

## Influence of Core Competencies on Health Organization's Competitive Advantage: A Case of Kericho District Hospital

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### Abstract

*The purpose of this research was to evaluate the core competencies and how it influences competitiveness in healthcare sector. The specific objectives were to examine the influence of cost, human resource, and physical resources (equipment) and product differentiation (how the service is packaged and delivered) on the competitiveness of the healthcare organization. The research was based on a quantitative research approach and targeted the Health Management Team and the organization's clients. A sample of 623 patients and 30 Health Management Team was used. Data was gathered by use of self-administered questionnaires then analyzed by use of descriptive statistics. The findings indicated that core competencies aid Kericho District Hospital to gain a competitive edge against its competitors. The study also noted that for the hospital to be successful it has to use a combination of various competencies, no competency can be applied in isolation however important it might be. The study concluded that the hospital can stay ahead of the pack, if it maximizes its outputs through use of unique resources that it possesses, the highly competent set of human skills and through ensuring that the services are offered at the lowest price possible.*

**Keywords:** Health Management, Core Competencies, Competitive Advantage

### 1. Background of the study

The health sector has been undergoing major evolutions in the recent past. Initially health institutions received a large percentage of their funding from the government hence hospitals did not see any need to be self-sustaining. However, the budget allocated to the health sector has been going down hence the need to put strategies in place so as to remain in business. The ministry of health faced financial crisis in the 1980s and early 1990s which led to the publishing of the Kenya Health Policy Framework Paper in 1994, which envisions providing "quality health care that is acceptable, affordable, and accessible to all" in Kenya by 2010, according to Luoma *et al*, (2010). With decentralization as the guiding strategy for managing the country's health care needs, the policy framework has been implemented through three five-year plans. The first National Health Sector Strategic Plan covered the period from 1999-2004, and the second covers the period from 2005-2010 and the third covers the year 2011 to 2015.

According to Collins *et al* (1996), Kenya Ministry of Health (MOH) introduced a cost sharing program in December 1989. Early implementation problems led to

the suspension in September 1990 of the outpatient registration fee, the major revenue source at the time. In 1991, the Ministry initiated a program of management improvement and gradual re-introduction of an outpatient fee, but this time as a treatment fee. Cost sharing is major source of income to most public hospitals and for services to be sustained, public hospitals have to increase revenue collected from cost sharing. Counties have set revenue targets for hospitals and thus the need to attract new clients. Public health institutions find themselves competing with private health institutions for the market in order to achieve revenue targets.

In the current environment, it is important to be able to position public health organizations based on its maneuvers and capabilities. The Case Organization is a Health organization and offers a wide range of health services. Its products are designed to provide wellness to its clients. The central question is how the Case Organization would be able to sustain its credibility by using capabilities and competencies that it possesses so as to attract more clients and raise revenue which will further help in improving the services offered by the organization.

This research sought to explore the core competencies and the ones which ones should be applied. Strong support exists for the development of

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competencies that provide unique advantage. This argument suggests that unless unique competencies provide a source of competitive advantage and add value to an organization's customer relationships, the organization will not have needed skill, behavior and knowledge advantages.

### 1.1 Statement of the problem

With reducing budgetary allocations and constrained resources, public health institutions are expected to raise revenue to be able to provide services to its clients. According to Chuma and Maina (2012), the unpredictable budgetary allocations leave many health care managers at a loss on what to do so as to provide the much needed services to its clients without interruption. Most public hospitals only attract the low class and the lower middle class. The upper middle class and the upper class seek services from private hospitals. This research was aimed at analyzing the core competencies that Kericho District Hospital possesses and suggesting ways through which the organization can remain competitive.

With devolution of health services, Kibua, and Mwabu, (2008) noted that there was a rising demand among the citizens. Many counties are struggling with increasing cost of providing care, inconsistency in the quality of care provided and managing demands from citizens. The counties are also struggling with the fact that the middle class and the upper class citizens seek health care services from private health providers leaving public health institutions for the low class and the lower middle class. This leads to lower revenue collection. The only way that the health organization can meet the demands of citizens and the rising expectations in service delivery is by increasing revenues collected through cost sharing. If the public health institutions would attract the middle class and the upper class, revenues collected would improve. This can only be done through leveraging its core competencies so as to achieve competitive advantage.

The public hospitals can work collaboratively to achieve new milestones in defining, measuring and delivering value, activating responsible citizens and developing new models for promoting health and delivering care, even within growing resource constraints and other challenges. This is important more than ever before as the paths of healthcare systems are increasingly unsustainable. Moreover, this will lead to a variety of strategic decisions affecting service delivery.

