

**STRATEGIC RESPONSES BY ACACIA MEDICAL CENTRE LTD  
TO CHANGES IN THE EXTERNAL ENVIRONMENT**

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Requirements for the Degree Of Master Of Business Administration (MBA), School  
of Business, University Of Nairobi.

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## DECLARATION

This Management Research Project is my original work and has not been submitted for another degree award of this or any other University.

Signed .....  .....

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Date: ..... 05<sup>TH</sup> NOVEMBER 2009 .....

This Management Research Project has been submitted for examination with my approval as the University Supervisor.

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## **DEDICATION**

I dedicate this research project to my sons Baraka Muthike and Emmanuel Njoroge for the sacrifice that you have borne for me. I pray that one day you will come to understand why this was important to me.

## ACKNOWLEDGEMENT

I am grateful to the Almighty God for his provisions. His grace, mercy and favor for me are new every morning.

Special thanks go to my supervisor, Professor. E. Aosa, who patiently and selflessly guided me throughout the entire process at times even on very short notice. My appreciations also go to all the people at Acacia Medical Centre Limited (AMC) who responded to my research questions. I also owe much gratitude to my fellow students, Nelson Irungu and Simon Mwago for their contribution and support during my studies.

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May God grant you favor.

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## ABSTRACT

An organization's success is environment dependent. Organizations function within the environment. The environment offers opportunities and poses threats to an organization depending on the capabilities of an organization. For an organization to survive it has to pay keen attention to its environment.

According to Ansoff (1984) organizations are open systems and they exist in the context of turbulent environment. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment. An organizations success is dependent on its responses to changes in the environment.

The environment can be classified into the internal and the external environments. The internal environment is composed of elements within the organization; these include current employees, management philosophy, managerial leadership styles, organization culture, financial resources, technology, human resources, structures and processes. The internal environment is within the control of the organization and is composed of controllable variables.

This study set out to address two objectives which were firstly to determine what changes in the external environment has affected AMC, and secondly to determine what strategic responses the company has employed to adapt the changes in the external environment.

To achieve these two objectives the study made use of both primary and secondary data. Primary data was collected through personal interviews with senior management at AMC and with management consultants of the company i.e. Quantum and Praxis. Secondary data was obtained from AMC's financial statement and in-house publications. A content analysis was then carried out on the data obtained to allow for in-depth understanding of issues in the case.

The study found out that there was a formal strategic planning at AMC that was mostly done by consultancy firms such as Miliki Care Ltd (Miliki), Quantum Africa Ltd (Quantum) and Praxis Partners Ltd (Praxis).

The study found out that the company did not respond to all the changes in the environmental conditions but to those changes which were deemed to impact on the company's activities to a large

extent. The study identified the following factors to have elicited responses from the company. In the political environment the key variable had been the post election violence in 2008, in the legal environment the key variable had been in taxation. In the technological environment the key variable had been lack of IT support from dealers and high rate of obsolescence and new technological developments. In the economic environment key variables had been low income levels and high cost of factors of production. In the socio-cultural environment, key variables had been lifestyle changes, income distribution, lobby groups, and safety needs as defined by Maslow's hierarchy of needs. In the competitive environment the key challenges had been from new entrants in the industry and business undercutting.

The study recommended that AMC should expand to other East African countries to exploit the 100 million people market; further recommendations included vertical integration with suppliers, adoption of financial controls and development of better corporate governance.

The study suggested that in order to understand the strategic responses possible for the changes at AMC a further studies could be carried out in other companies within the HMO industry, a further study could also be carried out to determine why AMC choose to use the responses it had adopted and lastly a further suggested study could be carried out on AMC to determine how the company would alter its strategies to other changes in the environment in future.

The study concluded that even for companies that were successful, it is comparative that they continuously engage in strategic responses to ensure that the organization strategies are aligned and match with external environment. .



# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Organizations are open systems and they are both environment dependent and environment serving all at the same time. The environment offers opportunities and poses threats to an organization depending on its capabilities. Organizations exist in the context of turbulence environments. Mintzberg (1998) noted that the environments do not change on any regular or orderly basis. The challenge is to detect the subtle discontinuities that may undermine a business in the future.

According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment. An organization's success is therefore dependent on its responses to changes in the environment.

### 1.1.1 Environment and Organizations

All organizations are environment dependent. They are in constant interaction with the environment and depend on it for continued survival. Organizations operate as open systems, this means that organizations derive their inputs from the environment and give their output to the environment. The inputs are usually in the form of raw materials, labor, capital and skills. Through an internal process the organization converts the inputs into outputs; the outputs are then fed back to the environment. The environment will give the organization feedback on its output. The organization will use the feedback to respond to the environment by improving on the outputs. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment.

The environment can be classified into the internal and external environment. The external environment refers to those factors that are outside the organization's influence but which affect the organization's operations. The external environment presents opportunities which the firm can exploit and or poses threats to the organization's activities. The internal environment refers to factors within the organization which the organization can exercise a great deal of control to influence its operations. The internal environment therefore constitutes of the organization's internal capability which is essential in addressing the external environment.

According to Johnson, Scholes and Whittington (2005), an organization exists in the context of a complex, political, economic, social, technological, environmental and legal world. The environment changes and affects different organizations differently. They argued that how this affects the organization includes an understanding of historical environmental effects as well as expected or potential changes in the environmental variables. Many of these variables give rise to opportunities and others exact threats on the organization or both.

According to Proctor (2000), firms operate in changing and hostile business environments. The environment does not always accommodate the interests of the firm; he compared an organization in its environment with a ship at sea. The environment presents opportunities and threats for the organization, in order to survive organizations need to respond and adapt to changing environmental conditions. Burnes (2004) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have to chart their way through an increasingly complex environment. Organizations have to cope with pressures of globalization, changes in technology, rise of e-commerce, situations where customers and suppliers can be both competitors and allies and a change in emphasis from quantity to quality and from products to services. According to Kanter (1989) she compares organizations to elephants that need to learn how to dance as nimbly and speedily as mice if they are to survive in an increasingly competitive and rapidly changing world.

Ansoff and McDonnell (1990) explained the changes in the environment in terms of turbulence. Environmental turbulence they argued is a combined measure of the changeability and the predictability of the environment. Changeability is characterized by the complexity of the environment and the relative novelty of the successive challenges an organization encounters in the environment. Predictability is characterized by the rapidity of the change and visibility of the future. Visibility shows the adequacy and timeliness of information about the future. They further argued that a firm's performance is optimum when the aggressiveness of the firm's strategic behavior matches environmental turbulence, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capability support each other.

Despite the different approaches by the above authors, the dominant idea is that an organization has to respond to changes in the environment. The environment it operates in dictates the responses the organization puts in place to guide managerial decision making. The environment by extension also dictates the capabilities the organization needs to support chosen strategies.

### **1.1.2 The Health Management Organizations Industry (HMO)**

The Kenyan business environment has undergone drastic changes especially in the 1990's which have affected most industries including the HMO industry. The Kenya government policies on liberalization were articulated in the sector policy paper Government of Kenya 1996/8. These policies outlined the reform measures to be undertaken in all sectors of the economy in order to accelerate growth and development. These changes include privatization and commercialization of public sectors, increased competition, and liberation of the economy and accelerated implementation of reforms by the government and rapid technology advancement.

