STRATEGIC RESPONSES TO CHANGING ENVIRONMENT: A CASE STUDY OF AFRICAN MEDICAL AND RESEARCH FOUNDATION

BY

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DECLARATION

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

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This management project has been submitted for examination with my approval as University supervisor.

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DEDICATION

To my family and all those who supported in the completion of this project writing.

Thank you and God bless you abundantly.

For all those lecturers at Mekobi University, I take this chance to recognize you all.

To all I say, may God Bless you in a mighty way.
ACKNOWLEDGEMENT

I forthwith acknowledge the support of my family and my study colleagues who have stood by me throughout my studies and particularly for their unending support. I deeply appreciate you and may God bless you.

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For all those lecturers at Nairobi University, I take this chance to recognize you all.

To all I say, may God Bless you in a mighty way.
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ABSTRACT

Organizations exist in complex and volatile commercial, economic, political, technological, cultural and social environments. The environmental changes occasioned by these factors are more complex for some organizations than others due to differences in economies of scale. This study aimed at determining the strategic responses adopted by AMREF as a consequence of such changes.

The study employed a case study design. Convenience sampling technique was used to select the respondents who included the senior management team comprising of the director, Human resource manager, finance manager and administration manager of AMREF Kenya. Data was collected by means of interview guides consisting of unstructured questions. Data analysis was executed using content analysis methods. The final report was narrative in nature, with a rich description of the findings, revolving around the four Ansoff growth choices and the context in which they occur. Interviewees “voices” were quoted in given instances in order to derive the full meaning behind a given message (to avoid paraphrasing that dilutes content).

In the modern world of stiff competition and decreased donor funding, AMREF has been able to keep pace with the changes in the operating environment by adopting various response strategies. The study concludes that AMREF had adopted various strategic responses in response to low funding and recent global crisis. These included technology innovation, improved networking opportunities, improved communication with donor organizations and increased training and development to employees to enable them tackle challenges.

The study recommends that AMREF needs to employ various strategies aimed at tackling low funding and recent global crisis. These include decisive strategies and planned strategies aimed at improving business efficiency. AMREF should also engage in more cost reduction strategies as a response to decreased donor funds. The study also recommends that the NGO should recruit workers who have the necessary knowledge and competencies in the business to minimize on the induction and training costs. The staff should also be remunerated fairly and have better work condition and terms to ward-off staff poaching by competitors.
1.1 Background of the Study

For many organizations, crises are unique and rare events. However, in many industries, crises may be a regular feature of corporate life. Consequently, a central issue in the process of organizational adaptation is not only coping with uncertainty, but also understanding situations where uncertainty can degenerate into a crisis (Asch and Salaman, 2002). This understanding fosters a culture of proactive response to the threats posed by anticipated and unanticipated environmental changes. This culture is imbued into the firm’s corporate strategy and manifests itself as strategic responses to environmental competitiveness.

Day (1984) argues that the trial and error approach to planning is geared around the continuation of programs and activities, which seemed to be working and the elimination, or alteration, of those that do not. The key planning assumption of this approach is that the rate of change in the environment would be slower than the organization’s response time. Day strongly asserts that this approach is frequently too costly in terms of missed opportunities due to the current reality of environments being shaped by intense competition, discontinuities in key economic trends and compressed time horizons. Furthermore, rapid environmental change and increasing uncertainty have put a premium on strategies, which anticipate and shape events rather than simply respond to them.

One of the primary functions of effective management is to organize and use the available resources in ways, which minimize the impact of environmental threats and pressures on the organization. Organizations must adapt to their environments if they are
to remain viable. Hoskisson et al. (2004), for example, maintain that to maximize long-term effectiveness, organizations need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance (crises).

1.1.1 Strategy

One of the many definitions of strategy is that by Reinharth, Shapiro and Kallman (1981), who see strategy as those general programs of action with an implied commitment of emphasis and resources to get to a mission. They are patterns of major objectives, conceived and stated in such a way as to give the organization a unified direction. As traditionally taught, strategy is performed by undertaking a series of activities that form the discipline of strategic planning. In other words, strategy is the path that must be followed to achieve the strategy plan.

Strategic management is concerned with determining the future direction of an organization and implementing decisions aimed at achieving the organizations short and long-term objectives and goals. Pearce and Robinson (2002) on the other hand look at it as assessing the firms strategic position, the firm’s strategic choices for the future and the how to turn the strategy into action in order to achieve the firms’ objectives. Strategic management can also be viewed as being a set of managerial decisions and actions that determine long-term achievements and general performance of a corporation.

Competitive advantage refers to the strategy used to achieve and, hopefully, to sustain an edge over one’s competitors (Porter, 1987). Porter sees competitive advantage as the objective of strategy, arguing that superior performance will automatically result from
competitive advantage. Competitive advantage can be derived from numerous sources and strategy manipulates the sources of advantage under the firm’s control in order to generate competitive advantage. Additionally, competitive advantage can also emanate from emergent strategy or factors beyond the firm’s control.

1.1.2 Strategic Responses

Strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives (Johnson and Scholes, 2002). Firms operate in an open environment, which is characterized by political, economic, social, and technological factors, which may impede the achievement of their objectives. These factors are obdurate and dynamic hence risky and therefore pose several challenges to the firms. The uncertainties and risks associated with them force firms to undertake strategic responses in reaction to these challenges. Strategic concepts enable firms to cast strategies needed to provide them with competitive advantage over their peers. Such concepts may strengthen a firm’s ability to scan and analyze the environment critically and prepare appropriate actions necessary for the business to thrive.

Firms face an increasingly dynamic, complex and unpredictable environment, where technology, globalization, knowledge and rapidly changing competitive approaches affect overall performance (Asch and Salaman, 2002). The degree and complexity of the current changing environment is driving them, both large and small, to seek new ways of conducting business to create wealth. More and more firms are turning to a strategic approach as the way forward. One of the ways through which they are doing this is by
trying to achieve a “fit” or balance between the firm’s internal environment and its external-operating environment.

Trim (2002) defines scanning the environment as the activity of acquiring information through formal means such as newspapers and conferences and also through informal means such as informal contacts in the industry. The importance of scanning derives from the importance of the decisions involved. Strategic information is useful for making decisions about strategy and long-range plans. External information is strategic when it refers to information about events or relationships in the firm’s outside environment that unveil opportunities to exploit the firm’s strengths, accentuate the firm’s weaknesses, or highlight potential threats facing the firm.

Environmental scanning is conceived of as a key step in the process of organizational adaptation. However, executives can only interpret, disseminate, analyze and politicize information that enters the organization. Wood (2001) suggests that if competitors in an industry have unequal information, they differ in their abilities to formulate cogent responses to the environment. Additionally, if they have generally equal information, then any difference in their responses or accompanying performance is attributable to differences in their abilities (or their own perceptions of their abilities) to implement a response, that is, to change or modify their strategy.

1.1.3 African Medical Research Foundation (AMREF)

AMREF started as the flying Doctors of East Africa in 1957 and it quickly progressed from a curative, implementing organization to one that now focuses on preventative
community-based health care. It has diversified its activities to include mobile units, e-learning and telemedicine.

Communities are at the heart of AMREF’s work. AMREF’s goal is to enable communities live healthier lives through working with the some of the poorest and most marginalized people in Africa; those living in remote rural areas, urban slums, nomadic populations and areas affected by conflict. AMREF develops health projects in close consultation with communities so that they are relevant to their specific needs. Communities identify their own health needs and AMREF then works with them to develop projects that will meet these needs (African Medical Research Foundation) (http://www.amreg.org).

In delivering health services in Kenya, AMREF takes a more holistic approach to health by focusing on the different components needed to deliver effective health care, including; formal health workers, community health workers, laboratories and drug supplies. For example, it’s no good fighting HIV/AIDS solely by pumping money into anti-retroviral drugs. There has to be an adequate number of qualified health workers to administer them and good systems need to be in place for distributing these drugs beyond major towns and cities. AMREF gives communities the skills, knowledge and confidence to demand the health services they deserve and supports national, regional and local health authorities to provide them. (http://www.amreg.org).

Although African health systems are meant to reach all communities, the systems are stressed by the burden of seemingly intractable diseases, insufficient human resources, organisational development failures, funding issues and, most important for AMREF’s

In pursuing these and other far reaching objectives, AMREF is faced with many challenges. For example, the world is currently facing one of the worst economic crises since the Great Depression. This implies scarce availability of donor funds for efficient operations in delivering holistic health services. Apart from the global credit crunch, other challenges facing AMREF include stiff competition for these scarcely available funds, political and regulatory challenges, as well as changes in the business environment. Such include technological innovations that may render widely used systems obsolete and increase the cost of replacing redundant systems. It is these and other challenges that form the basis for this study. The aim is to elucidate and understand what strategic responses the firm has placed in order to overcome or address these challenges (AMREF, 2009).