### 1.2 Research Objectives

The main objective of the research was to find the influence of core competencies on competitive advantage in the health care sector. A case of Kericho District Hospital

### 1.3 Specific Objectives

The study was based on the following specific objectives:-

- 1) To examine the influence of cost on competitive advantage in the health care sector.
- 2) To establish how the organization's physical resources (equipment) influence competitive advantage in the health care sector.
- 3) To determine the influence of human resource on competitive advantage in the health care sector.
- 4) To establish the influence product differentiation on competitive advantage in the health care sector.

### 1.4 Research Questions

- 1) To what extent does cost influence competitive advantage health care sector?
- 2) To what extent do available physical resources (equipment) influence competitive advantage in health care sector?
- 3) To what extent do human resources (skill mix) influence competitive advantage in health care sector?
- 4) What is the influence of product differentiation in gaining competitive advantage in health care sector?

### 1.5 Scope of the Study

This research was carried out in Kericho District Hospital, Kericho County. The research targeted the clients and the Health Management Team.

### 1.6 Limitation of the study

The study was limited to the health care sector and patients were reluctant to give feedback since they felt it was not proper to give information about the hospital. However they were assured of confidentiality and anonymity of the research and that it was purely academic in nature.

## 2. Theoretical Review/Conceptual framework

### 2.1 Theoretical review

This study is guided by two theories, resource based view theory and Porter's generic strategies.

#### 2.1.1 A review of Porter's generic strategies

Porter wrote in 1980 that strategy target either cost leadership, differentiation, or focus. Porter claimed that a company must only choose one of the three or risk that the business would waste precious resources. Porter's generic strategies detail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies.

A positional advantage, gained by positioning the firm as a cost leader or a product leader in the industry leads to sustainable competitive advantage by which an organization can create an above average value for its

customers. Cost and product advantages are known as positional advantages because they describe the firm's position in the industry as a leader in either cost or product.

Porter (2004) introduces three generic strategies to choose between when making decisions upon main strategies. Overall cost leadership requires, for example, minimization of inputs and maximization of outputs. However, low costs alone cannot be the factor for reaching a sustainable strategy. The second generic strategy, differentiation, serves brand loyalty by decreasing price sensitivity and increasing market attention vis-à-vis substitutes. Products and services in this group are found unique by customers and the strategic targets are usually industry-wide. The third generic strategy, focus, concentrates on certain customers and product areas. Strategic targets focus on a certain segment, while strategic advantages focus on reaching either a low-cost or unique market position.

Leitner and Guldenberg (2010) studies the impact of generic strategies on firm performance using a longitudinal study of small and medium-sized enterprises in Austria. The study provides little evidence whether the persistent commitment to a generic strategy over a longer period pays off or whether strategic change is the rule, reflecting their flexibility as a potential competitive advantage. The traditional generic strategies of cost-efficiency and differentiation are considered but the study also examines a group of firms that have no clear strategy or are stuck in the middle. Within this group, companies that deliberately combine traditional low cost production and differentiation, that is, follow a combination strategy, firms that change their strategy and those that have no strategy are distinguished. Leitner and Guldenberg argue that a combination strategy is a viable strategic choice in the long run. The study found that the majority of firms pursued a persistent strategy over a long period, but companies that changed their generic strategy did not produce inferior results to those that adhered to a single strategy over the entire period. The study reveals that firms that follow a combination strategy outperform companies with no generic strategy in terms of profitability and growth and achieve higher profitability than companies that follow a differentiation strategy.

Strategic management is constantly evolving as both an academic discipline and as a reflection of management practice. Stonehouse and Snowdown (2007) based on a recent interview with Michael Porter, assesses his contribution to the development of the discipline in the context of the advances that have taken place since the publication of his seminal work *Competitive Strategy* in 1980. The article concludes that Porter has made major lasting contributions to strategy, increasing both its academic rigor and its accessibility to managers. The article and interview place Porter's work at the center of the development of strategic management in terms of the provision of practical analytical frameworks, transforming

it into a recognized and recognizable field of academic study and management practice. The article advances that Porter's work continues to provide remarkable insights into the nature of competition and strategy.

Porter's generic strategy has been recognized as one of the most important theoretical frameworks in Business Science. Despite its instant recognition it has been criticized by academic and professional authors as being obsolete in the current business environment. Gurau (2007) points out that the model does not apply in the present competitive market conditions where other sources of competitive advantage are available to organizations. The study points out that there is need for a re-evaluation and re-formulation of the model in order to fit into the new competitive conditions and for it to be integrated into the new business paradigm

## 2.2 Review of the Resource Based theory

According to Wernerfelt (1984) the resource-based view (RBV) as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal. Peteraf (1993) states that to transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. If these conditions hold, the bundle of resources can sustain the firm's above average returns.

