
EFFECT OF CUSTOMER PERCEPTION ON PERFORMANCE OF PRIVATE HOSPITALS IN NAIROBI: A CASE STUDY OF KAREN HOSPITAL

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Abstract

The link between perception of customers and the firm performance is of key concern to managers. The purpose of this study was to determine the effect of customer perception on performance of Karen Hospital in Kenya. The research instrument was a semi-structured questionnaire which was targeted to clients of Karen Hospital. Study results indicated that client perception towards hospital costs was not a significant predictor of hospital performance. Customer perception towards hospital staff and their perception towards quality of service had significant influence on hospital performance. From the study findings, the following recommendations are made. First, it is recommended that pricing for any service should be based on value and what competition offers. Secondly, the hospital should put measures in place to ensure that the employees they already have are well trained or the hospital hires more staff and employees to ensure that their valued clients are served efficiently.

Key words: *customer perception, costs, staff, performance, perceived value, customer attitude.*

1. INTRODUCTION

Managers in diverse industries have long been interested in the link between perception of customers in regard to the product or quality of service and the decision to purchase and hence the performance or profitability of the organization. Researchers such as Adeyeye (2013), Johnston, Spinks and Manning (2010) have analyzed consumer behavior in sectors such as airlines, banking, petroleum, personal computers and other consumer products, focusing on customer perception on service quality and product delivery and their effect on market share, cash flow, profits and stockholder returns.

Johnston et al. (2010) observed that though customers' perception of an organization affected their purchase decisions, the effect of customers' perception and sales level of companies was insignificant. The study further observed that perception of a customer towards an organization is an antecedent to customer satisfaction which is expected to have a significant influence on organizational value and continued performance. According to Caha (2012), service quality in a hospital is a strong influencer of customer satisfaction and positive attitude that the clients of that hospital have towards the hospital. This positive attitude towards the hospital, its staff and its competence influences its success in the society. Improvement of competence of hospital staff, hospital costs in relation to value received and quality of health facilities in the hospital are all factors that are considered by clients to gauge their satisfaction with the hospital. Caha (2012) observed that the objective measure of service quality may be different from customer perception which makes customer perception to be the right indicator overriding objective measures. Every service organization therefore should use customer perception as its measure to establish the quality level it provides in the market.

Adeyeye (2010) cited that perception of customers towards the quality of service by an organization has a significant relationship with performance of the organization. This study in Nigeria had findings which indicated that customer trusting the organization, bonding between employees and customers perceiving the organization as caring all had significant influence on performance of the organization. Chi and Gursoy (2009) established that customers that have positive perception of a hospital can influence their satisfaction. This has a positive effect on financial performance of the hospitality establishment. Customers who perceive employees of an organization to be competent and likable are more likely to be satisfied with products or services from that organization. Other major considerations by customers include considerations on prices charged, innovations by the company, facilities that are applied by the facility in develop products or services and the way that the organization deals with complaints and compliments. These variables ultimately determine whether customers will be satisfied or not and eventually influence the company's performance. Mokaya, Kanyagia and Wagoki (2012) revealed that perception by customers in regard to fairness of pricing, quality of service and reliability was a major factor in determining performance of airline firms in Kenya. Perceived value by customers as established by Auka (2012) is an important factor in creating sustainable competitive advantage by firms.

The current study was on Karen Hospital which is one of the top private hospitals that is situated in Karen Suburb of Nairobi County. The hospital provide a variety of medical services including provision of critical care, emergency service, mental health services, surgical services for acute medical cases, rehabilitation services and palliative care. Apart from the hospital in Karen suburb in Nairobi, the hospital has branches in the Nairobi City centre along Koinange Street, in Meru, Nakuru, Nyeri and Karatina (Dodgson, 2008).

