

**THE RELATIONSHIP BETWEEN PERFORMANCE  
CONTRACTING AND ORGANIZATION PERFORMANCE IN  
NATIONAL HOSPITAL INSURANCE FUND**

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## DECLARATION

This research project is my original work and has not been presented for any award in any other University.

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This research project is submitted for examination with my approval as the University Supervisor.

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## **DEDICATION**

This study is dedicated to my dear mum Mrs. Elizabeth Soi who has supported me through prayers, finances and encouragement in my quest for studies.

To my husband and son for their continued support and understanding. May God richly bless you all.

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## ABSTRACT

The main purpose of the study was to establish the relationship between performance contracting and performance of National Hospital Insurance Fund. Specifically the study sought to answer the following research question: what is the relationship between financial performance, quality service, innovation/ creativity, efficiency improvement and performance at the National Health Insurance Fund, Kenya? The study used a descriptive design in collecting data from the respondents because it ensures complete description of the situation, making sure that there is minimum bias in the collection and interpretation of data. The target population was drawn from National Insurance Fund and consisted eleven (11) directors, fifteen (15) top management staff and thirty four (34) middle management staff. Due to the fact that the population of the study was small, census of the total target population of sixty (60) respondents was taken and used as a study sample. The primary data for the study was collected using the questionnaires. Quantitative data was analyzed using descriptive and regression statistics with the aid of Statistical Package for Social Sciences (SPSS 21.0).The results of the study was presented using tables. The study established that financial performance, quality service, innovation and efficiency influence organization performance as indicated by increased membership contribution and managers capacity to mobilize members' contribution while keeping the variable costs down. The organization regularly sets quality service performance requirements, implements and enhance efficient internal processes which lead to excellent service performance. Organization has fostered and encouraged creativity and innovative practices internally within the organization and allowing management and employees to determine how to best accomplish the work hence ensuring organization competitiveness. Efficiency improvement has increased service quality levels, direct financial income, costs containment in the organization and enhanced work accountabilities. The study recommends the need for the organization to: set and implement performance measures which are clear to management and employees indicating precisely what is being measured and how the measures are calculated; employees' participation in the development and implementation of in-house performance contracts and enhance their motivation through elaborate motivation schemes; enhance innovation/ creativity through job enlargement and enrichment process, increased employees motivation and training and for management to develop and implement effective management practices, enhance management key competencies and participatory approach to decision making.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background to the Study**

Today's organizations seem to change much more rapidly than in the past because of increased competition and the ever-changing business environment. This explains why organizations require managing and improving their performance through performance contracting so as to be competitive. According to Lardi (1999), performance contract is defined as a written or negotiated agreement between government or its representative agency and the management of public enterprises. It contains quantifiable targets explicitly specified for a given period (one financial year) and performance is measured against targets at the end of the period (World Bank, 1995). The use of performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments (Prajapati, 2009).

The objective of introducing performance contracts was to improve delivery of quality and timely services through improved performance by ensuring that managers were accountable for results; maximize national resources through improved performance; reduce reliance on the exchequer; effective utilization of resources by instilling a sense of accountability and transparency, improve efficiency levels and ensure that public resources were focused on attainment of the key national policy priorities of the government; and institutionalize performance oriented culture in the public service; measure and evaluate performance and reduced confusion resulting from multiplicity of

objectives (Boyne, 2003). The major contribution of performance contracting is its focus on achieving results - competitive products and services for customers inside and outside the organization. Gore (1996) notes that performance contracting has facilitated managers to have a change of attitude towards workers which in turn has encouraged innovation and good customer service; improved service delivery and efficiency in resource utilization, institutionalization of a performance-oriented culture in the public service (Prajapati, 2009).

### **1.1.1 Organizational Performance**

Performance is described as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction and economic contributions (Fitzgerald & Moon, 1996). There are essentially three types of performance dimensions which are measures of output of goods and services, which may be quantitative (units produced, customers served) or qualitative (number of errors, customer complaints); measures of time, including lateness, absence, lost working time, failure to meet deadlines); and financial indicators, which include a large array of possibilities. These may be interrelated; thus absence reduces unit production levels which reduce profits. Performance measures can also be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). Within the operations area, standard individual performance measures could be productivity measures, quality

measures, inventory measures, lead-time measures, preventive maintenance, performance to schedule and utilization (Gok, 2004).

### **1.1.2 Health Insurance Sector**

Health insurance in Kenya can be accessed through three health scheme programmes: public health insurance, private insurance firms and to some extent community-based health insurance (CBHI) organizations. Private health insurance is predominantly accessible to the middle and higher-income groups (Kimani , Muthaka, & Manda, 2004). Community-based health insurance is relatively new in Kenya having been established in 1999, and as a result, it has limited coverage.

According to the Kenya Community-Based Health Financing Association (KCBHFA), currently, there are 38 CBHFA schemes, with 100,510 principle members who contribute to a total of 470, 550 insured beneficiaries ( Kimani et al, 2012). This is a paltry 1.2% of the total Kenyan population. Kenya has one public health insurance scheme, the National Health Insurance Fund (NHIF); a non-for-profit institution created by an Act of Parliament in 1966 as a department in the Ministry of Health. At inception, NHIF was intended to provide accessible health insurance for salaried public and private sector employees earning a monthly salary of Ksh 1,000 and more (Deolitte,2011; GoK, 2004).

### **1.1.3 National Hospital Insurance Fund**

National Hospital Insurance Fund (NHIF) is a state parastatal that was established in 1966 as a department under the Ministry of Health. The original Act of Parliament that set up this Fund in 1966 has over the years been reviewed to accommodate the changing

healthcare needs of the Kenyan population, employment and restructuring in the health sector. In 1998, relevant laws were repealed and replaced by the NHIF Act No. 9 of 1998 (Deolitte, 2011). This led to the transformation of the Fund into an autonomous State Corporation managed by a Board of Management (Kamau & Holst, 2008). The transformation of NHIF from a department of the Ministry of Health to a state of corporation was aimed at improving effectiveness and efficiency. The Fund's core mandate is to provide medical insurance cover to all its members and their declared dependants (spouse and children). The NHIF membership is open to all Kenyans who have attained the age of 18 years and have a monthly income of more than Ksh 1000. NHIF has 31 fully autonomous branches across the country. Each of these branches offers all NHIF services including payment of benefits to hospitals or members or employers. Smaller satellite offices and service points in district hospitals also serve these branches.

The main instrument of governance at NHIF is the NHIF Act, 1998 which stipulates the mandate and functions of the Fund. The NHIF Act also defines the composition of NHIF's Board of Directors by designating specific officials from certain organisations broadly representing Government, employers, workers and other key stakeholders such as private insurers and medical doctors. NHIF is implementing performance contract with the government with the core focus of providing affordable, accessible and quality healthcare services in the country.

## **1.2 Research Problem**

Most managers and employees of state corporations have met with resistance arising from lack of effective measurements mechanisms due to increased bureaucracy in decision making, lack of conducive environment for its effective implementation (Obong'o, 2008). Oduor, (2010) points out that performance contracts have relatively succeeded but they have equally failed to be effective control tool for performance management as they lack capacities for enforcement. The use of performance contracts is not based on an integrated set of financial instruments such as cost and performance audits hence not aligned to long term performance outcomes raising doubts as to whether performance contracting actually improves performance in public service organizations (Kobia & Mohammed 2006).

Previous studies conducted on performance contracting have concentrated on implementation, for instance Marjorie et al (2006) identified the following as challenges of the process: increased bureaucracy; lack of commitment; tension about identifying development needs and allocation of rewards; and bias in judgment. Similarly, Shirley et. al (2001) studied the challenges facing implementation of performance contracting .The study ranked lack of commitment as the highest challenge in China. In Kenya, Choke (2006) studied the perceived link between strategic planning & performance contracting in state corporations in Kenya and found that most managers perceive PCs as a management tool useful in achieving set targets. Kiboi (2006) on the other hand studied the management perception of performance contracting in state corporations and achieved similar results. Korir (2005) also studied the impact of performance contracting

at the East African Portland Cement. His study found that in the presence of PCs there is a corresponding improvement in performance. Gathai, Ngugi, Waithaka and Kamingi (2012) analyzed factors influencing implementation of performance contracting in state corporations in Kenya with special reference to Kenya Civil Aviation Authority. The study concluded that targets are mutually agreed upon and those targets are in line with the organizations objectives; performance measurements are used to evaluate, control and improve operations process in order to ensure that the organization achieves its goals and objectives.

