THE RELATIONSHIP BETWEEN THE LEVEL OF ENVIRONMENTAL
SCANNING AND STRATEGIC CHOICE IN HEALTH MANAGEMENT
ORGANIZATIONS IN KENYA

BY

CHERONO H. KIPROP
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DECLARATION

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

Signed: [Signature]  
KIPROP H. CHERONO  
D53/OL/16269/06  

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

Signed: [Signature]  
MR. JAMES KILIKA  
Department of Business Administration School of Business, Kenyatta University  

This project has been presented for examination with my approval as the Chairman of the Department

Signed: [Signature]  
MR. SHADRACK BETT  
Chairman Department of Business Administration
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To all I say thank you and God bless you.
DEDICATION

First to God for he has done it all, then my wife Julianna Rop and finally to my parents for their tender loving care, support and enduring responsibilities of bringing me up to what I am today.
ACRONYMS

AAR - Africa Air Rescue
HMO - Health Management Organizations
MIP - Medical Insurance Providers
GoK - Government of Kenya
IRA - Insurance Regulatory Authority
AKI - Association of Kenyan Insurers
NHIF - National Hospital Insurance Fund
NSHIF - National Social Insurance Fund
COTU - Central Organization of Trade Unions
AMA - America Medical Association
ABSTRACT

Today's organizations face an external environment that is increasingly complex and volatile. The objective of the study was to establish the relationship between the level of environmental scanning and strategic choice in Health Management Organizations. The findings of the study is helpful in determining whether Health Management Organizations have been successful in taking opportunities in the external environment while at the same time safeguarding against threats in the external environment. Executives managing various firms will find this study applicable in giving hints on managing similar circumstances as those experienced by the Health Management Organization industry.

Environmental scanning involves macro-environment trend analysis and micro-environment uncertainty. Macroeconomic trend analysis consists of the appraisal of opportunities and threats which are outside the organization. The internal environment of an organization consists of strengths and weaknesses of that organization which are usually within the control of management.

The research was a descriptive survey. A questionnaire was developed to test the relationship between the level of environmental scanning and strategic choices made in Health Management Organizations. The study was based on a population of 23 Health Management Organizations located in Nairobi County. Stratified sampling procedures used assured the researcher that the sample was representative of the population.

During the study, twenty two questionnaires were administered to solicit responses. The response rate was 82%. A regression analysis model was developed to test the relationship between the level of environmental scanning and strategic choice in Health Management Organizations. From the findings, the researcher established a positive correlation between the dependent and independent variables and therefore concluded that there was a relationship between the level of environmental scanning and strategic choices made in Health Management Organizations.
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CHAPTER ONE
INTRODUCTION

1.1 Background

Environmental scanning is an integral part of strategic management. Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry. (Scholes 2000)

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm’s performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn’t ignore the threats.

Thomson and Strickland (1998) suggest that strategic management process means defining the organization’s strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future needs and then reassesses each strategy. Strategic management process has following four steps:

Environmental Scanning- Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
Strategy Formulation- Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

Strategy Implementation- Strategy implementation implies making the strategy work as intended or putting the organization’s chosen strategy into action. Strategy implementation includes designing the organization’s structure, distributing resources, developing decision making process, and managing human resources.

Strategy Evaluation- Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as it’s implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation’s requirement, so as to make essential changes.

1.1.1 Environmental Scanning
Today’s organizations face an external environment that is increasingly complex and volatile. In an international survey by the Harvard Business Review, 12,000 managers in 25 countries identify a wide array of forces of change including "globalizing markets, instantaneous communications, travel at the speed of sound, political realignments, changing demographics, technological transformations in products and production, corporate alliances, flattening organization ..." (Kanter 1991, p.151). These forces of change are said to cause the traditional walls of business boundaries to crumble. The managers in the survey indicated that change is a fundamental part of organizational life everywhere, and that fostering closer relationships with customers and suppliers is a critical issue.
From an information perspective, every change or development in the external environment creates signals and messages that an organization may need to heed (Dill 1962). Some of the signals would be weak (difficult to detect), many would be confusing (difficult to analyze), and others would be spurious (not indicative of a true change). In seeking information, the organization would have to attend selectively to a flood of signals created by a dynamic environment, interpret often confusing messages, and make sense of cues in relation to the firm's goals and activities. Weick (1979) suggests that a central information task of organizations is to interpret equivocal information about the external environment.

Environmental scanning is the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action (Aguilar 1967, Choo and Auster 1993). The external environment of an organization includes all outside factors which can affect the performance or survival of the organization. Although there are many factors, it is helpful to divide the external environment into a small number of sectors. For business organizations, the environment may be analyzed as consisting of six sectors: customers, suppliers, competition, socioeconomic, technological, and governmental sectors (Jauch and Glueck 1988). Alternatively, one may distinguish between a macro environment comprising social, economic, political, and technological sectors, and a task/industry environment comprising mainly the customer and competitor sectors (Fahey and Narayanan 1986).

Organizations scan the environment in order to understand the external forces of change so that they may develop effective responses which secure or improve their position in the future. Thus organizations scan in order to avoid surprises, identify threats and opportunities, gain competitive advantage, and improve long- and short-term planning (Sutton 1988). To the extent that an organization's ability to adapt to its outside environment is dependent on knowing and interpreting the external changes that are taking place, environmental scanning constitutes a primary mode
of organizational learning. The strategic choices made by management are influenced by the perceptions they make emanating from the environment.

1.1.2 Strategic Choice

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

At the root of all strategy lies the ability to make good choices. A company’s strategy is defined by the multiple and varied choices it makes- choices about when and where to compete and how to win in businesses it has chosen. For the most part the primary strategic choices that a company makes are exclusive. That is, a decision to go in one direction precludes setting off in another. A decision to stay focused on the East African Market, for example, precludes a truly global firm, while a decision to continue to sell through an existing distribution channel precludes a new initiative that takes the product directly to the consumer.

As these examples show, true choices require giving up one thing in order to reap the strategic benefits of the other. If multiple options can be pursued simultaneously or there is but one sensible option, the firm does not face a true strategic choice. Choices, then, by definition are hard. And often the firm does not anticipate the need to make choices it faces. Instead they appear unexpectedly like folks on a country road. They are driven by customers, competitors, technological change and sometimes even the prior actions of the company itself.

It follows then that a good strategic choice is one made consciously and one made based on valid data and sound reasoning. Most often it results from a process that builds the necessary commitment for action. Good choices identify, and mobilize the company toward, the combination of market positioning and unique activities that represent the best scenario for where to play and how to win in a chosen market. In short, a set of good
choices positions a firm for competitive advantage. Attributes of a high quality strategic choice possess four key attributes: it is genuine, it is sound, it is actionable and it is compelling.

A bad choice, on the other hand, results in travel down a path that is not conducive to value maximization, a path that constraints future choices rather than opening up new possibilities. When a firm makes sub-optimal choice, typically one consequence is that it can never work its way back to the position it was in before it made the wrong choice. Since strategic choice tends to be so fuzzy, it is useful to define the words being used. We shall adopt the following definitions.

Choice and strategic choice refer to the process of selecting one option for implementation. An option is a course of action that it appears possible to take. The simplest form of choice is therefore between taking an option and not taking it—doing it or not doing it. Most choices have more shades of possibility than this.

A strategic option is a set of related options (typically combining options for product/markets and resources) that form a potential strategy. For instance, it might be an option to enter a new market in a new country. The entry to that market with a chosen method of distribution and known way of acquiring necessary distribution resources, in fact, a complete business plan of how to enter the new market successfully—would become a strategic option. Chosen Strategy is the strategic option that has been chosen. The nature of this forms the content of strategy.

Figure 1 below shows how the three logical elements of the strategy formulation process interlock. The background is a reminder of the importance of context as determining the issues to be resolved by strategic choice.
Figure 1: Results of Strategy Formulation Process

Figure 2 below expands the detail to illustrate the significance of the overlaps. The common ground between any two circles is of some interest but it is only where all three circles overlap that logically viable options exist. The chosen strategy emerges as the chosen viable option. It is where the differing requirements of intent and assessment are most fully met—that is, where the three logical elements overlap.

The areas where any two circles overlap are also of interest. The criteria for choice derive from intent and assessment. Feasible options may exist which are not aligned to strategic intent. This, of course, may raise the question of whether the strategic intent should be changed. Infeasible options may seem highly attractive and may have powerful supporters, so the reasons why they are infeasible may need to be carefully argued with clear evidence in support. Choices of what not to do may sometimes be as important as choosing what to do.
In practice, the process for choosing a strategy may be structured as shown in Figure 3 below, although the reality is likely to be much messier.
The process of choice starts by identifying available options. The chosen strategy will have to answer questions ‘what’, ‘how’, ‘why’, ‘who’, and ‘when’, so each option will provide provisional answers to each of these questions. There are likely to be different kinds of options. Figure 3 above shows three types; products/services/markets, resources/capabilities, and method of progress that are typical but not necessarily exhaustive.

1.1.3 Environmental Scanning and Strategic Choice

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

Characterizing the options as stories help to ensure that they are not seen negatively as “your opinion,” “biased,” or “unsubstantiated.” They are simply ways of thinking about the market that may or may not be proven to have validity. This characterization helps ensure the more radical, out of the box ideas are put on the table and that the goal of inclusiveness is met. There is plenty of time for the process to reduce the option set, but the process will underachieve if the sourcing of options at the front end is restricted.

Environmental scanning has been described as an important process of strategic management because scanning is the first link in the chain of perceptions and actions that permit an organization to adapt to its environment (Hambrick, 1981). Although numerous studies have been conducted on the environmental scanning practices of executives, very little is known about the relationship between an organization's strategy and its environmental scanning activities (Daft, Sormunen, & Parks, 1988). For example,
it is not clear whether two firms in the same industry, but with different competitive strategies, employs similar or different scanning behaviors.

