

**STRATEGIC RESPONSES BY KENDU ADVENTIST HOSPITAL TO CHANGES  
IN THE OPERATING ENVIRONMENT**

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## **DECLARATION**

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

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

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## **DEDICATION**

This research project is dedicated to all my family members for their unwavering support during the period I was doing the study. Especially, to son Steve Biko Ouma as an encouragement to him to aspire to be an achiever in his endeavors.

## ACRONYMS AND ABBREVIATIONS

<b>ADRA</b>	-	Adventist Development Relief Agency
<b>ADCOM</b>	-	Administrative Committee
<b>ARVs</b>	-	Antiretroviral
<b>CHAK</b>	-	Christian Health Association of Kenya
<b>CRS</b>	-	Catholic Relief Services
<b>FBO</b>	-	Faith Based Organization
<b>GOK</b>	-	Government of Kenya
<b>HIV</b>	-	Human immunodeficiency Virus
<b>HSRS</b>	-	Health Sector Reform Secretariat
<b>HRH</b>	-	Human Resource for health
<b>KAH</b>	-	Kendu Adventist Hospital
<b>KQM</b>	-	Kenya Quality Model
<b>KHPF</b>	-	Kenya Health Policy Framework
<b>NHIF</b>	-	National Hospital Insurance Fund
<b>NGO</b>	-	Non- Governmental Organization
<b>PEST</b>	-	Political, Economic, Social and Technological
<b>SDA</b>	-	Seventh Day Adventist

## **ABSTRACT**

Rapid changes in the social, financial and technological environments have driven many organizations to adopt new strategies to maintain viability. As the operating environment of an organization changes, it becomes increasingly important that the organization engages in innovation to make most of its unique strengths stand out in the environment. This study was conducted with the objective of determining the strategic responses by Kendu Hospital to the changes in the operating environment. The study employed a case study design. The key respondents were selected purposively to give information on either clinical or operations management. Data was collected by means of interview guide consisting of unstructured open-ended questions. Data analysis was executed using content analysis methods. The final report was narrative in nature, with a rich description of strategic choices the hospital was performing in the context of service delivery. The findings revealed that in its effort to enhance the quality of health care services, the Hospital had tackled the changes in the operating environment by; investing in increased technological innovations; partnering strategically with other successful health care providers; investing in un-related income generating activities to provide revenue; improvement of its physical infrastructures; resource mobilization through proposal writing; strengthening its financial management systems and revenue collection; and evaluating and upgrading of the staff to alleviate staff turnover. The study concluded that so far, the strategic responses adopted by the Hospital had positioned it to be more prepared and focused to adequately respond to the demands of improved delivery of health care services. The study recommended that KAH need to use a combination of strategies to ensure long term sustainability of its mission and service by giving special attention to resource mobilization for health care financing and streamlining its human resource base. The study further recommends other studies for other Faith- Based health service providers to demonstrate the most appropriate strategies that may be employed in particular environmental changes.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Rapid changes in the social and financial environment have driven many organizations to adopt new strategies to remain financially viable, especially in the case of older not-for-profit organizations. At times some of these strategies are often perceived to be violating the mission goals for which the organization was founded. However, changes taking place within and outside an organization usually affects its main function and possibly its objectives and strategies. As the operating environment of an organization changes, it becomes increasingly important that the organization engages in innovation to make most of its unique strengths stand out in the environment (Porter, 1988).

According to Pearce et al (1997), organizations have to be flexible and respond quickly to keep up with the changes; else they find it harder to survive. Any level of change or turbulence in the environment calls for a response which is strategic for both survival and growth. There is need for alignment and re-alignment of the organizational processes (idea organization must match their capabilities and strategies to the changing environment). How an organization responds to changes within its environment determines its success in the industry and constitutes its strategic responses.

Porter (1999) argues that an organization's strategic options as well as its decision must therefore form the strategic intent of the firm so as to develop its mission and undertake strategic action that results in strategic competitiveness. The external environment is rapidly ever changing, it is surprising and unpredictable. This is environmental turbulence. Environmental turbulence is therefore informed by the operating factors which influence a firm's direction and actions, its organizational structures and internal processes.

Equally, the external environment is punctuated with the industry environment that is punctuated with the nature and degree of competition in the industry. This is based on the Porter's five forces of industry competition: the threat of new entrants: bargaining power of customers and suppliers, and the threat of substitutes among current competitors.

### **1.1.1 Concept of Strategic Response**

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization have further opened up the markets to environmental forces. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves. Rapid technological change has created a new business environment where innovation has become a top competitive strategy. Ansoff and McDonell (1990). Describe a market environment where no organization can hope to stay afloat if it fails to come up with proper strategic responses. Terminologies such as retrenchment, mergers, rightsizing, and cost reduction have become routine for survival means.

Strategic responses involve changes in the firm's strategic behavior to assure success in transforming future environment (Ansoff and McDonell, 1990). Pearce and Robinson (1997) saw strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Thus strategic responses are a reaction to what is happening in the economic environment of organizations. Porter (1996) views operations responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies for utilizing those resources of a firm to best support its long term competitive strategy.

In dynamic environment, Jennings (2004) posits that the strategy should be novel, based upon the creativity of the decision-makers. Strategic adaptation now a much more creative process recognizes the reactive flexibility as a necessary, but not sufficient condition. Only those organizations with visionary leadership are able to conceive and enact strategic fit and will be able to survive. Strategy is the highest level of management activity, usually performed by Chief Executive Officers (C.E.O's) and the executing team. It provides overall direction to the whole enterprise. The strategy applied by an organization must be appropriate for its resources, circumstances and objectives, (Johnson, 1997). The process involves matching the organization's strategic advantages to the business environment the organization faces. One objective of an overall corporate strategy is to put the organization into a position to carry out its mission effectively and efficiently. A good corporate strategy should integrate organizational goals, policies and action sequence (tactics) into a cohesive whole. Ansoff et al, (1990) opines that management needs to devise strategies for each type of environment with a different degree of aggressiveness; where aggressiveness is defined as the degree of discontinuity between each succeeding generation of products, technologies and marketing concepts. Jennings (2004) further adds that environments are fixed but change their position, influence and texture and so on. Organizational responses can only occur when there is a shared mental model of impact of the environment upon the organization

### **1.1.2 Concept of Organizational Environment**

Pearce and Robinson (1997) state that remote environment comprises of factors that originate from beyond and usually irrespective of any firm's operating situation. These factors constitute the aspects of organizational external environment. They are namely: the political, economic, social and technological (PEST) factors, and are dynamic when at work in the external environment. An organization does not need to be aware of only the PEST (external) environment in which it is operating, but also its internal environment. The elements of an

organization's internal environment compose of current human resources it has, financial resources and the organizational culture, among others.

Ansoff and McDonnell (1990), further state that successful environment serving organizations are open systems and the continued organizational survival depends on their ability to secure rewards from their environment which replenishes the resources consumed in the conversion process, and also ensures social legitimacy. They further argue that a major escalation of environmental turbulence in the 1990's has meant a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors. New consumer's attitudes and dimensions of social control and above all, unprecedented questions of firm's role in society.

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Pierce et al (1997) further advances the argument that for an organization to achieve its goals and objective, it is necessary for them to adjust to their environment. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands. Grandy(1995) states that responsiveness and flexibility are increasingly important factors that determine the success of an organization. Ansoff also notes that failure to effectively adapt the organization to its environment leads to a strategic problem.

Hill and Jones (2001) add that the achievement of superior efficiency, quality, innovation and responsiveness enables the organization to create superior value and attain competitive advantage. In order to survive in this dynamic environment, organizations need well formulated strategies to deal with emerging environmental challenges. Thus it is necessary for organizations to respond appropriately to competitive environment to remain viable. Ansoff (1980) notes that environment is constantly changing and so it makes it imperative for organizations to constantly

adapt their activities in order to succeed. In this regard, organizations involved in health care provision should develop a mechanism of responding to changes within their environment to determine their success in the industry

### **1.1.3 Health Care Sector in Kenya**

Gesami (2000) observes that improving health has positive impacts on longevity, earnings, quality of life and socio- economic development. It is in view of that understanding that private and public sector should invest heavily both in healthcare delivery and the expansion of health infrastructure. The health sector in Kenya has not been able to expand as rapidly as the population to ensure adequate coverage, accessibility and acceptable quality healthcare for both children and adults.

