

**ASSESSMENT OF THE COMPETITIVE STRATEGIES OF PRIVATE  
PHARMACIES: A CASE STUDY OF LILONGWE URBAN.**

**MASTER OF BUSINESS ADMINISTRATION DISSERTATION**

**STEVEN DAVIS MATHUWA**

**UNIVERSITY OF MALAWI**

**THE POLYTECHNIC**

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A CASE STUDY OF LILONGWE URBAN**

**Master of Business Administration Dissertation**

**By**

**STEVEN DAVIS MATHUWA  
BSc (EST) - University of Malawi**

Submitted to the Department of Management Studies, Faculty of Commerce, in partial fulfillment  
of the requirements for the degree of Master of Business Administration

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**The Polytechnic**

August, 2017.

## **DECLARATION**

I declare that this Thesis is my own unaided work. It is being submitted in partial fulfillment of the requirements for the award of Executive Master of Business Administration in the University of Malawi. It has not been submitted before for any degree or examination in any other university.

Candidate: Steven Davis Mathuwa

Signature: .....

Date: .....

## **DEDICATION**

This work is dedicated to my daughters, Tadalá Michelle and Nakari Stephanie. Thank you so much for your support during the time I was doing the work.

## CERTIFICATE OF APPROVAL

We the undersigned certify that we have read and hereby recommend for acceptance by the University of Malawi, a thesis entitled “*Assessment of the competitive strategies of private pharmacies: a case study of Lilongwe urban.*”

Dean- Postgraduate : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Main Supervisor : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Co-supervisor : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Head of Department : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

## **ABSTRACT**

The business environment and government regulatory frameworks play an important role in creating a favorable context for the private sector to flourish. Firms face competition in their operating environment, whose intensity, depends on five competitive forces that include threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitutes and intensity of rivalry. Competitive strategy aims to establish a profitable position against these forces. The concept of competitive strategy is critical to the survival and success of a firm in any industry because every firm faces competition and other challenges. This study was focused on establishing the competitive strategies that have been adopted by private pharmacies in Lilongwe Urban and also the factors that influence the choice of these competitive strategies.

The study used both primary and secondary data in the study. Interview based questionnaire was administered and completed during interviews with the respondents in their business places. The results of the study were both qualitative and quantitative. Quantitative data collected using a questionnaire were also analyzed by the use of descriptive statistics using the Statistical Package for Social Sciences (SPSS) and presented through percentages, and frequencies. The information was also represented by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through use of SPSS. A total of 23 respondents were interviewed out of 26 respondents who were targeted representing 88 percent response rate.

The findings indicated that the most utilized competitive strategies were low cost leadership, differentiation and focus strategies. The study also revealed that private pharmacies in Lilongwe Urban used cooperation with other competitors as a strategy. Others employ defensive, distribution and response strategies.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

AIDS	Acquired Immuno Deficiency Syndrome
CHAM	Christian Hospitals Association of Malawi
CMST	Central Medical Stores Trust
COMESA	Common Market for Eastern and Southern Africa
DHO	District Health Office
HIV	Human Immuno Virus
MGDS	Malawi Growth and Development Strategy
MoH	Ministry of Health
NGO	Non-Governmental Organization
OTC	Over the Counter
SDM	Strategic Decision Making
SME	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
WHO	World Health Organization

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## **CHAPTER ONE**

### **Introduction and Background.**

#### **1.0 Background.**

Health care in much of Sub-Saharan Africa remains poor. Although the region accounts for 11 percent of the world's population and 24 percent of the global disease burden, yet commands less than one percent of global health expenditure World Health Organization (WHO), 2011). In resource-poor settings where the public sector is unable to provide all necessary services, the private and voluntary sectors are increasingly being called upon to fill the gap and provide the much needed health care. Global actors begun to identify new mechanisms to deliver assistance by operating through private sector organizations and experimented with new ways of working with recipient countries (WHO, 2011).

The role of the private sector in improving health services focuses on market failures affecting the private sector and the negative implications for affordability, socio-economic determinants of use, and quality (Oxfam International, 2009). Private sector health services are already present and becoming an increasingly important component of African health care systems. Private sector plays important roles that cover all aspects of the pharmaceutical value chain including provision, financing, manufacturing, distribution and retail. One of the key players in this value chain are pharmacies. WHO (2011) noted that private pharmacies targets wealthy clients and therefore has higher prices; however, often the poor are the largest consumers of private sector health services.

Private pharmacies offer attractive alternatives where public services are inaccessible, unaffordable and of poor quality and it is often the only option acceptable and available to the majority of citizenry. It also offers a range of skills, ideas, and capacities within private sector that can positively affect health results.

#### **1.1 State of Health in Malawi**

Oxford International (2009) says that Malawi has some of the worst health indicators in the world and life expectancy was 46 years by 2001. However, life expectancy has improved significantly to around 59.9 male and 62.2 female (Ministry of Health, 2014). The infant mortality rate remains



high at 79 per 1,000 live births, and indicators show that 5 per cent of under-fives are severely malnourished, 22 per cent underweight, and 48 per cent have stunted growth (Ministry of Health, 2014). Up to 73 per cent of children between the ages of 6 and 59 months are also anaemic. There has been very little progress made over the last 15 years in tackling maternal mortality. On average, one woman in every hundred will die in pregnancy or childbirth. Malawi remains one of the countries in the world worst-affected by HIV and AIDS. Over 12 per cent of the population has HIV. In recent years the disease profile has evolved, with the majority of new infections being found in women. An estimated 20,000 children are born each year with HIV, and there are half a million orphans and vulnerable children due to HIV and AIDS (Ministry of Health, 2014).

## **1.2 Health Service in Malawi.**

Malawi Government offers free health services and medicines although maternity care, private wards at central and district hospitals, and some outpatient departments attract patient fees. The not-for-profit private sector which include mission hospitals, Non-Government Organizations (NGOs) and Christian Health Association of Malawi (CHAM) offer services and medicines for small fees affordable by the poor. Private sector health care is limited but, due to limited public sector resources that are spread thinly, is growing. The supply and distribution of medicines are fundamental aspects of the success of any health system in Malawi. On their part, Pharmacies ensure access to medicines to the local populations. However, they also provide information on the supply and demand of products and transfer money to finance the system. Disruptions to this supply of medicines undermine health outcomes as supply chains have an impact on the availability, cost and quality of medicines available to patients. Oxfam International (2009) noted that developing countries face a number of challenges that limit access to medicines. These include regulating the quality and flow of medicines into and within the country; geographic access to medicines; financial access to medicines; supply chain forecasting and planning and lastly limited warehousing.

Muula and Maseko (2006) reported that the government and CHAM are the major health service providers of health services in Malawi. Muula and Maseko (2006) further noted that the Malawi Ministry of Health (MoH) has neither the manpower nor the material resources to fulfill its mandate of raising the health of all Malawians by reducing the incidence of illness and death in the population. This is proven by the fact that the government provides 60 percent of health services while the remaining 40 percent is covered by church based (37%) and other private (3%)

providers (Malawi Government, 2015). Government services are free while other providers charge a fee. Faith based health service providers operate under the umbrella organization called Christian Health Association of Malawi (CHAM). The individual providers under CHAM belong to various church denominations and operate independently of each other, making autonomous business, managerial and operational decisions depending on their location and needs.

Most of the CHAM hospitals operate in rural areas where government health services are unavailable. Paradoxically, in these rural districts, most people are too poor to afford payment at the CHAM health services. In fact, poverty in Malawi is “widespread, deep and severe”(Malawi Government, 2015 with 52.4 percent of the population living below the poverty line (Ministry of Health, 2014) and the majority of those living in rural districts, accounting for 59.9 percent (World Bank, 2006).The unavailability of MoH services in the context of poverty in these areas means that the majority of the people would not have access to health services.

### **1.3 Pharmaceutical Business Environment in Malawi**

The business environment and government regulatory frameworks play an important role in creating a favorable context for the private sector to flourish. It also serves to regulate unregulated markets. The government offers little or no support to local private pharmacy business rather it opts for procurement and supply through international tenders and international donors. Competition within the Malawian Pharmacy sector is very high because there are many private pharmacies. Since the products offered by the pharmacies are almost uniform and price wars are common.

To grow and thrive in today's competitive environment, pharmacies in Malawi must deal with several major challenges that have resulted from increased competition in the industry. For these private pharmacies to survive the dynamic environment, it is necessary for them to: measure the intensity of competition, assess the causes of decline and single out a viable strategy for gaining competitive advantage (Box & Miller, 2011). To successfully position a firm in competitive situations, its strategic managers must look beyond its operations. They must develop strategies to guide how the organization conducts its business and how it will achieve its objectives.

#### **1.4 Problem Statement**

The number of pharmacies in Lilongwe urban has been increasing steadily over the years. In some cases certain streets have experienced a very high concentration of outlets to the extent that there are even three to five licensed premises next door, two or more in the same building or within a walking distance of each other. This scenario creates a high degree of competition among the players since they offer similar or identical products to a large extent (Box & Miller, 2011). Chang'orok (2009) notes that marketing of pharmaceutical services is generally restricted and a retailer or wholesaler cannot market their products or services directly to the end consumer. In the absence of such direct marketing the players have to find innovative ways to stand out in the crowd and beat the competition (Porter, 1998). The high concentration and thus the resultant competition among pharmaceutical distributors in Lilongwe Urban are factors that the business owners and managers are aware of in the sector. According to Grant, (2000) a competitive strategy is aimed at giving the company competitive advantage - a relative competitive position that an enterprise establishes and implements by offering superior value to customers and also sustains its competitive edge in the long run by encouraging barriers to replications.

Researches have indicated that there have been stiff competitions in the industries each company aiming at achieving market leadership. In many countries, companies, in part as a response to the weakened performance due to competition, have sought for increases in the scale of their operations, sometimes on the basis of merger and acquisitions; sometimes on the basis of their own strengths to avoid close down. These pangs of competition have necessitated many organizations to seek for competitive entry strategies. Therefore, these companies need to strategize in order to remain relevant in business lest they are pushed out of business.

