EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Strategic Management
Vol. 2, No. 2, pp. 56-65: ISSN 2789-4851
Email: info@edinburgjournals.org

Service Differentiation Strategy and Performance of Cement Manufacturing Companies in Kenya

[1*]Carolyne Midecha Mung'asia & [2]Maina Rugami
[12]Strategic Management, Kenyatta University
[*]Corresponding author e-mail: c.mungasia@pu.ac.ke

How to cite this article: Mung'asia, C. M., & Rugami, M. (2022). Service Differentiation Strategy and Performance of Cement Manufacturing Companies in Kenya. *Journal of Strategic Management, 2*(2), 56-65.

Abstract

Cement companies in Kenya have had a dwindling sales performance between 2016 to 2019 despite the construction sector flourishing. This has caused some companies to go into receivership while others recorded a profit warning. This study sought to determine the effect of service differentiation strategy on performance of cement manufacturing companies in Kenya. The study was guided by the resource-based theory and adopted a descriptive survey design. Target population comprised 375 employees of cement companies. The respondents' sample was reached by calculating 30% of the total population to bring a total of 112 employees. Questionnaires were the data collection instrument. Data analysis was arrived at through descriptive statistics and correlation analysis. Results showed that service differentiation ($r=0.682$, $p=0.000$) was positively and significantly correlated with performance of cement companies. The study concluded that service differentiation increases company efficiency as well as company loyalty. The study recommends that the companies' management should devise steps and directives that will ensure effective implementation of feedback received on service improvement.

Keywords: *Service differentiation strategy, performance, cement manufacturing companies*

1.0 Introduction

A company's survival in the competitive market depends on the strategy it decides to follow to differentiate itself from other companies (Xhavit, Naim & Marija, 2020). The authors state that successfully bringing together both in-house and outside factors is the key to achieving high performance in the company. Differentiation is divided into three bases. First, it's the implementation of differentiation whereby a company focuses on how best to improve the product or service. Second, a company focuses on how to improve the business ties with its consumers, and lastly, the company focuses on the linkage within or between companies which includes distribution channels.

Organizational performance deals with creating value for the primary beneficiaries of the organization. Measuring performance evaluates the overall health of an organization (Makanga, 2017). In this study, the researcher was on the economic performance of the organization that looks at monetary and market results whose indicators are payback, sales volume, and accruement for shareholders. In this study, performance was measured to find out if it is a good fit with the environment/industry in which the organization operates.

Service differentiation involves the uniqueness of the process in terms of customer service by the company staff and delivery which must stand out from the competition in the same industry for it to be seen as effective and working as expected. Services are generated and absorbed at the same time. Services can differ from one person to another and they are produced in collaboration with the consumer after his suggestions and ideas have been incorporated into the production process (Bruhn & Georgi, 2006). Design and distribution channels depend on countries and industries a company is in. These channel characteristics include directness, levels, density, variety, and novelty. The major aim of distribution channels is to reduce the gap between the producer and Consumer (Singh, 2016).

Kenyan Cement Manufacturers are going through tough times, with some falling into profit warnings as they face stiff competition from cheap imports, high production costs as well as slow demand for cement from the regional construction industry. Cement companies in Kenya have seen a reduction in production by 3% from 6 thousand in 2018 to 5 thousand tonnes in 2019 (KNBS,2020) at a time when cement imports increased from 23 thousand tonnes to 26 thousand tonnes in the same period.

Problem Statement

The Kenyan cement enterprise has undergone a stable progression in recent years driven by the government's mega infrastructure projects, especially in the Railways and roads sector. However, this changed for the worst when cement usage was reduced by 3% to 1.46 million tonnes from 1.50 million tonnes. Consumption previously went up by 2.8% to 5.9 million tonnes in 2018 from 5.8 million tonnes in 2017. As evidenced in the "Economic Survey" report cement production went down and declined by 6% to 1.46 million tonnes in the first 3months of the year 2019 from 1.55Million tonnes in the same months in 2018. Cement that was imported went up by around 50% to 23,000 million tonnes but exports went down by 63% to 0.14 million tonnes from 0.39 million tonnes, mainly due to a major fall in deliveries to the neighbouring East African countries (KNBS, 2019).