1.2 Statement of the Research Problem

Organizations exist in complex and volatile commercial, economic, political, technological, cultural and social environments. The environmental changes occasioned by these factors are more complex for some organizations than others due to differences in economies of scale. For survival, an organization must maintain a strategic fit within the environment. The environment is indispensable and an organization has to respond to its dynamism, heterogeneity, instability and uncertainty (De Carolis, 2003). This condition also applies to research institutions in general and to medical research facilities in particular.
Medical research institutions are key to scientific advancement through discovery of new knowledge. Over the past decade, the area of medical research has witnessed the growth of various daunting challenges in their external environment. These include mushrooming of many Non-Governmental Organizations (NGO) leading to increased competition for funds, changes to funding structures, and a move towards greater accessibility, accountability and transparency. Technological advances and e-learning have also had a great impact on medical institutions. These institutions are also faced with increased public expectations for access and quality, constrained resources, changing and expanding societal needs, and the imperative of demographic change. They must strive to achieve excellence while recognizing and determining the appropriate responses to these changes. With the rapidly evolving external environment, it is likely that those institutions that are not ready or willing or able to change to meet the challenges may risk failure.

Consequently, the purpose of this study was to investigate the strategic responses adopted by AMREF in Kenya due to its changing work environment. Various literature exists covering the area of research institutions (e.g. Ng’ang’a, 2003; Waruhiu, 2004; Ndei, 2006) and many more in the area of strategic responses (e.g. from Kombo, 1997 to Were, 2007). None of these covers on the use of strategic responses by AMREF to changes in its environment; this was the research gap that this study needed to address.

1.3 Research Objectives

To determine the strategic responses adopted by AMREF as a consequence of such changes.
1.4 Importance of the Research

This study would be of importance to members of management of the research institutions in enabling them to understand the dynamics of managing research firms in turbulent environments. Through the findings of the study, management of these firms would equip themselves with the relevant skills and knowledge necessary to run these institutions competently. This would enable them to formulate appropriate strategies to deal effectively with challenges arising from their constantly evolving environment.

The study would also benefit policy makers in Government as well as donor agencies in imbuing them with an insight of the challenges facing management of the research firms. For the Government policymakers, such an insight would lead to the formulation of policies that create an enabling environment for proper functioning and management of these firms. On the donor agency side, the policymakers would be able to formulate strategies that effectively address the needs and requirements of their research institution clients. These may relate to funding requirements that would reflect variations occasioned by strategic changes in the environment.

Thirdly, the study would also reveal loopholes in the management of the research firms that may be an indicator of their inability to adequately service their needs or respond to their environment. These loopholes would serve as opportunities for consultants who may utilize them as business opportunities to address management deficits in the research firms. Finally, the study would create added value in the area of research in both business and academia.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter will review environmental changes that may affect business operations and then look at general strategic responses that business may adopt in response to these changes.

2.2 Environmental Changes and Business

Business organizations are impacted on by a host of factors that can be micro- or macro-environmental in nature. The micro-environment involves individuals or organizations that a firm deals with on a regular basis. For example, suppliers, distributors, competitors, customers and employees are all members of the micro-environment. These groups are stakeholders of the business. They all have a direct interest in the activities of the firm and are clearly affected by its actions. Managers regularly interact with others in the micro-environment and their decisions have a direct effect on them e.g. a decision to expand may mean an increase in supplies, more deliveries and greater profits.

At the same time these stakeholder groups can have a direct impact on the firm. Labor shortages in the local labor market may make it more expensive to recruit, competitors launching new products may take away market share and changes in customer tastes may require a rethinking of the business strategy. Delays by suppliers may lead to cash-flow problems and problems with distributors may hit sales. The micro environment therefore plays a critical role in the success and behavior of a business.
The Porters Five Forces model (Porter, 1980) is a strategy tool that can be used to analyze how changes in the micro-environment may affect the firms operations. The forces include the likelihood of new entrants, bargaining power of customers, threat posed by substitute products, the bargaining power of suppliers and the rivalry within the industry. The more difficult it is for other firms to enter a market the more likely it is that existing firms can make relatively high profits. The likelihood of entering a market would be lower if the entry costs are high, if there are major advantages to firms that have been operating in the industry already in terms of their experience and understanding of how the market works (this is known as the "learning effect"), if government policy prevents entry or makes it more difficult, if the existing brands have a high level of loyalty, and if the existing firms may react aggressively to any new entrant e.g. with a price war and the existing firms have control of the supplies.

The stronger the power of buyers/customers in an industry the more likely it is that they will be able to force down prices and reduce the profits of firms that provide the product. Buyer power will be higher if there are a few, big buyers so each one is very important to the firm, the buyers can easily switch to other providers so the provider needs to provide a high quality service at a good price, and the buyers are in position to take over the firm. If they have the resources to buy the provider this threat can lead to a better service because they have real negotiating power.

The stronger the power of suppliers in an industry the more difficult it is for firms within that sector to make a profit because suppliers can determine the terms and conditions on which business is conducted. Suppliers will be more powerful if there are relatively few
of them (so the buyer has few alternatives), switching to another supplier is difficult and/or expensive, the supplier can threaten to buy the existing firms so as to be in a strong negotiating position. The threat of substitute products measures the ease with which buyers can switch to another product that does the same thing e.g. aluminium cans rather than glass or plastic bottles. The ease of switching depends on what costs would be involved (e.g. transferring all your data to a new database system and retraining staff could be expensive) and how similar customers perceive the alternatives to be.

Competitive rivalry measures the degree of competition between existing firms. The higher the degree of rivalry, the more difficult it is for existing firms to generate high profits. Rivalry will be higher if there are a large number of similar sized firms (rather than a few dominant firms) all competing with each other for customers; the costs of leaving the industry are high e.g. because of high levels of investment. This means that existing firms will fight hard to survive because they cannot easily transfer their resources elsewhere; if there are high levels of capacity being underutilized the existing firms will be very competitive to try and win sales to boost their own demand; if the market is shrinking so firms are fighting for their share of falling sales; and if there is little brand loyalty so customer are likely to switch easily between products.

The macro-environment involves factors outside of the direct control of the business. These macro-factors such as the economy, government policy and social change can have a significant effect on a firm's success but the relationship is fairly one way. There are many factors in the macro-environment that will effect the decisions of the managers of any organization. Political factors refer to government policy such as the degree of
intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidizing firms? What are its priorities in terms of business support? Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system.

In Porter’s (1980) model sometimes a sixth competitive force, Government, is added. This is probably the most important competitive force in the industry. Ultimately the regulator can shut down an organization. At a less draconian level, regulation creates the degree of competition and shapes of the playing field. It also controls the commercial, financial and technical behavior of organizations in other areas of their business. Being able to double guess or influence the regulator is a means of achieving a more comfortable existence, competitive survival, or, more interestingly, putting competitors on to the defensive by weakening their position. To do this requires enormous amounts of data which has to be collected, analyzed and presented.

Economic factors include interest rates, taxation changes, economic growth, inflation and exchange rates. Economic change can have a major impact on a firm’s behavior. For example higher interest rates may deter investment because it costs more to borrow, a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency, inflation may provoke higher wage demands from employees and raise costs, and higher national income growth may boost demand for a firm’s products.
Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work (Kotler, 2001). In health for instance, the increased urge for healthy eating has boosted organic sales. New technologies create new products and new processes. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organizations providing the products.

Environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities.

Legal factors are related to the legal environment in which firms operate. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service) (Chapman, 2005). Different categories of law include consumer laws designed to protect customers against unfair practices such as misleading descriptions of the product; competition laws aimed at protecting small firms against bullying by larger firms and ensuring customers are not exploited by firms with monopoly power; employment laws that cover areas such as redundancy, dismissal, working hours and minimum wages.
They aim to protect employees against the abuse of power by managers; health and safety legislation which are aimed at ensuring the workplace is as safe as is reasonably practical. They cover issues such as training, reporting accidents and the appropriate provision of safety equipment.

The ultimate macro-environmental factor can be seen as globalization. The globalization of business activities and the term global strategy emerged in the early 1980s. Levitt (1983) is often considered as the first to recognize the trend towards globalization and states that companies must learn to operate as if the world were one large market ignoring superficial regional and national differences. In addition, he argues that the companies that do not adapt to the new global realities will become victims of those that do.

Johansson (2000) states that there are four groups of variables that propel companies towards globalization, namely the categories of market, competition, cost, and government. They are sometimes referred to as the four major globalization drivers.

Yip (2003) discusses and classifies the globalization drivers. For example, the market drivers consist of homogeneous needs, global customers, global channels, and transferable marketing. The cost drivers are categorized as economies of scale and scope, learning and experience, sourcing efficiencies, favorable logistics, differences in country costs and skills, and product development costs. The government drivers are classified as favorable trade policies, compatible technical standards, and common marketing regulations. Finally, the competitive drivers consist of the interdependence between countries and the competitors that globalize or might globalize.
Sheth (1986) argues that companies doing business in foreign markets probably do so owing to factors other than an emerging universality of consumer needs and wants. He points out three possible reasons for the emerging globalization of business activities in the early 1980s, namely the access to foreign markets, the increasing degree of international standardization of products and standards, and the increasing number of worldwide mergers, acquisitions, and joint ventures.