HMOs are organizations that combine the provision of health insurance and the delivery of the health services. In Kenya early HMO and HMO-like institutions developed in the 1930's as farmers corporative. The HMO offered prepaid healthcare services to workers and their families at an affordable cost. The HMO industry experienced slow growth mainly due to resistance that was faced from the main stream organized medical bodies like the Medical Practitioners and Dentists Board of Kenya that felt that HMOs could violate the integrity of medical decisions making and provide inferior health care services.

HMOs in Kenya are different from mainstream hospitals both in the way they operate and in their objectives. However they complement hospitals by plugging the gap in healthcare provision in the country. They are composed of healthcare providers such as doctors that have contracted with an insurance company to offer services at a fixed price. HMOs tend to be more restrictive and have many rules such as capitation of patient to a selected primary physician. This means that patients get localized to only one physician. They make money by seeing as many patients as possible per day at a reduced cost and usually they have prepaid and predetermined patients unlike hospitals.

HMOs in Kenya fall under two broad categories these are those that operate their own outpatient facilities and those that do not. HMOs in Kenya that own and operate their own outpatient facilities include, AAR Health Services, Meridian Health Centers Ltd, Family Health Ltd and Acacia Medical Center Ltd, HMOs that don't have their own outpatient facilities includes, Resolution Health E.A Ltd, Prosperity Health Ltd and Discovery Health E.A Ltd. HMOs that own their own clinics will mostly see their own clients as opposed to those that do not have their own clinic. The later will usually run as a brokerage firm that plays middleman between the insurance companies, the hospitals and the clients. They earn a commission from premiums that are paid by the insurance

company's members. They offer other value added services such as case management and claims processing.

The HMO businesses in Kenya are privately owned with a sole purpose of earning profits for their shareholders. They survive by having an efficient patient turn-around-time that is not comparable to those available at conventional hospitals. The industry acceptable turn-around-time for most HMOs is approximately 40 minutes, from the time a patient walks in, to the time he walks out. This time is very short when compared to the turn-around-times experienced at most major hospitals including Nairobi Hospital and Aga Khan Hospital. Turn-around-times at hospitals that range from one hour to two hours. The other benefit of HMOs over hospitals is their ability to offer a service that is customized and differentiated as compared to the standardized treatment guideline offered at most hospitals. These customized service such as branded medicine, better and longer patient time with the doctor and comfortable waiting areas has lead to high demand for HMOs. HMOs also perform a crucial administration function to the insurances companies by vetting invoices, validation of membership, benefit monitoring and administration, and claims processing. The competition in the industry is very stiff and only those HMOs that can continue being innovative in terms of products and services, and with high efficiency in operations get to survive.

Competition has increased in the HMO industry as new entrants join the industry. Since 1999 the HMO industry has seen many companies collapse and exit from the industry due to threats posed by the external environment and also due to internal weaknesses of the firms, examples of companies that exited the industry include Medi-Plus Limited (2003), Medicare Limited (2000), and Medvac Limited (1999). During the same time the industry has evidence of firms like AAR Health Services Limited growing in strength. There have also been new entrants in the market such as Resolution Health E.A Limited established in 2002 and Acacia Medical Center Limited established in 1999.

The government of Kenya (GOK) legislation has also led to changes in the operating environment. The Insurance Amendment Bill passed by Parliament in 2003 prohibited organization from conducting the Medical Insurance business and at the same time conducting the Medical Service business under one roof. This amendment of the Insurance Act, Cap 487 meant that companies that have both services had to separate the two at a very high cost to the firms'. In August 2003 the GOK published the sessional paper on National Social Health Insurance (NSHI). To implement the act GOK published the proposed National Social Health Insurance Fund (NSHIF) bill in a special gazette dated 28th May 2004. The bill intended to reform the National Health Insurance Fund

(NHIF) of 1998, so that it could provide affordable, acceptable and accessible quality health care to all Kenyans.

The business environment within which HMO operates has changed, these changes include economic changes, changes in legislation and increased competition. The change in economic environment has translated to low purchasing power as inflation and interest rates continue to increase. Thus most Kenyans cannot afford a medical health insurance and would rather use their disposal income on food, shelter and education.

The cost of running a HMO is exorbitantly high and on the increase, this can be attributed to the high cost of consultation fees, laboratory reagents and equipments, drugs and high insurance premiums charged by the insurance companies. High stress levels emanating from pressures of life are on the increase than ever before. The number of patients in hospitals has increased as the health conditions of the citizenry deteriorate. This has caused the industry to absorb high operation costs with very low profit margins. In Kenya due to the high incidence of fraud the situation is even worse. Faced with all these gigantic and potentially overwhelming challenges, HMO firms have resorted to strategic responses.

### **1.1.3 Acacia Medical Centre Limited**

Acacia Medical Centre (AMC) is a leading, ultra modern, fully equipped outpatient facility that operates in Kenya. It was established in 1999 and has grown to the current four branches, three in Nairobi and one in Kisumu. AMC is a private company limited by shares and has an annual turnover of Ksh 361 million (Audit Report 2008). The number of employees is 133 (Payroll July 2009) mostly composed of Doctors, Nurses, Medical technicians, Accountants, Administrators and Support staff.

AMC is the holding company for Acacia Medical Centre Pharmacy Ltd (AMCP) and Acacia Medical Centre Laboratory Ltd (AMCL). The AMCP stock's and dispenses a wide range of pharmaceutical products both branded and generic at competitive prices. The pharmacy also provide specialized services that include patient education, over the counter prescribing, drugs interaction information, travel management prophylaxis and stocking of medical and surgical supplies. AMCL is equipped with state-of-the -art equipment that enables the carrying out of routine and specialized tests in a timely and efficient manner. Some of the services offered at our laboratories include; bone marrow aspirates, chromosome analysis, DNA/ paternity testing, Executive check-up, fertility testing, fine needle aspirates, pre-employment testing and western blot.

AMC is a very significant player in the HMO industry because it is a market leader among HMO that operates their own clinics. AMC serves about 400 outpatient clients each day across its three clinics in Kenya. It has a supplier base of about 240 suppliers of pharmaceutical, laboratory reagents and equipment. Outside the mainstream hospitals AMC is the largest consumer of drugs and laboratory reagents in Kenya, it therefore enjoys preferential credit terms and quantity discounts.

AMC was the pioneer HMO in Kenya to establish the all-under-one-roof model of medical services in 1999 by hosting specialists under one roof. In 2004 AMC opened its Landmark Doctors Plaza right opposite the prestigious Nairobi Hospital. Being relatively smaller in size and of lesser financial strength compared to Nairobi hospital, but by leveraging on its tremendously strong brand, it was able to pull into its clinics a pool of specialists that had never before collected under one roof. This model offered specialist doctors a prime location, subsidized rent, furnished consultation rooms, fully serviced offices; air conditioned rooms and luxurious waiting rooms. This model was later successfully implemented at its ICEA clinic along Kenyatta Avenue in Nairobi's central business district and at its Kisumu clinic at Nakumatt Mega Plaza along Odinga Oginga road. Due

to the success of this model, it has now been partially copied by major hospitals such as Nairobi Hospital Doctor's Plaza and Aga Khan Hospital.