A knowledge gap, therefore, exists regarding the relationship between performance contracting and organization performance in the public sector in Kenya. Hence the purpose of this research is to examine the relationship between performance contracting and organization performance in National Health Insurance Fund. In particular the study will seek to answer the following research question: what is the relationship between performance contracting and performance in the National Health Insurance Fund?

### **1.3 Research Objective**

The objective of the study is to establish the relationship between performance contracting and performance of National Hospital Insurance Fund.

### **1.4. Value of the Study**

In practical terms the study will be of value to NHIF management as it will facilitate them to appreciate the importance of performance contracting and nudge them to making

vital decisions aimed at supporting and facilitating performance contracting processes within their organizations. The study also seeks to sensitize various stakeholders including the employees and the general public on the realities brought about by the introduction of performance contracts in public organizations as appertain to the duties and obligations expected of each one of them and the outcome expected of the performance contracting. It will also be useful in preparing employees to cope with challenges in the workplace in terms of the general public expectations and demands and how performance contracts will affect their work.

The study will also help the management of NHIF to motivate employees by way of empowering them to participate in setting performance targets which in turn encourages productive discretionary behavior. The study will also be of value to the government which will be able to find out the extent to which the performance contracting is contributing to improvement in performance in the public service organizations and be able to introduce or enhance positive policies and regulation to improve the implementation of performance contracting in public service

Theoretically the study will contribute to the existing knowledge on performance contracting. This study may be a reference to scholars and researchers for further research work. It will be useful to the government in formulating employment policies aimed at entrenching performance contracting in public organizations.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, literature, which is related to and consistent with the objectives of the study, is reviewed. Important theoretical and practical problems are brought out; relevant literature on the aspects pertaining to the relationship between performance contracting and organization performance in National Hospital Insurance Fund is discussed. This section is divided into three subtopics namely: theoretical review, empirical review and the relationship between performance contracting and organizational performance.

#### **2.2 Theoretical Foundation**

The study will be based on performance management theory, goal setting theory and expectancy theory. This is because these theories address aspects that are also being addressed by the study.

##### **2.2.1 Performance Management Theory**

The term performance management refers to any integrated, systematic approach to improving organizational performance to achieve corporate strategic aims and promote its mission and values (Edis, 1995). Performance management (PM) is the process of optimal management and allocation of resources to achieve a common end in an organization. Edis (1995) observes that PM entails managerial approach that links people and jobs to the strategy and objectives of the organization. PM can also be viewed as an

integrated set of planning and review procedures, which cascades down through the organization to provide a link between each individual and the overall strategy of the organization (Rogers, 1994). PM can also be described as a mix of managerial techniques through which individual jobholders: have greater clarity about what their organization is trying to achieve; understand what is expected of them in their job; are entitled to regular feedback on how well they are doing; have continuous support from their managers; and have an opportunity to assess their overall performance achievements over a given period. This implies that a PM system aims at improving the results of people's efforts by linking these to the organization's corporate objectives. Therefore, PM entails creating and supporting the 'achievement culture' and thus ensures that effort is generated that results in performance which in turn results in real achievements. Essentially, the main objective of a PM is to improve performance and motivate staff by concentrating on priority objectives, raising commitments and releasing potentials.

### **2.2.2 Goal-Setting Theory**

The prime axiom of goal setting theory is that specific, difficult goals lead to higher performance than when people strive to simply do their best (Locke, 1966). The performance benefits of challenging, specific goals lie in the fact that they affect the performance of individuals, organizational units as well as entire organizations. By providing direction and a standard against which progress can be monitored, challenging goals can enable people to guide and refine their performance. Specific goals can boost motivation and performance by leading people to focus their attention on specific objectives, increase their effort to achieve these objectives, persist in the face of setbacks

and develop new strategies to better deal with complex challenges to goal attainment (Wood & Locke, 1990).

Challenging goals often lead to valuable rewards such as recognition, promotions, and/or increases in income from one's work (Latham & Locke, 2006). Working to attain valued goals relieves boredom by imbuing work with a greater sense of purpose. Even though setting high goals sets the bar higher to obtain self-satisfaction, attaining goals creates a heightened sense of efficacy (personal effectiveness), self-satisfaction, positive affect, and sense of well-being (Wiese & Freund, 2005). Specific goals increase the desire to perform even better, and difficult goals, when accepted, result in higher performance than easy goals. The main strands of the goal-setting theory are that there must be optimal level of challenge; goal clarity; and feedback (Locke and Latham, 1990).

### **2.2.3 Expectancy Theory**

Expectancy has been defined as the subjective probability (because individuals differ in their estimations of the relationship between behavior and outcomes) for the individual's expectation that behavior would lead to a particular outcome (Vroom, 1964). Vroom's Expectancy Theory tries to explain the motivated behavior as goal oriented. He argues that people tend to act in a hedonistic way preferring the actions that will bring the highest subjective utility (Vroom, 1964). Expectancy theory holds that people are motivated to behave in ways that produce desired combinations of expected outcomes' (Kreitner and Kinicki, 1998).

Expectancy theory hypothesizes that individuals change their behavior according to their anticipated satisfaction in achieving certain goals (Vroom, 1964). The expectancy theory argues that the strength of a tendency to act in a certain way depends on the strength of an expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual (Robbins, 1993). Vroom's theory states that the 'choices made by a person among alternative courses of action are lawfully related to psychological events occurring contemporaneously with the behavior' (Vroom, 1964). Expectancy is the strength of a person's belief about whether a particular outcome is possible. An individual will be more willing to engage in work if he believes that his effort will help him reach performance. Expectancy is important because it assumes that behavior depends on a self-estimation of being able to achieve the valued goals (Petri, 1991).

### **2.3 Empirical Review**

In a study on transforming the public service performance in Kenya through performance contracting Wanyama (2013) discussed whether performance management practices influence performance in public sector institutions in Kenya. The study benchmarked applications that can be adopted in public sector, hybrid approaches to performance management, the emerging constraints/challenges, and lessons learnt. The study sought to establish whether performance contract has reinvented the government institutions in Kenya; from its evolution, whether it has increased efficiency, effectiveness transparency and accountability to justify future allocation of resources making them any attractive. These traced the history of public sector transformation in Kenya and its rationale and implementation of different types of reform interventions to its Ministries, State

Corporations, Public Universities, Local Authorities and Tertiary institutions for efficient, effective ethical delivery of services to tax payers.

In their study on performance contracting Mbuu and Sarisar (2013) explored the challenges faced in the implementation of the concept of performance contracting (PC) in the public sector in Kenya. The study reviewed past literature on performance contracting initiatives, and their implementation and applications across diverse settings in Kenya. The study established that there are a number of challenges facing PC and that sustaining performance gains derived from the PC is central to improving public sector service delivery in Kenya and concerted efforts must be made to inculcate sustainability, while continuously improving public offerings and at the same time addressing the challenges.

In examining the role of performance contracting in enhancing effectiveness of performance in the civil service in Kenya Gakure, Muriu and Orwa (2013) divided the Department of focus into five heterogeneous divisions (stratum). Then a sample of 108 out of 1072 was obtained through proportionate stratified sampling method. Statistical Package for Social Scientists (SPSS) was used in the descriptive and inferential data analyses to establish meanings and relationships. Correlations revealed a strong relationship between performance contracting and effectiveness of performance. Analysis of variance (ANOVA) established that performance contracting is significant on performance while regression model established that a unit increase in performance contracting resulted to an increase in effectiveness of performance. These results revealed an important aspect bearing the effort and cost the government is putting in the

performance contracting tool. It is concluded from the findings that performance contracting leads to effectiveness of performance.