The Resource based view framework combines the internal (core competence) and external (industry structure) perspectives on strategy. Like the frameworks of core competence and capabilities, organizations have very different collections of physical and intangible assets and capabilities which Resource Based view calls resources. Competitive advantage is ultimately attributed to the ownership of a valuable resource. Resources are more broadly defined to be physical (e.g. medical equipment), intangible (e.g. skills), or organizational (e.g. routines or processes). Wernerfelt (1984) states that no two organizations have the same resources because no two organizations have had the same set of experience, acquired the same assets and skills, or built the same organizational culture.

Peteraf (1993) advises that first, it is important to identify the firm's potential key resources. Second, evaluate whether these resources are valuable. A resource must enable a firm to employ a value-creating strategy by reducing its own weaknesses. To be of value, a resource must be rare by definition. If a valuable resource is controlled by only one firm it could be a source of a competitive advantage. This advantage could be sustainable if others are not able to duplicate this strategic asset perfectly. Even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is lack of substitutability. If

competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point that the price equals the discounted future rents, resulting in zero economic profits.

An organization should also care for and protect resources that possess these evaluations, because doing so can improve organizational performance according to Crook, Ketchen, Combs, and Todd, (2008). Priem and Butler, (2001) state that characteristics mentioned are individually necessary, but not sufficient conditions for a sustained competitive advantage. Within the framework of the resource-based view, the chain is as strong as its weakest link and therefore requires the resource to display each of the four characteristics to be a possible source of a sustainable competitive advantage.

The health sector is a prominently dynamic sector and this is reflected in the ever changing health needs of the population. Mintzberg, Ahlstrand and Lampel (2005), emphasize that a strategy is an engagement between external opportunities and internal strengths, including resources and capabilities. Kaplan and Norton (2004), state that continuous, specific capability improvements and alignments with customer needs are crucial. Existing organizational capabilities form a stable foundation for competitive advantage according to Grant (1996). Kaplan and Norton (2008), and Grant (1996) put stress on a strategic long-term direction. Porter (2004) notes that many organizations prefer to concentrate on increasing operational excellence and making operative adjustments in a reactive manner while Kaplan & Norton (2008) and Mintzberg *et al.* (2005), believe that operational excellence may decrease costs, improve quality and shorten lead times, but only a strategy can lead to sustainable success. Organizational competitive advantages contain capability improvements, organizational changes and development activities.

An organization apart from having physical resources has intangible resources. Resources are divided into assets and skills. Assets, for example, medical equipment, are owned. Intangible skills hold, for instance, knowledge of employees. The three most important intangible resources are service reputation, product reputation and employee knowledge. To obtain reputation is time-consuming, but it can be lost quickly. Intangible resources include also organizational culture, leadership, knowledge management and teamwork, Kaplan and Norton (2004). The more effectively intangible resources are aligned with tangible assets and strategies, the higher their value is.

### 2.2.1 Conceptual framework

A focused cost leadership strategy requires competing based on price to target new markets. An organization that follows this strategy might or might not charge the lowest prices but instead, it charges low prices relative to other organizations within the target market.

Firms have different resource endowments that enable them to construct specific competitive advantages

over competitors. Resource endowments allow organizations to be different which and make it possible to reach new segments of the market. Thus, differentiation is the process of distinguishing the differences of a product or offering from others, to make it more attractive to a particular target market. Human resources as a resource also play a key role in the delivery of health services.

This research looked at the influence of core competencies with a specific view of physical resources (medical equipment), human resources being intangible resources (skill set), product differentiation and cost differentiation and their impact on competitive advantage gained by Kericho District Hospital.

