

Micro-environment influences on pricing strategy in Saudi private sector hospitals: an empirical investigation

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Abstract. Marketing management's job is to build and maintain a strong and long run relationship with target customers by creating value, satisfaction, and loyalty. As a result, marketing success requires building relationships with competitors, suppliers, patients, and third party payers, which combine to make up the hospital's value delivery network. Therefore this research investigates the influence micro environment factors have on the pricing strategy in private hospitals made by the hospital managers. This study proposes and tests a four factor micro environment model that explains the considerable variation in pricing strategy in the hospitals. These factors include competitors (C), suppliers (S), patients (P), and third party payers (TPP). In order to explore this issue, a triangulation method was used to collect primary data through a questionnaire, which was administered in the private sector hospitals in Jeddah city in Kingdom of Saudi Arabia (KSA) and, via in-depth semi- structured interviews with hospital managers and experts in the health services in KSA. The researchers were targeted 19 out of 34 hospitals in this research as representative's sample rather than whole population. A purposive sampling strategy was used to choose the participants in this research. In total, 122 senior managers (including general managers, administrative managers, medical managers, public relation managers, nursing manager, and out patients clinic managers) participated in this study. The results confirm significant differences in the influence of micro environment factors on pricing strategy. Furthermore, the results show that the hospitals might benefit further by placing more emphasis on an integrated pricing strategy and recognising the micro environment influences on their hospitals. The results also highlight several implications for future research in health services marketing and fill in several gaps in the existing literature on health services marketing.

Keywords: Micro environment, pricing strategy, KSA.

1. INTRODUCTION

Today's business environment is characterized by rapid change, knowledge explosion, technological advancement, and intense competition (Cummings, 1990). Some theorists are calling for major changes in the way service organizations as well as manufacturing organizations function (Handy, 1990; Snow et al, 1992). The environmental turbulence that has been created by health care reform and enhanced competitive pressures of the marketplace has resulted in hospital executives attempting to aggressively formulate and implement strategies that are most closely tied to their hospitals' distinctive competences and the executives' perception of their external environment. What strategies will ultimately be most effective in the future is still undecided. Hospital executives face a myriad challenges ranging from higher patient expectations to lower costs and possibly a restructuring of the total health care system due to the changing economics of health care (Green, et al, 1995; Yezdi et al, 1997; Ahmad, 2007). Micro environments are changing at an accelerating pace, leading to a high level of uncertainty. This growing uncertainty is the result of greater customer expectations, the dilution of borders between micro environments, and the move towards global competition. As the level of dynamics in business environments increases, the development of strategies that will differentiate the organization from its competitors becomes the key success factor. Consequently, the study of parameters affecting the

process of strategy development has become the leading focus of industrialists and researchers (Feurer et al, 1996; Ahmad, 2012). The micro environment includes those elements or groups that directly affect, and are affected by, an organization's major operations. A micro environment is often referred to as the industry in which the organization operates (Wheelen and Hunger, 2002). Studying competitive environment factors is an important issue in terms of the increased pressure placed upon hospitals and the competition that exists between hospitals. Any attempt at conceptualizing the term 'micro environment' should, at some stage, involve an attempt to answer certain questions, such as (Ahmad, 2012):

What are the main environments, which influence the organization's pricing strategy?

Savage et al (1991) and Clarkson (1995) classify stakeholders as primary or secondary, based on the type of relationships they entertain with the organization. The primary stakeholders refer to employees, suppliers, customers, and public agencies engaged in formal relationships with the organization. The secondary stakeholder groups include actors such as the media and special interest groups, not engaged in formal transactions with the organization. Beal (2000) suggested that managers of small businesses do collect information on external environmental sectors, particularly customers and competitors, in order to align business strategy. Firms, in growing and maturing industries, should scan various types of information in order to compete more effectively. Such information focuses on competitors and customers independent of the strategy already employed. Later, Fahey (2002) determined the network of relationships it possesses with external entities including customers, distributors, suppliers, and governmental agencies.

The research problem evolves around investigating the micro-environment influences on pricing strategy in Saudi private sector hospitals. Discussions, informal interviews with managers in Saudi private sector hospitals have indicated that micro-environment factors is one of the most critical problems that have influences pricing strategy of the Saudi private sector hospital. This research will try to answer the following question:

Are the micro-environment elements influencing the pricing strategy in Saudi private sector hospitals?

The purpose of this research is to identify the influences of micro environment on the pricing strategy in Saudi private sector hospitals. Findings of this research are useful for the private health sector in formulating appropriate strategies to build adaptation of micro environment by hospital's managers to formulate successful pricing strategy.

2. The MICRO ENVIRONMENT IN HEALTH SERVICES

Conceptually, reform of health care systems changes the environment in which health care organizations operate. Therefore, health care organizations should define the micro environment influences in order to help them adapt to external power effects. Dow (1988) suggested that selective use of "configurational" and "coactivational" prescriptions by organizations may lead to better internal organisational resource responses to external challenges. These structurally related analyses are crucial to correct and modify the responses and performances of hospitals as they re-relate to changing environments. He also mentioned that market segments (or patient groups) must be analyzed for the development of marketing strategies: survival (or defensive) strategies, concentration strategies, and collaborative or cooperative strategies. These strategies may be pursued concurrently. Green et al (1995) suggested however that health care providers must control rising costs, improve productivity and flexibility of human resources, adopt appropriate technologies, and learn to establish and maintain quality and competitive abilities in the marketplace. They also illustrate that health care firms are faced with an extremely uncertain and turbulent environment that makes planning onerous. Begun and Kaissi (2004a) defined the task environment of an organization as including sectors with which the organization interacts more closely and which have a more direct impact on the organization's ability to achieve its goals. They also determined the health task environment factors as including competitors, customers, financial resources, human resources, suppliers, market conditions, and regulators. Begun and Kaissi (2004b) suggested the health care organizations deal with a significant number of external elements. Suppliers, competitors, customers, financial capital markets, government regulatory agencies, institutions, professional associations and labor unions, health care professionals, and insurers-payers are among the major external elements. Swinehart et al (2004) recognized that health care providers require a management approach that takes maximum advantage of those force-driving changes in both the industry and the organizations within the industry. They suggested that the organizations include hospitals, physicians' clinics, home health

agencies, and extended care facilities. These providers of health care must identify new methods obtaining and maintaining market share in order to compete successfully in a market-driven, customer-focused industry. Health care managers usually distinguish between four key role-players within healthcare organizations: providers; purchasers; insurers–financers; and regulators (Lega, 2005).