In their study Letangule, and Letting (2012) examined the effects of Performance Contract on Organization Performance: Given the impact of performance contracting on the operation and effectiveness of public sectors in Kenya, it is essential that all employees are included in the signing of the performance contract. The study adopted a descriptive research design. Data was analyzed through descriptive statistics and the relationship between the variables established using regression analysis. The findings revealed that performance contracting affected service quality, efficiency, and consistency and employee creativity at the ministry of education to a great extent.

In analyzing the factors influencing implementation of performance contracting in state corporations in Kenya with special reference to Kenya Civil Aviation Authority Gathai, Ngugi, Waithaka and Kamingi (2012) used a descriptive research design. The target population was all the employees of Kenya Civil Aviation Authority that have signed Performance Contracts between the period 2008/09 to 2011/12. The study concluded that targets are mutually agreed upon and those targets are in line with the organizations objectives; performance measurements are used to evaluate, control and improve operations process in order to ensure that the organization achieves its goals and objectives; organization avails requisite resources necessary for implementation of strategy and finally, that strategy implementation evolves either from a process of winning group commitment through a coalitional form of decision-making, or as a result

of complete coalitional involvement of implementation staff through a strong corporate culture.

In a study carried out by Akaranga (2008), it was revealed that all government ministries and state corporations in Kenya had formally implemented performance contracts. According to the study, there was clear evidence of improvement in income over expenditure as well as service delivery in the state corporations and government ministries. This is evidenced by results for financial year 2005/6 where majority of state corporations posted excesses of revenue over expenditure. Ketelaar, (2007) identified the following as the challenges of performance contracts; Focusing only on targets can be detrimental to public sector effectiveness if the targets or indicators are not relevant to the desired outcomes.

To understand the successes and challenges of implementing performance contracting in Kenya, Kobia and Mohammed (2006) carried out a survey among the civil servants. They developed a questionnaire from performance contracting literature and administered it to a sample of 280 senior public service course participants at the Kenya Institute of Administration. Data was collected from the course participants who were central in the implementation of performance contract in the government ministries and agencies. To investigate if the participants knew the goal of performance contracting, they asked them to state the goal of performance contracting in their ministries. The responses indicated that majority of the participants were conversant with performance contracting.

In their study Marjorie et al (2006) identified the following as challenges of the process of appraisal. They are viz. increased bureaucracy; lack of commitment; tension about identifying development needs and allocation of rewards; and bias in judgment. Lack of commitment on the side of the government to the promised incentives was ranked highest by respondents. Similarly, Shirley et al (2001) ranked lack of commitment as the highest challenge in China. Bias in judgment was ranked second with a significant difference of 5% level of significance between high management and subordinates.

In the United States of America, Martin (2000) in his empirical study on performance contracting in the human services affirm that several agencies that participated in the study had experienced improved performance. For, instance, the Oklahoma Community Rehabilitation Services Unit found that 19 contractor's costs per placement declined by 51 percent between 1992 and 1997, that the average number of months that clients spent on waiting lists decreased by 53 percent. The North Carolina Division of Social Services increased the number of adaptations from 261 adoptions in Financial Year (FY) 1993-1996 to 364 and to 631 in FY 1997-1998.

Doubts have been raised as to whether performance contracting actually improves service delivery in public service organizations. Ashley et al (1999) concluded that performance contracts in China did not improve performance in public sector. They did their study by analyzing three aspects; incentives, information asymmetry and commitment based on trends, objectives standards and factors beyond management control.



In their observation Bourkeart et al (1999) stated that performance contracts might fail to be an effective control instrument if incentives for performance are inefficient as the possibility of performance bonus is limited. Further they observed that performance contracts lack capacities for enforcement because of the ambiguous legal status of performance contracts. Sanctions are limited to financial compensation and individual threats for dismissal. Relaxation of input controls have to be complemented by effective use of output controls. In practice the use of performance contracts is not based on an integrated set of financial instruments such as, cost analytical account and performance audits. Grindle and Kiltgaard (1997) argued that there is a positive relationship between remuneration and public sector performance. Salaries should be higher in good performing organization if their point is to hold. Hence a need to have an appraisal system that measures performance and the system should be clear and understood by those to be held accountable.

## **2.4 The Relationship between Performance Contracting and Organizational Performance**

### **2.4.1 Organization Performance**

According to Daft (2000) Organizational performance can be measured using indicators in Efficiency, Effectiveness, Relevance to Stakeholders and Financial Viability. Relevance; being the degree to which the organization's stakeholders think the company is relevant to their needs. Clients judge the relevance of products or services by buying them, employees by working hard, shareholders by buying and holding shares, and so on. Effectiveness refers to the degree to which the organization is successful in achieving its

strategy, mission and vision. Efficiency refers to how well the organization uses its resources (financial, human, physical, information). Financial viability indicates how viable the organizational is not only in the short but also in the long term.

#### **2.4.2 Financial Performance**

Firms' performance is widely measured through the financial success of the organization. Richardo (2001) emphasized that successful organizations were those with the highest return on equity and those who had established performance management system "aligning" every aspect of the organization from top management to the factory floor. Financial stress for most profit-oriented firms can be assessed both in terms of top-line (e.g., sales) as well as bottom-line (profitability) measures (Davis et al., 2000). The profitability of an organization is an important financial indicator to reflect the efficiency of the organization and the manager's ability to increase sales while keeping the variable costs down (Davis et al., 2000). Doyle (1994) argued that profitability was the most common measurement used for organizational performance in business organizations. Profit margin, return on assets, return on equity, return on investment, and return on sales are considered to be the common measures of financial profitability.

In public organizations financial performance focuses on stewardship in the management of funds, staying within budgets, and ensuring adequate funding levels. The use of performance-based contracts has induced an increased cost consciousness. The organizations have to develop cost-accounting systems and provide yearly financial statements. The information provided improves the government's capacity to control the

organizations' financial practices. Up to this moment, there is no direct link between the purchased amount of services and the level of the budget. An extended audit is needed to establish the link between objectives, outputs and inputs. However, the outlook on better budget estimates, based on an increased knowledge of real costs is realistic. In some cases, transfers are corrected on the basis of achieved performance results such that a failure to meet performance targets results in a decrease of financial transfer to government.

On the other hand, there is a positive financial return to the government in case performance results exceed set targets. These positive corrections are dependent, however, on developments of the overall budgetary position of the government and are therefore limited. These remarks attenuate the real impact of the budget as an incentive. There is also a need to enhance the performance orientedness of the different financial management instruments (budgets, accounts and audits) and the coherency and consistency of these instruments. More coherence and consistency would mean that budget; accounts and audits are based on the same output and cost categories. Most organisations with contracts develop accrual and cost accounting but fail to use the resulting cost information in their budget estimates. Compliance audits remain more important than performance audits.

### **2.4.3 Quality Service**

Quality has to do with how closely work conforms to some specified requirement for goodness. A distinction can be made between internal and external quality. Internal

quality has to do with meeting performance requirements the organization sets for itself. Examples of poor internal quality are defective products made in production, errors in a document, and mistakes made in completing a customer order. External quality has to do with whether products and services meet customer requirements. Examples of poor external quality are products returned by customers, rework needed to satisfy customers, and level of customer dissatisfaction.

According to Gakure, Muriu, and Orwa (2013) performance contracting has refocused public service organizations to operate more like private enterprises by placing a stronger emphasis on customer service and attaining profitability as the major criteria of performance. With respect to changes in customer relations, new interfaces and instruments are installed, resulting in increased client-orientedness. Most state corporations and government ministries, now have functional customer care and public relations offices. These offices have acted as valuable instruments for introducing a client focus services (Muthaura, 2007).

A key feature of the performance contracting is the concept of perceiving the citizen as a “customer” of public services. In the context of public sector reform, efforts to make public service agencies more accountable to the public have included the adoption of citizens’ charters. The citizen’s charter is designed to raise the standard of public services and make them more responsive to their users. The Charter spells out a number of key principles that every citizen is entitled to expect, including: setting and publication of

explicit standards for services and the publication of actual performance against these standards (Obong'o, 2009).