Grahl (2002) mention a number of reasons for the globalization of business activities such as globalizing for internal efficiency, globalizing to compete in homogeneous markets, and globalizing for added synergies. The indicators for the globalization of business activities are proposed to be at the customer level, at the market level, at the industry level, and at the competitor level. Furthermore, these indicators are independent of each other, which mean that different levels of globalization may be observed in each area. Hughes (2002) state that a global approach allows companies to achieve concentration and coordination of activities, which stimulate the companies’ efforts for the globalization of business activities.

The global strategy approach and the globalization of business activities are encouraged by a number of perceived potential benefits and advantages. Yip (2003) mentions four drivers of globalization. The global strategy approach may improve the access to market drivers such as common customer needs, global customers, global channels, transferable marketing, and leading markets. In addition companies are stimulated by cost drivers such as economies of scale, economies of scope (i.e. the gains from spreading activities across multiple product lines or businesses), sourcing advantages, and duplication across
countries. An example of government drivers is the introduction of ISO 9001:2000, which is a global standard of quality certification. Finally, companies who go global provide a strong incentive for other firms to follow.

Hobsbawm (2000) refers to other potential benefits of a global strategy approach and the globalization of business activities such as the cost savings/reductions and the restructuring of international logistic operations. Furthermore, the advantages may influence the design, purchasing, manufacturing operations, packaging, distribution, marketing, advertising, customer service, software development, making of standardized facilities, methodologies, and procedures across locations.

Yip (2003), too, pays attention to a list of benefits that may be achieved through the globalization drivers such as cost reductions, improved quality of products and programs, enhanced customer preference, and increased competitive leverage. He also mentions some major drawbacks such as reduction of responsiveness to local needs, distance activities from the customer, increased currency risk, reduction of adaptation to local customer behavior and the marketing environment, and local competitiveness, all of which may be sacrificed.

According to Floyd (2001) two motives for the globalization as to take the advantage of opportunities for growth and expansion and survival. Companies that fail to pursue global opportunities will eventually lose their domestic markets, since they may be pushed aside by stronger and more competitive global competitors. Yip (2003) conclude that the use of a global strategy approach can potentially achieve one or more of four major categories of benefits, namely reduced costs, improved quality, enhanced customer preference, and
combined global resources. For example, reduced costs may be achieved through gaining economies of scale from pooling production and other business activities, moving to lower cost countries, exploiting the flexibility of a global network, and enhancing bargaining power with governments, unions, and suppliers. Improved quality may be achieved through focusing resources on a smaller number of products and programs.

Enhanced customer preferences may be obtained through increasing global availability, serviceability, and recognition. Finally, the combining of global resources and using more locations for attack and counter-attack may lead to an increased competitive leverage.

Grahl (2002) identifies a set of global opportunities, such as arbitrage opportunities (i.e. production shifting, tax minimization, financial markets, and information arbitrage), leverage opportunities (i.e. global coordination and political risk), and creating compatible incentives, all of which emphasize adaptations of the global strategy approach and related business activities.

Historically speaking, Rotary International, previously referred to as Rotary is known to be one of the oldest NGOs, but such organizations came into the prominence only during the popular movements of the nineteenth century such as the anti-slavery movement and the movement for women's suffrage. But NGOs emerged globally with the establishment of the United Nations during which time, independent organizations were also involved in the international consultation process. The Chapter 27 of the Agenda 21 of the United Nations recognizes the relevance of NGOs in contributed towards sustainable development. Following this, governments and other bilaterals and multilaterals began involving them in their programs. But it was finally the advent of the twenty-first century
globalization that created a whole NGO movement across all countries, specifically working for poor and developing countries.

Now, NGOs have become as diverse as issues faced by the society. From human rights to livelihood development, from healthcare services to conflict resolution, from socio-economic research to policy advocacy, NGOs in general have expanded their scope to address problems and challenges, mostly of the poor and the vulnerable groups in the society. NGOs both at the grassroots and at the global-level have become critical mediums to reach out the millions and millions of marginalized communities around the world.

NGOs also face several challenges themselves. In developing countries, NGOs are mostly dependent upon foreign aid. Although there are government programmes, they do not provide the proper ground for them to evolve. Most NGOs at the grassroots-level lack skills in organizational management and resource mobilization, which limit their own capacity to sustain. Sustainability remains a vital issue for NGOs in developing countries.

The growing influence of non governmental organizations (NGOs) in international health is occurring in the face of major challenges and opportunities. These challenges include the continued increases in global poverty status, the growing influence of private-funded health systems, the need for sustainability of external-funded programs, and the clamour for community participation in the planning and management of external-funded programs.
2.3 General Strategic Responses

A competitive action is defined as a specific and visible initiative taken by a company (such as the introduction of a new product or a price reduction) in order to improve or defend its competitive position. In the same way, a response is defined as a counteractive, specific and detectable initiative, caused by the initial action, carried out by a company to defend, or improve, its market share (Porter, 1980). Companies have different characteristics, resources and capabilities, which affect their credibility in the marketplace and, hence, how other companies perceive their actions.

Two characteristics of the initiating company are of special relevance, that is, relative size and position in the marketplace. The size of a company has a significant influence on its competitive conduct. When big and small companies compete in the marketplace, their perceptions of competitive interdependence can be completely opposed: the former can perceive and experience a lesser degree of dependence on their decisions than the latter. Being large can offer advantages such as economies of scale and scope, a better learning curve, brand recognition, market power and/or access to resources. On the other hand, small size is associated with better production flexibility, faster action and risk acceptance.

Regarding the issue of size and scale, first, although the characteristics that support the efforts of practitioners in non-profit firms to grow their organizations can be observed, and some of the factors that allow organizations to continue to be at scale are identifiable, the available data does not allow a description of the factors that actually allow an organization to move to scale. The market does not have the capacity to consistently track
and reward performance. Again, charitable grants and donations are often awarded in the absence of demonstrated impact. However, the inability to clearly define the specific drivers of scale is a critical issue that requires further research (Emerson and Carttar, 2003).

Second, even in the absence of further data, it can be explicitly stated that in total, the available data clearly shows that scale does matter. Across the functional categories, those non-profits that tend to have the strongest financial capacity generally tend to be the largest. Third, it would be wrong to extend that observation to assert that there is a direct correlation between firm size and financial strength. It could well be the case that strong financial capacity itself is what drives scale, that financially sound, well-run firms simply attract more funds than those that appear less healthy. Finally, for certain types of non-profit firms having high levels of fixed assets, the benefits of being at scale are clear and compelling. In these cases, scale contributes very directly to an organization’s ability to achieve stronger financial performance, since the fixed costs can be spread over a larger activity base, thereby reducing the average cost of serving intended beneficiaries.

There are essentially three choices available to firms in terms of the strategy to pursue. First, a strategy, which positions the firm, thus enabling it to defend itself against the competitive forces around it. This approach tends to assume market structure as given, and the key is to focus the firm on areas where competitive pressures are weakest. Conversely, the firm can influence the balance of competitive forces it faces through the deliberate implementation of strategic moves which strengthen its position. This second approach relies on the ability of the firm to really change the forces it faces. Finally, the
third strategic choice is where the firm adopts a strategy appropriate to the perceived changes in the causes of competition and exploits these changes to its own ends (Hackett, 1996).

Companies are thus encouraged to improve their competitive position in the marketplace through a variety of strategic actions, both offensive and defensive. Among these are introducing new products, reducing the price of existing products, developing sales promotions or even setting higher marketing budgets. The success or failure of such actions and the aim of competitive advantage depend not only on consumer reactions but also on rival responses, trying to minimize the effect of the initial action on their competitive positioning.

Miles and Snow (1978) identify four strategic orientations in every industry: defenders (firms focusing on a narrow and limited product-market domain, trying to protect their market share), prospectors (organizations that continuously search for new market opportunities through processes of innovation and product development), analyzers (organizations that act defensively or prospectively depending on their environmental settings and the efficiency-innovation balance they require), and reactors (characterized by perpetual instability and inconsistency because of their incapacity to respond effectively to environmental changes). They propose that defender, prospector, or analyzer may lead to satisfactory performance, but reactor cannot because of its lack of internal consistency.

According to Miles and Snow (1978), the different strategic types cited earlier (defender, prospector, analyzer and reactor) will vary depending on the innovations developed, as
well as on the technological position they occupy with regard to their competitors. Prospector firms are expected to place a major emphasis on innovation (of product and market) as a means of gaining their competitive advantage and therefore to hold a strong technological position in relation to their competitors.

By contrast, firms with a defender strategy focus more on efficiency than on innovation and have a weaker technological position than prospectors. The empirical literature has generally corroborated these points. For example, McDaniel and Kolari (1987) found that prospectors' degree of innovation is significantly greater than defenders', although such degree of innovation is similar between prospectors and analyzers. Slater and Narver (1993) found that prospectors' degree of innovation is greater than the analyzers' and defenders' in that order.

Miles and Snow (1978) propose that defenders, prospectors, and analyzers have the chance to be equally successful in developing their activities and that, in any case, these three strategic types will perform better than reactors. Wright et al. (1991) empirically supported this theory and argued that the three strategic archetypes achieve a similar performance, which is always better than reactors. In short, literature on this subject can be summarized in the statement made by Segev (1987): on average, the performance level of defenders, prospectors, and analyzers is similar; however, a higher performance or efficiency level requires a greater degree of alignment by organizations with their environment.