The research gap found is that most of the studies on competitive edge possessed by firms are easily imitated by rival firms in the same industry. Owino (1988) observed that most pharmaceutical firms in East and Southern Africa are operating at or below 30 percent capacity and that the way forward was through export promotion to utilize the excess capacity. Owino (1988) reported that government control on the industry was stifling growth and suggested that the government reduce its control on the industry as a means of stimulating growth. Further, Ongwae (2010) did an inquiry into creating and sustaining competitive strategies by Total Kenya Limited in a changing environment while Chang'orok (2009) did a survey of competitive strategies adopted by credit card providers in Kenya. However, despite the massive inquiry into competitive strategies and

studies on the pharmaceutical industry in other countries, none of these studies investigated competitive strategies used by private pharmacies. This study therefore sought to determine the competitive strategies adopted by private pharmacies in Lilongwe urban.

### **1.5 The Main Aim of the Study**

The main aim of this study was to investigate the competitive strategies employed by the private pharmacies which are plying their trade in Lilongwe Urban. Hence the purpose of this study is to gain a deeper understanding of the strategies or strategy that would be used by private pharmacies in Lilongwe Urban.

### **1.6 Specific Objectives of the Study**

The study had the following specific objectives:

- a. To identify the strategies used by private pharmacies in order to compete and survive in Lilongwe Urban.
- b. To establish the factors influencing the choice of competitive strategies by private pharmaceutical firms in Lilongwe Urban.
- c. To examine the challenges pharmacies face from competitors and external environment in Lilongwe Urban.

### **1.7 Research Questions**

The study sought to address the following research questions:

- a. What competitive strategies do private pharmacies pursue in order to compete and survive in turbulent business environment?
- b. What factors influence the choice of competitive strategies by private pharmacies in Lilongwe Urban?
- c. What are the challenges that pharmacies face from competition and external environment in Lilongwe Urban?

### **1.8 Significance of the Study**

The study will add value to the research in the area of strategic management. Scholars will find it important as it will increase the body of knowledge in this area. It will also assist other researchers to do further studies on the same. The knowledge gained from the study could serve as a basis for planning and a point of reference for further studies in the field of strategic management.

For investors who may be interested in the private pharmaceutical companies in Lilongwe Urban, this study will provide valuable insight into the entry strategies currently adopted and offer (them) an opportunity to plan for a competitive advantage from the beginning.

The findings will be complementing the efforts in the development of the pharmacy policies by Malawi Government and other business supporting agencies like banks. The findings of this study will also be expected to provide an insight into the state of competition in the industry and useful information that can influence policy by such pharmacy owners to establish competitive strategies that they can adopt to be ahead of others. In line with this, it further provides a strong foundation upon which further research may be conducted in the field of pharmacy sector in the country, for example, ethics in pharmacy sector, women and pharmacy business among others.

### **1.9 Chapter Summary**

This chapter has highlighted the background to the study, health service in Malawi, pharmaceutical business environment in Malawi, the research problem statement, research objectives, research questions, and significance of the study.

The rest of the document has been organized as follows: in Chapter 2 the literature regarding pharmacies operations has been discussed, in chapter 3 the research methodology has been presented, in Chapter 4 the results of the study have been presented and discussed and in Chapter 5 the conclusion and recommendations have been presented.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter covers the review of studies undertaken in this area with special reference to competitive strategies, concept of competitiveness and strategic management.

#### 2.1 Theoretical Foundations of Strategy: Game Theory and Strategic Conflicts in Strategic Choice.

The origins of game theory can be traced back to the study of war. The central idea is that the strategist has to anticipate the reactions of competitors. The assumption in the game theory is that to a greater or lesser extent competitors are aware of the interdependencies that exist and of the sorts of move that competitors could take (Johnson, Scholes & Whittington, 2006). In assessing competitive forces and the context within which a company operates, the choice of strategy can indeed seem like a search for a myriad forces pushing and pulling an organization to change and establish principles to determine what the choice should be. However, the choice of strategy is fundamental to a company for a number of reasons.

First, choice made in a positive sense instills a focus and underlying direction for the organization. The development of a leadership style which focuses one's purpose on the future vision of services, rather than the accidents and designs of the past, provides powerful motivation for individuals, teams and the ubiquitous managers themselves. Second, choice provides a basis for articulating the value systems in the organization. As Peters and Waterman (1999) say about vision and organizational behavior, "one all-purpose bit of advice for management...figure out your value system. Decide what it stands for". Positive choice will help to articulate the value base in the organization and this should be palpable to individuals and the team working within it.

Further, strategy choice provides a route to survival in some form in future. Recent studies indicate that organizations fail regularly because of lack of effective strategic direction, the failure to concentrate on core business, and the lack of robust management systems and processes to deliver the core business and the values on which they are based. The fourth reason for importance of strategy choice is that it will affect inextricably the management process and systems by and with which the organization chooses to manage. Therefore, the effective choice of strategy,

when considered in these circumstances, should become a central focus of company's boards (Peters & Waterman, 1999).

The choice of strategy will be influenced heavily by stakeholders' views, the competitive forces in the market and the context within which the company considers itself in the market (Johnson et al., 2006). There are essentially three choices available to company's in terms of the strategy to pursue. First, a strategy which aims to position the organization so it can defend itself against the competitive forces surrounding it. This approach tends to assume market structure as given, and the key is to focus the organization in areas where competitive pressures are weakest. Conversely, the organization can influence the balance of competitive forces it faces through the deliberate implementation of strategic moves which strengthen its position. This second approach relies on the ability of the organization to really change the forces it faces. Finally, the third strategic choice is where the organization can adopt a strategy which is appropriate to the perceived changes in the causes of competition and exploit these changes to its own ends. In considering these approaches, a company has a number of choices which will radically influence the values, nature and management processes within the organization and the market structure within which they operate (Caulkin, 1999).

## **2.2 Competitive Strategies**

Competitive strategies refer to how a company can compete in a particular environment (Yukl, 2011). Competitive strategies are concerned with how a company can gain competitive advantage through a distinctive way of competing. Industry competition depends on the structure of the industry as defined by forces affecting the industry.

Porter (1998) noted that every firm that is competing in an industry must have a competitive strategy whether explicit or implicit. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of profitability in the long run is sustainable competitive advantage. Porter asserted that there are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry and these include low cost leadership, differentiation, and focus strategies. The focus strategy has two variants, cost focus and differentiation focus.

In low cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall low cost leadership, then it will be an above average performer in its industry provided it can command prices at or near the industry average.

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter, 1998). Porter (1998) further says that the generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The company selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

Thompson and John (1997) also argue that organizations have to strive to achieve sustainable competitive advantage in order to not only do well but also to survive when external circumstances change. Organizations have to strategically respond to the changes. Yukl (2011) says that decisions about competitive strategy have the greatest potential influence on adaptation, but they also affect the relative importance of other performance determinants and their optimal level. The decision to offer lower prices as the primary basis for increasing sales and profits may require reduction in the cost of operations for example, by using improved technology, by using less expensive materials, by reducing the pay and benefits of current and newly hired employees, or by outsourcing high paying jobs to low wage countries.

Yukl (2011) further argues that the decision to provide more unique products or improve customer service may make it necessary to recruit more skilled employees or change the way the current employees are trained and rewarded. Implementing a new strategy usually requires some modification of management programs, systems, and structures in the organization, and it may also involve negotiation of new agreements with other organizations for example clients, distributors, suppliers, and strategic partners among others.



### **2.3 Competitive Advantage**

Competitive advantage can be defined as an edge over rivals in attracting customers and defending against competitive forces. Johnson et al. (2006) defined competitive advantage as an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar or possibly higher prices. Competitive advantage therefore is about winning the target customers and retaining them through competitive strategy. Therefore, competitive strategy is the basis on which a business unit might achieve competitive advantage in its market. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Mintzberg, Lampel, & Quinn, 2003). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Low cost and differentiation advantages are positional advantages since they describe the firm's position in the industry as a leader in either low costs or differentiation.

Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in the industry through first choice of low cost leadership or differentiation. This decision is a central component of the firm's competitive strategy. Kotler, Saunders, Wong and Armstrong (2005) assert that competitive advantages do not tend to stay competitive advantages without significant effort. Over time the edge may erode as competitors try to duplicate a successful advantage for themselves and as the market changes. Half the battle is establishing the competitive edge, while the other half is maintaining it. Continual analysis of the venture's product offering and management will help the venture to stay up to date with the situation.

### **2.4 Strategic Management**

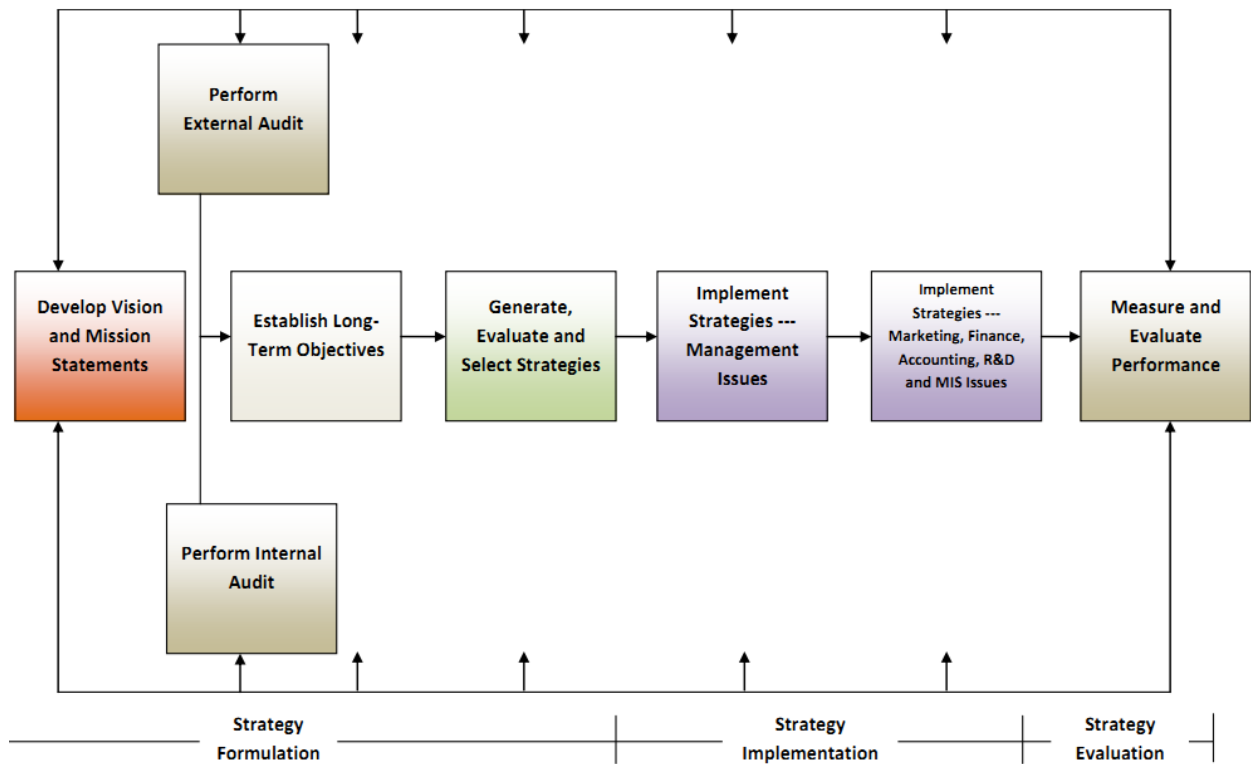
Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives (David, 2011). Strategic management is the process of formulating and implementing strategies to accomplish long term goals and sustain competitive advantage. Strategy is a firm's "game plan" (Pearce & Robinson, 2007).