Despite the construction sector recording good performance, the dynamics do not seem to be favoring the local cement companies with all listed companies recording declines in operation profits from 2016 to 2019. Their financial reports have shown that their incomes have been falling over the years since the year 2016, with some going to losses and hence they are decreasing in performance. The industry experiences falling revenues from dwindling sales despite ongoing mega public infrastructure projects such as roads, new county headquarters, constructions by county governments, and renovations of stadiums and bridges among others.

Bamburi Cement issued a profit warning for the second year in 2018 advising the public that profits will be lower than expected due to a contracting market leading to lower sales. ARM was put under administration because of piling debt and losses in 2018. EAPCC also issued a profit warning in 2018 informing the public of its widening loss by 30.7 percent. Even though EAPCC made a profit in 2018, their financial reports showed that this was largely due to fair value gains in investment property of 11 billion that compensated the loss incurred from operations of 3.5 billion.

Demand for Cement in the local market is shrinking due to influx of cheaper Cement from China, Pakistan, and India. Some of the inferior quality cement has been noticed to be flooding the local market threatening to drive the local firms out of business. New Cement players in the market have grabbed share from major rivals with Mombasa Cement being the most noticeable. Mombasa cement is now Kenya's second largest player which has grabbed a market share of 20% from Bamburi Cement. Mombasa Cement began operations in Kenya in 2013 after building a plant that started operating in the same year. This has pushed East Africa Portland Cement (EAPCC) to position number 3 in terms of market share. EAPCC market share is 15.7 %.

With profitability going down for the cement manufacturers despite the construction industry flourishing, there was need to examine if the companies do apply differentiation strategies to improve their performance and if so which types of strategies they apply. There are gaps in previous studies on the topic of discussion. The researcher found no research linking service differentiation to organizational performance of cement companies in the face of changing cement industry. This study remedied this shortcoming by determining how application of service differentiation can influence performance of cement manufacturing companies in Kenya.

2.0 Literature Review

Theoretical Review

The study is anchored on the Resource Based Theory. Previously it was recognized as the resource-based view of the firm (Wernerfelt, 1984) then changed to the core competence of the corporation (Prahalad & Hamel, 2020) and lastly, it changed to firm resources and sustained competitive advantage (Barney, 1991). It advocates that a company should concentrate on its internal distinctive resources that will give it an advantage over its industrial rivals. These resources are both tangible and intangible and they should be of high price in terms of value, not readily available, costly to imitate, and non-substitute (Barney, 1991). It concludes that companies achieve super performance by using their different bundles of immobile resources and capabilities. The way firms use both capabilities and resources must constantly change, this continuously changing is the base of superior performance (Fiol, 2001).

If a business can identify those types of resources and capitalize on them, then its position in the marketplace is guaranteed through superior financial performance from sales (Ainuddin, Beamish and Hulland, 2007). Gottschalk (2007) built on this theory by stating that emerging business models through relevant channels of modern flexible information technology systems in any organization should allow for change to adapt to new requirements as demanded by the customer is critical to ensure a competitive age in any industry.

According to Wang (2014), the resource-based value of strategic management regards the organizations internal setting as a propeller of superior performance and highlights the resources that an organization acquires to survive in the industry. Companies who want to use service as an edge in the industry should first understand the preferences of their customers and how they perceive their current services being offered. They should put in place strategies that will address these issues and ensure their staff is up to date in delivering superior service (Parasuraman, Berry and Zeitham, 1991).

Under product, differentiation quality is perceived through the eyes of the customer. Companies must strive to produce products that are reliable, durable, and have aesthetic appearance and prices that are fair to the consumer. For these to be achieved the company must ensure its inputs are of high quality too. All these require effective internal control systems in terms of quality assessment and assurance and technical competence (Hooley et al., 1998).

This theory has been used more in market research in the past decade suggesting that it is a good theory for explaining and predicting performance outcomes of an organization (Kozlenkova, Samaha and Palmatier, 2014). Some critiques of the theory include; that the theory does not provide the basis for identifying valuable resources, and it is difficult to know

EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Strategic Management
Vol. 2, No. 2, pp. 56-65: ISSN 2789-4851
Email: info@edinburgjournals.org

what constitutes a rare resource and what doesn't. The theory is beneficial to this research since differentiation strategies advocates for identification and efficient use of available resources in the company to improve performance.

