



**STRATEGIC FACTORS AND ORGANIZATIONAL PERFORMANCE OF THE  
NATIONAL HOSPITAL INSURANCE FUND IN KENYA**

**Ali Yunus**

MBA candidate, School of Business and Economics, ST. Paul's University, Limuru,  
Kenya

[ayunis.ay@gmail.com](mailto:ayunis.ay@gmail.com)

**William Sang**

Lecturer, School of Business and Economics, ST. Paul's University, Limuru, Kenya

[sangwilkip@gmail.com](mailto:sangwilkip@gmail.com)

**Dr. John Muhoho Kimani**

Lecturer, School of Business and Economics, ST. Paul's University, Limuru, Kenya

[jmuhoho@spu.ac.ke](mailto:jmuhoho@spu.ac.ke)

**ABSTRACT**

The study adopted a descriptive case study design, which involved carrying out an intensive census survey of the 37-management staff at the NHIF headquarters in Nairobi. The choice of a descriptive design and a census survey in this meant that sampling would not be relevant. A closed ended questionnaire were used for data collection. The data collection instrument was piloted before it was finally administered to the target population. Primary data collected was analysed using descriptive and inferential statistics and narrative summary analysis. The study established that there exists a significant relationship between strategic factors on the performance of National Hospital Insurance Fund. The study established significant positive correlation between alignment and organizational performance. Additionally, the study found a positive correlation between outsourcing and the performance of NHIF. Furthermore, the study findings concluded that there is significant relationship between resource diversification and organisational performance. Finally, the study established that there exists a direct positive relationship between stakeholder empowerment and the performance of the organization.

**Keywords:** *Strategic factors, Organizational performance, Strategic alignment, stakeholder empowerment, NHIF*

## **Background of the Study**

Organizations continually face the challenge of exercising strategic choices among alternatives with each alternative having the capacity to affect the long term direction and performance of an organization (Somi, 2017). Organizational strategic factor are concerned with decision making on the strategic direction that an organization desires to take achieve its mission. Strategic factors, therefore, bring forth the need for deliberate decision making on what decisions to take and what decisions not to take or ignore (Bett & Kiprop, 2015). Organizations must make strategic decisions which are aligned to the organization's aspirations and objectives, with various protagonists on the subject of strategic choice agreeing that one of its major outcomes is realising the desired organizational performance. In view of achieving desired organizational performance, Mukhwana, (2015) observes that performance is the accomplishment of a set tasks or goals of the organization measured against actual expected standards of satisfaction, accuracy, completeness, cost and speed among others derivatives of the organization.

## **Strategic Factors affecting Performance**

Strategic factors are those that underpin organizations' strategic direction and provide a road map for actualizing organizational objectives. The decision making process gives rise to strategic factors which impact all aspects of the organization's value chain. Different aspects of an organization are impacted differently by various strategic factors (Mango, 2014). Of major scholarly attention, therefore, are the factors that influence strategic choice and literature is rich in this respect. Particular focus has been on the role of top management teams to the growth of organizations (Njagi & Kombo, 2014).

A study by Somi (2017) sought to determine the effect of strategic alignment on Kenyan Public enterprises while a study by Imam (2017) also sought to establish the relationship between strategic alignment and organizational performance among Indonesian banks. Earlier studies that seeking to establish the relationship between outsourcing and organizational performance include a study by Anyango (2016) which sought to establish the relationship between outsourcing and the performance of Kenyan public corporations and study by Musau (2016) that sought to establish the relationship between outsourcing

and organizational performance of Bidco East Africa Limited. This study identified many earlier studies that investigated the correlation between diversification and organizational performance. A study Mwnagi (2016) in a study of registered firms in Nairobi Stock Exchange sought to establish the relationship between diversification and organizational performance while a study by Njuguna *et al.* (2018) which sought to establish the relationship between diversification and the performance registered firms in the Nairobi Stock Exchange. There are several studies that inform the selection of stakeholder involvement in this study. A study by Nthia (2017) on the influence of involvement on the performance of marine staff and a study by Ruwa (2011) on stakeholder involvement confirm existence of evident past studies on the influence of stakeholder involvement on