2.1 Competitors/ health service sector

Porter's typology has considerable utility in describing the traditional role of hospitals in the health care delivery system. Some hospitals follow the classical differentiation strategy, offering a wide range of services, providing all the latest medical technologies and providing an extremely high-perceived level of care. Others are more cost-conscious and attempt to take advantage of economies of scale, operating at close to full capacity. Some hospitals also focus on the type of services provided and are viewed as specialized hospitals. However, these generic alternatives are not flexible enough in describing the strategic orientations apparently emerging (Green et al, 1995; Wu, 2006, Ahmad et al, 2010).

Extensive research has been carried out on competition in health care services, but the findings have been varied. Many of these studies have discovered short-term cost savings (Melnick and Zwanziger, 1988; Doremus, 1992) while others in health care find that competition enhances quality (Higgins, 1991). However, as many studies show, costs increase with competition (Robinson and Luft, 1987). In fact, competition is most useful where there is a choice of willing and able providers and many purchasers, so that spare capacity does not accumulate (Ahmad et al, 2010).

Boonekamp (1994) concludes that with the introduction of regulated competition in health care organisations in this sector, a growing need of instruments for adequate network management is emerging. Recently developed insights in marketing appear to offer clues for handling this issue. They illustrate that marketing is more than simply "client orientation". One of the major changes to have occurred within the health care market is the degree of direct competition between health care providers. Because of this, the need for competitor analysis is now greater than ever before. To take competitor analysis further, health services managers need to focus upon five questions Gilligan and Lowe (1995):

- Who is it that we are competing against?
- What are their objectives?
- What strategies are they pursuing, and how successful are they?
- What strengths and weaknesses do they possess?
- How are they likely to behave and, in particular, how are they likely to react to offensive moves?

It is the answers to these questions that enable the planner to gain a greater understanding of the micro environment and, ultimately, a far clearer idea of the ways in which each competitor is likely to behave in the future (Gilligan and Lowe, 1995).

The current research investigated the extent of considering the competitor as one of the micro environment factors in Saudi private sector hospitals. This research considered competitors are one of the central factors influencing a hospital's pricing strategy.

2.2 Supplier / health service sector

Suppliers constitute a very significant component of a hospital's public input. Basic texts identify suppliers as a major factor influencing marketing effort and pricing strategy (Kotler, 1984). Hospitals are facing increased intra- and intertype competition with alternative forms of health care delivery (Malhotra, 1987). Many scholars (Doyle and Bondereau, 1989; Sjoerdsma, 1995; and Ahmad, 2007) advocated hospital–supplier partnerships as a means to improve productivity, to control costs, and to improve quality of care. They suggest that long-term relationships with suppliers based on trust, service, and effective coordination could lead to efficiencies and improved performance.

For large hospitals such as chains and private hospitals affiliated with sister organisations, linen services may offer growth opportunities. The strategic planning gap between projected and desired sales can be covered in three ways (Kotler, 1984). One is to identify opportunities for growth within the hospital's current markets (intensive growth opportunities). Growth could be achieved by market penetration, market development, or product development. A second is to identify opportunities to build or acquire businesses that are related to the organization's current markets (integrative growth opportunities). Growth could occur via backward integration, forward integration, or horizontal integration. The third is to add attractive businesses that are unrelated to the hospital's current business (diversification growth opportunities). Growth could be achieved by concentric, horizontal, or conglomerate diversification (Malhotra, 1987).

For hospitals, the modelling process and findings suggest a strategy of integrative growth by backward integration; for suppliers, they suggest intensive growth via market penetration and product development. In other words, a supplier can increase market share in current markets with current products (market penetration) and/or by adding new products (product development) (Malhotra, 1987).

Shapiro and Moriarty (1984) show that wise suppliers of health care products are realizing the necessity of supplementing transactional selling with attention to evolving customer needs (Shapiro and Moriarty, 1984).

Further, Doyle and Bondereau (1989) Been and Crawford (2005) suggested that for suppliers to increase their market penetration, they must understand the decision-making process of hospitals as it relates to their services. These hospitals must recognize explicitly that the decision-making process could vary with the state of being characteristics of the hospital. Heinbuch (1996), and Breen and Crawford (2005) remarked that though hospitals of different sizes confront the challenge of finding new ways to increase productivity and quality of health care, some seek a new relationship with their suppliers to help lower costs and improve quality.

The literature indicates that suppliers will continue to play a major role in health care. Suppliers represent a key component of a hospital's public input. Basic texts identify suppliers as a major factor influencing marketing effort and pricing strategy.

2.3 Customer/ health service sector

In today's health care environment, the consumer is king (Bolton, 2002). Competitiveness among health care organizations depends upon patients' satisfaction. Patients' satisfaction is created through amalgamation of responsiveness to the patient's views and needs, and continuous improvement of the health care services, as well as continuous improvement of the overall doctor-patients relationship (Zineldin, 2006).