Managers then develop strategies based on their perceptions "to deal" with these situations (Goleman, 1985; Starbuck, 1983). Furthermore, a prevailing notion in the strategic management literature is that managers "enact" their environments: that is, a manager's belief about what is relevant defines what parts of the organization's environment are noticed (Weick, 1979)

Several attempts have been made to provide theoretical frameworks for making strategic choices. One that was highly influential when first devised was the concept of Generic strategies (Porter 1985). Porter suggested that the most fundamental choices facing any business are the scope of the markets that it attempts to serve and how it attempts to compete in the chosen markets.

Strategic choice is the third logical element of the strategy formulation process. Choice is at the centre of strategy formulation. If there are no choices to be made, there can be little value in thinking about strategy at all. On the other hand, there will always, in practice, be limits on the range of possible choices. Even when managers are apparently free to make strategic choices, results may eventually depend as much on chance and opportunity as on the deliberate choices of those managers. When considering future strategies, it may seem that there are clear choices to be made. When reflecting on outcomes in retrospect, it is often clear that events, and particularly unexpected events, played a major role in determining results.

When considering choice, it is necessary to take a prescriptive view. Descriptive ways of thinking may help to explain the outcomes after the event. In a tidy logical world, any process of choice could be rationally divided into four steps—identify options, evaluate the options against preference criteria, select the best option, and then take action. This suggests that identifying and choosing options can be done purely analytically. In practice, it may be difficult to identify all possible options
with equal clarity or at the same time. Unexpected events can create new opportunities, destroy foreseen opportunities, or alter the balance of advantage between opportunities. Identifying and evaluating options is a useful approach but it strategic choice has limitations. It is necessary to remember that the future may evolve differently from any of the options.

Good strategic choices have to be challenging enough to keep ahead of competitors but also have to be achievable. Analysis has an important role in making strategic choice but judgment and skill are also critical. For instance, sometimes it may be better to delay making a decision whereas at other times a wrong decision may be better than no decision. Strategic choices that keep options open may be preferable in an uncertain future to defined strategies that depend for their success on uncertain events happening. Such judgments require wisdom as much as analytical skill.

1.1.4 Health Management Organization (HMOs).
A HMO is defined as “an organization that combines the provision of health insurance and the delivery of health services” (Given 1994). Early HMOs and HMO-like institutions developed in the 1930s as farmers’ cooperatives. The HMOs offered pre-paid health care to workers and their families. The main aim of HMOs was to provide healthcare to their members at costs they could afford. One of the reason HMOs did not grow rapidly at first was resistance from organized medicine. Leaders in the America Medical Association (AMA) and its affiliates believed that cooperative health plans would violate the integrity of medical decision-making and provide inferior care. However, the HMO movement overcame this medical resistance and a variety of other attacks and began to grow even outside America.

In the Kenyan environment, the first HMO to be established was AAR in the year 1984. AAR operated as a monopoly player in this market until late 1990s when other HMOs started emerging. Over the years, other HMOs have been registered, with the number of players currently being twenty three.
In the last several years the HMO industry has had to deal with fierce competition, advancement in technology, poor economic environment and changes in government legislation. Government legislation has led to changes in the operating environment. The insurance amendment bill was passed in parliament in 2003 and it led to amendment of the insurance act, cap 487; it states that an organization cannot provide medical insurance and provide medical services at the same time as this will lead to a conflict of interest. The government gave such organizations up to July 2006 to abide by the legislation. The government published the proposed National social Health Insurance Fund (NSHIF) bill 2004, in a special Kenya Gazette issue dated 28th May 2004 and tabled in parliament on Wednesday 23rd June 2004. The bill intended to reform National Health Insurance Fund (NHIF) Act of 1998 to provide every Kenyan with affordable, acceptable and accessible quality health care from July 2004. The president did not assent to this Bill.

In 2010, NHIF published a gazette notice on new rates and informing employers to effect and submit new deductions as from September 01, 2010. The new rates meant that employees earning a gross salary of over Ksh 100,000 per month would be required to contribute Ksh 2,000 to NHIF. On August 30, 2010, the Industrial court suspended the new tariff imposed by NHIF for at least ten days to await determination of a case filed by the Central Organization of Trade Unions (COTU). In 2011, the government invited HMOs and insurance companies to form consortia and tender for the provision of medical insurance to civil servants. This caused excitement within the HMO and insurance industries as a result of potential addition of a population of approximately 300,000 uninsured public servants to the medical sector. However in 2012, the government disappointed the sector, by announcing that it would fund NHIF to provide medical cover to all public servants

1.2 Problem Statement

It has not however been demonstrated as to the degree of commitment of the organization towards understanding their external environments and its influence on the strategic choices they have been making. Thus it is important to investigate the area of
environmental scanning and how it may have affected strategic choice among HMOs in Kenya.

A number of studies have been done on the subject of strategy formulation and implementation in various organizations in Kenya. Awino (2001), Koskei (2003) and Nyamweya (2004) looked at the subject of strategy formulation and implementation in various organizations in Kenya. These studies generally established that organizations that turn to strategic management when faced with turbulent operating environment survive and prosper despite the turbulent environment. Other studies on this field include Impact of Strategic planning on organizational performance and survival (Taiwo, A.S. and F.O. Idunnu, 2007)

Whereas many studies have been done on the process of strategy formulation and implementation, hardly any attention has been paid to the relationship between environmental scanning and strategic choice. This study seeks to answer the following research question: What is the relationship between the level of environmental scanning and strategic choice in HMOs? The study will also focus on the environmental factors influencing strategic choices.

1.3 Objective of the Study

The general objective of the study was to establish the relationship between the level of Environmental scanning and Strategic Choice in Health Management Organizations.

The specific objectives of the study were as follows:

a) To establish the relationship between the extent of trend analysis and strategic choice in Health Management Organizations.

b) To establish the relationship between the level of SWOT analysis and strategic choice in Health Management Organizations.

c) To establish the relationship between the levels of environmental issues analysis (legal, political and government policies) and strategic choice in Health Management Organizations.
d) To establish the relationship between uncertainty assessment and strategic choice in Health Management Organizations.

1.4 Significance of the Study
The findings of this study will be of immense importance to various parties, first and foremost, to HMOs. This study will be helpful to the HMO industry in establishing the effect of the level of environmental scanning on strategic management practices. It will also help determine whether HMOs have been successful in taking advantage of opportunities in the external environment while at the same time safeguarding against threats in the external environment.

Secondly, the executives managing various firms in other sectors will find this study invaluable and applicable in giving hints on managing similar circumstances as those experienced by HMOs. They will be able to predict strategic choices from the level of environmental scanning made.

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

1.5 Limitations of Study
This study was limited to Health Management Organizations and therefore may not be used for generalization purposes. The business environment in HMO Industry may not be the same as in other industries. This is because industries have different values and resource capabilities.

The study may also have had some weaknesses inherent in using questionnaires for data collection purposes. First is the misinterpretation of words by respondents. This results in
some answers which reflect an ideal situation rather than the actual occurrence. Some respondents may also have withheld some information which was important for the study. There was also likelihood of bias as some respondents may not have been willing to disclose information which might give a negative impression of the organization to the public.

The respondents may not have been willing to disclose some information which they regarded as confidential based on the privacy policy of the organization. The researcher had to be cautious not to appear to be getting information to give a competitor firm by making the respondents understand that it was an academic research project.

Time constraint was also another limitation which resulted in having some managers who were very busy not willing to fill in the questionnaires. Some of the respondents postponed giving their answers till they were available for the interview to be carried out. The researcher was also limited to the time allocated to complete the study.

1.6. Scope of the study

The scope of the study was to establish the relationship between the level of environmental scanning and strategic choice in Health Management Organizations located in the county of Nairobi, Kenya.
CHAPTER TWO
LITERATURE REVIEW

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

Andrews and Chandler define strategy in terms of intentions. Mintzberg and Waters (2003) argue that organizations may sometimes pursue strategies they never intended. Hence, they propose that the usual definition of strategy be called" intended strategy" and that is strategy in general and "realized strategy" be defined as "a pattern in a stream of decisions (actions)."

Strategy is a much used and abused word, and means different things to different people in an organization. Like many other concepts in the field of management there is no agreed all embracing definition of strategy. One of the pioneers of business strategy got and off, warned that strategy us an evasive and somewhat abstract concept. This must be expected when dealing with an area that is constantly developing (Grant 2000).

There are different definitions of different authors, for instance strategy is the set of discussions and actions resulting in formulation and implementation of strategic designs to achieve the objectives of an organization Pearce ad Robinson, (1997) strategy us the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment.
and to fulfill stockholder’s expectations (Johnson and Scholes, 2003) Igor Ansoff defined strategy as the product/market scope in these words. “Strategic discussions are primarily concernment with external rather than internal problems of the firm and specifically with the selection of the product mix the firm will produce and the markets to which it will sell”

(Grant 2000) and Andrew Chandler defined strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Henry Mintberg defined strategy as a plan, a pattern a position and a perspective. Strategy, as a plan in some form of consciously intended course of action which is created ahead of events.

Strategy as a ploy is a maneuver to outwit an opponent. Strategy as a pattern: a pattern that emerges in a stream of actions. Strategy as a position is about positioning the organization in order to achieve or maintain a sustainable competitive advantage strategy as a perspective considered strategy as a somewhat abstract concept that exist primarily in people’s minds Burnes (2000). Strategy is a multi dimensional concept that embraces all the critical activities of the firm providing it with a form of unity, direction and purpose as all as facilitating the necessary changes, induced by its environment (Hax and Majul 1996).