### **Organizational Performance**

Organizational performance has been explained by Somi, (2017) as a relationship between resource input efficiencies and effectiveness with the expected result outputs . Performance of an organization is its ability to achieve short term objectives goals by using resources prudently. Superior firm's performance is achieved by developing and sustaining a competitive advantage. Organizational performance factors consist of financial performance such as competitive position, increase in profit, sales volume, and market share and firm's reputation. Non-financial performance measures include improvement in service quality, reduction in complains, increase in customer satisfaction and process efficiency (Jeevan & Jyoti 2012). Strategy is key in the overall performance of the organization (Tshipa, 2017). This study will adopt the non-financial measures of performance ,specifically using firm effectiveness, efficiency and the marketing

### **National Hospital Insurance Fund in Kenya**

The National Hospital Insurance Fund (NHIF) was established under Cap 255 of the Laws of Kenya in 1966 as a department in the Ministry of Health to provide health insurance exclusively for those in the formal employment. The Fund was then transformed into a state corporation through an Act of parliament in 1998 (Akacho, 2014). The fund's core mandate is to provide social medical insurance cover to all its members and their declared dependents. This is achieved through its mission, 'to

contribute towards Universal Health Coverage through provision of affordable, accessible, sustainable and quality health insurance (Wangari, 2011). The Fund has registered 7.3 million principal contributors to date which has grown membership to about 22 million members who include contributors' dependents. The Fund's mandate is to register members, collect contributions and pay out benefits, to regulate the contributions payable to the Fund and the benefits and other payments made to NHIF; to enhance and ensure adherence and conformity to international standards in quality service delivery; prudent management of resources; contract service providers and provide access to health services and to protect the interests of contributors to the Fund. NHIF offers health coverage to the national scheme at a fixed rate of Kes. 500 a month dubbed, 'Supa Cover' while the salaried employees' premium is calculated on a graduating scale between Kes. 150 -1700 monthly.

### **Research Problem**

Despite the fact that there exist multiple factors affecting performance, strategic factors tend to impact the performance of an organization for the long term. Moreover, the strategic factors impact organizational performance differently, with some have greater impact than others (Mukhwana & Ngaira, 2015). The NHIF has gone through strategic management cycles evidenced by the various strategic plans including the current plan 2018-2023. These strategic plans have all been aimed at facilitating improved performance (Wangari, 2011). In spite of the concerted effort by health insurer, there is still underperformance evidenced by the incidences of customer attributable to strategic operationalization bringing about customer complaints, registration compliance and quality, medical service access among others.

The current study therefore, sought to undertake study the effects of strategic factors and the performance of NHIF with special ethos on strategic alignments, outsourcing, diversification and stakeholder involvement and establish the levels of correlation with the performance of NHIF. It is apparent that whereas attempts have been made by previous studies to investigate the effect of the same strategic factors on performance of organizations a few areas remain unexamined and especially in the health industry

focusing on the national Hospital Insurance Fund. Furthermore, most of these studies applied different dimensions of performance; some were done in foreign contexts, while others used study designs that may not apply in the current study. It is upon this background that this study sought to establish the relationship between strategic factors herein discussed and the performance of NHIF.

### **General Objectives**

The general objective of the study was to establish the effect of strategic factors on the performance of National Hospital Insurance Fund in Kenya.

### **Specific objectives of the study**

- i. To find out the effect of strategic alignment on performance of the National Hospital Insurance Fund in Kenya.
- ii. To determine the effect of outsourcing on performance of the National Hospital Insurance Fund in Kenya.
- iii. To investigate the effect of diversification on performance of the National Hospital Insurance Fund in Kenya.
- iv. To determine the influence of stakeholder empowerment on performance of the National Hospital Insurance Fund in Kenya.

### **Research Questions**

The study was guided by the following questions:

- i. What is the effect of strategic alignment on organizational performance of the National Hospital Insurance Fund in Kenya?
- ii. What is the effect of outsourcing on organizational performance of the National Hospital Insurance Fund in Kenya?
- iii. What is the effect of diversification on organizational performance of the National Hospital Insurance Fund in Kenya?
- iv. What is the influence of stakeholder empowerment on organizational performance of the National Hospital Insurance Fund in Kenya?