According to the research findings of the *Consumerism in Health Care: New Voices* (KPMG, 1998) study: "consumers are the driving force in the delivery of health care services ... findings quantitatively support an emerging industry transformation..." whereby consumers are influencing the policy, strategy, operations and investment decisions of health care entities. The health care industry can expect an expanding need to measure and report the quality of performance and related outcomes.

In the profit sector there is a clear exchange relationship between providers and consumers: the first delivers a product and the latter uses and pays for it. In health care, however, such a direct exchange relationship is usually absent, as third parties (health insurers, regional health authorities, budget-holding general practitioners) pay for the services. A distinction can be made between consumers as the individuals who actually use a service and customers, the individuals or organisations who pay for it (Hayden, 1993).

Walker (2004) argues that there is an urgent need to improve quality of care by using the information provided by patient complaints.

In the healthcare sector, service recovery covers a broad and complex range of issues. These can be relatively minor, from length of waiting time in an outpatient department, or ease of securing a car park, to highly complex ones involving clinical competency issues. Where, because of the high level of credence, quality is extremely difficult for the health consumer to assess. However, what may be

considered a potentially “minor” problem or relatively unimportant “moment of truth” from the staff’s perspective can become a matter of extreme frustration for the health consumer and a key indicator of quality (Bendall-Lyon and Powers, 2001).

Wong (1990) suggests that health-care consumers may have become much more sensitive to the price issue. Wong also predicts that consumers will shop for the best value. Consequently, if a hospital’s advertising expenditure is perceived as an additional cost that gets tagged on to patients’ bills, it is likely to be perceived unfavorably. In-depth surveys also revealed strong beliefs that customers have to bear the costs of hospital advertising, and this was not favorably viewed. Thus, Andaleeb (1994) proposed that competing for patients may not be the objective of the heavily subsidized healthcare institutions run by the government as they have a moral responsibility to be fully accountable for the efficient use of public resources (Sarji, 1996).

Devlin et al (2002) points out that customers have an implicit range of expectations for each service attribute that they experience. The range that customers consider acceptable is referred to as the “zone of tolerance”. Performance below the zone engenders customer frustration, and performance above it pleasantly surprises customers and strengthens their loyalty.

Based on the customers’ literature review, the consumer is found to be king in health care organizations and is the driving force in the delivery of health care services. As such, customers are influencing the policy, strategy, operations and investment decisions of a health care organization’s entities. The hospital industry can expect an expanding need to measure and report the quality of performance and related outcomes. The current research considered customers are one of the most factors influencing hospital pricing strategy.

2.4 Third party payers

Health insurance can be defined as: the financial funds established to cover, either totally or partially, the cost of treatment for illness or injury. “Health insurance is a means of financial protection against the risk of unexpected and expensive illness. It can also be a form of savings set aside to cover relatively predictable contingencies (annual medical check-up, for example) facing individuals or households” (Kutzin, 1995).

Hence, health insurance has two purposes: first, it is a way of raising all or part of the money to pay for health care; second, it is a way of securing the provision of services. Each view has to be considered alone, as either income or expenditure (Abel-Smith, 1992).

For countries heavily dependent upon government support of health care and curative services, government indirectly bears the risk of incurring high cost care; therefore, in many countries there is, at present, no way to arrange any kind of risk sharing with other parties. Health insurance in these countries is accessible to relatively small formal groups of people; but, in the industrialized and middle-income countries, various forms of insurance are more widespread. Some impose and apply a universal insurance programme i.e. most of the European countries, Canada, and Japan. These countries finance their insurance programmes through payroll taxes and/ or general government revenue. Other countries apply a voluntary type, administered by a third party and financed by employer and employee contributions, such as the system operate in the USA (Kutzin, 1995).

It is the interaction between *market demand* and *market supply* that determines the price. Once market price is equal to market demand, a *competitive market equilibrium* exists. In other word, there is no pressure on the price to change upwards or downwards. A *market supply schedule* illustrates what amount of goods and services will be offered for sale at each different market price during a given period of time. A *market demand curve* depicts the same price-quantity relationship but in a more understandable way (Rawabdeh, 2005).

The payment of doctors can be made in one or more of three methods: (a) as fee for services rendered; (b) on a per head basis “capitation”, and (c) by salary. Crucially, the type of reimbursement offered by an insurance company (if fee-for-service) can influence utilisation through the supply-induced demand

principle (Gaal et al, 2005; Badia et al, 2006).

Rates of hospitalisation engendered by health insurance schemes also present their own concerns. If insurance schemes do not run their own hospitals, there are four basic methods of payment for hospital care: (1) a fee for services rendered; (2) a rate per bed day; (3) a lump sum payment related to the numbers of patients insured and/or the numbers of beds available to insured people; and (4) a reimbursement method that reflects the case severity and complexity of those treated. In this last case, a strict control mechanism may need to be established to prevent cost escalation, and to assure quality control (Normand and Weber, 1994).

Analysis of insurance companies' response to environmental change following implementation of the National Health Insurance/USA Law revealed a number of strategies, which are classified into two categories (Heese, 2006):

- Strategies oriented toward the institutional environment (i.e., attempts to satisfy or influence state regulatory bodies).
- Strategies oriented toward the competitive environment (i.e., attempts to satisfy customers and compete with other health insurance companies).

Third party payers can also be considered customers of a health care providing organisation. Relationships with them are worthy of separate attention in terms of interdependence and possibilities for influencing these relationships by the hospitals.

The discussion of literature review in this research detailed the micro environment analysis as a significant influence on the pricing strategy in organizations. This research tried to find out what factors included in the micro environment were conducted in the service organizations in general and private sector hospitals in particular. In this context, four micro environmental factors were discussed. These factors are competitors, suppliers, customers/patients, and third party payers.