2.2 Strategic Management

Pearce and Robinson (1991) define strategic management as “that set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives. “Thompson and Strickland (1998) define strategy formulation as the active management function of establishing organizational direction, setting objectives and devising a managerial game plan for the organization to pursue. Mintzberg and water (1985) contend that strategy could be viewed as a pattern in a stream of decisions. The two see strategy as being deliberate or emergent and forming two ends of a continuum along which the real world lies. They also classify as being intended, realized, unrealized and emergent.
The informal approaches to strategic management are characterized by executive bargaining and negotiation, building of coalition and the practice of muddling through (Hex and Mujuf, 1996). Informal planning is usually intuitive and under the influence of a visionary leader. Formal strategic planning usually produces a strategic document plan. This is a comprehensive statement about the organization’s mission and future direction, short term and long term performance targets and how management intends to produce the intended results to fulfill the mission given the organization’s situation. (Thompson and Strickland 1998).

2.3 Environmental Scanning

Environmental scanning is the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action. (Aguilar, 1967, Choo & Auster, 1993) Organizations scan the environment in order to understand the external forces of change so that they may develop effective responses which secure or improve their position in the future.

They scan in order to avoid surprises, identify threats and opportunities, gain competitive advantage, and improve long-term and short-term planning (Sutton, 1988). To the extent that an organization's ability to adapt to its outside environment is dependent on knowing and interpreting the external changes that are taking place, environmental scanning constitutes a primary mode of organizational learning. Environmental scanning includes both looking at information (viewing) and looking for information (searching). It could range from a casual conversation at the lunch table or a chance observation of an angry customer, to a formal market research programme or a scenario planning exercise. Environmental scanning involves macro-environment trend analysis and micro-environment uncertainty.
2.3.1 Macroeconomic Trend Analysis

External environment scanning consists of the appraisal of opportunities and threats, which are outside the organization and are not typically within the short-run control of the top management. They form the context within which the organization exists. They can thus be compared to with the external surroundings of the human body. Once such variables change, they affect the organization just as the weather changes would result in some people experiencing colds whereas in normal weather conditions they would only adjust between the day and the night changes. Since the days and nights are routine and obvious changes, the body is normally well balanced to deal with such routine adjustments just like an organization would deal with minor routine changes.

Since organizations are open systems, strategic managers should understand the organizational external variables so as to be aware of the nature of these variables, prepare for future changes, explore future opportunities and threats, identify future emerging issues and prepare for future competition. The external environment has two parts: the remote environment and industry environment.

2.3.1.1 Remote Environmental Variables

Remote environmental variables are macro in nature and include economic, political-legal, demographic, technological, and social-cultural variables. They include the organization’s activities as a ‘whole’.

Economic variables affect the organizations in every part of their activities. They have a direct impact on the potential attractiveness of various strategies. The organization has to diagnose the relationships between its activities and the key economic variables, which include among others: Inflation and deflation and their effects, the economic policy of a country, the taxation, both direct on profits and the employees and goods sold, the stage of trade cycle and the economic mood of the country affecting its investments.

Political-legal variables are state oriented and include the three organs of a state: the Parliament, the Judiciary and Executive. A state is a body politic of a sovereign power
devoid of influence from a rival authority. Its duties include; being accountable to each citizen from birth to death, governing its resources in a democratic manner and providing security to its citizens and their property.

Demographic variables are human attributes of a given community. The key demographic variables include the people’s age, sex, family, life, life cycle, experience, income, education, occupation, religion, ethnic groups and nationality among others. They are very important in any business success or failure.

Technology means the utilization of materials and processes necessary to transform inputs into outputs. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that influence the industry. The space of technological change reduces product and process lifecycle. Technological forecasting can thus help to protect and improve profitability of firms in growing industries. It therefore it alerts strategic managers to impending challenges and promising opportunities.

Social variables which affect an organization involves beliefs, values, attitudes, opinions, activities, and lifestyles of persons in the organization’s external environment as developed from cultural, ecological, demographic, religious, educational and ethical conditions. These factors are dynamic and dictate the individual’s desires, wants and needs. Changes in these variables have major impacts on virtually all goods, services, markets and customers. They shape the way people live, work, produce and consume commodities.

2.3.1.2 Industry Environment Variables

Glueck and Juauch (1998) defined the term industry as a set of firms, which are in competition with one another for customers of goods and services, and rely upon others that supply critical inputs (supplies). It follows that the key industry variables of organizations are competitors, suppliers, creditors, customers, distributors, markets and communities. Designing viable strategies for an organization requires a thorough understanding of these variables.
Competitive forces are often considered to have the largest negative and positive impact among all the environmental trends and events that affect organization’s strategic positions. Despite this, competition is a very health situation in the industry as far as product quality and prices are concerned. Competitive analysis has five objectives: to identify competitors, to collect and evaluate information and competitors, to determine the competitor’s strengths, weaknesses and capabilities and to help the organization devise effective competitive strategies.

A strategic task for an organization is therefore to deploy resources so that it can make a profit level in excess of what is normal in that industry. The first set of competitive forces are new entrants to the market which is determined by the barriers to the entry and includes economies of scale enjoyed by existing firms in the market, product differentiation, initial capital outlay, cost disadvantages, lack of access to distribution channels and government policies of limitation to the market entrants. The second lot of these threats is the substitute products and the third set the presence of buyers who could exert pressure on the organization, while the fourth is mainly the bargaining power of suppliers. This scenario is depicted in the figure below.

**Figure 4: Industry Competitive Forces**

![Diagram of Industry Competitive Forces]

Source: Porter, 1980
Dependable relationships should at times exist between an organization and its suppliers in the long term organizational survival and growth. An organization relies on its suppliers for provision of raw materials, merchandise, services, finance, long lived assets, water, and power and telephone facilities to enable it to function. A supplier is said to be powerful if his products are unique and differentiated, he can integrate forward into the industry supplies, he is more concentrated than the industry he sells to, and if the industry is not an important customer of the supplier group.

Creditors are very important to business organizations. They provide initial capital as well as financial and tangible commodity resources. Often, creditors provide their client organizations with credit by accepting their stock or assets as collateral. The key factors to be considered by an organization regarding its relationship with creditors are whether to accept stock or assets as collateral, whether the creditor’s loan terms are compatible with the organization’s objectives and whether the creditors are capable of extending the stated loan periods for their credit.

Customers are the most important elements in an organization. Successful organizations continually monitor present and potential customer buying patterns. Hence effective strategists should be concerned with who their present and potential customers are and their needs. An organization’s customers are said to be effective if they have the capacity to purchase organizational products and these products are reachable by them. The evaluation and examination of customer needs involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles and determining optimal market segmentation strategies.

A community is a group of persons with common problems and interests. Organizations must therefore be responsible to the local communities because they affect or are affected by the achievement of the organization’s objectives. An organization can become community responsible by contributing to community development through taxes, participation in charitable activities, employment of local people and minimization of negative side effects such air, water, noise and solid waste pollution.
Lipsey, Purvis and Steiner defined a market structure as the features of a market that may affect the behavior and performance of the firms in a market. Hanson defined a market as a term, which denotes a particular place like a special building where exchanges of products take place or the extent of sale of a commodity. A market is therefore an arena in which the exchange activities of commodities take place.

2.4 Environmental Forecasting

There are two major features of both the remote and the industry environmental variables. These are identified by Rue and Holland (1986) as follows: Firstly, there are no two organizations that face exactly the same business environments because each organization has a unique environment. Secondly, Organizational variables are always dynamic because the events and conditions, which make up the unique environment of any organization, are not static due to the fact that both the remote and industry variables change with time.

Accurate forecasting of the changing environmental variables is therefore an essential part of making strategic choices. There are many techniques of environmental forecasting so far developed. Among the most important ones are trend analysis, modeling, scenario analysis, simulation, expert opinion and signal monitoring among others.

Thomson and Strickland (2000) identified four stages in forecasting environmental variables as: identifying which forces are the most important and why they are critical, determining how these variables can change, incorporating the expectations and predictions into decision-making and management thinking and being honest and realistic when evaluating the strengths and weaknesses relative to the competitors and when considering the organization’s ability to respond to the opportunities and threats.

A common question in the field of environmental forecasting is how far ahead one should look. Much has been thought to depend upon the reaction time to environmental change. This means that if an organization wishes to respond strategically to a perceived future change in the environment, then decisions about such change in strategy may have to be taken some time in advance. This is shown in the gap analysis in the figure below.
Line $0S_1$ is a desired strategic parameter, whereas line $0S_2$ is what will happen if there is no change in strategy. The major concern is therefore, how long it takes the current decisions to begin to fill the sales gap $S_1-S_2$.

### 2.5 Micro-Environmental Scanning

The internal environment of an organization consists of strengths and weaknesses of that organization. These are within the organization itself and are usually within the control of the top management. These variables form the context in which work is done. They include organization’s financial position, structure quantity and quality of management and operative personnel, product marketing position, conditions of facilities and equipment, marketing capability, research and development capacities and past objectives and strategies. They can all be grouped as structure, resources, culture operations, and values.

The major task of strategic analysis is concerned with an organization taking a view of itself in order to assesses its current strategic position. The task also involves matching the internal variables with the external environment. The whole process is called SWOT analysis, SWOT is an acronym for the analysis of an organization’s Strengths, Weaknesses, Opportunities and Threats. SWOT analysis consists of evaluating an organization’s internal strengths and weaknesses as related to its external opportunities and threats. This process centres on five questions as enumerated by Thompson and Strickland. The questions are: how well is the present strategy working? What are the organization’s strengths, weaknesses, opportunities and threats? Is the organization
competitive on costs? How strong is the organization’s competitive position? What strategic issues does the organization face?

The matching of strengths and weaknesses against threats and opportunities is shown in the figure below.