In 1994, the Government of Kenya (GOK) approved the Kenya Health Policy Framework (KHPF) as a blue print for developing and managing health services. It spells out the long-term strategic imperatives and the agenda for Kenya's health sector. To operationalise the document, the Ministry of Health developed the Kenya Health Policy Framework Implementation Action Plan and established the Health Sector Reform Secretariat (HSRS) in 1996 to spearhead and oversee the implementation process. The above policy initiatives aimed at responding to the following constraints: decline in health sector expenditure, inefficient utilization of resources, centralized decision- making, inequitable management information systems, outdated health laws, inadequate management skills at district level, worsening poverty levels, increasing burden of diseases, rapid population growth. Provision of health care services in Kenya involves various players on the supply-side of the health system. These include public and private health care providers, among them hospitals, dispensaries, chemists, traditional healers and retail shops. Dispensaries and health centers form the lower level facilities in the health system and are supposed to refer cases they cannot treat to the first level referral hospitals (district and sub-district hospitals).

Since provision of health care services in Kenya is liberalized, the public hospitals have tremendously been supplemented by non- governmental healthcare providers which include private, mission hospitals and NGO health facilities. The crucial role played by mission hospitals in the provision of health care in Kenya cannot be underestimated. The government health service is supplemented by privately- owned and operated hospitals, clinics and Faith Based Organizations' (FBOs) health institutions. According to Christian Health Association of Kenya (CHAK) report of 2005, their total contribution together provides between 30 to 40% of the hospital beds in Kenya, and often distributed to serve mainly rural underserved areas. In the Poverty Reduction Strategy Paper of 2001, it is further reported that 65% of the people in Kenya live below poverty line out of which approximately 53% are in rural areas. A projection made by UNDP in 2005 paints a grim picture by stating that by the year 2015 at the current trend, 65% of the Kenyan population would be living below the poverty line. This is the stratum of the population targeted by the mission hospitals as it provides services which are social in nature, many of which are difficult to quantify (GOK/UNDP report,2005)

#### **1.1.4 Kendu Adventist Hospital**

Kendu Adventist Hospital (KAH) is one of the oldest mission hospitals in Kenya, having been started in 1925. It is situated 5 Km from Kendu Bay town in Rachuonyo North district of Homa Bay County, Nyanza Province. It is approximately 400Km from Nairobi, the capital of Kenya, and about 2Km from the Africa Herald Publishing house. The institution which is owned by the Seventh - Day Adventist church operates by providing health care services to the community where it is located. Basically, it ministers to the medical needs of the communities living in Homa Bay, Kisii and Nyamira Counties. Its physical location is a historical area of significance for Adventist church in East Africa.

Despite being one of the oldest hospitals in Kenya, Kendu Hospital faces multiple challenges to its mandate in health service delivery. These are; the current health situation in the country; the government policy initiatives on health sector, the declining health sector funding, the high demand for specialized health care, scarcity of resources and the unpredictable socio-economic situations as further elaborated below. For nearly ten years now, there have been changes in the government policy on health, effected through health sector reforms. Some of the reforms have resulted in change in the operations of FBO health institutions, and the status of some public health facilities. According to Government of Kenya report of 2005 on health services costing, some of the government -owned facilities within the catchment area of Kendu Adventist has been upgraded to the level of sub-district hospital and district hospitals. The upgrading of some of these facilities has triggered ‘competition’ for patients, who usually provide the health facilities with resource base in terms of user fees. According to Kendu Hospital strategic plan for 2008-2012, some categories of patients targeted by the Hospital now prefer the public facilities. This is due to the relative low cost of primary health care through cost-sharing.

In line with the government policy on reform initiative, the health service providers are required to undertake various reforms to improve health care delivery. Okeyo, (2003) further explains that the Government of Kenya, as a matter of policy introduced quality assurance standards tool called the Kenya Quality Model (KQM). This was occasioned by a general concern about the deterioration of services in hospitals, laxity in the regulation services and service providers; and low motivation for health providers to improve the quality of health services. The requirement to adhere to these standards and guidelines has made it mandatory for Kendu Mission Hospital to support the health quality improvement efforts, by implementing the Quality Model, despite the fact that it lacks appropriate infrastructure and resources to implement the Quality Model (CHAK, 2005).

A study done by Mwenda (2006) on Faith –based health services revealed that human resource for health (HRH) crisis is one of the most acute challenges facing health service delivery in Kenya today. There is high turnover and human resource migration- brain drain. More pronounced is the turnover as a result of imbalance in the terms and conditions of service between Faith- Based Organizations (FBOs, Government, NGOs and private sector). The study identified KAH as one of the mission hospitals with inadequate staff and lacking the capacity to provide all the necessary services, due to high staff turnover.

According to CHAK report of 2005, the institution has been grappling with difficulty in mobilization of financial resources due to declining external support. This state of affairs has led to reduced funds for efficient operations in delivering holistic health services. This scenario has also been aptly captured by Mwenda (2006) when he observed that the sources of funding for faith based health services (FBHS) in 2004 were standing at: GOK 0%, User fee 71%, NHIF 9%, Donors 13% and others 7%. Majority of clientele at Kendu Adventist Hospital are not members of NHIF nor do they have a medical insurance scheme. The services to these people (usually called the indigents, and whose social wellbeing should be the nation’s concern), has translated into a reduced number of paying patients KAH can serve ( Mwenda ,2006). Financial sustainability has thus become a major challenge with the situation being further complicated by the high costs of health care inputs and declining utilization. In an effort to remain faithful to their mission of serving the poor, Kendu Adventist Hospital has accumulated a huge debt burden.

In view of the above cited issues, the appropriate strategic responses are required to guarantee an organization a competitive edge and make it remain relevant and viable in the new operating environments. According to Miles (1978), the choice of strategies in hospitals has been directed by the prevailing operating environment, including governments, donors, and client’s interests among others. Therefore, the critical issue is how hospitals have organized to interact with the



new environment. Information from the environment must be obtained, filtered and processed in order to make choices possible for confronting action.

## **1.2 Research Problem**

Most organizations are known to make strategic choices in response to pressures imposed by their institutional environments. They need to adopt strategic options that would focus them on their mission goal as they strive to achieve the stated objectives. According to Dutton (1989), strategic issues are those trends, developments, or dilemmas that affect the organization as a whole and its position in the environment. In responding to global competition and a rapidly changing business environment, firms have employed diverse corporate strategies that have interested various scholars who have studied them over the years. Pierce and Robinson (1997) indicate that the challenges faced by a company can be from economic, political, legal, social and cultural factors. Ansoff and McDonnell (1990) observe that environmental development such as liberalization and globalization have intensified competition in the local market. These developments in the local business environment have resulted in internationalization. They add that a firm usually follows a strategy that is intended to create competitive advantage in the market place which is a set of decision making rules for guidance of organization behavior.

Kendu Adventist Hospital (KAH) being one of the oldest mission hospitals in Kenya pioneered in establishing medical services aimed at serving the rural poor in the country side. Despite this achievement, most of the studies on organizational strategic responses have majorly focused on profit-making business firms or institutions. Few if any studies, have focused on strategic response by Faith Based Health service providers to changing environments, yet the health sector has been experiencing a paradigm shift. This has been happening in the last couple of years with intensified competition and entry of new players; courtesy of health sector reforms, expanded free-market economy, changing consumer taste and preferences, and technological advancements.

A review of studies carried out on strategic response to the changes in the operating environment by firms in Kenya, shows that appropriate strategic responses will guarantee a competitive edge to make them remain relevant and viable in the new operating environment. This is evidenced by studies carried out by: Abdullahi, (2000) who did a study on strategic responses adopted by Kenyan Insurance companies, and found that most companies do not have a clear cut strategic approach; a similar study was conducted by Muturi, (2000) who examined strategic response by firms facing changed competitive conditions on East African Breweries; Makeni,(2006) focused on strategic responses of SACCOs to changing operating environment and found that most firms responded by increasing their asset base; Mihasi (2010) examined strategic responses by Simba Colt Limited and notes that the adverse effect by the financial meltdown crisis made the firm to respond by changing into a conglomeration and re- branding as a response to the changing environment; Machau (2009) on the other hand studied strategic response by Kenya Commercial Banks to changes in the external environment, and made a recommendation that similar studies are important and required for other sectors of the economy, as this would prepare all players to respond to environmental changes adequately.