3. PRICING STRATEGY

Customer satisfaction in addition to profitability and long term survival (Avlonitis and Indounas, 2005) is a marketing concern of service organizations. Nagle and Holden (1995) point out that if effective product development, distribution and promotion sow the seeds of organization success; efficient pricing strategy is the harvest. While effective pricing strategy can never compensate for poor execution of the first three elements, ineffective pricing can surely avoid those efforts from resulting in financial success.

The price strategy should be integrated and consistent with the other marketing mix strategies in the hospital to achieve the organization objectives (Palmer, 2001). Price is one of the fundamental elements of the services marketing mix (Lovell, 2001; Palmer, 2001). Some researchers (Lovell, 1996, Harrison, 2000; and Shipley and Jobber, 2001) have suggested that pricing is the only factor of the marketing mix strategy that produces revenues for the organization, whereas all the others are related to expenses. Diamantopoulos (1991) has argued that price is the most flexible element of marketing strategy in that pricing decisions can be implemented relatively quickly in comparison with the other elements of marketing strategy. The degree of complexity of pricing strategy amongst the service sector is comparatively significant due to the high degree of homogeneity between most service groups and shared service delivery and operating systems (Gouvea et al, 2001). However, the most important concern in this research is investigating the Saudi hospital managers' perceptions of different pricing strategies that are being used when they formulate their strategies.

3.1 Pricing methods

Costs play a significant part in the pricing of health services. Managers must consider corporate objectives as well as costs when setting hospital prices. Purely covering costs is unsatisfactory in view of the fact that the hospital needs to meet its monetary objectives and generate a profit. In addition to cost consideration, hospital pricing strategy is usually influenced by consumer price elasticity. Price elasticity of demand measures the responsiveness of the quantity demanded of a service to any change in price. Segmentation approach supports the notion that disparate groups of consumers will place

dissimilar values on a service, and therefore require different pricing strategies, (Nagel and Holden, 1995; Palmer, 2001; Avlonitis and Indounas, 2005).

While the pricing objectives provide general directions for action, later Oxenfeldt (1983) defines pricing methods as the explicit steps or procedures by which firms arrive at pricing decisions. A comprehensive review of the literature of pricing of services identified twelve pricing methods falling into three large categories namely cost based, competition based and demand based. The three principle methods of pricing which Lovelock and Wright (1999) identify as the pricing Tripod can be used in Saudi private hospitals. They are:

3.1.1 Cost-based methods

Cost-plus method – a profit margin is added to the service's average cost. Target return pricing – the price is determined at the point that yields the firm's target rate of return on investment. Break-even analysis – the price is determined at the point where total revenues are equal to total costs. Contribution analysis – a deviation from the breakeven analysis, where only the direct costs of a product or service are taken into consideration. Marginal pricing – the price is set below total and variable costs so as to cover only marginal costs.

3.1.2 Competition-based methods

For a competitive-oriented pricing approach, the price is set to meet the market competitive situation. As in the following approaches: Pricing similar to competitors or according to the market's average prices. Pricing above competitors, pricing below competitors, pricing according to the dominant price in the market – the leader's price that is adopted by the remainder of companies in the market.

3.1.3 Demand-based pricing

Perceived-value pricing – the price is based on the customer's perceptions of value. Value pricing – a fairly low price is set for a high quality service. Pricing according to the customer's needs – the price is set so as to satisfy customer's needs.

Accordingly, pricing strategies depend on recognizing the value to the customers (patients), health service costs, competition, government, and offered technology (Van Raaij, 2005).

4. RATIONALE FOR RESEARCH

This research seeks to make an original contribution to knowledge by investigating the impact of micro environment factors on pricing strategy in the health care industry in Saudi Arabia. This research contributes to the services marketing discipline in finding out the role of micro environment in delivering a better health service within the service sector. It investigates the latter so as to demonstrate the uniqueness of service organization and the importance of the service. Micro environment factors namely, competitors, suppliers, customers/patients, and third party payers are the focus of this study as they all have an influence on pricing strategy. As such, this study attempts to contribute to the marketing knowledge and health services marketing in particular by looking at the impact of these four dimensions on pricing strategy. This research has dealt with a neglected area in KSA, which is the marketing of health services. It is considered as new research in the diffusion of marketing in the area of health services to gain an understanding of the relevance, effect and contribution of micro environment to the Saudi private sector hospitals. Such contribution will be beneficial both academically and professionally. Academically, this work aims to focus academic attention upon a neglected domain in the context of this research. And, professionally, managers will also look at the practical implications of such effort and the possibility of implementing the implication of this research in their actual relationships with their stakeholders (micro environment factors). The research design and methodology that are specifically developed for the purpose of this research should assist researchers to conduct research projects in the field of health services marketing area in the developing countries.

5. RESEARCH OBJECTIVES

1. To identify the factors which constitute the micro environment components for Saudi private sector hospitals.
2. To determine what influences the micro environment factors have on the pricing strategy in Saudi private sector hospitals.

6. RESEARCH METHODOLOGY

6.1 Population and sample

This research is a descriptive and analytical study that describes the nature of the relationship between the micro environment and pricing strategy in Saudi private sector hospitals. The research population consists of the private hospitals in the Kingdom of Saudi Arabia. The population in this research is defined as all the hospitals of the Jeddah governorates in Western Region which are licensed as general private hospitals by the Ministry of Health. The number of hospitals included in the research population for this study was 19. These were classified according to size.

Hospitals in Saudi are either government hospitals (Ministry of Health, Ministry of Defense, Ministry of Interior, National Guard Hospitals, and university hospitals), private hospitals or hospitals run by charitable organizations e.g. Crescent Hospitals.