**Figure 6: SWOT Analysis**

```
          Y

          Threats

          Internal Variable

          X

          Opportunities

          Weakness

Source: Luffman, Sanderson, Lea and Kenny, 1991
```

The area above the X-axis represents the external variables. Among these variables are the remote and the industry variables, which are the sources of threats and opportunities. The internal variables are the functional business areas, which are the sources of strengths and weaknesses. Accordingly, the internal strengths are matched to the external opportunities before deciding on whether to pursue or drop the envisaged opportunities. Equally, the weaknesses are matched to the external threats to enable the organization ascertain its capabilities of dealing with the threats.
2.6 Environmental Issues Analysis

Scanning or browsing behavior is influenced by external factors such as environmental turbulence and resource dependency, organizational factors such as the nature of the business and the strategy pursued information factors such as the availability and quality of information, and personal factors such as the scanner's knowledge or cognitive style. Thus, many research studies on scanning investigate the effect of situational dimensions, organizational strategies, information needs, and personal traits on scanning behavior.

Situational dimensions are often examined by measuring the perceived uncertainty of the external environment, typically in terms of the complexity and rate of change of the environment. Organizational strategies refer to the pattern of organizational actions vis-a-vis the outside environment, and two examples of well-known strategy typologies are those developed by Miles & Snow (1978) (defender, prospector, analyzer), and Porter (1985) (overall cost leadership, differentiation, focus).

Does environmental scanning improve organizational performance? Several studies suggest that this is the case. Miller & Friesen (1977) analyzed eighty-one detailed case studies of successful and failing businesses, and categorized them according to ten archetypes – six for successful and four for unsuccessful firms. The study found that intelligence-rationality factor, which comprises environmental scanning, controls, communication, adaptiveness, analysis, integration, multiplicity, and industry experience, was by far the most important factor in separating the successful companies from the unsuccessful, accounting for more than half of the observed variance. The environmental scanning and intelligence activity in all but one of successful archetypes were judged to be 'substantial' or 'concerted,' whereas the intelligence effort in the failing firms were described as 'poor' and 'weak.' Miller and Friesen observed that: “One fact is particularly worth noting. That is that the highest intelligence/rationality score amongst the failure archetypes is lower than the lowest intelligence/rationality score amongst the successful archetypes. The intelligence factor discriminates perfectly amongst failure and successful archetypes”. (Miller and Friesen 1977: 269)
Newgren et al. (1984) compared the economic performance of twenty-eight US corporations that practised environmental scanning with twenty-two non-practising firms. Performance was measured over a five-year period (1975-1980) using the firm's share price/earnings ratio, normalized by industry. Data analysis showed that scanning firms significantly outperformed non-scanning firms. The average annual performance of the scanning firms was also consistently better than the non-scanning firms throughout the period. The study concluded that environmental scanning and assessment has a positive influence on corporate performance. Scanning also benefits small businesses.

Dollinger (1984) analyzed the performance of eighty-two small firms and concluded that intensive boundary spanning activity was strongly related to organization's financial performance, where boundary spanning was measured by the number of contacts with outside constituencies such as customers, competitors, government officials, trade associations, and so on.

West (1988) examined the relationship of organizational strategy and environmental scanning to performance in the US foodservice industry. Data were collected from sixty-five companies over the period 1982 to 1986. Strategy was classified according to Porter's (1985) typology of product differentiation, low-cost leadership, and niche focus. The study found that strategy and environmental scanning had a substantial influence on the firm's return on assets and return on sales. High-performing firms in both differentiation and low cost strategies engaged in significantly greater amounts of scanning than low-performing firms in those two strategic groups.

Daft et al.'s 1988 study of scanning by chief executives found that executives of high-performing firms (those with higher return on assets) increased the frequency, intensity, and breadth of their scanning as external uncertainty rose.

Subramanian and his associates studied scanning and performance in US Fortune 500 companies and found support for a relationship between performance, measured by profitability and growth, and advanced scanning systems: firms using advanced systems
to monitor external events showed higher growth and profitability than firms that did not have such systems (Subramanian et al., 1993).

Subramanian led another recent study of over 600 hospitals of the American Hospital Association which concluded that hospitals with the more sophisticated scanning functions performed significantly better than hospitals which used less advanced or basic methods to monitor the environment (Subramanian et al., 1994). The sophisticated scanners scored high in their ability to obtain information and their ability to use the scanning information in the strategic planning process. These hospitals performed better in terms of occupancy rates and per bed expenditures.

The benefits of scanning are not solely economic or financial. In an in-depth case study of environmental scanning at the Georgia Center for Continuing Education, Murphy (1987) concluded that scanning is an important component of the organization's strategic planning process, improving the Center's ability to react to and implement change in response to external factors. Furthermore, scanning has also contributed to increased communication among the line and staff personnel of the organization, and greater employee involvement in the decision making process.

Ptaszynski (1989) examined the effect of the introduction of environmental scanning in another educational organization. The study found scanning to have a positive effect on the organization in these areas: communication, shared vision, strategic planning and management, and future orientation. The most significant effect was that scanning provided a structured process which encouraged people to regularly participate in face-to-face discussions on planning issues. As a result, the organization was able to develop a number of strategic options that could be used proactively to cope with external change.

Despite its importance, our theoretical understanding of organizational scanning remains limited. Although all forms of scanning necessarily involve the seeking and use of information about the environment, different organizations operating in different environments may be expected to scan quite differently. Aguilar (1967) identified four modes of managerial scanning based on his field research. Daft & Weick (1984) and
Weick & Daft (1983) build on Aguilar's work and develop a general model of organizational scanning based on the two dimensions of environmental analyzability ('can we analyze what is happening in the environment?') and organizational intrusiveness ('do we intrude actively into the environment to collect information?')

Daft and Weick (1984) suggest that organizations differ in their modes of scanning, depending on management's beliefs about the analyzability of the external environment, and the extent to which the organization intrudes into the environment to understand it. An organization that believes the environment to be analyzable, in which events and processes are determinable and measurable, might seek to discover the 'correct' interpretation through systematic information gathering and analysis. Conversely, an organization that perceives the environment to be unanalyzable might create or enact what it believes to be a reasonable interpretation that can explain past behavior and suggest future actions.

Duncan (1972) identified dimensions of the environment that would determine its perceived uncertainty: the simple-complex dimension (the number of environmental factors considered in decision making) and the static-dynamic dimension (the degree to which these factors change over time). Decision makers in environments that are dynamic and complex experience the greatest amount of perceived environmental uncertainty. Empirical research on scanning suggests that managers who experience higher levels of perceived environmental uncertainty tend to do a larger amount of environmental scanning (Choo, 2001).

Daft and Weick (1984) hypothesize that differences in organizational intrusiveness are due to the degree of conflict between the organization and its environment. They cite Wilensky's argument that when the environment is seen as hostile or threatening, or when the organization depends heavily on the environment, more resources are allocated to the scanning function (Wilensky, 1967). A hostile environment increases scanning because of new problems and the need to identify new opportunities and niches. Conversely, organizations in benevolent environments have weaker incentives to be intrusive. This line of reasoning is congruous with resource-dependency theory and institutional theory.
In resource-dependency theory (Pfeffer & Salancik, 1978), the environment is seen as a source of resources upon which the organization is dependent. Resource dependence is affected by munificence, or the abundance of resources; concentration, the extent to which power and authority in the environment is dispersed; and interconnectedness, the number and pattern of linkages among organizations in the environment. The degree of dependence would be great when resources are scarce, and when entities in the environment are highly concentrated or interconnected. An organization can manage increasing dependence by adapting to or avoiding external demands; changing the patterns of interdependence through growth, merger, and diversification; establishing collective structures to form a 'negotiated environment;' and using legal, political or social action to form a 'created environment.' (Pfeffer & Salancik, 1978) Thus, 'managers are manipulators and schemers vis-a-vis their environments.' (Aldrich, 1999: 65)

Institutional theory (Powell & DiMaggio, 1991) generally regards organizations as being 'forced to respond to, adapt to, or imitate the ebb and flow of normative and regulatory currents in their environments.' (Aldrich, 1999: 49) Organization-environment relations are described by verbs that carry the connotation that environments dominate or overpower organizations: change is imposed, authorized, induced, imprinted, and incorporated (Scott, 1987).

In addition to the relationship with its environment, the organization's overall business strategy may be related to the sophistication, scope, and intensity of its intrusiveness. An organization that pursues a particular strategy, such as a product differentiation, cost leadership, or focus strategy (Porter, 1985), or adopt a certain strategic stance, such as prospector, analyzer, or defender (Miles & Snow, 1978), is likely to adopt a scanning mode that provides the required information and information gathering capabilities to pursue its desired strategy.

An organization processes information to make sense of its environment, to create new knowledge, and to make decisions (Choo, 1998). Sense making is induced by changes in the environment that create discontinuity in the flow of experience engaging the people and activities of an organization. People enact or actively construct the environment that
they attend to by bracketing experience, and by creating new features in the environment (Weick, 1995).

Organizational sense making can be driven by beliefs or by actions (Weick, 1995). In belief-driven processes, people start from an initial set of beliefs that are sufficiently clear and plausible, and use them as nodes to connect more and more information into larger structures of meaning. People may use beliefs as expectations to guide the choice of plausible interpretations, or they may argue about beliefs and their relevance when these beliefs conflict with current information. In action-driven processes, people start from their actions and grow their structures of meaning around them, modifying the structures in order to give significance to those actions. People may create meaning to justify actions that they are already committed to, or they may create meaning to explain actions that have been taken to manipulate the environment.

An organization possesses three kinds of knowledge: tacit knowledge, explicit knowledge and cultural knowledge. Tacit knowledge is the personal knowledge that is learned through extended periods of experiencing and doing a task, during which the individual develops a feel for and a capacity to make intuitive judgements about the successful execution of the activity. Explicit knowledge is knowledge that is expressed formally using a system of symbols, and may be object-based or rule-based. Cultural knowledge consists of the beliefs an organization holds to be true based on experience, observation, reflection about itself and its environment. Over time, an organization develops shared beliefs about the nature of its main business, core capabilities, markets, competitors, and so on. These beliefs then form the criteria for judging and selecting alternatives and new ideas, and for evaluating projects and proposals. (Nonaka & Takeuchi, 1995).