Doty, Glick, and Huber (1993) have concluded that Miles and Snow's typology of strategies is a powerful predictor of business efficiency (explaining approximately 24%
of the firm’s variation in efficiency). Considering this point, it might be interesting to analyze to what extent the strategic orientation of firms can determine their performance. Miles and Snow (1978) propose that prospectors, analyzers and defenders have the chance to be equally successful and will always perform better than reactors.

Porter (1980) in developing the generic strategies suggests that the “stuck-in-the-middle or SIM” firm is unable to recoup financial benefits from its resource investments owing to a lack of distinctive capabilities. As seen, the literature notes that few studies have looked for evidence of the SIM strategy; however, some (as cited before), have somewhat unexpectedly uncovered SIM groups and business units and found that they do perform less well than companies with a clear strategy. On the other hand, a small meta-analysis of just 17 studies on strategy and performance claims support for the idea that SIM firms do not perform less than other firms. This lack of clarity points towards the need of further inquiry in this regard to elucidate the SIM position.

Strategic responses can be both proactive and reactive. That is, while firms have been given increased freedom to move into new product and customer markets, there is also a need (in some cases driven by regulatory compulsion) to protect and preserve the core domestic market from the effects of increased competition. The result is that in an increasingly liberalized environment the strategic responses of incumbent firms consists of two sets of interrelated strategies-defensive actions to secure and/or enhance the existing customer base and offensive actions to enter new geographic and/or product markets (Turner, 2001).
Figure 2.1: Indicative Strategic Options for Incumbents

Markets

<table>
<thead>
<tr>
<th>Present</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present</td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td></td>
</tr>
<tr>
<td>Offensive^a</td>
<td>Internationalize Core Activities</td>
</tr>
<tr>
<td>Defensive^a</td>
<td></td>
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</tbody>
</table>

Enhance Core Business

Defensive^b | Offensive^b

Deploy New Services to Existing Customer Base

Move into Adjacent Service Markets


This dual-faceted pattern of strategic behavior by incumbents within this increasingly competitive environment is reflected in Figure 1. Adapted from a conventional growth-share matrix, the framework highlights the strategic options for incumbents that emerge as they both react and seek to exploit the opportunities that emerge from the process of change. As will be noted throughout, the relative mix of offensive and defensive actions within an enterprise's corporate strategy will ultimately reflect its own perspective on how best its internal resources enable it to secure the most sustainable competitive
position in this changing commercial environment (in accordance with the resource based theory-RBV-of the firm).

In both defensive and offensive scenarios, the framework offers a number of choices as to how incumbents can strengthen their competitive position. Typically, the strategic options in Figure 2.1 (starting from the top left-hand quadrant moving counter-clockwise) could include:

i. Seeking to minimize customer defection to rivals through greater attention to quality (defensive strategy);

ii. Generating more revenue from existing customers through new services (defensive strategy);

iii. Moving into adjacent services markets that have resulted from the process of technological and/or commercial convergence (offensive strategy); and

iv. Leveraging the core capabilities and resources utilized in defending its domestic market into the international marketplace (offensive strategy).

Intensive strategies are strategies that require intensive efforts to improve a firm’s competitive position with existing products. Intensive defensive strategies include market penetration and product development, whereas intensive offensive strategies include market development and diversification. The marketing concept holds that the key to achieving organizational goals consists of determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors (Kotler, 2001). It starts with a well-defined market, focuses on customer needs, coordinates all the activities that will affect customers, and produces profits by
satisfying customers. Good marketing in a system is hence at least one key factor for success.

2.3.1 Defensive Strategies

Defensive strategies arise out of the desire by an organization to be secure and have a stable niche in the market place (Johnson and Scholes, 2002). Several indicators or activities like specialization, cost efficient production, emphasis on price and service during marketing and tendency toward vertical integration, characterize them. Defensive strategies may be in the form of retrenchment, divestiture or liquidation. Retrenchment (turnaround reorganization) occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. It is designed to fortify an organization’s basic distinctive competence. Retrenchment may entail pruning product lines, closing marginal businesses, closing obsolete factories, auctioning processes, reducing the number of employees and instituting expense control systems.

While many operators have started to refocus on the domestic market, there are those enterprises that have an almost a purely national focus in terms of their corporate strategy. These are categorized by the label Defensive³ (Figure 1). These incumbents operate in an almost solely defensive manner (Calori et al., 2000). The preoccupation is to maintain and enhance market share where possible through moving into adjacent activities to support their domestic presence. Their strategy is geared (initially, at least) to defending the core business and ensuring minimal customer defection to new entrants.

Market penetration seeks to increase market share for present products or services in present markets through greater efforts. It is widely used alone and sometimes in
combination with other strategies. This strategy involves being ahead of the competition by enhancing the organization's research and development function, using promotion effectively, and attempting to increase efficiency. It does not call for mergers or acquisitions, but it does emphasize aggressive marketing (Kotler, 2001).

Perreault (1996) observes that market penetration seeks to achieve four main objectives: Maintain or increase the market share of current products—this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling; secure dominance of growth markets; restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors; increase usage by existing customers—for example by introducing loyalty schemes. A market penetration marketing strategy is very much about "business as usual". The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research.

Defensive strategy is product development which seeks to increase sales by introducing new products, and improving or modifying present products and services. This requires large research and development expenditure base (David, 2001). It also involves the adaptation of market power whose concept implies that the firm is implementing a corporate mega trend that is generating brutal power in the market. Such a power can express itself in terms of company size, market share, economic power, or high levels of profitability. Chapman (2006) notes that this is an attractive strategy if the company has a
strong market share in a particular market. Such a strategy can be a suitable reason for acquiring another company or product/service capability provided it is relevant to the organization's market and distribution route. Developing new products does not mean that the organization is directly involved.

Issues of common importance to organizations, which affect the processes of new product development (NPD) and subsequent performance outcomes, include: organizational management style, attention to detail in the processes of NPD, support for product innovation by top management, organizational strategic thinking and manufacturing facilities to support NPD ((May-Plumlee and Trevor, 2006).). These issues, identified as being of importance for product innovation success, need to build on an organization's existing core competencies, rather than pursuing new opportunities far from one's skill and resource base, as a means to success.

Organizations are increasingly concentrating on responsiveness and flexibility through product innovation. The rapid delivery of new products requires effective communications between design, engineering, marketing and manufacture enabling organizations to be adaptable and responsive to market conditions. Takeuchi and Nonaka (1986) indicate that the approaches adopted in producing new products are frequently inadequate for many of today's NPD challenges. To develop fast cycle capabilities organizations need to adopt an integrated approach to NPD. Close communications are required between R&D, marketing and manufacturing in enabling responsiveness and flexibility of product innovation.
Market research provides a means for understanding the consumer purchase decision and anticipating consumer behavior. In the product development process, use of market research focuses on identifying opportunities for product innovation and understanding the evaluative criteria used by the consumer in reaching a purchase decision (May-Plumlee and Trevor, 2006). Product development methods and models used by firms include focus groups, limited rollout and concept tests.

Divestiture is a defensive strategy that entails selling a division or part of an organization. It has become a very popular strategy as firms try to focus on their core strengths and competences by lessening their level of diversification. Liquidation on the other hand involves selling all of a firm’s assets for their tangible worth. Liquidation may be in recognition of defeat and consequently can be an emotionally difficult strategy (David, 2001). Liquidation may also be in response to a better opportunity elsewhere where which a firm’s shareholders envisage may be more profitable compared to the current one.

The issue of non-profit funding is topical given the economic climate, but for rural non-profits it is a chronic reality of life. In the USA, a recent study on the rural funding gap by the Bridgespan Group (2009) found that rural non-profits lag behind their urban counterparts in terms of their share of federal government, private foundation, and corporate donations and as such they are less well positioned to help disadvantaged residents in their communities. For rural nonprofits in particular, closing the funding gap requires exceptional relationship building, and leaders who are intent on developing those relationships and networks; Focusing on quality rather than quantity of proposals, ensuring strong alignment between donor and program goals, and investing in grants that
may further key relationships can lead to better results; Tailoring programs to meet the specific needs of rural communities is vital; it creates a unique value proposition for funders.

Underscoring the importance of relationship building, some non-profits made concerted efforts to develop well trained staff who commit time to cultivating a network of government officials and foundations from the field while maintaining high quality service at home. NIYLP of New Mexico has long pursued a strategy of being strategic in its grant writing efforts. They focus on key relationships, large or small. Additionally, in wrestling with how to serve a dispersed population of youth, many of whom reside in remote areas on reservation lands, they altered a program to focus on partnerships with schools in class and intensively on weekends and holidays rather than an after school format, which was not cost effective. This pleased a key funder by putting costs in better alignment with the funder’s per capita targets. The rural funding gap is real and presents challenges for both rural nonprofits and private foundations that care about tackling poverty. There are no silver bullets but the themes are a good reminder for leaders of the hard work required to expand the resources available for youth and families in need in rural communities (The Bridgespan Group, 2009).