Therefore by implication, no studies have been carried out to determine the strategic responses by Kendu Adventist Hospital, hence the research gap. The strategic actions would enable Kendu Hospital to adapt to changes in the environment and accommodate the emerging demands within the environments in which it operates. These cited concerns in the literature above lead to the question; to what extent have the strategic responses by Kendu Hospital addressed the changes in the operating environment?

### **1.3 The Objective of the study**

The objective of the study was to determine the strategic responses by Kendu Hospital to the changes in the operating environment.

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

The study would benefit policy makers in Government and lead to formulation of policies that create an enabling environment for proper functioning and management of health institutions. Specifically, government hospital boards and management teams may find the information useful in addressing some of the management problems that are common; like ineffective hospital management plans, financial mismanagement and any other challenges that may lead to poor delivery of health care services.

Through the study, the management of Kendu Adventist hospital would use the findings to formulate strategies and plans that would improve their management practices in the provision of health services. The study will also strive to establish the contribution of the changing environmental factors to Kendu Adventist Hospital's current health care quality levels. Health professionals and scholars who would like to make a contribution in supporting the improvement of health care in Kenya may find the study useful while updating on the current operating challenges facing non- governmental hospitals in provision of quality health. Further, academic researchers will find the information gathered during this study to be useful as a basis for further research related to strategic management in the field of health care provision.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter deals with Literature review and focuses on the theoretical framework. The chapter will endeavor to identify the existing gap from the previous studies and researches in strategic management in relation to the current study.

### **2.2 The Organizational - Environment Interface**

Miles (1983) shows that relationship between variables cannot be divorced from their context that are environment, in which they operate, statistical and real associations among variables are functions of the context in which they occur. The environment can be described as anything outside the control of the organization; these may include-client, customers, competitors, labour market, regulatory agencies and scientific community. Mintzberg (1983) further confirms that recent research has shown that there are three key dimensions to any organization's environment, namely capacity, volatility, and complexity. Capacity refers to the ability to support business, i.e. customer base, inputs, regulations etc. volatility can be described as the risk factors in the environment may be in terms of political, security, and government regulations. Complexity refers to the market dynamics i.e, entry requirements, competition, consumer bargaining power, consumer bargaining power, substitutes, etc.

Porter (1999) argues that an organization's strategic options as well as its decision must therefore form the strategic intent of the firm so as to develop its mission and undertake strategic action that results in strategic competitiveness. The external environment is rapidly ever changing, it is surprising and unpredictable. This is environmental turbulence. Environmental turbulence is therefore informed by the operating factors which influence a firm's direction and actions, its organizational structures and internal processes.

Equally, the external environment is punctuated with the industry environment that is punctuated with the nature and degree of competition in the industry. This is based on the Porter's five forces of industry competition: the threat of new entrants: bargaining power of customers and suppliers, and the threat of substitutes among current competitors

While political and economic conditions are closely related, they both influence a number of other environmental forces that affect organizations. The economic factors include taxation, government spending levels, disposable income inflation, and exchange rates job growth among others. On the other hand political factors include; government policies/ regulations, political trends, taxes and government structures. According to Thompson (2002), economic conditions affect how easy or how difficult it is to be successful or profitable at any time because they affect capital availability, capital and demand. If demand is buyout for example and the cost capital is low, it will be attractive for firms to invest and grow with the expectation of being profitable. In opposite circumstances, organizations might find that profitability throughout the industry is slow. The timing and relative success of particular strategies can be influenced by particular strategies.

When the economy, as a whole or certain sectors of the economy, are growing, demand may exist for a product or service which would not be in demand in more depressed circumstances. Similarly, the opportunity to exploit a particular strategy successfully may depend on demand which exist in growth conditions and does not in recession.

The socio-cultural environment encapsulates demand and tastes, which vary with fashion, disposable income and general changes, can again provide both opportunities and threats for particular organizations. (Pearce and Robinson, 2005). Over- time, most products or services change from being a novelty to a situation of market saturation, and as this happens pricing and promotion strategies have to change. Similarly, some products or services will sell around the world with little variation, but these are relatively unusual. Organizations should be aware of

demographic changes as the structure of the population by ages, affluence, regions, numbers working and so on can have an important bearing on demand as a whole and on demand for particular products /services. Threats to existing products might be increasing: opportunities for differentiation and market segmentation might be emerging.

Johnson and Scholes, (1993) observe that technology is widely recognized by various literature on strategic management as part of the organization and industry part of the model as it is used for the creation of competitive advantage. However, technology external to the industry can also be captured and used, and this again can be influenced by government support and encouragement. Technological breakthrough can create new industries which might prove a threat to existing organizations whose products or services might be rendered redundant, and those firms which might be affected in this way should be alert to the possibility. Equally, new technology could provide a useful input, in both manufacturing and service industries, but in turn its purchase will require funding and possibly employee training before it can be used.

Pearce and Robbinson (1997) state that remote environment comprises of factors that originate from beyond and usually irrespective of any firm's operating situation. These factors constitute the aspects of organizational external environment. They are namely: the political, economic, social and technological (PEST) factors, and are dynamic when at work in the external environment. An organization does not need to be aware of only the PEST (external) environment in which it is operating, but also its internal environment. The elements of an organization's internal environment compose of current human resources it has, financial resources and the organizational culture, among others.

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Pierce et al (1997) further advances the argument that for an organization to achieve its goals and objective, it is necessary for them to adjust to their

environment. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands. Grandy(1995) states that responsiveness and flexibility are increasingly important factors that determine the success of an organization. Ansoff also notes that failure to effectively adapt the organization to its environment leads to a strategic problem.

Hill and Jones (2001) add that the achievement of superior efficiency, quality, innovation and responsiveness enables the organization to create superior value and attain competitive advantage. In order to survive in this dynamic environment, organizations need well formulated strategies to deal with emerging environmental challenges. Thus it is necessary for organizations to respond appropriately to competitive environment to remain viable. Ansoff (1980) notes that environment is constantly changing and so it makes it imperative for organizations to constantly adapt their activities in order to succeed. In this regard, organizations involved in health care provision should develop a mechanism of responding to changes within their environment to determine their success in the industry.

### **2.3 The Concept of Strategy**

Organizations have to adequately and promptly respond to challenges of competition in the environment for the organization to be successful. Ansoff (1999) brought out the need of organizations to match their strategies to the level of competitiveness in the operating environment. The environment in which business operates faces stiff competition due to the existence of the firms producing and /or selling the same products or services. Businesses have as a result to cope with the competition by adopting strategic responses to it or risk being thrown out of the market by the same completion.

Mintzberg (1994) in his observation sees strategy as being used in different ways; the most common being strategy as a plan, a means of getting from there to somewhere; strategy as a pattern, position and a perspective. He argues that strategy emerges over time as intentions

collide and accommodate a changing reality. Porter (1996) states that the essence of strategy is choosing a unique and valuable position rooted in systems of activities in different ways than its competitors in order to deliver a unique set of values to its customers.

He further discusses that every company must have a competitive strategy. It is a plan for how a firm will compete in comparison to its competitors' competitive advantage, which exist when a firm is able to deliver the same benefits a competitor but at lower cost, or deliver benefits that exceed those of competing products. Thus a competitive advantage enables the firm to create superior value for customers and superior profits for itself. Competitive becomes a core value when it is sustainable and thus realization of sustainable competitive advantage.

## **2.4 Strategic Responses to Changes in the Operating Environment**

Strategic response of a firm can loosely be defined as, the process of re- establishing a fit with the environment, within the existing constraints an opportunities, and through creation of some appropriate deliverables. It should be noted that strategic actions are pioneered and effected by members of senior management of an organization. Strategic response plans must cover the key areas of the organization, namely; the product, customers and markets.

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Pearce and Robinson, (2005) observe that liberalization and globalization have opened up markets to environmental forces. Coping with an increasingly competitive environment has compelled firms to rethink their marketing strategies. The days when the firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves, Kotler (2000). According to Kepner (1994), organizations without a strategy will never thrive hence the need to create and implement an effective strategy



in order to excel in today's marketplace. Kepner- Tregoe's Five Phases model for strategy formulation and implementation has therefore been used effectively with many of the world's organizations which intend to create and strategic excellence.

Most organizations are known to make strategic choices in response to pressures imposed by their institutional environments. They need to adopt strategic options that would focus them on their mission goal as they strive to achieve the stated objectives. According to Dutton (1990), strategic issues are those trends, developments, or dilemmas that affect the hospital as a whole and its position in the environment. These issues affect a hospital's ability to survive and prosper.