## **Literature Review**

### **Institutional Theory**

The process through which rules, norms, and routines become entrenched in a society is explained by the institutional theory (Abor, 2014). According to Berger and Luckman (1967), from the modern institutional theoretical perspective, social reality entails human construction developed through systems of interaction. Others such as Meyer and Rowan (1977) postulate that modern societies are steered by institutionalized rules, providing a basis for the elaboration of formal organizations. According to Davis (2005), from a sociological perspective, research on corporate governance as a concept is only relevant if it considers the contextual dynamics of the same.

### **Contingency Theory**

This theory was founded by Fiedler in (1964). This theory argues that the strategic choices of top management team of an organization depends on both the manager's personality and the circumstances surrounding the choices to be made. According to the contingency theoretical framework, the elements that are considered contingent would be those capable of moderating the effects of a particular organizational characteristic with regards to its performance (Donaldson, 1995). Central to contingency theory is concept of the situation, which is characterized by three factors: manager-staff relations which deals with the general atmosphere of the group and the feelings such as trust, loyalty and confidence that the group has for the manager; task structure which is related to task clarity and the means to task accomplishment; and the position power which relates to the amount of reward-punishment authority the manager has over the members of staff (Forsyth, 2006).

### **Dynamic Capability Theory**

The theory was founded by Teece, Pisano, and Shuen (1997) and it postulates that if abilities of a firm are multifaceted, it would form the foundation for superior performance (Helfat *et al.*, 2007). The proponents of this theory argue that among other attributes, a

company ought to advance its competences in a dynamic setting by utilizing peripheral company-specific proficiencies (K'Obonyo *et al.*, 2011), and which is actually the logic of strategic choice on the strategic factors organizations can apply to their specific situations. Based on the foregoing theoretical argument, Lessen *et al.* (2013) and Berdine *et al.* (2008) conclude that it is evident that the company-specific resource positions and evolutionary pathways outline the company's administrative and organizational developments which subsequently explain performance of such organization.

### **Participation Theory**

The participation theory is the brain child of Douglas McGregor's 1957. This theory postulates what came to be known as the Theory X and Theory Y. According to this theory there are two distinct views of employees based on the level of their participation. Douglas McGregor's 1957 labelled the negative perspective as theory X while labelling the positive perspective as theory Y. According to McGregor managers tend to deal with employees in lights of the presentations of the assumptions advanced by the theory about the character and the behaviour of employees in the work organization. Some managers view employees as lazy partners in the organization who need direct supervision while other managers see employees as rational and highly willing to carry out their daily chores with little supervision effort.

### **Empirical Literature Review**

#### **Strategic Alignment and Organizational Performance**

Iman, (2017) in a study of Indonesian banks postulates that the concept of strategic alignment is acquired from a combination of business strategy's importance levels attributes and information from the point of view of information technology in light of the business organization.

This study established a clear correlation between strategic alignment and technological advancement and innovation for business. According to Henderson & Venkatraman, (2016), in a study on the effect of leveraging technology on organizational performance established that strategic alignment influences the company's positioning and hence its performance.

A Study by Iman and Hartono, (2007) in strategic alignment have established a positive correlation between strategic alignment and organizational performance. However, this studies by Syouta *et al.* (2016) and Imam and Hartono (2007) failed to conclusive point at any other factors that affect performance of those organizations.

Luqman *et al.* (2012) established that organizational cultural alignment can affect the degree of commitment and discipline of employees. Commitment of the members of the Organization implies that members of the organization are ready to make significant efforts and show loyalty and belonging to them to achieve their objectives.

Strategic management studies point conclusively that every organization is an open system subject to multiple environmental factors and changes in the environment will create pressures and strains inside the organization, driving new understanding and adaptation (Zeyada, 2018).