#### **2.4.4 Innovation/Creativity**

In this dynamic and changing environment, one way to create growth and sustain performance is to innovate (Higgins, 1996). Innovation is essential in order to generate long-term stability, growth, sustainable performance and remain at the leading edge of the organization's industry (Cook, 1998). Thus, one way to achieve growth and sustain performance is to foster and encourage creativity and innovative practices internally within the organization. Mckeown (2008) refers innovation to both radical and incremental changes in thinking, things, and processes or in services. Performance contracting is suggested to foster innovation as it underlines the outcome of the service rather than stating how to deliver it, hence it leaves more room for innovation. By allowing management and employees to determine how to best accomplish the work, PCs have been demonstrated to increase creativity and innovation in service delivery (Martin, 2002).

Innovation (both radical and incremental) in products and services is critical for firms to gain and sustain competitive advantage and hence crucial for the long term survival of an organization (Hecker and Ganter, 2013). An innovation can introduce scarce, high value-added products. It allows the firm to develop new products and exploit new markets; in addition, it can allow the firm to improve its cost base and increase profit margins without increasing its price. Organizations may engage in internal innovation

through for example internal development and R&D. However, a focus on internal innovative capabilities may limit the organization in dealing with change since e.g., organizations may not have all the resources that are necessary to succeed in complex environments (Chesbrough, 2006). As a consequence external partners, such as suppliers have become an increasingly important source of innovative solutions, ideas, and technologies and are believed to enhance or even drive innovation.

#### **2.4.5 Efficiency Improvement**

Performance contracting has been widely adopted as a vehicle to achieve efficiency gains, while maintaining or increasing service quality levels (Greiling, 2006). The two areas, efficiency (usually measured in direct financial terms or productivity), and effectiveness (usually indicated by quality), are frequently referred to when the benefits of contracting are discussed (Kobia & Mohammed, 2006). Managers need to ensure that costs are contained, accountabilities are established, and outcomes monitored so that the potential strategic and financial benefits of contracting are realized without decreasing quality (Balogun, 2001).

Increasing the efficiency of public services has been high on the agenda of public management. Cutting through red tape, minimizing public waste and value-for-money reporting have been important drivers for the introduction of performance measurement in the public sector (Wanyama, 2013). Many official documents show that increasing efficiency as an input/output relationship and reducing inefficiency ranks high on most of the official governments' agenda (Murray, 2002). This sentiment is for example well

articulated in section 2 of the 1993 American Government Performance and Result Act (GPRA) or in a recent publication by the British Treasury who still regards it, after more than two decades of new public management, as a challenge to raise the productivity of public services (HM Treasury, 2003). Doing the job efficiently was, according to Norman (2004), for a decade the central theme of the public sector reform in New Zealand. Inter-administrative comparison circles at the local administrative level in Germany were introduced on a voluntary basis in order to increase efficiency (Greiling, 2006).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter involves the methods the researcher shall use to collect the data for the study. These include research design, target population, sampling design, data collection instruments, data collection procedure and data analysis procedure.

#### **3.2 Research Design**

The researcher will use descriptive research design in collecting the data from respondents. The design is preferred because it is concerned with answering questions such as who, how, what which, when and how much Cooper and Schindler, (2001). A descriptive design ensures complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected.

#### **3.3 Population of the Study**

The target population will be drawn from National Hospital Insurance Fund (NHIF) and will consist of eleven (11) directors, fifteen (15) top management staff and thirty four (34) middle management staff. The population category was chosen because they are the implementers of the performance contracting in NHIF. Due to the fact that the population of the study is small, census of the total target population of sixty (60) respondents will be taken and used as a study sample.



### **3.4 Data Collection**

Data for the study will be collected using closed ended questionnaire. The questionnaires will be self- administered containing closed ended questions to the respondents. Each respondent will receive the same set of questions. A letter requesting for information will accompany the questionnaire explaining the purpose of study to the respondents.

### **3.5 Data Analysis**

The data collected will be first edited and then coded for easy classification in order to facilitate tabulation. The tabulated data will then be analyzed using descriptive statistics and simple regression statistics with the aid of SPSS Version 21. The purpose of using simple regression statistics will be to establish the relationship between independent variables and dependent variable. The presentation of data will be in form of tables to provide successful interpretation of the findings. Descriptive data will be provided in form of explanatory notes.

## CHAPTER FOUR

### RESULTS, FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the analysis of study findings on the relationship between performance contracting and organization performance in National Hospital Insurance Fund. This chapter analyses the variables involved in the study and estimates of the model presented in the previous chapter.

#### 4.2 Response Rate

The study issued 60 questionnaires to the respondent and the response rate of the respondents is as shown on Table 4.1.

**Table 4.1: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage %</b>
Filled in questionnaires	56	93.3
Unreturned questionnaires	4	6.7
<b>Total</b>	<b>60</b>	<b>100</b>

**Source, Research Data, (2015)**

Results of the study on Table 4.1 shows that out of the 60 issued questionnaires, 56 questionnaires representing 93.3% of the total questionnaires distributed were returned fully completed, while 4 questionnaires were not returned representing 6.7% of the total questions distributed to the respondents. It can be inferred that the response rate was

good. According to Mugenda and Mugenda (2003) a response rate of 70% and over is excellent for analysis and reporting on the opinion of the entire population.

### 4.3 Respondents Demographic Characteristics

The study on Table 4.2 shows the demographic characteristics of the respondents.

**Table 4.2 Demographic Characteristics**

Demographic factors	Categories	Frequency	Percentage %
Level of Education	Diploma	24	42.9
	Degree	27	48.2
	Others	5	8.9
Years of service	0-4 years	22	39.3
	5-9 years	24	42.9
	10-19 years	4	7.1
	20+ years	6	10.7

**Source, Research Data, (2015)**

The study findings on Table 4.2 indicate that majority of the respondents indicated that they; had at least an undergraduate degree, (48.2%) and had served in the organization for a period of 5-9 years (42.9%) respectively.

### 4.4 Organization Performance

The data analysis on Table 4.3 sought to establish whether the respondents' organization possess performance level projection.

**Table 4.3 Possession of Performance Level Projection**

Measurement	(n=56)	
	Frequency	Percentage
Yes	42	75.0
No	14	25.0
	<b>56</b>	<b>100.0</b>

Source, Research Data, (2015)

Results of the study Table 4.3 indicate that majority of the respondents, represented by 75.0% stated that the organization do have performance level projection while 25.0% of the respondents indicated that their organization lack performance level projection. From the results it can be concluded that the organization have performance level projection Table 4.4 examines whether the respondents' organization have achieved the projected performance level as a result of implementation of performance Contracting.

**Table 4.4 Achievement of the Projected Performance Level**

Measurement	(n=56)	
	Frequency	Percentage
Yes	34	60.7
No	22	39.3
	<b>56</b>	<b>100.0</b>

Source, Research Data, (2015)

The study analysis on Table 4.4 shows that majority of the respondents indicated that the organization had indeed achieved the projected performance level as a result of implementation of performance contracting (60.7%), while 39.3% stated that they have

not achieved the projected performance level as a result of implementation of performance contracting. Based on the findings of the study, it can be concluded that the organization had indeed achieved the projected performance level as a result of implementation of performance contracting

Table 4.5 examines whether the organization has experienced an increase in performance as a result of performance contracting.

**Table 4.5 Increase in Performance**

<b>Measurement</b>	<b>(n=56)</b>	
	<b>Frequency</b>	<b>Percentage</b>
Yes	34	60.7
No	22	39.3
	<b>56</b>	<b>100.0</b>

**Source, Research Data, (2015)**

The study analysis on Table 4.4 shows that majority of the respondents (60.7%) indicated that the organization had experienced an increase in performance as a result of performance contracting, while 39.3% stated that they have not experienced an increase in performance as a result of performance contracting. From the results it can be deduced that the organization had experienced an increase in performance as a result of performance contracting enriching the views of Prajapati (2009) that the use of performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments.

Table 4.6 sought to outline some of the indicators of organization performance.