Smith (1988) states that strategic issues have taken root even though strategic thinking is a relatively new concept for organizations. Strategic issues are ill structured, often unique, and frequently ambiguous, requiring some form of interpretation. However, he observes that the shift from high growth to low growth in the most organizations environments, with increased incentives to firms to contain costs and provide services as efficiently as possible has caused majority of them to recognize and deal with strategic issues.

Meyer (1982) says that in this environment, interpretation of strategic issues by the chief executive has become central to a organizations' success, because this level of issue interpretation is the key factor that drives strategic action; for example, strategy is the highest level of management activity, usually performed by Chief Executive Officers (C.E.O's) and the executing team. For example, confronted with the same strategic issue different C.E.Os will often perceive the situation differently.

Some chief executives may interpret the issue as a threat leading to negative consequences and act accordingly; others may interpret the same strategic issue as an opportunity for economic gain and positive growth. These differences in interpretation of the same strategic issue have been attributed by some to different personality styles and practices of top managers

Miles and Snow (1978) note that operations may be affected by the strategy the organization pursues, because the prevailing strategy may cause relationships to go un-noticed, be ignored, or be overemphasized. The strategic interpretations that take place in organizations may also be influenced by information-processing behavior, since the way a top management team is structured to process information about strategic issues may limit or enhance recognition of strategic issues, impede the search for data, or mute casual relationships associated with an issue. If we can understand how these characteristics influence the choice of strategic options in organizations, then we can suggest guidelines for improving strategic decision-making process.

Strategic decision making in organizations are concerned with interpreting situations that have potential strategic implications for their organization. Thomas (1988) observes that these interpretation efforts include attempts to give meaning to ambiguous events, to fit incidents into some structure of understanding, and to recognize possible strategic implications.

Dutton (1989), states that these interpretation activities of C.E.Os are critically important because the help to determine the future behavior of the organization as it attempts to gain a competitive advantage in its environment. Therefore, an understanding of those factors that affect the C.E.O interpretations of external and internal events is required in any attempt to understand strategic action, organization change or learning

According to Weick, (1984), the choice of strategies in organizations has been directed by the prevailing operating environment, including governments, donors, and client's interests among others. Therefore, the critical issue is how hospitals have organized to interact with the new environment. Information from the environment must be obtained, filtered and processed in order to make choices possible for confronting action.

Shortell et al (1990) suggest that a number of organizational characteristics, such as mission, past performance and current strategic orientation, play a role in the choice of strategy. For example, a religion- affiliated hospital may view strategic issues involving the provision of health care to the

medically indigent in ways very different from those of non-religion affiliated hospitals. Further, past performance that has been successful may lead to complacency or inertia that can result in an overestimation of hospitals ability to deal with a particular issue. Dutton and Jackson (1987) say that strategic issues may be labeled as controllable or uncontrollable, as potential positive or negative in consequences, or as leading to potential gains or losses. Labels are important because they direct the behavior

Strategy is the pattern discernible in a stream of important decisions about the domain in which a hospital has chosen to perform (Miles, 1982). The pattern defines the organization's relationship to task environment. It consists of decisions about which products/ services to supply, about selecting the market for the product/ service, and about the particular administrative steps required to implement such decisions. Two general strategic patterns that hospitals may follow are described as domain defense and domain offense.

Miles and Snow (1978) state that two general strategic patterns that organizations may follow are described as domain defense and domain offense. The domain defense –oriented organization chooses a position in the environment and attempt to defend that position. A domain defense – oriented organization will protect its market niche against losses at all costs. Domain offense – oriented organizations will constantly seek new product and market opportunities, striving to be pioneer in the industry. Miles further explain that a domain offense- oriented organizations will search for and process information indicative of areas where it can expand its product/ market offerings. This is similar to 'prospector' strategy in that both strategies attempt to create a competitive advantage through close attention to the environment and through externally directed actions. Therefore, they are more likely to see strategic issues in a favorable light.

Ansoff (1965) proposed four strategies for growth which can be neatly summarized in a matrix. To portray alternative corporate growth strategies, he presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow

via existing products and new products, and in existing markets, and new markets. The Ansoff Growth matrix is therefore a tool that helps businesses decide their product and market growth strategy. By considering growth via products, and new products, and in existing markets and new markets, four possible product- market combination for Ansoff's matrix presents the four possible product- market combinations illustrating strategies for growth as discussed below;

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets. According to Kotler (2000) this is a strategy of penetrating more deeply into the same market. Essentially, the same good/ service is pushed harder onto the same target customer group. This is a strategy reliant on the fact that there is some untapped potential to increase sales in the same market. This may mean that customers can be persuaded to buy the product more regularly, switch from a competitor, or encourage customers in the target market who may not have yet started to buy the product to do so. In this cell, the product remains unchanged and no new customer segments are pursued. Instead, the company repositions the brand, launches new promotions or otherwise tries to gain market share and accordingly, increase revenue. There is increased product availability and awareness by encouraging current customers to buy more per period, attracting competitors' customers and/ or convincing non- customers of their to become customers. This strategy is easiest to pursue in the introduction and growth stages of an industry, as all competitors can grow together and the perceived level of rivalry is low. At the mature and decline stages, however, continued growth comes through taking a share from competitors (Kotler, 2000).

According to Pearce and Robinson (2001), Market development consists of marketing present products to customers in related areas. These customers could represent untapped verticals, virgin geographic or other new opportunities. The company targets new geographic areas, domestically and internationally, identifying potential new customer groups, seeking additional distribution channels and developing new locations both domestic and abroad.

Doyle (1994) advanced that market development strategy consists of marketing present products, often with only cosmetic modifications to customers in related market areas by adding different channels of distributions or by changing the content of advertising or the promotional media. Several specific approaches are: Opening additional geographic markets (regional expansion, national expansion and international expansion), attracting other market segments (developing product versions to appeal to other segments, entering other channels of distribution and advertising on other media).

Market development involves the firm moving into new segments of the same market or even into entire new markets. Therefore, there is a greater degree of risk, as the firm does not have the same understanding, knowledge and experience of the new segment/market. This suggests to some extent, that the firm is more vulnerable to making an inappropriate judgment that could damage profitability. The firm, therefore, needs to decide whether it is worthwhile targeting new markets. What the firm needs to consider is the ability to distribute to new geographical locations (towns, regions or countries), utilization of unused distribution channels, reasons why some consumers are not using the products and the different applications for the product that will attract new markets (Blackpool, 2002).

According to Pearce and Robinson (2001), this Strategy involves marketing new products to existing customers. The company grows by innovating, gradually replacing old products with new ones; the firm develops potential new products based on customer wants and needs through new product technologies and developing different product quality levels. This strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific products itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share (Gultinan and Madden, 1997). Egan and Thomas (1998) stated that loyal customers are return customers and

therefore are very valuable to the business. Many could be very receptive to new products produced by the business. The firm could investigate the ability to add new features to the product, possibility of expanding the product line and possibility of creating a new version. According to these authors growth can come through developing new products for existing markets. New products giving extra benefits based on new features can be the motor for increased sales and market share.

Johnson and Scholes (2002) define Diversification as a strategy which takes the organization away from its current market or product or competencies. Adapting this strategy entails taking the greatest risk; here, the company markets new products to new customers. There are two types of diversification; related and unrelated. In related diversification, the company enters a related market or industry. In unrelated the company enters a market or industry in which it has no relevant experience. Strategy in diversification growth is to identify opportunities that would add attractive businesses that are unrelated to the company's current business and the pursuit or the acquisition of additional brands to broaden product offering. Gultinan and Madden (1997) add that diversification strategy involves the development of new products for new markets and consequently is the most risky of the four options. According to Doyle (1994), it is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact this quadrant of the matrix has been referred to by some people as the suicide cell. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return.

Several researchers have suggested that growth strategies need to be managed well so that the firm can maneuver its orientation towards its market as well as its stakeholder's appropriately. For instance, "aggressive and rapid growth could increase the risk by straining a firm's human resources and its ability to develop efficient controls and an effective internal structure that is

capable of coping with that growth while maintaining control of the firm's operations'.(Border, 1998).

