

**GROWTH STRATEGIES ADOPTED BY PRIVATE HOSPITALS IN  
NAIROBI**

**BY**

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**DECLARATION**

I, the undersigned, declare that this research project is my original work and has not been presented for the award of a degree in this or any other university.

Sign..... Date.....

Lukas Gacheru

D61/66964/2011

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

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## **DEDICATION**

I dedicate this project to my fiancée Betty Njeri: For her inspiration, patience, moral and material support throughout the period of my study.

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## **ABSTRACT**

Growth strategies are indispensable to the survival of private hospitals in Nairobi. These hospitals invest their resources in growth strategies aimed at helping them deal with organizational challenges of the 21<sup>st</sup> century. This study was focussed on establishing the growth strategies that have been applied by private hospitals in Nairobi and also the factors that influence the choice of these growth strategies. The data was collected through a well-structured questionnaire targeting the top management of the private hospitals who are responsible for crafting and implementing strategies. The data was analysed and summarized in frequency distribution tables and various percentages, means and standard deviations were computed. The findings indicated that the most utilized growth strategy was product development whereby most hospitals were committed in improving the quality of services and incorporating new features into the existing products. The study also revealed that private hospitals in Nairobi used market development, market penetration and diversification strategies. In addition, mergers and acquisition were used by the hospitals but to a small extent. The findings on factors influencing the choice of growth strategies indicated that the most important factor affecting choice of growth strategies was the availability of resources. Also, vision and mission of the institution of the hospitals were ranked as the second important factor in influencing choice of growth strategies. Other factors that were considered important included customer needs, competition, goals and objectives, the business environment, shareholders influence, expected profits and economic stability. The study encountered the limitations of respondents being very busy in their work schedules and this resulted into delays in returning the questionnaires. The researcher had to do a lot of follow-ups. Also, some respondents declined to provide information citing that growth strategies were a sensitive issue that could be used by their competitors. In view of the findings of the study, the researcher recommended that Private hospitals in Nairobi should allocate more resources to research and development in order to continually improve on the quality of their products also focus more on diversification strategies that would enable them to increase their revenue base. In addition, the private hospitals in Nairobi should venture into markets outside the country and tap on the customer base in the entire African market.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In today's competitive business environment, organisations must map out their plans on how to sustain their business operations, their competitive advantage and increase their profitability. Thompson, Strickland and Gamble (2007) argued that the main objective of any strategy in an organization is to improve its financial performance, strengthen its competitive position and to outdo its rivals. Competitive advantage describes a situation whereby a company is able to create value in a way that its competitors cannot match. (Carpenter and Saunders, 2007). Appropriate growth strategies will enable organisations achieve competitive advantage.

Hospitals like other businesses need growth strategies in order to thrive. They can pursue organic growth where they plough back their profits into the businesses or inorganic growth where they strive to achieve growth through mergers with other businesses. Both growth perspectives will require an organisation endowed with financial resources and other capabilities. However, if hospitals adopt growth strategies that are not suited for them and later find that the strategies are not working they may be required to drop them mid-way during implementation which will result into financial losses and growth stagnation.

Hospitals must choose the right growth strategies before committing their resources. The choice of a growth strategy may be determined by changes in a segment of business. Bowen and Clarke (2002) argue that every market consist of groups or

segments of customers with different needs and demands. For instance, a hospital may introduce a maternity wing targeting a segment of the market or start a paediatric unit targeting a different segment of the market.

It also important to appreciate that hospital may adopt certain growth strategies in response to changes in the environment. Akan, Allen and Helmes (2006) argued that a venture can choose how it wants to compete based on the match between its type of competitive advantage and the market target pursued as the determinants of choice. Given the above scenario, hospital must choose the best strategies to ensure that growth is maintained.

### **1.1.1 Business Growth**

Growth strategies focus resources into opportunities for growth. Mungai (2010) argues that growth is important in order to attract and maintain diverse customers. The main aim that guides almost every business organization is to secure survival through growth and profitability. Profitable organisations will have the resources to support growth which in turn will lead to more profitability. The concept of growth must therefore be taken seriously by an organisation striving to meet the goal of shareholders wealth maximization.

Christensen and Michael (2008) suggest that companies have two basic options when they seek to build new growth in business. They can pursue a sustaining innovation strategy in which they bring better products to the existing customers in existing markets or they can pursue a disruptive innovation strategy that either creates a new market by targeting non-consumers or offers a 'good enough' product to 'over served'

customers at lower prices. For instance a hospital may introduce new diagnostic equipment's or forms of treatments that will be added to the already existing services.

Odongo (2011) found out that hospitals need to understand their operating environment sufficiently so that they can come up with strategies that will enable them gain competitive advantage. Using the strategic management process, hospitals are able to understand the environmental changes and take advantage of the growth opportunities that come their way. Zook (2004) argued that 75 per cent of Growth strategies fail to meet the shareholders expectations. Emphasis should therefore be put on choosing growth strategies that can help organisations achieve shareholders expectations.

According to Thompson et al. (2007) growth via acquisition is perhaps the most frequently used strategy employed by ambitious runner-up companies to form an enterprise that has greater competitive strength and a larger share of the overall market. The institutions must acquire organisations that will lead to financial synergy and improve on the overall performance of the institution. Growth strategies involve exploring business opportunities for both financial and competitive advantage. (Grundy, 1995).