In the process mode (Mintzberg et al., 1976), when strategic goals are clear but the methods to attain them are not, decision making becomes a process that is highly dynamic, with many internal and external factors interrupting and changing the tempo and direction of the decision process. In the political mode (Allison & Zelikow, 1999), goals are contested by interest groups but procedural certainty is high within the groups: each group believes that its preferred alternative is best for the organization.
Undirected viewing, a term first used by Aguilar (1967), takes place when the organization perceives the environment to be un-analyzable and so does not intrude into the environment to understand it. Information needs are ill-defined and fuzzy, and much of the information obtained is non-routine or informal, usually gained through chance encounters. Since the environment is assumed to be un-analyzable, the organization is satisfied with limited, soft information and does not seek comprehensive, hard data. Information seeking is thus casual and opportunistic, relying more on irregular contacts and casual information from external, people sources. Information use is concerned primarily with reducing the high levels of environmental equivocality.

Weick (1979) suggests that to resolve equivocality, organizations use assembly rules to shape data into a collective interpretation. The greater the equivocality, the fewer the number of rules activated because of uncertainty about what the information means. At the same time, arriving at a common interpretation requires many cycles of information sharing.

In some situations, issues are imposed by the external environment, as when government agencies, industry associations, consumer groups or other stakeholders bring forth areas of concern. Knowledge that is used in undirected viewing is based on tacit beliefs that the complexity, opacity and dynamism of the environment are such as to render it un-analyzable. These beliefs are shared by the organization’s members and can remain unspoken and unexamined. There is little by way of a stable stock of knowledge that can be called upon to interpret and make sense of changes in the environment. Decision making has to deal with high levels of uncertainty and ambiguity, and Daft & Weick (1983) suggested that coalition building may be necessary for management to rally around a particular interpretation and a single course of action. Alternatively, a strong, powerful leader may choose the course of action. Overall, the modus of learning in undirected viewing is one of stimulus-and-response: the organization maintains its status quo until a strong stimulus is recognized and necessitates a response.

Conditioned viewing, again from Aguilar (1967), occurs when the organization perceives the environment to be analyzable but is passive about gathering information and
influencing the environment. Information needs focus on a small number of relatively well-defined issues or areas of concern. These are often based on widely-accepted industry assumptions and norms. Information seeking makes use of standard procedures, typically employing internal, non-people sources, with a significant amount of data coming from external reports, databases, and sources that are highly respected and widely used in the industry. Thus, viewing is conditioned in the sense that "it is limited to the routine documents, reports, publications, and information systems that have grown up through the years." (Daft & Weick, 1984: 289) Because the environment is assumed to be knowable, there is less need for equivocality reduction, with a greater number of rules that can be applied to assemble or construct a plausible interpretation.

Decision making in conditioned viewing is likely to resemble that of the boundedly rational model. Decisions are mostly programmed (March & Simon, 1993), following standard procedures and premises derived from past experience. Representation of the decision situation is simplified, search is 'satisfying', and procedures are structured by rules and routines. These rules may be adopted from standard industry practice or developed from the firm's own experience. Overall, the modus of learning in conditioned viewing is for the organization to use its existing knowledge about what is important in the environment to focus its scanning and action taking.

An illustration of conditioned viewing gone awry is provided by a recent analysis of the computer disk drive industry (Christensen, 1997). Several generations of disk drive manufacturers were highly focused on listening carefully to their largest customers, and failed to see how new technologies that were rejected by their best customers, had in fact appealing features to new customers, which expanded into new market segments. Thus, while one advantage of conditioned viewing is having established procedures and mental model to structure the scanning process, the disadvantage is that these rules and routines might miss detecting the emergence of new, possibly disruptive technologies or developments.

Enacting takes place when the organization perceives the environment to be un-analyzable but then proceeds to intrude actively into the environment in order to
influence events and outcomes. Information needs are those required for experimentation and testing the environment. This could involve identifying areas for fruitful intervention. Information seeking is from external sources and channels that the organization has created through its intervention and this may include feedback about the actions that the organization has taken. Enacting organizations "construct their own environments. They gather information by trying new behaviors and seeing what happens. They experiment, test, and stimulate, and they ignore precedent, rules, and traditional expectations." (Daft & Weick, 1984: 288) Information use is focused on the actions that have been taken, and this information is used to reduce equivocality as well as to test existing rules and precedents.

An example of enacting would be a firm that introduces and markets a new product based on what it thinks it can sell, rather than waiting for research to assess market demand. Another example would be an organization that actively influences and shapes the attitudes of its shareholders: it may try to 'manipulate shareholder perceptions toward itself, environmental issues, or political candidates by sending information to shareholders through various media.' (Daft & Weick 1984: 290) In today's network economy, organizations with an Internet presence have been using the World Wide Web as a channel for innovative ways of enacting their environment. For example, they have given away free products and services (browser software, open-source code, search engines) to test new products or increase market share; hosted on-line forums and communities to promote discussion and drum up support for issues; and created new Web sites to disseminate information as well as collect feedback on topics of interest.

Daft and Weick (1984) suggest that decision making in enacting follows the process model described by Mintzberg et al., (1976): the organization decides on a course of action, designs a custom solution, tries it, and recycles the process if the solution does not work. Decision making processes tend to be phased and incremental, involving iterative cycles of design and trial-and-error (Mintzberg et al., 1976). In addition to the process model, we may also expect the decision process to resemble that of the anarchic mode presented earlier. Here, actions are not goal-driven but are taken in order to discover goals. Decisions happen when solutions (enactments) appear to work and they become
attached to problems. Overall, the modus of learning in enacting is for the organization to learn by doing – by trying out new actions in order to reveal new goals and methods.

According to Daft and Weick, searching takes place when the organization perceives the environment to be analyzable and it actively intrudes into the environment to collect an accurate set of facts about the environment. Information needs are based on well-defined search goals that are broad, detailed, and open-ended. The organization is prepared to be surprised by unexpected findings that reveal new information needs. Information seeking is for hard, formal, often quantitative data, typically from surveys, market research activities that are rigorous, objective. The organization is likely to have its own scanning unit whose staff systematically analyzes data to produce market forecasts, trend analysis, and intelligence reports. There are important differences between conditioned viewing and searching. Information seeking and use in conditioned viewing is restricted to a few issues; routinized; and based on received knowledge. On the other hand, searching is broad, open, and based on a willingness to revise or update existing knowledge. Decision making is based on logical, rational procedures, often including systems analysis and quantitative techniques.

An example of formalized searching would be Motorola's strategic intelligence system, one of the first to be established in corporate America in the 1980s. To develop the system, Motorola hired Jan Herring, a professional intelligence officer who later helped to found the Society for Competitive Intelligence Professionals. Herring designed the scanning system as follows. The corporate intelligence office maintained the central database, coordinated collection and served as the clearing house for strategic intelligence reporting, led the corporate-wide analysis projects, and supported operational divisions' intelligence activities. The operating divisions, on the other hand, ran their own operational or tactical intelligence collection, performed division-level analysis, and supported corporate collection and analysis efforts. A high-level policy committee, comprising all group vice presidents and chiefs of headquarters functions, assigns intelligence priorities to the unit. The staff of the corporate office is highly trained, some with both intelligence and business experience, and they analyze the information collected to arrive at and recommend alternative courses of action. Strong emphasis is
placed on foreign intelligence. Motorola is one of the few US companies that systematically monitors technology developments in Japan, making large investments in obtaining technical literature, learning the language, and developing long-term relationships with Japanese researchers and organizations. (Sutton, 1988, Gilad, 1994, Penenberg & Barry, 2000).

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

2.7. Conceptual Framework

Environmental scanning is the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action. (Aguilar, 1967, Choo & Auster, 1993) Organizations scan the environment in order to understand the external forces of change so that they may develop effective responses which secure or improve their position in the future.

SWOT analysis is a systematic identification of the internal strengths and weaknesses and the environmental opportunities and threats facing an organization and the strategy that reflects the best match between them. It is based on the logic that an effective strategy maximizes business strengths and opportunities while at the same time minimize its weaknesses and threats (Pearce and Robinson 2002). This study will attempt to establish the relationship between the level of environmental scanning and strategic choice as shown below.
Figure 7: Environmental Variables Influencing Strategic Choice

<table>
<thead>
<tr>
<th>Environmental scanning</th>
<th>Strategic choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Macroeconomic trend analysis</td>
<td>• Generation of alternatives</td>
</tr>
<tr>
<td>• SWOT analysis</td>
<td>• Selection of alternatives</td>
</tr>
<tr>
<td>• Issues analysis</td>
<td>• Types of alternatives</td>
</tr>
<tr>
<td>• Industry and uncertainty assessment</td>
<td></td>
</tr>
</tbody>
</table>

Independent Variables

Dependent variable

The internal environment of an organization consists of strengths and weaknesses of that organization. They include organization’s financial position, structure quantity and quality of management and operative personnel, product marketing position, conditions of facilities and equipment, marketing capability, research and development capacities and past objectives and strategies.

The external environment consists of economic, political, legal, demographic, technological changes, social and industry variables. Glueck and Juauch (1998) defined the term industry as a set of firms, which are in competition with one another for customers of goods and services, and rely upon others that supply critical inputs.

A company’s strategy is defined by the multiple and varied choices it makes. The figure above shows the environmental scanning concepts that influence strategic choices. These concepts are macro-economic trend analysis, micro-environment uncertainty assessment, SWOT analysis and other environmental issues analysis.