In Ecuador, as a response to the need to attract increased funding, in recent years, United States Agency for International Development (USAID)/Quito has intensified a strategy of strengthening key institutional partners for long-term sustainability. One aspect of this effort involved building the electronic communication capacity of important NGO partners to enable them to network with and provide services to other partners in Ecuador.
and the Andean region. An increased capacity for publicity via the Internet has increased
the NGOs' ability to find continued funding sources for their initiatives (United States
Agency for International Development [USAID], 2003).

USAID/Quito provided support to LearnLink to help strengthen the electronic
communication capacity of the Centro de Estudios de Población y Paternidad
Responsable (CEPAR), an NGO partner providing family planning research and related
services in Ecuador. LearnLink's technical support to CEPAR included assisting in the
creation and maintenance of a Web site for CEPAR to improve existing communication
among national and regional population and health organizations; producing an online
version of CEPAR's Correo Poblacional y de la Salud newsletter; developing CEPAR's
electronic networking with health and population NGOs in Ecuador and the Andean
region in general; assisting in the creation of other electronic informational products; and
developing strategies and models to improve cost recovery.

The NGO strengthening assistance mechanism (NSAM) is a defensive strategy aimed at
capacity building employed by NGO in order to maintain their market position and to be
able to tap any new opportunities. These involve training and development of future
NGO leaders, including participation of NGO leaders in conferences and seminars to
build skills and expertise; networking opportunities, including knowledge- and
experience-sharing sessions to disseminate lessons learned and best practices in
development work; skills training of NGO staff in various areas, including management
capacity, livelihood and small enterprise, mediation and alternative dispute resolution;
institutional strengthening, such as, upgrading of organizational, M&E and financial
systems, conduct of baseline and impact studies, documentation of best-practices in micro-level development, preparation of documents for PCNC certification, strategic planning; building partnerships with other sectors (business, academe, etc.) in the local community for resource mobilization; and enhanced participation of NGOs and POs in local development councils (USAID, 2003).

2.3.2 Offensive Strategies

Under Offensive strategy type, most firms' strategies tend to focus on those markets which, while offering evident growth potential, are broadly similar to their domestic market, both in terms of economic development, and on the types of services required. Though these strategies tend to be limited in geographical coverage, the involvement across sectors can be extensive. Overall, through these strategies operators can position themselves in two major ways. First, many operators' international strategies have been based around focusing on sub-regional markets rather than the regional markets per se. A second type of strategy has been pan-regionalism. This strategy is based on targeting a specific segment and/or segments across a continent (market development).

Sargeant and West (2001) note that market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. There are many possible ways of approaching this strategy, including: new geographical markets; for example exporting the product to a new country; new product dimensions or packaging; new distribution channels and different pricing policies to attract different customers or create new market segments. Chapman (2006) argues that new markets can also mean new sub-sectors within the current market-it helps to stay reasonably close to the markets the organization is familiar with and which are familiar with the organization.
Offensive strategy or diversification is typically a strategy, which takes the organization away from its current markets or products or competences (Johnson and Scholes, 2002). Diversification will increase the diversity that a corporate centre must oversee. It might occur because:

i. The business environment changes threatening both the future of current strategies and throwing up new opportunities.

ii. An organization has resources and competences that can be exploited in new areas.

iii. The expectations of powerful stakeholders might drive diversification.

The two general types of diversification strategies are related and unrelated diversification (Johnson and Scholes, 2002). Related and Unrelated diversifications result in synergies in terms of products, markets, technology and competences. Related diversification is a strategy development beyond current products and markets but within the value system or industry in which the organization operates. Related diversification may take the form of either vertical or horizontal integration.

Vertical integration describes either backward or forward integration into adjacent activities in the value system. Backward integration refers to development into activities concerned with inputs into the current business like raw materials, machinery and labour while forward integration refers to development into activities concerned with outputs like transport, distribution, repairs and service. Horizontal integration is the development into activities that are competitive with or complimentary to, a company’s present activities. Organizations may use this strategy to tap opportunities in other markets in
order to exploit the organizations' competences—perhaps to displace the current providers
as a new entrant.

Unrelated diversification is thought of as an organization moving beyond its current value
systems or industry. In the competence perspective, the traditional notion of unrelated
diversification might be thought of in terms of i) diversifying into completely new but
existing markets and new products by exploiting the existing organization's competences
and ii) diversifying by creating new markets. According to (David, 2001), in the
contemporary times diversification strategies are becoming less popular as organizations
find it more difficult to manage diverse business activities. Whereas diversification
focuses on hedging specifically against business cycles, diversification without a
powerful market strategy does not even protect firms against business cycles. It simply
dwarfs growth in firms' market positions.

Joint ventures are typically thought of as developments where organizations remain
independent but set up a newly created organization jointly owned by the parents for the
purpose of capitalizing on some opportunity. This is because organizations cannot
always cope with increasingly complex environments from internal resources and
competences alone. Such an arrangement includes, research and development
partnership, cross-distribution agreements, cross-licensing agreement, cross
calls synergy or corporate alliance. Synergy can occur in situations where two or more
activities or processes complement each other to the extent that their combined effect is
greater than the sum of the parts (Quint, 2000). Synergism implies the presence of scale,
speed, and scope economies. Synergy or corporate alliance became a favorite strategy in the 1980s and 1990s in most businesses.

“Co-opetition”, is a strategic response involving a business situation in which independent parties co-operate with one another and co-ordinate their activities, thereby collaborating to achieve mutual goals, but at the same time compete with each other as well as with other firms. For instance, two organizations might establish a strategic alliance for product development and innovation and at the same time compete with each other in the marketing of the collaboratively developed products. The central, overarching goal is to create mutually beneficial exchanges and added value.

Hensler (2000) describes as “a myth” the notion that competition is an inevitable, productive, enjoyable and character-building part of human nature. Partners in a co-opetitive relationship can create new value by reducing the transaction cost, the uncertainty and the level of the financial and practical risks associated with the purchase or joint investment. In such a relationship, there is a great opportunity to gain access to vast information about common needs, aspirations and plans, which provides a substantial competitive advantage by strengthening strategic co-operation.

A sustainable co-opetitive relationship offers the partners many advantages and opportunities (Bengtsson and Kock, 2000). For instance, they can establish an alliance to develop collaborative programs beyond their legal boundaries in research and development, production and joint sourcing. This will lead to such significant benefits and synergy as economies of scale; lower costs; a skilled labor force; high levels of
Research & Development; access to superior technology; access to new markets; greater
customer value being added; and profit for all participants in the alliance or network.

Value-added partnerships are a type of strategic response first discussed by Johnston and
Lawrence (1988) who suggested the creation of value networks by outsourcing
competitive advantages. Therefore all partners can achieve advantages by leveraging
knowledge and skill within the complete supply chain. Such arrangements focus on
vertical collaborations by diminishing non-value-adding and increasing value-adding
activities between supply-chain partners. The successful integration of activities creates
the competitive advantage of the total chain. However, the direction of the collaboration
is strictly vertical and can be reduced to the integration of certain processes of only two
players, thus meaning the management of dyadic relationships. The results of such
partnerships are described as win-win, because the effort of optimization is centered on
the interface between manufacturer and retailer.

In the non-profit sector, over recent years, the government in the UK, through the
Department for International Aid (DfID) has appeared to emphasize and fund the work of
larger NGO and undervalued the work of smaller international NGO. The argument is
that only the, mainly rights-based, work of the big NGO has a serious impact on the
alleviation of poverty, by measurably empowering local people. Now smaller NGOs have
come together to call for changes in DfID’s approach (Purvis, 2003). They claim that
their strengths are diversity of approach, empowerment of minorities—often overlooked by
larger development partners, specialist knowledge on specific issues and areas around the
world, innovativeness and responsiveness, identification and trust in relation to targeted areas of the UK public and focused and locally-oriented advocacy work.

An example of the evidence of benefits to be gained from specific knowledge and commitment to particular communities by smaller NGOs can be seen in the work of the members of the UK One World Linking Association, (UKOWLA). These members include towns, schools, local authorities, faith groups, diaspora groups and other community-based organizations which have links with communities in Africa, Asia, Latin America and the Caribbean. To give an example, the Marlborough Brandt Group of the rural town of Marlborough in the west of England has had a link with the Muslim fishing village of Gunjur in the Gambia since 1981.

The link runs various development projects in Gunjur and makes school resources with artifacts hired out to schools and also organizes teacher training days with development education value. Every year there are exchanges between young people in both communities. The key feature of this link is that the benefit has been entirely reciprocal. The Marlborough community has learned as much about the Gambia, and ways in which their own lives might be improved, such as in care of older people and disposal of waste, as the people of Gunjur have about life in England. This small group in Marlborough has more knowledge of this community in the Gambia than the UK government can possibly have. This and the first-hand contacts with people of the Gambia must be more compelling to children in the schools of Marlborough, as a tool of development education, than literature produced by government or even the big NGOs (Purvis, 2003).
Another very good example of the special role which can be played by smaller NGOs can be seen in the work of diaspora groups. These are the communities in the UK which immigrated from Africa, the sub-Continent, the West Indies and many other areas of the world, most recently the Balkans and Afghanistan. When these immigrants have established themselves in Britain and are settled into employment they are best placed of all to expand the personal links with the areas of the world from which they came and become the channel for two-way people to people links, support and learning.