### **1.1.2 The Health Care Industry in Kenya**

The healthcare industry in Kenya is made up of dispensaries, nursing homes, sub-district, district hospitals, provincial hospitals, national hospitals and private hospitals. The players in this industry include the Government of Kenya, the private sector, Non-governmental organizations and the Missionaries. The industry has faced a lot of

challenges among them, reduced funding from the government and the burden of communicable diseases.

The sector has also faced challenges of diagnostic capabilities with many laboratory samples being sent abroad for some specialized tests. We have also seen over the last few years, changes in Medical tourism and a rise in the number of Kenyans who are seeking healthcare services in Asian and European countries such as India, Singapore, Turkey and the United Kingdom. There is huge support of the public healthcare system from donor funding. There has also been an expansion of the medical insurance coverage and increased healthcare spending which has provided opportunities for growth of this sector.

Healthcare spending in Kenya has been on the rise trajectory rise in the last five years. This coupled with the rising population and a growing middle class has provided a good customer base for the hospitals and hence opportunities for growth. This is evidenced by mushrooming of satellite clinics of some major hospitals and advancement in new diagnostic and treatments in areas such as Cancer and heart diseases.

The private hospitals in Nairobi charge more for medical services than public hospitals hence many Kenyans shy off from seeking medical care in these institutions. This has affected the income generating potentials of the hospitals and ultimately their growth potentials. However, the private hospitals offer the advantages of better diagnostic facilities and treatment options, pool of qualified medical specialties, reduced waiting time with comfortable catering and accommodation facilities for admitted patients.

## 1.2 Research Problem

Businesses exist in an uncertain, dynamic environment characterised by stiff competition. They are faced with numerous challenges of growing their portfolios failure to which they will cease to exist. Johnson, Scholes and Whittington (2005) argue that all organizations exist in complex commercial, economic, political, cultural and social settings that are always under constant change and hence the need to come up with growth strategies that will ensure that the company grows amidst all the environmental challenges. Managers must therefore design and implement growth strategies that will guide their organisations to greater economic heights

Private hospitals in Nairobi operate in an environment of increased competition offering similar products and targeting same markets. Most of these private hospitals have their own ambulance services for accident and emergency departments. They also feature Out-patient care centres, resident doctors, pharmacies and other specialities such as cardiology, dermatology, oncology and urology. There has been an increase in new facilities at the hospitals, with advancement in diagnostic capabilities and new treatment options.

There have been studies carried out on growth strategies in other industries. Mungai (2010) undertook a survey on the growth strategies applied by the Institute of Advanced Technology. The study revealed that all growth strategies in Ansoff's model were pursued by the Institute. Kange'the (2012) carried out a study on organizational growth strategies utilized by St. Mary's mission hospital in Nairobi. The study revealed that the hospital utilized organic development, mergers and acquisitions. Machiuka (2010)

undertook a survey on growth strategies utilized by commercial banks in Kenya. She found out that most banks were using market penetration, product development and diversification as their growth strategies.

Organizational growth is indispensable to the survival of a business. Private hospitals in Nairobi craft and implement growth strategies to enable them meet their customers' needs and maximize shareholders' wealth. Existing literature has not comprehensively addressed growth strategies applied by these private hospitals. What growth strategies are applied by private hospitals in Nairobi? What are factors that influence the choice of growth strategies?

### **1.3 Research Objectives**

The study had two objectives:

- i. To establish the different growth strategies that have been applied by private hospitals in Nairobi.
- ii. To identify the factors that hospitals consider while choosing a growth strategy.

### **1.4 Value of the study**

The findings of this study will provide information on growth strategies applied by private hospitals in Nairobi. This information will enrich the current literature on growth strategies in the healthcare industry thereby guiding managers and health care strategists in their endeavour to develop growth strategies that meet the future needs of their hospitals. Further, this study will contribute to the existing literature on organizational growth strategies and provide information to the current and future



scholars on the growth strategies applied by private hospitals in Nairobi. This will also open up new areas for research.

In addition, the study seeks to highlight factors that are considered by private hospitals in their choice of growth strategies and hence will provide a wealth of information to managers as they consider choices for growth strategies and plan for their implementation. Also, the study will be of value to the government of Kenya by providing information on growth strategies that can be applied to public hospitals thereby helping them compete with private hospitals.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

There is a vast wealth of knowledge on the researches done on growth strategies in different industries. This chapter explores the existing literature on growth strategies.

### **2.2 Theoretical foundation**

This research was centred on the theories of organizational growth. Oxford dictionary defines growth as an increase in economic activity or value. Bhide (2000) pointed out that business growth is similar to the human life-cycle. He further added that just as humans pass through stages of physiological and psychological development from infancy to adulthood, businesses evolve in the same predictable ways and encounter similar problems in their growth.

Hisrich, Peters and Shepherd (2008) noted that growth makes organisations bigger and hence they are able to enjoy the benefits based on size. They added that higher volumes increase product efficiency, make the firm more attractive to suppliers and increase its bargaining power. In addition, they argued that size enhances legitimacy of an organisation since larger organisations are perceived by customers, financiers and other stakeholders as being more stable and prestigious.