Situational dimension often examined by measuring the perceived uncertainty of the external environment typically in terms of complexity and rate of change in the environment. Organizational strategies refer to the pattern of the organizational actions vis-à-vis the outside environment, and two examples of well known strategy typologies are those developed by Miles and Snow (1978) (defender prospector analyzer) and Potter (1985) overall cost leadership, differentiation, focus).
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design
The research design was a descriptive survey. A questionnaire was developed to test the relationship between the level of environmental scanning and strategic choice in Health Management Organizations.

Miles and Hurberman (1994) defined the function of descriptive survey design as the clarification of relationship between variables and componential elements of the research problem.

3.2 Population
The study was based on a population of 23 Health Management Organizations located in Nairobi County. The sampling frame was of a list of 22 HMOs registered under the Insurance Act Cap 487 laws of Kenya. (See Appendix 111, page 50).

3.3 Sample Design
Stratified sampling procedures assured the researcher that the sample was representative of the population in terms of certain critical factors that have been used as a basis of stratification. HMOs had been classified by the Insurance Act into Brokers selling medical insurance underwritten by insurance companies, those that manage funds on behalf of clients to pay for medical claims incurred and receive a fee from the clients for the service and those that cover their clients and reinsure with insurance/reinsurance companies (these also undertook health management of their clients by operating their own clinics).

3.4 Data Collection
Primary data collection method was used. A questionnaire designed to test the hypothesis of the study was applied. The heads of departments directly involved in strategy such as Marketing, Research and Development and Information Technology (IT) were targeted. The questions framed covered macroeconomic trend analysis, uncertainty assessment,
SWOT analysis, environmental issues analysis and strategic choice. Likert Scale with a series of statements describing 'opinion' on the above issues was used to measure attitude.

3.5 Data Analysis
Descriptive statistical technique was used to describe the data collected from the sample. The mean, median and standard deviation were calculated. Regression analysis model was then applied to show the relationship between the level of environmental scanning and strategic choice. The regression model followed the formula below.

\[ SC = \beta_0 + \beta_1 Tr + \beta_2 Sw + \beta_3 Ia + \beta_4 Ua + Ei \]

Where:
- \( \beta_0 \) = Constant
- \( \beta_1 \ldots \beta_4 \) = Unknown parameters
- \( Tr \) = Macroeconomic Trend Analysis
- \( Sw \) = SWOT Analysis
- \( Ia \) = Environmental Issues Analysis
- \( Ua \) = Uncertainty Assessment

Strength of the relationship = value \( r^2 \)

Anova was used to test the significance of the model.

3.6 Data Presentation
The data collected and analyzed was presented in tables. Frequencies and percentages were used to show the number and proportion of occurrence of a particular phenomenon in study. Arithmetic mean was computed to point out the level where most respondents fall on the likert scale. Standard deviation showed the variation among the respondents' answers.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

4.1 Introduction
This chapter presents analysis of the data collected from the field and a discussion of the main study findings. The general objective of the study was to determine the relationship between the level of environmental scanning and strategic choice in Health Management Organizations. The study had four specific objectives which were to establish the relationship between the extent of trend analysis and strategic choice in Health Management Organizations, to establish the relationship between the level of SWOT analysis and strategic choice in Health Management Organizations, to establish the relationship between the level of environmental issues analysis (legal, political, and government policies) and strategic choice in Health Management Organizations, and to establish the relationship between uncertainty assessment and strategic choice in Health Management Organizations.

In this chapter there are two sections, first section presents the demographic data for the population and the second section presents the results of the study which is organized along the research questions. A conclusion and discussion of the study is presented in chapter five.

4.2 Response rate
During the study, twenty two questionnaires were administered to solicit responses and eighteen were received back. This represents eighty two percent response rate.

4.3 Demographic Data of the Respondents
Analysis of the respondents is important since it provides the description on the nature of the subjects in the sample with regard to their positions, time in service, department name and size among others.
4.3.1 Title of interviewee
In order to get accurate and reliable data, the researcher solicited responses from employees who were holding management positions. Emails were mainly sent to departmental heads. The table below explains it.

<table>
<thead>
<tr>
<th>Title</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>18</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher, 2012

From the above table 4.1, 100% of the respondents were managers’

4.3.2 Respondent’s Department
The survey here was to establish headed by the respondent. The table below gives a breakdown of the departments headed by the respondents.

<table>
<thead>
<tr>
<th>Department Categories</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>2</td>
<td>11.1</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>Customer relations</td>
<td>4</td>
<td>22.2</td>
<td>22.2</td>
<td>33.3</td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
<td>16.7</td>
<td>16.7</td>
<td>50.0</td>
</tr>
<tr>
<td>Sale and Marketing</td>
<td>2</td>
<td>11.1</td>
<td>11.1</td>
<td>61.1</td>
</tr>
<tr>
<td>ICT</td>
<td>1</td>
<td>5.6</td>
<td>5.6</td>
<td>66.7</td>
</tr>
<tr>
<td>Product Development</td>
<td>4</td>
<td>22.2</td>
<td>22.2</td>
<td>88.9</td>
</tr>
<tr>
<td>CEO/Managing Director</td>
<td>2</td>
<td>11.1</td>
<td>11.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total Aggregate</td>
<td>18</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher, 2012

The above frequency table 4.2 shows that most of the manager respondents are from customer relations and product development department 22.2% (n=4,) each from the frequency and percent column respectively.
4.3.3 Experience in Position and Department

The respondents were asked to state the number of years worked in the department and position they occupy presently. The following response analysis was done.

Table 4.3 Time in position

<table>
<thead>
<tr>
<th>Years in categories</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less 5</td>
<td>7</td>
<td>38.9</td>
<td>38.9</td>
<td>38.9</td>
</tr>
<tr>
<td>5 - 10</td>
<td>8</td>
<td>44.4</td>
<td>44.4</td>
<td>83.3</td>
</tr>
<tr>
<td>10 - 15</td>
<td>2</td>
<td>11.1</td>
<td>11.1</td>
<td>94.4</td>
</tr>
<tr>
<td>15 - 20</td>
<td>1</td>
<td>5.6</td>
<td>5.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total Aggregate</td>
<td>18</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher, 2012

From the above table 4.3, thirty eight point nine per cent of the respondents had a working experience in the position of less than five years. Forty four point four per cent had working experience of great than five but less than ten years; eleven point one per cent of the managers had been in the position more than ten years but less than fifteen years and five point six per cent have been in the same position for less than twenty but more than fifteen years. The majority of the respondents have been holding their current position for more than five years but less than ten years.

Table 4.4 Time in Department

<table>
<thead>
<tr>
<th>Years in categories</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less 5</td>
<td>7</td>
<td>38.9</td>
<td>38.9</td>
<td>38.9</td>
</tr>
<tr>
<td>5 - 10</td>
<td>5</td>
<td>27.8</td>
<td>27.8</td>
<td>66.7</td>
</tr>
<tr>
<td>10 - 15</td>
<td>3</td>
<td>16.7</td>
<td>16.7</td>
<td>83.3</td>
</tr>
<tr>
<td>15 - 20</td>
<td>2</td>
<td>11.1</td>
<td>11.1</td>
<td>94.4</td>
</tr>
<tr>
<td>25 - 30</td>
<td>1</td>
<td>5.6</td>
<td>5.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total Aggregate</td>
<td>18</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher, 2012

Table 4.4 above shows thirty eight point nine per cent of the managers have been heading the department for less than five years, twenty seven point eight per cent more than five years but less than ten years, sixteen point seven per cent more than ten but less than fifteen. Eleven point one per cent of the managers had been in the department more than
fifteen but less than twenty years and five point six per cent more than twenty five but less than thirty years in the department.

4.3.4 Department size
The survey here was to know the number of workers in the department and hence to determine its size from the people working in the department.

<table>
<thead>
<tr>
<th>Staff ranges</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less 10</td>
<td>6</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>10 – 20</td>
<td>5</td>
<td>27.8</td>
<td>27.8</td>
<td>61.1</td>
</tr>
<tr>
<td>20 – 30</td>
<td>2</td>
<td>11.1</td>
<td>11.1</td>
<td>72.2</td>
</tr>
<tr>
<td>40 – 50</td>
<td>5.6</td>
<td>5.6</td>
<td>5.6</td>
<td>77.8</td>
</tr>
<tr>
<td>above 50</td>
<td>4</td>
<td>22.2</td>
<td>22.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total Aggregate</td>
<td>18</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher, 2012

It is evident from the table 4.5 above that the majority of the departments surveyed had a size of less than ten staff (thirty three point three per cent (n=6)). The least staff size in a department is between forty and fifty (five point six per cent (n=1)).

4.4 Descriptive analysis on the variables
4.4.1 Macroeconomic Trend Analysis
The survey done on the macroeconomic trend analysis was to determine the extent of the level of external environment scanning from the context within which the organization exist as shown in the table below.

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Descriptions Analysis</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>4.5556</td>
<td>.70479</td>
</tr>
<tr>
<td>Market trend analysis by Management Department</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>4.2222</td>
<td>.73208</td>
</tr>
<tr>
<td>Rate of ICT Market trend</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>4.1111</td>
<td>.58298</td>
</tr>
<tr>
<td>Total Aggregate</td>
<td></td>
<td></td>
<td></td>
<td>4.2963</td>
<td>.67333</td>
</tr>
</tbody>
</table>

Source: Researcher, 2012
The respondents' results on market trend analysis are shown in table 4.6 above. A likert scale of five in the first statement, where a scale of 1 represents Not at all, 2 represents Little, 3 represents Moderate, 4 represents High and 5 represents Very high. The aggregate mean score was 4.2963 while the standard deviation calculated arrived at 0.67333. The application of the above results on the likert scale showed that a majority of respondents considered the level of market trend analysis as an important factor before making a strategic choice. The standard deviation of 0.6733 showed that the variation among respondents was small.