It is a comprehensive action plan that identifies the long term direction for an organization and guides resource utilization to accomplish organizational goals with sustainable competitive

advantage. The competitive strategy of an organization is the range of products and services offered by an organization and the number of different industries and markets in which it competes. According to Lynch (2009), strategic decisions determine the future direction and competitive position of an enterprise for a long time. Decisions to expand geographically or to diversify are examples of strategic decisions. Strategic decision-making occurs in all types and sizes of organizations. Many people's lives and jobs are affected by strategic decisions, so the stakes are very high. An organization's very survival is often at stake.

One can look forward to making strategic decisions both as an individual and as a member of a team. No matter how hard employees work, an organization is in real trouble if strategic decisions are not made effectively. Doing the right things (effectiveness) is more important than doing things right (Pearce & Robinson, 2007). Hisrich, Peters, and Shepherd (2008) assert that some firms are strategically capitalizing on the harsh business climate and prospering as their rivals weaken. Strategic management is important because it helps organizations to exploit and create opportunities for themselves that are long term and it also tries to optimize for the future, the trends of today. For an organization to achieve sustainable performance therefore strategic management will be a key component of its operations.

According to David (2011) strategic management comprises three key stages namely strategy formulation, strategy implementation and strategy evaluation and figure 2.1 presents the strategic formulation, implementation and evaluation process.



**Figure 2 -1: Strategic formulation, implementation and evaluation process**

Source: David, (2011)

### 2.4.1 Strategy Formulation

Strategy formulation includes the formulation of an organizations vision and mission, conducting a strengths, weaknesses, opportunities and threats (SWOT) analysis of the organization, generation of strategies and choosing what strategies to pursue. This process will also determine what business the organization would like to conduct, what resources will be required to which product lines, where to conduct the business, be it domestic or international, and also whether to merge or do a joint venture , whether to acquire a new business and how to avoid a hostile takeover (David,2011). Private pharmacies' strategies are formulated by the owners and their senior managers brainstorming in a meeting. These meetings will form a committee responsible for consolidating the company's objectives and how these objectives will be achieved. After that then the objectives are cascaded down to specific branches. After the branch objectives

are raised, specific details are then requested to be made by those branches to be presented to the committee at a later stage on how the units will then come up with how they are going to meet the set objectives of the company.

#### **2.4.2 Strategy Implementation**

Strategy implementation is when an organization puts into action formulated strategies and ensures that they are executed. This involves developing a culture that will support the strategies, redirecting marketing efforts, preparation of budgets and the linking of employer pay to organization performance (Hisrich et al., 2008). The strategy implementation process will involve every employee in their respective departments doing what their job requires in order to achieve the organization's objectives. The challenge with strategy implementation is to generate the required enthusiasm from employees to work towards the achievement of the organization's objectives.

In pharmacies the strategy implementation process is done by a committee comprising owners and the senior managers. A break away session is held whereby all business units heads present to the other committee members how they are going to implement the strategy for their unit that is congruent with the pharmacy wide strategy and corresponds with the group strategy. The strategy that is being presented will have action points on how the targets are going to be met, by whom and by what date.

#### **2.4.3 Strategy Evaluation**

Strategy evaluation will show the managers of an organization if particular strategies are working according to plan. Strategies are subject to modification in future to align them with an ever changing environment. To evaluate its strategy an organization needs to review the internal and external factors which form the basis of current strategies, if these have changed there may be need to review the strategies (Pearce & Robinson, 2007). Secondly performance of an organization needs to be measured and finally corrective actions need to be undertaken.

In pharmacies, strategy monitoring and evaluation is conducted after every three months where by the set strategy assumptions are reviewed to check whether they are still relevant to the current environment within which the pharmacy is operating. If it is found that some parameters and assumptions and even the environment has changed, the strategy is changed to take into account the changes. For the three steps of strategic management to work well within an

organization, there is need for interaction and communication across hierarchical levels of an organization.

Strategic management is all about an organization having competitive advantage and having an edge over other rival firms by doing something better than any other rival organizations. Getting and keeping competitive advantage is essential for the long term success of any organization and can lead to sustainable profitability of the organization (Bryman & Bell, 2007). It is difficult to sustain competitive advantage for a long period though because rival organizations keep copying and they can undermine that advantage. An organization can strive to sustain competitive advantage by continually adapting to change in the environment and by effectively formulating, implementing and evaluating strategies (David, 2011).

## **2.5 The Global Pharmaceutical Industry**

The pharmaceutical industry is big business. It is characterized by many different types of companies which develop, manufacture and sell different types of products. The one common thing within this sector though is that all participating firms invest huge sums of money in order to remain competitive. Looking back at the beginning of the 20th Century, doctors were barely able to treat the cause of diseases. At this time there were only four known drugs which were used to fight the symptoms of disease, namely Digitalis for heart complaints; Quinine for malaria, Mercury for the treatment of syphilis and Pecacuanha for dysentery (Taggart, 1997). In the following years the race for the development of new chemical entities, subsequently new drugs and the need for strategic clarity, intensified although it was undoubtedly helped along the way by an increase in the medical profession's overall understanding of the cause of disease. More recent developments in the industry include the evolution of Biotechnology. It was this development, which led to the many mergers and linkages, which now characterize the industry. As a result, the modern day pharmaceutical industry is highly fragmented. (Taggart, 1997).

While large pharmaceutical companies have sought survival in larger enterprises, these agglomeration tendencies has not stopped other firms using a discovery breakthrough to 'chance their arm' at developing a blockbuster of their own, ultimately perhaps through a marketing alliance with a global pharma. These are largely biotech firms that have funded independent drug discovery through direct access to the venture capital market. In other cases their research has been supported by large pharmaceutical companies through alliances and licensing. Such is the return from a single successful blockbuster that a small number of these companies have been catapulted into the first rank. On the other hand many biotech companies fail to realize these ambitions and languish as contract research houses or go out of business.

Given the instability and apparent unsustainability of current pharmaceutical business strategies and structure, other models have been suggested.

There are those who argue that the real added value of the global pharmaceutical company is its capacity to organise, coordinate and finance the various parts of the drug development and distribution pipeline (Kay, 2001). This would see a more limited role for the global pharma in which most research and perhaps a large part of the distribution was contracted out. This presupposes that specialization in various aspects of the drug development and distribution process could achieve significant economies. In addition, there is an increasing technical capability to

provide personalised medicine. This gives an opportunity for companies specialising in particular therapeutic areas to target smaller patient groups in which the massive distribution machinery of the global pharmaceutical companies becomes less relevant. If the economics of smaller patient markets was improved through the greater selectivity offered by genomics then size would be less critical.

## **2.6 Strategy in Pharmacy in the United States and Canada**

The pharmacy is in some ways different than many other retail sectors. As part of the health care system, the pharmacy sector is not a traditional supply-and-demand market. A three-tier system (supplier – payer – consumer), a low price elasticity, and information asymmetry characterize public health care systems, including the pharmacy sector. Therefore, a minimum degree of public regulation is necessary, which has been implemented in very different ways. The pharmacy industry also differs dramatically across countries. The way the pharmacy sector is organized and regulated has been considerably influenced by historic developments, traditions, and cultures. What works well in one country is not necessarily successful in another country (Lowe &Montagu, 2009).

The pharmacy sector covers a broad spectrum of ownership and establishment regulations across countries. The United States is the most liberal, with pharmacists typically being employed by retail chain drug stores (Lowe &Montagu, 2009). Lowe and Montagu further notes that Canada requires that pharmacists own drug stores, but the number of establishments and the organizational form this ownership takes is quite liberal. There was a public interest in health care delivery, pharmacy was established in virtually all countries subject to regulatory and operational standards that generally were accompanied by restrictions on ownership, entry, and competition. As economies and medicine developed, pharmacies were able to take advantage of this environment and build profitable enclaves with limited competition (Shaw, 2013). Even in the United States, the development of chain drug stores was largely regional in nature until the 1980s. Overall, within each country, pharmacy retail was characterized by similar-sized businesses, with similar organizational structures, offering similar products and services, and producing similar operational and financial results.

FitzgeraldPower Limited and TouchStore Limited (2012) demonstrated that following similar strategies meant that pharmacies competed mostly on location/convenience and by claiming to

provide better quality (in practice, these differences were perceived to be quite small – pharmacies have long been among the most trusted retail formats). Eventually, costs and productivity became second-order concerns, while overall market growth and the rise of new long-term medicines drove dispensary volumes and profits up. The capitalized value of drugstores grew markedly.

This environment led to competition within the club, with pharmacies becoming inwardly focused, defining markets and operations in terms of what they did, rather than in terms of what the customer might want or need. This approach was viable as long as markets were limited by regulatory or implicit geographical constraints. Indeed, favorable demographics and the development of medicines for chronic conditions (cholesterol, hypertension) allowed this industry structure and pharmacy profitability to persist in many countries (Fitzgerald Power Limited & Touch Store Limited, 2012).

## **2.7 Strategy Decision Making (SDM) Process in the European Pharmaceutical Industry**

Strategy is described by Freedman (2001) as a framework within which decisions are made, reflecting the future of an organization and the direction which it should take. Feurer and Chaharbaghi (1995) discuss how the formulation of competitive strategies are developed using a structured process which requires a knowledge base of the internal and external environment together with an understanding of the potential impact of different strategies.