A study by Miller (1983) used three measures of growth in order to test the effectiveness of the strategy. These measures included sales growth, asset growth, and growth potential of the firm. He further observes that though researchers have used growth in earnings before interest and taxes as a proxy for growth, the assumption of these researchers while using this measure is that sales growth and growth potentials of the firm translate into earnings growth, which may not be the case. A firm that does not pursue aggressive sales or asset growth may in fact grow in earnings. Based on how its managers are able to manage the firm's profitability. To this extent, Hill and Jones (1995) suggested that firms might grow at the expense of their stockholder's wealth. In other words, the excessive growth that a firm pursues may be at the expense of overall firm profitability.

Andrews, (1980) advanced that corporate expansion into a new market is one of the fundamental forms of strategic variation among business organizations. He further observed that it is also among the least understood outcomes of the inter- organizational environment, where incentives and constraints abound. He concluded that one can view corporate expansion as a form of constraints adaptation to growth opportunities.

To be able to strategically plan and implement growth strategies, firms need to plan what type of growth strategy from the various alternatives that they have. These alternatives include expansion into existing businesses diversification into new business, internal development, acquiring firms, and collaborative ventures.

Firms that undertake major, discrete expansion moves exert strategic choice, in the sense that managers have substantial influence in determining and selecting among multiple options about the occurrence, timing, and direction of organizational growth (Child, 1972). The object of such expansion is typically to improve corporate performance by increasing profitability, business

growth, and the chances of survival. Some combination of these goals plausible describes the incentives for firms to expand into new markets (Steiner, 1979).

The phrase mergers and acquisitions (abbreviated M&A) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Scholes et al (2007), states that Mergers and acquisitions are adopted by certain firms to pursue external growth strategies in order to accomplish certain objectives which enhance the pursuit of competitive advantage in a market where competition is stiff. These may include; the desire to expand product line, gain access to distribution channels or acquire a competitor that has a product line or distinctive competences that it needs to reduce competition. Strategic directions pursued by firms through mergers and acquisition include: consolidation, where a firm withdraws from deciding markets, sell valuable assets and maintain market share, market penetration, where a firm extends to a new market to expand share, production development involving modifying existing products to suit changing customers needs, through research and development, firm may also adopt diversification, where different products are developed through mergers and acquisition to cope with declining markets.

An acquisition, also known as a takeover or a buyout or "merger", is the buying of one company (the 'target') by another. An acquisition, or a merger, may be private or public, depending on whether the acquiree or merging company is or isn't listed in public markets. An acquisition may be friendly or hostile. Whether a purchase is perceived as a friendly or hostile depends on how it is communicated to and received by the target company's board of directors, employees and shareholders. It is quite normal though for M&A deal communications to take place in a so called 'confidentiality bubble' whereby information flows are restricted due to confidentiality



agreements (Harford, 2005). In the case of a friendly transaction, the companies cooperate in negotiations; in the case of a hostile deal, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Hostile acquisitions can, and often do, turn friendly at the end, as the acquirer secures the endorsement of the transaction from the board of the acquiree company. This usually requires an improvement in the terms of the offer.

Acquisition usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity. This is known as a reverse takeover. Another type of acquisition is reverse merger a deal that enables a private company to get publicly listed in a short time period. A reverse merger occurs when a private company that has strong prospects and is eager to raise financing buys a publicly listed shell company, usually one with no business and limited assets. Achieving acquisition success has proven to be very difficult, while various studies have shown that 50% of acquisitions were unsuccessful. Straub,(2007). The acquisition process is very complex, with many dimensions influencing its outcome. There is also a variety of structures used in securing control over the assets of a company, which have different tax and regulatory implications.

Empirical studies on growth and expansion strategies indicate that most organizations are known to make strategic choices in response to pressures imposed by their institutional environments. A study done by Olum (2010) to identify growth strategies adopted by Barclays Bank of Kenya revealed that the Bank used a number of growth strategies. Market development strategy was pursued, where the bank ventured into different market segments within the country by introducing products to cater for each segment, for example, Islamic banking. Product development had also been used where the bank improved on existing products by adding value added benefits and also by introducing new products within the market. It also explored partnership and alliances by partnering with the KPLC and Nairobi water, Nakumatt supermarket

and Safaricom among others, mainly to improve on services offered to customers. Barclays had also been innovative by introducing new IT systems to offer services to the clients.

Gamble (2007) confirms that mergers and acquisitions open avenues of new markets and opportunities. A good example of mergers is how Western Union merged with Diamond Trust Bank (DTB), Stanbic with CFC, Standard bank of South Africa with Chartered bank of India (Stanchart), Coopers and Lybrand. He states that the main aim of mergers and acquisitions is to expand company's geographic coverage, extend business into new product categories and also improve on competitive capabilities.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the methods used in carrying out the study. It covers the study design that was employed, data collection methods, and the data analysis.

### **3.2 Research Design**

The research design was a case study. A case study is important since it allows for an in-depth study since the study requires an investigation on various strategic options adopted at Kendu Adventist Hospital and challenges faced. The said information could be best obtained by a case study. Kothari (1990) acknowledges that a case study is a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, for example, a person, a family, an institution or an entire community.

Mugenda and Mugenda (2003), notes that the design is also ideal as it provides insights into the research problem by describing the variables of interest in detail. By using case studies, researchers are able to probe, collect data and explain phenomenon more deeply and exhaustively. The study identified the hospital administrators as the main respondents since they are responsible for strategy formulation and supervises their implementation.

### **3.3 Data Collection**

Both the primary and secondary data were used. The primary data was collected using the interview method by the help of an interview guide. The guide consisted of open-ended questions. The selection of this tool was guided by the nature of data that was to be collected and the nature of the respondents. The overall aim of the study was to find out the strategic responses by Kendu Adventist Hospital to the changes in the environment. Since the study was

concerned with views, opinions, perceptions, feelings and attitudes, such information would best be collected through interviews to allow respondents to provide objective responses.

The interview targeted the senior management staff namely; The Chief of Medical staff, Human Resource Manager, Finance & Business Development Manager and Manager and ICT Officer. The interview aimed at uncovering any aspects of strategic responses guiding the research. The secondary data was obtained from KAH website which has extensive information on history, functioning and current engagement of the hospital. The hospital's strategic plans, the service charter, financial procedures and procurement documents were reviewed to provide an insight to the management direction the hospital is pursuing.

### **3.4 Data Analysis**

Content analysis was done since the data was mainly qualitative in nature. This is because content analysis measures the semantic content or the 'what' aspect of a message. Its breath makes it a flexible and wide –ranging tool that may be used as a methodology or a problem specific technique. Mugenda and Mugenda (2003) observe that content analysis is the systematic qualitative description of the composition of the materials of the study.

The information gathered was analyzed to seek insights regarding the strategic responses adopted by Kendu Hospital as a consequence of such changes. The information provided was organized into 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, providing a rich description of the findings revolving around the aspects of the strategic responses.

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

### **4.1 Introduction**

This chapter presents analysis and findings as set out in the study objective. The objective of the study was to determine the strategic responses by Kendu Hospital to the changes in the operating environment. The key respondents were selected purposively to give information on either clinical or operations management. Since strategy is the highest level of management activity, usually performed by Chief Executive Officers (C.E.O's) and the executing team, the respondents included; The Chief of Medical staff, Human Resource Manager, Finance & Business Development Manager and ICT Officer. The senior administrative officers were on a performance contract of five (5) years, with all having covered between 1-3 years. Content analysis was used in this chapter to capture the statements of the respondents during the interviews. The study systematically investigated the organization's strategic response to changing environment and identified the strategic options as discussed in the section below:

### **4.2 Strategic responses adopted by Kendu Adventist hospital to Changes in the Operating Environment**

The study investigated about the various changes within the hospital that had affected its financial operation base. Specifically, the study inquired from the Finance Manager on the extent of sustainability challenges resulting from reduced financial support by donors. The study revealed that even the revenue generated from patient fees had been on a downward trend due to poverty, decline in patient numbers, competition and the impact of HIV&AIDS. This trend unfortunately triggers the vicious cycle of human resource migration that further compromises quality of service delivery.

The respondent cited the increasing challenges that the institution has been experiencing in attracting donor funding in the recent past. The study revealed that the institution has

experienced a change in strategic direction in resource mobilization aimed at increasing the sources of funds. In addition, the respondent explained that there have been restructuring of the organization's activities, downsizing, and scaling up due to change in donor funding.

