

**STRATEGY FORMULATION AND IMPLEMENTATION AT AAR
GROUP OF COMPANIES**

BY

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**UNIVERSITY OF NAIROBI
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF
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DECLARATION

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

Signed:  _____

Benson Mwangi Gichohi

Date: 19/11/07

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

Signed:  _____

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Date: 19/11/2007

DEDICATION

This study is dedicated to my loving wife Catherine and our wonderful children Eddie and Wahome. Their support and encouragement was key in doing this project successfully.

ACKNOWLEDGEMENT

My gratitude goes to my wife Catherine for the support during this period,our children Eddie and Wahome for allowing me to take time off from the family to concentrate on my studies.

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Finally, but not least there are other people who contributed in one way or the other in completion of this study but their names have not been mentioned. To them I am most grateful.

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LIST OF ABBREVIATIONS

- AAR - Africa Air Rescue
- ABSC- AAR Balanced Score Card
- BSC- Balanced Score Card
- CEO - Chief Executive Officer
- HMO - Health Management Organization
- ICT- Information Communication Technology
- MD- Managing Director
- MIP - Medical Insurance Provider
- NHIF - National Health Insurance Fund
- NSHIF - National Social Health Insurance Fund
- SWOT- Strengths, Weaknesses, Opportunities and Threats

ABSTRACT

For a firm to survive and prosper, a strategy is important. Strategy helps a firm create a fit between the organization and its environment in an effort to enable the organization adapt to its turbulent environment. How the strategy is planned, formulated and implemented is therefore important.

Strategy is the direction and scope of the organization over the long term, which enables it to achieve advantage through configuration of its resources within the changing environment, to meet the needs of markets and fulfill the expectations of the stakeholders. An organization's strategy deals with the game plan for moving the company into an attractive business position and building a sustainable competitive advantage. A company's actual strategy usually turns out to be more or less than the planned strategy as new strategy features are added and others are deleted in response to newly emerging environmental conditions.

This study was about the strategy formulation and implementation process at AAR group of companies. The group was started in the year 1984 and operated in a relatively stable environment for 15 years up to year 1999 when adverse environmental challenges started emerging. By year 2003, the environmental factors had become severe and the group realized that it had to review its strategy if it was to survive. The objective of the study was to document the process that AAR group undertook in formulating and implementing the strategy. The study further sought to interrogate any challenges encountered in that process.

The study was conducted as a case study by carrying out in-depth interviews with the Chief Executive Officer, The Managing director, five (5) Senior Managers, five (5) middle level managers and ten (10) employees at lower support level. The findings confirmed that the group formulated strategy and has continued to implement those strategies.

This study established that key to strategy formulation at AAR Group was a clear identification and formulation of the organizations Vision, Mission, Core Values and

strategic objectives. The organization used participatory approach where all staff were involved in this process. This was particularly key in ensuring buy in by all staff. The organization further successfully analyzed and understood both the external and internal environment that it was operating in as a basis of determining proper fits between the group's capabilities and the environment. The product of this exercise was a clearly spelt out understanding of what the organization needed to do to prosper in that environment having considered both the internal capabilities and the external conditions.

The next step was then to implement the plans that had been formulated. Key to successful strategy implementation at AAR Group were nine (9) components; rules and policies consistent to the strategic objectives, goals and measurements were created, organization core values were embedded, there was consistent training, products offering was enriched, there was change in both the physical structure and organization structure.

There were three major challenges of strategy formulation and implementation at AAR Group. Firstly, the participatory approach was challenging especially in having the lower level staff participate fully in the process. The other challenge was in achieving successful embedment of the new core values. The biggest challenge though was in setting up and implementing performance measure and reward system that was understood by everyone and that would drive performance to predetermined objectives. To date, this remains a challenge to successful strategy implementation.

This study was limited by scarcity of resources. It would have been desirable to interview a larger number of lower level employees. Furthermore, because the topic under research was broad since it incorporated both strategy formulation process and implementation process, the research was not adequately detailed.

Further detailed study should be conducted on specific aspects of strategy formulation and implementation at AAR Group separately to give a more detailed account of each process. In addition, studies should be carried out to establish whether other Health Management Organizations have formulated and implemented strategies and how this was done.

CHAPTER ONE

INTRODUCTION

1.1 Background

1.1.1 Strategic Management

For a firm to survive and prosper, a strategy is important. Strategy helps a firm create a fit between the organization and its environment in an effort to enable the organization adapt to its turbulent environment. How the strategy is planned, formulated and implemented is therefore important.

Strategy is the direction and scope of the organization over the long term, which achieves advantage of the organization through its configuration of its resources within the changing environment, to meet the needs of markets and fulfill the expectations of the stakeholders (Johnson and Scholes 1999). An organization's strategy deals with the game plan for moving the company into an attractive business position and building a sustainable competitive advantage. A company's actual strategy usually turns out to be more or less than the planned strategy as new strategy features are added and others are deleted in response to newly emerging environmental conditions (Thompson and Strickland, 1998).

Strategic Management is the management process of specifying organizations goals, developing procedures and plans to achieve these goals and allocating corporate resources to enable the implementation of these plans. The end result of the strategic management process is a plan which states the overall direction of the organization.

In strategy formulation firms do a strategic analysis taking into account the internal and external environment. The internal environment encompasses the resources of the firm that may be tangible or intangible, the processes, skills and attitudes, suppliers, customers, culture, and people from which the company will identify its strengths and weaknesses. A firm has reasonable control on internal factors.

The external environment consists of competitors; social, political, legal and technological factors over which a company has no control. From the external factors analysis, the company will identify the opportunities and threats presented by the environment. The aim is for the company to hedge itself against the threats and take advantage of opportunities using its strengths and if possible make up for its weaknesses. In the process the company will make broad decisions on such matters as the breadth of the product line, the geographical scope, the competitive actions chosen, the level of social involvement, the performance objectives sought and the technology chosen (Pierce and Robinson, 1997; Thompson and Strickland, 1993). Strategy may be formulated through the rational analytical approach. Johnson and Scholes (2002) noted that strategy may be formulated by top management through careful analysis and planning and passed down through the organization.

The strategy implementation process is easily the most complicated and time-consuming part of strategic management (Hrebiniak, 2005). Most managers know a lot more about strategy formulation than implementation. Successful strategy formulation does not guarantee successful strategy implementation. Although intricately linked strategy implementation is fundamentally different from strategy formulation. Strategy implementation is difficult, and worthy of management's attention across all levels of an organization.

A large part of the time of managers is devoted to execution, that is, detailed programming, motivating, and controlling (Newman, Logan and Hegarty, 1989). However, no services are rendered and no profits are earned until action by first line managers actually takes place. All managers thus bear responsibility for successful implementation. It is not just a lower level task. Without understanding and commitment, strategy implementation efforts face major problems (David, 1997). Managers are prone to overlook implementation realities. Therefore, many strategies fail at the strategy implementation stage.

Difficulties in strategy implementation are partly occasioned by obstacles or impediments to the implementation process. Hrebiniak (2005) observes that these difficulties often

include longer timeframes needed for execution; the need for involvement of many people in the implementation process; poor or vague strategy; conflicts with the organizational power structure; poor or inadequate sharing of information; a lack of understanding of organizational structure, including information sharing and coordination methods; unclear responsibility and accountability in the implementation process; and inability to manage change, including cultural change.

Although in reality, there may be a separation of formulation and implementation tasks, the two are highly interdependent. Planning affects implementation. The implementation of strategy, in turn, affects changes to strategy and formulation over time. However, putting the strategy into effect and getting the organization moving in the chosen direction calls for a different set of managerial tasks and skills (Thompson and Strickland, 1993). That is, implementation must permeate the very day-to-day life of the company for strategy to be effectively implemented (Pearce and Robinson, 1997). It cuts across all facts of managing and must be initiated from many points inside the organization. It affects an organization from top to bottom, and it impacts on all the functional and divisional areas of a business. Depending on the amount of internal change involved, full implementation can take several months to several years (Thompson, 1990).

Whereas formulating strategy is largely an entrepreneurial activity, implementing strategy is largely an internal and administrative activity. Whereas successful strategy formulation depends on business vision, market analysis and entrepreneurial management, successful implementation depends on working through, either, organizing, motivating, culture building, and creating strong fits between strategy and how the organization does things. Implementing strategy is tougher, more time consuming, and challenging than crafting strategy. Practitioners emphatically agree that it is a whole lot easier to develop a sound strategic plan than it is to make it happen (Thompson and Strickland, 1993).