## 1.2 Research Problem

According to Ansoff (1984), organizations are open systems. Organizations exist in the context of turbulent environments varying from one industry to another. Mintzberg (1998) noted that the environments do not change on any regular or orderly basis. The challenge is to detect the subtle discontinuities that may undermine a business in the future. Organizations have to change their strategy and internal capability to match the environmental conditions.

Since 1999 the HMO industry had seen many companies collapse and exit the industry due to threats posed by the external environment and also due to internal weaknesses of the firms, examples of companies that have exited the industry include Medi-Plus Limited (2003), Medicare Limited (2000), and Medvac Limited (1999). At the same time the industry had evidence of other companies growing in strength such as AAR Health Services Limited. There had also been new entrants in the market such as Resolution Health E.A Limited (2002) and Acacia Medical Center Limited established in 1999.

The high exit rates in the HMO industry was mainly due to cash flow related problems. Lack of proper cash flow management had led to thin operating capital caused by high cost of acquiring inputs such as drugs and laboratory reagents, high insurance premiums charged by the insurance companies, deterioration of personal health due to high stress levels and high incidence of fraud in the industry.

Following the strategic success hypothesis advanced by Ansoff and McDonnell (1990), it means then that the organization's strategy and internal capability keeps changing to match the environmental conditions. Strategy is therefore not static and it keeps changing even within an organization. Various studies have been carried out to determine how different organizations have responded to changes in the environment. Kathuku (2005) carried out a study on strategic responses by Cooperative Bank of Kenya. Lalampaa (2006) studied the responses by the Higher Education Loans Board to environmental challenges in financing higher education in Kenya. Mulema (2004) carried out a study of responses to the environment in the service industry focusing on the Teachers Service Commission. Mwarania (2003) focused his study on the insurance industry specifically

Kenya-Re Limited Kandie (2001) focused his study on Telkom Kenya Limited. Migunde (2003) carried out his research on the Kenya Broadcasting Corporation and Mwanthi (2003) studied the British American Tobacco Kenya Limited.

Despite having many studies in this area, the results obtained cannot be applied to any other company due to contextual differences. Even if the companies are in the same country, they would still have different strategies due to the differences in industry and internal factors. Ansoff and McDonnell (1990) argued that parts of the challenge agenda faced by different industries are different. As a result it would no longer be possible to devise a single prescription for response to challenges which would apply to all industries and firms.

AMC operates in a changing external environment and has to respond to these changes in order to match with the external environment. This study addressed the following two questions. What changes in the external environment have affected AMC? What strategic responses has AMC employed to adapt to the changes in the external environment?



### **1.3 Research Objectives**

This study had two objectives. These are,

- i. To determine changes in the external environment that affect AMC.
- ii. To determine the strategic responses by AMC to these external environmental changes.

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

This study will be of benefit to a number of interest groups starting with the management of AMC as a reference point as well as for recommendations on areas they can improve on. The study will also be beneficial to managers of other firms within the HMO industry by learning from the AMC case on how they can respond to environmental changes. For academicians, this study will form a foundation upon which other related and replicated studies can be based on. The study will also aid future investors in determining whether to invest in AMC or to establish their own company by gaining insight on the strategic responses employed by AMC to adapt to the external environment.

Suppliers will benefit from this study by knowing the vision and mission of the company; this will aid them in improving their relations with the company. Suppliers will also benefit by assessing the opportunities and threats posed by the company's strategies. The Medical Practitioners and Dentists Board of Kenya as a medical regulatory body will also benefit from this study by establishing some of the external forces that affect HMO's in Kenya.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 The Concept of Strategy

Various authors define strategy in different ways. According to Pearce and Robinson (1991), strategy means large-scale, future-oriented plans in organization to enable them interact with their competitive environment to optimize achievement of objectives. They postulate that strategy represents a firm's game-plan; although it may not be precisely detailed it should however provide a framework for managerial decisions. They further argued that a strategy reflects a company's awareness of how to compete, against whom, when, where and for what. Pearce and Robinson (1997) further argued that strategy can be viewed as building defenses against competitive forces or finding positions in the industry where forces are weakest.

According to Johnson and Scholes (1997), strategy is the direction and scope of an organization over the long term which achieves advantage for the organization. They argued that this is achieved through configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholder expectations.

Ansoff and McDonnell (1990) defined strategy as a set of decision-making rules for guidance of organizational behavior. They further added that there are four distinct types of such rules, firstly is a yardstick by which present and future performance of the firm is measured. The quality of yardsticks they say are called objectives and the desired quantity are goals. Second, the rules used by the organization in developing its relationship with the external environment, which are called product-market or business strategy. The third type is rules for establishing internal relations and processes within the organization which are referred to as the organizational concept. Lastly, are the rules by which the firm conducts its day-to-day business which are called operating policies.

Aosa (1992) argued that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. He defined a strategic problem as a mismatch between internal characteristics of an organization and its external environment. The match is achieved by developing an organization's core capabilities related to the external environment well enough to allow for exploitation of opportunities in the external environment and minimization of threats. Chandler (1962) viewed strategy as the determination of the basic long

term goals and objectives of an enterprise, also view strategy as the adoption of courses of action and allocation of the organizations resources to achieve its goals.

Abbot (2007) defined strategy as the unique and distinctive actions a company takes to achieve a competitive advantage that will contribute to greater net profitability. Strategy he said is all about creating a distinctive approach to a customer differentiated value proposition. He argued that sometimes what is so much referred to as strategy is usually an operational plan involving some wishful thinking and a projection of existing status quo into the future and adjusting by a given percentage. According to him hard analysis and ruthless questioning of fundamental assumptions is usually lacking in such plans which should be present in a strategic plan.

Mintzberg et al (1998) viewed strategy from five interrelated definitions which are in terms of strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a deliberate, consciously intended course of action that is designed in advance of the actions it governs. Strategy as a ploy is a specific maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without preconception, this they termed as emergent strategy. As a position, strategy is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world. They further argued that no one definition should be preferred to the other but they should be considered as alternatives or complementary to another. Chandler (1962) argued that strategy is the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals.

Henderson (1989) defined strategy as a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. According to him, this search is an iterative process that begins with recognition of where the firm is currently and what it has. Ohmae (1988) argued that beating the competition is not really what strategy is about. This is because when strategy is focused on beating the competition, then the strategy is defined primarily in terms of the competition. This he said should not come first in making strategy, although it is important. He suggested that the first attention should be paid to customers and that competitive realities should be used to test possible strategies which should always be defined in terms of customers.

## 2.1.1 Characteristics of Strategy

Various authors have differentiated strategic plans from other kinds of plans. Ansoff and McDonnell (1990) suggested that strategy has various characteristics; first, the process of strategy results in no immediate action rather it sets the general direction in which the firm's position will grow and develop, secondly, strategy involves a search process whose role is to focus on areas defined by the strategy and uncover possibilities inconsistent with it and filter them out, third, strategy is irrelevant where the historical dynamics of a firm can get it where it wants to go, fourth strategy is different from objectives in that objectives are the ends the firm seeks to achieve and strategy is the means to these ends. Lastly, strategy and objectives are interchangeable at different points in time and at different levels in the firm.