4.4.2 SWOT Analysis

The descriptive results in the table below show how the respondents rate SWOT analysis before the choice of strategy.

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>R &amp; D rate on SWOT analysis Level</td>
<td>18</td>
<td>2.00</td>
<td>5.00</td>
<td>3.8889</td>
<td>1.02262</td>
</tr>
<tr>
<td>Management Department SWOT</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>4.0000</td>
<td>.68599</td>
</tr>
<tr>
<td>analysis rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICT SWOT analysis rating</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>4.7778</td>
<td>.80845</td>
</tr>
<tr>
<td>Total Aggregate</td>
<td></td>
<td>4.8889</td>
<td>.81902</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Survey: Researcher, 2012

It is evident from the table 4.7 above that most respondents rate SWOT analysis moderate. This is read from the total mean of 4.8889, the scale used was a likert of five with 1 = none at all, 2 = little, 3 = moderate, 4 = high and 5 = very high. From the standard deviation column, the dispersion seems to vary highly between the respondents with an aggregate of 0.81902.

4.4.3 Environmental Issues Analysis

The study sought to establish how environmental issues an independent variable influenced strategic choice in Health Management Organizations. The findings on the statements are presented in the table below.
Table 4.8 Descriptive Statistics on Environmental Issues

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Environmental issues by Marketing</td>
<td>18</td>
<td>2.00</td>
<td>5.00</td>
<td>3.50</td>
<td>.98518</td>
</tr>
<tr>
<td>ICT department</td>
<td>18</td>
<td>2.00</td>
<td>5.00</td>
<td>3.33</td>
<td>.97014</td>
</tr>
<tr>
<td>Rate of Environmental issues</td>
<td>18</td>
<td>2.00</td>
<td>5.00</td>
<td>4.00</td>
<td>1.08465</td>
</tr>
<tr>
<td>Aggregated Total</td>
<td></td>
<td></td>
<td></td>
<td>3.61</td>
<td>1.01332</td>
</tr>
</tbody>
</table>

Source: Survey (2012)

In table 4.8 above, the respondents were 18 (N column). The analysis shows that most respondents rated moderate environmental issues when considering a strategic choice. This is read from the mean of 3.6111 in the table above. The standard deviation 1.01332 shows a minimal variation between the respondents' responses.

4.4.4 Uncertainty Assessment

Table 4.9 Descriptive Statistics on Uncertainty Assessment

<table>
<thead>
<tr>
<th>Statement</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Uncertainty Assessment by R &amp; D</td>
<td>18</td>
<td>2.00</td>
<td>5.00</td>
<td>3.61</td>
<td>.91644</td>
</tr>
<tr>
<td>Rate of extent of assessment by Management</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>3.89</td>
<td>.67640</td>
</tr>
<tr>
<td>Rate of Assessment Extent</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>3.89</td>
<td>.75840</td>
</tr>
<tr>
<td>Aggregate Total</td>
<td></td>
<td></td>
<td></td>
<td>3.79</td>
<td>0.7837</td>
</tr>
</tbody>
</table>

Source: Survey (2012)

The descriptive statistics from table 4.10 above shows a mean of 3.7963 meaning respondents moderately rated uncertainty assessment when choosing a strategy. The standard deviation of 0.7837 shows a minimum variation between respondent responses.

4.4.5 Operational Strategic Choice

Data on strategic choice as the dependent variable was analyzed and table 4.10 below summarizes the results of the responses.
Table 4..10 Descriptive Statistics on Strategic choice

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the rates of strategic choices in your department</td>
<td>18</td>
<td>2.00</td>
<td>5.00</td>
<td>4.2222</td>
<td>1.00326</td>
</tr>
<tr>
<td>The influence of strategy choice is high</td>
<td>18</td>
<td>3.00</td>
<td>5.00</td>
<td>4.2222</td>
<td>.73208</td>
</tr>
<tr>
<td>The importance rate of strategy choice is high</td>
<td>18</td>
<td>4.00</td>
<td>5.00</td>
<td>4.5556</td>
<td>.51131</td>
</tr>
</tbody>
</table>

Aggregated Total

Source: Survey (2012)

From the table 4.10 above on descriptive statistics, it is evident that the scale that was used was a likert of 5 where just like the previous 5 = very high, 4 = high, 3 = moderate, 2 = little and 1 = not at all. From mean of 4.3333 it is observed that the respondents rated highly strategic choice. The standard deviation of 0.74889 shows that there was a high variation among the respondents’ responses.

4.5 Regression Model Analysis

Linear regression was used to model the linear relationship between the level of strategic choice as the dependent variable and the independent variables which included market trends, SWOT analysis, environmental issues and uncertainty assessment. It is evident that 43.1% of the variation in strategic choice is explained by the model hence show by table 4.11 below.

Table 4.11 Model Summary of Market trends, SWOT analysis, Environment issues and Uncertainty assessment

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>R</th>
<th>Adjusted R Square</th>
<th>Std. Error</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.656a</td>
<td>.431</td>
<td>.256</td>
<td>.20336</td>
<td>.431</td>
</tr>
</tbody>
</table>

da. Predictors: (Constant), Market trends, SWOT Analysis, Environment issues, Uncertainty assessment

Source: Survey (2012)
From the model explanation in table 4.11 above, the significance proportion of variance in the strategic choice is significant as shown in significance F change column above, 0.000. $R^2 = 0.431$, $F(4, 13) = 2.459$, $P < 0.05$. The model explains 43.1% of $R^2$.

### Table 4.12 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.407</td>
<td>4</td>
<td>.102</td>
<td>2.459</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>.538</td>
<td>13</td>
<td>.041</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.944</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Industry analysis, SWOT Analysis, Micro Analysis, Issue Analysis

b. Dependent Variable: Strategic Choice

### Source: Survey (2012)

ANOVA table above reports a significant F statistic, indicating that using the model is better than guessing the mean. The model shows that the relationship is significant since the significance column show the significance to be 0.00 which is equal to the standard value of significance 0.000.

### Table 4.13 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Standardized Coefficients</th>
<th>Unstandardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>Constant</td>
<td>1.741</td>
<td>.414</td>
</tr>
<tr>
<td>Micro Analysis</td>
<td>.238</td>
<td>.117</td>
</tr>
<tr>
<td>SWOT Analysis</td>
<td>.078</td>
<td>.134</td>
</tr>
<tr>
<td>Issue Analysis</td>
<td>.080</td>
<td>.093</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>.029</td>
<td>.079</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Strategic Choice

### Source: Survey (2012)
The table 4.13 above pointed out that market trend analysis significantly predicted strategic choice, $b = 0.238$, $t (18) = 2.031$, $p < 0.05$. It contributes 24% of the total $R^2$. SWOT analysis significantly predicted strategic choice, $b = 0.078$, $t (18) = 0.623$, $p < 0.05$. It contributes 2.6% of the total $R^2$. Environmental issues analysis significantly predicted strategic choice, $b = 0.080$, $t (18) = 0.283$, $p < 0.05$. It contributes 5.43% of the total $R^2$. Uncertainty assessment significantly predicted strategic choice, $b = 0.29$, $t (18) = 0.95$, $p < 0.05$. It contributes 1.02% of the total $R^2$.

$$SC = \beta_0 + \beta_1 Tr + \beta_2 Sw + \beta_3 Ia + \beta_4 Ua + Ei$$

Where: $\beta_0 =$ Constant

$\beta_1$,$\ldots$,$\beta_4 =$ Unknown parameters

Tr = Market Trend Analysis

Sw = SWOT Analysis

Ia = Environmental Issues Analysis

Ua = Uncertainty Assessment

$$Y = 1.741 + 0.238Tr + 0.078Sw + 0.080Ei + 0.029Ua$$
5.1 Introduction
This chapter presents the summary, conclusion, recommendation and suggestions for further research. The purpose of the study was to find out relationship between the level of environment scanning and strategic choice in health management organizations.
Chapter one of this research paper dealt with the background of the study, the description of the Health Management Organization, the problem statement, objective of the study, significance of the study, limitation and conceptual frame work.

Chapter two reviewed related literature from across the globe on the strategic choices. Relevant literature was reviewed which focused on concept of strategy, strategic management, environmental scanning, forecasting and issues analysis, and micro-environmental scanning. Chapter three presented the research design and methodology and population. The chapter covered the rationale used for sample selection, and research instruments used in the survey. It also dealt with data collection procedures and methods of data analysis.

Chapter four presented the results of the study and the interpretation of the data collected. Data was presented, analyzed and discussed according to the research questions earlier formulated. Chapter five presents the summary of findings, conclusion and recommendations.

The purpose of the study was to investigate the relationship between the level of environmental scanning and strategic choice in Health Management Organization. A descriptive research design was used in the study. The sampling frame was 18 respondents. Questionnaires were applied for data collection. The data collected was analyzed; frequencies and percentages were computed to draw some inferences related to the variables investigated. The study revealed that a 100% of the respondents were managers.
5.2 Summary on the Research Objectives

This section summarizes the descriptive findings of the dependent and independent variables in Chapter Four as they appear in the conceptual framework in Chapter Two. The research here will discuss the findings based on the following research objectives.

a) To establish the relationship between the extent of trend analysis and strategic choice in Health Management Organizations.

b) To establish the relationship between the level of SWOT analysis and strategic choice in Health Management Organizations.

c) To establish the relationship between the levels of environmental issues analysis (legal, political and government policies) and strategic choice in Health Management Organizations.

d) To establish the relationship between uncertainty assessment and strategic choice in Health Management Organizations.

On analyzing the relationship between the extent of trend analysis and strategic choice in Health Management Organization, the researcher was driven towards respondents' understanding of trends in the external environment and how they would affect strategic choices in their organizations. The study revealed that most HMOs rated highly trend analysis judging from an aggregate mean of 4.30 on the likert scale of 5.

