

**EFFECTS OF PERFORMANCE CONTRACTING STRATEGY ON
PERFORMANCE AT NATIONAL HOSPITAL INSURANCE
FUND**

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DECLARATION

STUDENT'S DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

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This research project has been submitted for examination with my approval as the candidate's University Supervisor.

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DEDICATION

This study is dedicated to my beloved parents, Daniel Lyula and Bertha Atsikhungwa who believed in me and have been my support in many ways during my studies, and my siblings, Oscar Mambili, Robert Afwayi, Linda Khamwa, Patricia Khalisa and William Khamasi for their love and support.

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ABSTRACT

Performance Contracting has now become an acceptable strategy for planning and measuring performance in the Kenya public sector. A performance contract like any other contract is a lawfully contract entered into by different parties who agree on the terms and execution of the contract. The use of Performance Contracting strategy in Kenya stems from best practices around the world to ensure efficiency and transparency in public institutions. In the case of performance contracts in Kenya, they are entered into by the government as the manager in favour of the public and ministries or departments or state corporations as the executors of the contracts. Performance contracting in many countries is said to improve performance of organizations. In addition to improving performance, as a strategy it assists in planning for results. The Performance Contracting pre-requisites for organisations are institutional strategic plan, approved budgets and approved procurement plans. This implies that Performance Contracting strategy is a continuous cycle which begins way before the contract is signed by accounting officers in government institutions. This study shall focus on the effect of Performance Contracting strategy on performance at the National Hospital Insurance Fund. There have been many researches on Performance Contracting strategy; however, none has been carried out on its effect in the Kenya health sector and in particular the National Hospital Insurance Fund. This research is a case study which focused on the effect of Performance Contracting strategy on performance at the National Hospital Insurance Fund. The areas that have been discussed are effectiveness, efficiency, relevance and financial viability as measures of performance. The targeted respondents were the senior management, who by and large are responsible for developing the organizational performance contract, negotiation and ensuring its execution. The researcher used an interview guide to collect views, opinions, perceptions, feelings and attitudes from the respondents regarding the effect of Performance Contracting on performance at the National Hospital Insurance Fund. In addition the researcher used secondary data that was provided during the discussions. The findings have been presented using content analysis, tables and charts. Indeed Performance Contracting has an effect on institutional performance as shown in the study. There are a few challenges the organization may need to address which are linking performance and rewards to improve efficiency of individual employee performance to realise the cascaded targets. This study recommends that the Ministry of Planning and Devolution charged with developing framework for Performance Contracting works out rationale to analyse the relationship between resources utilised and results achieved rather than carrying out independent analysis.

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ABBREVIATIONS

EACC	Ethic and Anti-Corruption Commission
GDP	Gross Domestic Product
HELB	Higher Education Loans Board
KENAO	Kenya National Audit Office
KRA	Kenya Revenue Authority
Kshs.	Kenya Shillings
MDA	Ministries, Departments and Agencies
MOH	Ministry of Health
NHIF	National Hospital Insurance Fund
NHSSP	National Health Sector Strategic Plan
NSSF	National Social Security Fund
OE	Organizational Effectiveness
OECD	Organization for Economic Co-operation and Development
PC	Performance Contract
PE	Public Enterprise
PI	Performance Indicators
PPOA	Public Procurement Oversight Authority
SEO	State Owned Agencies

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations today face turbulent and rapid changing external conditions that are translated into a complex, multifaceted and interlinked stream of initiatives (Newberry and Pallot, 2005). These are affecting work and organizations design, resource allocation, systems and procedures in a continuous attempt to improve performance. With these environmental changes, the public sector has come under intense pressure to improve their operations and processes so as to reduce its reliance on exchequer funding. Further, there is need to increase transparency in operations and utilization of public resources, increase accountability for results and to deliver services more efficiently and at affordable prices to the tax payer/ customer thereby, forcing governments to institute reforms in the public sector. The competitive nature of business has put more focus on effectiveness, that systems and processes in the organization be applied in the right way to the right things, that is to achieve results (Stiles et al, 1997). All of the results across the organization must continue to be aligned to achieve the overall objectives desired by the organization for it to survive and thrive. Once objective has been achieved, then it can be said that the organization and its various parts are really performing. The objective can be achieved through setting goals and measuring performance against the set targets.

Governments are increasingly faced with the challenge to do things but with fewer resources. Performance Contracting provides a framework for generating desired behaviour in the contest of devolved management structures. Employers view Performance Contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at

the same time leaving day-to-day management to the managers themselves. The primary role of any government is to maximize on the welfare of its citizens and its development goal is to achieve broad based, sustainable improvement in the standards of the quality of life for its citizens. The public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is constrained or becomes ineffective, it affects the quality of life of the people and nation's development process (Lapsley, 2009). Armstrong (2006) noted that poor performance may be a result of inadequate leadership, bad management or defective systems of work and observes that poor performance is not necessarily the fault of employees in an organization but failure in such a circumstance will be attributed to the top leadership of the organization which has been unable to establish and develop a well-defined and unequivocal expectation for super performance.

1.1.1 The Concept of Strategy

The word strategy comes from a Greek word Strategos which means a general. During the time the word was developed, strategy meant the art and science of directing military forces. Today the word is used in business to describe how an organization is going to achieve its objectives (Satya, 2010). Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson et al, 2008). Strategy according to Alfred D. Chandler is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals (Cole, 1997).

Strategy exists at a number of levels in the organization. The first, corporate strategy level is concerned with overall scope of an organization and how it will be added to the different parts also known as business units of the organization. Montgomery defines corporate strategy as the way a company creates value through configuration and coordination of its multimarket activities. The corporate strategy usually takes the form of the mission statement which reflects expectations of the shareholders. The second level of strategy is the business level. This level is about how to compete successfully in particular markets or how to provide best value services in the public services. This concerns which products or services should be developed in which markets and how advantage over competitors can be achieved in order to achieve the objectives of the organization. According to Montgomery, the concept of business level strategy was first articulated in the 1960s and 1970s by a number of business policy scholars. Their ideas were centrally on the notion that firms needed to adopt a unified approach to their activities and resource allocation decisions. This they felt could align all of a firm's functional policies and plans in a coherent pattern directed towards the fulfilment of the firm's overarching objectives. The value of business strategy was that it would eliminate inconsistencies in behaviour and making the firm's activities mutually reinforcing (Cole, 1997).

The third level is at the operating end of an organization. The operational strategies are concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. These type of strategies require various functional decision-making like Finance, Marketing, Human Resource Management and Marketing. Expert decisions may be required at different functional areas (Johnson et al, 2008)

1.1.2 Performance Contracting

Governments have long used public enterprises (PEs) as instruments to achieve their social and economic developmental goals. Until about 1970s, in most countries it appeared as though they were having some successes. PEs proliferated and typically provided 10-20 percent of the gross domestic product (GDP) of developing countries, considerably more in centrally planned economies. New industries were started and infrastructure was laid down. In absence of private entrepreneurs with capital and willingness to take risks, particularly long term low- return investment, PEs filled the need. This rationale was supported by nationalist, socialist and autarkic policies. In 1980s there were increasing signs of weaknesses in the State Owned Enterprises (SEO) sector. This was so because in absence of competition and from bankruptcy they became inefficient. During the world recession of the mid 1980s, SOE became net drawers on government budgets rather than net providers(OECD, 1997)

The World Bank drew attention to the fact that they had in general become a drain on the economies in which they operated and their privileged access to investment funds and foreign exchange was crowding out the private sector. The private sector had become much stronger and more self-confident. PEs were undertaking many activities which the private sector could probably do better since property rights would ensure greater productivity and bankruptcy laws would weed out the unproductive. The international community, after the successes of privatization in the UK, agreed and urged that governments shed their PE burdens, deregulate sectors formerly monopolised by PEs and provide enabling environment for private sector to develop. PE enterprise reform then begun from their world over. The PE reforms included that of the relationships between Public Enterprises and government agencies/legislative

assemblies by better specification of goals, separation of non-commercial and regulatory functions, improved procedures for selection of directors, removal of constraints on managerial autonomy, reinforcement of managerial accountability and introduction of performance related rewards. Performance Contracting has been adopted as a holding strategy for controlling selected public enterprises and other public sector organisations pending privatization or for improving performance in PEs in which the government intends to retain ownership (OCED, 1997).

Farazmand (2001) defines a performance contract as a negotiated agreement between the management of PE and its owners, the government, with respect to future goals of the enterprise, the way that each goal will be measured, performance targets, management incentives, the financing of activities, autonomy of management, the information system to establish and enforce accountability through the contract and procedures for variation of the contract and settlement of disputes. A performance contract can also be described as a contract between the owner on enterprise on the one side and the management of the enterprise on the other, setting out certain targets/results to be achieved in a given time frame. It also enumerates the mutual obligations of the two parties in achieving the targets set in the contract, Commonwealth secretariat, 1995. A performance contract is a useful tool for articulating clearer definitions of the objectives and supporting innovative managerial and operational autonomy to public service managers (Van Helden, 2005).

