

## Effect of Distribution Channel on Performance of Cement Manufacturing Companies in Kenya

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### Abstract

The study investigated the effect of distribution channels on the performance of cement manufacturing companies in Kenya using a descriptive survey design. The target population comprised 395 managerial-level staff across cement companies, from which 30% were selected using a two-stage cluster sampling technique, categorized into top and lower management levels. Both primary and secondary data were collected. Instrument validity was ensured through content validation during pilot testing, which involved 20 lower-level management respondents to confirm the questionnaire's suitability. Quantitative data were analyzed using descriptive statistics (frequencies, percentages, means, and standard deviations) to assess response patterns and levels of agreement on Likert-scale items. Inferential statistics, including correlation and regression analysis, were used to examine relationships between variables. The findings revealed a moderately strong and statistically significant positive correlation between distribution channel differentiation and organizational performance. Regression results further confirmed a positive and significant relationship between the variables ( $\beta = 0.362$ ,  $p = 0.000$ ). The study recommends that cement companies establish branches in strategic locations to capture emerging market opportunities and enhance customer education through digital platforms, thereby improving product awareness, particularly in areas without physical branch presence.

**Keywords:** *Distribution channel, performance, coverage, manufacturing companies*

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### 1. Introduction

According to Xhavit, Naim, and Marija (2020), the successful integration of both in-house and external factors is key to achieving high performance in the company. Differentiation can be 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 improving its business ties with consumers, and last, it focuses on the linkages within or between companies, including distribution channels.

Globally, there are over 1,000 cement companies operating over 2,300 integrated cement stations. The cement industry's growth is affected by factors such as population income levels, housing and infrastructure demand, economic growth, and tighter environmental regulations. China is the world's leading producer of cement, accounting for 57 percent of global

production, followed by India, Vietnam, the United States of America, and Indonesia (Edwards, 2020).

Regionally, the largest cement producers are LafargeHolcim, which owns Bamburi Cement and holds shares in East African Portland Cement Company. Dangote Cement from Nigeria has a 45% share of the cement market in Sub-Saharan Africa and operates in Tanzania, Uganda, and Rwanda. Raysut Cement from Oman is interested in buying the struggling ARM Cement as part of its strategy to expand into Kenya. With this, Raysut will shift from supplying clinker to manufacturing cement for its market. Other regional cement companies include Titan Cement in Egypt and the Heidelberg Cement Group in West Africa. Some factors that have led to the growth of cement companies in East Africa include infrastructure development through Public Private Partnerships (PPPs), which have attracted financial support from the World Bank for infrastructure construction (Market Research Report, 2018).

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, and slow demand for cement from the regional construction industry. Cement companies in Kenya have seen a 3% reduction in production, from 6 thousand tonnes in 2018 to 5 thousand tonnes in 2019 (KNBS, 2020), while cement imports increased from 23 thousand tonnes to 26 thousand tonnes over the same period. Some of the leading cement producers include Bamburi Cement, ARM Cement Company, EAPCC, Ndovu Cement, RAI Cement, Rhino Cement, Savannah Cement Company, and Mombasa Cement Company. Design and distribution channels depend on the countries and industries in which a company operates. These channels' characteristics include directness, levels, density, variety, and novelty. The primary aim of distribution channels is to reduce the gap between producers and consumers (Singh, 2016).

### **1.1 Problem Statement**

Despite the construction sector recording good performance, the dynamics don't seem to be favoring the local cement companies, with all listed companies recording declines in operating profits from 2016 to 2019. Their financial reports show that their income has been falling since 2016, resulting in losses, and hence their performance has been declining. The industry experiences declining revenues due to dwindling sales despite ongoing mega public infrastructure projects such as roads, new county headquarters, construction by county governments, renovations of stadiums and bridges, among others. Demand for Cement in the local market is shrinking due to the influx of cheaper Cement from China, Pakistan, and India. Some inferior-quality cement has been flooding the local market, threatening to drive local firms out of business. With profitability declining for cement manufacturers despite the construction industry flourishing, there needs to be a study examining whether the companies apply differentiation strategies to improve their performance, and, if so, which types of strategies they use.

Mbogori, Gichohi, and Moguche (2018) studied innovation and its effect on the financial Performance of Cement Firms in Kenya. They are based on how innovation and technology affect companies' accomplishments. This research aims to determine whether the distribution channel affects cement companies' performance. The research above has revealed the strategies used by various companies to help them survive and remain at the top of the competition. However, none of them has discussed the distribution channel that affects the organizational performance of cement companies amid the changing cement industry. This research remedied this shortcoming by determining how the application of differentiation strategies can influence the performance of cement manufacturing companies in Kenya.

