Use of National Health Insurance Fund Platform as a Competitive Strategy in Enhancing Performance of Private Hospitals in Nakuru Town, Kenya

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Abstract: In order to successfully survive and remain competitive in the private health care industry, individual health care providers must adapt strategies that give them an edge in performance in the market. The research objectives of the study were the examination of the National Health Insurance Fund (NHIF) as a platform for differentiation strategy among private hospitals in Nakuru. The study utilized a descriptive research design and a target population of accountants, marketers and hospital administrators in Nakuru. A sample size of 100 respondents was utilized. Structured questionnaire was used for data collection. Data was analysed using SPSS Version 24 and information presented in tables. The statistics used included the means, standard deviations, and frequency distribution for descriptive statistics and linear correlation for the inferential statistics. The relationship between the use of national health insurance fund to create differentiation strategy and competitive strategy in the private hospital is positively correlated and statistically significant (r=0.633; p<0.05). The study recommends that the private hospitals should explore further the use of NHIF as a platform to create differentiation strategy on the improvement of equipment and facilities at the hospital, improvement of pharmacy services, and improvement of the number of personnel at the hospital due to their high standard deviations.

Keywords: Competitive Strategy, Differentiation Strategy, National Health Insurance Fund

I. Introduction

The concept of the health insurance was first conceptualized in the United States of America (USA) and evolved from the earlier concepts of “accident insurance” that had taken root (Abuor, 2012). The accident insurance that was equivalent to the current day disability insurance was first offered in 1866 in the USA (Kamau, 2014). In 1890, the sickness coverage was introduced which gave way to the service provision on a prepaid basis from the 1920s (Wellum, 2014). Further developments in the insurance field in the 20th century led to the development of the modern day health insurance (Maina, 2014). The health insurance is a form of collectivism by means of which people collectively pool their risk of incurring medical expenses when and if one becomes ill or hospitalized (Barnes, O’Hanlon, & Decke, 2014). The type and amount of health care costs that will be covered by the health insurance company are specified in advance, in the member contract or “Evidence of Coverage” booklet (Ochiel, 2012).

The provision of health care is the primary function of the government to its citizens. However, this duty is often undermined by the lack of sufficient public resources to maintain the public health care with enough drugs, well-trained professionals, cutting edge technology, modern and best practices in health care, and serve all the patients on time (Muiya & Kamau, 2013). This constraint in the public healthcare has led to the introduction of cost sharing schemes in public health care industry as well as the development of the private health care industry (Lencier, 2015). These private health care institutions thrive on sealing gaps in the public health care regarding facilities, drugs availability, access to specialist health care professionals, and access to cutting-edge technology in health care (Kamau, 2014). However, the private health care industry being run on commercial basis creates financial barriers to access to quality healthcare (Ndung’u, 2015).

The need to extend social protection in health to the whole population to reduce financial barriers to health care services for the needy and to avoid catastrophic health expenditures has led to the development of public health insurance schemes (Barnes et al., 2014). The public health insurance schemes aim to reduce the high dependency on the out-of-pocket (OOP) payments in form of user charges and co-payments which are regressive as they disproportionately affect the poorest in society (Lekashingo, 2012). The public health insurance schemes, therefore, enable proper health care financing which mean that the population not only has access to health care but also use the health services when they need them (Ochiel, 2012).

In the developed countries such as the United States of America (USA) and United Kingdom (UK), there is a healthy mix between the private insurance schemes and the government funded schemes (Namuhisa, 2014). The public health insurance tends to be more developed than those found in the developing countries. In the USA, the Private Health Insurance (PHI) account for 35% of the total health expenditure while the public
health insurance and OOP account for 44.9% and 13.5% of the health expenditure respectively (Karanja, 2014). On the other hand, the UK has a tax based health system the National Health Service (NHS), the PHIs and OOPs accounting for 86%, 2.9% and 11.1% of the health care expenditures respectively (Carrin et al., 2014).