1.1.3 Organizational Performance

The analysis of organizational performance is a crucial step in organizational assessment yet it is one of the most problematic issues in the field of organizational theory. While there are a number of approaches in measuring organizational

performance, there is little consensus as to what constitutes a valid criteria. In 1950s, performance was referred to as the extent to which an organization as a social system fulfilled its objectives. In the 1960s and 1970s, performance was determined as the ability of an organization to exploit its environment to access scarce resources, in the 1980s and 1990s, as a constructivist thinking became more standard in organizational theory, it was recognized that identifying organizational goals is more complex than first thought, a measurement of organizational performance needs to involve perceptions of the organization's multiple constituencies or stakeholders including those that work within the organization. In other words the concept of organizational performance is at least in part individually constructed. Organizational development literature discusses performance in four levels: performance appraisal for the individual employee; team performance for teams or small groups; program performance; and organizational performance (Burton, et al, 2010).

For the purpose of this project, the concept of organizational performance shall be a combined result of individual, team and program performance. Every organization has work it does, ways of measuring progress and communicating how well work has been done. While there are multiple ways of understanding performance, in most sectors there are conventional yardsticks that give some direction to the understanding that performance. Stakeholders are interested in the ways an organization defines its results and communicates these to various publics. At the program level, beneficiaries have primary interest in performance of the program and secondary interest in organizational performance. Performance in the public sector has been the focus of enormous media and political attention for some time. Assessment of performance has four main elements: effectiveness, efficiency, relevance and financial viability (Lusathus, et. al, 2002)

1.1.4 Ministry of Health

It will be recalled that at the founding of the Kenyan nation, the government made commitment to address three key challenges; disease, poverty and ignorance as indicated in sessional paper number 10 of 1965. This commitment entailed obligation of government to finance strategic measures that would address diseases, poverty and ignorance. The Ministry of Health (MOH) was then tasked to tackle the challenges of diseases. The MOH has several SOEs that handle different aspects of health. Addressing the challenge at hand has been done through several policy initiatives. In 1994, MOH developed the Health Sector Policy framework which was an instrumental blueprint for the period 1990 – 2010 and much emphasis was laid on preventive measures. In addition, the framework also emphasised on strengthening of the central policy, the adoption of strategy to reduce the burden of disease and definition of essential cost effective care package.

The policy framework was operationalized through two strategic plans: NHSSP I 2000 – 2004 and NHSSP II 2005 – 2010. The former emphasised on decentralization of health care delivery through redistribution of health services to the rural areas. The NHSSP II was developed to incorporate the national Poverty Reduction Strategy. The structure of MOH in 2008 was altered and bore two ministries, the Ministry of Medical Services to manage curative aspects of health care and the Ministry of Public Health to manage preventive aspects of health care. Restructuring took place once more in 2013, where the ministries were merged into one ministry in line the Kenya Constitution of 2010 (www.moh.go.ke).

1.1.5 National Hospital Insurance Fund (NHIF)

The NHIF was established by an Act of Parliament in 1966 as a department in the Ministry of Health, which oversaw its operations, but responsible to the government Treasury for fiscal matters. The Fund was set up “to provide for a national contributory hospital insurance scheme for all residents in Kenya.” The Act establishing the NHIF provided for the enrolment in the NHIF of all Kenyans between the ages of 18 and 65 and mandates employers to deduct premium from wages and salaries. The level of contribution is graduated according to income, ranging from Ksh 30 to Ksh 320 per month. Contributions and membership are compulsory for all salaried employees earning a net salary of Ksh 1000 per month and above. The Fund covers up to 180 inpatient hospital days per member and his/her beneficiaries per year. Besides being self-financing and self-administering, the Fund monitors its own collections and distributes benefits to providers. The NHIF Act also provides for the Fund to make loans from its reserves to hospitals for service improvement.

To improve on the delivery of services, the government amended the NHIF Act in 1998 to make the Fund a state corporation. The NHIF Act of 1998 transformed NHIF from a government department to an autonomous state agency. The Fund was given the task of enabling as many Kenyans as possible to have access to quality and affordable healthcare against a background of rising medical costs and a dwindling share of resources. According to the amended NHIF Act, beneficiaries are both in-patients and outpatients (section 22 of NHIF Act, 1998), but outpatient services are not yet operational. NHIF Management Board pays benefits to accredited hospitals for expenses incurred at those hospitals by any contributor; his/her named spouse, child or other named dependant (Republic of Kenya, 1999). NHIF has now decentralized

claims processing to area offices to facilitate a shorter and more effective system that will allow speedy reimbursement of medical claims (www.nhif.or.ke).

1.2 Research Problem

Rob (2006) observes that the productivity of an organization is influenced by its ability to maintain a competitive position in its business activities. Accordingly, productivity may be seen as a measure of the quantity and quality of work done as compared to the cost of resources used. It is against the above background that Performance Contracting was introduced in PEs to enhance service performance and organizational improvement. The PC is a critical instrument used to realize its targets and cascaded downwards from the top to the bottom of the state institutions. It promotes transparency and accountability in the management of public resources and utilization of the same for mutual benefit of the people. The use of performance contract is also useful in promoting good corporate governance and also offers better and efficient project management and implementation. It also showcases areas of weaknesses which require attention in the following years' financial plans and arrangements.

The National Hospital Insurance Fund has over the years faced various challenges that have hindered optimal realization of its intended objectives. These challenges include political interference and operational inefficiencies. To improve its performance and service delivery, the Fund adopted Performance Contracting not only as a requirement of all government agencies but also as a planning tool with an end goal of improving service delivery to Kenyans.

Local studies that have been undertaken on the effect of Performance Contracting strategy on organizational performance include Mwaniki (2010) who researched on

the impact of Performance Contracting on the performance of commercial state owned enterprises. The findings of the study was that PCs approach shows mixed results with some performance indicators exhibiting growth after the implementation of PCs while others declining after implementation of the PCs. Birech (2011) researched on the effect of Performance Contracting strategy on the Performance of state corporations in the Energy sector in Kenya and found out that Performance Contracting promoted commitment in revenue collection at the energy corporation to a very great extent. There were challenges in the implementation of the Performance Contracting program in the energy corporations to a moderate extent. Mohamed (2009) researched on the impact of Performance Contracting on organizational performance at Kenya Revenue Authority and established that all those who were aware of the performance contract scheme had already signed their contracts with their reporting officers and that it had enabled Kenya Revenue Authority to significantly increase revenue collection, reduce customer turnaround time, define and streamline the reporting and operational structure and make employees committed to their work. These findings show that there has been no research undertaken on the effect of Performance Contracting strategy on performance in non-commercial state agencies and in particular at National Hospital Insurance Fund. This study sought to answer the question; what is the effect of Performance Contracting strategy on performance at National Hospital Insurance Fund?

1.3 Research Objectives

The objective of this study was to establish the effect of Performance Contracting strategy on institutional performance at National Hospital Insurance Fund.

1.4 Value of the Study

The study is important to:

Academicians who want to contribute to the body of knowledge; the same body of knowledge has been known to change and research is always the only way to study the same phenomenon over time. This research will therefore help in opening up opportunities for doing further research on Performance Contracting. The study will be a source of reference material for future researchers on other related topics.

The management of National Hospital Insurance Fund since this report would provide achievements and or failures of the scheme. Areas of weakness in the scheme would be noted in the study for further management improvement. The employees of the Fund as key stakeholders would know the effectiveness of the scheme and hence support it so that they can continue to be retained in the organization. The management and staff of other state corporations will also use the findings of the study to know the effect of the strategy on the overall performance of the organization.

The Government would get an insight to the impact of Performance Contracting implementation on performance at state corporations that may help it when making policies regarding them. The study would be instrumental in providing information on the state corporations' management on the effects of PCs within their jurisdictions. The study findings would also lay a foundation for further research and understanding of the relationship between Performance Contracting and performance improvement and performance in public institutions as a basis of policy decisions

The study forms the basis upon which the management will plan and implement human resource policies and programs that would help to eliminate negative effects or

strengthen positive effects of Performance Contracting. This will improve internal efficiency of the Fund and help them reinvent themselves as centers of professionalism. The findings and recommendations of the study are useful to the policy makers and management administrators who may use the study to design effective human resource programs geared towards performance improvement and quality service.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of literature from other researchers who have carried out research in the same field of study. The areas this chapter covered are; an overview of theoretical foundation of the study and the effect of Performance Contracting strategy on institutional performance.

2.2 Theoretical Background

This project is anchored on institutional theory. Institutional theory is difficult to pin down because of the large number of meanings that can be attributed to the word institution. Another name an organization is an institution and many organizations have 'institute' as part of their name. The word 'institute' can also be used to describe a situation where outside pressures induce behaviours in the organization. These repetitive behaviours then become accepted practice. Institutional theory proposes that organizations are influenced not only by their internal processes but also by the need to adapt to the external pressures. This need for adaptation then leads to behaviours being repeated and becoming institutionalized. Institutional demands can be categorized into two broad types. The first is economic and technical demands which are clearly seen on profit seeking organizations to show profitinnovate and respond to change. Another group of institutional demands comes from government regulations and laws. The second is social demands which reward organizations for conforming to societal values, norms and expectations. Although all organizations must respond to both demands, one group usually dominates (Wheelen& Hunger, 2002).

According to OECD, its member countries have grown increasingly interested in the use of contract type arrangements as a means of improving public sector performance.