Today's businesses have become sophisticated. The environment in which businesses are operating is becoming continuously complex, competitive, dynamic and extremely turbulent. Senior managers are at the same time under severe pressure to perform, ensure profitability and overall success of the organizations. Success in this generally dynamic environment that businesses operate in is a serious challenge, more so in view of the various internal and external factors that more often than not hamper achievement of the desired success. This has brought about the need for complex decision-making processes. The success or failure of businesses is attributable to how strategic the decision making processes are made to be. Senior executives have therefore resorted to employing strategic management as a means of ensuring organizational success.

1.1.2 Health Management Organizations (HMOs)

A HMO is defined as "an organization that combines the provision of health insurance and the delivery of health services" (Given1994). Early HMOs and HMO-like institutions developed in the 1930s as farmers' cooperatives. The HMOs offered pre-paid health care to workers and their families. The main aim of HMOs was to provide healthcare to their members at costs they could better afford. One of the reasons HMOs did not grow rapidly at first was resistance from organized medicine. Leaders in the American Medical Association (AMA) and its affiliates believed that cooperative health plans would violate the integrity of medical decision-making and provide inferior care. However, the HMO movement overcame this medical resistance and a variety of other attacks and began to grow even outside America.

In the Kenyan environment, the first HMO to be established was AAR in the year 1984. AAR operated as a monopoly player in this market until late 1990s when other HMOs started emerging. Over the years, other HMOs have been registered, with the number of players currently being seven.

In the last seven years the HMO industry has had to deal with fierce competition, advancement in technology, poor economic environment and changes in government legislation. Government legislation has led to changes in the operating environment. The

Insurance Amendment Bill was passed in Parliament in 2003 and it led to amendment of the Insurance Act, Cap 487. It states that an organization cannot provide medical insurance and provide medical services at the same time as this will lead to a conflict of interest. The government gave such organizations up to July 2005 to abide by this legislation. The government published the proposed National Social Health Insurance Fund (NSHIF) bill, 2004, in a special Kenya Gazette issued dated 28th May 2004 and tabled in parliament by the government on Wednesday 23rd June 2004. The Bill intended to reform the National Health Insurance Fund (NHIF) Act of 1998 to provide every Kenyan with affordable, acceptable and accessible basic quality health care from July 2004.

1.1.3 AAR GROUP

AAR is the largest and most successful group of private health care companies in East Africa, having developed a business model built around the concept of a Health Management Organization (HMO). It was established in 1984 by the Beckmann family as a rescues and evacuation organization, but by 1991, the organization expanded its products offering to a total health management package encompassing both inpatient and outpatient solutions. Over the 24 years the company has been in operation, it has built an extremely successful health care model based on an inbuilt capacity to manage medical costs for the members through an elaborate outpatient management infrastructure combined with a superior inpatient management infrastructure. The model that AAR has put to use gives it a unique competitive advantage over competition. This infrastructure has also enabled AAR to provide world-class health care to its members unrivalled in both quality and cost. AAR today operates fifteen health provision facilities in East Africa and enjoys a membership base of over 100,000 members. AAR leads the way in the transition of provision of health services for provision from Central Government to the private sector. For a number of years up to late 1990s, the membership had been growing rapidly and the organization prospered with minimal competition or other market threats.

A number of environmental changes started being felt in the late 1990s. Competition started creeping in creating choice in the market. By year 2003, the market had been transformed from being a monopolized market to one with seven players. The consumer also started changing significantly as they started becoming more and more conscious of these choices, their rights and what they could demand from the care provider in addition to the standard product in the market, in terms of quality and price. Furthermore, growth in telecommunication and general ICT meant that there was more awareness in the market. This meant that the market was not content with products as prescribed by the providers but wanted demand driven products. Medical inflation started creeping in at a rate higher than general inflation, pushing the organization to pass extra costs to the market through higher prices thus be more uncompetitive, or incur losses. The period also saw tremendous general market awareness and changes in general practices including management practices. The most serious threat to AARs existence though came through government legislation, with the Insurance Amendment Bill passed in Parliament in 2003. This led to amendment of the Insurance Act, Cap 487 to provide that an organization could not provide medical insurance and provides medical services at the same time as this would lead to a conflict of interest. This legislation alone would make the business the company runs illegal since the organization was running service provision and insurance under the same umbrella, thus the perceived conflict of interest that the government was attempting to avoid. The government thus gave such organizations up to July 2005 to abide by this legislation.

• All these issues were coming up at a point when AAR was operating at a comfort zone. Having operated over 15 years under a monopolized market where they dictated what the market received in terms of quality, value, price, range of products offerings etc, and having built in a long history and culture that was not based on a deep belief that the customer was the king, AAR was going to experience one of the most uphill tasks that would face it in the coming few years. The reality dawned on AAR management and board that AAR had to put in drastic changes in the way it operated failure to which market forces would push it out of business.

' The survival and success of AAR depended on how it formulated and implemented strategies that would position it positively in the turbulent environment. To respond to the changes, AAR needed to re-look at its strategies and align them to the changed environment. Success or failure of its operations depended on how it would formulate and implement appropriate strategies.

1.2 Problem Statement

Strategy is the direction and scope of an organization over the long term. Strategy helps an organization achieve advantage by configuring its resources within a changing environment to ensure prosperity. It is a multidimensional concept that embraces all the critical activities of the firm, providing it with a form of unity, direction, and purpose as well as facilitating the necessary changes induced by its environment (Hax and Majluf, 1996). It is a unifying (integrative) pattern of decisions - a common thread. It defines organizational purpose in terms of objectives, goals, and priorities; deals with organizational competitive advantage; defines the obligation of the organization to its stakeholder's e.g. social responsibility; defines the business of the organization (product/market scope). In a nutshell, strategy is about the future of organizations, the present posture of organizations, developing superior strategy and competent implementation of strategy.

The environment in which today's organizations are operating is both turbulent and dynamic. Competition is fierce and technology is changing fast. Preferences by consumers of goods and services are also changing at a very fast pace. Success in this generally dynamic environment is a serious challenge, more so in view of the various internal and external factors that more often than not hamper achievement of the desired success. 'Business organizations have embraced strategic management as a way to anticipate and cope with this dynamic environment as the only means of ensuring that an organization survives and prospers despite this chaotic environment.

By year 2002, AAR faced many challenges that were threatening its existence. Competition was creeping in, medicare costs reached an all time high and the trend appeared irreversible, the environment was rapidly getting regulated. Issues of corporate

governance were becoming increasingly pressing, the market had become increasingly sensitive to issues of price, quality and general customer satisfaction. AAR had developed a deep culture of despondency and disregard to market realities that was going to be difficult to change. By year 2003, realities, clients dissatisfaction and complaints levels were high, membership growth that had been declining from an average of 17% per annum for the previous seven years was now at a stagnation point and projections was that if this continued, it would start declining by 7% per annum. Profitability in year 2002 declined by 25%, and in year 2003 it declined further by 38%. Projection was that if that trend continued, there would be further declines and to a loss position by year 2005. The organization required to re-look at its strategy to address these challenges and to realign the business model to the changing environment.

A number of studies have been carried out on the subject of strategy formulation and implementation in various organizations in Kenya. Awino (2001), Koskei (2003) and Nyamweya (2004) looked at the subject of strategy formulation and implementation in various organizations in Kenya. These studies generally established that organizations turn to strategic management when faced with turbulent operating environments.

As would be expected of an organization facing challenges such as the ones AAR faced, the organization turned to strategic management. This study seeks to answer two research questions; how did AAR formulate the strategy and how is it implementing this strategy? The study will also focus on any challenges that the organization is facing in implementing the strategies.

1.3 Objectives of the study

This study has two objectives. These are-

- To establish the processes that AAR undertook in formulating and implementing its strategy.
- To establish the challenges faced by AAR in strategy formulation and implementation process.

1.4 Significance of the Study

The findings of this study will be of immense importance to various parties. First and foremost, to AAR, this study will be helpful to the company in re-evaluating whether the formulation and implementation of the strategy has been as successful as designed, and if not, which phases did not go as smoothly as planned, and that need to be revisited and improved upon.