According to Pearce and Robinson (1991), the characteristics of strategic management decisions vary with the level of strategic activity considered. At the corporate level, decisions are value-oriented, conceptual and less concrete. They involve greater risk, cost and profit potential with longer time horizons and greater need for flexibility. They have a far-reaching futuristic, innovative and pervasive nature. Functional level strategies involve action-oriented operational issues and lead to implementation of some part of the overall strategy. They are relatively short range and involve periodic planning, low risk and moderate costs. Business level strategies bridge the corporate and functional strategies and are less risky and costly than corporate strategies but more costly and risky than functional ones.

According to Johnson and Scholes (1997), strategic decisions are concerned with and affect the long-term direction of a firm. They are also aimed at achieving advantage for the firm and are conceived as the search for effective positioning of the firm. They argued that such decisions are likely to be concerned with the scope of an organization's activities i.e. what it should be like and what it should be about. Next, strategy involves matching the firm's activities to the environment it operates i.e. strategic fit. However strategy can also be building on stretching the resources and competences to create opportunities. Strategies may require major resources and are likely to affect operational decisions. Lastly they argued that strategies are affected by the environmental forces, resource availability and the values and expectations of those who have power in and around the organization.

## **2.1.2 Levels of Strategy**

According to Johnson and Scholes (1997), strategies exist at different levels in the organization namely; corporate level, business level and operating level. At the corporate level, strategies are about the overall purpose and scope of the organization. This involves how the organization is to be run in structural and financial terms and how resources are to be allocated. At the business level, strategy is about how to compete successfully in a particular market; at this level strategies should be related to a strategic business unit (SBU) which they define as a unit within the overall organization for which there is an external market for goods or services distinct from another SBU. At the operating level, strategies are concerned with how the component parts of the organization are combined to deliver the overall strategic direction.

Pearce and Robinson (1991) concurred on the three levels given by Johnson and Scholes (1997) however, they also added that for a business engaged in only one business, the corporate and business levels are rolled up into one level and therefore they have two levels only, that is the corporate level and the functional level.

## **2.2 Organization and the Environment**

All organizations are environment dependent. They are in constant interaction with the environment and depend on it for continued survival. Organizations operate as open systems. This means that an organization derive their inputs from the environment and give their output to the environment. The inputs are usually in the form of raw materials, labor, capital and skills. Through an internal process the organization converts the inputs into outputs; the outputs are then fed back to the environment. The environment will give the organization feed back on its output. The organization will use the feed back to respond to the environment by improving on the outputs. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment.

According to Johnson, Scholes and Whittington (2005), an organization exists in the context of a complex political, economic, social, technological, environmental and legal world. According to Proctor (2000), firms operate in changing and hostile business environments. The environment does not always accommodate the interests of the firm. Burnes (2004) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have

to chart their way through an increasingly complex environment. According to Kanter (1989) he likens organizations to elephants that need to learn how to dance as nimbly and speedily as mice if they are to survive in an increasingly competitive and rapidly changing world.

Despite the different approaches by the above authors, the dominant idea is that an organization has to respond to changes in the environment. This is because the environment it operates in dictates the responses the organization puts in place to guide managerial decision making. The environment by extension also dictates the capabilities the organization needs to support chosen strategies.

Ansoff and McDonnell (1990) explained the changes in the environment in terms of what they referred to as turbulence. According to them environmental turbulence is a combined measure of the changeability and predictability of a firm's environment. They described changeability to consist of the complexity of the firm's environment and the relative novelty of the successive challenges the firm encounters in the environment. Predictability consists of the rapidity of the change which is the rate of the speed with which environmental challenges evolve compared to the speed of the firm's response and visibility of the future which assesses the adequacy and timeliness of information about the future. They categorized environmental turbulence in five levels namely repetitive, expanding, changing, discontinuous and surprising.

Ansoff and McDonnell (1990) argued that at level 1; firms do not change their products and services unless forced by a threat to their survival since the environment is stable and repetitive. At level 2, the environment changes slowly and incrementally and firms succeed by adapting reactively to change. Decisions are based on experience and they do not change their products or services unless there is threat from the competition. At level 3 the environment changes incrementally but fast. To succeed firms seek to progressively improve their products and services in anticipation of changing customer needs. Level 4 becomes very difficult because the firm has to be ready to abandon its historical position and be driven by its perception of new opportunities that will exist in the environment. The firm has to continuously scan the environment to identify future discontinuities and only stays in industries which are profitable and exits industries in a timely manner before they become unprofitable. At level 5, the only way to succeed is by remaining a leader in developing products and services using cutting edge innovation and technology. According to them strategic management becomes vital to a firm's success and even continued survival at levels 4 and 5.

In advancing the strategic success hypothesis, Ansoff and McDonnell (1990) introduced what they term as a firm's strategic aggressiveness. This they described by the degree of continuity from the past of the firm's new products, competitive environments and marketing strategies and timeliness in introducing the new products appearing on the market. Timeliness ranges from reactive, anticipatory, innovative and creative. Discontinuity ranges from no change, incremental change, discontinuous and creative change. The strategic success hypothesis prescribes that for a firm to succeed its strategies must match the environment and further that its internal capability must match the strategies. The strategic success hypothesis states that a firm's performance potential is optimum when the aggressiveness of the firm's strategic behavior matches the turbulence of its environment, the responsiveness of the firm's capability matches the aggressiveness of its strategy and components of the firm's capability are supportive of each other. If these are not matching, a strategy-capability gap results.

### **2.3 Strategic Responses**

Whenever there are changes in the external environment, the firm has to come up with strategic responses in order to survive. The choice of strategic responses depends on the firm's internal capability. Therefore, strategic responses are driven by the external environmental changes and the firm's internal capability. The external environmental changes form the independent variable, internal capabilities form the moderating variables and strategic responses are the dependent variables. Ferrell et al (2002) argued that each organization must carry out a situational analysis which must always include analysis of the internal environment to determine the responses to adopt in order to survive and succeed in the external environment.

Johnson et al, (2005) states that strategic responses are the decisions that are made by a firm in order to align the firm to environmental changes. Strategic responses are thus the strategies adopted by organizations in response to changes in the environmental conditions. Faced with the increasingly complex environment, a firm needs to develop strategic responses.

According to Pearce and Robinson (1988) strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. In achieving the firm's objectives, management is faced by a complex and changing environment which impacts heavily on the firm. To ensure continued survival, management has to come up with a game plan in response to environmental changes which is the firm's strategy.

According to Byars (1991), strategic responses are different from operational responses. Operational responses are concerned with efficiency of operations. Strategic responses on the other hand affect several areas of operation, require top management decisions and large amounts of money, are future-oriented and affect long-term prosperity of the firm and most importantly are dependent on the environment. Therefore each firm adopts strategies that match its environment and that are supported by the firm's internal capability.

Strategic responses are the strategies that firms take that are triggered by environmental changes. Johnson and Scholes (1997) defined 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 to meet the needs of markets and to fulfill stakeholder expectations. This they argued involves matching of an organization's activities to the environment in which it operates. In addition, they argued that strategy can also be seen as building on or stretching an organization's resources and competences to create opportunities or capitalize on them. This idea, they argued, does not just imply ensuring resources are available or can be availed to take advantage of new opportunities in the environment but it means identifying existing resources and competences which might be a basis for creating new opportunities in the market place.