A study by Maduenyi, (2015) established that organizational structure determines the operations and activities inside the organization and also dictates the coordination of the responsibilities and authority system of the organization. Most of organizational theorists have agreed on three aspects of complexity, formalism and concentration among the abovementioned factors as they posit significant influence on performance (Tran & Tian, 2013).

In a study by Maduenyi (2015), it was concluded that focus of authority and organization wide participation, is required for more decentralized and less hierarchical structures. Similarly, the study found out that the dimensions of process networks and organic structure support the implementation of customer-interacted total quality management, while risk aversion, mechanistic structure and complexity become problematic to its application.

### **Outsourcing and Organizational Performance**

Empirical evidence postulates the existence of various outsourcing practices. These include manufacturing logistics and transport, human resources solutions ,information technology solutions sales and marketing, management services and administration, real



estate and physical plants service providers and also human resources management (Magelssen *et al.*, 2015). The concept of outsourcing globally gained global , regional and local momentous ( Cascio, 2016).

A study by Nazeri, Gholami and Rashid (2015) on Iranian universities established that there is a significant correlation between outsourcing and firm performance. The study identified outsourcing practices to include, Logistics, manufacturing, human resource management, customer support and service, research and development.

In a study by Anyango (2014) on business Information Technology outsourcing in the public sector in Kenya, established a positive correlation between business outsourcing and organizational performance.

A Study on innovative technology, knowledge and skill expertise by Matolo and Iravo (2018) established a significant positive correlation between outsourcing practices in the organization and performance. This study established that outsourcing provides expert skills, profits and cut salaries which are considered to be one of the largest operation costs giving companies a run for their money. According to Magelssen, Sancheze and Damanpour (2015), there exist a positive

According to Anyango (2014), State Corporation outsourcing places a greater relieve on the suppliers not only to supply more goods, but also to provide other products such as product design and development, enhancement of competitiveness of the firm through quality improvements, logistics efficiencies and compression of lead times. Empirical findings regarding the relationship between strategic outs outsourcing and organizational performance remain largely inconsistent (Boakye *et al.*, 2016).

A study by Santarelli and Tran (2013) established a positive correlation and further that finding that the factors that stimulate firms to diversify do not necessarily influence their diversification degree to the same extent inn all organizations. This study by Santarelli and Tran (2013) further established that export firms have more opportunities to recognize diversification activities, though they do not necessarily diversify at stronger degree than non-export firms.

Njuguna *et al.* (2018) established a positive correlation between diversification and organizational performance. Njuguna further observe that diversifying an institution system distinctively differentiates its subunits including departments or research units, and their functional sub-units hence facilitating improved performance.

Maina (2013) on the effect of product diversification and performance observe that management scholars agree on a positive correlation between product diversification as a strategy and organizational performance. From the research findings of a study by Sindhu & Ali (2014) on diversification and performance, it is evident that diversification is positively associated with growth in business organizations

Maina (2013) in a study of diversification and performance further established that diversification of financial sourcing assists a firm to build stability because it prevents the firm from concentrating too heavily on a single financial sourcing avoiding risks associated with kind of financing.

A study by Orwa *et al.* (2018) further established that product diversification was a sure strategy for companies that are seeking to widen their market bases. A study by Sidhu and Ali (2014) in a study of the impact of product diversification; evidence from Pakistan established that product diversification had positive correlation with firm performance.

Sidhu and Ali (2014) observe that companies that plan for and include product diversification early on time increase their chances of business success than those companies that only react to market hostilities to think of product diversification