Secondly, the executives managing various firms in the industry and specifically HMO sector will find this study invaluable and applicable in giving hints on managing similar circumstances as those AAR found itself in.

Academicians will find this study useful in that it questions the applicability of widely held views of strategy formulation and implementation and also highlights areas of application of various theories with disastrous results. Future researchers in the field of HMO will find this study as a perfect basis of extending studies in this exciting area of study. Finally, this study contributes immensely to the body of knowledge on strategy formulation and implementation.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of strategy

Strategy is a much used and abused word, and means different things to different people and organizations. Like many other concepts in the field of management, there is no agreed all embracing definition of strategy. Strategy is an elusive and somewhat abstract concept (Ansoff, 1984). This must be expected when dealing with an area that is constantly developing (Grant, 2000).

There are different definitions by different authors. For instance, strategy is the set of discussions and actions resulting in formulation, and implementation of strategic designs to achieve the objectives of an organization (Pearce and Robinson, 1997); Strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholders' expectations (Johnson and Scholes, 2003). Ansoff (1984) defined strategy as the product/market scope, in these words, "Strategic discussions are primarily concerned with external rather than internal problems of the firm and specifically with the selection of the product mix that the firm will produce and the markets to which it will sell (Grant, 2000); Chandler (1962) defined strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Mintzberg (1984) defined strategy as a plan, a ploy, a pattern, a position and a perspective. Strategy as a plan is some form of consciously intended course of action which is created ahead of events. Strategy as a ploy is a maneuver to outwit an opponent. Strategy as a pattern is a pattern that emerges in a stream of actions. Strategy as a position is about positioning the organization in order to achieve or maintain a sustainable competitive advantage. Strategy as a perspective, considers strategy as a somewhat abstract concept that exists primarily in people's minds (Burnes, 2000).

Strategy is a multidimensional concept that embraces all the critical activities of the firm, providing it with a form of unity, direction, and purpose as well as facilitating the

necessary changes induced by its environment (Hax and Majluf, 1996). It is a unifying (integrative) pattern of decisions- a common thread. Thus, strategy defines organizational purpose in terms of objectives, goals, and priorities; deals with organizational competitive advantage; defines the obligation of the organization to its stakeholders e.g. social responsibility; defines the business of the organization (product/market scope). Therefore, in a nutshell, strategy is about the future of organizations, the present posture of organizations, developing superior strategy and competent implementation of strategy.

2.2 Strategic Management

The environment in which today's organizations are operating is both turbulent and dynamic. Competition is fierce and technology is changing fast. Preferences by consumers of goods and services are also changing at a very fast pace. Success in this generally dynamic environment is a serious challenge, more so in view of the various internal and external factors that more often than not hamper achievement of the desired success. Business organizations have embraced strategic management as a way to anticipate and cope with this dynamic environment as the only means of ensuring that an organization survives and prospers despite this chaotic environment.

Pearce and Robinson (1991) define strategic management as 'that set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives.' Thompson and Strickland (1998) define strategy formulation as the active management function of establishing organizational direction, setting objectives and devising a managerial game plan for the organization to pursue. Mintzberg and Water (1985) contend that strategy could be viewed as 'a pattern in a stream of decisions.' The two see strategy as being deliberate or emergent and forming two ends of a continuum along which the real world lies. They also classify strategy as being intended, realized, unrealized and emergent.

Johnson and Scholes (1999) identify three ways in which a deliberate and planned managerial intent can be explained in an organization. These are the planning view, the command view and the logical incremental view.

In the planning view, strategies are proposed to develop through a rational and formalized sequence of analytical and evaluative procedures. This view has various advantages attributed to it such as providing a structured means of analyzing and thinking, the ability of the view to communicate intended strategy, involving employees in strategy development and hence creating a sense of ownership and also providing a means of control through which regular reviewing of performance can be set and enhancing coordination among the organization. The planning view however has several shortcomings. Strategies are more or less implemented through people and hence the cultural as well as political dimensions of the people have to be taken into consideration in establishing the strategic planning practices.

The command view is where strategy develops through the direction of an individual or group but not necessarily through formal planning. At the very extreme, strategy could be seen as the product of an autocratic leader who brooks no argument and sees others managers as there to implement his or her decisions. This individual or group could be the owner or co founder or a political appointee of the organization. Charismatic leaders are also often seen as central to the strategy of an organization; their personality or reputation may be seen as a positive force and other managers may willingly defer to such an individual and see strategy as his or her province. Such organizations are usually small enterprises or public sector organizations.

The logical incremental view sees strategy to develop through small stepwise responses to a gradually changing environment and sees the idea that strategies can be preset on a grand scale through neat, logical, sequential planning mechanisms as unrealistic. Overall, logical incrementalism can be thought of as the deliberate development of strategy by 'learning through doing'.

Strategic planning could also be seen as formal or informal. Formality in strategic planning refers to the degree to which participants, responsibilities, authority and discretion in decision-making are specified (Pearce and Robinson, 1997). Formal analytical processes are characterized by the use of analytical tools and methodologies to

help managers reach a better quality of strategic decisions. Greater formality has been positively correlated with corporate success (Hofer and Schendel, 1978).

The informal approaches to strategy are characterized by executive bargaining and negotiation, building of coalitions and the practice of 'muddling through' (Hax and Mujluf, 1996). Informal planning is usually intuitive and under the influence of a visionary leader. Formal strategic planning usually produces a strategic document plan. This is a comprehensive statement about the organizations mission and future direction, short term and long term performance targets and how management intends to produce the intended results to fulfill the mission given the organizations situation (Thompson and Strickland, 1998).

Malik and Basu (1986), report that strategic planners outperform non planners by a wide margin in almost all major financial indicators of organizational efficiency. Herol (1972), observed that planners were better than non-planners at identifying opportunities, setting goals and objectives and setting proper strategies and effective tactics to achieve them, as evidenced by higher growth rates and higher operational efficiency ratios. The researchers also point out that planners are more aggressive than non- planners in pursuit of business objectives.

Denning and Lehr (1972) argue that the introduction of formal systematic corporate long range planning is a managerial response to two separate sets of needs of which one is strategic. They report a strong positive relationship between the introduction of long range planning and a high rate of technological change, size of company, capital intensity and complexity. Malik and Basu (1986) identify three kinds of plans; strategic plans, short range plans and operational plans. This appears to be the practice in most organizations.

2.2.1 Strategy Formulation

In strategy formulation firms do a strategic analysis taking into account the internal and external environment. The internal environment encompasses the resources of the firm that may be tangible or intangible, the processes, skills and attitudes, suppliers,

customers, culture, and people from which the company will identify its strengths and weaknesses. A firm has reasonable control on internal factors.

The external environment consists of competitors; social, political, legal and technological factors over which a company has no control. From the external factors analysis the company will identify the opportunities and threats presented by the environment. The aim is for the company to hedge itself against the threats and take advantage of opportunities using its strengths and if possible make up for its weaknesses. In the process the company will make broad decisions on such matters as the breadth of the product line, the geographical scope, the competitive actions chosen, the level of social involvement, the performance objectives sought and the technology chosen (Pierce and Robinson, 1997; Thompson and Strickland, 1993).

In strategy formulation firms must choose a market segment and the capabilities they must develop to serve the chosen market effectively. Core capabilities and competencies do not just happen but are deliberately built by an organization over time. A company cannot be everything to customers and must therefore choose what level of quality, cost, flexibility and delivery it will build into its products to keep its chosen markets. This choice must be made during strategy formulation so it can be integrated with the technology, and processes and skills.

Structured strategy is the formal planning process where top management deliberately draws long term and wide plans for the future of an organization which are then cascaded down for implementation and control (Hill and Jones, 2001). This can be defined as the top-down strategy. However emergent strategy does not rely on deliberate planning efforts, but rather, the way organizations are positioned and the skills and competencies they have acquired enable them to develop creativity and innovation arising from variety and diversity within the organization. When those implementing plans have been exposed to learning and have sufficient understanding of the environment and are motivated to see and take advantage of opportunities, an organization can then achieve its goals through emerging strategies (Hill and Jones, 2001). This process that derives a lot from

operational experience is called a bottoms-up perspective of strategy and underscores the need for companies to minimize staff turnover, encourage skill acquisition and learning which can be used to enhance competitiveness.