Another important factor in the formulation of strategy, also identified by Feurer and Chaharbaghi (1995) is to reflect the dynamics of change in the market or industry. The development of strategies can, and should, rest heavily on the current market situation. Without considering all potential influencing details both within and outside the organization, important issues may be overlooked which could cause the failure of a strategy. Although there is an extensive body of literature on strategic planning and strategy formulation, there is still a lack of a suitable framework, which can provide the basis for integrating competitive intelligence into the strategic decision making (SDM) process.



## **2.8 Strategies Adopted by Pharmacies in Common Market for Eastern and Southern Africa (COMESA)**

The pharmaceutical industry in Africa consists of three segments namely the manufacturers, distributors and retailers. These sectors play a major role in supporting the continent's health sector (Kenya's Pharmaceutical Industry Act, 2005). Kenya is one of the main producers of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region, supplying about 50 percent of the regions' market. These are categorized according to particular levels of outlet as free sales/ Over the Counter (OTC), pharmacy technologist dispensable or pharmacist dispensable/ prescription only (Kenya's Pharmaceutical Industry Act, 2005).

The process of developing a new pharmaceutical product is long and expensive with estimates ranging between \$800 million to \$1.2billion for a successful molecule to be brought to market (Gavura, 2011). Gavura (2011) further noted that a common practice for Big Pharma is to produce generic versions of the original drug prior to loss of exclusivity through subsidiaries or licensees. The fast movers to the market enjoy sustained competitive advantage over subsequent entrants (Hollis, 2002) and reduce incentives for generic entry.

## **2.9 Empirical Studies and the Research Gap**

Empirical evidence confirms that the profits of firms selling quality products increase due to competitive strategies. However, the choice of suitable competitive strategies in an organization is not easy. It involves consideration of many factors which may be tangible or intangible. Pearce and Robinson (2007) argue that for a strategy to be successful, it must place realistic requirements on the firm's internal capabilities. The process also calls for the involvement of many of the organizations stakeholders as lack of involvement may affect the implementation of the strategies. The competitive strategies adopted should be affordable to the business. The strategies chosen should also be in line with the organizations short-terms and long-terms goals.

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

### **2.9.1 Competition and Strategic Issues**

Increased competition threatens the attractiveness of an industry and reducing the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive responses to anticipated and actual change in the competitive environments.

Firms therefore focus on gaining competitive advantage to enable them respond to and compete effectively in the markets. By identifying core competences, firms are able to concentrate on areas that give them a lead over competitors and provide a competitive advantage. According to Johnson and Scholes (1993), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organization value chain and to linkage into the supply and distribution channels. Companies employ countless variations in the competitive strategies. This is mainly because each company's strategic approach is designed to fit its own circumstances and industry environment (Thompson, Strickland, & Gamble, 2007).

Kotler et al. (2005) assert that if an organization is to achieve competitive advantage by delivering value to customers, managers need to understand which activities they can undertake in terms of creating value. The value chain and value network concepts can be helpful in understanding this. The value chain describes the categories of activities within and around an organization, which together create a product or service.

In order for any firm to understand its competitive environment it is important to conduct a SWOT analysis. A SWOT analysis is a summary of the key issues the business environment and the strategic capability of an organization that are most likely to impact on strategy development. The aim is to identify the extent to which strengths and weaknesses are relevant or capable of dealing with, the changes taking place in the business environment (David, 2011). Pearce and Robinson (2007) state that in order to achieve their goals and objectives, it is necessary for organizations to adjust to their environment. Designing viable strategies for a firm requires thorough understanding of the firm's industry and competition. The state of competition in an industry, which is rooted in its underlying economics, depends on the competitive forces that work to define and or characterize the industry structure.

A competitive strategy enables a firm to define its business today and tomorrow and determine the industries or markets to compete. The intensity of competition in an industry determines its profits potential and competitive attractiveness. Competitive strategy will assist a firm in recording to the

competitive forces in these industries or markets (from suppliers, rivals, new entrants, substitutes and customers) (Porter, 1998). Competitive strategies will be vital to a firm while developing its functional approach to attain competitive edge (low prices, differentiation, niche), the size or market position it plans to achieve and its focus and method for growth (McGee, Thomas, & Wilson, 2005).

Strategy choice provides a route to survival in some form in future. Recent studies seem to indicate that organizations fail regularly because of lack of effective strategic direction, the failure to concentrate on core business, and the lack of robust management systems and processes to deliver the core business and the values on which they are based. The choice of strategy will affect inextricably the management process and systems by and with which the organization chooses to manage. Therefore, the effective choice of strategy, when considered in these circumstances, should become a central focus of companies' boards (Thompson et al., 2007).

The choice of strategy will be influenced heavily by stakeholders' views, the competitive forces in the market and the context within which the company considers itself on the market (Johnson & Scholes, 1993). There are essentially three choices available to a company in terms of the strategy to pursue. According to Caulkin (1999) firstly, a strategy which aims to position the organization so it can defend itself against the competitive forces surrounding it. This approach tends to assume market structure as given, and the key is to focus the organization on areas where competitive pressures are weakest. Conversely, the organization can influence the balance of competitive forces it faces through the deliberate implementation of strategic moves which strengthen its position (Baum & Oliver, 1992). This second approach relies on the ability of the organization to really change the forces it faces. Finally, the third strategic choice is where the organization can adopt a strategy which is appropriate to the perceived changes in the causes of competition and exploit these changes to its own ends. In considering these approaches, a company has a number of choices which will radically influence the values, nature and management processes within the organization and the market structure within which they operate.

## **2.10 Chapter Summary**

This chapter has highlighted games theory, strategies, and strategic management, among others. The literature reviewed has demonstrated that today's organizations have to deal with dynamic and

uncertain environments. In order to be successful, organizations must be strategically aware. Managers must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their competitive strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. The choice of strategy is influenced heavily by stakeholders' views, the competitive forces in the market and the context within which the company considers itself in the market .

The chapter has also highlighted that a competitive strategy enables a firm to define its business today and tomorrow and determine the industries or markets to compete. The intensity of competition in an industry determines its profits potential and competitive attractiveness.

The study has revealed that no matter how hard employees work, an organization is in real trouble if strategic decisions are not made effectively.

The chapter has presented strategic management as a very important aspect because it helps organizations to exploit and create opportunities for themselves that are long term and it also tries to optimize for the future, the trends of today. For an organization to achieve sustainable performance therefore strategic management will be a key component of its operations. The chapter has also highlighted strategies used by other pharmaceutical firms in the United States and Canada, Europe and COMESA.

It has also presented empirical studies and research gap.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

In this chapter the methodology of the research is presented. Among the subsections of the chapter include: philosophy, approach, strategy, research methods, sampling design, population size, sample size, data collection methods, questionnaire design and administration, data analysis and interpretation of results. In addition, an evaluation of the sources was presented as well as the methods used to increase reliability and validity.

#### **3.2 Research Design**

The study was conducted by using a survey where the researcher completed an interview based questionnaire with respondents. The advantages of using surveys are that they allow the collection of a large amount of data from a sizeable population in a highly economical way. A survey strategy gives the researcher more control over the research process and, when sample is used it is possible to generate findings that are representative of the whole population at a lower cost than collecting the data for the whole population (Saunders, Lewis & Thornhill, 2007).

The research adopted the phenomenological paradigm. This paradigm is concerned with understanding human behavior from the participant's own frame of reference (Collis & Hussey, 2003). Unlike the positivistic approach which emphasizes on measurement of variables, the phenomenological paradigm stresses the subjective aspects of human activity by focusing on the meaning rather than the measurement of social phenomena (Collis & Hussey, 2003). The research also utilized both qualitative and quantitative approaches.

Respondents to the survey were pharmacies' senior managers who were involved in the formulation of competitive strategies.

This research adopted the qualitative design. Boswell and Cannon (2011) define qualitative design as the analysis of phenomena, characteristically in a comprehensively and holistic manner, through the compilation of narrative notes based on adaptable research model. The qualitative was the most

appropriate one in this study because it describes and analyzes the meanings and experiences of particular individuals or groups, large sample sizes are not generally appropriate or feasible in these scenarios.

### **3.2 Study Population**

The target population of this study was pharmaceutical distributors in Lilongwe Urban. These are firms involved in the process of making pharmaceutical products or services available for use or consumption by end consumers or business users.

There are two groups categorized as those who are purely wholesaling and those who are in retail business. The Pharmacy, Medicines and Poisons Board (PMPB) register (2014) records that there were 35 private pharmacies within the Lilongwe Urban. These formed the population that was used in this research.

### **3.3 Sampling Procedure, Sample and Sampling Techniques**

Target population is regarded as a group of a real set of persons, events or objects from which the researcher generates the results of the research study (Sekeran & Bougie, 2013). The population comprised a total of 35 pharmacies in Lilongwe Urban were selected for the study (The Pharmacy, Medicines and Poisons Board (PMPB) register (2014)). Sekeran and Bougie (2013) define sampling as the process of selecting a sufficient number of the right elements from the population, so that a study of the sample and an understanding of its properties or characteristics make it possible for the researcher to generalize such properties or characteristics to the population elements. The two authors also define a sample as a small proportion of a target population selected for analysis.

The sample size was calculated using the formula below by Yamane (1967).

$$n = \frac{N}{1 + N(e)^2}$$

Whereby

N= Population size, n = sample size, e = level of precision

Using 90% confidence level

$$n = \frac{35}{1 + 35(0.1)^2}$$

=25.9 which is 26

The sample used for this research was 26. The research used probability sampling (simple random sampling). Simple random sampling technique was used to select the preferred clients. Each customer was assigned a number and random numbers were generated for the selection. This provided a more rigorous and a representative analysis. The random sampling technique assisted in selecting a sample that was a representative of the total population.

### **3.5 Data Collection**

#### **3.5.1 Primary data**

Primary data was gathered for the research from the actual site of occurrence of events. This ensured that the exact and first hand data for the study was obtained. The types of information such as the perceptions and attitudes of entrepreneurs were best obtained by talking to them. The study obtained primary data by administering questionnaires. There was one of the questionnaires for top personnel of the pharmacies. The questionnaire contained both open ended and closed questions. The open ended questions gave the respondents freedom to decide in terms of detail and length of the answers. This enabled the respondents to give a more adequate presentation on competitive strategies private pharmacies implement in order to survive. The closed questions on the other hand helped to keep the questionnaire to a reasonable length to encourage response and validity in terms of the representativeness of the returns. It also minimized the risk of misrepresentation unlike the former. To control the research direction the questionnaire also contained both structured and unstructured questions.