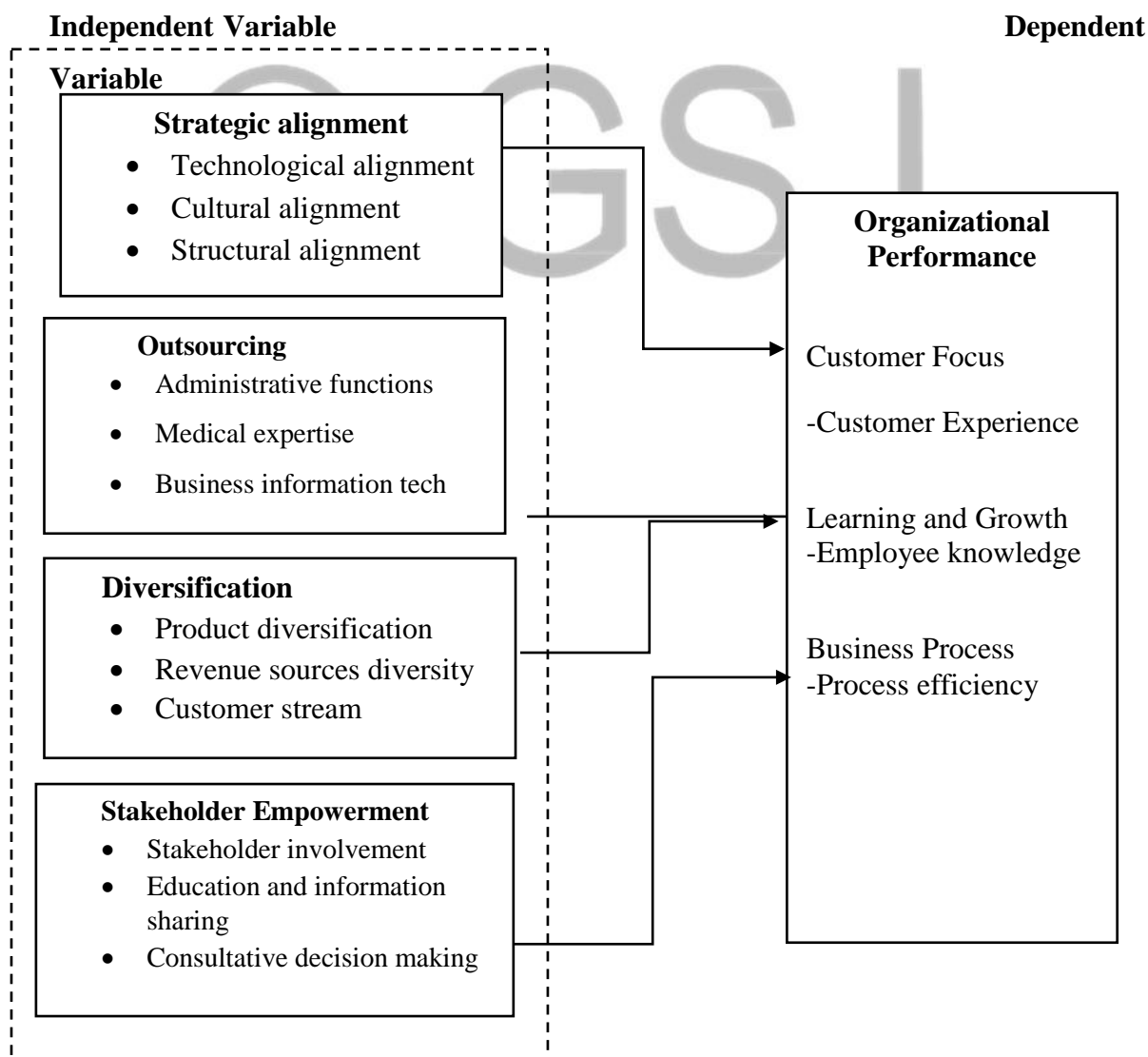
### **Stakeholder Empowerment and Organizational Performance**

A study on Kenyan school by (Kanana, 2015) on the influence of stakeholder involvement in school management established that, pupils' parents and teachers involvement in management is significantly related to improved performance. The study contents that involvement is likely to contribute to improved performance because it facilitates pupils' confidence in their learning, teachers feel part of the system and parents gain a sense of responsibility in the learning process.

In their study, Nyandika and Ngugi (2014) found that empowerment of stakeholders through involvement and information sharing to stakeholders as early as the planning stage of the development of a strategy ensures effectiveness of plans development and hence improved performance.