With the learning and knowledge based organization, knowledge is linked in unique ways to come up with novel and innovative ways that are surprising and which get competitors flat footed. This is more aligned to emergent strategy and can change the paradigms of the game so as to set new rules. Emergent strategy is more difficult to imitate as it resides in the minds of the innovators and provides real competitive advantage. However Hill and Jones (2001) advocate that both structured and emergent strategy should be maintained by organizations as both compliment one another to make a total whole.

The strategic formulation process involves environmental analysis, a definition of the company's vision, mission statement and strategy objectives and strategy planning and choice. Various scholars have however argued that in practice this process is not well defined, logical and explicit as models suggest. Rather, they are more unintended, incremental and political.

Environmental analysis is a formal procedure to monitor the organizations environment to identify present and future threats and opportunities and to assess critically its own strength and weaknesses (Certo, 1995). The environment refers to both the internal and the external environment within which the organization operates. Keith (1998) concludes that firms with sophisticated environmental scanning techniques achieve a higher performance than those with less sophisticated systems.

Pearce and Robinson (1991) identifies various formal environmental analysis. They include strategic group analysis, SWOT analysis as well as political, economic, social and technological aspects of the environment in relation to the external environment. Value chain analysis and functional analysis are identified as formal internal environmental analysis.

SWOT analysis is a systematic identification of the internal strengths and weaknesses and the environmental opportunities and threats facing an organization, and the strategy that reflects the best match between them. It is based on the logic that an effective strategy maximizes business strengths and opportunities while at the same time minimizing its weaknesses and threats (Pearce and Robinson, 2002).

The main indicators of the direction in which an organization is moving are its vision, mission statement and strategic objectives (Certo, 1995). Effective strategy making begins with a concept of what the organization should and should not do and a vision of where the organization seems to be headed. A company's business is defined by what needs it is trying to satisfy, by which customer groups it is targeting, and by the technologies it will use and functions it will perform in serving the target market. Many successful organizations need to change direction not to survive but to maintain their success. A well articulated strategic vision creates enthusiasm for the future course management has charted and poses a challenge that inspires and engages members of the organization. Well- worded vision statements give employees a larger sense of purpose- so that they see themselves as 'building a cathedral' rather than 'laying stones'.

Strategic objectives represent managerial commitment to achieving specific performance targets within a specified time frame. Statements of the results a firm seeks to achieve over a specified period of time. Objective setting needs to be more of a top down than a bottom up practice in order to guide lower level managers and organizational units towards outcomes that support the achievement of overall business and company objectives (Thompson and Strickland, 1998).

Strategic analysis and choice involves evaluating strategies that had been developed earlier for suitability using various criteria and chosen for implementation. Various models have been developed to aid in strategic analysis and choice. These include the BGC Growth share Matrix and Ansoff's Product – Mission matrix. Literature on rational strategic decision making tends to lean more on the use of analytical techniques arguing that they stand a better chance of selecting an optimal strategy.

Keith (1998) provides an insight into this concept that managers will still tend to use gut feeling and intuition in selecting the strategy of a firm. He argues that small firms tend to be less formal in their choices of strategy and that the strong personality of the founder will tend to decrease formality in the decision making process.

2.2.2 Strategy Implementation

The strategic management process does not end when the firm decides what strategy or strategies to pursue. Once the course of strategy has been charted the managers' priorities move towards converting the strategic plan into action and good results. Putting strategy into action is seen as an extension of the planning process: a strategy is first formulated and then it is implemented (Johnson and Scholes, 2002). One of the conventions that has led both scholars and practitioners of strategic management is the idea that there is a distinction between strategy formulation and strategy implementation. The convention holds that the formulation of strategy is based on identification of the organization's goals and the rational analysis of its external environment and internal resources and capabilities (Grant, 2000).

Once a company has chosen a strategy to achieve its goals, which strategy then has to be put into action by selecting appropriate organizational structure and managing its execution through tailoring the management systems of the organization to the requirements of the strategy (Hill and Jones, 2001). Putting strategy into place and getting individual and organizational subunits to execute their part of the strategic plan successfully is essentially an administrative task (Thompson and Strickland III, 1998).

Successful strategy implementation depends in part on the organization's structure. Further, the strategic plan has to be institutionalized, or incorporated into a system of values, norms, that will help shape employee behavior, making it easier to reach strategic goals. Strategy must also be operationalized, or translated into specific policies, procedures, and rules that will guide planning and decision making by managers and employees (Stoner, Freeman and Gilbert, 2001). Thus an organization would have to build an organization capability of carrying out the strategic plan; develop strategy

supportive budgets, and programmes; instill a strong organizational commitment both to organizational objectives, and the chosen strategy; link the motivation and reward structure directly to achieving the targeted results; create an organization, culture and a working environment that is in tune with strategy; install policies and procedures that facilitate strategy implementation; develop an information and reporting system to track progress and monitor performance; and exert the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed (Thompson and Strickland, 1993). Factors such as culture, organizational structure, and aspects of operational execution are vital to the success of strategy implementation.

2.3 Challenges of Strategy Implementation

Developing a logical approach to strategy implementation represents a real challenge to the management. A host of factors, including politics, inertia, resistance to change, routinely can get in the way of strategy implementation. It is apparent that making strategy to work is more difficult than strategy formulation (Hrebiniak, 2005). There are many organizational characteristics that act as challenges to strategy implementation. Such are structure, culture, leadership, policies, reward, and ownership of the strategy (Burnes, 2000). These challenges are of both institutional and operational nature.

2.3.1 Structural Challenges

Organizational structure imposes certain boundaries of rationality, but is necessary due to the individual's limited cognitive capabilities. Changes in strategy often call for changes in the way an organization is structured. This is because when an organization changes its strategy, the existing organizational structure may be ineffective (Wendy, 1997).

Miller and Droge (1988) points out that there is an intrinsic association between strategy making and structure. Chandler (1962) hypothesized that structure is determined by strategy, and correspondingly that the successful implementation of a strategy can be aided by the adoption of an appropriate organizational structure.

There is no one optimal organizational design or structure for a given strategy or type of an organization (David, 1997; Pearce and Robinson, 1997). Principally structures are changed when they no longer provide the co-ordination, control, and direction managers and organizations require to implement strategies successfully (Hitt et al, 1997). However, organizations can become so captured by their structures and systems. In such organizations 'Strategy follows structure, they pursue strategies constrained by their structures and systems (Hall and Saias, 1980). According to McCarthy and Curran (1996), an organization's structure and behaviour within an organization should be in harmony with and support the strategy of the organization.

2.3.2 Leadership Challenges

Leadership has a fundamental influence on the success of a strategy. Barnajee (1999) observes that the influence is in three major areas, that is, does the leader have a vision? That is, are the leaders of the organization able to perceive quickly the trends? Does the leader have powers? That is, are the leaders of the organization, through whatever devices they choose to use, able to translate strategic aspirations into operating realities? Does the leadership have the political astuteness necessary to neutralize the negative effects of conflicting internal interests and transform these sectional interests into a vector of coordination policies and activities that support the overall company? Leadership is the process of influencing others towards the achievement of organizational goals (Bartol and Martin, 1991). Leaders galvanize commitment to embrace change through three interrelated activities, the activities being to clarify strategic intent, building an organization, and shaping organizational culture (Pearce and Robinson, 1997).

A critical ingredient in strategy implementation is the skills and the abilities of the organization's leader. A leader is an individual who is able to influence the attitudes and opinions of others. Unfortunately most senior managers are merely able to influence employees' actions and decisions. Leadership is not a synonym for management. Leadership is a higher order of capability. The ability to influence the attitudes and opinions of others to achieve a coordinated effort from a diverse group of employees is a

difficult task. However, one of the key methods available to management is creating an overall sense of direction and purpose through strategic planning (Byars, 1991).

2.3.3 Cultural Challenges

The culture of an organization can have profound effects. Individuals show preferences for certain behaviour and may persist with it even if it leads to sub optimal results. For a strategy to be successfully implemented, it requires an appropriate culture. When firms change strategies, and sometimes structures, they sometimes fail because the underlying values do not support the new approach (O'Reilly 1989). Kazmi (2000) observes that culture may be a factor that drives strategy rather than the other way round. If the existing culture is antagonistic to a proposed strategy then it must be identified and changed.