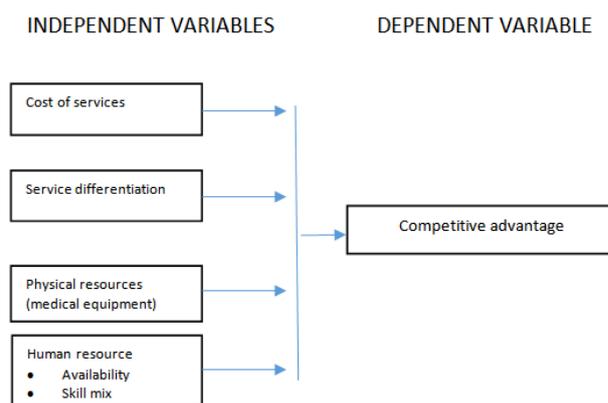


Fig 1.1: The influence of core competencies on competitive advantage

### 2.3 Review of existing literature

The core competencies that an organization possesses can aid it in gaining competitive advantage. The core competencies for instance, human resources refer to the skills owned, the number of personnel, the cost and how personnel are managed by an organization. Physical resources refer to the abundance, accessibility and quality of tangible resources for instance medical equipment. Cost advantage and product differentiation can give a competitive edge to an organization. What determines their influence on competitiveness is the degree of efficiency and effectiveness of the way they are deployed within an industry. This in turn affects directly the potential for core competencies influencing the establishment of competitive

### 3. METHODOLOGY

This study adopted descriptive quantitative research approach. A descriptive study was selected because it provided accurate portrayal or account of the characteristics, for example behavior, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group. The study population comprised of 30 members of the Health Management Team at Kericho District

Hospital and an average of 5371 clients, 697 inpatients and 4674 outpatients seen over a period of one month at the hospital. The sample size of 623 patients and 30 members of the health management team were the total of subjects who were selected to participate in the research and who met the sampling criteria during the two-month period of data collection. A questionnaire was chosen as data collection instrument. Two questionnaires were used to collect the data. One was for the patients and the other one for Health Management Team members. Questionnaires were administered by the researcher to patients and the members of the Health Management Team. Data was analyzed using descriptive statistics and presented in tables.

**4. Results and discussions**

**4.1 Analysis of specific objectives**

**Table 4.1:** Influence of service components on client visit

Services	No	Yes
Quality of services offered		
Medical equipment influence a patient to visit Kericho district hospital	7(1.1%) 29(4.7%)	605(98.9%) 583(95.3%)

Service cost influence a patient to visit Kericho district hospital	30(4.9%)	582(95.1%)
Availability of human resource influence a patient to visit Kericho district hospital	34(5.6%)	578(94.4%)

As stated above quality seems to be the main reason as to why clients chose Kericho District Hospital. 98.9 % of the clients agree that the quality of service offered at the hospital is good hence their choice of the health facility.

From the study findings, 95% of the respondents chose Kericho district hospital due to the medical equipment that the hospital owns. These equipment instilled confidence of the patients to visit Kericho district hospital for their medical needs.

From the study findings 95% of the respondents chose Kericho district hospital due to the service cost. Being a public hospital the majority of the patients are expected to be of the middle class and the lower class that face financial constraints.

From the study findings 94% of the respondents chose Kericho district hospital due to the availability of qualified human resources. As Much as some patients visited the hospital because of only one factor, most of the patients visited the hospital because of a combination of a variety of services offered.

**Table 4.2** Influence of service delivery on client visit

	SA	A	U	D	SD
The services offered are impressive	142(23.2%)	243(39.7%)	75(12.3%)	101(16.5%)	51(8.3%)
There are services that are offered by the healthcare service provider that are not offered in other organizations	402(65.7%)	185(30.2)	6(1%)	14(2.3%)	5(0.8%)
Services offered at Kericho District Hospital meet patient expectation as compared to other health care providers	279(45.6%)	194(31.7%)	79(12.9%)	45(7.4%)	15(2.5%)
The service is offered in a timely manner	113(18.5%)	271(44.3%)	105(17.2%)	01(16.5%)	22(3.6%)

**Table 4.3:** Influence of medical equipment on client visit

	SA	A	U	D	SD
The medical equipment at Kericho District Hospital possess the specialty that is required	403(65.8%)	166(27.1)	20(3.3%)	13(2.2%)	10(1.6%)
The medical equipment give the desired service	374(61.1%)	194(31.7%)	21(3.4%)	13(2.2%)	10(1.6%)
Everyone access the services offered by these equipment	293(47.9%)	259(42.3%)	15(2.5%)	34(5.5%)	11(1.8%)
The equipment gives results at a desired time	255(41.7%)	261(42.6%)	13(2.1%)	61(10%)	22(3.6%)

From the table 4.2 above 62.9% of the patients agree that the services offered at Kericho District Hospital are impressive. 12.3% were undecided while 24.8 disagreed. This shows that majority of the clients are impressed with the services that are offered by the hospital but there are a few clients that were not impressed by the service. 96% of the clients agree that there are services that are offered by Kericho District Hospital that are not offered in any other health facility. This shows that the services that are offered by the hospital are unique. The hospital has managed to gain competitive advantage through service differentiation.