#### **3.5.2 Secondary Data**

Secondary data was also used in this research. Secondary data is data gathered through existing sources. That is, they are data that already exist and do not have to be collected by the researcher. The study sought the use of two types of secondary data namely documentary secondary data and survey secondary data. Saunders et al. (2007) note that documentary secondary data are often used in research projects that also use primary data collection methods. The advantages of using secondary data are that it cheap and easy to find.

### **3.6 Questionnaire Design and Administration**

An interview based questionnaire, as shown in Appendix 1, was developed and was used to collect data. The questionnaire was divided into two parts. Part (A) had 6 questions that gathered information about the respondents' demographics. Part (B) had 6 survey questions where respondents were asked to find out about competitive strategies they use in order to survive.

The study used interview based questionnaire. The advantage of interview based questionnaires questionnaire is that it enables the researcher to reach a large number of potential respondents in a variety of locations as the case with this study.

### **3.7 Validity and Reliability**

Instrument validity is the degree to which research results obtained from the analysis of the data actually represent the phenomenon under study (Mugenda & Mugenda, 2003). To ensure instrument validity content validity was tested. Validity, according to Gall, Gall and Borg (2007) is the degree to which a test measures what it purports to measure. According to Gall et al. (2007) content validity of an instrument is improved through expert judgment. As such, the researcher sought assistance of the assigned supervisor, who, as an expert in research, helped improve content validity of the instrument.

Mugenda and Mugenda (2003) define reliability as a measure of the degree to which a research instrument yields consistent results after repeated trial. One way which the study used to determine the reliability of empirical measurements was the retest method in which the same test was given to the same people after a period of two month. The reliability of the test (instrument) can be estimated by examining the consistency of the responses between the two tests (Mugenda & Mugenda, 2003). The advantages of test-retest method is a simple, clear cut way to determine reliability.



### **3.8 Data Analysis and Presentation**

The study used both qualitative and quantitative data to report the findings. The quantitative phase helped the researcher to generate descriptive and inferential statistics necessary to make deductions on competitive strategies used by private pharmacies. After a careful review and cleaning of the collected data, the closed questions were coded and entered into a codebook from where they were keyed into a computer using the Statistical Package for Social Science (SPSS). Descriptive statistical technique was used in this study because together with simple graphic analysis, they form virtually every quantitative analysis of data. It also helps to simplify large data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary (Sekeran & Bougie, 2013). Functions used for analysis in this study were frequencies, charts and cross tabulations. Frequency tables and bar graphs incorporating percentages were used in ranking particular competitive strategies adopted by private pharmacies in their day-to-day businesses. Cross tabulations used to determine relationships between variables.

Qualitative data from open-ended responses were analyzed through content analysis. Sekeran and Bougie, (2013) explain that content analysis is a research technique used to make replicable and valid inferences by interpreting and coding textual material. By systematically evaluating texts (for example, documents, oral communication, and graphics) qualitative data can be converted into quantitative data. This is because some data were collected through interviews. Events, objects, persons, words, and syntax used in the various sources are frequently carefully analyzed for their content, from which several inferences are drawn and projections made for the future (Sekeran & Bougie, 2013). Solutions for the rectification for some types of problems faced in organizations are also possible through content analysis of case studies as the case with this research. Sekeran and Bougie (2013) also say that content analysis involves the quantification of the qualitative information obtained through a systematic analysis of the relevant information, thus providing a means for submitting it to statistical analysis.

### **3.9 Ethical Considerations**

Ethical considerations of confidentiality, privacy and anonymity were addressed in the study. It was guaranteed that any information used in the study, would not be disclosed to any third parties, unless permission was granted to do so. It was further guaranteed that no names and addresses

would be used, stored or categorize information using names and addresses. This ensured that what the respondents said during the discussion would not be traced back to the respondents by third parties.

### **3.10 Research Limitations**

The study had one limitation as detailed below.

The study was limited to the perspective of the respondents being very busy in their work schedules. The researcher was forced to make several phone calls and visits to the business places. The greatest challenge was faced with senior managers who cited lack of time and too busy schedules.

The target population had 26 respondents and the researcher was able to obtain 23 completed questionnaires with a response rate of 88 percent. Some respondents declined to provide information citing that competitive strategy was a sensitive issue. They were skeptical about the findings being used solely for academic purpose.

Due to time limitations the study was not able to identify all the policies in place in regards to pharmaceutical industry. The bias in this study was on competitive edge. Since the sector deals with local consumers there could be some limiting policies that needs to be identified and can help the stakeholders as well as the government in coming up with effective policies to be put in place to increase performance.

### **3.11 Chapter Summary**

This chapter has detailed the research methodology that was used in the study. Highlights have been made on the sampling methods, the population and the sample size. The chapter has also highlighted the data collection method which was through the interview based questionnaire on randomly selected respondents.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.0 Introduction**

In this chapter the findings of the study are presented. The responses were compiled into frequencies and some were converted into percentages and presented in graphic and tabular forms; this was to facilitate easy analysis. The analysis was done based on each question asked by the researcher in the interview guide. However, the findings and interpretations were done on the basis of study objectives.

#### **4.1.1 Demographic Characteristics of Pharmacy Owners**

A total of 23 respondents were interviewed out of the targeted 26 respondents. This represented 88 percent response rate. This shows that the majority of the respondents responded and this improves the reliability of the data collected. It was not possible to achieve 100 percent as some interviewees declined to be interviewed because they thought the topic was sensitive as it touched on competition. The study sought to determine the gender of the respondents; age range of respondents, qualification of respondents, and experience of respondents, venture ownership and number of employees. This was important because it enhanced reliability and gave the basic understanding of the respondents who took part in the study.

Table 4-1 presents results of demographic profile of the sampled pharmacy owners.

**Table4- 1: Demographic characteristics of pharmacy owners**

Characteristics		Count	Column N%
Gender	Male	19	83
	Female	4	17
	Total	23	100
Age Range	18 to 24 years (Youth)	0	0
	25 to 35 years (Middle Aged)	10	43
	36 to 45 years (Aged)	10	43
	46 and above (Very Aged)	3	14
	Total	23	100
Highest Qualifications	Masters or PhD	2	9
	Graduate	12	52
	College Diploma	5	22
	Others	4	17
	Total	23	100
Experience	Less than 3 years	5	22
	4 to 7 years	7	30
	8 to 11 years	6	26
	12 years and above	5	22

	Total	23	100
Venture Ownership	Sole Trader	12	52
	Partnership	4	17
	Limited Liability Company	7	31
	Total	23	100
Number of Employees	1 to 5	13	57
	6 to 10	5	22
	11 to 15	3	13
	16 and above	2	8
	Total	23	100

From Table 4.1, it is clear that males dominated the study, comprising about 83 percent of the sample whereas females were 17 percent. Even though the study could not achieve a 50/50 percent gender representation, the views of both genders were well represented in this study.

The Table also shows that most of the business owners were middle-aged and aged 25 to 35 years and 36 to 45 years old representing 43 percent each respectively of all respondents. These are the most active age group hence they are actively involved in management. They had rich experiences and could also appreciate the importance of the study. Fourteen percent of the respondents were 46 years and above and there were no youth involved in the pharmacy business.

The respondents had various educational backgrounds. Table 4.1 shows that there were no pharmacy owners that had no formal education as many of them, (52%, n = 12) had attained graduate level of education, 22 percent had college diploma, 17 percent has other qualifications and finally 9 percent had master's degree or PhD. This may imply that characteristic of the respondents is that majority of the respondents have been formally educated to at least graduate

and diploma levels and therefore have knowledge of their businesses. This shows that majority of the business owners are educated hence capable of crafting and implementing competitive strategies through the skills and experience that they possess.

The respondents were asked to indicate the number of years they had worked in the business. This was expected to help the researcher know the years of experience the respondents had and how effective they would be able to give information about the pharmaceutical industry in Malawi. The results in Table 4.1 revealed that 30 percent of business owners had done business for 4 to 7 years, 26 percent had been in business for 8 to 11 years, and lastly 22 percent had been in business for a period between less than 3 years and 12 years and above respectively. From this information, it can be concluded that most pharmacists have enough experience in running their businesses. Experience in a similar field or the same industry of course means that a person has greater understanding of that market. Zainol and Ayadurai (2011) concluded that entrepreneurs who had a higher tolerance of ambiguity than non-entrepreneurs, a higher level of self-efficacy, vast experience, a more proactive personality, an internal locus of control, and a stronger need for achievement were more likely to plan for the success of their businesses. They observed that even in more complex decisions involving the need to develop careful plans, values played a relevant role. They also reported that experience also gives an entrepreneur more confidence in a certain area than if he has never been there and also helps to foresee problems clearly and find ways on how to mitigate those problems. The finding is also supported by Scherer (1991) who adds that experience also helps the businesspersons to identify the customers, marketing strategies and opportunities for growth.