According to Thompson and Strickland, (1993) for organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. Firms need strategies to focus on the emerging environmental challenges. Therefore organizations therefore have to constantly scan their environments to identify the trends and conditions that may eventually affect the industry and adapt to.

According to Aosa (1992) a mismatch between the environment and the organization occurs when the organization fails to respond to changes in the environment, this failure brings about a strategic problem. This is in support of the need to continuously scan the environmental changes that affect an organization.

According to Ansoff and McDonnell (1990), it is through strategic management that a firm will be able to relate itself to the environment to ensure its success and also to secure itself from surprises brought about by a changing environment. They argued that this is done by positioning the firm through strategy and capability planning, real time strategic response through issue management and systematic management of resistance during strategy implementation.



Ross, Hitchin and Worley (1996) argued that for organizations to remain truly competitive over time as the environment changes, they had to learn, adapt and reorient themselves to the changing environment. This process has to be deliberate and coordinated leading to gradual or radical systemic realignments between the environment and a firm's strategic orientation that results in improvement in performance and effectiveness. This adaptation forms the strategic responses.

Ansoff and McDonnell (1990) advanced the strategic success hypothesis they proposed that a firm's performance potential is optimized when the following three conditions are met; the first condition is that the aggressiveness of a firm's strategic behavior matches the turbulence of its environment, the second condition is that responsiveness of the firm's capability matches the aggressiveness of its strategy and lastly that the component of the firm's capability must be supportive of one another. Therefore, strategy has to keep being altered to match the changes in the environment. This altering of strategy to match environmental changes becomes a strategic response.

Various authors have suggested some strategic responses that firms can adopt in matching the environmental changes. To cope with the five forces of the competitive environment, Porter (1980) advanced three generic strategies that firms can use to succeed in an industry. The three generic strategies are, cost leadership, differentiation and focus. Cost leadership involves aggressive minimization of costs with tactics like construction of efficient-scale facilities, tight cost and overhead control, avoiding marginal customer accounts and low research and development, advertising and service costs. Differentiation involves creating something that is viewed industry-wide as being unique and includes tactics like design and brand image, added features, technology and customer service. Focus strategy involves narrowing down to a particular buyer, segment of product line, market segment or even geographical area and using the cost or differentiation strategy for the narrowed down segment. As opposed to targeting the whole industry with cost or differentiation strategy, the focus strategy rests on the idea that the firm is able to serve the narrower target more effectively or efficiently. He further argued that any firm that does not pursue any of these strategies is 'stuck in the middle' which is an extremely poor strategic position which almost guarantees low profitability.

Ghemawat (2007) proposed what he termed as the AAA triangle framework. The idea behind this framework is that the world has become a global village. Therefore firms have to develop global strategies in order to compete effectively. The AAA triangle framework is made of three distinct global strategies namely adaptation, aggregation and arbitrage. Adaptation he said seeks to boost

revenues and market share by maximizing local relevance. Aggregation attempts to deliver economies of scale by creating regional or even global operations which involves standardization. Arbitrage involves exploitation of differences between national or regional markets by locating separate parts of the supply chain in different locations.

Pearce and Robinson (1991) proposed the grand strategies for surviving in the environment. A grand strategy is a comprehensive, general plan of major actions through which an organization will achieve its objectives in a dynamic environment. The grand strategies indicate how the business objectives are to be achieved. The grand strategies include concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

This was a case study of AMC. Kothari (1990) described a case study as a careful and complete examination of a social unit, institution, family, cultural group or an entire community. A case study he argued embraces depth rather than breadth of a study.

The study involved an in-depth exploration of the strategic responses by AMC to changes in the environment. The study allowed for an in-depth understanding of AMC but cannot be used to generalize for any other company or industry.

### **3.2 Data Collection**

The study made use of both primary and secondary data. Secondary data was obtained from the company's records such as published financial statements and in-house publications. This method assisted in obtaining data quickly and cheaply and also assisted in probing when collecting primary data. Secondary data assisted to address the first objective which was to identify changes in the external environment that have affected AMC.

Primary data was collected through in-depth interviews. An interview guide was used to help steer the interview as well as to ensure crucial data is not forgotten during the interviews. The interview guide made use of both open-ended questions and closed questions. Open ended questions allowed the respondents to explain phenomenon in their own words and in more detail. Closed questions were used to aid ease of comparison and in analysis of respondent's answers.

The target respondents for the study were twelve (12). These included; Chief Executive Officer, Chief Operations Officer, Finance Manager, IT Manager, Three (3) Branch Managers, Head of Pharmacy, Head of Laboratory, Business Development Manager and Two (2) Consultants.

### **3.3 Data Analysis**

Data collected from the study was qualitative data. A content analysis was performed on the data to allow for an in-depth understanding of issues in the case. Nachmias and Nachmias (1996) defined content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate to trends.

By performing a content analysis, a clear understanding of respondents' answers was obtained. This approach had been used successfully by other researchers for previous similar studies like Muse (2006), Kathuku (2005) and Mulema (2004).

## CHAPTER FOUR: FINDINGS AND DISCUSSION

### 4.1 Strategic Planning

AMC had periodic strategic plans. The company's senior executives would draw up long-term strategic plans and capture them in its mission. At the time of the study, the company was going through a period of redefining its vision and mission that would guide its new strategies.

The overall strategy of the company is determined by a committee dubbed Executive Committee that is comprised of the chief executive officer (CEO), the chief operations officer (COO), the finance manager (FM) and consultants. EXCO meets twice in a year to set strategy for the company. EXCO meetings usually take three days and are often held off-site away from the busy office to enable the members to brain storm. In determining the strategic plans, EXCO would carry out a review of current macro-environmental conditions and competitive conditions and any likely changes in these conditions. From this analysis, the executives would determine the likely threats and opportunities posed to the company. Based on the expected threats and opportunities, they would determine the strategies to undertake in the course of the year in response to these changes.

Finance Committee (FINCO) is another high level meeting that is held once a week and it includes the CEO, FM, a member from Praxis and a member from Quantum (consultants). FINCO determines the company's financial strategy for the year. FINCO reviews the progress of the strategy by monitoring and controlling the budget, determining the critical payments and planning for the cash flow requirements and expenditure of the company on a weekly basis.

The overall strategy is cascaded down to the senior business executives by way of monthly and weekly meetings of senior managers that include CEO, COO, FM, and BDM, the branch managers, the head of pharmacy (HF), the head of laboratories (HL) and a team of consultants. These monthly and weekly meetings break down the long-term plans into annual plans. From this, the annual targets would be determined and cascaded down such that each business area would have its annual mission and targets.

The mission would be cascaded down from the senior business executives to individual. At the beginning of the year each individual is aware of what they would be expected to contribute for the company to achieve its goals. At the individual level the goals would be captured by performance

agreement. These performance agreements would form the basis of performance evaluation at the end of the year subsequently determining the salary increments and bonus payments to members of staff.

## **4.2 Environmental Changes**

The study established that there had been many changes in the external environment variables, however not all these changes had large impact on AMC. The following variables had impacted AMC to above medium extent leading to the company drafting strategic responses to address the changes in these variables. In the political-legal framework, the company had faced greatest challenges from government stability and the upcoming elections of 2012. The challenge posed by these two variables was due to the uncertainties, fear and loss of business risks that would befall the company. AMC suffered great loss during the last general elections by having its Kisumu branch adversely affected. There was also a substantial loss of business resulting from high debtors default rates and non renewal of policies.