The health care financing in the African context similar to other developing countries has followed three phases (Ochiel, 2012). The first phase dominant during the immediate post-independence period was the provision of the free access to healthcare (primary care) for all (Wanderi, 2012). The second phase introduced an element user fees (cost sharing) with an emphasis to the primary health care and incorporation of healthcare programs to district-based healthcare structures (Gimoi, 2011). The last phase has been the examination of the interrelationship between health care and development which has seen the development of the public health insurance schemes (Barnes et al., 2014).

Various African governments have created public insurance schemes for their citizens including countries such as Nigeria, Ghana, Rwanda, and Tanzania amongst others (Abuor, 2012). For example, the Nigerian government established the National Health Insurance Scheme (NHIS) under the Act 35 of 1999 with an aim of removing financial barriers in access to health care for Nigerians with the civil servants in scope for this service (Wellum, 2014). The NHIS is a social security that guarantees the provision of needed health services to persons on the payment of token contributions at regular intervals (Lekashingo, 2012). On the other hand, Rwanda established a mutual health insurance in 1999 to ensure that all Rwandese had access to health care.

In Tanzania, the National Health Insurance Fund (NHIF) was established by an act of parliament number 8 of 1999 (Barnes et al., 2014). The NHIF in Tanzania had the aim of instituting a permanent and reliable system for the provision of health services to formal sector employees, improve on the accessibility and quality of health services, and establish a reliable method for the formal sector employees to contribute towards their own health and those of their families (Ochiel, 2012). The scheme which is compulsory in nature is an alternative financing option to the cost sharing option in the public health sector (Carrin et al., 2014). It covers the civil servants and their children up to four children.

Kenya’s development in the health care financing followed a similar curve with the rest of the African countries with the introduction of the cost-sharing programme in 1989 (Abuor, 2012). Thereafter saw the rapid development and integration of the health insurance schemes in which in Kenya can be divided in public health insurance, private insurance firms and to some extent community-based health insurance (CBHI) organizations (Lencer, 2015). The CBHI's are relatively a new phenomenon in Kenya while private insurance firms are predominantly available to the middle and higher-income groups (Wanderi, 2012). The CBHI are formed to meet the health care financing needs of low-income earners who cannot afford private insurance and NHIF (Kamau, 2014). They are mostly run by the Non-Governmental Organizations (Ndung’u, 2015). On the other hand, the private health insurance is provided through insurance companies and Medical Insurance Providers (MIPs) as regulated by the Insurance Regulatory Authority (IRA) based on the Insurance Act Cap 487 (Muli, 2013).

Kenya was among the earliest African countries to establish the National Hospital Insurance Fund (NHIF) in 1966 through an act of Parliament, Cap 255 laws of Kenya, to provide a contributory health scheme to Kenyans (Anyim, 2012). The NHIF was initially meant to provide accessible health insurance for salaried public and private sector employees earning a monthly salary of Ksh 1,000 and more (Barnes et al., 2014). Over the years, there were several changes which included the introduction of more benefits, increase in scope of the target market, and introduction of the outpatient care (Muiya & Kamau, 2013).

The 1998 saw a major overhaul of the laws governing NHIF through replacing the laws governing it with the NHIF act No. 9 of 1998 which provided for the contributions to and payments of benefits out of the fund (Ndung’u, 2015). The act also created an autonomous State Corporation managed by a Board of Management. The NHIF takes care of the whole family including dependents and children under the age of 18 and over age of 18 if they are schooling while being economically dependent to their parents (Wanderi, 2012).

The NHIF services were initially being charged Ksh 5 for the civil servants at the inception of the fund in 1966 (Barnes et al., 2014). In 1990 a graduated scale of premiums was introduced with a salary cap at Ksh. 15,000 with premiums were ranging from a minimum of Ksh.30 to a maximum of Ksh.320 (Gimoi, 2011). At the moment, the rates of payments range from 150 monthly premiums for formal employers earning less than Ksh 5,000 to a maximum of 1,700 for income earners earning over Ksh 100,000 (Ndung’u, 2015). The self-employed persons pay ksh 500 per month. The NHIF enables the members to access comprehensive medical cover in over 1,000 accredited Government facilities, Mission health providers and some private health providers across the country (Kiemeli, 2015). The scheme also provides in-patient services in private and high cost hospitals on a co-payment basis.