Marris (1964) argued that both managers and owners share an overriding desire to see their firms grow. He further added that managers derive more satisfaction in seeing a firm expand than in simply working for a big firm. On the other hand, owners want their

wealth accumulation to be maximised rather than their current income. This means that growth should be handled not by managers of organisations alone but also by stakeholders.

According to Romer (1994) endogenous growth theories hold that economic growth is primarily the result of endogenous and not external forces. This means that investments in human capital, innovation, knowledge, research and development will significantly contribute to the growth of an organisation. An organisation can choose to concentrate on endogenous growth by applying the above strategies.

Solow (1956) and Swan (1956) put together a model of growth as part of the neoclassical growth models. These models put emphasis on productivity, capital accumulation, population growth and technological progress. In Solow's model, new capital is more valuable than old capital since capital is produced based on known technology and technology improves with time. In neoclassical growth models, the long run rate of growth is exogenously determined.

### **2.3 Strategic group theory**

According to Thompson et al. (2007), a strategic group consists of those industry members with similar competitive approaches and positions in the market. This means that these companies may have similar price, similar quality of products and may use the same distribution channels. Private hospitals in Nairobi belong to the same strategic group, mostly with the same business models and hence they are in direct rivalry with each other.

Growth and financial performance differs between groups of firms in the same industry and well as those across other industries. Thompson et al. (2007) argue that competing companies commonly sell in different price/quality ranges, emphasize different distribution channels, and incorporate product features that appeal to different types of buyers, have different geographical coverage, it stands to reason that some companies enjoy stronger or more attractive market positions than others. The choice of strategies in a given strategic group would be different from the choice of strategy in another group.

## **2.4 Ansoff's growth strategies**

Ansoff's Matrix is a relevant tool to managers who are seeking growth in their organisations. Lynch (2009) pointed out that this matrix identifies the products and market options available to the organisations including the possibility of withdrawal and movement into unrelated markets. He further added that the distinction is drawn between markets which are defined as customers and products, which are defined as items sold to the customer. It is worth noting that this model is applicable when a company choose to introduce new products or establish new markets.

**Figure 1 Ansoff Matrix**

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Ansoff (1987) adopted from Kotler, P. (2000). Marketing management, Millennium edition, New Jersey: Prentice-Hall.

### **2.4.1 Market Penetration strategies.**

Involves growth strategies where a business focusses on selling existing products into existing markets in order to maintain or increase the market share of the current products, secure dominance of growth markets, restructure a mature market by driving out competitors and increasing the usage of existing customers. Mungai (2010) argues that the ultimate objective of market penetration strategy is to increase the net income along with total revenue and also enable a firm maintain or increase the market share of current products.

Lynch (2009) explains that without moving outside the organisation's current range of products or services, it may be possible to attract customers from directly competing

products by penetrating the market. He adds that market penetration strategy should begin with the existing customers with such things as improvement of product quality or levels of service, advertising and promotions.

#### **2.4.2 Market development strategies.**

This strategy involves the organisation moving beyond its immediate customer focus into attracting new customers for the existing product range. It may seek new segment of the market, new geographical area or new uses of its products or services that will bring in new customers (Lynch, 2009). For instance, some Private hospitals in Nairobi have expanded beyond Kenya into Uganda and Tanzania. The Aga Khan University Hospital is a good example. The hospital has established branches in Dar es Salaam, Tanzania and Uganda.

Market development is chosen if the firm's strategic managers feel that its existing products would be well received by new customers (Pearce and Robinson, 2007). They further added that market development allows firms to practice a form of concentration growth by identifying new uses for existing products and new demographically, psychographically and geographically defined markets. This can be achieved through opening of either new geographical markets, or through regional and international expansions and advertising.

#### **2.4.3 Product development strategies.**

According to Lynch (2009), a company may engage in product development to utilize the excess of product capacity, to counter competitive entry, to exploit new technology

or to protect the overall market. A business introduces new products into existing markets. Pearce and Robinson (1997) argued that product development is appropriate if the management feels that the firm's existing customers would be interested in product related to its current line.

Product development can be done through incorporating new features in a product, applying quality variations, developing additional models and sizes. The ultimate focus on the above is to attract satisfied customers to new products. The new products are then introduced into the existing market. Organisations that continually engage into product development will have an edge over organisations that do not undertake product development.

#### **2.4.4 Diversification**

Beyond a certain point, it is no longer possible for a firm to increase its basic product market. Diversification is one of the four broad strategic choices in Ignor Ansoff Matrix. Diversification enables an organisation gain competitive advantage by developing new products for new markets. However, it is the most risky strategy as it requires both product and market development and which may be outside the firm's core competencies.

Diversification may either be concentric/related or conglomerate/Unrelated (Hunger and Wheelen, 2009). Porter (1998) explains that the rationale behind diversification is that a firm can gain competitive advantage if it has skills or resources that it can transfer into new markets. According to Thompson et al. (2007), companies that strive to grow their

revenues and earnings year after year have to craft a portfolio of strategic initiatives. This therefore calls for diversification for companies.

