with threats resulting from entry by competitors, power of substitute products, bargaining power of buyers and suppliers and the competition from existing competitors indicates the hospitals willingness to ensure that they protect their business territory.

5.3 Recommendations

The study recommends the following;

5.3.1 Recommendation with policy implication

Foremost, the study established that the hospitals have been using various strategies to counter competition in the health sector. It is therefore recommended that the hospitals the adoption of the various strategies could be too costly to the hospitals and therefore they should adopt only strategies which they have competitive advantage over other hospitals so that they do not increase the costs of implementing the various strategies.

Lastly, in order to meet their patients needs the study found out that they have been using various means to ensure that they attract more patients to their respective hospitals. It is therefore recommended that the hospitals should ensure that they come up with measures which will ensure that the patients' visiting the hospitals gets maximum value for their money.

5.3.2 Recommendations for further research

The study confined itself to the private hospitals operating in Nairobi. This research therefore should be replicated in all private hospitals operating Kenya in order to establish whether there is consistency among all the private hospitals on the strategies which they use to gain competitive advantage.

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APPENDICES

Appendix I: Letter of Introduction

University of Nairobi

School of Business Studies

Dear Respondent,

I am a postgraduate student in the School of Business Studies, University of Nairobi, conducting a management research paper on strategies adopted by private Hospitals in Nairobi to gain competitive advantage.

In order to undertake the research, you have been selected to form part of the study. This letter is therefore to request your assistance giving me information to the attached interview guide. This information will be treated with strict confidence and is purely for academic purposes. A copy of the final report will be availed to you upon request.

Your assistance and co-operation in this exercise will be highly appreciated.

Yours faithfully,

Odongo Peter	Dr. J.M Munyoki
MBA student	**Supervisor**

Appendix II: Questionnaire

Please give answers in the spaces provided and tick (√) the box that matches your response to the questions where applicable.

PART ONE: PERSON AND ORGANISATION PROFILE

1) Name of the Hospital: ____

2) Gender? (tick as appropriate)

Female ( )   Male ( )

3) What is your age bracket? (Tick as applicable)

a) Under 20 years ( )

b) 21 – 30 years ( )

c) 31 – 40 years ( )

d) 41 – 50 years ( )

e) Over 50 years ( )

4) Which category best describes your position in the organization:

a) Director ( )

b) Supervisory Staff ( )

c) Management Staff ( )

d) Other (Please State) ________________ ( )

5) Length of continuous service with the hospital? (Tick as applicable)

a) Less than two years ( )

b) 2-5 years ( )

c) 6-10 years ( )

d) Over 10 years ( )

6) For how long has your hospital been in existence?

a) Under 5 years ( )

b) 6 – 10 years ( )

c) 11 – 15 years ( )

d) 16 – 20 years ( )

e) 21 - 25 years ( )

f) Over 25 years ( )

7) What is the size of your hospital?

a) Under 50 beds ( )

b) 51 to 75 beds ( )

c) 76 to 100 beds ( )

d) 101 to 125 beds ( )

e) 126 to 151 beds ( )

f) Over 150 beds ( )

PART B: BUSINESS STRATEGIES

1. Have there been changes in your operating environment that have necessitated your institution to adopt competitive strategies? Yes ( ) No ( )

2. How would you rate the state of competition in the industry?

   Very high ( ) High ( ) Fair ( ) Low ( ) Very low ( )

3. Which type of strategy does your institution use?

Reducing the hospital charges in order to attract more patients	
Improving the quality of services been offered	
Focusing on offering specific services	
Using uninterrupted power and water supply e.g. provision of generator, large storage water tanks	
Opening more branches across the country	
Differentiation strategy	

4. Do you consider the organization's strategies to be adequate?

   Yes ( ) No ( )

5. In your view, what actions should your organization take to strategically align itself to the operating environment in order to enhance customer satisfaction?...

....

....

....

6. What approach does your organization use during the process of formulation and implementation of strategies?

   a) Top down approach ( )

   b) Bottom up approach ( )

   c) Both ( )

7. How does the approach used by the organization affect the process of strategy implementation?...

....

....

8. How important has each of the following strategic options been to your firm? Use a scale of 1 – 5 with; 1- Very important, 2 – Fairly important, 3 – Not sure, 4 – Not important and 5 – Not important at all.

a. **Focus Strategies**

Market focusing i.e. adopting a narrow competitive position	1	2	3	4	5
Market segmentation	1	2	3	4	5
Operating in a niche market i.e. geography, buyer characteristics, and product specifications or requirements	1	2	3	4	5

b. **Cost leadership Strategies**

se of latest technology	1	2	3	4	5
Cost cutting	1	2	3	4	5
Business process rationalization	1	2	3	4	5
Staff reduction	1	2	3	4	5
Automation of operations	1	2	3	4	5

c. **Differentiation Strategies**

Customer service	1	2	3	4	5
Increased advertising	1	2	3	4	5
New products/services	1	2	3	4	5
Staff training	1	2	3	4	5

PART C: Analysis of the forces that shape competition

6) In your view, to what extent are the following strategies to overcome threats and maintain competitiveness effective for your hospital? Use the scale as follows:

1- Not at all, 2.-Less extent, 3- Moderate extent, 4-Large extent, 5-Very great extent

Strategies	1	2	3	4	5
a. Threat of New Entrants					
Price reduction					
Product differentiation					
Capital requirements					
Access to distribution channels					
Government policy					
b. Power of Substitute Products					
Relative price performance					
The extent of switching costs					
c. Bargaining Power of Buyers					
Number of buyers in the locality					

Undifferentiated products					
Low profits of the buyers					
Awareness of alternative products					
Low switching costs					
d.Bargaining Power of Suppliers					
Few number of suppliers					
Proprietary difference of supplier products					
e. Rivalry among Existing Competitors					
Numerous rivals					
Low industry growth					
High fixed or storage costs					
High exit barriers					

Appendix III

LIST OF LEVEL 3 AND ABOVE PRIVATE HOSPITALS IN NAIROBI

1. South B Hospital
2. St. Johns Hospital Ltd
3. Meridian Equator Hospital
4. St. Marys Mission Hospital
5. Umoja Hospital
6. Menelik Hospital
7. Gertrudes Garden Children Hospital, Muthaiga
8. Metropolitan Hospital
9. Maria Immaculate Hospital
10. Mariakani Cottage Hospital
11. The Nairobi Womens Hospital
12. Nairobi West Hospital
13. Avenue Hospital
14. Coptic Hospital
15. Melchizdek Hospital Ltd
16. The Nairobi Hospital
17. MP Shah Hospital
18. Radent Hospital Ltd
19. The Aga Khan University Hospital - Nairobi
20. Karen Hospital
21. The Mater Hospital
22. EdelvaleTrust - Jamaa Home and Mission Hospital
23. St. Francis Community Hospital
24. Langata Hospital
25. Victory Hospital Ltd.
26. Lions Sightfirst Eyes Hospital
27. Ruaraka Uhai Neema Hospital
28. Guru Nanak Ramgharia

Source: Kenya Medical and Practitioners Board.