**Table 4.6 Organization Performance Indicators**

Statement		SA	A	N	D	SD
Growth in sales	<b>F</b>	23	18	8	6	1
	<b>%</b>	41.1	32.1	14.3	10.7	1.8
Increased coverage of market	<b>F</b>	23	16	3	11	3
	<b>%</b>	41.1	28.6	5.4	19.6	5.3
Increased awareness levels	<b>F</b>	27	16	5	2	6
	<b>%</b>	48.2	28.6	8.9	3.6	10.7
Operation efficiency	<b>F</b>	21	24	5	1	5
	<b>%</b>	37.5	42.9	8.9	1.8	8.9

**Source, Research Data, (2015)**

Based on the study analysis on Table 4.6 majority of the respondents agreed and strongly agreed that; the organization has experienced growth in sales (41.1%); there is increased coverage of the organization's target market (41.1%); there is an increased awareness level of the organization products (48.2%); and finally the organization has seen an improvement in operation efficiency (37.5%).

Based on the results of the study it can be concluded that the organization has experienced growth in sales; there is increased coverage of the organization target market; there is increased awareness levels of the organization products; the organization has had high market penetration level in the sector, and finally the organization has seen an improvement in operation efficiency. These findings are in line with the views of Daft (2000) that organizational performance can be measured using indicators in efficiency, effectiveness, relevance to stakeholders and financial viability, relevance; being the degree to which the organization's stakeholders think the company is relevant to their needs.

#### 4.5 Financial Performance

The study shown on Table 4.7 indicates the effects of financial performance on the performance of the organization.

**Table 4.7 Effects of Financial Performance on the performance of the organization**

<b>Statement</b>		<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
There is increased membership	<b>F</b>	24	14	5	9	4
	<b>%</b>	42.9	25.0	8.9	16.1	7.1
Increased members' contribution	<b>F</b>	28	15	4	3	6
	<b>%</b>	50.0	26.8	7.1	5.4	10.7
staying within the budgets	<b>F</b>	15	21	5	7	8
	<b>%</b>	26.8	37.5	8.9	12.5	14.3
ensured adequate funding levels	<b>F</b>	21	16	5	8	6
	<b>%</b>	37.5	28.6	8.9	14.3	10.7
increased cost consciousness	<b>F</b>	14	26	1	7	8
	<b>%</b>	25.0	46.4	1.8	12.5	14.3
Developed cost-accounting systems	<b>F</b>	26	10	5	8	7
	<b>%</b>	46.4	17.9	8.9	14.3	12.5
Provision of yearly financial statements	<b>F</b>	19	19	4	8	6
	<b>%</b>	33.9	33.9	7.2	14.3	10.7
Control of financial practices	<b>F</b>	24	16	6	5	5
	<b>%</b>	42.9	28.6	10.7	8.9	8.9
Results exceed set revenue targets	<b>F</b>	16	26	4	5	5
	<b>%</b>	28.6	46.4	7.1	8.9	8.9
Performance orientedness	<b>F</b>	22	13	3	10	8
	<b>%</b>	39.3	23.2	5.3	17.9	14.3
More coherence and consistency	<b>F</b>	21	17	4	7	7
	<b>%</b>	37.5	30.4	7.1	12.5	12.5

**Source, Research Data, (2015)**

Results of the study on Table 4.7 shows that majority of the respondents agreed and strongly agreed that: Increased membership contribution has been an important financial indicator to reflect the efficiency of the organization (42.9 %), managers have the capacity to mobilize members' contribution while keeping the variable costs down (50.0%), organization has stayed within its budgets hence ensuring effective financial

performance (37.5%), organization has ensured adequate funding levels guaranteeing financial performance (37.5%), use of performance-based contracts has induced an increased cost consciousness (46.4%), organisation has developed cost-accounting systems to enhance financial performance (46.4%), organization provides yearly financial statements ensuring accountability and profitability (33.9%) , organization has the capacity to control its' financial practices thus promoting financial performance (42.9%), there is a positive financial return in case performance results exceed the set revenue targets (46.4%), the organization has enhanced the performance orientedness of budgets, accounts and audits (39.3%), the organization has promoted more coherence and consistency in accounts and audits ensuring that the budget is based on the same output and cost categories (37.5%).

From the study it can be inferred that performance contracting affect financial performance of the organization which in turn influences organization performance as indicated by increased membership contribution as managers have the capacity to mobilize members' contribution while keeping the variable costs down, stayed within the set budgets and ensured adequate funding levels guaranteeing organization performance.

The organization has instituted various measures to ensure performance of the organization such as use of performance-based contracts which have induced cost consciousness, developed cost-accounting systems to enhance financial performance, enhanced the provision of yearly financial statements ensuring accountability and profitability, increased the capacity to control its' financial practices thus promoting



financial performance, enhanced the performance orientedness of budgets, promoted more coherence and consistency in accounts and audits ensuring that the budget is based on the same output and cost categories. That the organization has strived to ensure that the organization performance results exceed the set revenue targets. These findings are confirm the views of Davis et al, ( 2000) that the profitability of an organization is an important financial indicator to reflect the efficiency of the organization and the manager’s ability to increase sales while keeping the variable costs down.

Study analysis on the Table 4.8 sought to establish whether financial performance influences organization performance.

**Table 4.8 Influence of Financial Performance**

Measurement	(n=56 )	
	Frequency	Percentage
Yes	42	75.0
No	14	25.0
	<b>56</b>	<b>100</b>

**Source, Research Data, (2015)**

The study findings on Table 4.8 indicate that majority of the respondents represented by 75.0% agreed that financial performance does indeed influence the performance of the organization, while 25.0% of the respondents stated that financial performance has no influence on the performance of the organization. From the results of the study, it can be concluded that financial performance does indeed influence the performance of the

organization. The result concurs with the observations of Richardo (2001) that performance is widely measured through the financial success of the organization.

#### 4.6 Quality Service

The data analysis shown on Table 4.9 sought to establish the effect of quality service on performance of the organization.

**Table 4.9 Effect of Quality Service on Performance of The organization**

<b>Statement</b>		<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Organization regularly meets the set performance requirements	<b>F</b>	19	22	4	8	3
	<b>%</b>	33.9	39.3	7.1	14.3	5.4
Organization has efficient internal processes	<b>F</b>	21	15	6	8	6
	<b>%</b>	37.5	26.8	10.7	14.3	10.7
Organization is focused on meeting customer requirement	<b>F</b>	24	13	3	8	8
	<b>%</b>	42.9	23.2	5.4	14.3	14.3
Organization ensures customer retention	<b>F</b>	12	28	5	5	6
	<b>%</b>	21.4	50.0	8.9	8.9	10.7
There are few errors committed in service delivery	<b>F</b>	22	17	5	7	5
	<b>%</b>	39.3	30.4	8.9	12.5	8.9
organization makes few mistakes	<b>F</b>	15	22	5	8	6
	<b>%</b>	26.8	39.3	8.9	14.3	10.7
There are fewer customer complaints	<b>F</b>	28	14	4	5	5
	<b>%</b>	50.0	25.0	7.1	8.9	8.9
Level of customer dissatisfaction is low	<b>F</b>	24	17	2	6	7
	<b>%</b>	42.9	30.4	3.6	10.7	12.5
Organization has placed a stronger emphasis on customer service	<b>F</b>	26	11	8	6	5
	<b>%</b>	46.4	19.6	14.3	10.7	8.9
organization perceives the citizen as a customer of public services	<b>F</b>	15	21	2	12	6
	<b>%</b>	26.8	37.5	3.6	21.4	10.7

**Source, Research Data, (2015)**

The study findings on Table 4.9 show that majority (39.3%), (37.5%), (50.0%), (39.3%), (44.4%), (39.3%), (50.0%), (42.9%), (46.4%), and (37.5%) of the respondents agree and strongly agree respectively that: the organization regularly meets the set performance requirements; the organization has efficient internal processes which lead to excellent service; performance contracting is focused on meeting customer requirement; performance contracting ensures customer retention by enhancing customer satisfaction through producing and delivering quality products and services; there are few errors committed in service delivery; performance contracting focus on customer satisfaction has affected performance issues such as reducing service delivery and warranty costs and customer turnover; the organization makes few mistakes in completing a customer order; there are fewer complaints from customers; the level of customer dissatisfaction is low; organization has placed a stronger emphasis on customer service as a way of attaining financial viability and the organization perceives the citizen as a “customer” of public services.