2. STATEMENT OF THE PROBLEM AND OBJECTIVES

Though customer perception towards value received from companies forms the basis of customer satisfaction, many organizations as observed by Adeyeye (2013) fail to research on what customers perceive as important. Further, Gopal and Bedi (2014) observed that customer perception in organizations in general and hospitals in particular have been largely ignored by administrators. This is despite the fact that satisfaction, customer loyalty and organization reputation all depends on how customers perceive the while some offering by the organization.

A review of literature locally on customer perception, satisfaction, loyalty and performance in hospitals show that there is a dearth of studies in the subject area. The satisfaction of patients in hospitals has been established to be influenced by various factors including quality of services provided, professionalism and competence of doctors and nurses, infrastructure present, costs of services and the general environment of the hospital. Assessing the perception of patients towards these variables provides an advantage to both the hospital and the patients. The patients are given a voice and their views can be taken into consideration to improve service delivery. Hospitals on the other hand can benefit from a study on customer perceptions as they would be able to respond to customer expectations and needs better thereby improve their service delivery and competitiveness. Research on customer perceptions can also unearth various health care challenges which can be solved and thereby contribute to better health outcomes.

The health-care industry is plagued with various challenges that cause customer dissatisfaction (Gopal & Bedi, 2014). The emergence of cut throat competition in the private health sector increases the need for a health care provider to satisfy customer needs to enhance satisfaction and loyalty. The existing healthcare service providers therefore need to improve their performance on both financial and non-financial measures to cope with competition. Delivering customer satisfaction is also imperative because today's buyers of health care services are better educated and more aware than in the past.

This study sought to determine the effect of customer perception on performance of hospitals in Kenya.

It had the following objectives;

- i) To explore the effect of customer perception towards hospital costs on performance of Karen Hospital
- ii) To establish the effect of the customer perception regarding hospital staff on performance of Karen Hospital
- iii) To determine the effect of perceived quality of the hospital on performance of Karen Hospital

3. THEORETICAL AND EMPIRICAL REVIEW

3.1 Theoretical Review

This study as any research study was based on theoretical concepts that guided the design, methodology and the procedures that were applied in the study. The theories that were used to guide this study included social exchange theory (Homans, 1958) and competitive advantage theory (Porter, 1985). The social exchange theory posits that every human being considers the cost and the benefit of any offering before deciding to use the product or service on offer. Further the theory also indicates that to

arrive at a decision, a customer weighs the value provided by the product or service and compares this to what other competing firms in the society are offering. The theory of competitive advantage depicts that an organization can become competitive in the market place by having unique resources, innovation, unique processes or unique knowledge and value proposition that other organizations do not have. This theory was applied in the study to illustrate how employees in hospitals and the ability of the hospital to deal with its clients has the ability to make the hospital competitive and have better performance than its competition.

3.2 Empirical Review

Chandwani, Jivarajani and Jivarajani (2009) established that a private medical college in Gujarat was perceived by customers to be charging high prices compared to comparable hospitals in the region. This high pricing negatively affected satisfaction of clients who visited that hospital and made them have few repeat visits to the hospital. In Taiwan medical industry, Hu, Cheng, Chiu and Hong (2011) revealed that high quality of services was not a factor in Taiwan since most medical service providers provide high quality services. The study established that cost plays a major factor in determining customer loyalty.

A study in India by Gopal and Bedi (2014) established that expectations of customers and their perceptions on how the hospital is performing their duties are very important in determining the success of that hospital in its service delivery. Ability of a service organization to attract more customers and retain the ones it already has depends mostly on the perception of the customers towards the staff. Competent employees according to a study by Ndubisi (2007) are able to relate well with customers and thus improve customer loyalty.

A study in Turkey by Calisir, Gumussoy, Bayraktaroglu and Kaya (2012) revealed that of all the qualities considered, only empathy of hospital staff was significant in influencing return decisions by customers. Similarly, Laohasirichaikul et al. (2013) established that, concern shown by the doctor was the most important factor that was indicated by the patients surveyed which affected their satisfaction and loyalty to a particular health provider.