In their study Nyandika and Ngugi (2014) have established that there are three main aspects of involvement that need to be evaluated, the level of information sharing or education passed on and the level of consultative structures available to the stakeholders. Other studies focus on the extent and quality of participation or involvement, costs and benefits of involvement to the different stakeholders, and their impact on outcomes, performance and sustainability of the services offered (Kanana, 2015)

### Conceptual Framework



## Research Methodology

This study applied a descriptive research design to solve the problem. Cooper *et al.* (2014) also assert that when the target population is small, there is no economic sense of sampling, hence the elimination of sampling error. The scholar targeted 37 members of top management based at the NHIF head office.

## Data Analysis and Presentation Techniques

The study adopted the following regression model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where,

Y= Organizational Performance, measured by the composite score on the likert scale.

X1= Strategic alignment, measured by the composite score on the likert scale.

X2= Outsourcing, measured by the composite score on the likert scale.

X3= Diversification, measured by the composite score on the likert scale.

X4= Stakeholder empowerment, measured by the composite score on the likert scale.

$\beta_1, \dots, \beta_4$  = Beta coefficients of variables  $i$  the measure of the change in Y associated with a t change in X.

## Research Findings

### Regression Analysis

The researcher sought to establish the effect of strategic factors on performance of National Hospital Insurance Fund in Kenya. Variables that were considered for the study were Stakeholder Empowerment, Diversification, Strategic Alignment, and Outsourcing on the performance of National Hospital Insurance Fund in Kenya. These variables were analysed using SPSS program as below.

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.769 <sup>a</sup>	.592	.554	.779

a. Predictors: (Constant), Stakeholder Empowerment, Diversification, Strategic Alignment, Outsourcing.

The study findings in table 4.10 shows that R square is .592 indicating that 59.2% of the variations in the organizational performance are caused by the independent variables while 40.8.% are caused by other factors not accounted in the study. R is the correlation coefficient or determination which shows the relationship between the study variables. From the findings, the study found that there was a strong positive relationship between the study variables as shown by .769. This analytical finding shows a significant correlation between the variables of study, strategic alignment, outsourcing, diversification and stakeholder involvement with organizational performance at the National Hospital Insurance Fund. The adjusted R squared 0.554 indicate that if population was used rather than a sample then the variation in the organizational performance would be 55.4%.

### ANOVA<sup>a</sup>

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.814	4	9.454	15.573	.000 <sup>b</sup>
	Residual	26.103	36	.607		
	Total	63.917	30			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Stakeholder Empowerment, Diversification, Strategic Alignment, Outsourcing.

The findings in table 4.9 above shows that the regression model generated is statistically significant in predicting the relationship between dependent (Organizational Performance) and independent variables (Stakeholder Empowerment, Diversification, Strategic Alignment, Outsourcing). The significance value in testing the reliability of the

model for the relationship was obtained as 0.000 which is less than 0.05, the critical value at 95% significance level as indicated by the Anova table above. This shows that sample data used was ideal for making conclusions about the census population.

### Regression Coefficients

Model	Coefficients <sup>a</sup>				
	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	2.248	.655		3.432	.001
Strategic Alignment	.099	.531	.109	.186	.853
Outsourcing	-.312	.476	-.400	-.655	.516
Diversification	.172	.270	.184	.638	.527
Stakeholder Empowerment	.051	.369	.057	.138	.891

a. Dependent Variable: Organizational Performance

The findings in table 4.11 above show the regression coefficients that reveal the relationship between the independent variables and the dependent variable as shown by the regression formula:  $Y$  (Organizational Performance of NHIF) = 2.248 +.099 (Strategic Alignment) +-.312 (Outsourcing) + .172 (Diversification) +.051 (Stakeholder Empowerment).

The regression equation established that:  $Y = 2.248 +.099 +-.312 + .172 +.051$ . Holding at 95% confidence level to a constant zero, organizational performance of NHIF would stand at 2.248 and a unit increase in strategic alignment would lead to an increase in the performance by a factor of .099 while a unit increase in outsourcing would lead to unit decrease in performance by a factor of -.312. A unit increase in diversification would lead to an increase in performance by a factor of .172 while a unit increase in stakeholder empowerment would lead to an increase in performance by a factor of .051.