Based on the study it can be deduced that quality service affects organization performance and that the organization regularly sets quality service performance requirements, implements and enhance efficient internal processes which lead to excellent service performance. The organization has implemented elaborate measures focused on meeting customer requirement and customer retention by enhancing customer satisfaction through producing and delivering quality products and services, committing few errors in service deliver and reducing service delivery and warranty costs. The organization has placed a stronger emphasis on customer service and

perceived the citizen as a customer of public services. These study findings enrich the findings of Gakure, Muriu, and Orwa (2013) performance contracting has refocused public service organizations to operate more like private enterprises by placing a stronger emphasis on customer service and attaining profitability as the major criteria of performance.

The study analysis shown Table 4.10 sought to ascertain whether quality service affects organization performance.

**Table 4.10 Influence of Quality Service**

<b>Measurement</b>	<b>(n=56)</b>	
	<b>Frequency</b>	<b>Percentage</b>
Yes	41	73.2
No	15	26.8
	<b>56</b>	<b>100</b>

**Source, Research Data, (2015)**

Results shown on Table 4.10 indicate that majority of the respondents agree that quality service influences the performance of organization, (73.2%) while 26.8% stated that quality service does not influence the performance of the organization. From the study results, it can be deduced that quality service influences the performance of the organization hence confirming the views expressed by Muthaura, (2007) that most state corporations and government ministries, now have functional customer care and public relations offices. These offices have acted as valuable instruments for introducing client focus services.

#### 4.7 Innovation/Creativity

Data analysis shown on Table 4.11 sought to determine the effect of innovation on performance of the organization.

**Table 4.11 Effects of Innovation on the Performance of The organization**

Statement		SA	A	N	D	SD
Organization has sustained its performance by fostering and encouraging creativity	<b>F</b>	21	18	5	5	7
	<b>%</b>	37.5	32.1	8.9	8.9	12.5
Organization innovation has generated long-term stability	<b>F</b>	10	23	6	7	10
	<b>%</b>	17.9	41.1	10.7	12.5	17.9
Organization innovation has enhanced growth	<b>F</b>	18	18	4	11	5
	<b>%</b>	32.1	32.1	7.1	19.6	8.9
Organization innovation has ensured that it remains at the leading edge of the organization's industry	<b>F</b>	27	13	3	6	7
	<b>%</b>	48.2	23.2	5.4	10.7	12.5
Organization innovation has ensured both radical and incremental changes	<b>F</b>	15	27	3	4	7
	<b>%</b>	26.8	48.2	5.4	7.1	12.5
Performance contracting has fostered innovation by focusing on outcome of services	<b>F</b>	24	15	4	7	6
	<b>%</b>	42.9	26.8	7.1	12.5	10.7
Organization has allowed management and employees determine how to best accomplish work	<b>F</b>	16	22	4	8	6
	<b>%</b>	28.6	39.3	7.1	14.3	10.7
Organization innovation has facilitated the introduction of high value -added products	<b>F</b>	25	15	3	5	8
	<b>%</b>	44.6	26.8	5.4	8.9	14.3
Organization innovation has allowed the company to exploit new markets	<b>F</b>	20	15	5	12	4
	<b>%</b>	35.7	26.8	8.9	21.4	7.1
Organization innovation has allowed the firm to improve its cost base	<b>F</b>	29	14	4	3	6
	<b>%</b>	51.8	25.0	7.1	5.4	10.7

**Source, Research Data, (2015)**

The results of the data analysis on Table 4.11 shows that most respondents agreed and strongly agreed respectively that: the organization has sustained its performance by fostering and encouraging creativity and innovative practices internally within the organization(37.5%), organization innovation has; generated long-term stability (41.1%); enhanced growth (32.1%); ensured that it remains at the leading edge of the organization's industry (48.2%); ensured both radical and incremental changes in thinking, things, and processes or in services (48.2%); has facilitated the introduction of high value -added products (44.6%); has allowed the company to exploit new markets (35.7%); and has allowed the firm to improve its cost base and increase revenue margins (51.8%). Further, performance contracting has fostered innovation by focusing on the outcome of the service (42.9%); and finally, organization has allowed management and employees to determine how to best accomplish the work, thus increasing creativity and innovation in service delivery (39.3%).

From the study it can be concluded that the organization has sustained its performance by fostering and encouraging creativity and innovative practices internally within the organization; Organization innovation has: generated long-term stability; enhanced growth; ensured that it remains at the leading edge of the organization's industry; ensured both radical and incremental changes in thinking, things, and processes or in services; has facilitated the introduction of high value -added products; has allowed the company to exploit new markets; and has allowed the firm to improve its cost base and increase revenue margins. Further, performance contracting has fostered innovation by focusing on the outcome of the service and finally, the organization has allowed management and

employees to determine how to best accomplish the work, thus increasing creativity and innovation in service delivery. This supports the views of Martin, (2002) that performance contracting foster innovation as it underlines the outcome of the service rather than stating how to deliver it, hence it leaves more room for innovation and that by allowing management and employees to determine how to best accomplish the work, performance contracting have been demonstrated to increase creativity and innovation in service delivery.

The study shown on Table 4.12 sought to ascertain whether innovation influences the performance of the organization.

**Table 4.12: Influence of Innovation**

Measurement	(n=56)	
	Frequency	Percentage
Yes	44	78.6
No	12	21.4
	<b>56</b>	<b>100.0</b>

**Source, Research Data, (2015)**

Results of the analysis on Table 4.12 shows that majority of the respondents (78.6%) acknowledged that innovation influences the performance of the organization while 21.4% of the respondents indicated that innovation has no influence on the performance of the organization. From the results of the study it can be inferred that innovation influences the performance of the organization hence adding to the findings of Mckeown (2008) that, one way to achieve growth and sustain performance is to foster and encourage creativity and innovative practices internally within the organization.

#### 4.8 Efficiency Improvement

Table 4.13 sought to determine the effects of efficiency improvement on organizational performance.

**Table 4.13 Effects of Efficiency Improvement on organizational Performance**

Statement		SA	A	N	D	SD
Performance contracting has enhanced efficiency in the organization	<b>F</b>	18	25	4	4	5
	<b>%</b>	32.1	44.6	7.1	7.1	8.9
Performance has increased service quality levels	<b>F</b>	23	7	8	12	6
	<b>%</b>	41.1	12.5	14.3	21.4	10.7
Performance contracting has increased organization direct financial income	<b>F</b>	14	20	3	10	9
	<b>%</b>	25.0	35.7	5.4	17.9	16.1
Performance contracting has enhanced costs containment	<b>F</b>	24	17	5	3	7
	<b>%</b>	42.9	30.4	8.9	5.4	12.5
Through performance contracting work accountabilities have been established	<b>F</b>	28	18	3	3	4
	<b>%</b>	50.0	32.1	5.4	5.4	7.1
Performance contracting has minimized organization waste	<b>F</b>	14	21	5	11	5
	<b>%</b>	25.0	37.5	8.9	19.6	8.9
Performance contracting has ensured that the organization gets value-for-money	<b>F</b>	22	12	4	11	7
	<b>%</b>	39.3	21.4	7.1	19.6	12.5

Source, Research Data, (2015)



Results of the study on Table 4.13 shows that majority of the respondents agreed and strongly agreed that: performance contracting has enhanced efficiency in the organization (44.4%); performance has increased service quality levels in the organization (41.1%); performance contracting has increased organization direct financial income (35.7%); performance contracting has enhanced costs containment in the organization (42.9%); through performance contracting work accountabilities have been established and enhanced (50.0%); performance contracting has minimized organization waste through increased efficiency (37.5%); and lastly, performance contracting has ensured that the organization gets value-for-money in its operation (39.3%).

Based on the results of the study, it can be deduced that performance contracting has enhanced efficiency in the organization; increased service quality levels in the organization, direct financial income; enhanced costs containment in the organization; established and enhanced work accountabilities, minimized organization waste through increased efficiency and ensured that the organization gets value-for-money in its operation. These results reaffirm those of Greiling (2006) who established that performance contracting has been widely adopted as a vehicle to achieve efficiency gains, while maintaining or increasing service quality levels.

Study analysis on the Table 4.14 sought to establish whether efficiency improvement influences the performance of the organization.