The ability of Kendu Hospital to attract donor funding is affected by increased competition for donor funds. The Manager stated that the increased competition from the ever increasing number of NGOs have reduced the hospital's ability to attract donor funds, especially those directed at addressing HIV/AIDS related issues. To gain competitive edge and retain its niche within the realms of social work, the institution has been forced to beef up its level of involvement with the community by refocusing on the community health programmes, with the support of AIDS-Relief agency..

Kendu Hospital also focuses its attention on development of quality proposals by seeking expert assistance from reputable consultants in order to come up with winning proposals for funding. The Hospital also ensures that there is strong alignment between donor requirements and the Hospital goals, by sticking to the activities stipulated by the proposal and meeting the donor conditions for funding.

The study inquired on the other strategies adopted to address financial challenges that the hospital face and have the potential of affecting its operations. The respondent cited the mortuary services being offered as an income generating activity that provides an additional source of revenue for the hospital. The hospital had upgraded the mortuary to a funeral home thereby capturing a large geographical area of the three districts of Homa Bay, Rachuonyo North and Rachuonyo South. Initially the facility would preserve bodies from hospital wards, but has since opened its doors to preserve bodies from other health facilities within the catchment area. The upgrading of the mortuary services was considered as revenue growth strategy to generate additional funds, which the institution uses to supplement its financing of other services provided.

The study established that Kendu Mission is an NHIF accredited Hospital, with a rebate of Ksh. 2100. The main challenge however was that remission of the rebates by NHIF body to the hospital was not regular, hence it was difficult to factor the same in the recurrent budget. It was noted that the Government of Kenya in fulfilling its obligation under the Employment Act 2007 and the constitution of Kenya 2010, plans to ensure access to quality health care by introducing a comprehensive medical insurance cover for its employees and their eligible dependants. The scheme is to cover out- patients and in- patients' medical services, which are being accessed in NHIF, accredited Government, mission and private hospitals. The in- patients treatment is to be without ceilings in the amenity wards in such health institutions. The out- patients' costs covered include doctors' consultation fee, all laboratory tests, radiological tests,(including X- ray and CT scan), prescriptions and dressing together with pharmacy services. As a strategy to generate income as well as to overcome the challenges of irregular remission of rebates, the hospital is computerizing its health information and financial management systems to enhance efficiency in collection of the user fee and proper allocation of revenue to the service departments. Further, the hospital is currently improving its physical infrastructure to position itself for rebate rates upgrading.

The study revealed that the hospital had focused on increasing its market presence beyond its traditional niche of Rachuonyo, by extending its outpatient locations across ever-wider geographic areas. Currently, the hospital operates a satellite out-patient clinic in Kisii County- Nyanchwa town which is located about 70Km away. The clinic operates once a week within each month by offering a variety of out- patient services. This has managed to boost flow of referral volume to the main facility thereby contributing to the hospital's financial income as well as increased bed occupancy. This arrangement had to some extent translated into the hospital bed occupancy nearing optimal. It was envisaged that at the optimal level the income

generated would be enough to offer competitive market rates to the staff and support the wage bill.

In an attempt to share in the expertise and experience in provision of quality health care, KAH is currently affiliated to University of Eastern Africa-Baraton (Adventist), to provide a clinical facility for the Bachelor of Science Nursing of the University. The study revealed that this association has resulted into expansion of services and also positioned the hospital nursing graduates to be recognized as being highly marketable. In addition, KAH is also working on a plan to partner with Moi University to serve as a training hospital for its dental school. The school of nursing is set to be called School of medical sciences as it is set to offer additional courses like Diploma in Clinical Medicine, Laboratory Technology and Community Oral Health. The institution had also built a strategic partnership called 'North- South partnership', where, the hospital has been receiving medical students from foreign colleges in Argentina, Spain, UK, and USA to work as interns, while offering services at the hospital.

This section aimed at inquiring responses from the human resource manager on the human resource for health crisis causing acute challenges to the hospital. Human Resource Strategy was required to align the goals of Human Resource to the goals or strategy of the hospital in terms of recruitment, retention and termination. The study established that the current administrative team known as administrative committee (ADCOM), with membership consisting of the Chief Executive Officer, Chief of Medical staff, Human Resource Manager, Finance & Business Development Manager, ICT Officer, and Director of Nursing among others, were on a five (5) year renewable performance contract. The study established that most of them had covered between 1-3 years of their contract period.

The study further inquired on the various areas of human resource management that have been affected by change in the funding patterns. The respondent stated that withdrawal of the donor funding had led to cutting of funding for staff development and related activities, which were



meant to enhance their competence. Similarly, there has also been a decrease in staff motivation resulting from lack of compensation, reward scheme, and good working conditions.

The study further established that due to the high staff turnover that has been a common feature at KAH, there was little attachment of the workers to the institution. This was attributed to the Church Policy on wage which is low compared to other competitors in the same field. This has made the hospital to lose very competent specialists and tutors in the recent past to other nursing schools. This current Church Policy on wage factor is not very sensitive to the current market remuneration rates as there is a big disparity on the remuneration between the government – employed and KAH- physicians. From the study, it was realized that the hospital uses temporary staff to reduce staff shortages in the specialized areas. These are both the per diem doctors and traveling consultants who sign short-term contracts to fill individual shifts and accommodate short-term staffing needs. It was revealed that the doctors have been engaged on a special pay package different from that which the resident doctors receive.

To alleviate challenges resulting from this short- term measure, the hospital has identified and implemented changes which enhance human resource. These have been done through evaluation and upgrading of the existing hospital staff. Some of these upgrades include: job description for 90% of the staff; preparation of employee manual which outlines procedures of recruitment, training, hiring and retention policies. So far, 90% of the departments have now been implementing the procedures manual.(KAH strategic plan, 2008-2012). Currently, a proposal is being considered by the KAH board to open the hospital to outside consultants, upon reviewing their credentials. This is a competitive strategy since most hospitals in this category have been refocusing their attention on strengthening their relationships with specialists who still generate the majority of hospitals revenues. Further, to mitigate on the risk of high staff turnover, the

hospital has initiated the formation of staff welfare programs to take care of the social interest of the staff.

The study identified nursing as the hardest hit specialty in so far as staff turnover is concerned. However, the respondent cited at least one strategy that involved investments in nurse education. The hospital has been “growing its own” nurses, by operating a nursing school. The most common strategy used is absorption of the graduating nurses to the hospital’s workforce to stave off the frequent staff turnover. 70 percent of these students become hospital employees upon graduating. Further, the hospital is currently working on a proposal to pay for students’ education in return for a work commitment, and providing training and flexible hours for current ancillary staff to obtain nursing education. In addition, a student nurse intern program is planned at the Hospital to have students shadow nurses and receive tuition reimbursement.

The study identified other forms of investments that the hospital is operating as alternative sources of revenue. The Hospital is pursuing both unrelated and related diversification strategies, hence has invested in a dairy production, a chain of guest houses and funeral home services. Kendu Adventist Hospital also focuses on expanding the existing nursing school as a form of related diversification strategy. This is because the hospital targets to get more revenue from the school in form of fee, which is ploughed back to improve other services. However, nursing school capacity remains an important barrier to further investment by the hospital in nurse education; the respondent reported limited nursing school capacity as a constraint. This is consistent with national studies showing that although nursing school enrolment is up, many qualified applicants are turned away because there is insufficient nurse faculty. In fact, any attempt by the hospital to increase nurses’ salaries could be exacerbating faculty shortages, because the gap between clinical and academic salaries is widening.

The hospital had been lacking specific marketing strategy defining the market customers and the type of service it offers. In addition no specific department was assigned the role of monitoring the implementation of the existing policies regarding services offered. Further, employees have not been productive due to age differences; poor attitude and lack of requisite skills yet are in the payroll register of KAH. The state of low productivity has resulted in low income hence no funds available for improving the current wage factor to be competitive. To overcome these challenges, the hospital has created a business management unit and recruited a Business Manager to lead the business department and initiate Income Generating Activities (IGAs). Further, a marketing strategy has been developed for the hospital, clearly outlining the key priorities marketing options that need to be explored. The study also established that KAH is currently well positioned in the Internet / with a website and is now more accessible to potential customers. These would increase bed occupancy hence high-income generation for the Hospital. It is envisaged that the positioning of KAH in both print (it's featured in the Christian Health Association of Kenya –magazines) and electronic media would fight off challenges of competition for the client base from the health facilities within the catchment area.

The study inquired into the strategies that the hospital has adopted to improve amenities in order to attract and keep the physicians and patients. It was reported that the hospital had embarked on improvement of the infrastructure where several buildings have been given a facelift, as a strategy for expansion and growth.