From the above table 4.3, 93% of clients agree that the medical equipment possess the specialty that they require. There is clear indication that the medical

equipment at Kericho District hospital are specialized and hence are able to do various special tests that the clients require. It is also clear that the equipment give the desired service. This implies that the results that are obtained from these equipment are accurate hence will provide proper guidance to the consultant to arrive at an accurate diagnosis. This also indicates that the equipment are operated by the right staff hence the clients get the best service which influences the competitive advantage. The study found that everyone can access services offered by the equipment this was strongly agreed by 47% and agreed by 42% of the respondents making a total of 90%. This indicates that the equipment are dedicated to the service of all the patients indiscriminately.

This implies that the equipment is purposely for use by all persons in the population and is accessible irrespective of class. Most of the respondents agreed that there are services offered at Kericho district hospital that are not offered by other health facilities within Kericho. This

indicates that the Kericho District Hospital has invested in sophisticated medical equipment to ensure a competitive advantage over other health facilities. It also indicates that the hospital offers unique services (product differentiation)

**Table 4.4:** Influence of human resources on client visit

	SA	A	U	D	SD
The health workers at Kericho District Hospital act professionally	261(42.6%)	213(34.8%)	53(8.7%)	61(10%)	24(3.9%)
As compared to other health care providers, the hospital has the required specialty areas	449(73.4%)	115(18.8%)	30(4.9%)	11(1.8%)	7(1.1%)
The staff possess adequate skills to solve your problem	454(74.2%)	105(17.1%)	25(4.1%)	18(2.9%)	10(1.6%)
Clients get result that you expected after being attended to at Kericho District Hospital	417(68.1%)	133(21.7%)	26(4.2%)	20(3.2%)	16(2.6%)

**Table 4.5:** Influence of cost on client visit

	SA	A	U	D	SD
The services offered at the hospital are affordable	523(85.5%)	69(11.2%)	4((0.7%)	10(1.6%)	6(1%)
Cost is one of the reasons for visiting the hospital	154(25.2%)	264(43.1%)	4(0.7%)	112(18.3%)	78(12.7%)
Cost of services is low as compared to other health facilities	543(88.7)	52(8.5%)	2(0.3%)	15(2.4%)	0(0%)

77% of the clients agree that the staff at Kericho District Hospital act professionally. This implies that the staff are well aware of the set professional standards and treat patients in accordance with these set standards. 23% of the client though, felt that the staff do not act as they should. This means that the hospital still needs to work on improving the professional standards of the health workers. From the verbal conversations that the researcher had with the clients, the clients felt that as much as the staff were qualified and were professionals, the hospital needed to work on the attitudes of the staff. And though the attitude of the staff were wanting, they still provided the right treatment and ensured that the treatment caused no harm to the patients. 92% of the patients agreed that the hospital had specialty areas that other hospitals did not have. Among the specialty areas that the clients mentioned were Ophthalmology, urology, Internal Medicine, ENT surgery, general surgery, Pediatrics, Obstetrics and Gynecology, physiotherapy and occupational therapy. Most of the clients also agreed that the staff at the hospital had adequate skills to solve client problems and that they obtained the desired results after being attended to by the staff at the hospital.

From table 4.5, 85% strongly agreed and 11% agreed that the prices charged in Kericho district hospital are affordable. This is an indicator that Kericho District Hospital health serves the patients at a cost that is friendly to patients.

25% strongly agreed and 43% agreed that the cost charged in Kericho district hospital is the main reason why the patients visit Kericho District Hospital for their health needs. 97% of the clients agreed that the services

at the hospital are offered at a lower cost compared to other health facilities within Kericho County. This gives the hospital a competitive edge since most people would like to access services that are affordable and avoid catastrophic spending that is associated with seeking health services.

**5. Summary, conclusion and recommendations**

In summary, the hospital's competencies impact its competitiveness. The hospital has human resources that are competent and qualified. A combination of core competencies were found to be a source of competitive advantage to Kericho District Hospital

From the above finding, it can be deduced that Kericho district hospital possesses quality human resources, unique services and equipment and the cost of service is friendly. A combination of these core competencies should give the hospital a competitive edge over its competitors.

It can be concluded therefore that core competencies influences competitiveness of Kericho District Hospital. However, for the health facility to gain a competitive edge, all service components have to be improved concurrently. For the hospital to gain competitive advantage, it must analyze past trend for instance, performance using performance indicators, operational efficiency statistics, adherence to quality control standards and employee productivity statistics by use of an effective appraisal model. Comparing specific performance goals or targets with actual performance provides clues to how well the various internal areas are performing.

A comparative analysis should be carried out on the core competencies of the private and public hospitals in different counties in Kenya.

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