According to Hoopes, Madsen and Walker (2003), a combination of service differentiation with other factors such as customer centricity and innovativeness brings about high organizational performance. Installing service differentiation strategies that are less identifiable results in assets that are hard to copy. These resources when used in production of services attract more consumers and hence increase production.

Empirical Review

Differentiation through service means extra benefits to the consumer that distinguishes a service from its competitors. For service differentiation to be achieved the organization should keenly listen to consumers to know their real wants and needs. Companies should strive to be customer oriented and focused to achieve service differentiation (Deshpandé, Farley & Webster, 1993). Companies with reliable services attract more customers hence they achieve higher sales performance (Fang, Palmatier & Steenkamp, 2008). Services being intangible is an advantage that can be used to acquire financial and marketing opportunities (Heskett and Schlesinger, 1997).

A study by Gebauer et al. (2011) on the competitive advantage through service differentiation by manufacturing companies was carried out. A survey research method was adopted on the 332 respondents who had more than 10 years at the companies. A confirmatory factor analysis to measure validity was used and the result was that when a firm emphasizes service differentiation as a pre-requisite it achieves higher business performance through customer centricity.

Kibithe and Chebii, (2018) using a descriptive survey design carried out a study on commercial banks in Nakuru Municipality to find out the impact of service quality differentiation strategy on loyalty of customers. They used a questionnaire of 384 customers to assemble information which they analysed later through descriptive statistics. Outcome showed that banks perform service customization, providing exclusive attention to customers to solve customer's problems. In addition to this, quality interaction with customers, showing empathy, and reliability influence customer loyalty significantly. Tuva (2015) states that activities such as sales promotions are necessary for service differentiation. She further reveals other activities such as ensuring cleanliness of the premises, adequate lighting, and choice of location play a vital role in service delivery. A positive link between service differentiation and company performance was found.

An evaluation by Kamau, (2019) on how service differentiation alters marketing in the attainment of private universities in Nairobi County was carried out. The research used persistence model theories, marketing mix model, marketing impact, and differentiation theory. The study concluded that the universities performance in the County was affected by the magnitude existing between the four independent variables. Mbugua and Kinyua, (2020) researched on relationship between service differentiation and organization performance at deposit-taking Saccos in Nairobi City. Porter's generic strategies theory was used and 123 SACCOs were acquired through a stratified random sampling technique. A conclusion was made that the performance of deposit-taking Saccos is closely linked to service differentiation strategies the company chooses.

Conceptual Framework

Figure 1 illustrated the conceptual framework of this study where service differentiation strategy is the independent variable while organization performance is the dependent variable.

Independent Variable **Dependent Variable**

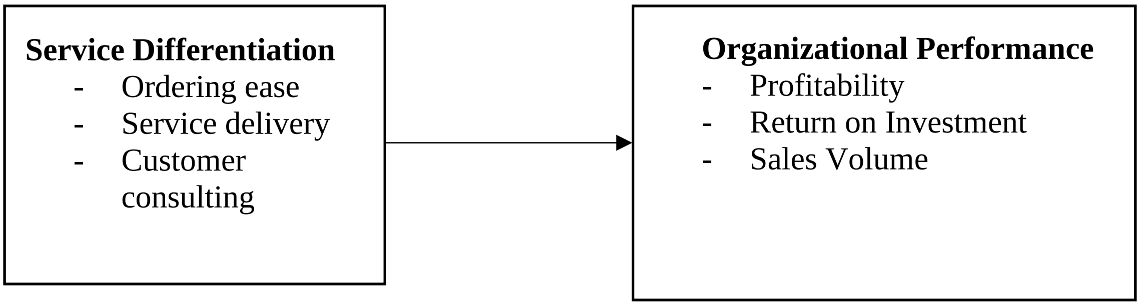

Figure 1: Conceptual Framework

3.0 Methodology

The research method used was a descriptive survey design. Three Hundred and Seventy-Five employees formed research target population. The respondents' sample was reached by calculating 30% of the total population to bring a total of 112 employees. Pilot testing was done at Mombasa Cement company in Kilifi County on the Kenyan Coast. Questionnaires were the data collection instrument applied. Drop and pick later method was implemented on the questionnaires. Data analysis was arrived at through descriptive statistics and correlation analysis.