It was reported that the maintenances department has been empowerment in terms of skills to maximize the usage of available resources thus reducing cost of repairs. The number of breakdowns would reduce and end result being quality service delivery by the hospital. These new facilities are being built to replace old inefficient buildings, attract physicians and patients and maintain or increase market share by expanding into attractive geographic sub-markets.

The study revealed that the hospital has a working relationship with Adventist Development and Relief Agency (ADRA)-Finland, which has contributed to renovation and modernizing the hospital's operation theatre. Similarly, the dental unit has been expanded and is currently awaiting posting of a specialist. In addition, painting of the buildings, extension of the kitchen, expansion of the HIV/AIDS relief building, repair of a sound system throughout the hospital to relay spiritual messages along with sacred music has been done as part of expansion and growth. This growth strategy would ensure the hospital sells its existing services into new markets by capturing and retaining the clientele.

To retain its traditional market, the study established that the hospital had embarked on resource mobilization to open and operate a leprosarium which was closed several years ago due to lack of space. The niche service strategy is frequently used by hospitals to create unique services to attract patients with specific diagnoses to their facilities. These services are highly specialized and depend on the capabilities of specialists that few other hospitals have the resources to recruit and retain. In the long run, this niche service would help differentiate the hospital from its competitors and be aggressively marketed to smaller, specific consumer or patient segments.

The inpatient specialty care programs are designed to increase revenue and margins and stem specialists' competitive instincts. The hospital hopes to realize higher total revenues and margins by focusing on a more limited set of services for which prices were higher.

The hospital's image in the recent past has kept away many patients thereby robbing it of its resource base, which is largely the user fee paid in by patients. It was reported that the management was in the process of redeeming the image of the facility, by creating an organizational culture that the staff and the clients can identify themselves with. To that end, Kendu Adventist has continued to strive to operate as part of the community and the nation (Kenya) in which it functions by developing and implementing initiatives benefitting the community. As part of its corporate social responsibility, the hospital had strived to tailor its

services to meet specific needs of the rural community it serves in an effort to increase local residents support to the hospital's initiatives.

The respondent revealed that on the ground, the hospital has a community- based organizational model that has helped to shore up its image. The community based activities have provided the opportunity for communities to collaborate with the hospital staff in promotion of healthy living. From the study, it was cited that the hospital has been running a community based environmental program that focuses on environmental cleaning activities, tree planting and landscaping. This has also helped to create good relationship between the hospital and the community. To further this effort, the hospital has developed a strategy to ensure that the local community benefits by being awarded tender supplies, especially in hospitality section.

The study established that through the effort of Catholic Relief Services (CRS), a center for HIV/AIDS patients has been constructed to provide counseling and ARVs to the HIV/AIDS outpatients. The patients attend clinic 5-times a week for monitoring, lectures and support. This has helped change the cultural mind set concerning HIV/AIDS. As a strategy to reach out to more patients within its vast catchment area, the hospital acquired an ambulance from the AIDS-Relief programme to help it reach patients. Ambulance initiative is part of AIDS-Relief efforts to strengthen local health systems to improve the overall health of Kenyans. The programme has been supporting health facilities to reach out to hard-to-reach populations. In addition, the hospital has been organizing mobile clinics as parts of its community out-reach programs.

From the study, it was evident that lack of proper computerization of health information and financial management systems had resulted into inefficiency hence losses in revenue collection. Findings from the study showed that Kendu Adventist Hospital (KAH) had been steadily investing in increased technology innovation in its operations and promoting efficiency through technology. The hospital offers technology- based services such as; X-ray, Laboratory, Ultrasound, Endoscopy, and ECG. According to the respondent, the hospital is set to undertake

a comprehensive review of its ICT infrastructure systems, strategy and business process by upgrading to enhance and strengthen the current ICT systems. This is to be done by installing Hospital software covering all the departments, which would reduce cost of operation and maximize usage of scarce resource available. This strategy aims at developing the facility towards paperless hospital. The software is necessary to network all the hospital departments to enable easy access to information at the touch of a button. This would bring about enabling environment for both the customer and staff in terms of efficiency, accuracy and timely information from the existing data bank. Overall, it is envisaged that the more standardized and integrated IT infrastructure and services would optimize the use of the Hospital's resources and achieve operational excellence.

### **4.3 Discussion**

The findings revealed that in its effort to enhance the quality of health care services, the hospital had tackled the changes in the operating environment by; investing in increased technological innovations; partnering strategically with other successful health care providers; investing in un-related income generating activities to provide revenue; improvement of its physical infrastructures; resource mobilization through proposal writing; strengthening its financial management systems and revenue collection; and evaluating and upgrading of the staff to alleviate staff turnover. The study therefore supports the theory depicted in empirical studies that organizations have to be flexible and respond quickly to keep up with the changes; else they find it harder to survive. Any level of change or turbulence in the environment calls for a response which is strategic for both survival and growth. Meyer (1977) explains that evolution by organizations to match the changes in the environment is characterized by blind variation with the organizational form and structure and the selection of those variations. Faced with dissentious changes, firms respond through metamorphosis or turnaround. Firms facing the prospect of a discontinuity normally conform to metamorphosis or transformation which gives

the essence of creative destruction. Mayer's (1982) study of education organizations and Dirsmith's (1988) case study of the University budgeting system adopted both an institutional demands and constraints. For organizations to respond effectively to the challenges inherent in the environment, they need sufficient resources. An apt example would be IBM's transformation or metamorphosis from a vendor in automated social security machines to the main frame manufacturer to PC vendor and now to a knowledge and solution provider. Thus metamorphosis or transformation is a proactive effort to attain a new fit with the environment.

The study findings indicate that firms willing to grow substantially should put emphasis on investing in newer technology, diversifying from local market niches towards other markets, and delivering adequate returns, which provide the financial means to grow. In this study, these factors proved to be the most significant explaining the potential of Kendu hospital to grow and provide enhanced services.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION.**

### **5.1 Introduction**

This chapter presents the summary of key data findings, conclusions drawn from the recommendation based on the key findings and discussions. The conclusions and recommendations were drawn to address research questions or achieving the research objectives. Additional current information on hospital strategy and competition was gained through interviews with the Hospital's middle-level workers. The chapter presents the recommendation for both policy, practice the limitations and suggestions for further research.

### **5.2 Summary of Findings**

The study established that there were various challenges from within and outside the Hospital's environment that had necessitated adoption of strategies to guarantee the hospital's survival. These challenges include the government policy initiatives on health sector, the declining donor funding to health sector, the high demand for specialized health care, scarcity of resources and the unpredictable socio-economic situations, inadequate revenue generated from patients' fee; inadequate allocation of funds designated to capital development, equipment or special programmes like HIV/ AIDS.

In order to address the challenges of financial instability, the study revealed that the hospital has focused on areas that would generate revenue for its operations and possibly support capital investment. It focuses its attention on development of quality proposals by seeking expert assistance from reputable consultants in order to come up with winning proposals for funding. The study identified funeral home services, school of Nursing and operation of guest houses services as some of the investment that the institution operates to generate revenue. The hospital is focusing on the newest technologies, niche specialty services and attractive amenities to draw



in physicians and patients, who will provide financial base in terms of user- fee since they generate majority of revenues. The institution is also expanding into targeted, geographic markets, and had so far opened a satellite out- patient clinic in Nyanchwa town- Kisii County.

The study inquired on the strategies in place to mitigate on the risk of high staff turnover, and ensure the patients' welfare was secured. It was revealed that there were various strategy initiatives that have been designed to attract and retain staff. These include; preparation and implementation of employee manual which outlines procedures of recruitment, training, hiring and retention policies, as well as initiating the formation of staff welfare programs to take care of the social interest of the staff. Other strategies used are absorption of the graduating nurses to the hospital's workforce, and engagement of temporary staff in the specialized areas; specifically the use of per diem doctors and traveling consultants with special pay packages.

The study showed that the hospital is in the process of restructuring its amenities in line with the government policy on access to quality health care by introducing a comprehensive medical insurance cover for its employees and their eligible dependants. Currently, the institution is improving its physical infrastructure to position itself for NHIF rebate rates upgrading. The institution is also set to promote community enrollment in the social insurance schemes and community-based health financing initiatives. The institution has also built strategic partnership with some institutions of higher learning, namely Baraton and Moi universities in specific areas, as a part of its growth and transformation strategy.