Japanese approach to culture is recognized by many as a major contributory factor to their success. The major concepts of Japanese corporate culture take off from their national ethos. An abiding culture in Japan is '*uchi*' (us) and '*solo*' (they). In their corporate culture '*uchi*' includes the organization and everything in it (Barnajee 1999). This implies tremendous employee cohesion. Nowhere is the concept of strategy and culture more important than in institutionalizing strategy. Artifacts, espoused values, and basic assumptions form the basics of understanding organizational culture.

An organizational culture is the customary or traditional way of thinking and doing things, which are shared to a greater extent by all members of the organization and which new members must learn and at least partially accept in order to be accepted into the service of the firm (Stoner et al, 2001). When an organization's culture is consistent with its strategy, the implementation of strategy is eased considerably. It is thus impossible to successfully implement a strategy that contradicts the organization's culture (Stoner et al, 2001). Changing a firm's culture to fit strategy is usually more effective than changing a strategy to fit existing culture (David, 1997).

2.3.4 Reward or Motivational Challenges

The reward system is an important element of strategy implementation. Johnson and Scholes (2002) observe that incentives such as salary, raises, stock options, fringe

benefits, promotions, praise, criticism, fear, increased job autonomy and awards can encourage managers and employees to push hard for successful implementation of strategy. In order to be certain that strategy implementation is integrated into day-to-day operations, it is crucial that the reward system be congruent with the strategies being implemented. Implementation success or failure should trigger direct positive or negative consequences in both individual compensation and non-monetary rewards.

Motivating and rewarding good performance by individuals and organizational units are key ingredients in effective strategy implementation (Pearce and Robinson, 1997). The rewards are not simply monetary but focus on rewards such as recognition and approval which can be given more frequently than money (O'Reilly, 1989). In 1987 Procter and Gamble introduced a profit sharing plan that divided profits between the company and the workers. President Cooper Procter, one of the founders of Procter and Gamble said at that time, "The chief problem of big businesses today is to shape its policies so that each worker will feel he is a vital part of the company with a personal responsibility for its success and a chance to share in that success" (Cope, 1989).

2.3.5 Policies

On a day-to-day basis, policies are needed to make a strategy work. A policy is a general guideline for decision making (Stoner et al, 2001). Policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to encourage work towards stated goals. According to Stoner et al (2001), policies set boundaries, challenges and limits on the kinds of administrative actions that can be taken to reward and sanction behaviour; they clarify what can and cannot be done in pursuit of an organization's objectives.

Most organizations have some form of policies rules, and procedures that help in implementing strategy in cases where routine action is required (Stoner et al, 2001). Policies enable both managers and employees to know what is expected of them thereby increasing the likelihood that strategies will be implemented successfully. Whatever the scope and form of the policies, they serve as a mechanism for implementing strategies and realizing objectives. They provide the means of carrying out strategic decisions.

2.3.6 Tactical and Operational Plans

Most managers in an organization do not directly develop the organization's strategic plan (Reid, 1990). It is a disparate activity relying on input from some and interpretation by others (Donnelly et al, 1992). In well managed organizations a relationship exists between strategic planning and the planning done by managers at all levels (Wallace, 1987).

Once the strategic plans and goals of the organization are identified, they become the basis of planning activities undertaken by tactical and operational managers. If done properly planning results in a clearly defined blue print for management action at all levels in the organization (Gluck, 1985).

According to Bateman and Zeithaml (1990) tactical planning translates broad strategic objectives and plans into specific goals and plans that are relevant to a definite portion of the organization, often a functional area like marketing or personnel. Tactical plans focus on the major actions required by the unit to fulfill its part of the strategic plan. On the other hand operational planning identifies the specific procedures and processes required at lower levels of the organization. Operational managers usually develop plans for very short periods of time, and focus on routine tasks such as production runs, delivery schedules, and personnel requirements.

2.3.7 Resource and Budgetary Allocation

Resource and budget allocation is a critical management activity that enables strategy implementation. In organizations that do not use a strategic management approach to decision making, resource and budgetary allocation is often based on political or personal factors such as overprotection of resources, emphasis on short run financial criteria, organizational policies, vague strategy targets, reluctance to take risks, and lack of sufficient knowledge (David, 1997). Strategic management enables resources to be allocated according to priorities established by annual objectives. Nothing can be so detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated in approved annual

objectives. All organizations have at least four types of resources that can be used to achieve desired objectives. These are financial resources and technological resources, physical resources, human resources (Thompson 1990).

2.3.8 Communication of Responsibility and Accountability

Communication is key to successful strategy implementation. Poor sharing of information or poor knowledge transfer and unclear responsibility and accountability can also lead to failure of strategy implementation (Hrebiniak, 2005). Attempts to coordination or integration across organizational units can suffer if unclear responsibilities and poor sharing of information needed for strategy implementation prevails. Dialogue and participation are essential ingredients to strategy implementation (David, 1997).

2.3.9 Management and Employee Involvement

A serious mistake made by many organizations in their initial enthusiasm for planning has been to treat strategy formulation as an exclusively top management function and the middle level managers are given a support role (Shrivastava, 1986). This approach can result in formulation of strategy in a vacuum by planning executives who have little understanding or knowledge of the operating realities. As a result they formulate strategies that cannot be implemented (Hill and Jones 2001). According to Judson (1996) when implementation is treated as a phase 2 problem after the plan has been formulated, the strategy may be good in theory, but quite impractical in reality. There is therefore the need to involve in the formulation process, the managers and the supervisors who must carry it out.

Participation in the strategy formulation ensures that the managers and the supervisors understand the strategy, believe in it and are committed to carrying it out. More and more organizations are decentralizing the strategic management process, recognizing that planning must involve lower level managers and employees (David 1997). Through involvement in the process the managers become “owners” of the strategy. Ownership of the strategy by the people who have to execute it is a key to success (David 1997).

2.3.10 Operational Objectives

A strategically driven and aligned measurement system, strategic measures analysis and reporting techniques (SMART) can be viewed as a three-tiered hierarchy of measures, working from the top-down. Any operational system is generally too complex to serve as a practical link between the strategic business objectives of an SBU and the many functions and departments that comprise its operating system (Judson, 1996). Thus even after an operating system has been successfully designed and placed into actual use, considerable managerial discretion remains. This is because decisions must be made on a short-term basis – month to month, day to day, even hour to hour – as to how the system will be operated and controlled (Stoner et al, 2001). Judson (1996) “unbundles” the macro economic system into a number of business operating systems (BOS). A BOS encompasses the primary flow of work and supporting functions, people, technology, workflows, policies and procedures required to execute a single strategy.

Annual objectives lie at the very heart of strategy implementation (Stoner et el 2001). They identify precisely what should be accomplished each year to achieve organizational goals. In the process, they also provide managers with specific targets for the coming year’s performance. They clarify managers’ roles in the implementation of an organization’s strategy.

Annual objectives serve as guidelines for action, directing and channeling efforts and activities of the organizations. Annual objectives also serve as standards of performance and as such give incentives for the managers and employees to perform. They, thus provide a basis for organizational design. According to David (1997) annual objectives are essential for strategy implementation success because they represent the basis for allocating resources; they form a primary mechanism for evaluating managers, and a major instrument for monitoring progress toward achieving long term objectives; and establish organizational and departmental priorities. According to Stalle (1992) they add breath specifically in identifying what should be accomplished to achieve long-term objectives.

2.4 Successful Strategy Implementation

Strategies are of no value unless they are effectively translated into action. Aosa (1992) observes that once strategies have been developed, they need to be implemented. The job of strategy implementation puts plans into action and achieves the intended results. The test of successful strategy implementation is whether actual organization performance matches and exceeds the targets spelled out in the strategic plan. Shortfalls in performance signal weak strategy, weak implementation or both. In deciding how to implement strategy, managers have to determine what internal conditions are needed to execute the strategic plan successfully (Thompson and Strickland, 1993).

Strategy is implemented in a changing environment. Thus execution must be controlled and evaluated if the strategy is to be successfully implemented and adjusted to changing conditions. Some companies face a situation in which the fundamental changes to implement a new strategy are minor - the basic strategy appears appropriate yet past performance has been ineffective (Mintzberg and Quinn, 1991). Owen (1982) observes that most of the text on strategy implementation aphorize the worthlessness of a good strategy for whose implementation no provision has been made: "Better a first class implementation procedure for a second class strategy than vice versa".