The interest reflects challenges to traditional governance structures which demand for greater efficiency through highly adaptive and flexible public sectors and the increasing pressure of accumulated public debt and fiscal deficits. Many countries have now started pursuing a strategy for developing a more performance oriented culture in the public sector whose elements are an increased focus on results, in terms of efficiency, effectiveness and quality of service and the other element, a move from centralized bureaucratic structures to more decentralized managerial environments. Performance Contracting has emerged as a tool of public sector reform as it provides greater clarity over what public agencies will achieve while at the same time provide agency managers with greater flexibility to deploy resources to better achieve those goals. This then implies that Performance Contracting has the potential to improve effectiveness and efficiency in the public sector while ensuring appropriate accountability is maintained for use of public money. In 2004, the government of Kenya introduced Performance Contracting in the public service as one of the tools to improve service delivery. Performance Contracting has been institutionalized in all Ministries, Departments and Agencies (MDAs). The decision of extending coverage to all MDAs was as a result of improved service by all those participating institutions in both administrative and financial performance.

2.3 Performance Contracting and Effectiveness

Organizations are commonly referred to as instruments of purpose; every organization is set up for a particular function that is clarified through its goals. These goals are made visible through the results of the organization's work and activities in pursuit of these goals. Lusathaus (2002) defines organizational effectiveness as the extent to which an organization is able to fulfil its goals. Describing and measuring effectiveness presents challenges. One, it is unclear whether you can decide on a

single set of goals, or for that matter, come to consensus about multiple set of goals for an organization. Two, it is unclear where to go, and to whom to go to, to identify goals or seek consensus. Despite these difficulties, organizations are able to engage in a variety of processes to identify their goals, objectives and systems to communicate their effectiveness to their constituents.

There are no common dimensions of OE, simply because all organizations are different. Those notwithstanding there are similarities among various functional groupings of organizations. To appreciate the dimensions of effectiveness requires some understanding of the functional purposes of the category of organizations within which it fits. Lusthaus (2002) suggests the following as PIs starting points that can be used when organizations don't have their own set of indicators: achievement of goals; number of clients served; quality of services/products; service access and usage; knowledge generation and utilization; quality of life changes; demand for services or products. PCs are based on each institutional mandate. During the negotiating process each institution must show how its activities are linked to its mandate as provided by law, its strategic plan, mission, vision and strategic objectives. This then can show the drive towards effectiveness (Lusathaus, et. al, 2002).

2.4 Performance Contracting and Efficiency

Every organization has a certain level of resources to provide goods and services and must operate within its resource constraints. When an organization's results are measured in relationship to its resources, the measurement yardstick is efficiency. Efficiency is a ratio that reflects a comparison of outputs accomplished to the cost incurred for accomplishing these goals. There are two aspects of efficiency. The first is the units of productions or services related to the organizational purpose and the

second is how much it costs to produce those goods and services. Efficiency is generally measured as the ratio of outputs to inputs. This implies that to attain efficiency, an organization must ensure that maximum outputs are obtained from the resources devoted to a program. Conversely, efficiency is achieved when the minimum level of resources is used to produce the target output or to achieve the objectives of a program. In today's competitive economies, organizations must provide exceptional products and services within an appropriate cost structure. In times of economic constraints, performance is increasingly judged by efficiency of the organization. By using monetary values or costs and benefits that are inevitably part of efficiency, it is possible to determine on a quantitative basis where to invest in programs, what products and services are becoming obsolete and which activities are not providing adequate value for money.

Over the last decade, both private and public organizations have been forced to reduce costs and increasing productivity through downsizing or rightsizing. "Do more with less" is the rallying cry for many organizations in both the developed and developing world. In the manufacturing sector, tremendous gains have been made by re-engineering production to improve efficiency through information technology alongside other technologies. It becomes more difficult to understand issues of efficiency as one move towards more people-oriented and politically controlled systems. There are two approaches to describing organizational efficiency although neither is well developed for either government or not for profit organizations. First approach is the more standard definition of efficiency. It tries to link the quantity of resources used to the results obtained. While this approach has met success, there is another way to describe the extent to which an organization is administratively efficient. Administrative efficiency explores how different work processes contribute

to the overall value added in an organization. This is known as the return on management, a measure of how well an organization is managing its strategy and work processes. It provides a rough estimate of the amount of productive energy expended by an organization in relation to the amount managerial time and professional time invested.

Assessing efficiency as mentioned is difficult in service organizations where the output tends to be more qualitative than quantitative. In some government ministries, qualitative indicators are the most important. Looking at the structure of the PCs, there are PIs which are qualitative and dynamic for purposes of measuring organizational efficiency. These PIs look at efficiency in terms of service delivery, process improvement in terms of timeliness and job order processing, human resource development, and projects in terms of cost efficiency and completion rate (Lusathaus, et. al, 2002).

2.5 Performance Contracting and Relevance

In modern organizational literature, organizations are portrayed as webs of relationships among stakeholders. From a stakeholder perspective, the performance of an organization is understood as the extent to which the needs and requirements of each stakeholder are met. Organizations must be relevant to both funders and clients. Organizations in any society must evolve and develop, but overtime they must create ways to renew themselves in order to remain useful to their major stakeholders. From a system perspective, for an organization to survive, it must obtain support from its environment. The ability of an organization to meet the needs and gain support from its stakeholders in the past, present and future is a key performance variable in organizational relevance. There are two dimensions of assessing relevance, one the

ability of an organization to keep its key stakeholders satisfied and two the ability to innovate and create new and more effective solutions as a result of insight and new knowledge which can be summed up as creativity.

Creativity can be viewed as a form of active mental health. Warr (2004) identified five types of active mental health: positive self-regard (high self-esteem), competence (effective coping), aspiration (goal directedness), autonomy/independence (proactivity) and integrated functioning (states involving balance and harmony), which are hard to get from Performance Contracting due to the limits set by 'playing by the books'. Because creativity and proactivity are closely related behaviours (Unsworth and Parker, 2003) and because individuals can gain positive self regard, a feeling of competence and a sense of independence by solving work problems in a creative way, the creativity in an employee is hard to achieve with performance contract due to lack of independence in actions and target and in recognition of over performance.

Some preliminary PIs of relevance: stakeholder satisfaction; number of new programs and services; changes in partners' attitudes; changes in organizational innovation and adaptability; acceptance of programs and services by stakeholders; and role changes. The Performance Contracting process involves the government as a stakeholder, member of the Board of Directors as a representative of other stakeholders and the accounting officer who is also the chief executive officer. With the parties being involved in the process, in the contract it is clearly stated the obligations of each party towards ensuring success of the contract. This then provides ground for the PEs to ensure that they remain relevant to both the government and the public who are the consumer of their goods and services (Lusathaus, et. al, 2002).

2.6 Performance Contracting and Financial Viability

In order to survive an organization must generate at least the amount of resources it expends. The starting point for a financial assessment is the organization's financial statements. This involves reviewing income and expense statements over several years together with the balance sheet and cash flow statement. Historically government organizations did not have much attempt to generate resources or create revenue producing opportunities. Ministries spent taxpayers' money and did not have a responsibility for either creating demand or for generating funds to meet the supply needs. This concept has however changed. Public policy theorists and practitioners have developed and keep developing approaches that would make government agencies more sensitive to the market forces. By placing government services within market contexts, theorists claim that strong, more viable organizational systems emerge and weaker, poor performing inefficient organization disappear. Generic financial viability PIs include: changes over three years to net operating capital; ratio of largest funder to overall revenues; ratio of cash to deferred revenues; ratio of current assets to current liabilities; ratio of total assets to total liabilities and growth in terms of assets, capitals and revenues (Lusathaus, et. al, 2002).

A major component in the PCs is the financial indicators. In the Performance Contracting guidelines the PIs for financial viability have Performance targets on compliance with set budgetary levels, cost reduction/savings, utilization of allocated funds, development index and debt to equity ratio. In order for performance to be conclusively evaluated, institution needs to have adhered to the budget as approved by the National Treasury and provide unqualified audited reports from the Auditor General.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology that was used to carry out the research. It presents the research design, the population, data collection and analysis.

3.2 Research Design

The study adopted a case study research design. It is a popular form of qualitative analysis and involves a careful and complete observation of a social unit (Kothari, 2004). The design was deemed appropriate because the object of a case study method is to locate factors that account for the behavioural patterns of a given unit. The case study research design provided both quantitative and qualitative data that was used to measure the effect of Performance Contracting on organizational performance.

3.4 Data Collection

The researcher for this case study interviewed respondents from the National Hospital Insurance Fund to collect views and opinions regarding the effect of performance contracting on the organization's performance. The target respondents consisted of General Managers and the Chief Executive Officer. An interview guide had been prepared for the interviews with the aim of collecting qualitative data. Additional data was collected from reports dating back to 2006 when Performance Contracting was initiated in the institution.

3.5 Data Analysis

Before undertaking analysis of responses, the interview guide was tested and edited for completeness and consistency. The data collected was analyzed using content

analysis. Content analysis consist of analysing the content of documentary materials such as books, magazines, newspapers and the contents of all the verbal materials which can be spoken or written.

Data collected from reports was classified on the basis of similarity and then tabulated. Qualitative data from the interviews formed the narrative part of the report. Results have been presented in tables and charts. This study made use of existing software such as Microsoft Excel.