The study established that KAH is currently investing in increased technology innovation and promotion of efficiency. The hospital is set to upgrade its Information system by installing hospital software covering all the departments, which would reduce cost of operation and maximize usage of scarce resource available. Computerization of health information and financial management systems would further enhance efficiency and ensure accurate and timely information to support decision making. The study indicated that as a strategic response to the

organizational image enhancement, the institution is creating an organizational culture that the staff, clients and the community at large can identify themselves with. To foster good relations with community as stakeholders, the institution has been involved in community-based welfare initiatives. This is because the hospital recognizes the need to maintain deep-rooted values to ensure the survivability in the community.

### **5.3 Conclusion**

In conclusion, the hospital has tackled the changes in the operating environment by; investing in increased technological innovations; partnering strategically with other successful health care providers; investing in un-related income generating activities to provide revenue; improvement of its physical infrastructures; resource mobilization through proposal writing; strengthening its financial management systems and revenue collection; and evaluating and upgrading of the staff to alleviate staff turnover. The study also revealed that so far, the strategic responses adopted by the hospital had positioned it to be more prepared and focused to adequately respond to the changes in the operating environment. Accordingly, the hospital had significantly recognizes these environmental changes and has worked towards adopting various strategies to match the environment.

The choice of the strategies adopted was meant to respond to the declining donor funding to the facility, the high demand for specialized health care, scarcity of resources and the unpredictable socio-economic situations, high staff turnover, inadequate revenue generated from patients' fee; inadequate allocation of funds designated to capital development, equipment or special programmes like HIV/ AIDS and increased need to embrace technology for effective and efficient management. The findings indicated that in a bid to enhance the quality of health care services, the Hospital had tackled the changes in the operating environment by; investing in increased technological innovations; partnering strategically with other successful health care

providers; investing in un-related income generating activities to provide revenue; improvement of its physical infrastructures; resource mobilization through proposal writing; strengthening its financial management systems and revenue collection; and evaluating and upgrading of the staff to alleviate staff turnover. The study concluded that so far, the strategic responses adopted by the Hospital had positioned it to be more prepared and focused to adequately respond to the demands of improved delivery of health care services. Since the hospital was found to have the potential to grow if it effectively implemented these, it was bound to have an improved capacity to offer quality health care services, thereby effectively competing with other health care providers. In essence, KAH can weather the current storm if it provides timely responses to match the changes based on the priorities indentified in an implementable strategic plan, with clear vision and mission. The patients' number would increase significantly in the next 5 years in line with the planned expansion and growth.

Generally, the strategies hospitals use to compete provide significant insight into broader health care market developments because hospitals strategy is shaped by a variety of external forces. Some of the major external factors shaping hospital strategy include: economic demographic trends; regulation; public and private purchaser behavior; plan and methods; medical technology; and labour supply (Luke, Begun and Waltson 1999).

#### **5.4 Recommendations for Policy and Practice**

Based on the findings, it is recommended that KAH be proactive and ensure long term sustainability of its mission and services by embracing innovative approaches to health care financing. The facility must also identify sustainable strategies for enhancing motivation and staff retention.

KAH should give special attention to its human resources by endeavoring to learn from best practices employed by other reputable Faith Based Health Facilities. By scaling up and sustaining advocacy to the Government and donors for substantial commitment to human resource support, the hospital can cut down on operating costs, releasing funds for other uses. Such assistance needs to be supported by MoUs which would serve to secure recognition of the FBO in health service delivery and commit government support.

Governance of the church health facility should be strengthened and professionalized to ensure that it has the essential competence and skills mix. There is also need to ensure that the governance focuses its business on strategic planning, resource mobilization and performance monitoring. The operations of the Board and its relationship with management should be guided by a governance policy manual or by-laws to enhance synergy and avoid conflicts. CHAK has provided a Governance Policy Manual which could be adopted to ensure best practice.

The hospital should identify a niche or brand for which it will be recognized in its wider catchment area. The niche service should be well developed, packaged and marketed. Some examples that are working well in Kenya include Kikuyu Hospital (Specialized Eye Care services), Kijabe Hospital (Orthopedic surgery and medical training), Tenwek Hospital (Endoscopy, oesophageal cancer management and cardiothoracic surgery) Maua Methodist Hospital (trauma management and community HIV programmes), St Lukes Hospital (community-based health care (PHC)), Light-House for Christ and Sabatia Eye Hospital (Specialized Eye Care services).

The institution should consider including salary support and human resource development in every project proposal submitted to donors in order to expand training opportunities for its staff. Along these lines, it may be time to lobby donor partners to support scholarship funds to benefit staff in the health facility. Endowment funds can also provide much-needed resources for staff development. To enjoy an edge over its competitors in the private sector and Ministry of Health

(MOH), as a faith based health service provider, Kendu Hospital needs to develop human resource policies that give priority to staff housing, medical cover including HIV/AIDS treatment, care and support. Supporting staff credit schemes and/or micro financing has proved a useful way of retaining and motivating workers in many institutions.

‘North-South partnerships’ have over the years provided experienced and highly skilled manpower in the form of missionaries and staff supported by FBO partners abroad. It may also be prudent to build strategic partnerships with health financing initiatives and professionals in various specializations to ensure the patients have access to specialized medical services. Promotion of FBO-private partnerships involving members of sponsoring churches of the health facilities can also assist to tap expertise in the private sector.

The institution should strongly engage advisory services to help it make better and more informed decision about how they can strategically manage capital and transactions in the changing environment, for example how to strategically raise, invest, preserve and optimize its capital.

## **5.5 Limitations of the Study**

This study provides classical evidence on how an organization can identify strategies to adopt as response to changes in its operating environment, thereby determining its success path in the industry. However, it has some limitations. Being a case study on a specific Faith –based health service provider, the data gathered might not be representative of the other Faith- Based health facilities. This is because strategic responses that other institutions in the sector would adopt may be influenced by the management direction each hospital chooses to pursue as a consequence of various changes. This stems from the fact that different organizations may opt to adopt different strategies that differentiate them from their competitors. Similarly, the focus on a rural- based hospital clearly limits the robustness of the results and requires caution at the

moment of interpreting the conclusions, since facilities in urban set ups may respond differently to the same set of challenges. Even though the study is intended to be a contribution for policy makers, it is acknowledged that growth and expansion strategies are not the only aspect to be considered by health institutions in trying to enhance provision of services.

## **5.6 Suggestions for Further Study**

This study focused on the strategic responses by Kendu Adventist Hospital to changes in the operating environment. Further research should be done on other Faith- Based health institutions so as to get comprehensive information on how the other players in the sector would respond to challenges posed by the changing environments. The study further recommends that further research be carried on other categories of health institutions (private and Government- owned) located in different physical environments, to demonstrate how these findings would compare. Another area of research is to determine the sustainability of the strategies so far adopted by Kendu Adventist Hospital in light of the fact that the health sector has been experiencing a paradigm shift with fast paced changes.

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## APPENDICES

### Appendix 1: Interview Guide

This guide is designed to collect views on strategic responses at Kendu Adventist Hospital. It is divided into 4 sections in line with the strategic responses theme being studied.

1. What are the effects of changes in the health sector on the service delivery by the institution to the clients?
2. What health services does the institution offer to its clients?
3. Identify the type of services and infrastructure that is likely to enable Kendu Hospital offer quality health services.
4. Which other areas of service delivery does the institution target to incorporate as part of its core business?
5. How has the clients / customer needs influenced the implementation of the health policies at Kendu Adventist Hospital?
6. How do you intend to capture and retain the client base within the region served by the facility?
7. What category of clients does the facility target for service delivery?
8. What measures are in place to ensure that the hospital extends its services to the people beyond its traditional boundaries?
9. Which measures are in place to enable the institution generate more revenue from the existing services.
10. Which are other activities (if any) that the institution is engaging in to generate income.
11. What financial and non- financial goals does the institution aim to achieve?
12. What challenges are faced in expanding/ retention of the financial base?
13. What health services offered by Kendu Adventist Hospital represent potential for growth and may require the most investment and resource allocation?

14. In which areas (departments) do you experience shortage of qualified staff?
15. Which category of human resources do you require to effectively deliver the services to the clients?
16. What is the rate of staff turnover in Kendu Adventist Hospital? Is it high or low?
17. What strategic initiatives have been designed to attract and retain staff?
18. How do you reward the employees who achieve the set targets? Describe.