Successful strategy implementation involves creating a series of tight fits, these being between strategy and organization structure; between strategy and the organizations skills and competencies; between strategy and budget allocations; between strategy and internal policies, procedure and support systems; between strategy and the reward structure; and between strategy and the corporate culture. Plans are more likely to be implemented successfully when there is a close alignment and linkage among the business strategy, operating plan and such established systems as budgets and rewards (Judson 1996). The tighter the fits the more powerful strategy execution becomes and the more likely targeted performance can actually be achieved.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research is a case study of AAR Group. It was necessary to collect data that allowed an in-depth understanding of strategy formulation and implementation at AAR in order to conduct this research successfully. Considering the type of data required for this research and the various research designs that exist including case studies, surveys, observations, etc, case study research design was most appropriate method. The design was valuable for an in-depth study.

Cooper and Schindler (2003) assert that case studies place more emphasis on a full contextual analysis of fewer events or conditions. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy. This was essential in this study.

3.3 Data collection

In-depth interviews were conducted with the chief executive officer, the managing director, 5 top-level managers each heading a company in the group, 5 middle level managers and 10 employees. An interview guide was used. Questions were issued in advance to help the respondents recollect facts, or make reference where necessary and the researcher booked an appointment later, at the convenience of the respondents.

The interview with the top management took between one and two hours each, while the interview with lower cadre of staff took on average one hour each. The interviewees were allowed to discuss the topics without necessarily following the question guide. The interviewer then probed any aspects of the interview guide that the interviewees had not covered.

Type of data collected at each interview session was in form of draft notes summarizing the discussions with each of interviewees. In addition, the researcher obtained secondary data and material especially from internal documents such as internal communications.

3.4 Data Analysis

Considering the kind of data intended as per the interview guide, a conceptual and qualitative content analysis was the best-suited method. Nachmias and Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. Mbogo (2003) and Nyamweya (2004) who employed this kind of approach argued that it is useful in gaining fresh material in even what was thought to be unknown.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 The Strategic Planning Process

The researcher sought to establish the strategic planning process at AAR. It was established that AAR has a formal strategic plan that incorporates its Vision, Mission, Core Values and Strategic objectives.

4.2 Strategy Formulation

The researcher sought to establish why AAR decided to formulate a strategy and the steps it undertook in this process. The respondents indicated that by 2002 the organization was constrained to formulate a strategic plan because the organization was facing a downward trend. The CEO of AAR Group, summarizes the reasons as follows,

“the period between year 1999 to year 2003 marked a turning point to the way we at AAR do our business; - considerable environmental factors threatened the organizations prosperity; - competition was creeping in, medical costs were at an all time high, and most critically government was bringing in legislation that would outlaw the way we did business. By end of year 2003, our membership had stagnated and we could already start projecting a decline; - These were serious issues that were threatening our existence. We had to re- strategize or else close the business”

The organization’s focus while formulating the strategy was to come up with a strategy that would help the it first of all to remain in business and then prosper.

The strategy formulation process at AAR started first and foremost with a strategic analysis of the internal and external environment that AAR operated. The next step was formulation of organization Vision, Mission, Core values and thereafter Strategic objectives. According to the CEO, it was critical that all staff members were involved in

this process as there was need to ensure their participation in an effort to guarantee ownership of the product of this process. The forums used for this exercise was a series of workshops that involved all staff which were conducted over a period of one month and were facilitated by an external third party consultant. The workshops were conducted such that every session had staff of different cadres. According to the CEO,

“During these meetings, the objective was to create an environment where everyone felt free to contribute to the discussions without feeling intimidated, therefore we had to manage the group dynamics. To achieve this we varied the teams people participated in, sometimes along functional lines at others as vertical slices of the organization. We also varied the type of activities.. For us it was possible to "get everyone in the same room". Limiting involvement to a small team which does the planning for the entire organization was not desirable as we would not have achieved the overall objective of having everyone understand fully the internal and external environment that we operate in, the processes, skills and attitudes, suppliers, customers, culture, and people from which the company will identify its strengths and weaknesses. It was also necessary that all own the Vision, Mission, Core values and Strategic objectives.”

The teams engaged in serious debates for two days per session to deliberate on what they believed to be the Mission, Vision , core values and Strategic objectives. Each session was divided into “workshop groups” whose views were shared and agreed on.

The internal environment was identified as being the resources of the firm being both the tangible assets and intangible assets. In particular, there was general consensus that the brand was a key internal asset, it was also identified that the internal processes were central to the organizations success. Other important internal environment components identified were the people skills and attitudes, the culture, and people from which the company would identify its strengths and weaknesses.

The major external environment was identified to be the competition, legal environment, suppliers and technological advancements. Other significant environmental factors identified were the social, political, factors over which a company had no control. From the external factors analysis the company would identify the opportunities and threats presented by the environment. The aim for the company was to hedge itself against the threats and take advantage of opportunities using its strengths and if possible make up for its weaknesses. In the process the organization made broad decisions on such matters as the breadth of the product line, the geographical scope, the competitive actions chosen, the level of social involvement, the performance objectives sought and the technology chosen.

Key deliverable of those workshops was a Vision statement, a Mission statement, Core Values and Strategic objectives. A SWOT analysis was key in achieving these objectives. The strategic objectives framework consisted of the following major decisions:-

1. Customer retention/ focus strategy
2. Products development strategy
3. Service delivery strategy
4. Growth strategy
5. IT Strategy

The process of involving all staff in formulation of Vision, Mission, Core Values and Strategic objectives was extremely useful as it gave a chance to each member of staff to participate and feel partly responsible for attainment of the statements. It was even more useful when it came to deriving the organizations core values. According to the MD AAR Kenya,

“The AAR core values reflect how we do business and reflect the firm’s culture and attitude. These values show how AAR relates to the staff (rewarding) clients

(sensitive), shareholders (profitable), environment (mindful). AAR has realized that the goodwill of stakeholders is important for us to realize our vision"

The next step was to have buy in and ratification by the board members as strategy development is a function of the board, but management steps in to propose. According to the CEO,

"Generally speaking, executive management should propose strategy. This is not an impediment to the Board taking the initiative in appropriate circumstances and it remains the Board's responsibility to understand, test and endorse all aspects of the company's strategy. All significant decisions, whether within the Board or executive management domain, must be taken against the backdrop of the approved strategy of the company".

The proposals therefore needed to be ratified at the board level for them to be binding. A board meeting to discuss the proposed strategy was convened where the facilitator and senior management presented the strategy formulated to the board members. The board adopted the Vision, Mission, and Core values while it made changes on the strategic objectives. Their buy in was critical as it signaled to management to go ahead and implement the strategy.

4.3 Strategy Implementation Process

Once the course of strategy had been charted and endorsed by the board, the managers' priorities moved towards converting the strategic plan into action and results. The task ahead for senior management was to get individual and organizational subunits to execute their part of the strategic plan successfully. The researcher sought to establish how AAR went ahead to achieve these objectives, whether AAR has implemented the strategic plan as formulated and if so, how this has been done and to what extent the implementation has been successful.

The respondents indicated that in the implementation of the strategy, certain measures were necessary and therefore taken by the organization. Successful implementation

depended largely on the organization's structure, institutionalizing the strategic plan, incorporating the strategic plan into a system of values, norms, which would help shape employee behavior, thus making it easier to reach strategic goals. The strategy also had to be operationalized, i.e., translated into specific policies, procedures, and rules that would guide planning and decision making by managers and employees. Thus the organization had to build an organization capability of carrying out the strategic plan; develop strategy supportive budgets and programmes; instill a strong organizational commitment both to organizational objectives, and the chosen strategy; link the motivation and reward structure directly to achieving the targeted results; create an organization, culture and a working environment that would be in tune with strategy; install policies and procedures that facilitate strategy implementation; develop an information and reporting system to track progress and monitor performance; and exert the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed. Factors such as culture, organizational structure, and aspects of operational execution were vital to the success of strategy implementation.