Kotler et al. (2005) argued that firms that operate in the global industry must compete on worldwide basis if they are to succeed because their strategies positions in specific markets are affected strongly by their overall global positions. Hunger and Wheelen (2009) stated that related diversification would be appropriate if a firm has a strong competitive position but current industry attractiveness is low. This means that the company will introduce new products that are related to the existing products.

One of the convincing justifications of diversification seems to be long range reducing the risks of continuing an old portfolio of a company in the light of changing environment. Lynch (2009) points out that there are good strategic reasons for diversification-for a company to be reliant on only one product or customer carries immense risk if for any reason, that product or services should fail or the customer should go elsewhere.

## **2.5 Factor Influencing choice of Growth Strategies**

The choice of suitable growth strategies in an organization is not easy. It involves consideration of many factors which may be tangible or intangible. Pearce and Robinson (2007) argue that for a strategy to be successful, it must place realistic requirements on the firm's internal capabilities. The process also calls for the involvement of many of the organisations stakeholders as lack of involvement may affect the implementation of the strategies.



Kimani (2011) in his study on factors influencing strategy choice in Kenyan commercial banks found out that banks consider costs of growth strategies and the expected return in their choice of strategies. The growth strategies adopted should be affordable to the business. The strategies chosen should also be in line with the organisations short-terms and long-terms goals.

According to Githegi (2011), competition is seen as the main factor that influences strategic choices. A particular growth strategy may be favoured over others in order to achieve competitive advantage. However, other factors like organizational structure, leadership, culture and technological advances influence choices made by organizations. An organisation should critically analyse these factors and how a particular growth strategy may affect them.

The resource-based view considers a firm's own set of resources and capabilities as the drivers of growth and states that a firm predicts the growth strategies based on its resources and competences (Otto and Low, 1998). The more firms grow the more resources they can access and hence firm's growth is considered as a path dependant process (Akpinar, 2009). This therefore calls for well thought and ambitious but realistic growth plans and strategies.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the research design and the target population. It also describes the types and sources of data that will be utilized in the research, data collection methods and data analysis process.

### **3.2 Research Design**

The design of this research was a cross-sectional survey on the strategies adopted by the hospitals and the factors determine the choice of strategy by the hospitals. According to William (2003) a survey requires asking respondents for information using verbal or written questions through questionnaires or interviews. He further added that surveys provide quick, inexpensive, efficient and accurate means of assessing information about the population.

According to Copper and Emory (1985), surveys are more efficient and economical than observations. This design was considered more appropriate in this study as it enabled a snapshot comparison of the different growth strategies applied by private hospitals. The design also allowed the researcher to collect data from the population or subset of the population at a point in time. In this study, the entire population was studied.

### **3.3 Population**

Sekaran (2001) defines a population as ‘the entire group of people, events or things of interest that the researcher wishes to investigate’. The study targeted all the private hospitals in Nairobi that are licenced by the Ministry of Health. All the elements in the population were studied.

There were thirty licenced private hospitals operating in Nairobi Kenya. (Medical practitioners and dentists board, 2012). Some of the hospitals were owned by local investors while others were owned by foreign investors. There were others that were managed by Church-run institutions. The private hospitals play a very vital role in the Kenyan healthcare system by relieving the pressure on the overstressed public health institutions.

### **3.4 Data Collection**

Primary data was used in this study. Pamela and Schindler (2006) explain that primary data are sought for their proximity to truth and control over error. The data was collected with the help of a Questionnaire. The Questionnaire was divided into three sections. The first section sought to find out the general information about the responding firm. The second section sought to identify the forms of growth strategies applied by private hospitals while the third section was focussed in identifying the factors that managers consider in their choice for a particular growth strategy.

To obtain data required to meet the objectives of the study, the targeted respondents were managers involved in the formulation and implementation of the organisations' growth strategies. These included the Chief Executive Officers, General Managers or other managers heading the organisations' strategy departments. The researcher used drop and pick method to administer the tool. In addition, some questionnaires were sent through email.

### **3.5 Data Analysis**

In this study, data was cleaned and then coded according to the variables. The data cleaning was done to eliminate discrepancies. Coding refers to the analytical process through which the quantitative data was categorised to facilitate analysis. Thereafter, the data was classified, tabulated and summarized in Excel computer package. The report writing was done in Microsoft Word.

The quantitative data was analysed through descriptive statistic techniques such as frequency distribution tables, summarized Percentages to determine growth strategies. This method of analysis was the most appropriate since it enabled the researcher to have insight on the commonly used strategies by the private hospitals. The data was presented using tables. The results were interpreted based on the research objectives and thereafter conclusions and recommendations were made.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the data findings, analysis and interpretation of the data obtained during the study. This study sought to establish the growth strategies applied by private hospitals in Nairobi and also the factors influencing the choice of growth strategies. The data collected was analysed by use of frequency distribution tables and percentages. The data presentation was made in tables and graphs.