In the technological environment, AMC had been operating with three disjointed information systems which were becoming obsolete due to improvements in technology. These three separate systems were Care2x, Cistec and SAP. AMC had challenges in coping with the high rate of technological development, high speed of technological transfer and high industry focus on technological efforts. AMC was challenged by these variables due to its high dependence on ICT in its operations. The HMO industry is characterized with high level of technological advancement as more break-through inventions are made. The cost related with keeping on track with these technologies is high, due to the high rate of technological advancement and high rate of obsolescence of the acquired technology.

In the economic environment, the company had been affected by the high interest rates, credit availability, inflation, disposable income, Economic growth, consumer spending patterns, consumer willingness to spend and cost of factors of production. These variables had an impact on the affordability of health care services and thus the company's bottom line. Economic variables also impacted on its market growth strategy as these were mostly dependent on availability of credit financing and a vibrant economic environment. Due to the world economic down turn, the prevailing draught in Kenya and the potentially volatile political situation in Kenya have caused economic challenges to AMC.

The socio-cultural environment variables like population safety concerns, younger population, more educated population and, changing lifestyles such as eating habits, exercise, and social habits had a medium to large extent impact on AMC. The level of safety awareness among the urban population increased as the population became more elite. AMC patients were more concerned with danger of being infected with the HIV virus due to the professional negligence of the company staff. Patients were concerned with the side-effects of caused by drugs and thus demanded for total disclosure from the company. AMC demographic spread is composed of 80% young members of less than 35 years old and 20% members of over 35 years in age. The younger population is prone to high risks of HIV infections due to unprotected sex and exposed to high incidence of accidents due to alcohol and drugs abuse. AMC is also concerned with the poor eating habits within the urban population that is comprised of junk food high in carbohydrates and fizzy carbonated drinks. AMC was also concerned with the lack of physical exercise among its patients this predisposes them to heart related diseases. The social habits of the urban population was also a concern for the company as an increasing number of people preferred staying indoors over engaging in outdoors activities that are more beneficial to their health.

In the physical –ecological environment the following variables posed a challenge to the company, waste disposal laws, pollution control laws and environmental impact assessment requirements. The National Environmental Management Authority (NEMA) have imposed strict laws on the quality of building structures, specifications of observation rooms, ventilation and disposal of sharps and other laboratory and clinical wastes all at a great cost to AMC, these laws have increased the cost of operating an outpatient facility.

Competition pressures from generic medicine, new entrants, and high bargaining powers of both suppliers and customers have had a large impact on AMC. These variables threatened to reduce business and erode the company's profits. Substitutes are cheaper and easily available as compared to branded medicine that AMC stocks, branded medicines are often imported and are more expensive.

New entrants in the market included new medical divisions of insurance companies and new HMO's; these have threatened to erode the margins enjoyed by existing HMO's. Supplier's bargaining powers have increased due to the small number of reputable suppliers in the Kenyan market that stock branded drugs and with genuine laboratory reagents and equipment. Due to small number of suppliers they have colluded to hike prices and to push for better terms of trade such as

shorter credit terms from the original 60 days to a more steep 30 days. This has greatly impact on AMC cash flow. Customers have also exerted pressure on AMC by threatening to switch to other providers, demanding better price discounts, demanding for longer credit periods and larger credit payment terms. AMC has also suffered a huge debt portfolio caused by protracted payment by debtors; these had a negative impact on AMC cash flow.

### **4.3 Strategic Responses**

The following were the specific strategies that AMC put in place in response to the highlighted changes in the external environment in line with its 2000-2005 strategy. These strategic responses were depended on the company's internal capabilities and were found to be adequately aggressive to effectively address the threats that changes in the external environment exerted on the company. The strategies enjoyed support from the entire organization and were supportive of each other.

#### **4.3.1 Information Communication Technology Changes**

To move from a manual to a more automated operating system, AMC rolled out a new information system (IT) across its business. AMC moved from Pastel to SAP a full enterprise resource program (ERP). The new implementation covered the entire business processes on an end-to-end basis that is from point of sales (POS) to financial reporting. The new IT system was expected to increase effectiveness and efficiency in operations by automating business processes and promoting real-time capturing of business transactions and controls. The system had been in response to the need for a streamlined system, enhanced accountability, robust internal controls and provision of real time data for decision making triggered by availability of new technology.

AMC also embraced the new connectivity solutions offered by the new fiber optic solutions. AMC signed IT support contracts with leading IT firms such as Access Kenya Ltd, Kenya Data Networks Ltd (KDN) and Enterprise Information Management Ltd (EIM) These IT support partners ensured that the AMC is fully supported and remained flexible to changes in the external environment. The benefit of the IT system has included reduced customer turn around time to forty five (45) minutes that is above the industry average of one hour.



### **4.3.2 Restructuring**

In January 2008 due to the miss match between the corporate strategy and the organization structure AMC engaged in an exercise of aligning its organization structure and its financial structure to support intended strategy. The previous organization structure was centralized with head of business functions centrally stationed at the head office away from the branches. The new structure allowed for more decentralization with the introduction of branch managers. Each branch was to be autonomous and thus independent. It was felt that better informed decisions would arise by having the decision maker as close as possible to the problem and also by having localized solutions to local problems.

Financial restructuring was also in progress; AMC was planning to return back to debt finance to complement the existing equity capital. The debt had been used to finance long term expansion projects such as opening new branches at Westgate and Landmark Doctors plaza. The company also financed its operations from short term debt such as bank overdrafts facilities, credit supplies, and bank loans.

### **4.3.3 Retrenchment**

Prior to the retrenchment of staff in January 2008, AMC had over 168 staff members. This number was both a burden to the company in terms of salary and related costs and also in terms of inefficiency evidenced in duplication of duties and low productivity per employee. AMC contracted Miliki consultants to conduct a review that could determine the optimum number of staff that would optimize production and efficiency. As a result of this review AMC retrenched thirty five (35) members of staff in January 2008. The retrenchment was meant to merge functions and remove duplication of duties across the company by making better utilization of staff. With the assistance of IT systems it was expected that leaner staff would adequately perform the require functions with efficiency.

The retrenchment was costly (Ksh16m) to the company due to the personal attachment that some long servicing staff had had with the company and also costly in terms of terminal benefits that was payable to the retrenched staff that was above Ksh 6 million. The number of staff decreased from one hundred and sixty eight (168) heads to the current one hundred and thirty three (133) heads (July 2009 payroll). The retrenchment strategy faced resistance from staff who had vested interest in

the company by way of corrupt deals. The strategy was supported by management and was successful in weeding out unwanted and corrupt staff. The financial implication of this retrenchment was a monthly cost saving of Ksh 2.5 million in saved salaries.

#### **4.3.4 Diversification**

The outpatient market was getting saturated with new entrants that offered similar services as those of AMC. The outpatient market at AMC is also seasonal as it follows the renewal trends of insurance companies. AMC was therefore pressed with a need of having a steady stream of income that the outpatient service alone could not provide.