Strategy implementation at AAR included nine major components as adopted by AAR. The first component was rules and policies that were consistent to the new strategies. These were meant to reinforce the desired way of operating. New standard operating procedures were developed. According to the MD, AAR Kenya Ltd,

“The policies at strategies have made it easy for the visions and mission to be adhered to, e.g., incorporating them in the training manuals, making these policies part of the orientation programs, inscribed at specific strategic corners of the building, etc.”

The second component was goals and measures. The group took up the balanced scorecard as a management tool to measure and manage performance. The tool ensures that all activities are aligned to the company strategy. It helps people prioritize on and do things that are important to the company. The steps to follow were company-wide training on the BSC, followed by all staff setting their unit / departmental objectives that

were to be aligned with the overall corporate objectives , and then do the scorecard that is aligned to the corporate objective. Mini-appraisals were then done after four months to ensure the process was on track. The training on Balance Score card was done at three levels:-senior management, middle management and then the management support staff. According to General Manager, AAR Health Services,

“We adopted the balanced scorecard as management tool of performance management. The balanced scorecard ensures total alignment of all objectives to the company strategy, allowing people to focus on the things that are important to the business. The methodology we used was to train all staff in the group on the AAR Balanced Scorecard (ABSC). Staffs were grouped into units of approximately 20. In each training the participants were helped to align their job objectives to the strategy of the company. The appraisal of their performance is based on the extent to which they met or surpassed the objectives”.

On the whole, the Balanced Score Card as a tool to measure performance achieved the following 5 key objectives that were central to successful implementation of strategy.

- Ensured that there was performance measures for all staff, including senior managers, that were aligned to our overall strategy
- Ensured that these performance measures enabled the group to measure and reward those outcomes that add value
- Ensured that there was a systematic way of rewarding those staff who perform exceptionally well.
- Helped in identifying, setting, measuring and managing the right performance measures that would ensure that staff are motivated and give the desired outcomes.

- Facilitated having in place an appraisal system that brings out training needs.

The third important component of strategy implementation at AAR was to address customs and norms. Old ways of doing things were replaced with new ways that reinforced the new strategies through new customs and norms. There was a keen focus on doing things in a way that demonstrated adherence to the new Vision, Mission and core values. The focus in the business was on changing the way that things were done. The MD AAR Kenya says,

“We have changed because we need to be more responsive to the needs of our members which will ensure that they continue their membership with us which in turn guarantees that the staff have a salary at the end of the month. It is that simple”.

The group adapted four (4) Core Values that guide it in everything that is done. In all activities that staff participates in, they must apply these core values. These are caring attitude, timeliness, quality of service and integrity. The most obvious and immediate place that the group started this initiative was with the customer facing teams i.e. the healthcare delivery teams as well as customer service staff. However, the organization appreciated that the new customs and norms would not take effect if everyone in the organization was not aligned to them. According to the General Manager AAR Health Care Ltd, the arm of the business that deals with clinical services delivery,

“We realized that the customer service and service delivery teams were not the only ones that needed to change their work attitude and ethics in order for us to achieve the changes that we needed. Everyone in the company had to change. If back office administration teams did not provide first class services to their colleagues who are their internal customers, they will not be able to render effective services to our members and we would all have failed”.

Perhaps the clearest indication that new ways of doing things was necessary in order to achieve success in strategy implementation is captured by the address by MD AAR Kenya’s communication to all staff.

“In thinking about what your role is, I need you to focus not on the big things which then give you an impression that the task is so enormous and therefore as an individual you have no impact or role to play. I want you to focus on the small things that you do everyday. How many times do you fail to return calls or respond to emails from both external and internal customers? How many times are you late in delivering an output that is awaited? How many times are you careless in ensuring that your output meets the quality that is desired by your customer both internal and external? How many times are you rude and unsupportive to your colleague? How many times do you promise clients things that you clearly know that we cannot deliver? These are the things that must change as they ultimately affect services to our members, their renewal and ultimately your salary! Most of you have adapted these changes enthusiastically and there is a lot of positive things that are beginning to happen. But we still have a long way to go and we all need to inculcate in ourselves a sense of urgency”.

The fourth component of strategy implementation at AAR was training was carried out to perpetuate the new strategy. The training was biased towards both changing staff perception of the customer and training geared towards better management of performance. These trainings were geared towards equipping the staff with the skills to translate what they needed to do into individual specific action plans. From this it was crystal clear what was required to be done and how that was to be applied through the core values to what you do. It would also be quite clear from measurable results whether staff are achieving what it is that they are required to achieve. The trainings were also meant to develop experiential training that provided real time, hands on experiences with new processes and procedures.

Products enrichment was the fifth key component of strategy implementation. Changes were made on the way the group developed its products stable. Focus was particularly on delivery of the products, and in particular regard to how these products were financed. A classic example of how this was addressed was as regards the outpatient product. Focus was on ensuring affordability as a means on ensuring wider market reach. Senior

management were tasked to look into a more affordable way of financing the outpatient product, and their report was as follows:-

“While the capitation model has worked well for us in the past (and continues to do so), it is not the only model for funding healthcare and we should explore other avenues where the capitation model is too risky for us to carry by ourselves. This approach will allow us to package an appropriate benefit structure, cost it properly and then give people the option of paying the premiums on a “pay as you go” basis where they can afford it, or help people to fund for it in advance. And in the case of the aged poor, we create a low risk mechanism for international money to subsidize care”

Rewards and recognition was also a major component of strategy implementation. Rewards and recognition were made to be specific to the attainment of goals set. The performance management system recognizes and rewards attainment of the objectives. For example, a performance management system that measures only individual achievement of preset objectives is in place.

Communication was key for successful strategy implementation. There was clear communication of the new strategies and the process of implementing these strategies to all staff. Multiple channels of communications are used in delivering clear direction on what needs to be done and by who. Furthermore, clear messages of what is expected from each staff is communicated through the periodic Managing Directors communications to all staff. The excerpt below is extracted from a communication by the managing director, AAR Kenya, to all staff regarding customer expectations.

“Our repositioning strategy is on track. We have now commenced the phase of communication to all our members asking them to experience our services and confirm for themselves the significant improvements that we have made. This is a very significant step for the company and we all need to guarantee that when members both present and former sample our services they will indeed confirm

that we have made significant improvements. Please remember that should members come back and still find that we are not serving them promptly, and that our services are not up to par, they will not give us another chance which immediately jeopardizes all our jobs. I have full confidence in all of you for the tremendous efforts that you are making and the commitment and seriousness with which you are treating this matter. Let us all take great pride in ensuring that our company is great and offers delightful services.”

The physical environment was also changed to create a new mindset to the staff. More shared spaces were created to reflect need for sharing knowledge and information. Virtual offices were created as an effort to allow easier reach to the customers

Finally, it was realized that the structure in place was not supportive to the strategy and it had to be changed for successful strategy implementation. Priority was thus given to alignment of the organizational structure to the strategy as it was realized that unless the structure was supportive of the strategy intended implementation activities would not be effective. The structure was, consequently, changed from a tall bureaucratic structure to a flat process oriented functional structure.

4.4 Challenges of Strategy Formulation and Implementation

The research further sought to establish what challenges AAR encountered in the course of strategy formulation and implementation. Information was sought on both institutional challenges and operational challenges. Consequently, information was obtained on identified institutional challenges, which were structural challenges, leadership challenges, cultural challenges, reward and motivational challenges and policies, procedures and support systems. Similarly, information was obtained on identified operational challenges, which were tactical and operational challenges, resource allocation, management and employee involvement, operational objectives, annual objectives, budgetary allocation and communication of responsibility and accountability.

First and foremost, structure was identified as having been a challenge. Most of the respondents indicated that the structure of the organization was not supportive of successful strategy implementation. The organizational structure was a tall bureaucracy. The respondents confirmed that this was a serious challenge, as the tall structure inhibited effective coordination of operational activities and similarly inhibited responsibility and accountability. This structure was changed into a flat structure.

Secondly, the respondents confirmed that there was serious leadership challenge especially at the initial stages of strategy implementation. The challenge was coming more from managers who were not compatible with the new ways of doing things. Several managers had to be asked to leave or left voluntarily since they were not compatible with the strategic direction that the organization was taking. At the same time, it was deemed necessary to bring on board other key senior managers who brought in energy and this had a profound positive impact in achieving success in strategy implementation.