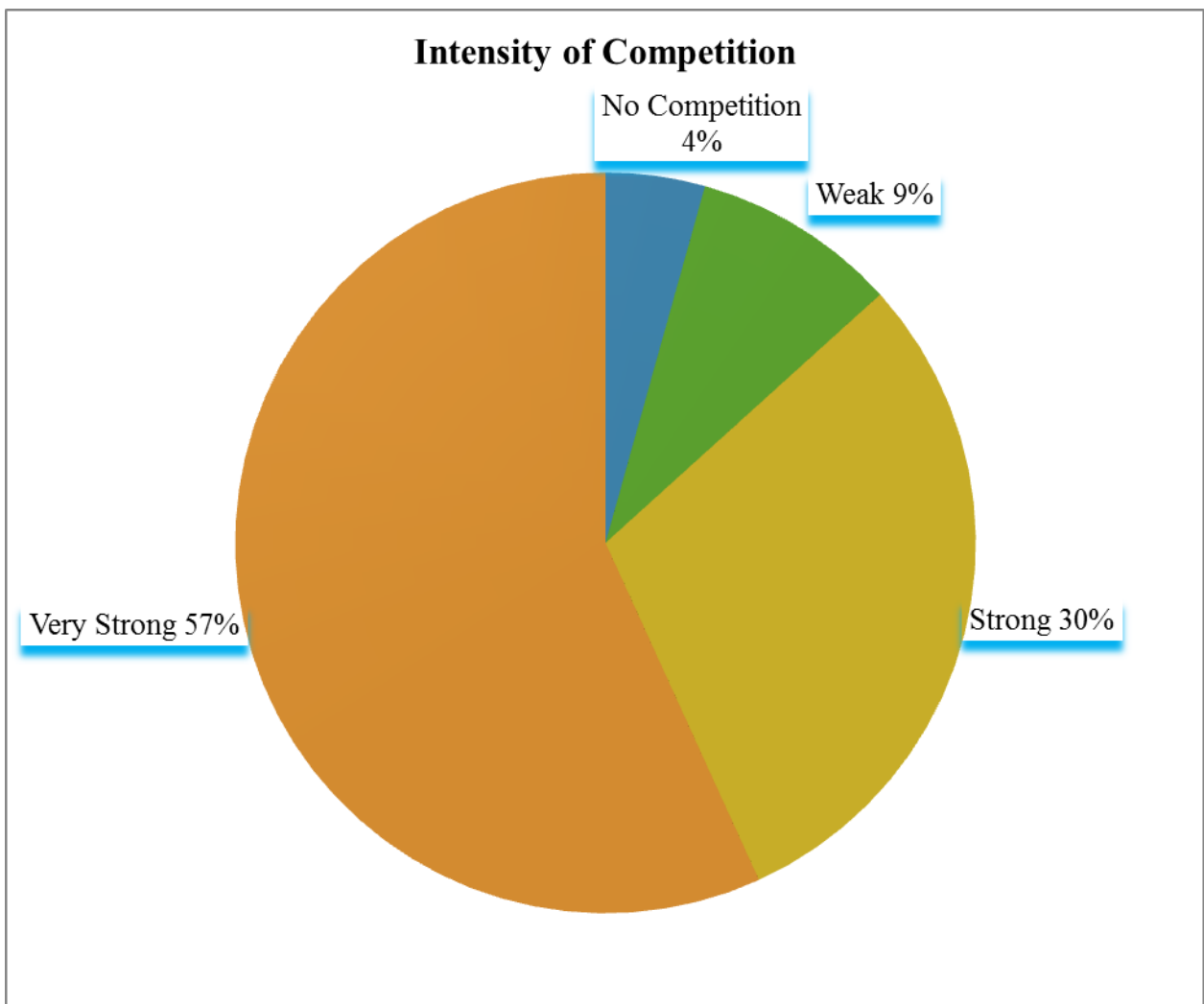
Table 4.1 also indicated that 52 percent of businesses are sole traders followed by limited companies at 31 percent and finally partnerships at 17 percent. The study further revealed that 57 percent of businesses employ 1 to 5 people, 22 percent of the businesses employ 6 to 10 people, 13 percent employ 11 to 15 people and finally 8 percent employ 16 and above people. The findings of this research agree with WHO (2006) which noted that the pharmacy sector is important to economic growth and are significantly essential to generation of employment. Looking at employment statistics, the results indicate that private pharmacies are micro, small and medium enterprises (SMEs) categories. Ministry of Trade and Industry, Malawi (2012) defines micro, small and medium enterprises based on the number of employees and the annual turnover of the businesses. It further says that small and medium enterprises play an important role in providing

employment, improving people's livelihood and in the overall economy. In recognition of the role that SMEs play in the economy, the Government of Malawi has made the development of SMEs a priority (Ministry of Trade and Industry, 2012).

Ministry of Trade and Industry (2012) further defines micro enterprises as firms with 1 to 4 employees and an annual turnover of USD \$7143 and small enterprises are defined as firms with 5 to 20 employees and an annual turnover of USD \$7143 to \$71428. It also defines medium enterprises as firms with 21 to 100 employees and an annual turnover of \$71428 to \$357 142. Large enterprises are defined as firms with more than 100 employees and an annual turnover of more than \$357142 (Ministry of Trade and Industry, 2012).

#### **4.1.2 Rating of Competition in Pharmaceutical Industry**

Pharmacy owners were asked to rate the intensity of competition in pharmaceutical sector. Figure 4.1 shows how the respondents rated the competition in the industry.



**Figure 4-1: Intensity of competition**

From the research findings as presented in figure 4.1, intensity of competition was rated very strong by 57 percent, whereas 30 percent of the interviewees responded that competition is strong in pharmaceutical sector. 9% percent of the respondents said that the competition is weak and lastly four percent of the participants said that there is no competition. This implies that majority of respondents were of similar opinion that there is high competition in the pharmaceutical businesses. There was also respondent agreements on advantage provide a very strong competition, relationship advantage provide competitive advantage and structural advantage. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). The findings are supported by research conducted by Rainbird (2004) who demonstrates that one of the environmental influences to a pharmaceutical sector arises from competition and he further alludes to the fact that increased



competition threatens the attractiveness of an industry and reduces the profitability of the players. The findings are also in agreement with Grant (2000) who suggests that the intensity of competition in an industry determines its profit potential and competitive attractiveness.

#### 4.1.3 Companies' Strategies for Competing Effectively in the Market

The respondents were requested to identify the strategies that they use to deal with stiff competition. The study identified various competitive strategies employed by firms. Figure 4.2 shows the strategies employed by the pharmacies.

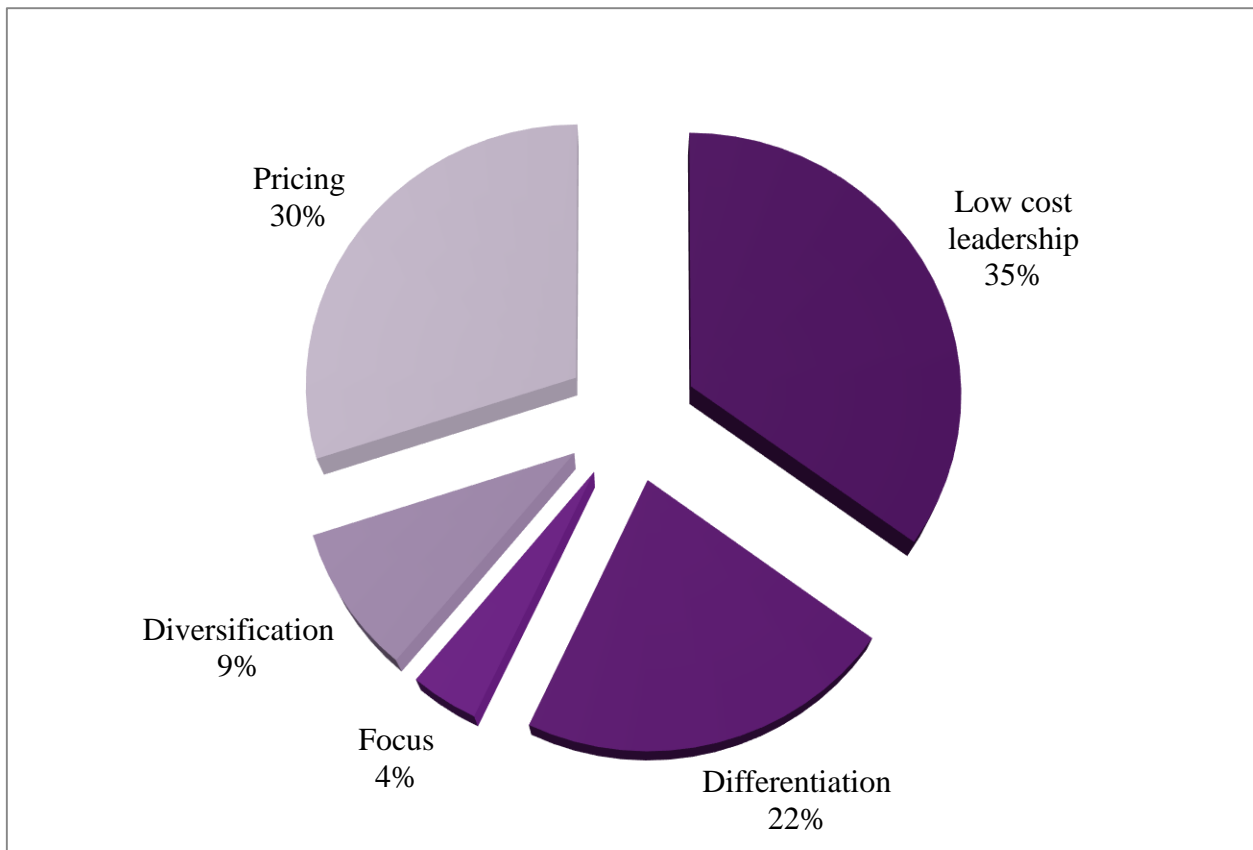


Figure 4 -2: Strategies used by pharmacies to fight against competition

From the research findings as presented by figure 4.2, 35 percent of the respondents indicated that they employ low cost leadership strategy followed by 30 percent of the respondents who employ pricing strategy. Differentiation strategy is employed by 22 percent of the respondents and nine percent of the business people use diversification strategy in order to beat competition and lastly 4 percent of the respondents said that they compete based on focus strategy. This implies that all organizations in pharmaceutical industry use competitive strategies. The findings of the study is supported by Owiye (1999) who argues that competitive strategies will be vital to a firm while

developing its fundamental approach to attaining competitive advantage (low price, differentiation, niche), the size or market position it plans to achieve, and its focus and method for growth (sales or profit margins, internally or by acquisition).

The findings are also supported by Hyatt (2001) who shows that for an effective cost leadership strategy to be effective, a firm must have a large market share. Malburg (2000) proposes that there are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials. However, Porter (1985) noted that only one firm in an industry can be the cost leader. Malburg (2000) further notes that low cost leadership competitive strategy helps to decrease the threat of new entrants by creating cost based barriers to entry, like economies of scale and cost advantages independent of scale.

This finding agrees with Ogbonna and Harris (2003) who narrate that differentiation strategy aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service. A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. As Baum and Oliver, (1992) notes, to maintain this strategy the firm should have: strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, and incentives based largely on subjective measures, be able to communicate the importance of the differentiating product characteristics, stress continuous improvement and innovation and attract highly skilled, creative people. Say that differentiation reduces competitiveness and the fight for scarce resources, thereby improving performance; but on the other hand, conformity makes all organizations similar and, therefore, the competitive pressures are stronger. Differentiation will create benefits and dominant positions that will last until competitors imitate a firm's key resources, and will be restored through the creation of new opportunities that result in a new competitive advantage and new entry barriers.