Another type of smaller organization who, in comparable ways, are in a special position are the faith-based groups in the UK. An example is the UK Jewish Aid and International Development (UKJAID). Their mission is to deliver a Jewish response to international cooperation and development issues. Their support is not necessarily, and in fact not often, given to Jewish communities around the world but they work with Jewish donors in the UK first to identify areas where support is particularly needed, for instance in cases of disasters or other emergencies, and appeal directly to the Jewish community in the UK for support.

In a study on the non-profit sector in Chicago conducted by Cowell, Hass and Newman (2005), it was discovered that the challenge of decreasing government funding coupled with the slow economic recovery, posed a significant predicament for non-profit organizations especially in a time of increased demand for services. Consistent with past survey results, 65% of non-profits reported an increase in requests for their services, while 23% reported no change in the number of requests received.
Nearly 20% of interviewees who reported an increase in demand for their services also reported a decreased ability to meet demand. One respondent remarked that “demand [is] far outreaching our ability to expand.” Of those reporting a decreased ability to meet overall demand (40 interviewees), 75% reported a decrease in government funding and 40% reported experiencing delays in government payments. According to Cowell, Hass and Newman (2005), as one nonprofit manager commented, “With a decreased budget, [a] hiring freeze and increased program demand, staff has to do more with less.”

The slow moving state of the economy and persistent issues with government funding cuts led many non-profits to explore new ways to address gaps in their financial support. Overall, 70% (130 of the 186 non-profits responding to this question) said they had increased the number of prospective funders, both grant makers and individual donors, they approached in the last year. A typical non-profit comment was “we aggressively researched and pursued more foundations.” Interviewees who were able to increase their budgets did so by raising more funds from grant makers and individuals.

Of the 143 non-profits reporting an increase in budget, 61% attributed this increase to more funders approached. Non-profits also attempted to secure funding from individuals. One respondent reported “we have become more aggressive at seeking out larger individual donors [as] a means of increasing their contributions.” Many organizations also reported adding staff to increase capacity. Of the 143 non-profits reporting an increase in budget, 57% either attributed this increase to higher staffing levels or also reported increases in staffing. Staff increases were about split among the program and development areas.
Increased staff capacity was reported as a factor that contributed to an increased ability to meet demand for services. In addition, of the 75 interviewees reporting an increased ability to meet demand, 55% reported increases in individual giving and 45% reported increases in foundation/corporate giving. The proportion of nonprofits reporting decreased operating reserves in 2005 was lower (29%) than that reported in 2003 (48%) (Cowell, Hass and Newman, 2005).

Overall, this report's findings point to funders' and non-profits' continued concerns about the economy and decreased government funding. Despite these concerns, many non-profits report finding ways to increase capacity and meet the demand for their services. Many are increasing their efforts to seek funding from all sources, including foundations. Foundation grant makers face the challenge of maintaining consistent grant levels, while sustaining their endowments and preserving their ability to provide support in the future. Several commented that a leveling off or even improvement in their financial situations has allowed them to maintain giving levels while turning their attention to sustaining the foundation in the long-term.

The one area that is showing evidence of growth is a field of organizations that carry out activities with the potential for generating a profit and therefore come close to functioning as community businesses. The nature of this area lies on the border between non-profit and for-profit, as the recipients of the services provided can serve as a source of direct income. If an appropriate niche can be found within society, this field could represent a new "business" opportunity for non-profits (Menju, 2003).
Menju observes that in Japan currently there is little evidence of government efforts to establish a “third sector”. In order to promote substantial growth, there needs to be a fundamental change in the administration’s mindset toward the non-profit sector. NPOs should be treated not simply as a low-cost agency for administering public services but as a crucial third pillar of society, which would entail helping to strengthen the financial base of individual non-profits. Without this change, it will be difficult for the non-profit sector to experience growth under the existing support system.

If we look at organizational support systems for NPOs in other countries, there are certain aspects that point to areas of improvement in Japan. For example, in the United States, not only private foundations but also federal grant-making agencies have program officers who are grant-making professionals and who constantly monitor trends and developments in the nonprofit sector in an effort to foster effective NPOs.

(Menju, 2003) also observes that on the private level as well, grant-making activities in the United States are significantly different from those in Japan. In addition to making project-based grants, many U.S. foundations will provide continued capacity-building support (i.e., support for personnel and other operational costs) in certain cases where they feel it is merited by an organization’s record of achievement. In Germany, there recently has been a significant increase in the establishment of foundations that are serving as important funding sources for nonprofits.

This foundation boom is a result of the establishment of the Law on the Modernization of Foundation Legislation in 2002, which makes it easier for wealthy individuals to establish private foundations aimed at supporting nonprofit activities. In 2002 alone, 789
new foundations were established. If we are to place solid expectations on NPOs to generate positive change in Japanese society where the need exists, it is crucial that attention is directed toward building an effective system for fostering the growth of the nonprofit sector (Menju, 2003).

The “Grants for Non-Profits” Index summarizes grants recently made available to nonprofits to support their missions, increase technology innovation, and promote efficiency through technology. Many major software manufacturers and hardware corporations have made giving to non-profits a high priority in their organizations, which means now is the time to open up and utilize offerings available to groups. Grants for efficiency through technology are available for community development, civic betterment, disabled or elder assistance, education, faith-based social service providers, grassroots organizing groups, health-care agencies, recreation organizations, social service providers, technology centers and youth/after-school groups or services (Delaney, 2009).

In addition, non-profits will find grants that cut across all sectors. These grants are available for non-profit- business-education or community partnerships. They support IT training for the non-profit organization, whether staff or clientele and back the need for graduating skilled workers, retraining employees, and helping displaced workers meet such special challenges as employment that will equip them to work until retirement. Timely profiles of over 125 grant/funding/resource opportunities for technology for non-profit organizations are assembled in the “Grants for Non-Profits” Index.

Non-profit organizations also form collaborative associations with donor foundations aimed at achieving stated objectives. For instance, The Rockefeller Foundation in
partnership with InnoCentive, Inc. has launched a unique program where NGOs get an opportunity to collaborate with the best scientists, engineers, researchers and professionals from different parts of the world to contribute towards reducing poverty. The Rockefeller-InnoCentive Partnership is an innovative effort towards finding effective solutions against poverty by applying scientific and technological tools and involving the men and women behind science and technology in this (www.fundsforngos.com).

The InnoCentive is a global web community of more than 175,000 scientists, engineers, inventors, researchers and entrepreneurs from around 175 countries. This community is sought by high profile companies such as Procter & Gamble, SAP, Pendulum etc, governmental agencies and other organizations to seek breakthrough solutions for many of their Research and Development projects in various fields of science and engineering. On finding successful solutions, individuals from this community are awarded with financial awards of up to US $1,000,000. And now the same InnoCentive community will be able to provide solutions to NGOs working to reduce poverty in poor and developing regions of the world.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It describes the study design that was employed, data collection methods, and the data analysis.

3.2 Research Design

The study employed a case study design. Saunders, Lewis and Thornhill (2003) note that a case study is an in-depth investigation of an individual, group, institution or phenomenon whose purpose is to determine factors and their relationship that have been caused by the phenomenon under study.

3.3 Target Population

Target population is the specific population about which information is desired. The population of this study comprised all the senior management staff comprising of the director, the Human resource manager, Administration manager and finance manager.

3.4 Sample Design and Technique

A sample of responding staff was drawn from the top level management staff working at AMREF. Convenience sampling technique was used to select the top management staff that comprised the respondents.

3.5 Data Collection

Data was collected by means of interview guides consisting of unstructured questions. Mugenda and Mugenda (1999) note that interview schedules obtain in-depth data through the use of probing questions and allow collection of data relevant to the research
objectives through clarification of intended choices. The interview guides were administered to 4 senior managers selected from different functional areas of the organization so as to try and capture the different competitive dimensions that the Ansoff’s growth strategies may manifest themselves in and bring scope and depth to the study.

3.6 Data Analysis

The first step in data analysis entailed data organization. This entailed thorough reading, editing and “cleaning up” of interview notes. The second step entailed creating categories, themes and patterns, a process which, in this study was simplified by the actual existence of the four Ansoff growth themes. The analysis tried to establish patterns where similar elements are used to achieve growth through the different strategic choices. The objective here was to determine areas of emphasis and focus. Data analysis was executed using content analysis methods.

Mugenda and Mugenda (1999) observe that content analysis is the systematic qualitative description of the composition of the materials of the study. Its purpose is to analyze given information in order to determine factors that explain a given phenomenon. The information gathered was analyzed to seek insights regarding the strategic responses adopted by AMREF as a consequence of such changes. The information provided was organized into the respective themes and concepts from which generalizations were formulated and interpretations and comparisons made in line with established theories.