A study conducted in Amman, Jordan by Alrubaiee and Alkaaida (2011) established that perceived quality from a hospital influenced client satisfaction and trust. Cheng, Lai and Yeung (2008) found that perceived quality of offerings by an organization was related to customer loyalty. Customers who perceived an organization as offering quality services were inclined to be more loyal to the organization which made the organization spend less money on customer attraction and retention which ultimately positively affected performance measures.

Hussain and Rehman (2012) revealed that quality of process and quality of infrastructure are positively related to patient satisfaction and they affect reputation of the hospital positively. However, the study found no effect of quality of object, quality of interaction and quality of atmosphere on satisfaction of patients and reputation of the hospital. However, Laohasirichaikul et al. (2013) established that the physical facilities that the hospital has influence the perception of the service delivery by patients.

4. METHODOLOGY

The study was conducted through a case study design. The population of the study was clients of Karen Hospital. According to Cooper and Schindler (2006), a population is the total collection of elements about which we wish to make some inferences. In this study, the population comprised of the

clients who have visited Karen Hospital in the past one year. A sample of 321 respondents from 107 organizations in Nairobi was selected. This was done through selecting the clients who had visited the hospital or had taken their kin to the hospital in the month of January and February 2015. Of these selected clients, 162 questionnaires were successfully collected which was a response rate of 51%. This response rate was considered adequate following Groves *et al.* (2004) observation that a response rate of 50% and above is considered adequate for paper based questionnaire survey.

The research instrument was a semi-structured questionnaire developed based on a review of the literature dealing with customer perception and its effect on organizational performance. The questionnaire had four sections. Three sections catered for the independent variables while the fourth section catered for the dependent variable. All sections had likert type questions that were used to rate perceptions by customers. The questionnaire only had closed questions to enable standardization and simplify analysis of results.

The researcher used paper based hand delivery method to administer questionnaires to the selected clients of Karen Hospital. The researcher visited the selected organizations and requested permission from the human resource manager for information regarding the employees who had visited Karen Hospital. Those respondents were administered with the study questionnaire. The perceptions sought were in relation to experiences by the respondents or their dependants. However, e-mail method of administration of the questionnaire was used for those respondents who expressly requested for the option. However, in both methods, confidentiality was assured to all respondents who were requested to fill the questionnaire. The respondents were requested by the researcher to fill the questionnaire and inform the researcher when they were finished.

Mugenda and Mugenda (2003) indicate that piloting of research instruments is important to establish reliability and validity. Piloting is done to ensure that items are stated correctly and that respondents are able to understand them. Before drafting the final questionnaire, the draft questionnaire was tested among clients from similar private hospitals in Nairobi. Ten (10) clients from private hospitals in Nairobi were issued with the questionnaires and were required to fill them and comment on their structure, effort in filling and clarity of the questions. The feedback from these respondents was used to make amendments to the questionnaire. Reliability of the scales use was tested using Cronbach alpha (Gall, Gall & Borg, 2007). A Cronbach alpha of 0.876 for the items indicated that the items were reliable.

All questionnaires from the respondents were checked for completeness before analysis. The data from the questionnaires was then coded and entered into SPSS (Software Package for Social Sciences) for windows which generated frequency distributions, percentages and mean scores. Correlation and regression analysis was also performed to establish the relationship between the independent variables and dependent variables and also to establish the effect of the independent variables on the dependent variable. The presentation of findings from quantitative data was through tables.

5. RESULTS

Study results (Table 1) revealed that respondents agreed that ‘The Hospital is effective in delivering healthcare services’ (MS = 4.42; SD = 0.895) while they also agreed to the statement that ‘they had made return visits to Karen Hospital’ (MS = 4.13; SD = 0.918). Further, the respondents agreed to the statement that ‘Karen Hospital has been able to open new branches’ (MS = 3.83; SD = 0.662). Study

findings however, indicated that respondents were neutral on the statement that ‘They had a positive attitude towards the hospital’ (MS = 3.41; SD = 0.769).