Thirdly there was the culture challenge. The respondents indicated that the need to align culture to the strategy took center stage in the formulation and implementation of the strategic plan. The respondents indicated that the culture that prevailed in the organization was not supportive of the strategy. Both the management and the staff were lethargic, and were not result oriented. Generally, complacency prevailed in the organization. Changing this culture to one that was in line with the strategic direction was a difficult task.

The fourth challenge identified was reward and motivation. Building a performance measurement system that tied in remuneration and rewards to performance was a major challenge for the organization, especially in view of the fact that this had not been done before. There was no internal capacity to do this and heavy reliance was placed on external consultants to put in this structure. This was an expensive exercise.

The fifth challenge identified was on policies. The single most challenging exercise was that of putting together policy and procedure documents and in grinding them into the way of doing business. Most of the respondents confirmed that policies procedures and support systems were inexistent before this process and that the challenge was putting them together from scratch.

In addition, there was a challenge in complying with operational plans. Most of the respondents confirmed that compliance to the operational plans was difficult especially in the first few months after they were put in place. The respondents confirmed that the difficulty of using the operational plans was because this involved planning of activities undertaken by the operational managers who did not have prior experience of doing this.

Another challenge encountered was regarding resources allocation. While the respondents recognized that resource allocation was a major or rather critical tool to the successful implementation of strategic plans, they indicated that scarcity of resources posed a major challenge to strategy implementation. The aspects of resource allocation that were considered to be problematic were financial resources (by all the respondents), and human resources (53%). However, physical resources (12%) and technological resources (12%), considered being less problematic.

Finally, there was a challenge in involving all employees in the process. It was quite clear from the respondents that although strategy formulation at AAR was a participatory process, there were serious challenges encountered in trying to achieve the participatory objective. Having all employees to be involved was not easy as this was extremely expensive. Very careful balancing act was required to ensure that all times the essential departments were staffed on rotation basis, sometimes using casual employees. The cost of having the workshops for all staff was quite high. Furthermore, getting full participation from the lower cadre of staff was difficult as they in most cases felt intimidated.

. CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Summary

The objective of the study was to establish the processes that AAR Group undertook in formulating and implementing its strategy and to establish the challenges faced by AAR in strategy formulation and implementation process. This section summarizes the observations drawn on that process.

5.1.1 Strategy Formulation at AAR Group

There are several key findings from this study. First and foremost, during the strategic formulation process, the organization adopted a bottom up approach. Views were collated from all staff in suggesting what the Vision, Mission, Core values and Strategic objectives would be and these views were incorporated. The participatory process that AAR applied in identifying the Vision, Mission, Core Values and Strategic objective was critical in getting buy in and support of all staff and proved of fundamental importance. Secondly, the group used the environmental scanning process extremely well, specifically in identifying threats and mitigating them, and also by identifying the opportunities and formulating plans geared at exploiting these opportunities fully. In addition, by having consultants help in the process ensured that AAR applied best practice in strategy formulation.

5.1.2 Strategy Implementation at AAR Group.

The study found out that in the process of strategy implementation, AAR put in place mechanisms to ensure that individual and organizational subunits executes their part of the strategic plan successfully. The main drivers of implementation at AAR Group have been five key pillars. Firstly, there has been institutionalizing the strategic plan and incorporating it into a system of values, norms, that have been instrumental in shaping employee behavior; secondly, the strategy has been operationalised by translating it into specific policies, procedures, and rules that guide planning and decision making by managers and employees. Thirdly, AAR has built an organization capability of carrying

out the strategic plan by developing strategy supportive budgets and programmes. Furthermore, the organization has excelled in instilling a strong organizational commitment both to organizational objectives, and the chosen strategy;

5.1.3 Challenges of Strategy Formulation and Implementation at AAR Group

Three major challenges were identified. First and foremost, there was the participatory approach adopted. Involvement of everyone and getting all staff contribute freely, without fear of victimization took a lot of effort. This was especially so for the lower level staff. Secondly, for successful strategy implementation, it was necessary that everyone adopted the core values in all aspects of their work. This involved significant culture change. Senior management put in substantial effort through communications and leading by examples in order to embed the core values. Finally, the structure of performance management, specifically ensuring that motivation and reward structure was linked directly to achieving the targeted results and communicating this structure in a way that all in the organization understood was a major challenge. This has remained the single biggest challenge in successful strategy implementation

5.2 Recommendations

To sustain the relatively successful strategy implementation, AAR Group must constantly keep on reviewing and ensuring that all activities are aligned to the overall strategic objectives. Efforts that are in place to ensure that the Vision, Mission, Core Values and Strategic objectives remain embedded in all staff must continue and more so for new staff. AAR should further develop a measure that clearly aids in interpreting core values into day to day activities. For example, a claims processing staff should be able to interpret what the core value of caring attitude means to his work. A nurse must be able to interpret what integrity means on the day to day activities. Furthermore, there should be a measure developed to indicate when one is not practicing the core values. This will be key if the strategy will be implemented successfully.

The performance measurement and rewards system should be communicated very clearly to all staff especially the lower cadre staff who still do not understand it fully. This would help boost their morale and lead to improved performance and profitability at the end.

Lastly those who are involved in strategy formulation should be participates at all the level up to the time of strategy implementation.

5.3 Limitations of the Study

The scarcity of resources mainly time and money limited the sample size taken by the researcher; a larger sample size would have given a more representative position of the organization. Further, this being a case study, there are certain limitations which are typical to case studies.

5.4 Suggestions for Further Study

The study was broad and dealt with many aspects affecting the formulation and implementation of the strategy at AAR Group. Further studies should be conducted to interrogate in detail each of the two aspects separately, i.e., detailed interrogation of strategy formulation and a detailed interrogation of strategy implementation at AAR Group separately.

In addition, further studies should be conducted on whether other Health Management Organizations have resorted to strategy to cope with the dynamic environments and if so, how they have gone about formulating and implementing their strategies.

APPENDIX 1

LETTER OF INTRODUCTION

July, 2007

Dear Respondent

MBA RESEARCH PROJECT

I am a postgraduate student in the School of Business, University of Nairobi. I am conducting a management research on strategy formulation and implementation at AAR Group of companies.

In order to undertake the research you have been selected to form part of the study. This letter is therefore to request your assistance in filling the attached questionnaire. The information you give will be treated with strict confidentiality and is needed purely for academic purposes; even where a name has been provided, it will not under any circumstance appear in the final report.

A copy of the final report will be available to you upon request.

Your assistance and co-operation will be highly appreciated.

Yours sincerely



Benson Mwangi

Student

Professor E. Aosa

Supervisor

APPENDIX: II

INTERVIEW GUIDE

SECTION A: - DEMOGRAPHICS

1. Position/Title of Interviewee:
2. How long have you worked in this position.....
3. Department
4. Length of service in the Department
5. Size of the Department
6. Age of the Department

SECTION B: - STRATEGIC MANAGEMENT PROCESS AT AAR

7. Does AAR have a strategic plan?
8. Is the strategic plan formal or informal (written or unwritten)?
9. Does AAR have both vision and mission statement (written or unwritten)?
10. Does AAR have performance objectives and performance and performance targets?
11. Has AAR ever formulated and implemented its strategic plan(s)?
12. Does it monitor and evaluate its strategic plan? If so how often?
13. Does it review its strategic plan?
14. What influences review of the strategic plan and how often does it review its strategic plan?

SECTION C: - STRATEGY FORMULATION AND IMPLEMENTATION PROCESS

Strategy Formulation

15. What prompted formulation of the strategy?
16. Describe in detail each of the steps undertaken in formulation of the strategy
17. Describe the stakeholders involved in formulation of the strategy and the roles they played.
18. Explain the roles played by 3rd parties in this process if any?

Strategy Implementation

19. Describe in detail the process undertaken in strategy implementation
20. Describe in detail the tools used to implement the strategy
21. Did any changes take place in the organization during strategy implementation?
22. What kind of changes were these? State whether they were structural, cultural, leadership or otherwise.
23. State briefly whether strategy implementation at AAR has been successful. Why do you say so?

SECTION D: - CHALLENGES OF STRATEGY FORMULATION AND IMPLEMENTATION:

24. Describe the challenges you faced when formulating the strategy, if any
25. Describe the challenges you faced when implementing the strategy, if any

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