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on the effect of performance contracting strategy on performance at National Hospital Insurance Fund. Data was gathered exclusively from the interview guide and reports as research instruments. The interview guide was designed in line with the objective of the study.

4.1.1 Respondents

The study targeted 8 respondents in collecting data with regard to the effect of Performance Contracting strategy on performance at the National Hospital Insurance Fund. From the study 7 out of 8 respondents participated in the interview making a response rate of 87.5%. This reasonable response rate was possible after the researcher made personal requests to the respondents to participate in the interview and personally conducting the interview.

4.2 Performance Contracting

This study sought to find out if the senior management was responsible in developing the performance contract and if they were involved in the performance contracting process. The respondents informed the interviewer that they were involved in the development and negotiation of the Performance Contract. Two important elements were brought out during the discussions: the first, the General Managers ensure that specific strategies are adopted for each implementation period by which they develop work plans and budgets. These then inform activities and targets which are contracted

for. Secondly, the importance of consulting the management team before contracting. The general managers indicated that during negotiation they are in agreement since all contents in the Performance Contract are based on the agreement of the team making it manageable to cascade the performance contract to all staff members and in their implementation.

Respondents indicated that the Performance Contracting guidelines are well understood although bulky. It was noted that in each contracting cycle, the guidelines provided by the ministry of planning and devolution are usually improved in terms of additional tasks or restructuring of previous generic tasks. The interviewer was informed that as an institution, the guidelines are domesticated. A copy of the current contracting cycle guidelines, 2014/2015, was provided as part of institutionalizing the performance contract.

4.2 Performance Contracting and Effectiveness

This study sought to find out if the performance contract influences the realization of the Fund's vision, mission and strategic objectives. The respondents indicated that for starters, the contracting guidelines contain necessary documentation to initiate the process. One of the most important documents is a strategic plan which outlines the vision, mission and strategic objectives which give the organization a clear roadmap of where they are heading, what they need to do to and how they are to realise the organization's mandate. The performance contract is then based on the mapped out strategy thus influencing the realization of the vision, mission and strategic objectives. The Fund's vision is to be a world-class social health insurer and its mission is to provide accessible, affordable, sustainable, equitable and quality social health insurance through optimal utilization of resources to the satisfaction of stakeholders.

The targets that are negotiated during the contracting period are based on the strategic objectives. These strategic objectives are: to effectively and efficiently register members, collect contributions and pay out benefits; to enhance the Fund's quality management system; to prudently manage resources; to develop and maintain strong customer relationships; and to develop and retain relevant competencies.

This study sought to find out the areas that the organization uses to measure its effectiveness. The Fund, in Performance Contracting measures its effectiveness through membership growth, contributions' growth, increased accredited health care facilities and increased benefit payout. According to the responses, membership refers to the number of insured members, contributions refer to the premiums paid, accredited facilities are contracted facilities to increase access to health services and benefit payout is a percentage of contributions reimbursed to contracted health facilities for provision of services.

In line with its mandate, the respondents made it clear that all the provided parameters have to grow synonymously as they are dependent on each other. For contributions to grow, membership has to grow. As membership increases the accredited health facilities have to increase to widen access. Equally as revenue grows, the benefit payout should increase.

The study sought to find out the parameters that the organization uses in measuring effectiveness in the performance contract. The measures of effectiveness are based on growth in achievement of the strategic objectives according to the respondents. The performance indicators as negotiated and contracted in the performance contract are centred on expanded membership, growth in contributions which is part of revenue, increased access through growth in accredited facilities and continuous increase in

benefits to members. On annual basis the Fund negotiates by how much the membership has expanded. The respondents indicated that every year since performance contracting began; membership, contributions, accredited health care facilities and benefit payout has steadily been rising an indicator that the strategies they have employed are effective.

The senior managers pointed out that the performance contract has not only assisted in documenting the realization of fund's vision but also inform stakeholders of tracked performance in the years of contracting. The performance contract also motivates the organization to consistently meet and surpass targets thus making the vision more realistic.

For as long as the organization has been signing performance contracts it has a target to grow membership every year as a mandate of the institution. The organization has grown membership from 1.8 million members to 4.4 million members in 2013/2014. From the findings, the organization has consistently achieved targets as signed and agreed in the performance contract.

Table 4.1 : Membership targets and achievement from 2006/2007 to 2013/2014

YEAR	TARGET	ACHIEVEMENT	% ACHIEVEMENT
2006/2007	1,654,223	1,800,000	109%
2007/2008	1,980,000	2,081,106	105%
2008/2009	2,245,169	2,300,420	102%
2009/2010	2,532,883	2,711,379	107%
2010/2011	2,830,169	3,231,745	114%
2011/2012	2,653,000	3,344,247	126%
2012/2013	3,427,670	4,455,971	130%
2013/2014	4,353,204	4,725,568	109%

Source: NHIF Performance Contracting Records, 2014

The table above shows the target of membership against achievement. As it had been mentioned and can be shown from the table, targets have progressively increased from one contracting period to the other. Equally the achievements have been progressively realised.

Figure 4.1 : Membership targets and achievements from 2006/2007 to 2013/2014



The figure above is a graphical presentation of membership achievement. As seen from the trend line the achievement has been steadily rising. In 2009/2010 despite a slight dip the target was achieved over 100% of the target.

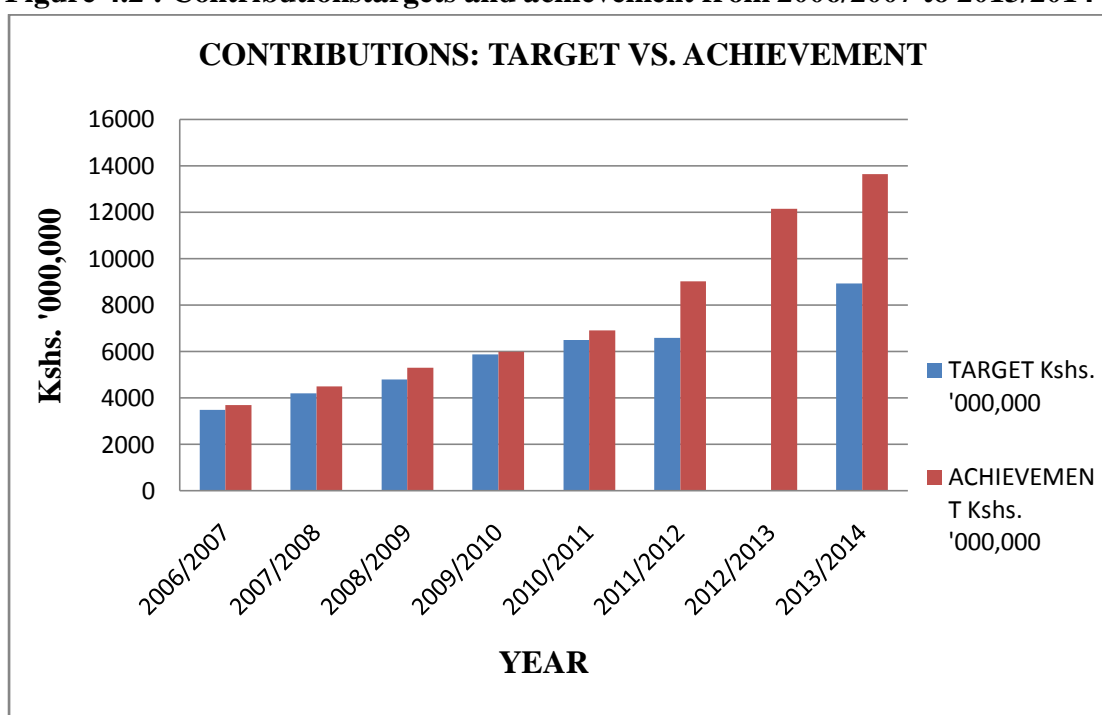
Table 4.2 : Contribution targets and achievement from 2006/2007 to 2013/2014

YEAR	TARGET KSHS. '000,000	ACHIEVEMENT KSHS. '000,000
2006/2007	3,500	3,700
2007/2008	4,200	4,500
2008/2009	4,800	5,300
2009/2010	5,869	5,988
2010/2011	6,501	6,910
2011/2012	6,599	9,023
2012/2013	7,411	12,139
2013/2014	8,923	13,629

Source: NHIF Performance Contracting Records, 2014

The table above shows the revenue targets versus the achievement from 2006/2007 to 2013/2014. In 2006/2007 the target was Kshs. 3.5 billion and the achievement was Kshs3.7 billion. In 2013/2014 the achievement was 13.4 billion against a target of Kshs. 8.923 billion.

Figure 4.2 : Contribution targets and achievement from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

The figure above provides a descriptive analysis of the contributions' targets versus achievement from 2006/2007 to 2013/2014. The graph indicates growth in targets as well as the targets achieved.

Table 4.3 Benefits paid out targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET	ACHIEVEMENT
2006/2007	30%	45%
2007/2008	45%	45.50%
2008/2009	55%	56%
2009/2010	60%	60%
2010/2011	62%	62.70%
2011/2012	63%	60%
2012/2013	65%	64%
2013/2014	66%	65%

Source: NHIF Performance Contracting Records, 2014

The table above shows the benefits paid ratio. According to management, there achievement over the years varies due to many factors affecting the general health sector. However, the targets are freely negotiated with the government, which ensure that there is progressive increment annually based on the previous year's performance.