In the context of the private medical facilities, the NHIF breaks the hospitals into three tiers of hospitals that is contract A hospitals, contract B hospitals, and contract C hospitals (Anyim, 2012). The contracts A hospitals are government hospitals where the beneficiaries can receive comprehensive health care...
including maternity care without additional payments (Kamau, 2014). The contract B hospitals include specific non-state providers where the coverage is comprehensive but an annual limit of Ksh 432,000 per member applies (Ndung’u, 2015). These are nonprofit private hospitals, mission hospital, and private hospitals in rural areas or areas not sufficiently served by the public sector (Kamau, 2014). The contract C hospitals are high cost hospitals in which the NHIF provides rebates only.

II. Literature Review

Theoretical Review

The dynamic capabilities theory was used for this study. The dynamic capabilities theory was introduced in 1989 by Gary Hamel in a multinational strategy research that led to the development of the core competencies of a corporation. The dynamics capability theory is based on the firm’s ability to use the dynamic capabilities in order to create competitive advantages in their firms. The dynamic capabilities are defined as the firm’s strategy to constantly integrate, reconfigure, renew, and recreate internal and external resources in response to dynamic and rapidly shifting market environments in order to attain and sustain competitive advantage. The dynamic capabilities explain on how the businesses create, define, discover, and exploit entrepreneurial opportunities in complex and volatile external environments in search for a strategic matching of resources and market. The dynamic capabilities are applicable to the study as it demonstrates on the ways in which the hospitals are able to embrace new opportunities and create competitive advantages from them.

Use of NHIF Platform as a Differentiation Strategy

Differentiation is a process of distinguishing the differences of a product or service from others to make it more attractive to a particular target market according to (Zuva, 2013). The differentiation strategy involves the company concentrating on the creation of a highly differentiated product and services with a view of creating a perception of being the market leader in the industry (Shaviya, 2013). This strategy involves the firm selecting attributes that many buyers in the industry perceive as important and positioning itself to meet those needs (Ndanu, 2014). The firm is then able to charge a premium cost (Ndanu, 2014).

The firm achieves the competitive advantage if the premium price exceeds the extra costs incurred in being unique (Thuku, 2009). In the differentiation strategy, companies seek to achieve superior performance of a service, adding value to the offering, which is reflected in the highest price, which a customer is prepared to pay (Zuva, 2013). Added value can also be provided by offering completely new services, which not yet available from competitors, either by modifying existing services or by making them more easily available. The means of differentiation could be the product, customer service, delivery channel, and marketing approach (Wu, 2010). A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques (Anyim, 2012).

The ultimate aim of differentiation is for the customers to have unique experience that enable them to have loyalty with the company hence become repeat customers hence increase in sales volumes (Zuva, 2013). This calls for a firm to create value for its customers in the production process, as well as identify and eliminate any inefficiency (Peter, 2014). There are several sources of differentiation in business such as quality, design of functional features, product features, ignorance of buyers regarding the essential characteristics and quality of goods they purchase, and sales promotion activities (Zuva, 2013). Others include difference in availability, assumption of risk in case of product failure through warranties and guarantees, intensity of an activity adopted for example rate of advertising (Wu, 2010). Still the following are sources of differentiation reputation and technology employed in performing an activity for example precision of machine tools or computerized order processing, and skills and experiences of personnel employed in an activity and the training provided (Shaviya, 2013).

In the context of the service industry, firms can create a differentiation strategy through the distinguishing the features of its value chain (Feng, 2013). The value chain has been described as a chain of activities linked in a prescribed order through which products move, gaining value at each stage and are used to design, produce, market, deliver and provide support for the product and services (Wu, 2010). Some of the aspects that can be improved in the value chain in order to differentiate itself and create competitive advantages include firm infrastructure, technology, human resource, and buyer perception of value (Shetty, 2010).