The hospitals were classified according to the number of available beds: large hospitals (300 or more than beds) medium hospitals (150-299 beds) and small hospitals (less than 150 beds). Although there are a number of classifications for hospital size, the one depending on bed capacity was used because it is the most popular measure internationally (American Hospital Association, 1991).

6.2 The research respondents

The research was conducted with the senior management teams in the Saudi private hospitals. These teams included the following; general director, medical manager, administrative manager, nursing manager, marketing manager, public relations manager, and out-patient clinic manager.

The rationale for selecting these respondents is that they have more access to the knowledge and data being studied as a result of their greater responsibility for managing strategies involving environmental factors than the lower level managers in the hospitals.

The researcher gathered 122 questionnaires out of 158 distributed, yielding a response rate of 80% (Table 1). Respondents typically held purposive sample. It should be noted that every questionnaire was personally handed and instructions were given to each manager before completing the questionnaire. Regarding to educational levels of those managers (53%) were bachelor degree holders, (39%) of them were master and PhD degree holders and the remaining (8%) were diploma degree holders. In terms of the age group of respondents, it is interested to note that (35%) of them are fell into (41-50) years, whereas (27%) fell into (51-60), at nearly close percent rate (23%) fell into 30-40, and the remaining are divided between age under 30 (7%) and over 60 years old (8%). In terms of the type of academic background of those managers, the majority (67%) was administrative specialty, and the rest (33%) of these, were medical background. In terms of experience 32% fell into (16-20) year's experience, where as the least experience years (6%) fell into less than 5 years. Regarding the position the majority of research respondents 24% for medical department managers, where as the administrative mangers 15%. Regarding to hospital size (73%) were small hospital staff, (11%) middle size, the remaining (16%) were big hospitals.

Table 1 Demographic Data (N=122)

Demographic	No.	%
<i>Age</i>		
Under 30	8	7
30-40	28	23
41-50	43	35
51-60	33	27
Over 60	10	8
<i>Education Level</i>		
Secondary school or less	0	0
Diploma Degree	8	8
Bachelor Degree	64	53
Master or PhD Degree	48	39
<i>Academic Background</i>		
Medical	40	33
Administrative	82	67
<i>Experience</i>		
Less than 5	7	6
5-10	21	17
11-15	33	27
16-20	39	32
Over 20	22	18
<i>Position</i>		
General Director	4	3
Medical Manager	16	13
Administrative Manager	18	15
Medical Departments Managers	30	24
Administrative Departments Managers	21	17
Out Patient Clinic Manager	8	7
Marketing Manager (if any)	9	8
Public Relations Manager	16	13
<i>Hospital Size(N=19 hospital)</i>		
Less than 150	14	73
150-299	2	11
300 and Plus	3	16

6.3 Data collection

The research questionnaire was designed on the formats of previous empirical literature. The questionnaire design was pre-tested and redesigned through personal interviews with managers from different private hospitals sector undertaking the pilot study work (Aaker et al, 2001).

The research questionnaire was used as primary data collection method. The components of micro environment and pricing strategy items were measured on 5-point Likert- scale ranging from 5 (strongly agree) to 1 (strongly disagree). For the micro environment and pricing strategy dimensions, the research respondents were asked to indicate the degree of agreement or disagreement on the micro environment items that used in order to achieve pricing strategy. Consistent with the literature, the scale items selected for the dependent variable were direct measures of pricing strategy with influences received from micro environment as independent variables. This format has been recommended for marketing and health services surveys.

7. ANALYTICAL APPROACH

The basic hypotheses conceive that micro environmental elements influence pricing strategy.

More particularly, it assumes that micro environment in hospitals can lead to a successful and superior pricing strategy in the Saudi health market. On the other hand, a dynamic micro environment could lead to lower performance. To test this relationship we employed a multiple regression model because the interactive multiple regression modelling approach has been proposed as an effective method for studying interactive relationships (Cohen & Cohen, 1983).

7.1 Research hypotheses

Based on the micro environment elements and the pricing strategy the researchers formulated a number of hypotheses to assist in investigating the research problem and fulfilling its aim and objectives.

The hypotheses were based on examining the effect of micro environment elements on the pricing strategy of Saudi private sector hospitals.

The general hypothesis is:

H1: micro environment factors have a positive significant influence on the pricing strategy in Saudi private sector hospitals.

This general hypothesis was divided into four sub-hypotheses:

H1a- competitors have a positive significant influence on the pricing strategy in Saudi private sector hospitals.

H1b- suppliers have a positive significant influence on the pricing strategy in Saudi private sector hospitals.

H1c- patients have a positive significant influence on the pricing strategy in Saudi private sector hospitals.

H1d-third party payers have a positive significant influence on the pricing strategy in Saudi private sector hospitals.

7.2 Multiple regression analysis

Table 2 shows the correlation matrix, which presents the value of the Pearson correlation coefficient between every pair of variables (Table 2), the 1-tailed significance of each correlation and the number of cases contribution (table 3) to each correlation (N=122). With regard to the relationships among predictors and the outcome, (4) out of (4) micro environment factors had a significant positive correlation with the pricing strategy at which shows the influence of the micro environment factors on pricing strategy. Between the other predictor variables “micro environment factors”, and the outcome factor “pricing strategy” Pearson correlation results ranged from (0.866 – 0.602) with the correlation of all 4 positive micro environment factors items being significant ($p < 0.05$).

Table 2. Micro Environment and Pricing Strategy.