1. Do you get feedback on implementation of the PC and how is the feedback used for improvement on effectiveness?

The study was conducted to find out that following implementation of the performance contract and on subsequent evaluation, if the organization gets feedback which should used to improve effectiveness. The management team agreed that indeed performance feedback is provided for every quarter as well as annual performance assessments. This feedback is used to analyse if tactics being employed are ensuring that there is realised growth or if there is need to change tact. In addition

the feedback is forms basis of future performance contracts' targets as well as structural and operational improvements. The feedback, as respondents mentioned, has consistently challenged tactics on expansion of membership as this has direct impact on revenue and benefits to be paid out.

4.3 Performance Contracting and Efficiency

This study was conducted in order to understand what are the areas of the Fund need enhancement in terms of efficiency and if the same are influenced by having a performance contract in place. The response was that the Fund has already identified and mapped out areas that need enhancement in efficiency. These are throughput in registration, claims and accreditation processes for the external customer and performance measurement for internal customers. The registration and claims processes have improved due to adoption of modern technology. The throughput is shorter in that the processes take less days in processing and minimal human intervention. The indicators on enhancing the accreditation process and performance measurement are yet to be realised as the processes are mainly manual with technical means of verification required. The performance contract has influenced improvement as the Fund targets to improve the throughput of the registration, claims and accreditation processes. In addition the contracting guidelines mandate all state agencies to ensure that targets are cascaded down. The challenge that remains for the Fund is the link between performance and rewards to enhance efficiency of individual employee performance.

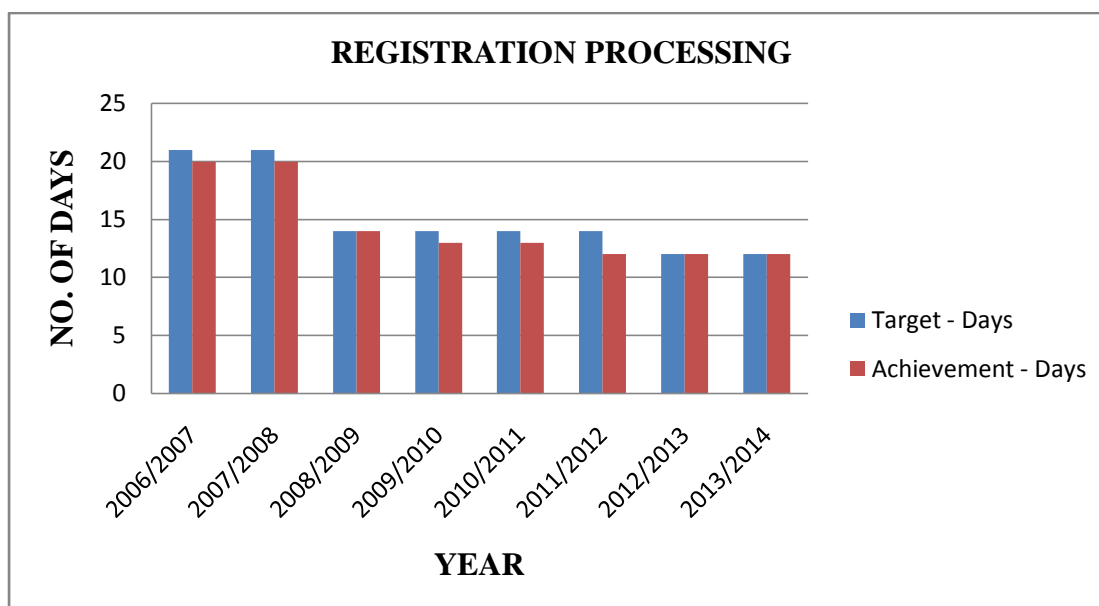
Table 4.4 :Registration processing targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET (NO. OF DAYS)	ACHIEVEMENT (NO. OF DAYS)
2006/2007	21	20
2007/2008	21	20
2008/2009	14	14
2009/2010	14	13
2010/2011	14	13
2011/2012	14	12
2012/2013	12	12
2013/2014	12	12

Source: NHIF Performance Contracting Records, 2014

From the table above, the Fund has achieved its efficiency target on registration by reducing the throughput in terms of processing days from 20 days in 2006/2007 to 12 days in 2013/2014. The management team interviewed indicated that this was due to use of technology to manage the registration process as well as simplifying the process of registration.

Figure 4.3 : Registration processing targets and achievements from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

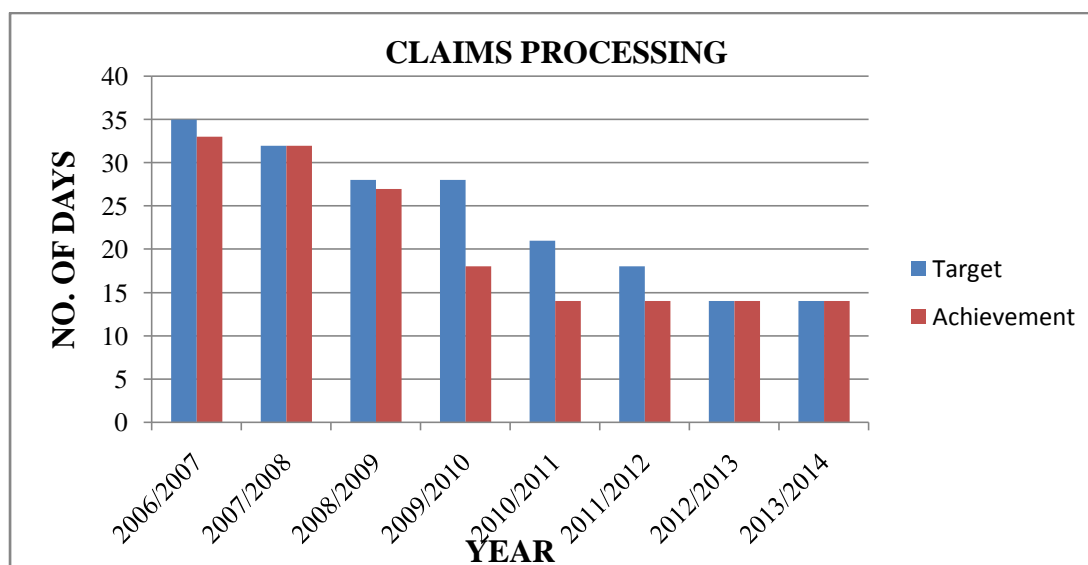
The figure above provides a graphical presentation of the membership processing period. It can be seen from the graph that the processing period as a target and achievement has declined from 2006/2007 to 2013/2014. The decline is an indication of increased efficiencies in the process.

Table 4.5: Claims processing targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET(NO. OF DAYS)	ACHIEVEMENT(NO. OF DAYS)
2006/2007	35	33
2007/2008	32	32
2008/2009	28	27
2009/2010	28	18
2010/2011	21	14
2011/2012	18	14
2012/2013	14	14
2013/2014	14	14

Source: NHIF Performance Contracting Records, 2014

Figure 4.4 : Claims processing targets and achievements from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

The figure above shows a graphical presentation of the claims processing period targets and achievements from 2006/2007 to 2013/2014. The decline in both target and achievement shows improved efficiency in the process thus the reduced number of days. According to management interviewed various interventions over time depending with factors affecting the process have been reviewed to improve the processing period.

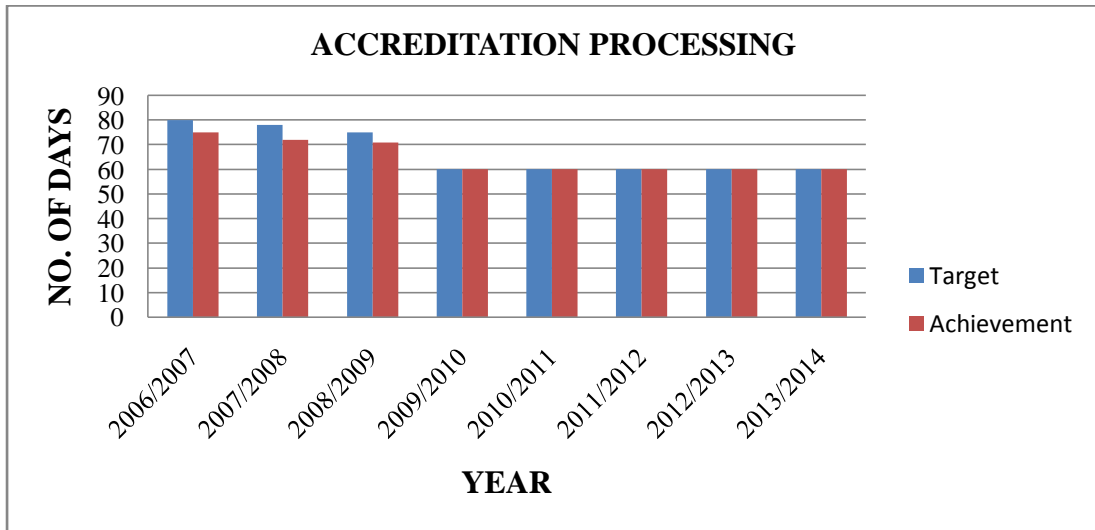
Table 4.6 : Accreditation processing targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET (NO. OF DAYS)	ACHIEVEMENT (NO. OF DAYS)
2006/2007	80	75
2007/2008	78	72
2008/2009	75	71
2009/2010	60	60
2010/2011	60	60
2011/2012	60	60
2012/2013	60	60
2013/2014	60	60

Source: NHIF Performance Contracting Records, 2014

The table above shows the targets and achievements on accreditation processing. The interviewed management team explained to the interviewer that from 2009/2010 after thorough evaluation of the accreditation process they made it policy to manage the period within 60 working days.