**Table 4.14 Influence of Efficiency Improvement**

Measurement	(n=56)	
	Frequency	Percentage
Yes	36	64.3
No	20	35.7
	<b>56</b>	<b>100</b>

**Source, Research Data, (2015)**

The study findings on Table 4.14 indicate that majority of the respondents represented by 64.3% agreed that efficiency improvement does indeed influence the performance of the organization, while 35.7% of the respondents stated that efficiency improvement doesn't influence the performance of the organization in the bank sector. From the study it can be concluded that efficiency improvement does indeed influence the performance of the organization. These findings align with those of Balogun, (2001) which recommended that managers need to ensure that costs are contained, accountabilities are established, and outcomes monitored so that the potential strategic and financial benefits of contracting are realized without decreasing quality.

#### **4.9 Test of Significance**

Table 4.15 shows the significance of the relationship between performance of the organization (dependent variable) and performance contracting (independent variable).

**Table 4.15 Model summary**

Model	R	R Square	Adjusted R Square	df	Sig	Std. Error of the Estimate
	.647 <sup>a</sup>	0.419	.392	4	.003	1.016

Dependent Variable: Organizational Performance

**Source, Research Data, (2015)**

The findings on Table 4.15 established a positive correlation coefficient ( $r$ ), = 0.647, coefficient of determination ( $r^2$ ) = 0.41.9 and adjusted  $r$  squared = 0.392. The ( $r^2$ ) indicated that the variations in financial performance, quality service, innovation/creativity and efficiency improvement explain 41.9% percent of the variation in performance of the National Insurance Fund. On the other hand, the Adjusted R-square shows that 39.2% (Adj R-square=.392) of the variance in the performance of the National Hospital Insurance Fund can be explained by the variations in financial performance, quality service, innovation/creativity and efficiency improvement.

Analysis of variance (ANOVA) was used to test the significance of the regression model as pertains to differences in means of the dependent and independent variables as shown on Table 4.16.

**Table 4.16 ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.614	4	.426	2.151	.000 <sup>a</sup>
Residual	7.818	37	.220		
Total	10.432	41			

a. Dependent Variable: Organization performance

**Source, Research Data, (2015)**

The results of the ANOVA test shown on Table 4.15 indicate that F-value of 2.151 was significant at  $p=0.001$ . This depicts that the regression model is significant at 95% confidence level. That is, the model has a 0.1 % probability of misrepresenting the relationship between organization performance and financial performance, quality service, innovation/ creativity and efficiency improvement. The variation in the independent variables and dependent variable can be explained by the smaller significance value of 0.001 which is smaller than the significance level of 0.05, thus the model is statistically significant in predicting the relationship between financial performance, quality service, innovation/creativity and efficiency improvement and organization performance. Results show that F calculated (2.151) is smaller than the F critical (6.256) implying that the overall model was significant.

The researcher conducted a multiple regression analysis so as to determine the relationship between National Hospital Insurance Fund performance and financial performance, quality service, innovation/ creativity and efficiency improvement as shown on Table 4.17

**Table: 4.17 Coefficients**

Variables	Coefficients				
	B	Standard Error	Beta	T	P-Value
(Constant)	1.756	0.397		4.426	.000
Financial Performance	0.205	0.102	.075	2.010	.002
Quality Service	0.223	0.110	.137	2.027	.000
Innovation	0.217	0.108	.156	2.009	.004
Efficiency Improvement	0.238	0.119	.020	2.000	.000

Dependent Variable: Performance of Organization

**Source, Research Data, (2015)**

The results shown on Table 4.17 indicate the relationship between financial performance, quality service, innovation/ creativity, efficiency improvement and the performance of the National Health Insurance Fund.

The equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$ ) becomes:

$$Y = 1.756 + 0.205X_1 + 0.223X_2 + 0.217 X_3 + 0.238 X_4 + \epsilon$$

Where:

Y =the dependent variable (organization performance)

X= Independent Variable: X<sub>1</sub> is financial performance, X<sub>2</sub> is Quality Services, X<sub>3</sub> is innovation/creativity and X<sub>4</sub> is efficiency improvement.

Taking all factors into account, quality service, innovation/ creativity and efficiency improvement constant at zero, performance will be 1.756. The data findings also showed that taking all other independent variables at zero a unit increase in financial performance will lead to a 0.205 increase in performance; a unit increase quality service will lead to a 0.223 increase in performance, a unit increase in innovation/creativity will lead to a 0.217

increase in performance and a unit increase in efficiency improvement will lead to a 0.238 increase in performance

On the significance of the relationship between financial performance, quality service, innovation/ creativity and efficiency improvement and organization performance, results indicate that the p-values are smaller than the significance level of 0.05 or 1.96. This then indicate that there is a significant relationship between financial performance, quality service, innovation/ creativity, efficiency improvement and performance of National Health Insurance Fund. The study findings confirms the findings of views of Gore (1996) who noted that performance contracting has facilitated managers to have a change of attitude towards workers which in turn has encouraged innovation and good customer service. They also support the observations of Prajapati, (2009) that performance contracting improves service delivery and efficiency in resource utilization and institutionalizes a performance-oriented culture in the public service

#### **4.10 Summary**

Data analysis was done by editing and coding with the goal of highlighting useful information, suggesting conclusions, and supporting interpretations. It involved breaking down factors identified through the data collected into simpler coherent parts in line with the objectives of the study in order to derive meanings. The tabulated data was analyzed quantitatively by calculating various percentages, while descriptive data was analyzed qualitatively by organizing collected data into meaningful notes. The presentation of the results of quantitative analysis was in form of Tables, so as to highlight the results and to

make it easier to understand and interpret. The data analysis established existence of a correlation between financial performance, quality service, innovation/ creativity, efficiency improvement and organizational performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The purpose of this chapter was to present summary, draw conclusions and recommendations on the findings of the main objective of the study which was to examine the relationship between performance contracting and organization performance in National Health Insurance Fund. In particular the study sought to answer the following research question: what is the relationship between performance contracting and performance in the National Health Insurance Fund?

#### **5.2 Summary of the Findings**

The study summarizes the findings of the research carried out by proving that financial performance, quality service, innovation/ creativity and efficiency affect organization performance.

##### **5.2.1 Financial Performance**

The study established that financial performance influence organization performance as indicated by increased membership contribution as managers have the capacity to mobilize members' contribution while keeping the variable costs down, stayed within the set budgets and ensuring adequate funding levels guaranteeing organization performance. The study revealed that the organization has instituted various measures to ensure performance of the organization such as use of performance-based contracts which have induced cost consciousness, developed cost-accounting systems to enhance financial



performance, enhanced the provision of yearly financial statements ensuring accountability and profitability, increased the capacity to control its' financial practices thus promoting financial performance, enhanced the performance orientedness of budgets, promoted more coherence and consistency in accounts and audits ensuring that the budget is based on the same output and cost categories and finally strived to ensure that the organization performance results exceed the set revenue targets.

### **5.2.2 Quality Service**

The study revealed that quality service affect organization performance and in recognition of this the organization regularly sets quality service performance requirements, implements and enhance efficient internal processes which lead to excellent service performance. The study established that as a result of performance contracting the organization has implemented elaborate measures focused on meeting customer requirement and customer retention by enhancing customer satisfaction through producing and delivering quality products and services, committing few errors in service delivery and reducing service delivery and warranty costs. The study found out that the organization has placed a stronger emphasis on customer service and perceived the citizen as a “customer” of public services.

### **5.2.3. Innovation/Creativity**

The study found out that organization innovation has influenced the organization performance by fostering and encouraging creativity and innovative practices internally within the organization and allowing management and employees to determine how to

best accomplish the work hence ensuring organization competitiveness in the industry and in the process generating long-term stability and enhanced growth, ensuring both radical and incremental changes in thinking and processes or in services. The study revealed that organization innovation has facilitated the introduction of high value -added products, allowed it to exploit new markets and to improve its cost base and increase revenue margins.

#### **5.2.4 Efficiency Improvement**

The study established that efficiency improvement arising from the implementation of performance contracting influence organization performance. The study further revealed that efficiency improvement has increased service quality levels, direct financial income, costs containment in the organization, enhanced work accountabilities, minimized organization waste and ensured that the organization gets value-for-money in its operation.