Pearson Correlation					
	Pricing Strategy	Competitors	Suppliers	Patients	TPP
Pricing Strategy	1.000	0.754	0.602	0.866	0.652
Competitors	0.754	1.000	0.316	0.342	0.432
Suppliers	0.602	0.316	1.000	0.236	0.327
Patients	0.866	0.342	0.236	1.000	0.235
TPP	0.652	0.432	0.327	0.235	1.000

Table 3. Micro Environment and Pricing Strategy.

Sig. (1-tailed)	Pricing Strategy	Competitors	Suppliers	Patients	TPP
Pricing Strategy	—	0.001	0.003	0.031	0.032
Competitors	0.001	—	0.167	0.345	0.044
Suppliers	0.003	0.167	—	0.002	0.122
Patients	0.031	0.345	0.002	—	0.067
TPP	0.032	0.044	0.122	0.067	—

However, among all the predictors, patients correlates best with the pricing strategy in that it has highest positive correlation with it, which is also significant: ($r = 0.866$, $p < 0.05$). Therefore, it is likely that this variable will best predict and/ or explain the variance.

Table 4. Coefficient of the Multiple Regression Model/ Pricing Strategy.

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
Constant	0.654	0.456	—	1.435	0.154
Competitors	0.346	0.077	0.360	4.494	0.000
Suppliers	0.192	0.058	0.224	1.583	0.0116
Patients	0.185	0.086	0.286	0.994	0.022
TPP	0.172	0.079	0.167	2.167	0.032
Dependent Variable: pricing	R² = 0.693		Adjusted R² = 0.781	F = 11.720	P < 0.05 strategy

Research Design of a Multiple Regression Analysis (Predictors of Pricing Strategy)

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + E$$

Y = the predicted value on the pricing strategy; B_0 = the Y intercept, the value of Y when all X s are zero; X_1 = Competitors (C); X_2 = Suppliers (S); X_3 = Patients (P); X_4 = Third party payers (TPP); B = the various coefficients assigned to the IVs (Independent Variables) during the regression; E = an error term

$$\text{Pricing Strategy} = f(C, S, P, TPP)$$

As shown, the pricing is the dependent variable in this model, while competitors, suppliers, patients, and third party payers are independent variables.

R square is 0.693 as displayed in table (4) and the adjusted R square for the four variables is 0.781, which means that these four variables explain through such a model, about 70% of the variance of the pricing dimension. However, viewing table (4) shows that four out of four variables having a significant effect. Of the four significant variables, competitors appear to have the greatest positive impact on pricing strategy based on the size of its beta coefficient. The other three variables were having significant positive impact on pricing strategy (patients, suppliers, and third party payers).

7.2 Discussion of the hypothesis relating to the effects of micro environment factors on pricing strategy

The hypotheses concerning the potential relationship between micro environment and pricing strategy. The hypothesis was tested by applying multiple regression tests.

Hypothesis H1: micro environment and pricing strategy

Micro environment factors have a positive significant influence on pricing strategy in Saudi private sector hospitals.

Empirically the model assumed that micro environment factors influence pricing strategy in Saudi private sector hospitals. It also predicted that the influence of such factors on pricing strategy would differ according to personal variables such as the respondent's position, academic background, and organisational variables, such as hospital size.

The results of the multiple regression analysis have indicated that there is a variation in the effect of micro environment factors on the pricing strategy. There is significant empirical evidence in this research indicating that micro environment factors have a different degree of influence upon the pricing strategy.

The empirical evidence presented the view that micro environment factors have a fundamental role to play in the pricing strategy of Saudi private sector hospitals.

7.2.1 Competitors

Hypothesis H1a: Competitors and pricing strategy

Competitors have a positive significant influence on pricing strategy in Saudi private sector hospitals.

Competitors are considered as one of the influential factors on the Saudi private sector hospitals. In Saudi's health market there are various kinds of competitors. Among them are the following:

- External competitors: some patients especially those who are wealthy in Saudi, prefer to have their treatment outside the country e.g. in American and European hospitals.
- Internal competitors: MOH hospitals, Armed Forces hospitals, National Guard hospitals and university hospitals. Patients choose these hospitals for various reasons. For example, King Fahd Military Hospital one of the Armed Forces hospitals, is highly renowned for open heart surgery by its high caliber staff. In addition it offers free prices for those who are suffering from Cardiac diseases. For these reasons many patients prefer to attend such a hospital.
- Lastly, competition within the same sector. This is because Jeddah city has 34 general private sector hospitals, and 15 specialty private hospitals.

These findings are not surprising. When Saudi private hospitals challenge all these competitors, this might impact positively on the improvement of health services for all and pricing strategy. Boonekamp (1994) concludes that with the introduction of regulated competition in health care organizations in this sector, a growing need of instruments for adequate network management is emerging. Recently developed insights in marketing appear to offer clues for handling this issue.

7.2.2 Suppliers

Hypothesis H1b: Suppliers and pricing strategy

Suppliers have a positive significant influence on pricing strategy in Saudi private sector hospitals.

This finding is consistent with other researchers' findings. Kotler (1984) identified suppliers as a major factor influencing marketing effort and strategy. Doyle and Bondereau (1989) advocated hospital-supplier partnerships as a means to improve productivity, to control costs, and to improve quality of care. They suggest that long-term relationships with suppliers based on trust, service, and effective coordination could lead to efficiencies and improved performance.

For hospitals, the modelling process and findings suggest a strategy of integrated growth by backward integration; for suppliers, they suggest intensive growth via market penetration and product development. In other words, a supplier can increase market share in current markets with current products (market penetration) and/or by adding new products (product development) (Malhotra, 1987; Swayne et al, 2010; Armstrong and Kotler, 2013).

Further, Breen and Crawford (2005) suggested that for suppliers to increase their market penetration, they must understand the decision-making process of hospitals as it relates to their services. These hospitals must recognize explicitly that the decision-making process could vary with the state-of-being characteristics of the hospital.