In the context of the firm infrastructure, the service provider should have facilities that are attractive and fulfill the customer’s needs. This may include physical buildings and machines in the service provider. In the context of technology, the type and functionalities of the technology used in service provision can be a great source of differentiation. In the context of the human resource aspect, the sources of differentiation include skills and experiences of personnel, training and development (Waema, 2013). In the context of buyer perception of value, Peter (2014) argues that buyers may have a narrow view of value and sometimes use price to measure value not taking into consideration other hidden cost drivers as freight or installation. Therefore, the
Use of NHIF Platform as a Competitive Strategy in Enhancing Performance of Private Hospitals in...

The perspectives of quality health care include access to suitable qualified medical personnel, affordability, promptness of attention, provision of adequate information, drugs availability, and availability of all the necessary logistics (Karanja, 2014).

The NHIF enables the private hospital to improve on their services and infrastructure since they have to be assessed before they are accredited. In this context, Ndung’u (2015) notes that NHIF creates an objective accreditation criteria and guidelines with a view of encouraging hospitals towards quality improvements. The NHIF uses a 1600 point looking at 25 thematic areas that the accredited hospitals must strive to achieve in order to get accreditation. These thematic areas include physical infrastructure, examination and consultations rooms, emergency room, laboratory, radiology services, pharmacy services, food and nutrition, and theatre services (Muiya & Kamau, 2013). Others are physiotherapy services, occupational therapy services, sterile preparation unit, Intensive Care Unit (ICU) room, labour ward, personnel, wards, good housekeeping, mortuary services, records and information systems, and functional committees (Muli, 2013).

In the context of the physical infrastructure, the NHIF accreditation body examines at several aspects including five major areas; environment, buildings, water supply, power source and reliable communication system (Karanja, 2014). Amongst the items that the hospital must have achieved include secure perimeter fence with a gate, clean compound, sewage collection points, labeled waste deposit box, hospital building designed to be a health facility, well ventilated rooms and firefighting equipment. Other aspects include availability of power to the national grid and a functional stand by generator (Wanderi, 2012). The NHIF accreditation standards on the physical infrastructure ensure that the infrastructural elements of the hospital building are safe to conduct the hospital business for both staff and the patients (Ndung’u, 2015). The NHIF policy on the examination and consultation room ensures that patients are handled in manner that is professional (Karanja, 2014). For example the NHIF requires that there are clear guidelines of admitting patients as well as guidelines of patients that they cannot admit.

The guidelines also ensure that the consultation rooms has basic equipment such as thermometer, diagnostic set, and sink with running water amongst others (Varmah, 2012). This is to ensure that the patients are adequately taken care of and situations don’t accelerate to critical level on the account of lack of basic tools (Namuhisa, 2014). These measures are further enhanced in the guidelines for emergency room operations where the minimum set standards of auctioning on the emergency situation, the needed infrastructure and personnel are set up (Karanja, 2014). The lack of drugs has often been indicated as one of the greatest source of inadequate health care services (Gimoi, 2011). The NHIF accredited hospitals must strive to have a functional pharmacy with adequate trained personnel approved by the relevant bodies (Zhigunova, 2012). More critically, the guidelines ensure that at a minimum the hospital has drugs dealing with common aspects such as gastrointestinal tract, central nervous system, cardio vascular system, genito urinary system, endocrines, and respiratory system amongst others (Nzuve, 2013). This ensures that the NHIF accredited private hospitals have adequate drugs to cater for a majority of the common diseases that the patients seek attention for (Mwangi, 2013).