## Correlations

The findings in table 4.13 below shows that there is a strong positive correlation between strategy strategic factors and performance of NHIF ( $r=1$ ). From the table, results show that all the three variables- outsourcing, diversification and stakeholder empowerment are strongly correlated as shown by the values .960<sup>\*\*</sup>, .843<sup>\*</sup> and .912<sup>\*\*</sup> respectively. However, strategic alignment is negatively related as shown by its value of -.068. The findings also indicate that the correlation is significant at the 0.01 level (2-tailed) of significance, given that p-value (0.000) is less than alpha (0.01).

## Correlation Matrix

		Correlations				
		Strategic Alignment	Outsourcing	Diversification	Stakeholder Empowerment	Organizational Performance
Strategic Alignment	Pearson Correlation	1	.960 <sup>**</sup>	.843 <sup>**</sup>	.912 <sup>**</sup>	-.068
	Sig. (2-tailed)		.000	.000	.000	.646
	N	48	48	48	48	48
Outsourcing	Pearson Correlation	.960 <sup>**</sup>	1	.831 <sup>**</sup>	.924 <sup>**</sup>	-.090
	Sig. (2-tailed)	.000		.000	.000	.545
	N	48	48	48	48	48
Diversification	Pearson Correlation	.843 <sup>**</sup>	.831 <sup>**</sup>	1	.746 <sup>**</sup>	-.014
	Sig. (2-tailed)	.000	.000		.000	.924
	N	48	48	48	48	48
Stakeholder Empowerment	Pearson Correlation	.912 <sup>**</sup>	.924 <sup>**</sup>	.746 <sup>**</sup>	1	-.076
	Sig. (2-tailed)	.000	.000	.000		.608
	N	48	48	48	48	48
Organizational Performance	Pearson Correlation	-.068	-.090	-.014	-.076	1
	Sig. (2-tailed)	.646	.545	.924	.608	
	N	48	48	48	48	48

<sup>\*\*</sup>. Correlation is significant at the 0.01 level (2-tailed).

## Conclusions

### Strategic Alignment and Organizational Performance

The conclusion supports the significance discussed in Chapter one that the study will inform NHIF and other government corporations on policy issues on strategic alignment

in business operations. This conclusion is in concurrence with dynamic capability theory supporting the study. These results revealed that majority of respondents agree that NHIF continuously conducts both internal and external environmental analysis. It revealed that NHIF continuously changes the strategies according to the changes in the environment, aligns its culture and structure to the changes in strategy and company strategic direction. The results also showed that most respondents agree that NHIF adopts appropriate technologies for improved performance. These results pointed that strategic alignment as a factor in National Hospital Insurance Fund in Kenya affects performance. This conclusion is supported by the institutional theory used in the theoretical literature.

### **Outsourcing and Organizational Performance**

The study revealed that NHIF outsources core technical expertise-oriented business functions. It also showed that NHIF does not outsource core administrative management functions nor does it outsource key business information technology. Conversely, revealed that NHIF as an organization does not do very in outsourcing both its key administrative functions beyond its capacity to deliver and also its non-core business functions.

### **Diversification and Organizational Performance**

The results reveal that NHIF as an organization has diversified its product and service lines, health insurance services and has adopted a diversified revenue sourcing for strategy implementation. It also shows that NHIF has diversified its customer catchment bases, as well as adopting income generating activities for revenue sustenance. Conversely, the study showed that NHIF has not diversified its service providers over the last five years. These findings indicate that diversification strategy affects performance at NHIF. Furthermore, it shows that NHIF has monopoly service providers in its service and product deliveries.

### **Stakeholder Empowerment and Organizational Performance**

The findings revealed that NHIF has adopted a policy of stakeholder involvement in all its major policy preparations and rollouts. They also revealed that NHIF should adopt a structured stakeholder education program, and should continuously adopt stakeholder



information transfer and sensitization programs as well as adopting a consultative decision-making approach. These results therefore indicate that stakeholder empowerment as a strategic factor affects the performance of National Hospital Insurance Fund in Kenya.

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