The final report was narrative in nature, with a rich description of the findings, revolving around the four Ansoff growth choices and the context in which they occur. Interviewees
“voices” were quoted in given instances in order to derive the full meaning behind a given message (to avoid paraphrasing that dilutes content).

4.1 Introduction

This chapter presents analysis and findings of the study by (year in which research was conducted) methodology. The data was gathered exclusively from the interview guide in the research instrument.

4.2 Responses from Chief Financial Officers

The study involved from the financial managers on the functions of finance department.

The interviewees cited that the functions were such as preparation of budget, appropriation of accounts, re-appropriations, surrender and salvage, control of expenditure, resource mobilization and compilation of Codes, Rules and procedures concerning financial transactions and having bearing on site finance and their implementation.

The study further involved on the various recent changes within Amref that have necessitated adoption of new strategies in the department. The interviewees cited various changes such as low funding and recent global crisis which has led to reduced funds for efficient operations to delivering holistic health services. From the study all the interviewees were in agreement of the increasing challenge that the organization has been encountering in attracting foreign funding in the recent past. They also indicated that there has been technological advancements in various areas of the organization’s operations that has led to adoption of some of the new strategies. These include activities like those by Adele and Balkum, (2001) who found that firms have increasingly utilized, powerful and responsible team members whose technology
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The data was gathered exclusively from the interview guide as the research instrument.

4.2 Responses from Chief Financial Officers

The study inquired from the financial managers on the functions of finance department. The interviewees cited that the functions were such as preparation of budget, appropriation of accounts, re-appropriations, surrender and savings, control of expenditure, resource mobilization and compilation of Codes, Rules and procedures concerning financial transactions and having bearing on State finance and their implementation.

The study further inquired on the various recent changes within AMREF that have necessitated adoption of new strategies in the department. The interviewees cited various changes such as low funding and recent global crisis which has led to reduced funds for efficient operations in delivering holistic health services. From the study all the interviewees were in agreement of the increasing challenge that the organisation has been experiencing in attracting donor funding in the recent past. They also intimated that there has been technological advancements in various areas of the organization's operations that has called for adoption of state of the art technologies. These findings correlates with those by Asch and Salaman, (2002) who found that firms face an increasingly dynamic, complex and unpredictable environment, where technology,
globalization, knowledge and rapidly changing competitive approaches affect overall performance and this further concurs with the Porters Five Forces model (Porter, 1980) on how changes in the micro-environment may affect the firms operations. The forces include the likelihood of new entrants, bargaining power of customers, threat posed by substitute products, the bargaining power of suppliers and the rivalry within the industry. The study revealed that AMREF has experienced a change in strategic direction aimed at increasing the sourcing for funds. In addition, the chief financial officers cited that there has been various restructuring of the organizations activities, downsizing and scaling up due to change in donor funding.

The study inquired on the various reasons that could have caused the change in donor funding. The interviewees cited that globalization, increased demand for health services, unpredictable market conditions and increased competition for donor funds as the reasons that could have caused the change in donor funding. The interviewees also reported on the increased focus on HIV/AIDS funding that has made the organization refocus its source of funding. Other reasons cited by the interviewees were such as the recent global economic crisis, which have caused fluctuation of the donor funding to the NGOs and AMREF is not an exception.

Further, the study revealed that there were various strategies that AMREF had taken to increase on donor funding and included manipulation of resources into new competencies, improved management and leadership, enhanced communication, outsourcing of cheaper products and collaboration with other organizations such as KEMRI and other local research institutions like Universities of Nairobi and Moi to cut
the running costs. AMREF initiated fundraising campaigns by use of mobile phones where subscribers could send contributions using their mobile phones and this was a very successful strategy because everyone was given an easy and cheap way of funding the organization. The media was also employed to fund raise and individuals who have benefited from some of its projects that include the HIV/AIDS care and treatment project, the water and sanitation pleaded for funds from viewers to solicit for funds. Over time AMREF has also developed strong partnership with other NGOs each bringing on board its strengths and together they have formed strong consortiums that are now a preference for funding. On how AMREF ability to attract donor funding is affected by increased competition for donor funds, the manager insinuated that increased competition for donor funds from the ever increasing number of NGOs have reduced the firm’s ability to attract donor funds resulting in reduced funding. The NGO has also been forced to beef up its strategies in order to gain a competitive edge over other NGOs and its niche in community activities has given it an edge over other NGOs. This is further compounded by the National health sector strategic plan II that identifies the community as level one and since most donors work within the government policies, NGOs that are seen to work within the national health frame work are given priority when it comes to funding and this is an art the AMREF has perfected very well over time.

The study inquired on the various procedures used to attract donor funding. The interviewees cited that AMREF uses various procedures such as consortium formation where AMREF form has formed partnerships with other NGOS like PATH, Pathfinder, Elizabeth Glazer Paediatric AIDS foundation EGPAF and Christian Health Foundation (CHF).
AMREF also focuses its attention on development of quality proposals by seeking expert assistance from world-class consultants in order to come up with winning proposals. The proposals are also passed through a rigorous review process before they are submitted for funding. Further, the finance manager indicated that AMREF ensured there is a strong alignment between donor and program goals by sticking to the activities stipulated by the proposal and meeting the donors conditions for the funding. The manager further intimated that AMREF has also invested in grants that may further key relationship and has tailored its programs to meet the specific needs of rural communities that it serves.

This it does by carrying out surveys to establish the needs of the rural communities. AMREF has also developed a more diversified range of donors both local as well as overseas donors that can provide different amounts at different points of a programme/project's implementation.

The study further revealed that AMREF has undergone through institutional strengthening aimed at upgrading of the organizational M&E, financial systems and asset reduction.

4.3 Responses from Human Resource and Administration Managers

This section aimed at inquiring responses from human resource manager and administration. The managers were asked to state the various ways AMREF had been affected by the global economic recession. They cited various ways such as reduced funding and workforce reduction.

On the recent changes outside AMREF that have necessitated adoption of new strategies, the managers indicated that there were changes that have taken place due to political
climate such as low cash flows, entry of many competitors due to liberalization of the economy and regulation. The managers also cited that there were also social factors such as increasing demand of qualified and experienced staff in the market and since AMREF is not one of the organization with the highest remunerations this has resulted in high turnover of staff.

The study further inquired on the various areas of human resource management that have been affected by change in funding patterns. The managers cited that changing in funding patterns had led to reduced funding for training and development of employees to enhance their competence and enable them tackle the challenges, there has also been a decrease in staff motivation through compensation, reward and good working condition and planning of staff requirements. Every year AMREF awards a cost of living adjustment of between 5% and 10% and this has not happened in the last two years. The administration and information technology departments, which are mainly supported through project overhead departments had to withhold any hiring of new staff.

The study further revealed that there had been reorganization in the management of programmes or projects. The human resource manager cited that the rate of staff turnover in AMREF had increased and there were various strategies that have been designed to attract and retain staff. These included carrying out a job analysis and harmonization of staff remuneration, sourcing for funds to provide regular training, increased allowances, and discussions are underway for recognition of staff that have shown exemplary performance through either promotions and other rewards and development.
Further, the study established that the human resource department regularly did SWOT analysis to inaugurate the various strengths and weaknesses in the department and find manageable solutions to the challenges. This has helped the department in that it is able to concentrate its efforts on improving the weak areas and augment the strong areas. The department is also able to identify the opportunities available for further improvement of its operations and the threats from within and out of the firm that can affect its operations.

4.4 Responses from the Director (CEO)

The study inquired from the Director on the various procedures the NGO uses to attract funding. The director cited that AMREF has improved communication with donor organizations by giving them frequent report on their project progress. Further, the director cited that AMREF has developed strategies and models to improve cost recovery. This was through recoupment of the purchase price of a capital or qualified asset through depreciation over a prescribed period.

AMREF’s on the ground has community-based organizational model that has made it a trusted entity in African communities. The director reported that AMREF believes that creating sustainable health-service infrastructures – by providing local populations with the knowledge, skills, and resources necessary to combat disease and alleviate poverty empowers communities and gives them both the means and the opportunity to address their own health needs.

In addition, the study revealed that AMREF had planned training and development of future NGO leaders to build skills and expertise both in house and outside training, improved networking opportunities, including knowledge- and experience-sharing.
sessions and building partnerships with other sectors (business, academe, etc.) in the local community for resource mobilization. The study established that AMREF was involved in local development councils and community empowerment of minorities, innovativeness and responsiveness.

The director further revealed that AMREF had focused and locally-oriented health advocacy works which influence public-policy and resource allocation decisions within political, economic, and social systems and institutions; and was motivated from moral, ethical or faith principles or simply to protect an asset of interest. This was through media campaigns, public speaking, commissioning and publishing research and since 2003 AMREF has strengthened its operation as an integrated organization committed to learning and sharing both internally and externally.

Findings from the study further showed that AMREF had invested in increased technology innovation in its operations and promoting efficiency through technology. Technology was cited to be a great contributor to effective communication. The study further revealed that AMREF was partnering with other local research institutions e.g. KEMRI that work in the medical research sector. These collaborations are aimed at reducing expenditure and enhancing competence.