The NHIF also ensures that the private hospitals have dully qualified and accredited personnel (Muli, 2013). In this context some of the personnel that the NHIF accreditation process checks in terms of numbers and qualifications include surgeons, gynecologists, physicians, pediatricians, general medical officers and pharmacists (Lencer, 2015). Others are clinical officers, registered nurses, enrolled nurses, laboratory technologists, theatre technologists, and administrative personnel amongst others (Gimoi, 2011). The administrative personnel include administrators, accounts officers, procurement officers, human resources officers, and security officers (Varmah, 2012). The availability of relevant and trained officials enables the hospital to operate at an optimal manner and give the required services.

III. Objective of the Study
To establish the use of NHIF as a differentiation strategy on performance of private hospitals in Nakuru town, Kenya.

IV. Research Hypothesis

Hₐ: There is no significant statistical relationship between differentiation strategy and performance of private hospitals in Nakuru town as result of using NHIF services

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V. Methodology

This study utilized the descriptive study and in particular descriptive survey design. Mugenda (2003) noted that descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. The census of all the one hundred respondents was used in the study. This was due to the fact the study population was a small in size.

<table>
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<th>Table 1: Sampling Frame</th>
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<td><strong>Total</strong></td>
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<td>Baraka Maternity Nursing Home</td>
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<td>Bethania Medical Center</td>
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<td>Evans Sunrise Medical Centre</td>
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<td>Sister Mazzoldi Dispensary and Maternity</td>
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<td>St. Anthony Health Centre</td>
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<td>Valley Hospital Limited</td>
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<tr>
<td>Nakuru War Memorial Hospital</td>
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<tr>
<td>Nakuru Nursing and Maternity Home</td>
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<td>Nairobi’s Women Hospital</td>
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<td><strong>Total</strong></td>
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The study had a target sample size of 100 respondents and therefore 100 questionnaires were distributed to the respondents. Out of the distributed questionnaires, a total of 10 questionnaires were not returned due to various reasons. Therefore, the response rate was 90 %. However, out of 90 questionnaires that were returned, a further four questionnaires were not analyzed due to various issues. These included incompletely filled questionnaires, questionnaires with identifiers such as names, and questionnaires with additional commentaries not requested. Therefore, a total of 86 questionnaires or 86 % of the questionnaires were analyzed.

VI. Findings And Discussions

The use of NHIF as a differentiation strategy on performance of private hospitals in Nakuru town, Kenya was examined using five questions;

i. The hospital’s achievement of the NHIF accreditation has led to the hospital’s improvement of equipment and facilities at the hospital

ii. The hospital’s NHIF accreditation has led to improvement of the pharmacy services such as variety of drugs available

iii. The hospital’s NHIF accreditation has led to the improvement of the number of personnel and their qualification at the hospital

iv. The hospital’s NHIF accreditation has led to the infrastructural improvement at the hospitals e.g. consultation rooms, theatre etc

v. The hospital’s NHIF accreditation has led to the development and improvement of operational processes and procedures at the hospital

The likert scale of Strongly Agree (SA), Agree (A), Uncertain (U), Disagree (D), and Strongly Disagree (SD) was used.

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<th>Table 2: Descriptive Statistics of Differentiation Strategy</th>
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<td>The hospital’s NHIF accreditation has led to the development and improvement of operational processes and procedures at the hospital</td>
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</table>
The use of the NHIF as a platform to create differentiation five metrics were used including improvement of the equipment and facilities at the hospital, improvement of pharmacy services, improvement in the number of personnel and their qualification, infrastructural improvements, and development of operational processes. A likert scale of Strongly Disagree (SD), Disagree (D), Uncertain (U), Agree (A) and Strongly Agree (SA) was used. In relations to the improvement of the equipment and facilities at the hospital, the results were 14.0% (SA), 15.1% (A), 15.1% (U), 23.3% (D), and 32.6% (SD). In relations to pharmacy services improvement, the results were 33.7% (SA), 11.6% (A), 43.0% (U), 11.6% (D), and 0.0% (SD). In relations to improvement in the number of personnel and their qualification, the results were 36.0% (SA), 17.4% (A), 32.6% (U), 14.0% (D), and 0.0% (SD). In relations to infrastructural improvements, the results were 0.0% (SA), 24.4% (A), 31.4% (U), 36.0% (D), and 8.1% (SD). Finally, in relations to the development of operational processes, the results were 0.0% (SA), 26.7% (A), 31.4% (U), 33.7% (D), and 8.1% (SD).