### **4.2 Profile of the Private hospitals in Nairobi**

The respondents of this study were managers in private hospitals who were charged with the responsibility of crafting and implementing strategies. Out of thirty targeted respondents, twenty eight returned the questionnaires hence the response rate was at 93%. The data obtained showed that the hospital ownership profile was as follows:

**Table 4.1: Findings on Ownership of the private hospitals.**

	Frequency	Percentage
Locally Owned	24	85.7
Foreign Owned	4	14.3
Both locally & foreign owned	0	0
<b>Total</b>	<b>28</b>	<b>100.0</b>

**Source: Field data, 2013**

According to table 4.1, 85.7 % of the private hospitals in Nairobi are locally owned while 14.3% of the hospitals are foreign owned. None of the hospitals was both locally and foreign owned.

**Table 4.2: Findings on the duration of operation of the private hospitals.**

<b>No. of years</b>	<b>Frequency</b>	<b>Percentage</b>
Below 10 years	10	35.7
10-25 years	9	32.1
26-50 years	3	10.7
Over 50 years	6	21.4
<b>Total</b>	<b>28</b>	<b>100.0</b>

**Source: Field data, 2013**

Table 4.2 showed that 35.7 % of the hospitals had been operating in Nairobi for less than ten years while 32.1% of the hospitals had been in operation for between ten and twenty-five years. 10.7 % of the hospitals had been in operation for between twenty six and fifty years while 21.4% of the hospitals had been operating in Kenya for more than fifty years.

**Table 4.3: Findings on the number of Hospital Beds in the Private hospitals.**

<b>No. of Beds</b>	<b>Frequency</b>	<b>Percentage</b>
Under 50 Beds	13	46.4
50-100 Beds	4	14.3
100-200 Beds	4	14.3
Over 200 Beds	7	25.0
<b>Total</b>	<b>28</b>	<b>100.0</b>

**Source: Field data, 2013**

The findings of Table 4.3 revealed that 46.4% of the hospitals had a capacity of less than 50 beds while 14.3 % had a capacity of between fifty and a hundred beds. In addition, 14.3% of the hospitals had between hundred and two hundred beds. The rest of the hospitals (25%) in Nairobi had more than 200 Beds.

### **4.3 Strategies applied by private hospitals**

The study was interested in finding out the growth strategies applied by private hospitals in Nairobi. To achieve this objective, the managers who took part in this study were asked to rate how different strategies had been used to achieve growth in their institutions.

### 4.3.1 Market development strategies

To identify the market development strategies applied by the private hospitals in Nairobi, the Mean was computed from data obtained on a Likert scale. The rating was done on a scale where 1 was strongly disagree, 2 was Disagree, 3 was Neutral, 4 was Agree and 5 was strongly agree. The higher the mean score, the more the strategy was utilized. Standard deviations were also computed.

**Table 4.4: Findings on Market development strategies.**

<b>Market development Strategies</b>	<b>Mean</b>	<b>Standard Deviation</b>
Giving incentives to existing customers	4.29	0.95
Opening of new clinics in other parts of Kenya	3.46	1.49
Establishment of New channels	3.21	0.96
Advertising in other media	3.14	1.26
Opening of new clinics in other countries.	2.21	1.07
<b>Grand Mean</b>	<b>3.26</b>	

**Source: Field data, 2013**

The findings presented in table 4.4 revealed that majority of the private hospitals were providing incentives to the existing customers as a market development strategy with a mean of 4.29. Opening new clinics in other parts of Kenya, establishment of new channels and advertising in other media were moderately utilized by the private



hospitals as market development strategies. Opening of clinics in other countries was the least adopted strategy with a mean of 2.21.

### **4.3.2 Market Penetration strategies**

The study revealed that the private hospitals had introduced new facilities as a market penetration strategy. This strategy had a mean score of 4.39 meaning that the strategy was utilized by the private hospitals to a larger extent. The other strategies adopted to a moderate extent include advertising of hospital products and introduction of marketing departments with mean scores of 3.86 and 3.79 respectively.

The study also sought to find out if the hospitals had introduced medical packages as strategy of achieving greater market penetration. The findings revealed that the hospitals had used this strategy to a moderate extent with a mean score of 3.29. Also, the hospitals had utilized price reduction as a strategy to achieve market penetration but to a lesser extent with a mean of 2.96. These findings are presented in table 4.5

**Table 4.5: Findings on Market penetration strategies**

<b>Market Penetration Strategies</b>	<b>Mean</b>	<b>Standard Deviation</b>
Introduction of New facilities at the hospital	4.39	0.87
Advertising of hospital products	3.86	1.07
Establishment of a Marketing department	3.79	1.28
Introduction of package	3.29	1.43
Price reduction	2.96	1.27
<b>Grand Mean</b>	<b>3.66</b>	

**Source: Field data, 2013**

### **4.3.3 Product development strategies**

The study revealed that the private hospitals in Nairobi had incorporated new features into the existing products. This had a mean of 4.39 meaning that majority of the hospitals introduced new features as a product development strategy. On the other hand, the study also found out that product quality had been improved to a large extent with a mean of 4.36.

The other strategy that was found to have been utilized by the private hospitals was introduction of new products with a mean of 4.29. This means that this strategy was utilized by the private hospitals to a large extent. However, the study revealed that

majority of the private hospitals had not invested in on-going research on new products which is crucial in product development. These findings are presented in table 4.6.