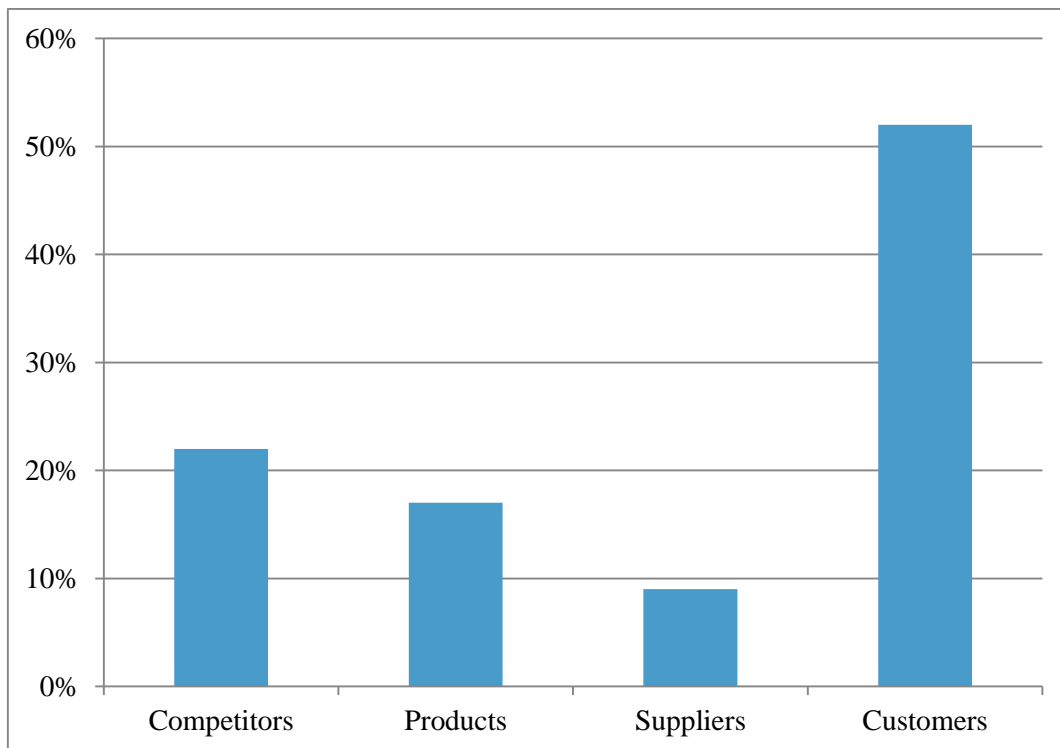
The findings also collaborate with David (2011) who says that companies choose diversification strategy because they want to fully utilize existing resources and capabilities, make use of surplus cash flows, to grow and escape from undesirable or unattractive industry environments.

The findings agree with Porter (1980) who says that focus strategy aims at aiding a firm grow its market share through operating in a niche market or in markets either not attractive to, or

overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. New entrants in the market may use penetration pricing which involves setting the price low in order to attract customers and gain market share. The price will be raised later once this market share is gained. A successful focus strategy according to Porter (1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy.

#### 4.1.4 Factors that Influenced Businesses in Choosing Competitive Strategies

The study sought to establish the factors that influenced companies in choosing competitive strategies. Figure 4.3 presents the findings. There were varying responses.



**Figure 4 -3: Factors that influence the choice of competitive strategies**

The results of the findings were analyzed using both qualitatively and quantitatively. The quantitative responses were analyzed using descriptive statistics mainly percentages whereas qualitative techniques were analyzed using industrial and environmental factors affecting the firm's performance. According to the findings, 52 percent of the respondents indicated that they chose a particular competitive strategy because of customers. The findings of the study are supported by

Gilligan and Wilson (2003) who noted that right-handed or market-driven organizations have as their primary focus the objective of satisfying customers. This involves defining and understanding market segments, and then managing the marketing mix in such a way that customers' expectations are fully met or exceeded. 22 percent of respondents said that competitors influence their choice of competitive strategy, 17 percent of the respondents said that products become obsolete as they are overtaken by technological developments, replaced by improved products or displaced by products that introduce new functions and features influenced the choice of competitive strategy. This finding collaborates with Cragg and King (1988) who note that the factors that influence whether an enterprise chooses a particular competitive strategy may be due to micro factors and environmental factors. These micro factors include firm's characteristics; in terms of scope, scale, ownership structure and size, and external environmental factors are political, economic, socio cultural, technological, and ecological factors. Lastly, 9 percent of the respondents said that suppliers influenced their choice of a competitive strategy. This implies that in order to survive in a dynamic environment, there are factors that influence the choice of a competitive strategy.

The findings of the study is also confirmed by Kotler et al. (2005) who noted that private firms should aim to achieve profits as a consequence of creating superior customer value, by satisfying customer needs better than competitors. Gilligan and Wilson(2003) further confirm that it should be apparent that the identification and evaluation of competitors' strengths, weaknesses and opportunities and threats is at the very heart of a well-developed competitive strategy. They further said that the marketing planner should as a first step therefore concentrate upon collecting information on, sales, market share, and cost and profit levels, return on among others. David (2011) also demonstrates that the bargaining power of suppliers affects the intensity of competition in an industry, especially when there are few suppliers, when there are few good substitute raw materials, or when the cost of switching raw materials is especially high.

#### 4.1.5.1 Challenges Pharmacy Business Face in Malawi

The study sought to determine the challenges that pharmaceutical firms face in Malawi. There were varying responses from respondents. The findings are presented in Figure 4.4.

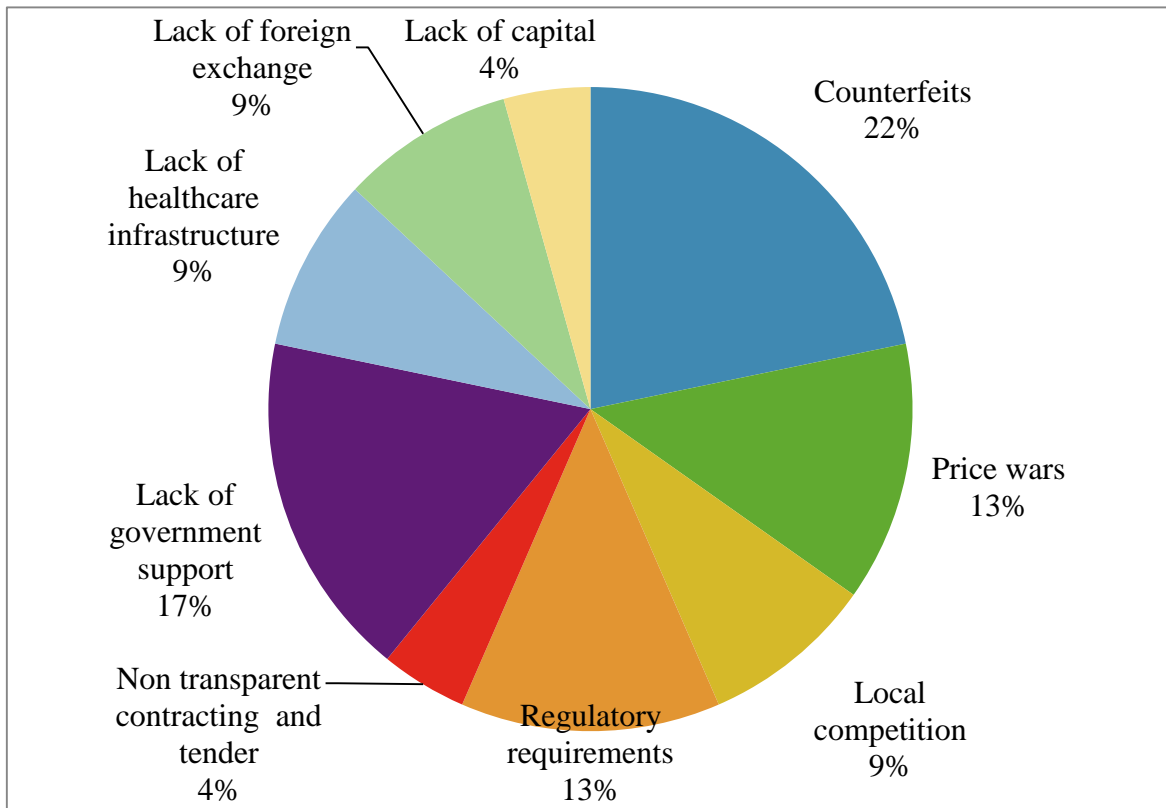


Figure 4 -4: Challenges that pharmacies face

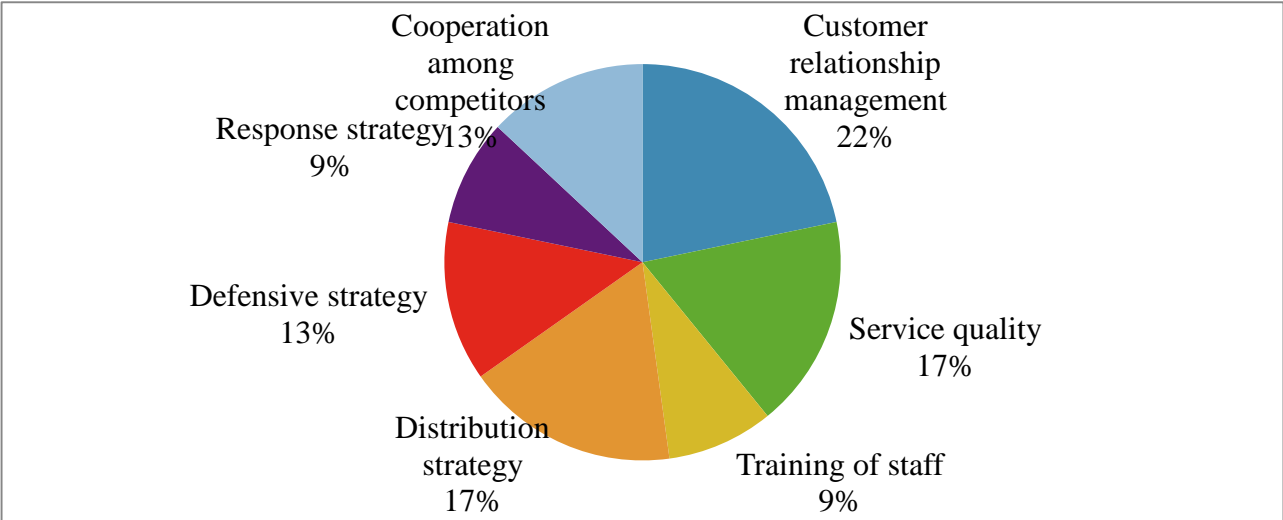
The responses were analyzed using descriptive statistics mainly percentages. Table 4.4 indicated that majority of respondents totaling 22percent of pharmaceutical firms said that the major challenge is counterfeit drugs followed by 17 percent of the respondents who said that they do not get government support as much because government tenders are given to the multinational corporations. This is followed by 13 percent of the respondents who said that their major challenge is price wars whereas the other 13 percent said that regulatory requirements affect them, 9 percent of the respondents said that local competition affects their operations.9 percent said that lack of healthcare infrastructure and another 9 percent said lack of foreign exchange, 4 percent said lack of capital and another 4 percent said non-transparent contracting and tendering process. This implies that there are many challenges that pharmaceutical firms are facing and these challenges are particular to a particular business sector.