Figure 4.5: Accreditation processing targets and achievements from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

The table above shows graphical presentation of the accreditation process. The target moved from 2006/2007 from 85 days to the current 60 days in 2013/2014. The achievement has also been maintained over the last five contracting periods.

The study sought to find out if there were any comparatives undertaken on resources utilised and the results achieved. The findings were that resources utilised are assigned costs and in different categories. These resources are in terms of operating expenses which are recurrent expenditures, personnel emoluments which are employee remuneration and capital expenditure which consist of development expenses. The respondents mentioned that the performance contract after evaluation did not provide comparatives on resources utilised and results achieved as well as rational for analysis. The resources are analysed as financial indicators in the

performance contract in terms of compliance to the budget, utilization of funds and development index.

4.4 Performance Contracting and Relevance

This study sought to find out if the performance contract strategy helps the Fund enhance its relevance to various stakeholders. The management team pointed out that the Fund's operations are generally maintained by contributors and hospitals that ensure quality service to contributors who are their major external stakeholders and employees who are internal stakeholders. The performance contract as a strategy ensures that the Fund remains relevant and addresses stakeholder needs by ensuring stakeholders have their voice through customer satisfaction surveys for contributors and health care providers and employee satisfaction survey for employees. The contract further mandate the Fund to implement recommendations and carry out exit surveys that inform of further changes and areas of improvement.

The team further mentioned that in the recent customer satisfaction surveys targeting contributors, the recurring issues have been on expanded benefit to an outpatient cover and increased access to accredited facilities. Much has been done to improve the benefits through increase of rebates although the management explained that the contributions were too low thus the benefits could not be extended for out-patient cover. Health facilities fall in various categories: those that are government; some are private facilities; and others are faith based. The Fund has developed criteria for ensuring quality and regularly undertakes surveillance to ensure quality in facilities. The facilities which are contracted fall into either category as aforementioned and are only accredited once they meet the minimum criteria of set standards. Thus the interviewees have no control on the set up of actual facilities to increase access.

Table 4.7 : Customer satisfaction index targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET (%)	ACHIEVEMENT (%)
2006/2007	70%	70%
2007/2008	75%	75%
2008/2009	90%	86%
2009/2010	78%	78%
2010/2011	79%	82%
2011/2012	80%	66.50%
2012/2013	65%	67%
2013/2014	65%	64%

Source: NHIF Performance Contracting Records, 2014

The table above shows the customer satisfaction index targets and achievement from 2006/2007. As shown from the table, the targets have been changing over the years but not progressively. The highest customer satisfaction level was 86% in 2009/2010. Management gives reasons for the achievement as a result improvement in the registration process and full automation of the claims process. The drastic drop from 82% in 2010/2011 to 66.50% in 2011/2012 was as a result of poor brand image arising from court cases on corruption.

Figure 4.6 : Customer satisfaction index targets and achievements from 2006/2007 to 2013/2014



The above trend line is graphical presentation of the customer satisfaction index. The management gave reasons for the erratic behaviour. In 2013/2014, according to the management, the customer satisfaction survey indicators were changed to reflect emerging environmental changes.

Table 4.8 : Employee satisfaction index targets and achievements from 2006/2007 to 2013/2014

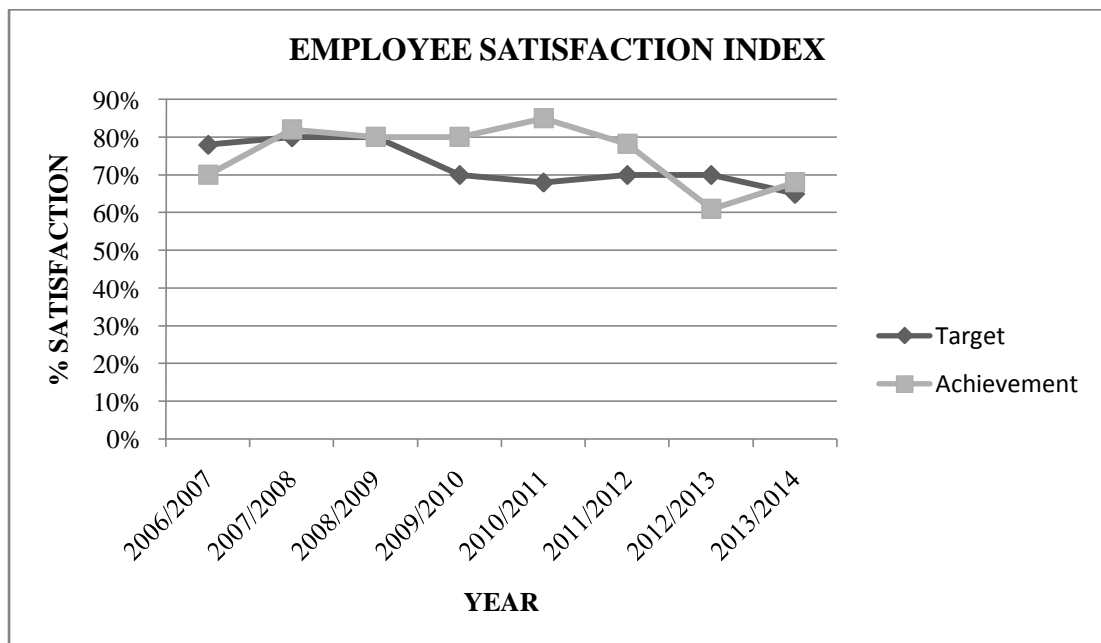
YEAR	TARGET (%)	ACHIEVEMENT (%)
2006/2007	78%	70%
2007/2008	80%	82%
2008/2009	80%	80%
2009/2010	70%	80%
2010/2011	68%	85%
2011/2012	70%	78.20%
2012/2013	70%	61%
2013/2014	65%	68%

Source: NHIF Performance Contracting Records, 2014

The table above shows findings of the employee satisfaction index from 2006/2007 to 2013/2014. The highest target was 80% in 2007/2008 and 2008/2009. The lowest target was in 2013/2014. The reason provided for management for the lowest target is that the Fund was undertaking a baseline survey and the instruments for the survey were changed to accommodate changes in the operating environment.

The trend line below shows the movement in achievement against targets in the employee satisfaction. Management explained that the employee as a key external stakeholder contributes to overall achievement of the organization’s vision, thus their views are important. The reason for the different targets was that the satisfaction level is pegged on the level of implementation of recommendations from previous surveys.

Figure 4.7 Employee satisfaction index targets and achievements from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

This study sought to find out if there are any innovations the Fund has and any relation to the performance contract. The findings show that the Fund has adopted various technologies to enhance its processes. According to the respondents,

innovation is a performance criterion in the performance contract to ensure that organization improves their operations to remain relevant. The organization through the performance contract is expected to be innovative in either its internal processes or in the services being produced. Over the years the Fund has adopted various technological innovations to enhance the customer experience. These innovations include networking of the hospitals to the Fund's server for shared information, introduction of the magnetic stripe card for members to enhance portability of benefits and use of mobile money payment system for contributions. Internal innovation is the claims processing system.

4.5 Performance Contracting and Financial Viability

This study sought to find out the Fund's sources of incomes and how stakeholders' funds are prudently managed. The findings were that the Fund main source of income comes from contributions and investments. The performance contracting guidelines provide indicators on financials which measure financial viability. In addition the Fund adheres to government and international regulations on both expenditure and investment.

The Funds gets approval to expense funds for benefits to members and its operations from the National Treasury. A budget is approved by the Principal Secretary of National Treasury. The expenses are audited by the Auditor General who makes recommendations based on the assessments. The performance contract allows for financial negotiations based on the approved budget and evaluation is based on a certificate issued by the Auditor General from the Kenya National Audit Office. The auditor general according to the respondents has the mandate to communicate audit findings to stakeholders thus directly influencing prudent management of resources. In addition, the performance contract has ensured that the organization complies to the

EACC Act number 22 of 2012 that aims to combat and prevent corruption and unethical practices and promoted standards and best practices in ethics, integrity and anti-corruption.

Table 4.9 : Approved budget and certificate from KENAO

YEAR	APPROVED BUDGET	CERTIFICATE FROM KENAO
2006/2007	Yes	Yes
2007/2008	Yes	Yes
2008/2009	Yes	Yes
2009/2010	Yes	Yes
2010/2011	Yes	Yes
2011/2012	Yes	Yes
2012/2013	Yes	No
2013/2014	Yes	No

Source: NHIF Performance Contracting Records, 2014

The table above shows the compliance of the Fund to the National Treasury for approval of budget and from the Kenya National Audit on expenditure and prudent utilization of Funds. From the year 2006/2007 to 2013/2014 the Fund's budget was approved by the National Treasury. The Kenya National Audit Office also cleared the Fund's expenditure from 2006/2007 until 2011/2012. In 2012/2013, according to the respondents, the KENAO raised issues on expenditure which the Fund is in the process of clarification.