4.0 Results and Discussion

Reliability of the Study

Reliability was proved using Cronbach's Alpha (α) which is a commonly known assessment of internal consistency. The Cronbach Alpha Coefficient Index ranges from 0.0 - 1.0. A Cronbach Alpha of 0.7 was used as the threshold of the study. Results are shown in Table 1.

Table 1: Reliability Results

Variable	Cronbach's Alpha	Number of items	Comment
Service Differentiation	0.901	7	Reliable
Organizational Performance	0.702	3	Reliable

The results showed that Cronbach's alpha ranged between 0.702 for organizational performance and 0.901 for service differentiation channels. As stated by Sekaran and Bougie (2013) a Cronbach alpha of 0.7 and over is regarded as logically competent for research.

Descriptive Statistic of Service Differentiation and Organizational Performance

The study sought to examine the effect of service differentiation on performance of cement manufacturing companies in Kenya. The mean response rates and the standard deviations from the participants were calculated. For ease of translation of the findings, 5 and 4 (strongly agree and agree) were labeled agree, 2 and 1 (disagree and strongly disagree) were labeled disagree and 3 (neutral) represents No opinion. The outcome of this investigation is displayed in Table 2.

EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Strategic Management
Vol. 2, No. 2, pp. 56-65: ISSN 2789-4851
Email: info@edinburgjournals.org

Table 2: Service Differentiation and Organizational Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Accurate procedures as an aspect of service differentiation increase efficiency of the company.	6 (6.7%)	9 (10.1%)	10 (11.2%)	31 (34.8%)	33 (37.1%)	3.9	1.22
Flexible services that suites customers' needs as an aspect of service differentiation increase customer loyalty.	2 (2.2%)	6 (6.7%)	5 (5.6%)	30 (33.7%)	46 (51.7%)	4.3	0.99
Well-coordinated service activities as an aspect of service differentiation enable the company to perform well in the market.	2 (2.2%)	6 (6.7%)	9 (10.1%)	39 (43.8%)	33 (37.1%)	4.1	0.97
On-time delivery as an aspect of service differentiation is a performance advantage to the company.	7 (7.9%)	8 (9%)	8 (9%)	31 (34.8%)	35 (39.3%)	3.9	1.25
Allowing customer participation as an aspect of service differentiation helps the company adapt to the changing market trends.	5 (5.6%)	7 (7.9%)	4 (4.5%)	34 (38.2%)	39 (43.8%)	4.1	1.15
Allowing customer participation as an aspect of service differentiation improves customer satisfaction.	3 (3.4%)	6 (6.7%)	7 (7.9%)	35 (39.3%)	38 (42.7%)	4.1	1.04
Meeting customers' expectations as an aspect of service differentiation increases sales.	2 (2.2%)	8 (9%)	7 (7.9%)	24 (27%)	48 (53.9%)	4.2	1.07
Average						**4.1**	**1.10**

The outcome in Table 2 displayed that most of the informants who were 64(71.9%) concurred with the affirmation that an accurate procedure as an aspect of service differentiation increases efficiency of the company (Mean=3.85, Std.Dev=1.22). This infers that use of accurate procedures minimized errors made while offering the services and this enhanced the efficiency of the firm. Further development disclosed that many of the sample sizes totaled 76(85.4%) concurred with the affirmation that flexible services that suites customers' needs as an aspect of service differentiation increase customer loyalty (Mean=4.26, Std.Dev=0.99). This implied that flexible services in cement companies were able to attract a large pool of different consumers and also helped in customer sustenance. Simultaneously, the out-turn exhibited that many of the populace who were 72(81.9%) coincided with the statement that well-coordinated service activities as an aspect of service differentiation enable the company to perform well in the market. (Mean=4.07, Std.Dev=0.97). This inferred those well-coordinated services enabled the products to get to the market in time as well as enhanced the product quality.