The findings are in line with the survey conducted by Harvie and Lee (2005) who established that there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, though there is still a lack of laws, administrative procedures and support from governmental agencies, thus, their legal standing are weakened.

The findings concur with Ministry of Trade and Industry (2011) which reports that key constraints to MSME growth in Malawi and these include a poor investment climate, weak culture of entrepreneurship amongst indigenous Malawians, lack of access to capital and the high cost of capital for MSMEs, weak private sector support institutions, outdated policy, legal and regulatory framework, and unreliable and costly infrastructure services. World Bank (2013) further suggests that the main reasons for small business failure are lack of capital for business expansion, lack of business management skills. It further notes that there is lack of a level playing field that advantages foreigners over Malawians. Other factors include lack of skilled labour, low support by Malawians for Malawian businesses, high interest rates, costs and customs duty, and underhanded business practices in SMEs.

**4.1.5.2 Strategies Organizations Use to Counter the Challenges of the External Environment**

The study sought to investigate what organizations do to counter the challenges of the external environment. Figure 4.5 presents the findings.



**Figure 4 -5: Strategies that Firms Use to Counter External Environment**

Table 4.5 shows that most of the respondents as shown by 22 percent said that they implement customer relationship management strategy, 17 percent of pharmaceutical firms employ improved service quality as their competitive strategy. Another 17 percent said that they focus on distribution strategy. The study further indicates that 13 percent of the respondents said that they cooperate with other competitors, another 13 percent of respondents said that they employ defensive strategy. 9 percent of the respondents said that due to changes brought by technology, they always train their staff in that type of new technology. Lastly, 9 percent of the interviewees said that they employ response strategy. This implies that for every firm to survive in a turbulent business environment, it has to choose and implement one or several strategies. The findings concur with Porter (1998) who asserts that companies need to respond to competitor strategies by counter attacking with increasing advertising expenditures, cutting prices, increasing innovation and introducing new products, or even accommodating the entrant by doing nothing or decreasing level of marketing effort.

The findings are also supported by Lynch (2009) who demonstrates that organizations that cooperate with rivals can deliver better value to customers and create competitive advantage over other stakeholders. The study further shows that defensive strategies entail that companies primarily react to changes in the industry and use it to counter, for example, unexpected shifts in buyer tastes and technological breakthroughs.

### **4.3 Chapter Summary**

This chapter has presented the findings of the study whereby a number of issues were revealed. Competitiveness at firm level represents the potential or capability of a firm to survive and grow. In so doing they have to make strategic choices. The choice of strategy is fundamental to a company to compete. The study has revealed that pharmaceutical firms employ various competitive strategies namely cost leadership, differentiation, pricing and focus strategies.

The study has revealed that there are many factors that influence pharmacies to make strategic choice and these are customers, competition, products and suppliers. The study further revealed that pharmaceutical firms face a lot of challenges namely price wars, counterfeit drugs, lack of healthcare infrastructure, local competition, lack of government support, non-transparent contracting and tenders, lengthy product registration processes among others.

The study has recommended that pharmacies should employ defensive, response strategies, relationship management, training of staff and service quality among the ways to use in order to counter external environmental challenges.



## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter covers conclusions and recommendations made on the competitive strategies that pharmaceutical firms use in Malawi.

#### **5.1 Conclusion**

Several conclusions can be drawn based on the objectives of this study;

- (i) From cost leadership strategy perspective, it is concluded that as a competitive strategy affects the performance of the pharmacies in Lilongwe Urban only to a small extent.
- (ii) The study further concludes that consumer demand, product attributes, market and economic trends affect the private pharmacies while finding a product's optimum price to a great extent.
- (iii) The study further concludes that private pharmacies use knowledge from past experience and improved service quality in response to demand strategy and also in response to changes on the market.
- (iv) In relation to focus strategy, the study concludes that geographical area (market niche where buyers have distinctive preferences) and customer group or buyer characteristics inform focus strategies by pharmaceutical distributors in Lilongwe Urban to a great extent.

## 5.2 Recommendations

In view of the findings of the study the following recommendations are made;

- (i) Since marketing of pharmaceutical products is regulated, the study recommends that pharmaceutical firms should use price discounts to corporate customers and do personal selling in a bid to stay competitive in the market to a great extent.
- (ii) Pharmaceutical firms should be flexible enough to pay close attention to buyers' distinctive preferences. This will ensure that the buyers needs are satisfied and in the process stabilizing the sales volume as the buyer gains trust with the pharmaceutical company.
- (iii) Pharmacies in Lilongwe Urban should allocate more resources to research in order to determine customer changing needs. This will enable the pharmacies to achieve growth and gain competitive advantage. They should also focus more on diversification strategies that would enable them to increase their revenue base.
- (iv) Pharmacies in Lilongwe Urban should venture into markets outside the country and tap on the customer base in neighboring countries.
- (v) There is need to address the pharmaceutical sector critical constraints that require the government to adopt an overarching vision of partnering with private sector and donors to expand demand and value added within the pharmaceutical sector and facilitate entire population participation in this growth. Government must see its role as a facilitator and not a controller of economic activity.
- (vi) The government needs to develop effective marketing systems in the pharmaceutical sector by providing political and social economic changes in the efforts to give priority to pharmaceutical sector for the sector to be effective. There is need for initiatives to be taken to create a sustained and stable competitive strategy and for regional demand to be able to adjust to foreign technologies needed in the industry.

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## APPENDICES

### Appendix 1: Questionnaire Introductory Letter

#### INTRODUCTION

My name is Steven Davis Mathuwa and I am currently studying with The Malawi Polytechnic, a constituent of the University of Malawi pursuing Executive Master of Business Administration.

In order to fulfill the requirements of the course, I am doing a research on *Assessment of Competitive Strategies of Private Pharmacies in Lilongwe Urban*.

Attached are some questions that I am requesting responses from you. I would like to assure you that the information which you will provide will be strictly confidential and will not be referred to by name in the final report.

The questions should take you about twenty minutes to complete. If you have any question, please contact me on 0999969681/0888523438 or on email on [mathuwas@gmail.com](mailto:mathuwas@gmail.com)

Finally, I would like to thank you sincerely for taking your time to help me.

Yours faithfully,



Steven D. Mathuwa

## Appendix 2 -Questionnaire for Pharmacies

### SECTION A: GENERAL INFORMATION

NOTE: Tick what is applicable

#### PART (A): Demography

1) **Gender:**

A: Male [1] B: Female[2]

2) **Age range:**

A: 18 to 24 (Youth) [ 1 ]

B: 25 to 35 (Middle aged) [ 2 ]

C: 36 to 45 (Aged) [ 3 ]

D: 46 and above (Very Aged) [ 4 ]

3) **Highest level education**

A: Masters Degree [ 1 ]

B: Undergraduate Degree [ 2 ]

C: College Diploma [ 3 ]

D: Other (specify.....) [ 4 ]

4) **How long have you been in business?**

A: Less than three years [ 1 ]

B: 4 to 7 years [ 2 ]

C: 8 to 11 year [ 3 ]

D: 12 years and above [ 4 ]

(5) Ownership of the firm

- (A) Sole Proprietorship [ 1 ]
- (B) Partnership [ 2 ]
- (C) Ltd Liability Co. [ 3 ]

(6) Number of employees

- (A) 1-5 [ 1 ]
- (B) 6-10 [ 2 ]
- (C) 11-15 [ 3 ]
- (D) Above 15 [ 4 ]

**PART (B): Detailed survey questions**

(7) How do you rate competition in pharmaceutical industry in Malawi?

- (A) No Competition [1 ]
- (B) Weak [2 ]
- (C) Strong [3 ]
- (D) Very Strong [4 ]

(8) If competition is stiff, what would you consider as your company's strategies for competing effectively in the market?

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(9) What factors influenced your business in choosing these competitive strategies?

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-----

(10) What kind of challenges do you face in your business?-----

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-----

(11) Do you consider the organization strategic response adequate? -----

-----  
-----

(12) What strategies do organizations use to counter the challenges of the external environment?

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-----  
-----

## Appendix 3: Reference Letter



### THE POLYTECHNIC

PRINCIPAL  
Professor Grant Kululunga, PhD. Eng., MSc. Eng., BSc. Eng., MASCE

Our Ref.: 34/F/2  
Your Ref:  
Date: 7<sup>th</sup> September 2016

Please address all correspondence to the Principal  
The Malawi Polytechnic  
Private Bag 303  
Chichiri  
Blantyre 3  
MALAWI  
Tel: (265) 01 870 411  
Fax: (265) 01 870 578  
E-Mail: principal@poly.ac.mw

#### TO WHOM IT MAY CONCERN

#### ASSISTANCE TO CARRY OUT AN ACADEMIC RESEARCH FOR MBA DISSERTATION: MR STEVEN DAVIS MATHUWA


I write to certify that *Mr Steven Mathuwa* is a University of Malawi Postgraduate student who is pursuing a Master of Business Administration Degree course at the Polytechnic.

One of the important requirements of this degree programme is that students carry out research project known as dissertation in the final semester. This introduces the student to the methodology of research, the systematic analysis of ideas, the problems of data collection and the presentation of ideas in a clear and coherent way. *Mr Mathuwa* is currently working on his MBA dissertation titled "Assessment of competitive Strategies that Private Pharmacies in Malawi Use: A Case of Lilongwe Urban Pharmacies".

I am therefore writing to ask for your kind assistance in allowing *Mr Mathuwa* access to carry out his research in your organization and help him with any information/literature that your organization may have on the topic of his dissertation.

Your assistance in this matter will be of greatest importance and highly appreciated and any information that may be provided will be treated with utmost confidentiality.

Yours faithfully

  
E.J. SANKHULANI, PhD  
MBA COORDINATOR  
MANAGEMENT STUDIES DEPARTMENT