Among the issue cited by the director that had enabled AMREF to attract donor funding for a long duration were a competent management system, good governance, improved monitoring and evaluation of projects/programmes, up to date accounting systems that have enhanced performance and better accountability and that since 2003 AMREF has
strengthened its operation as an integrated organization committed to learning and sharing both internally and externally.

The director also reported that AMREF has 12 National Offices (NOs) in Europe and North America that provide strategic and technical support to the organization, they undertake fundraising activities, build public awareness of AMREF’s activities, promote donor relations and undertake advocacy on health issues facing Africa.

AMREF has for a long time established very strong and almost more permanent presence in certain disadvantaged communities like Turkana, Magadi and Kibera and this has always given it an edge when competing with other NGOs because of the already established systems that make it more cost effective for funding.

The director also reported on the need to focus on an achievable balance by maximising your income sources but focusing your energy on the most productive routes. “You need to be wary of spreading yourselves too thinly, or spending time and energy chasing less viable sources. Before implementing major changes it is important to ensure all aspects of the organisation are running well – areas such as book keeping, employment practices, monitoring systems and governance may need strengthening before taking on significant new income streams”. The director reported that AMREF has capitalised on hiring competent staff and that all staff members of AMREF spend part of their time in fund raising which each catering to different aspects of the process - writing proposals, finding and networking with donors, negotiating, writing reports etc.

According to the director, AMREF also has a long history of partnering with a diverse range of NGOs for both long-term and goal-specific projects and that AMREF routinely
works with local Ministries of Health to ensure that necessary services and training are reaching the communities most in need of them. Regionally, AMREF is a member of the HIV/AIDS/STI Technical Working Group (TWG) and the East Africa Community's (EAC) East Africa Network for Monitoring Antiretroviral treatment.

The director reported the increased competition that AMREF is facing with other NGOs to seek and find funds and AMREF has tried to establish uniqueness of its programme/projects by developing a 'bigger picture' with other NGOs that illustrates comprehensive and diverse package of services and projects. Networking with other organizations has increased its visibility both locally and internationally. AMREF enjoys strong goodwill and a cordial relationship with Ministries of health (MoH), faith based organizations (FBOs), NGOs, community based organizations (CBOs), universities and other research institutions and the private sector. The Foundation has played a role at both local (district) and national levels in priority setting, planning, and resource allocation. This the director noted is evidenced through increased number of projects; and more representation in various national, regional and international steering committees and taskforces across the health sector. As key participant in the Joint Inter Agency Coordinating Committee (JICC) and the Health Sector Coordination Committee (HSCC) and of the Advisory Committee of National AIDS Control Council (NACC) AMREF has succeeded in bringing the community voice and experiences to the national strategic planning and policy platform. At present AMREF sits on forty national committees and working groups of the NACC and the MOH. AMREF is the founder and present chair of the Kenya Health NGO Network (HENNET), which was formed in 2006 and has a membership of 60 national and international health NGOs.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations were drawn are in quest of addressing the research question or achieving at the research objective.

5.2 Summary

The study established that there were various recent changes within AMREF that had necessitated adoption of new strategies in the departments and included low funding and recent global crisis which has led to reduced funds for efficient operations in delivering holistic health services. The study further revealed that there has been an increase in challenges in attracting donor funding in the recent past. The study further established that AMREF has experienced a change in strategic direction aimed at increasing the sourcing for funds.

On the various reasons that could have caused the change in donor funding, the study revealed that globalization, increased demand for health services, unpredictable market conditions, increased competition for donor funds and increased skewed funding for HIV/AIDS as the reasons that could have caused the change in donor funding.

On the topic of the various procedures used to attract donor funding, the study showed that AMREF uses various procedures such as consortium formation, focusing on quality proposals, ensuring strong alignment between donor and program goals, investing in
grants that may further key relationship and tailoring programs to meet the specific needs of rural communities.

On the ways AMREF had been affected by the global economic recession, the study established that it led to reduced finances and workforce reduction. Further, the study revealed that changing in funding patterns had led to reduced recruitment as a result of global recession, decrease in training opportunities and development to employees and failure to adjust salaries for a period of two years and this resulted in unmotivated staff.

There were various strategies initiatives that have been designed to attract and retain staff. These included better remuneration, regular training and increased allowances. Further, the study revealed that the human resource department regularly did SWOT analysis to inaugurate the various strengths and weaknesses in the department and find manageable solutions to the challenges.

On the issue of the various procedures the firm used to attract funding. The study revealed that AMREF has improved communication with donor organizations. Further, the study established that AMREF was developing strategies and models to improve cost recovery.

The study further established that AMREF had planned training and development of future NGO leaders to build skills and expertise, improved networking opportunities, including knowledge- and experience-sharing sessions and building partnerships with other sectors (business, academe, etc.) in the local community for resource mobilization. AMREF had focused and locally-oriented health advocacy works which influence public-
policy and resource allocation decisions within political, economic, and social systems and institutions and was motivated from moral, ethical or faith principles or simply to protect an asset of interest.

The study established that AMREF had invested in increased technology innovation and promoting efficiency through technology. In addition, AMREF was partnering with distributors upon whom AMREF depended to enhance its operations and services e.g. transport firms and airline companies. Further, the study revealed that the firm was taking advantage of the policies of firms that AMREF depends on for its supplies e.g. donor firms & governments; local businesses; research affiliates.

5.3 Conclusion

In the modern world of stiff competition and decreased donor funding, AMREF has been able to keep pace with the changes in the operating environment by adopting various response strategies. The study concludes that AMREF had adopted various strategic responses in response to low funding and recent global crisis. These included technology innovation, improved networking opportunities, improved communication with donor organizations and increased training and development of employees to enable them tackle challenges.

5.4 Recommendations

From the discussions and conclusions in this chapter, the study recommends that although AMREF has been successful in neutralizing the challenges brought about by
changing environment, AMREF needs to employ various strategies aimed at tackling low
funding and recent global crisis. These include decisive strategies and planned strategies
aimed at improving business efficiency.

AMREF should also engage in more cost reduction strategies as a response to decreased
donor funds. Besides providing its services and products at lower cost (cost advantage),
AMREF should deliver benefits that exceed those of competing services (differentiation
advantage) to gain a competitive advantage over other firms.

The study also recommends that the NGO should work towards retaining the experienced
staff by increasing their remunerations to be at par with their competitors in order to
reduce on their poaching.

5.5 Limitations of the Study

This been a case study on an NGO the data gathered might differ from strategic responses
that other organizations in the NGO sector have adopted to match the changing
environment. This is because different NGOs adopt different strategies that differentiate
them from their competitors. The study however, constructed effective research
instruments that sought to elicit general and specific information on the strategic
responses that NGO adopt to match the changing environment.

The study faced both time and financial limitations. The duration that the study was to be
conducted was limited hence exhaustive and extremely comprehensive research could not
be carried on strategic responses to changing environment. Due to limited finances the
study could not be carried out on the other branches of AMREF. The study, however,
minimized these by conducting the interview at the NGO’s headquarter since it is where
strategies are made and rolled out to other branches that operate on the blue print.
5.6 Areas of Further Study

This study focused on the strategic responses to changing environment: a case study of African Medical and Research Foundation. Further research should be done on the other organizations in the NGO sector so as to get comprehensive information on how the other players in the sector have responded to the challenges posed by changing environment. The study further recommends that further research should be carried out on other institutions such as government parastatals to demonstrate how these findings would compare. Another area that needs further research is whether the new and innovative products and services AMREF is introducing into the market are sustainable in the near future.


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Letter to the Chief Financial Officer

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Date: 17 November 2010
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To Whom It May Concern

The bearer of this letter:

Registration Number: __________________ Telephone: __________________

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

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of the research and in no way will your organization be implicated in the research findings. A copy of the report can be availed to the interviewed organization(s) on request.

Thank you,

The Coordinator, MBA program
1. What are the main functions of the finance department?


2. In your understanding, please explain any recent changes within AMREF that have necessitated adoption of new strategies in the department


3. What are some of these changes?


4. In your understanding, please explain any recent changes outside AMREF that have necessitated adoption of new strategies in the finance department.
5. What are some of these changes?


Has AMREF experienced any challenge in attracting donor funding in the recent past? Yes / no

6. If yes is it on the increase or decrease

7. 


8. Has AMREF experienced a change in strategic direction? If yes what implications has this had on sourcing for funds?

9. has there been any restructure of the organizations activities, downsizing or scaling up due to change in donor funding?
10. What are some of the reasons that could have caused the change in donor funding?

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

11. According to you what strategies has AMREF taken to increase on donor funding?

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

12. Briefly explain how your firms ability to attract donor funding is affected by increased competition for donor funds

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

13. Does AMREF use the following to attract donor funding ?Briefly explain how your firm uses the below procedures to attract funding

a. Consortium formation
b. Focusing on quality proposals

c. Ensuring strong alignment between donor and program goals

d. Investing in grants that may further key relationships

e. Tailoring programs to meet the specific needs of rural communities

9. Has AMREF gone through institutional strengthening? Yes/no

what has it done in upgrading of the organizational,