The means and standard deviations of the differentiation strategy were also examined. The differentiation strategy metrics were measured through the use of the likert scale with the descriptors Strongly Disagree (SD), Disagree (D), Uncertain (U), Agree (A) and Strongly Agree (SA) represented as 1,2,3,4 and 5 respectively in the SPSS input spread sheet. A score of less than 1.5 means the respondents strongly disagreed with the statement given. A score 1.5 and above but less than 2.5 meant the respondents disagreed with the statement given. A score of 2.5 and above but less than 3.5 meant the respondents were uncertain. A score of 3.5 and above, but less that 4.5 indicated that the respondents agreed. A score of 4.5 and above indicated strong agreement with the statement given. In the context of NHIF accreditation leading to hospital’s improvement of equipment and facilities, infrastructural improvement at the hospital, and improvement of the operational processes and procedures at the hospital, the respondents on average tended to be uncertain. This was due to the means of 2.5465, 2.7209, and 2.7674 respectively. On the other hand, in relations to the NHIF accreditation leading to improvement of the pharmacy services as well as the number of the number and qualifications of the hospital personnel, the respondents tended on average to agree with the metric with means of 3.6744 and 3.7558 respectively.

A Standard deviation of 1 and above indicates no consensus, 0.5 but less than 1 indicates the responses are moderately distributed and less than 0.5 indicates that the responses are concentrated around the mean. The standard measures were between 0.5 and 1 hence the responses were moderately distributed. In the context of NHIF accreditation leading to hospital’s improvement of the of equipment and facilities, improvement of the pharmacy services, and improvement of the number of personnel and their qualification at the hospital there was lack of clear consensus. This was due to the standard deviations of 1.43615, 1.06762, and 1.09476 respectively. The responses were moderately spread in relations to NHIF accreditation leading to infrastructural improvement, and development and improvement of operational processes and procedures at the hospital due to standard deviations of 0.92864 and 0.94152 respectively.

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<th>Table 3: Descriptive Statistics of Differentiation</th>
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<td>The hospital’s NHIF accreditation has led to the development and improvement of operational processes and procedures at the hospital</td>
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<td>Valid N (listwise)</td>
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VII. Conclusion

The relationship between the use of NHIF to create differentiation strategy and competitive strategy in the private hospital is positively correlated and statistically significant (r=0.633; p=0.000<0.05). This is in line with the theoretical underpinning of the study. Feng (2013) argues that in service industry, firms can create a differentiation strategy through the distinguishing the features of its value chain. The value chain has been described as a chain of activities linked in a prescribed order through which products move, gaining value at each stage and are used to design, produce, market, deliver and provide support for the product and services (Wu, 2010). Some of the aspects that can be improved in the value chain in order to differentiate itself and enhance performance of the hospital include firm infrastructure, technology, human resource, and buyer perception of value (Shetty, 2010). The NHIF has been used to differentiation services provided in private hospitals as being of the highest possible quality. The NHIF has been used as instrument to access quality
services from private hospitals hence enhance performance of private hospitals. The perspectives of quality health care include access to suitable qualified medical personnel, affordability, promptness of attention, provision of adequate information, drugs availability, and availability of all the necessary logistics (Karanja, 2014).

**Table 4: Linear Correlation between Differentiation Strategy and Performance**

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<th>Differentiation Strategy</th>
<th>Performance of Private Hospitals</th>
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<td>Pearson Correlation</td>
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Correlation is significant at the 0.05 level (2-tailed).

**VIII. Recommendations**

The study recommends that the private hospitals should explore further the use of NHIF as a platform to create differentiation strategy on the improvement of equipment and facilities at the hospital, improvement of pharmacy services, and improvement of the number of personnel at the hospital due to their high standard deviations.

**References**