**Table 4.6: Findings on Product development strategies**

<b>Product development Strategies</b>	<b>Mean</b>	<b>Standard Deviation</b>
New features have been incorporated into existing products	4.39	0.57
Product quality have been improved	4.36	0.56
New products have been introduced	4.29	0.66
On-going research on New products	2.79	0.80
<b>Grand Mean</b>	<b>3.96</b>	

**Source: Field data, 2013**

#### **4.3.4 Diversification strategies**

This study revealed that majority of the private hospitals had started ambulance services. The mean was 4.25 indicating that this strategy was utilized by the private hospitals to a larger extent. On the other hand, most of the private hospitals in Nairobi had established counselling centres as another strategy of achieving diversification. The study also revealed that the private hospitals had undertaken medical camps as an example of unrelated diversification. This had a mean of 3.32 indicating that this strategy had been utilized to a moderate extent.

Other strategies applied by private hospitals to a smaller extent included starting cancer care centre and medical conferencing with means of 2.64 and 2.43 respectively. The grand mean of the diversification strategies utilized was 3.26 indicating that these strategies were utilized by the private hospitals to a moderate extent. These findings are presented in table 4.7.

**Table 4.7: Findings on Diversification strategies**

<b>Diversification Strategies</b>	<b>Mean</b>	<b>Standard Deviation</b>
Started ambulance services	4.25	0.59
Started a counselling centre.	3.68	1.09
Undertaking medical camps	3.32	1.25
Started cancer care centre.	2.64	1.17
Medical tourism and confrencing	2.43	1.23
<b>Grand Mean</b>	<b>3.26</b>	

**Source: Field data, 2013**

#### **4.3.5 Mergers and Acquisition**

The study revealed that acquiring other hospitals and clinics was least adopted by the private hospitals in Nairobi as a growth strategy. In addition, merging with other hospitals was also least utilized as a growth strategy. The grand mean was 2.46 meaning

that majority of the private hospitals in Nairobi did not utilize Mergers and acquisition as a strategy of achieving growth. These findings are represented in the table 4.8.

**Table 4.8: Findings on Mergers and acquisitions**

<b>Mergers &amp; Acquisition Strategies</b>	<b>Mean</b>	<b>Standard Deviation</b>
Acquired other hospitals and clinics	2.71	1.25
Merged with other hospitals	2.21	1.07
<b>Grand Mean</b>	<b>2.46</b>	

**Source: Field data, 2013**

#### **4.4 Factors influencing choice of growth strategies**

The managers participating in this study were requested to indicate the factors that influence their choice of growth strategies. They were further requested to rank these factors in their order of importance. The study revealed that the most important factor affecting choice of growth strategies was the availability of resources. 27.1 % of all the managers viewed this as the most important factor influencing the choice of growth strategies.

Mission and Vision of the institution was considered the second most important factor influencing the choice of growth strategies. 15.6 % of the managers viewed this as an important factor in influencing their choice of growth strategies. Other factors that were considered important included customer needs, competition, goals and objectives, the

business environment, Shareholders influence, expected profits and economic stability.

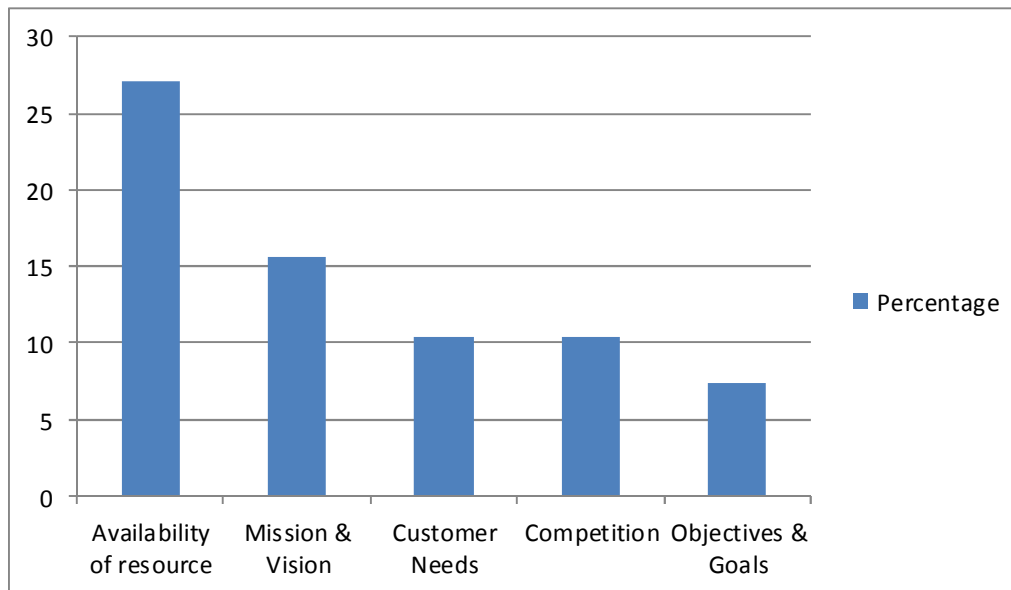
These findings are presented on a table 4.9.