As another critical measure of performance this study sought to find out the measures of financial viability and if they form an important part of the performance contract. The study findings were that the performance contract is explicit on measures of financial viability. In the first part of the performance contract, the measures on

financial viability are on compliance to the budget, utilization of funds and development index.

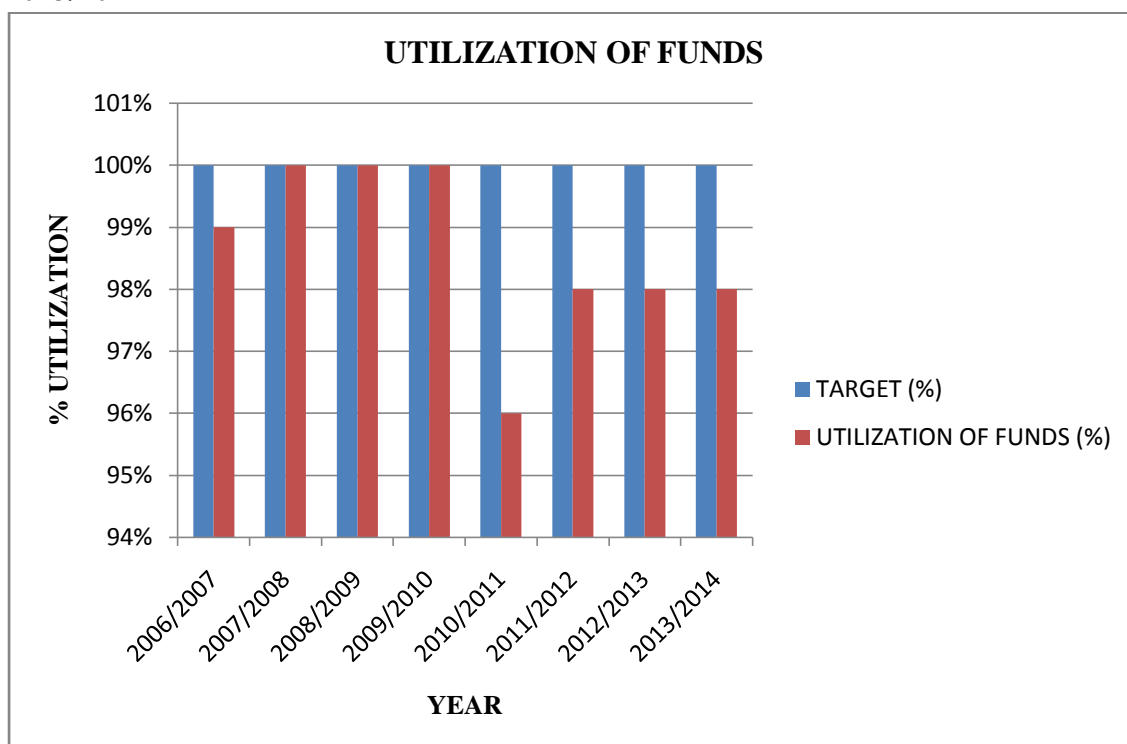
Table 4.10 : Utilization of funds targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET (%)	UTILIZATION OF FUNDS (%)
2006/2007	100%	99%
2007/2008	100%	100%
2008/2009	100%	100%
2009/2010	100%	100%
2010/2011	100%	96%
2011/2012	100%	98%
2012/2013	100%	98%
2013/2014	100%	98%

Source: NHIF Performance Contracting Records, 2014

The table above provides the status on utilization of funds. According to management, the target on utilization of funds in line with performance contracting guidelines is maintained at 100% every contracting period. With the exception of 2008/2009 and 2009/2010, the organization had not utilised the allocated funds at 100%. That notwithstanding the performance was considered good during evaluation process for each PC.

Figure 4.8 : Utilization of Benefits targets and achievements from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

The figure above gives a graphical presentation on utilization of resources. Utilization as shown ranges from a high of 100% to a low of 96%, from 2011/2012 to 2013/2014 utilization of funds was maintained at 98%.

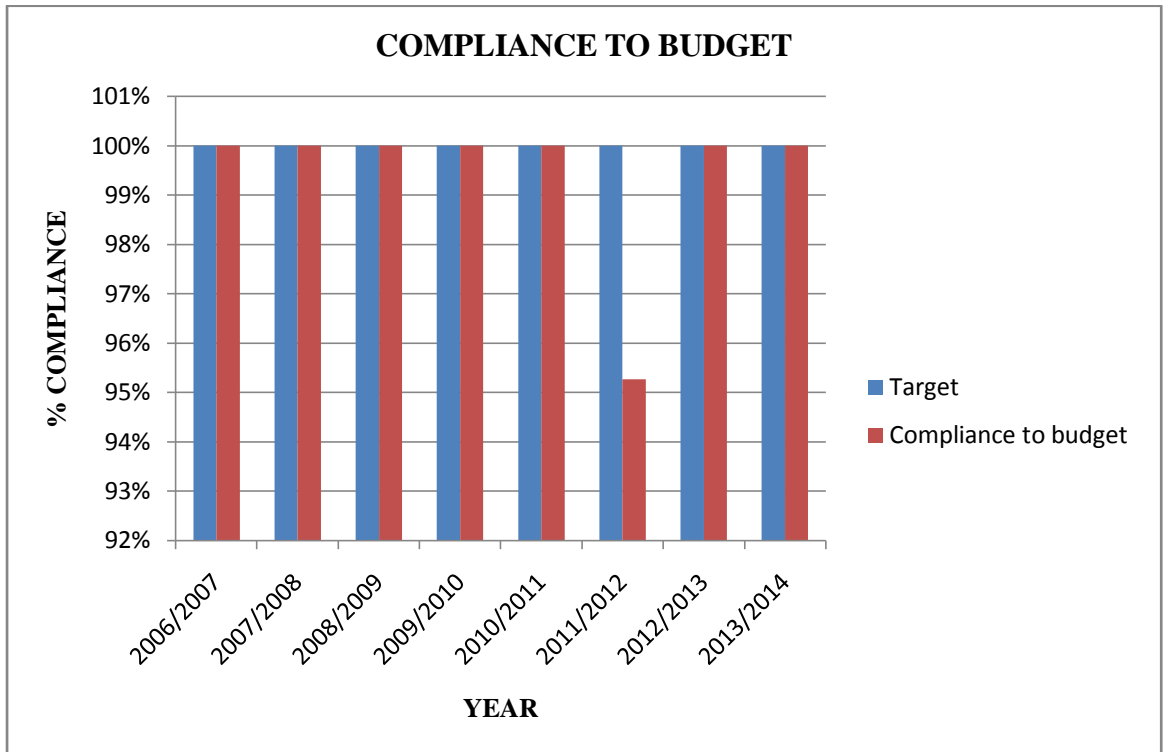
Table 4.11 : Compliance to budget targets and achievements from 2006/2007 to 2013/2014

Year	Target (%)	Compliance to budget (%)
2006/2007	100%	100%
2007/2008	100%	100%
2008/2009	100%	100%
2009/2010	100%	100%
2010/2011	100%	100%
2011/2012	100%	95.27%
2012/2013	100%	100%
2013/2014	100%	100%

Source: NHIF Performance Contracting Records, 2014

The table above consists of data on compliance to budget. It was noted that the Fund is required to comply to budget at 100% every contracting period. The achievement has been 100% with the exception of 2011/2013 where compliance was 95.27. This, management attributed to late submission of hospital claims for reimbursements.

Figure 4.9 : Compliance to budget targets and achievements from 2006/2007 to 2013/2014



Source: NHIF Performance Contracting Records, 2014

The figure above is a graphical presentation on the Fund’s compliance with the set budget. As seen the only deep was in 2011/2012.