Heinbuch (1996), and Breen and Crawford (2005) remarked that though hospitals of different sizes confront the challenge of finding novel means to increase productivity and quality of health care, some seek a new relationship with their suppliers to help lower costs and improve quality.

7.2.3 Customers/patients

Hypothesis H1d: Customers/patients and pricing strategy

Customers/patients have a positive significant influence on pricing strategy in pricing strategy private sector hospitals.

A further examination of the results of the multiple regression analysis has indicated that the customer is the most influential factor on the pricing strategy.

A prerequisite for survival and growth is that both the hospital and its patients and other customers have an interest in their joint relationship. In other words there should be a win-win situation. Improve the health service quality, reduce the waiting times etc – these factors build an effective relationship and increase the hospital customer base in the long run. Patient satisfaction is considered to be of limited value, unless the hospital has environmental control as well. By building up communication networks between the hospital and its environment “...management can convert uncontrollable environmental forces into controllable relationships” (Anderson, 1991).

It is important to state that local patients represent a central influence on the Saudi private sector hospitals for diverse reasons e.g. the variety of parties, which provide the health services for Saudi people. For this reason the patient has the option to select between the health service providers, MOH, Armed Forces hospitals, National Guard hospitals, , or private hospitals. In the same vein, the foreign patient can select some of the aforementioned parties.

Because of the high degree of competition between the health services providers in Saudi Arabia, patients evaluate the health services between providers depending upon the quality of health services and the costs for diagnosis and therapy procedures and treatment.

According to the research findings of *Consumerism in Health Care: New Voices* (KPMG, 1998) study: "consumers are the driving force in the delivery of health care services ... findings quantitatively support an emerging industry transformation..." whereby consumers are influencing the policy, strategy, operations and investment decisions of health care entities. The health care industry can anticipate an expanding requirement to measure and report the quality of performance and related outcomes.

Wong (1990) suggests that health-care consumers may have become much more sensitive to price issues. Wong also predicts that consumers will shop for the best value. Consequently, if a hospital's advertising expenditure is perceived as an additional cost that gets tagged on to patients' bills, it is likely to be perceived unfavorably. In-depth surveys also revealed strong beliefs that customers have to bear the costs of hospital advertising, and this was not favorably regarded.

7.2.4 Third party payers

Hypothesis H1e: Third party payers and pricing strategy

Third party payers have a positive significant influence on pricing strategy in Saudi private sector hospitals.

A further examination of the results has indicated that the third party payer is an influential factor on the pricing strategy in Saudi private sector hospitals. Within health services third party payers are considered to be those who pay for a health service as opposed to the service users.

From the above discussion on the influence of micro environment factors on the pricing strategy in the Saudi private sector hospitals, it can be concluded that marketing in this industry means much more than trying to construct lengthy relationships with consumers alone. This does not mean however that the consumer orientation – one of the basic concepts of marketing – is of minor importance in health care.

8. RESEARCH CONCLUSION

Competitors

The quantitative data analysis in the Saudi private sector hospitals indicates that the most influential factor is the size and magnitude of the local competition in the Saudi health market. This refers to the extensive number of licensed private hospitals; 34 hospitals and various kinds of health sectors in KSA (MOH, Armed Forces, National Guard, and private hospitals). The external competition from non-Saudi hospitals, which invest in the local market, is insignificant. The rationale behind this is that there is no external investment in Saudi private sector hospitals e.g. American hospitals.

Suppliers

The data analysis in the Saudi private sector hospitals indicates that the most influential factor is the up-to-date methods for the diagnosis and therapy of diseases and health problems. This refers to high competition in the Saudi health market which leads to the majority of the Saudi private sector hospitals desiring possession of these technologies to compete successfully within the Saudi health market. As such, as a result of utilizing this up-to-date technology they can satisfy their customers' needs and wants where they actually install and run these technologies. The internal supplier in the Saudi market is a significant influence on Saudi private sector hospitals. Because of this most Saudi private sector hospitals depend on the internal supplier when they require any medical equipment or technology. The rationale behind this reason is that most Saudi suppliers are representatives for global companies in the medical equipment field.

Customers/Patients

The quantitative data analysis in the Saudi private sector hospitals indicates that the most influential factor is the internal customer base. This refers to the wide range of options between health services providers such as MOH, and National Guard. Accordingly, customers in Saudi Arabia have alternatives when choosing between sectors and, between hospitals in the same sector.

Third Party Payer

The quantitative data analysis in the Saudi private sector hospitals indicates that the most influential factor is the self-insured companies and associations. The rationale underlying this reason is that the majority of large companies in Saudi e.g. Saudi Airlines, ARAMCO, and electricity company.

The Relationship between Micro Environment Factors and Pricing Strategy

1. Researchers besides health organizations are encouraged to regard the whole picture of relationships among the external micro influences considered in this research. Generally, researchers and practitioners place more emphasis on end results like market share, profit and revenue, ignoring the importance of the source of these outcomes. In particular this research would encourage managers and academics to award greater attention to the pricing strategy aspect and to scrutinize its outcomes.
2. In relation to the application of the marketing model in Saudi private sector hospitals, two barriers exist. The first is that most private hospital managers do not consider the elements of micro environment factors as crucial inputs. Micro environment information about – the policy of foreign investment, external competition, up-to-date medical technology, health insurance, patient preferences, and suppliers' influence are not utilized. Micro environment information is not used, not because of the lack of policy knowledge, but because of a scarcity of information about how far the policy will produce effective demand, due to the lack of marketing analysis in those hospitals from one side and a lack of information about volume of demand and the type of patients who require these services.
3. Competitors are additionally a significant influential factor on pricing strategy. For this reason it is an important consideration given the attention by hospital managers to investigate the number of competitors in the health market and the kind of competition in the Saudi health market if there are any external competitors that influence the hospital. As such, hospital managers must investigate their patients' personal needs and wants in order to become aware

of the local and international competitors especially where unique specialists in different fields of medicine are to be found.