The study also sought to establish the relationship between the level of SWOT analysis and strategic choice in Health Management Organizations. The research findings indicated that the majority of respondents rated highly SWOT analysis as an important factor before making strategic choices. This is was presented by an aggregate mean score of 4.89 on the likert scale of 5.

Another objective of the study was to establish the relationship between the level of environmental issues analysis and strategic choice in Health Management Organizations. The findings indicated that most respondents moderately considered environmental issues reading from a mean aggregate score of 3.89 on the Likert scale of 5.
The final research objective was to establish the relationship between the extent of uncertainty assessment and strategic choice. The findings indicated that the management moderately rated the uncertainty assessment. A mean aggregate score of 3.79 was presented on the Likert scale of 5.

5.3 Summary of Results from the Regression Analysis
This section presents a summary of the regression analysis that was done in chapter four to determine the relationship between the level of environmental scanning and strategic choice in Health Management Organizations. The study found out from the findings presented that the level of market trend analysis, SWOT analysis, environmental issues analysis and uncertainty assessment had a positive relationship with strategic choice.

5.4 Conclusion
As a result of the observation made from the data collected, the researcher made the conclusion that there was a relationship between the level of environmental scanning and the strategic choice in Health Management Organizations.

5.5 Recommendations
Based on the findings of this study, the researcher recommends research to be carried out to establish the extent to which strategic choices made as a result of changes in the external environment influenced the success or failure of Health Management Organizations.

5.6 Suggestions for further Studies
The current study limited itself to Health Management organizations.

- A study covering other industries in Kenya should be considered on the relationship between the level of environment scanning and strategic choice to determine whether the experiences learnt from the HMO industry apply to other sectors.
• Additionally, a study on whether there are other motivational factors the drive managers to choose certain strategies other than the options presented by environment scanning ought to be considered.
REFERENCES


Blackwell publishers’ Inc.


APPENDIX I

LETTER OF INTRODUCTION

March, 1st 2012

Dear Respondent,

RE: MBA RESEARCH PROJECT

I am a postgraduate student in the School Business, Kenyatta University. I am conducting an industry survey on the Relationship between the Level of Environmental Scanning and Strategic Choice in Health Management Organizations (HMOs).

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

A copy of the final report will be available upon request. Your assistance and co-operation will be highly appreciated.

Yours Sincerely,

Kiprop H. Cherono

Student
APPENDIX II
QUESTIONNAIRE

SECTION A: Bio Data

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

SECTION B: Research and Development Department

6. Has your firm developed any new product or service in the recent past?
   Yes
   No

7. How can you describe the level of analysis of market trends before launching the new product or service?

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

8. Please rate the analysis level of strengths, weaknesses and opportunities of the firm before launching the new product or service?

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

9. Were other environmental issues such potential legal, political and government policies barriers or opportunities considered before launching the new product or service? Please rate the extent of consideration.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
10. Was uncertainty assessment such as forecasting, ability to predict the future and ease of information gathering considered before launching the new product or service? Please rate the extent of assessment.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

SECTION C: Marketing Department

11. Has your firm launched any new market or branch in the recent past?

Yes
No

12. How can you describe the level of analysis of market trends before launching the new market or branch?

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

13. Please rate the analysis level of strengths, weaknesses and opportunities of the firm before launching the new market or branch?

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

14. Were other environmental issues such potential legal, political and government policies barriers or opportunities considered before launching the new product or service? Please rate the extent of consideration.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
15. Was uncertainty assessment such as forecasting, ability to predict the future and ease of information gathering considered before launching the new market or branch? Please rate the extent of assessment.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

SECTION D: ICT Department

16. Has your firm acquired or implemented any new system or reviewed its business processes in the recent past?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

17. What was the extent of analysis of market trends before acquiring the new system or reviewing existing business processes?

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

18. Please rate the analysis level of strengths, weaknesses and opportunities of the firm before acquiring the new system or reviewing existing business processes?

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

19. Were other environmental issues such potential legal, political and government policies barriers or opportunities considered before acquiring the new system or reviewing existing business processes? Please rate the level of consideration.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
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<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
20. Was uncertainty assessment such as forecasting, ability to predict the future and ease of information gathering considered before acquiring or implementing the new system? Please rate the extent of assessment.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Little</th>
<th>None at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
# APPENDIX III

## LIST OF HEALTH MANAGEMENT ORGANIZATIONS IN KENYA

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Address</th>
<th>Principal Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aar Health Services Limited</td>
<td>Box 41766-00100, Nairobi</td>
<td>Jagi Gakunju</td>
</tr>
<tr>
<td>Acropolis Insurance Brokers Limited</td>
<td>Box 1157-00606, Nairobi</td>
<td>Naresh Shah</td>
</tr>
<tr>
<td>Alexander Forbes Healthcare Limited</td>
<td>Box 309-00621, Nairobi</td>
<td>Benard A. Osure</td>
</tr>
<tr>
<td>Aon Minet Insurance Brokers Limited</td>
<td>Box 48279-00100, Nairobi</td>
<td>Joseph N. Onsando</td>
</tr>
<tr>
<td>Bhanji &amp; Associates Limited</td>
<td>Box 46857-00100, Nairobi</td>
<td>Moyez Sadrudin Bhanji</td>
</tr>
<tr>
<td>Chester Insurance Brokers Limited</td>
<td>Box 66795-00800, Nairobi</td>
<td>Yatin Bansilal Shah</td>
</tr>
<tr>
<td>Clarkson Notcutt Insurance Brokers Limited</td>
<td>Box 30279-00100, Nairobi</td>
<td>Dorothy Ngendo Githui</td>
</tr>
<tr>
<td>Discovery Health East Africa Limited</td>
<td>Box 30446-00100, Nairobi</td>
<td>Douglas M. Machuka</td>
</tr>
<tr>
<td>Eagle Africa Insurance Brokers Kenya Limited</td>
<td>Box 30076-00100, Nairobi</td>
<td>Samuel N. Ncheeri</td>
</tr>
<tr>
<td>Executive Healthcare Solutions</td>
<td>P.O. Box 51343, Nairobi</td>
<td>Charles Omare Adero</td>
</tr>
<tr>
<td>Goldstar Healthcare Limited</td>
<td>Box 1017-00606, Nairobi</td>
<td>Nitinchandra Ratilal Patel</td>
</tr>
<tr>
<td>H S. Jutley Insurance Brokers Limited</td>
<td>Box 59915-00200, Nairobi</td>
<td>Harjinder S. Jutley</td>
</tr>
<tr>
<td>Healthline Solutions Limited</td>
<td>Box 903-00606, Nairobi</td>
<td>Imran Chaudhry</td>
</tr>
<tr>
<td>J.W. Seagon And Company Limited</td>
<td>Box 16658-00620, Nairobi</td>
<td>David J. Seagon</td>
</tr>
<tr>
<td>Kenbright Healthcare Administrators Ltd</td>
<td>Box 28281-00200, Nairobi</td>
<td>Edwin Odanga Okanga</td>
</tr>
<tr>
<td>Liaison Group (Insurance Brokers) Ltd</td>
<td>Box 58013-00200, Nairobi</td>
<td>Thomas Mulwa</td>
</tr>
<tr>
<td>Life care International Insurance Brokers Limited</td>
<td>Box 59789-00200, Nairobi</td>
<td>Gulshan Velji</td>
</tr>
<tr>
<td>Company Name</td>
<td>Address</td>
<td>Principal Officer</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>----------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Mutual Trust Insurance Agencies Limited</td>
<td>Box 13875-00800,Nairobi</td>
<td>Zainul Mohamed</td>
</tr>
<tr>
<td>Pacific Insurance Brokers (Ea) Limited</td>
<td>Box 50565-00200,Nairobi</td>
<td>Jacinta Karita</td>
</tr>
<tr>
<td>Planned Health Care Limited</td>
<td>Box 484445-00100,Nairobi</td>
<td>Gerald Kaimenyi, Muriungi</td>
</tr>
<tr>
<td>Resolution Health East Africa Limited</td>
<td>Box 4469-00100,Nairobi</td>
<td>Peter K. Nduati</td>
</tr>
<tr>
<td>Sobhag Insurance Brokers Limited</td>
<td>Box 148-30100,Nairobi</td>
<td>Sobhag Chand Shah</td>
</tr>
<tr>
<td>Starlit Insurance Brokers Limited</td>
<td>Box 10778-00100,Nairobi</td>
<td>Karim B. Jamal</td>
</tr>
</tbody>
</table>
## APPENDIX IV

### RESEARCH PROJECT BUDGET SCHEDULE

<table>
<thead>
<tr>
<th>Item</th>
<th>Quantity</th>
<th>Unit Cost (Ksh)</th>
<th>Estimate Cost (Ksh)</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Fuel</td>
<td>33 litres</td>
<td>112</td>
<td>10,000</td>
<td>5 trips to Kenyatta University to meet supervisor and visits to HMOs to collect data</td>
</tr>
<tr>
<td>Parking Fees</td>
<td>5 times</td>
<td>200</td>
<td>2,000</td>
<td>Parking cost while collecting data</td>
</tr>
<tr>
<td>Printing and Stationery</td>
<td></td>
<td></td>
<td>8,000</td>
<td>Printing of research questionnaires and binding of research paper</td>
</tr>
<tr>
<td>Telephone Charges</td>
<td></td>
<td></td>
<td>4,000</td>
<td>Mobile costs for to HMOs, research assistant and Supervisor</td>
</tr>
<tr>
<td>Meal costs</td>
<td></td>
<td></td>
<td>2,000</td>
<td>Lunch costs while analyzing research data</td>
</tr>
<tr>
<td>Research Assistant</td>
<td></td>
<td></td>
<td>5,000</td>
<td>Collection of data</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>31,000</strong></td>
<td></td>
</tr>
</tbody>
</table>