#### 4.9 Factors influencing the Choice of Growth Strategies

<b>Factor</b>	<b>Frequency</b>	<b>Percentage</b>
Availability of resource	26	27.1
Mission & Vision	15	15.6
Customer Needs	10	10.4
Competition	10	10.4
Goals & objectives	7	7.3
Business Environment	7	7.3
Strategy	6	6.3
Market	3	3.1
Shareholders influence	3	3.1
Profit	2	2.1
Personnel	2	2.1
Management Decision	2	2.1
Quality of Service	1	1
Accessibility	1	1
Economic Stability	1	1
<b>Total</b>	<b>96</b>	<b>100</b>

**Source: Field data, 2013**

**Figure 2: The most important factors affecting the choice of growth strategies.**



**Source: Field data, 2013**

Figure 2 presents the five factors that were considered as the most important affecting the choice of growth strategies. These included availability of resources, mission and vision, customer needs, competition, goals and objectives of the hospitals with 27.1%, 15.6%, 10.4%, 10.4%, 7.3% respectively.

## **4.5 Discussion**

The findings of this study were compared with Ansoff's growth strategies model and the strategic group theory. Also, the findings were compared with those of previous studies done on the growth strategies in order to establish any similarities or differences.

### **4.5.1 Comparison with Theory**

Based on the findings of the study, it was evident that the private hospitals in Nairobi utilized the strategies in the Ansoff's growth model. These strategies included Market

penetration, Market development, product development and diversification. The most utilized strategy was product development strategy and the least utilized strategy was the diversification strategy.

Private hospitals in Nairobi used similar growth strategies in line with their business models and hence the findings of the study are in line with the strategic group theory where firms in the same industry with similar quality range, distribution channels, and product features may utilize similar strategies. The hospitals put a lot of emphasis on improving the quality of products.

#### **4.5.2 Comparison with Other Studies**

The findings of the study are similar to those of Mungai (2010) who carried out a study on the growth strategies applied by the institute of Advanced Technology. She found out that all the growth strategies in Ansoff's model were pursued by the Institute. These included Market penetration, Market development, product development and diversification.

In addition, the findings also confirmed what Machiuka (2010) found out concerning commercial banks in Kenya. The banks were utilizing market penetration, product development and diversification as their growth strategies. On the other hand, the findings of this study differ from those of Kange'the (2012) who found out that St. Mary's mission hospital had utilized organic development, mergers and acquisitions. Based on the findings of this study, Mergers and acquisitions were utilized to a less extent by the private hospitals in Nairobi.



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

### **5.1 Introduction**

This chapter provides a summary of the research findings, discussion of the finding and conclusion drawn from the study. This chapter also includes recommendations for policy and practice as observed by the researcher.

### **5.2 Summary**

The first objective of the study was to establish the growth strategies applied by private hospitals in Nairobi. The findings indicated that market penetration, market development, product development and diversification strategies were applied as growth strategies by the private hospitals in Nairobi. In addition, Mergers and Acquisitions were also utilized as growth strategies applied by private hospitals in Nairobi. The most utilized strategy was product development and the least utilized strategy was Mergers and Acquisitions.

The second objective sought to determine the factors that influence the choice of growth strategies. Data collected indicated that availability of resources was considered to be the most important factor influencing the choice of growth strategies. The second most important factor influencing the choice of growth strategies was the Mission and vision of the private hospitals. Other factors that were considered important included customer needs, competition, goals and objectives, the business environment, Shareholders influence, expected profits and economic stability

### **5.3 Conclusion**

Based on the findings of the study conducted, it was concluded that improving quality of products was considered the most important strategy by the private hospitals in Nairobi. Also introduction of new facilities at the hospitals with a mean of 4.39 was another strategy being utilized by the private hospital in Nairobi to a large extent. All in all the private hospitals in Nairobi applied Market penetration, Market development, product development, diversification strategies. Mergers and Acquisition had also been applied by the private hospitals in Nairobi but to a lesser extent.

From the the findings, the research also concluded that there are a number of factors that influenced the choice of growth strategies. The factors included availability of resources, Mission and visions, customer needs, competition, goals and objectives, the business environment, Shareholders influence, expected profits and economic stability.

### **5.4 Recommendations**

Private hospitals in Nairobi should allocate more resources to research and development in order to continually improve on the quality of their products and develop new products. This will enable the hospitals achieve growth and gain competitive advantage. They should also focus more on diversification strategies that would enable them to increase their revenue base.

In addition, the private hospitals in Nairobi should venture into markets outside the country and tap on the customer base in the entire Eastern Africa market. Emphasis

should also be put on the areas of medical tourism and conferencing which would enable the hospitals increase their earnings through related diversification.

### **5.5 Limitations of study**

The study was limited to the perspective of the respondents being very busy in their work schedules and this resulted into delays in returning the questionnaires. The researcher was forced to make several phone calls and visits to follow up on the questionnaires. The greatest challenge was faced with the Chief executive officers who cited lack of time and too busy schedules.

The target population had thirty hospitals and the researcher was able to obtain twenty eight completed questionnaires with a response rate of 93%. Some respondents declined to provide information citing that growth strategies were a sensitive issue that could be used by their competitors. They were sceptical about the finding being used solely for academic purpose.

### **5.6 Suggestions of further research**

The study focussed mainly on growth strategies applied by private hospitals in Nairobi. Notably, Private hospitals apply other strategies in their day to day operations and hence further research in other strategies applied by these private hospitals is suggested. Since, this research focused on the private hospitals in Nairobi, further research targeting private hospitals in other parts of the county is recommended.