Further outcome manifested that majority of the sample size who was 76(85.4%) concurred with the statement that on-time delivery as an aspect of service differentiation is a performance advantage to the company (Mean=3.89, Std.Dev=1.25). This implies that on-time delivery encouraged more customers to buy the products as well as enhanced customer loyalty and retention. Also, analysis revealed that 73(82.0%) of the populace consented with the affirmation that allowing customer participation as an aspect of service differentiation helps the company adapt to the changing market trends (Mean=4.07, Std.Dev=1.15).

This infers that customer participation boosts customer confidence in the products when they arrive at the market. Further analysis showed that 73(82.0%) of the respondents agreed with the statement that allowing customer participation as an aspect of service differentiation improves customer satisfaction (Mean=4.11, Std.Dev=1.04). This infers that customer participation boosts customer confidence in the products when they arrive at the market. It was also found that 72(81.9%) respondents concurred with the statement that meeting customers' expectations as an aspect of service differentiation increases sales. (Mean=4.21, Std.Dev=1.07). This implied that companies that meet customers' expectations enable the customers to buy more products.

Descriptive Statistics of Organizational Performance

The descriptive results for organizational performance were displayed in 3.

Table 3: Organizational Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Disagree	Mean	Std. Dev
The company's profitability has increased and this could be attributed to use of differentiation strategies.	3 (3.4%)	6 (6.7%)	7 (7.9%)	36 (40.4%)	37 (41.6%)	4.10	1.03
The company's sales volume has increased and this could be attributed to use of differentiation strategies.	5 (5.6%)	9 (10.1%)	5 (5.6%)	34 (38.2%)	36 (40.4%)	3.98	1.18
The company's return on investment has increased and this could be attributed to use of differentiation strategies.	4 (4.5%)	4 (4.5%)	5 (5.6%)	32 (36%)	44 (49.4%)	4.21	1.05

The outcome in Table 3 a great number of the populace who were 73(82.0%) agreed that their company's profitability had increased and this could be attributed to use of differentiation strategies (Mean=4.10, Std.dev=1.03). This infers that use of differentiation strategies enhanced company profitability. Further results explained that majority of the respondents who were 70(78.6%) accorded that their company's sales volume had increased and this could be attributed to use of differentiation strategies (Mean=3.98, Std.dev=1.18). This infers that use of differentiation strategies increased company sales. To add on these, results revealed that most respondents who were 76(85.4) coincided with the remark that their company's return on investment had increased and this could be attributed to use of differentiation strategies (Mean=4.21, Std.dev=1.05). This infers that use of differentiation strategies enhanced company ROI.

Correlation Analysis

To understand the connection between the independent variable and the dependent variable correlation investigation was performed. The outcome was displayed in Table 4.

EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Strategic Management
Vol. 2, No. 2, pp. 56-65: ISSN 2789-4851
Email: info@edinburgjournals.org

Table 4: Correlation Results

		Organizational Performance	Service Differentiation
Organizational Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Service Differentiation	Pearson Correlation	.682**	1
	Sig. (2-tailed)	0.000	

Table 4 shows that service differentiation had a positive and significant correlation with organizational performance (r=0.682, p=0.000). This meant that service differentiation had a deep and valuable correlation with organizational performance. The research findings agreed with Gebauer et al. (2011) who found that when a firm emphasizes service differentiation as a pre-requisite it achieves higher business performance through customer centricity.

5.0 Conclusion

The research deduced that there was a constructive and convincing existence between service differentiation and organizational performance. Further, service differentiation increases company efficiency as well as company loyalty. In addition, well-coordinated services in a firm enhance the company performance. Further customer participation in the delivery of services builds customers' confidence in the products being produced thus enhancing company performance.

6.0 Recommendations

The study urges the administration to come up with a service resolution desk for supporting execution of customer feedback collected to improve service rendering that will better the customers' relationship with the business and they will purchase more hence increasing sales performance of the organization. The management will also need to flex their services to suite customers' needs as an aspect of service differentiation since this will boost customer loyalty and this means more purchases by the customers which results in higher organizational performance in terms of sales.

References

Ainuddin, R. A., Beamish, P. W., Hulland, J. S., & Rouse, M. J. (2007). Resource attributes and firm performance in international joint ventures. *Journal of World Business*, *42*(1), 47–60.