To respond to the threat of new entrants AMC diversified its services into the highly profitably radiology service. Through collaboration with Plaza Imaging Ltd a company related to AMC, it was able to offer radiology services such as magnetic resonance imaging (MRI) and highly specialized X-Ray service such as CT-scans. These diversity was in response to the increased competition posed by new entrants and it was a different live of business from the outpatient service. Thus AMC was ensured of a sustainable income. Revenues of the company have stabilized over time as the new line of business has added to the number of services that the company provides, this has had the desired effect of steady streams of income.

#### **4.3.5 Innovation**

The HMO industry was facing stifled growth due to lack of new products services and processes. Most HMOs were a reflection of the others. This posed a threat of losing business as the patients could not differentiate AMC from the pack. To respond to this threat of slow growth, AMC innovate a new business model that was to be eventually replicated by major hospitals including Nairobi Hospital and Aga Khan Hospital.

The model was to acquire rental leases in prime business locations such as Landmark towers and Westgate. AMC would then structurally renovate the premises to suit the need of doctors by constructing start of art observation rooms and consultancy rooms. AMC would then shortlist specialist doctors and lure them to occupy the already furnished offices. AMC would then open a laboratory and pharmacy in the same building. The tenant doctors would then enter into a contract with AMC that in exchange of the subsidized rent charges, they would in exchange refer all their

laboratories requests and drugs prescriptions through the AMC laboratory and pharmacy. This model served the needs of the doctors as well as those of AMC by creating a mutual dependency where both parties were in a win-win zero sum game.

#### **4.3.6 Product Differentiation**

AMC had always strived to be perceived as different by market. In order for AMC order to achieve this objective it has gone to great length to create a specific image to the eyes of the market. Most HMO offering outpatient services have the same image as a hospital and thus patients do not feel the difference between them and the hospitals.

AMC portrays an image of a high quality service that offers high quality medical attention that includes branded drugs and uses of genuine laboratory reagents. AMC internal layout includes spacious and cozy seats that form its launches; spacious setting that removes a feeling of congestion and offers enough privacy, home-like atmosphere, beautiful wall paintings and natural flowers and plants that are arranged in the rooms. The rooms are sprayed with air fresheners that add to the ambience of the rooms. The staff does not wear uniform unlike in most hospitals. The aim is to make patients relax and not feel like they are in hospital. The other difference is that it's a one-stop-shop for all your medical requirements with all the facilities conveniently located in the same building if not floor.

#### **4.3.7 Product Development and Modification**

AMC had developed and modified its products to appeal to a wider range of consumers. The company had introduced cash customer's services, accepts international credit cards, insurance customers and direct corporate clients.

AMC started along Ratemo Street in Nairobi's River road area, it was a stand alone pharmacy that only dispensing drugs. It later developed into a specialist clinic that only catered for HIV and Diabetics patients only. In the early 2000 it developed into its current status of being an outpatient facility. As the company developed it kept changing its products and modifying them to suit patient's needs. By opening its Westgate branch it had targeted the upper market niche clients mostly comprised on United Nations staff and other NGO's in Westlands Nairobi. The town branch at ICEA building was targeted to the corporate clients and the younger population that are mostly

stationed in Nairobi's central business district (CBD). The General Accidents branch targeted to capture women and children with the Gynecologists and pediatricians specialist that are available at that branch. Each of these branches offer a product that suits the targeted group and the product is modified to go with the current needs of the target group.

### **4.3.8 Marketing Mix Modification**

To respond to the threat competition as a result of new entrants, AMC varies its products, prices, place and promotion according to the needs of its clients. For instance the consultation fee at its Kisumu branch is lower as compared to the consultation fees as any of the Nairobi branches. The products offered at the ICEA town clinic are different from the services offered at the General Accident (GA) house clinic. The town clinic offer mostly general practitioner services while at GA more specialized services are offered.

AMC has also promoted the your businesses such as the Kisumu and Landmark by way of big signposts and media as compared to advertising its mature branches such as GA and ICEA branch which do not need the promotion as much as the younger branches does.

### **4.3.9 Cost Leadership**

AMC has maintained a cost leadership strategy especially on its consultation services. Compared to other HMO's such as AAR AMC has maintained low consultation fees of shillings five hundred (Ksh 500/-) compared to shilling eight hundred (Ksh 800/-) charged by AAR. AMC is still very low when compared to other major hospitals as at Nairobi Hospital shillings one thousand two hundred (Ksh 1,200/-), Aga Khan Hospital shillings one thousand one hundred (Ksh 1,100/-) and Mater hospital shillings eight hundred (Ksh 800/-).

This strategy has made AMC a favorite with insurance companies such as Jubilee Insurance Ltd that have continued to channel more business to AMC due to this fact. This strategy has served AMC well and it promoting more business that come in through its doors, AMC realized that its profits are made by dispensing drugs and the laboratory testes and gains this by lowering its consultation fees.

### **4.3.10 Integration**

AMC has used this strategy to integrate its pharmacy business and laboratory business into one company. Previously AMCP run its pharmacy business while AMCL run its laboratory business. AMC run the clinics and the marketing functions for the other two. As the holding company AMC also supplied shared services such as finance, human resources, administration and IT. However due to taxation savings of operating as one, the two companies were integrated into one to become a bigger AMC.

The benefit of this strategy is that the high cost of operating the laboratories and the pharmacy were allowable expenses to offset the large revenues that were being recorded from sales. It therefore made it cheaper and smarter to work as one trading house as opposed to differently. The tax losses of one company became allowable deduction in determining the corporate tax of the group. This was a major plus as the pharmacy was making a lot of profits that could have otherwise been taxable were it to operate as a separately.

### **4.3.11 Culture and Structure Changes**

AMC enjoys an open door culture where it is very easy to access senior management without setting appointments. This culture has enabled easy share of information horizontally among the same level of management and vertically across different levels of management. AMC also moved from highly formalized interactions to a near informal way of interacting among staff, management and with suppliers. This has had the benefit of better business relationships and more trust among staff and management. During staff birthday anniversary the staff is bought two cakes, one he takes home and the other he shares with staff.

AMC has promoted a culture of constant meeting by way of its Monday meetings, departmental meetings, email as well as unlimited internet access for all staff. This has promoted communication in the organization. Accompanying this change of culture was a change of structure. Previously the structure was divided by functional departments, but this was changes with the branch structure that was set up in January 2008 that grouped staff in one branch as a single unit.

### **4.3.12 Strategic Alliance**

AMC has embraced this strategy by forming business alliances with consultants that have enabled it examine its operations and grow. AMC realizes the importance of forming alliance with specialists in different areas including doctors, management consultants, financial consultants and financial institutions such as banks. The company has also formed an alliance with its competition such as AAR Health services Ltd, where it provided AAR with pre-employment medical examination reports (MER) for a fee.

AMC has closed business relationship with Equatorial Bank of Africa Ltd and I&M Bank Kenya Ltd for the provision of both long term and short term loan facilities. AMC has also entered into a strategic partner's relation with Praxis Partners Kenya Ltd that offers it debt capital financing as well as specialized management services. Praxis are in the process of preparing a prospectus that will enable AMC source for funds from other investors to boost its capital base in readiness for its expansion plan into the East Africa region.

### **4.3.13 Internationalization**

AMC is an international company going by the way it perceives it's self. However the company still operates within the confines of Kenya, but it is aware of the competition next door that has been brought about by globalization and liberalization of the Kenyan market. AMC has partnered with international health insurance companies that offer international health insurance cover to its members such as BUPA International and Allianz International (Sweden). AMC is an appointed outlet of these international companies.