The data collection tool used to collect data was a questionnaire. Future research should be carried out using another tool such as an Interview guide. This would enable the

research to probe further and seek clarifications on answers provided by the respondents. The interview guide can be designed to also seek information on whether the growth strategies adopted have been successful.

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## Appendix I: Questionnaire.

### Section A: Hospital Profile.

1. Name of the Hospital:

2. No of hospital Beds

a) Under 50 Beds: [   ]

b) 50-100 Beds: [   ]

c) 100-200 Beds: [   ]

d) Over 200 Beds: [   ]

3. Ownership of the hospital:

i) Locally Owned: [   ]

ii) Foreign owned: [   ]

iii) Both locally & foreign owned: [   ]

If (iii) above, please indicate % of ownership

Locally owned: [   ]

Foreign owned: [   ]

4. How Long has the hospital operated in Kenya?

a) Below 10 years: [   ]

b) 10-25 years: [   ]

c) 26- 50 years: [   ]

d) 50 years and above: [   ]

**Section B: Growth Strategies**

1. There are strategies that have been used by hospitals to achieve growth. Using a rating scale of 1-5. Please indicate what strategies have contributed to the growth of your hospital.

**Strongly Agree-5    Agree-4    Neutral- 3    Disagree- 2    Strongly Disagree-1**

	5	4	3	2	1
1. Market penetration					
2. Market development					
3. Product development					
4. Diversification					
5. Mergers & acquisitions.					

**2. Product Development strategies:**

To what extent has have following product development strategies been used to achieve growth in your hospital? Tick the appropriate response.

**Strongly Agree-5    Agree-4    Neutral- 3    Disagree- 2    Strongly Disagree-1**

	5	4	3	2	1
1. New products have been introduced.					
2. New features have been incorporated into existing products.					
3. Product qualities have been improved.					
4. On-going Research on New products					

**3. Market Penetration Strategies:**

To what extent have the following methods being used to achieve growth in your hospital?

**Strongly Agree-5    Agree-4    Neutral- 3    Disagree- 2    Strongly Disagree-1**

	5	4	3	2	1
1. Establishment of a marketing department.					
2. Introduction of New facilities at the hospital.					
3. Advertising of hospital products					
4. Introduction of packages.					
5. Price reduction.					

#### 4. Market Development:

To what extent have the following methods being used to achieve growth in your hospital?

**Strongly Agree-5   Agree-4   Neutral- 3   Disagree- 2   Strongly Disagree-1**

	5	4	3	2	1
1. Opening new clinics in other parts of Kenya.					
2. Opening clinics/hospitals in other countries.					
3. Giving specific incentives to existing customers. e.g. Health promotions.					
4. Advertising in other media. (Forms).					
5. Establishing of new channels of distribution.					

#### 6. Diversification Strategies:

To what extent have the following methods being used to achieve growth in your hospital?

Strongly Agree-5    Agree-4    Neutral- 3    Disagree- 2    Strongly Disagree-1

	5	4	3	2	1
1. Started cancer care centre.					
2. Started counselling centre					
3. Opening a training Institutions.					
4. Started Ambulance services.					
5. Undertaking Medical camps.					
6. Medical tourism and conferencing					

**7. Mergers and Acquisitions:**

To what extent have the following methods being used to achieve growth in your hospital?

Strongly Agree-5    Agree-4    Neutral- 3    Disagree- 2    Strongly Disagree-1

	5	4	3	2	1
1. Acquired other hospitals/clinics.					
2. Merged with other hospitals.					

**Section C:** Factors to consider in choice of Growth strategies.

i) What factors to your consider in the process of choosing a growth strategy.

- |          |           |
|----------|-----------|
| 1. ----- | 6. -----  |
| 2. ----- | 7. -----  |
| 3. ----- | 8. -----  |
| 4. ----- | 9. -----  |
| 5. ----- | 10. ----- |

ii) In what order of importance would you place the above factors?

**Thank you for participating in this study.**

## **Appendix II: List of Private Hospitals in Nairobi:**

1. The Nairobi Hospital.
2. Aga Khan University Hospital.
3. Guru Nanak Hospital.
4. South B Hospital.
5. Ruaraka Uhai Neema Hospital.
6. St John's Hospital Limited.
7. Lions Sight First Eye Hospital.
8. Meridian Equator Hospital.
9. Mariakani cottage Hospital.
10. St. Mary's Mission Hospital.
11. Umoja Hospital.
12. St. Francis Community Hospital.
13. Menelik Hospital.
14. Edelvale Trust-Jamaa Hospital.
15. Gertrude's children Hospital.
16. Mater Hospital.
17. Metropolitan Hospital.
18. The Karen Hospital.
19. Maria Immaculate Hospital.
20. Nairobi women's Hospital.
21. Nazareth Hospital Limited.
22. Nairobi West Hospital.
23. MP Shah Hospital.
24. Avenues Hospital.
25. Kahawa Wendani Hospital.
26. Melchizendek Hospital.
27. Coptic Hospital.
28. JKUAT Hospital.
29. Sinai Hospital.
30. Ruiru Hospital.