A correlation analysis was performed to establish the relationship between the independent variables and dependent variable. All the ratings on factors that were used to measure the variables were aggregated for each variable. The average for each independent and dependent variables were used to perform the correlation analysis. The study results (Table 2) revealed that perception on cost had a weak positive relationship with hospital performance ($r = 0.167$; $p < 0.05$). This indicates that improvement of customer perception towards costs of the hospital would be related with improved performance of the hospital. Perception towards hospital staff had a strong relationship with hospital performance ($r = 0.662$; $p < 0.05$). These results indicated that perception towards the hospital staff was very much related to performance of the hospital. This points out that improved perception towards hospital employees would very much be related to improved hospital performance. Finally, perception towards quality of service had the highest relationship with hospital performance ($r = 0.705$; $p < 0.05$). Perception towards quality of service seemed to have the strongest relationship among the three variables tested.

A regression analysis was performed where the average ratings for every independent variable were used as input for regression analysis. The average ratings on performance were also used as input for the dependent variable. Results (Table 3) indicate that 63.9% of change in performance of hospitals can be explained by customer perception on cost, hospital staff and quality of service. These findings indicate that 36.1% of change in hospital performance is explained by other factors that were not included in the model. This indicates that customer perception on hospital cost, hospital staff and quality of service can be used as predictors of hospital performance. Moreover, results reveal that the model derived from the regression model is significant ($f = 93.207$; $p < 0.05$). These findings indicate that the model can be used to predict hospital performance accurately using the three independent variables (Table 4).

The study findings (Table 5) indicate that perception towards hospital costs was not a significant predictor of hospital performance ($\beta = 0.00064$; $t = 0.008$; $p > 0.05$). The coefficient of perception towards hospital cost indicates that a 0.00064 rise in customer perception would explain a 1% improvement in performance. Further results indicate that perception towards hospital employees was a significant predictor of hospital performance ($\beta = 0.509$; $t = 7.342$; $p < 0.05$). The results also indicate that perception towards hospital employees was the most significant predictor of hospital performance among the three variables considered. Lastly, findings revealed that perception towards quality of service was a significant predictor of hospital performance ($\beta = 0.491$; $t = 5.044$; $p < 0.05$). These findings reveal that improvement in customer perception towards quality of service can lead to improved hospital performance.

6. DISCUSSION OF FINDINGS

The study established that perception of clients on cost had a weak positive relationship with hospital performance ($r = 0.167$; $p < 0.05$). Regression results indicated that perception towards hospital costs was not a significant predictor of hospital performance ($\beta = 0.00064$; $t = 0.008$; $p > 0.05$). The current study findings do not concur with findings from a study by Chandwani et al. (2009) which was conducted on private hospitals in Gujarat. In that study, a private medical college in Gujarat was perceived by customers to be charging high prices compared to comparable hospitals in the region. This

high pricing negatively affected satisfaction of clients who visited that hospital and made them have few repeat visits to the hospital.

Customer perception towards hospital staff had a strong relationship with hospital performance ($r = 0.662$; $p < 0.05$). Further, customer perception towards hospital staff was a significant predictor of hospital performance ($\beta = 0.509$; $t = 7.342$; $p < 0.05$). These findings concurred with those from a study in India by Gopal and Bedi (2014) which established that expectations of customers and their perceptions on how the hospital is performing their duties are very important in determining the success of that hospital in its service delivery. The findings from the current study further agrees with findings from a study by Ndubisi (2007) which established that competent employees are very important in an organization as they are able to relate well with customers and thus improve customer loyalty. Further, a study by Lam, Lo & Burton (2005) had similar findings. The study revealed that perception of the customers towards employees is based on how professionally the employees are able to deal with the customers, their ability to handle complaints and the skills they have towards their job.