#### **5.3 Conclusion**

Performance contracting affect financial performance of the organization which in turn influences organization performance as indicated by increased membership contribution as managers have the capacity to mobilize members' contribution while keeping the variable costs down, stayed within the set budgets and ensured adequate funding levels guaranteeing organization performance. The organization has instituted various measures to ensure performance of the organization such as use of performance-based contracts which have induced cost consciousness, developed cost-accounting systems to

enhance financial performance, enhanced the provision of yearly financial statements ensuring accountability and profitability, increased the capacity to control its' financial practices thus promoting financial performance, enhanced the performance orientedness of budgets, promoted more coherence and consistency in accounts and audits ensuring that the budget is based on the same output and cost categories. Finally the organization has strived to ensure that the organization performance results exceed the set revenue targets.

Quality service affect organization performance and in recognition of this the organization regularly sets quality service performance requirements, implements and enhance efficient internal processes which lead to excellent service performance. As a result of performance contracting the organization has implemented elaborate measures focused on meeting customer requirement and customer retention by enhancing customer satisfaction through producing and delivering quality products and services, committing few errors in service deliver and reducing service delivery and warranty costs. The organization has placed a stronger emphasis on customer service and perceived the citizen as a customer of public services.

Organization innovation arising from the implementation of performance contracting has facilitated the introduction of high value -added products, allowed the organization to exploit new markets and to improve its cost base and increase revenue margins. Innovation has also influenced the organization performance by fostering and encouraging creativity and innovative practices internally and allowing management and

employees to determine how to best accomplish the work hence ensuring radical and incremental changes in thinking, processes and services in the organization and competitiveness in the industry and in the process generating long-term stability and enhanced performance.

Efficiency improvement arising from the implementation of performance contracting has influenced organization performance. This in return has increased service quality levels, direct financial income, costs containment in the organization, enhanced work accountabilities, minimized organization waste and ensured that the organization gets value-for-money in its operation.

#### **5.4 Recommendation for Policy**

In order to effectively promote organization financial performance there is need for the organization to set and implement performance measures which are clear to management and employees indicating precisely what is being measured and how the measures are calculated. This will ensure that the employees understand and appreciate their responsibility and strive to achieve the financial performance objectives.

The study recommends that for effective improvement of quality service in the organization there is need for employees' participation in the development and implementation of in-house performance contracts and enhance their motivation through elaborate motivation schemes. This need to be complemented by effective development

and implementation of service charters and regulations concerning transparency and accountability must complement performance contracting.

The study also recommends that, for effective performance in the organization there is need to enhance innovation/ creativity through job enlargement and enrichment process, increased employees motivation and training. This will ensure improved service delivery, job satisfaction and general improvement in organization performance.

For performance contracting to be successful in promoting organization performance there is need for management to develop and implement effective management practices, enhance management key competencies and participatory approach to decision making and promoting mechanisms for accessing performance feedback from employees and other key stakeholders.

### **5.5 Recommendations for Further Research**

The focus of this study was on the relationship between performance contracting and organizational performance in National Health Insurance Fund, with specific attention on financial performance, service quality, innovation and efficiency. Hence further study should be carried out to establish other variables apart from the ones this study has focused on. A comparative study need to be undertaken to determine the extent to which state performance contracting has affected the performance of corporations and the ministries in Kenya.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

**RE: THE RELATIONSHIP BETWEEN PERFORMANCE CONTRACTING AND PERFORMANCE OF NATIONAL HOSPITAL INSURANCE FUND**

I'm a student of Nairobi University and currently pursuing a Masters of Business Administration Degree. As a requirement for partial fulfillment for the award of Masters of Business Administration, a research project must be done.

Kindly assist in filling the attached questionnaire that will facilitate me to prepare and complete the research project.

All the information provided herein shall be treated in strict confidence.

Thank you in advance.

Yours sincerely,

**Winrose Langat.**

## APPENDIX II: RESEARCH QUESTIONNAIRE

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Thank you for taking your time to fill this questionnaire. Your response to the questions herein will be treated confidentially.

Please answer all the questions as best as you can. Please Tick as appropriate

### **PART 1: Demographic Factors**

1. Name: \_\_\_\_\_ (Optional ).

2. Respondents level of Education

Diploma level [ ] Degree level [ ] Others (specify)

3. Years of service in the organization

( ) 0-4 yrs [ ] 5-9 yrs [ ] 10-19 yrs [ ] 20 +yrs [ ]

### **PART 1: Organization Performance**

4. Does your organization have performance level projection?

Yes [ ] No [ ]

5. Has your organization achieved the projected performance level as a result of implementation of performance Contracting?

Yes [ ] No [ ]

6. Has the organization experienced an increase in performance as a result of performance contracting?

Yes [ ] No [ ]

7. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your agreement with each statement

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The organization has experienced growth in sales					
There is increased coverage of the organization target market					
There is increased awareness levels of the organization products					
Organization has had high market penetration level in the sector					
The organization has seen an improvement in operation efficiency					

## **PART 2: Financial Performance**

8. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your agreement with each statement.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Increased membership contribution has been an important financial indicator to reflect the efficiency of the organization					
Managers have the capacity to mobilize members' contribution while keeping the variable costs down					
The organization has stayed within its budgets hence ensuring effective financial performance					
The organization has ensured adequate funding levels guaranteeing financial performance					
The use of performance-based contracts has induced an increased cost consciousness.					

Organisation has developed cost-accounting systems to enhance financial performance					
The organization provides yearly financial statements ensuring accountability and profitability					
The organization has the capacity to control its' financial practices thus promoting financial performance					
There is a positive financial return in case performance results exceed the set revenue targets.					
The organization has enhanced the performance orientedness of budgets, accounts and audits.					
The organization has promoted more coherence and consistency in accounts and audits ensuring that the budget is based on the same output and cost categories					

9. In your view does financial performance influence organization performance?

Yes [ ] No [ ]

#### **PART 4: Quality Service**

10. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your agreement with each statement.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The organization regularly meets the set performance requirements.					
The organization has efficient internal processes which lead to excellent service					
Performance contracting is focused on meeting customer requirement					

Performance contracting ensures customer retention by enhancing customer satisfaction through producing and delivering quality products and services					
There are few errors committed in service delivery					
Performance contracting focus on customer satisfaction has affected performance issues such as reducing service delivery and warranty costs and customer turnover					
The organization makes few mistakes in completing a customer order.					
There are fewer complaints from customers					
The level of customer dissatisfaction is low					
Organization has placed a stronger emphasis on customer service as a way of attaining financial viability.					
The organization perceives the citizen as a “customer” of public services					

11. In your considered opinion does quality service affect organization performance?

Yes [ ] No [ ]

**PART 3: Innovation/Creativity**

12. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your agreement with each statement.



<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Organization has sustained its performance by fostering and encouraging creativity and innovative practices internally within the organization					
Organization innovation has generated long-term stability					
Organization innovation has enhanced growth					
Organization innovation has ensured that it remains at the leading edge of the organization's industry					
Organization innovation has ensured both radical and incremental changes in thinking, things, and processes or in services					
Performance contracting has fostered innovation by focusing on the outcome of the service					
Organization has allowed management and employees to determine how to best accomplish the work, thus increasing creativity and innovation in service delivery					
Organization innovation has facilitated the introduction of high value -added products.					
Organization innovation has allowed the company to exploit new markets					
Organization innovation has allowed the firm to improve its cost base and increase revenue margins.					

13. In your view does innovation influence organization performance?

Yes [ ] No [ ].

**PART 5: Efficiency Improvement**

14. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your agreement with each statement.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Performance contracting has enhanced efficiency in the organization					
Performance has increased service quality levels in the organization					
Performance contracting has increased organization direct financial income					
Performance contracting has enhanced costs containment in the organization					
Through performance contracting work accountabilities have been established and enhanced					
Performance contracting has minimized organization waste through increased efficiency					
Performance contracting has ensured that the organization gets value-for-money in its operation					

15. In your considered opinion does efficiency improvement influence organization performance?

Yes [ ] No [ ]

**Thank You.**