4. Regarding competition, hospitals surveyed- faced competition from both other hospitals and in the same sector (direct competitors) or from various sectors like MOH, National Guards, and teaching Services hospitals.
5. Some people in Saudi still prefer to receive their health services outside KSA, specifically in America, and some European countries, which represent the external competitors to all Saudi hospitals.
6. The supplier environment provides a marketing opportunity for some Saudi private sector hospitals to benefit through using up-to-date medical technology and their technically specialized labor-skills as a means of competing, balancing the cost of using this technology against the profit gained. This can enhance the quality of health services and reduce the waiting time. On the other hand, it poses a threat to a number of other hospitals, which do not introduce such technology, which is known and needed by the Saudi market. This is due to their increasing awareness in health and illness issues, external competition, and the dearth of benefit from introducing it because of the high cost or the specialized kind of training needed for personnel who are not qualified to use it at the outset.
7. Customer factor is one of the most influential in pricing strategy. It is crucial for both hospital managers and researchers to investigate such factors and to ensure the extent to which hospital comprehends the needs and wants of their customers when they provide them with health services and set their costs. Therefore, how the hospital managers utilize those customers as a strong foundation to recommend the hospital services to other potential customers is paramount.
8. The compulsory health insurance policy for public and private foreign employees and big companies and organizations are the most influential factors in pricing strategy. This represents the major opportunity for Saudi private sector hospitals to increase effective demand and construct good and long running contracts with these organizations.

Theoretical conclusion

The literature review in this research revealed a clear shortage of research on the micro environment factors influencing the service organizations and specifically the pricing strategy (Walsh, 1991; Ehreth, 1993; Green et al, 1995; Swinehart, 1995; Hejase et al, 2000 Begun et al, 2004; Swinehart et al, 2004; Lega, 2005). The specific references only partially covered the micro environment in health industry. Therefore, the present research attempts to fill a gap in the subject of micro environment factors in the private hospitals from the viewpoint of the hospital managers. The research addressed some of the shortcomings in the literature such as the micro environment factors competitors, suppliers, customers/patients, and third party payers, to investigate the micro environment impact on pricing strategy and hospital industry in the hospitals under study herein.

The theoretical underpinning of this study is based on literature from service marketing in general and health service marketing in particular. As such, the effect of micro environment factors upon health care organizations is discussed in details. This further shed light on the importance of exceptional consideration of marketing in service sectors especially in health service provision.

As such, this research is based on one theoretical model. The micro environment factors related to pricing strategy. This model has been modified to develop the proposed research model.

This model has been developed based upon literature from a range of marketing and organization disciplines. Such literature has guided this research in building or integrating a model relating pricing strategy to four micro environment factors including competitors, suppliers, customers, and third party payers.

Empirical conclusion

The empirical conclusion that could be drawn from this research is a multifaceted one. This is mainly because this research had to investigate both controllable and uncontrollable issues (micro environment and pricing). These main empirical conclusions are as follows.

Pricing strategy is a necessary strategy in service organizations to ensure these organizations' success. It is vital to marketing the hospitals in the target market and acts on behalf of the whole hospital or with coordination in dealing with micro environment factors namely competitors, suppliers, customers, and third party payers. These are the factors that the hospital is attempting to win via the marketing strategy application and the services delivered. This research argues that such strategy does not evolve simply by chance, but through a planned effort by the hospital management. Such effort would be insufficient and inadequate without considering four micro environment factors, including competitors, suppliers, customers, and third party payers. The link between these factors and the pricing strategy was based on findings from the literature, pilot interviews, the qualitative study and results of this research sample survey. The framework suggests that pricing strategy as a core construct in this research receives its vital role through the effect of micro environment on pricing strategy.

Limitations and avenues for future research

While this study has provided valuable insight, there are some limitations, which may limit generalisability:

1. There were some difficulties with the distribution of the research questionnaire and the same method could not be used for all Saudi private sector hospitals. Some hospitals, for example, refused to accept the survey; they believed that marketing in health service organizations is unethical; others accepted the survey and volunteered to distribute it to the research sample, while others allowed the researcher to deliver the survey to the research respondents individually. This might have created inconsistency in the data collection process.
2. One major difficulty with this research is that no studies have been previously performed regarding the implementation of micro environment factors influencing the pricing strategy in the health sector. Although this will add to the originality and value of this study, the research will not have the added benefit of learning from others' mistakes.

In conducting this research a number of areas were identified for further research and future study. These areas include:

1. Studying the proposed model in other Arab countries in order to gain more validation for the model and more generalised findings.
2. Studying other service sectors and other health sectors e.g. public sector (MOH hospitals or Ministry of Defence hospitals) in order to develop a model that represents the service sector more generally, rather than representing the private sector hospitals alone.
3. The same model could be used in a comparative study between the service sector and the industrial sector in order to test the differences of micro environment in both sectors and ascertain whether the model could be more standard across a range of industries.
4. Studying other micro environment factors (e.g. hospital itself or public opinion) model appeal more than a four factors model.

In summary, this research makes a positive contribution in the direction of micro environment influences on pricing strategy in the health services. However, this research sought to overcome the limitations it encountered with the most methodological sound techniques and it should be followed by other efforts in the same direction. This research and similar studies will encourage other researchers to engage in more studies regarding the micro environment factors that influence pricing strategy components in the hope that such efforts will improve the relationship between the organization, its managers and its customers with regard to greater mutual and common advantages and benefits.

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