Fang, E., Palmatier, R., & Steenkamp, J.-B. (2008). Effect of Service Transition Strategies on Firm Value. *Journal of Marketing*, *72*, 1–14.

Fiol, C. M. (2001). Revisiting an identity-based view of sustainable competitive advantage. *Journal of Management*, *27*(6), 691–699.

Deshpandé, R., Farley, J. U., & Webster, F. E. (1993). Corporate Culture, Customer Orientation, and Innovativeness in Japanese Firms: A Quadrad Analysis. *Journal of Marketing*, *57*(1), 23–37.

Gebauer, H., Gustafsson, A., & Witell, L. (2011a). Competitive advantage through service differentiation by manufacturing companies. *Journal of Business Research*, *64*(12), 1270–1280.

EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Strategic Management
Vol. 2, No. 2, pp. 56-65: ISSN 2789-4851
Email: info@edinburgjournals.org

Gottschalk—2007—Organizational culture as determinant of enterpris.

Heskett, J., Jr, W. E. S., & Schlesinger, L. (1997). *The Service Profit Chain*. https://www.hbs.edu/faculty/Pages/item.aspx?num=284

Hooley, G., Broderick, A., & Möller, K. (1998). Competitive positioning and the resource-based view of the firm. *Journal of Strategic Marketing*, *6*(2), 97–116.

Hoopes, D.G., Madsen, T. L., and Walker, G. (2003). Why is there a Resource-Based View? Toward a Theory of Competitive Heterogeneity. *Journal of Strategic Management.*

Kamau, M. N. (2019). *Effect of Service Differentiation in Marketing on Performance of Private Universities in Nairobi County*. *7*(10), 26.

Kibithe, T. W., & Chebii, W. C. (2018). Influence of Service Quality Differentiation Strategy on Customer Loyalty in Commercial Banks within Nakuru Municipality. *Journal of Strategic Management*, *2*(2), 62–82.

Kozlenkova I. V, Samaha S. A., Palmatier, R.W. (2014). Resource-based theory in marketing. *Journal of the Academy of Marketing Science*, 1–21.

Makanga, R. O. (2017). Influence of Strategic Management Practices on Performance of Kenya Power and Lighting Company Ltd, Nairobi County, Kenya. *Strategic Journal of Business & Change Management*, *4*(4). https://strategicjournals.com/index.php/journal/article/view/557

Mbugua J. W & Kinyua, G. M. (2020). Service Differentiation and Organization Performance: An Empirical Analysis of Deposit Taking Saccos in Nairobi City County, Kenya. *Journal of Business and Economic Development*, *5*, 5(2) 64-72.

Parasuraman, A., Berry, L. L., & Zeithaml, V. A. (1991). Perceived service quality as a customer-based performance measure: An empirical examination of organizational barriers using an extended service quality model. *Human Resource Management*, *30*(3), 335–364.

Prahalad and Hamel*:* (2020) *Corporations and the Core Competency Concept*. Future of Sourcing. https://futureofsourcing.com/prahalad-and-hamel-corporations-and-the-core-competency-concept

Sekaran, U., & Bougie, R. (2009). Research Methods for Business: A Skill Building Approach (5th Edition). *International Journal of Information Technology and Management - IJITM*.

Tuva J N. (2015). *The Influence of Differentiation Strategy on Performance of Water Bottling Companies in Mombasa County, Kenya*.

Xhavit I., Naim M., & Marija T., (2020). Linking porter’s generic strategies to firm performance.

Singh, A. (2016). Effectiveness Of Distribution Channels (Internet In Service Delivery With References To India. *International Journal of Commerce and Management*, *7*, 34–36.

Wang, H. L. (2014). Theories for competitive advantage. *In Supply Chain Strategies and the Engineer-to-Order Approach* (p. 274).

Wernerfelt, B. (1984). A Resource-Based View of the Firm. *Strategic Management Journal*, *5*(2), 171–180.

Barney (1991). Retrieved August 20, 2020, from https://josephmahoney.web.illinois.edu/BA545_Fall%202019/Barney%20(1991).pdf

KNBS-Economic-Survey- (2020). Retrieved November 17, 2020, from https://s3-eu-west-1.amazonaws.com/s3.sourceafrica.net/documents/119905/KNBS-Economic-Survey-2020.pdf