AMC has plans to expand into the East Africa region within the next five years and this will open great opportunities as well as pose challenges to its. Through its strategic alliance with Praxis it will source international funds to finance this expansion through equity offerings as well as debt capital. AMC has continued to support the British High Commission (BHC) and other international agencies such at African Trade Insurance Agency (ATI) with specialized outpatient medical services

## 4.4 Discussion

The results of this study are in support of Pearce and Robinson (1997) proposition that in order for organization to achieve their goals and objectives it is necessary for them to adjust to their environment. From the foregone study it is evident that AMC adjust to the some changes in its external environment by adapting strategic responses in order to achieve its goals and objectives.

The study is also in support with the strategic success hypothesis according to Ansoff and Mc Donnell (1990) they argued that a firm's performance is optimized when the aggressiveness of its strategic behavior matches environmental turbulence, the second condition being that the responsiveness of the firm's capability matches the aggressiveness of its strategy and thirdly, that the component of the firm's capability supports each other. This study has evidence that AMC has responded to changes in the external environment with a force that is dependent on the strength of the charge and its own capabilities. The study shows that AMC does not respond to all changes as some are beyond its capabilities. The study also complies with the theory by ensuring that all departments support the intended strategy.

This study is in support of Johnson, Scholes and Whittington (2005), theory that proposes that an organization exists in the context of a complex, political, economic, social, technological, environmental and legal world. The study showed that AMC understands the historical environmental effects as well as expected or potential changes in the environmental variables. AMC is in cognizance of the many variables that give rise to opportunities and others exact threats on it operations.

The results of this study are comparable to other similar studies done by to determine how different organizations have responded to changes in the environment such as studies done by Kathuku (2005) who carried out a study on strategic responses by Cooperative Bank of Kenya, Lalampaa (2006) who studied the responses by the Higher Education Loans Board to environmental challenges in financing higher education in Kenya and Gachambi (2007) who carried out a study of responses to the changes in external environment at East African Breweries Limited.

## **CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSION**

### **5.1 Summary of Findings**

The study set out to determine changes in the external environment that had affected AMC and the strategic responses that AMC had put in place to deal with these changes. The study made use of primary data as well as secondary data.

#### **5.1.1 Changes in External Environment**

The study further established that the following variables in the external environment had impacted AMC to a large extent and thus influenced the company's strategic responses. In the political-legal environment the key variable had been changes in government stability and national elections of 2007 both with the upcoming elections of 2012.

In the technological environment the rates of obsolescence, high rate of new technological developments, high speed of technology transfer and high industry focus on technology had played a major role. In the economic environment key variables had been the interest rates, availability of credit, high inflation rates, disposal incomes levels, economic growth rates, customer spending patterns, willingness to spend, and cost of factors of production.

In the socio-cultural environment, the key variables had been population safety concerns, younger population, and more educated population and lifestyle changes. In the physical environment key challenges had been the waste disposal laws, pollution laws, and environmental impact assessment requirements.

#### **5.1.2 Strategic Responses to Changes**

The study established that in coming up with strategic plans; the executives of AMC would consider changes in the external environmental that exerted middle to large extent pressure, and therefore eliciting strategic responses from the company.

The study established that AMC had strategies to address the environmental changes. Key strategies that AMC had employed are information systems change, restructuring, retrenchment, diversification, innovation, product differentiation, product development and modification,



marketing mix modification, integration, culture structure change, strategic alliance and internationalization.

## **5.2 Recommendations**

AMC had been very successful in its strategic responses and had managed to dominate the outpatient market in the HMO industry. However, AMC should move fast and expand into the greater East Africa region in order to cash-in from the East Africa Community integration that is being negotiated by the member states. This would open up a target market of over 100 million people across the East African countries.

AMC should also consider opening vertical integrations with its suppliers of drugs and laboratory reagents and equipment by buying shares in its major suppliers. This will result in lowered cost of inputs and thus higher profit margins in return. The company should form better corporate governance and invite more equity share holders to strengthen its decision making processed by having a board of directors (BOD).

## **5.3 Limitations of the Study**

The findings of this research were limited due to some factors arising in the course of the study. The biggest challenge in conducting the study was due to the fact that most companies would like to keep their strategies confidential because they would use them to gain competitive advantage. Therefore, the respondents were not very willing to disclose their strategies in some cases or give details of how they have implemented their responses.

The time available for this study was also limited and especially in data collection considering the interview method of data collection. The other challenge was on accessing some of the senior management due to their busy schedules. Therefore, in some cases the study relied on data from middle level managers, which may have limited the research findings. Lastly, this study focused on management only while the company's stakeholders are many. The findings of this study are therefore limited to the views from management.

## **5.4 Suggestions for Further Study**

The study focused on AMC's responses to environmental changes. These environmental changes affect all companies in an industry and sometimes all companies within a given location. To understand, the strategic responses possible for these changes, further studies could be carried out in the other companies in the industry affected by the same environmental changes.

Different companies respond to environmental changes in different ways. AMC had applied the strategic responses identified in this study. However, to gain a full understanding of why AMC had chosen to use these strategies, a further study could be carried out. This would focus on the strategic responses available to and why AMC had chosen to use the responses it had adopted.

Lastly, the environment is dynamic and keeps changing overtime. With these changes, the strategic responses were expected to change. Therefore, further studies could be carried out on AMC to determine how the company would alter its strategies to other changes in the environment in future.

## **5.5 Conclusion**

AMC had employed a great mix of strategic responses in order to cope with environmental changes. Though not clearly distinct, the strategic responses adopted by AMC seemed to be in line with the Pearce and Robinson's (1991) grand strategies namely concentration, market development, product development, innovation, integration, joint venture, diversification, turnaround, divestiture and liquidation.

AMC had been one of market leaders in the outpatient services in the HMO industry in Kenya as it dominated the industry especially on outpatient services. The company had managed to get ahead of its competitors. However, the company still found it necessary to engage in strategic planning. The company still monitored changes in the environment and put in strategic responses to address the changes. This showed that strategy was important for a company that was facing changes from the external environment. From the findings of the study monitoring and strategic responses to environmental changes were very important for a company to survive and remain profitable in the environment. This was because environmental changes were continuously exerting pressures on the environment and failure to change could be detrimental to the going concern of the company.

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## **APPENDICES**

### **APPENDIX I: INTERVIEW GUIDE**

1. Does your company have a strategic plan and how often is the plan reviewed?
2. At what level in the organization are strategies made?
3. To what extent have changes in the political-legal variables impacted on AMC? Which strategies did you use to respond to these changes?
4. To what extent have changes in the technological variables impacted on AMC? Which strategies did you use to respond to these changes?
5. To what extent have changes in the economic variables impacted on AMC? Which strategies did you use to respond to these changes?
6. To what extent have changes in the socio-cultural variables impacted on AMC? Which strategies did you use to respond to these changes?
7. To what extent have changes in the physical/ecological variables impacted on AMC? Which strategies did you use to respond to these changes?
8. To what extent have changes in the competitive pressures impacted on AMC? Which strategies did you use to respond to these changes?
9. Are there any other environmental changes that have impacted on your company's strategies and how have you responded to such changes?