The third objective of the study was to establish the effect customer perception towards quality of service by Karen Hospital and the performance of the hospital. The current study established that customer perception towards quality of service had the highest relationship with hospital performance ($r = 0.705$; $p < 0.05$). Regression findings revealed that perception towards quality of service was a significant predictor of hospital performance ($\beta = 0.491$; $t = 5.044$; $p < 0.05$). These study findings concurred with findings from a study by Alrubaiee and Alkaaida (2011) in Jordan which established that perceived quality from a hospital influenced client satisfaction and trust and improved its performance. The findings also agree with Cheng et al. (2008) who found that perceived quality of offerings by an organization was related to customer loyalty and return visits.

7. CONCLUSIONS AND IMPLICATIONS

The study makes the following conclusions. First, the prices charged by Karen Hospital are not perceived to be fair by customers when they are compared with prices and offerings of other comparable facilities. Karen hospital however, does not have diagnostics or tests that are deemed unnecessary by customers that may inflate prices. The perception towards hospital costs is not related with performance of the hospital nor does the perception towards hospital costs influence performance of the hospital.

Secondly, perception of customers towards hospital staff has a strong relationship with hospital performance and has a significant influence on performance of the hospital. Further the study concludes that employees of Karen hospital are perceived to have the necessary demeanor, physical etiquette, professionalism and confidence. Clients who visit the hospital further perceive the employees to have the necessary skills and empathy to conduct their duties competently. This has led to the clients having repeat visits to the hospital and their perception that the hospital provides effective healthcare services.

Lastly, perception of customers towards quality of service has high relationship with hospital performance and also significantly influences hospital performance. Karen Hospital provides quality healthcare services to its clients. Areas observed to observe high quality services include the hospital being reliable, safe keeping of patient records, provision of adequate information about health condition, presence of up to date equipment & technology in the hospital and observance of professionalism.

The study has the following implications. First, pricing for any service should be based on value and what competition offers. The price of Karen Hospital's services is bound to be compared with similar hospitals in Kenya and hence it needs to ensure that it has competitively priced services compared to similar facilities. When the organization is found to overcharge, it can lose the cost-conscious customers to the competition.

Secondly, the hospital had poor ratings on availability of sufficient staff. The hospital should therefore put measures in place to ensure that the employees they already have are well trained so that their productivity is increased and they are able to serve more clients. However, if the employees are not able to deal with workload that the hospital has, the hospital should hire more staff and employees to ensure that their valued clients are served efficiently.

Third, the hospital should open more locations so that it is accessible to more clients who find the current locations inconvenient. Further, the hospital should ensure that its medical procedures are eased and speeded up since they were seen to be a source of dissatisfaction from the clients who visit the hospital. In the main hospital, there should be good directional signs that clients can follow when moving around the hospital to the various departments.

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Appendices**Table 1: Performance of the Hospital**

Statement	MS	SD
Karen Hospital has been able to open new branches	3.83	0.662
I have a positive attitude towards the hospital	3.41	0.769
I have made return visits to Karen Hospital	4.13	0.918
The Hospital is effective in delivering healthcare services	4.42	0.895

Table 2: Correlation between Customer Perception and hospital performance

		1	2	3	4
1. Perception on Cost	Correlation	1	.592**	-.167*	.167*
	Sig.		.000	.034	.033
	N	162	162	162	162
2. Perception towards hospital employees	Correlation	.592**	1	.467**	.662**
	Sig.	.000		.000	.000
	N	162	162	162	162
3. Perception towards quality of service	Correlation	-.167*	.467**	1	.705**
	Sig.	.034	.000		.000
	N	162	162	162	162
4. Hospital Performance	Correlation	.167*	.662**	.705**	1
	Sig.	.033	.000	.000	
	N	162	162	162	162

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 3: Summary of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799	.639	.632	.300

Table 4: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	25.211	3	8.404	93.207	.000
Residual	14.246	158	.090		
Total	39.457	161			

Table 5: Significance of Independent variables in the Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.001349	.275		.000	1.000
Perception towards Cost	0.0006414	.075	.001	.008	0.956
Perception towards hospital staff	.509	.069	.507	7.342	.000
Perception on quality of service	.491	.097	.426	5.044	.000