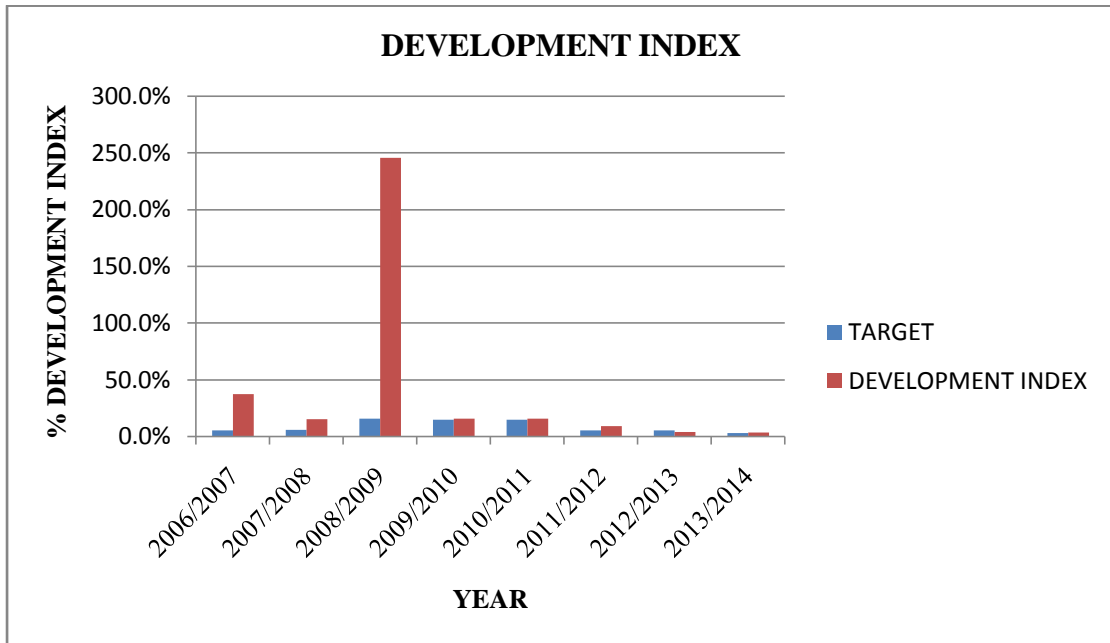
Table 4.12 : Development index targets and achievements from 2006/2007 to 2013/2014

YEAR	TARGET	DEVELOPMENT INDEX
2006/2007	5%	37%
2007/2008	5.50%	15.20
2008/2009	15.50%	246%
2009/2010	14.5%	15.4%
2010/2011	14.5%	15.4%
2011/2012	5%	9%
2012/2013	5%	4%
2013/2014	3	3.3%

Source: NHIF Performance Contracting Records, 2014

The table above indicates performance of targets on development index. The best development index achieved was in 2008/2009. The findings as explained by management were achieved due to a significant drop in the re-current expenditure and cost cutting through automation. The management team being interviewed noted that development index targets are usually achieved as the Fund improves its systems for seamless transactions with contributors.

Figure 4.10 : Development index targets and achievements from 2006/2007 to 2013/2014



The figure above is a graphical presentation of the development index as a performance of financial viability. The target as seen has been consistently achieved.

In the third part of the performance contract which is non-financial but addresses an angle of finances is the compliance to statutory obligations which include compliance to public procurement regulations and rules, remittance to statutory deductions which include HELB loans, PAYE, NHIF, NSSF.

Table 4.13 : Compliance to statutory obligations 2006/2007 to 2013/2014

YEAR	COMPLIANCE TO STATUTORY OBLIGATIONS - CERTIFICATES				RESOLUTION OF PUBLIC COMPLAINTS
	NSSF	KRA –TAX COMPLIANCE	HELB	NHIF	
2006/2007	✓	✓	✓	✓	-
2007/2008	✓	✓	✓	✓	-
2008/2009	✓	✓	✓	✓	-
2009/2010	✓	✓	✓	✓	-
2010/2011	✓	✓	✓	✓	✓
2011/2012	✓	✓	✓	✓	✓
2012/2013	✓	✓	✓	✓	✓
2013/2014	✓	✓	✓	✓	✓

Source: NHIF Performance Contracting Records, 2014

The table above shows that the Fund complies with statutory obligation on financial matters. The Fund has an obligation to its employees’ as stakeholders to invest for pensions. This is done by remitting deductions from employees’ salaries and matching the same to NSSF. NSSF then issues a compliance certificate on achievement of the same. In addition the Fund must comply with the KRA tax Act by ensuring all taxes are remitted and filed. In addition the Fund must comply to the HELB Act by ensuring all employees with HELB loans pay off the loans. Lastly the Fund must comply with its own Act by remitting employee contributions and also comply the public complaints act by reporting to the office of the ombudsman. Once the Fund complies to the above mentioned Acts it is issued with compliance certificates.

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objective of the study. The objective of this study was to investigate the effect of performance contracting on the performance at the National Hospital Insurance Fund.

5.2 Summary of the Findings

The study aimed at investigating the effect of performance contracting on the performance of the national hospital insurance fund. The study found that the senior management team were involved in the development and negotiation of the performance contract. It was also mentioned that for seamless implementation and achievement of targets their participation is important.

5.2.1 Performance Contracting and Effectiveness

The organization's strategic plan which outlines the vision, mission and strategic objectives and gives the organization a clear roadmap of where they are heading, what they need to do to and how they are to realise the organization's mandate is the most important document that has been used to initiate the performance contracting process. The measures of effectiveness have been derived from the strategic objectives and they are membership growth, contributions' growth, increased accredited health care facilities and increased benefit payout. From the reports it could be ascertained there are clear progressive targets as well as consistently achieved targets. In addition, feedback is used to analyse if tactics being employed are ensure that there is realised growth or if there is need to change tact. Feedback also forms

basis of future performance contracts' targets as well as structural and operational improvement.

5.2.2 Performance Contracting and Efficiency

Performance Contracting has an effect on efficiency as a measure the performance. The performance contract has influenced improvement at the Fund through improvement of throughput in the registration, claims and accreditation processes. The study also found out that that resources utilised are assigned costs and in different categories. These resources are in terms of operating expenses which are recurrent expenditures, personnel emoluments which are employee remuneration and capital expenditure which consist of development expenses. PC evaluations do not provide comparatives on resources utilised and results achieved.

5.2.3 Performance Contracting and Relevance

Performance Contracting has an effect on relevance as a measure of performance. The performance contract as a strategy ensures that the Fund remains relevant and addresses stakeholder needs by ensuring stakeholders have their voice through customer satisfaction surveys for contributors and health care providers and employee satisfaction survey for employees. It could be ascertained through reports that the organization engages customers and employees as stakeholders through surveys. The PC also plays a vital role in ensuring organizations become innovative. The Fund as targeted through the PC that is signed are required to become innovative for improved service delivery as well as increase relevance to its stakeholders. The study's findings show that the Fund has adopted various technologies to enhance it processes.

5.2.4 Performance Contracting & Financial Viability

Performance Contracting has effect on financial viability as a measure of performance. Performance Contracting provides guidelines on measures of an institutions financial performance and basis of negotiation for targets. The Funds gets approval to expense funds for benefits to members and its operations from the National Treasury. The expenses are audited by the Auditor General who makes recommendations based on the assessments. In addition, the performance contract has ensured that the organization complies with the EACC Act number 22 of 2012 that aims to combat and prevent corruption and unethical practices and promoted standards and best practices in ethics, integrity and anti-corruption.

5.3 Conclusion

The study concludes that Performance Contracting has effect on organizational performance. This effect is positive as evidenced. The performance contract is an important strategy if properly institutionalised ensures the organization realises its mandate through effective and efficient process, manages to stay relevant and ensures financial viability. The study concludes that adoption of PC at the National Hospital Insurance Fund has improved the level of performance. Contribution and membership have consistently increased; access has improved through increased accreditation. Throughput of core processes in registration claims processing and accreditation have also significantly improved. The PC promotes also promotes innovation and challenges institutions to ensure they remain relevant to stakeholders. This is through developing products and services that make it easier for the customer transactions. The Fund has leveraged on innovative technology to make it easier for the members to transact. In the last years, the Fund has developed its own technology by networking accredited health facilities to its main frame data source to save contributors from unnecessary trips. The Final conclusion is that Performance Contracting is a strategy that improves organization's productivity for performance.

5.4 Recommendations

This study recommends that the Ministry of Planning and Devolution charged with developing framework for Performance Contracting works out rationale to analyse the relationship between resources utilised and results achieved.

This study also recommends the Fund as an organization links performance and rewards to improve efficiency of individual employee performance to realise the cascaded targets.

5.5 Recommendations for Further Studies

This study has reviewed the effect of performance contracting on the performance of the National Hospital Insurance Fund. The Fund is one of the state corporations in the health sector. Similar studies should be carried out in the state corporation within the health sector and additional study on the effect of performance of state corporations in health sector and their impact on the national health plans.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

APPENDIX II: INTERVIEW GUIDE

THE EFFECT OF PERFORMANCE CONTRACTING STRATEGY ON PERFORMANCE AT THE NATIONAL HOSPITAL INSURANCE FUND

Performance Contracting

1. Are you involved in the development and negotiation of the Fund's performance contract and do you think it is a valuable tool?
2. Are the performance contract guidelines clear and are they domesticated to suit the Fund's working environment?

Performance Contracting and Effectiveness

3. As a strategy, how does the PC influence the realization of the Fund's vision, mission and strategic objectives?
4. What are the areas that the Fund has identified as those which measure its effectiveness?
5. What are the parameters that the Fund uses to measure effectiveness in the performance contract?
6. Do you get feedback on implementation of the PC and how is the feedback used for improvement on effectiveness?

Performance Contracting and Efficiency

7. Much has been said about the Fund not improving its efficiencies as expected by stakeholders. What are the areas that the Fund has mapped out in the performance contract for enhancing efficiency?
8. Are there comparatives undertaken on resources utilized and the results achieved?

Performance Contracting and Relevance

9. The Fund has various stakeholders whose expectations may defer from one to another. How does the PC as a strategy ensure that the Fund adequately addresses stakeholder expectations?
10. Is there any relationship between innovations (if any) at NHIF with the PC?

Performance Contracting and Financial Viability

11. The Fund is an own income generating state corporation through members' contributions. How do you ensure the stakeholders' contributions are prudently used?
12. What criteria does the performance contract use to measure financial viability?

Thank you for your time and attention