## 1.2 Objectives of the Study

To investigate the effect of the distribution channel on the performance of cement manufacturing companies in Kenya.

## 2. Literature Review

### 2.1 Theoretical Review

Contingency Theory was authored by Burns and Stalker in the 1960s and later built on by Lawrence and Lorsch in 1967. The theory states that the best and most favorable course of action for organizational effectiveness is determined by both the inner and outer environments of the organization or firm, as defined by management. A company contingency includes factors such as technology, suppliers, customers, and consumer groups. Sometimes, the degree of uncertainty in a firm can also be a contingency.

Hambrick and Fredrickson (2005) suggest that each business should find a differentiator that can be a strategic fit for success in the industry. A strategic fit results from a systematic approach that identifies and analyzes external organizational factors and matches them with the firm's capabilities. Lawrence and Lorsch (1967) state that companies should balance differentiation and integration to succeed in a changing business environment. Garlich (2011) suggests that for a company to achieve high performance, there should be alignment between organizational environment, strategy, and organizational structure.

Contingency theory adapts to the organization's situation, allowing managers to adjust policies accordingly. This makes it a preferred choice for many companies operating in a changing industry environment.

According to Lorsch and Morse (1974), a limitation is that when theorists apply unrelated environmental and firm factors, unassociated performance results. The theory is applicable to this study because the cement company's performance depends on the strategic fit chosen in the cement industry's ever-changing environment.

Environmental turbulence is considered an antecedent variable causally related to a firm's strategic choices. To achieve high performance, an organization should choose different distribution channels that meet and satisfy customers' needs in terms of market capacity, revenue, and sales. To build a positive image, the company must be fully aware of its environment and make it part of its corporate strategy. An organization should involve itself in various environmental responsibilities; these actions tend to reduce the production costs it may incur in marketing itself, thereby gaining image benefits. A positive image differentiation strengthens the company's competitive position.

### 2.2 Empirical Review

A channel is an operation set up in which materials move from the supplier to the end user. The setups include manufacturing sites, carriers, suppliers, distribution centers, retailers, and customers (Chesio & Makokha, 2016). The key processes in channel differentiation are customer service, demand management, order fulfillment, production processes, supplier links, research and development, and profit and marketing management. Companies can improve their distribution channels by using advanced technologies or revolutionizing existing methods (Kongmanila & Takahashi, 2009). A company chooses the best channel to avoid procurement risks and improve its performance by increasing product exports and expanding into local markets (Christopher, Peck & Towill, 2006).

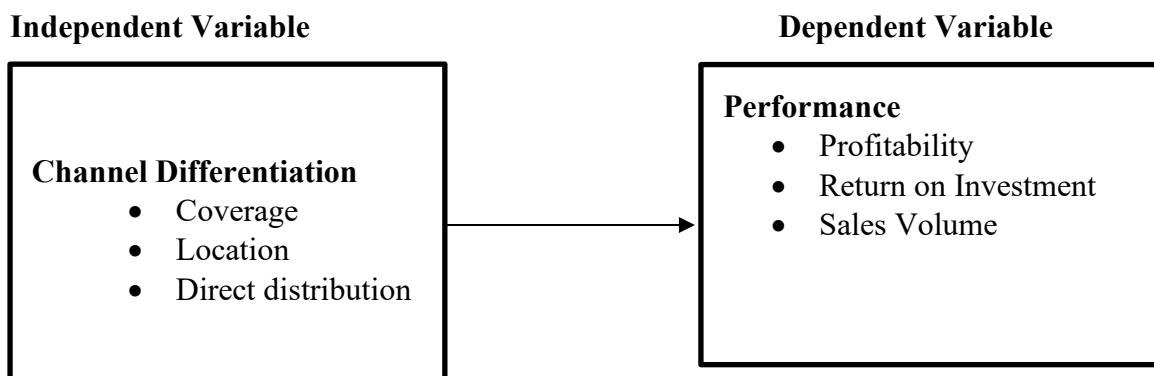
Effective channels reduce order cycle time and the assets needed to deliver individualized customer satisfaction (Banomyong & Supatn, 2011). A channel should be chosen according to its efficiency, control, and adaptability. Leader and Kyritsis (1995) stated that a dispersed market requires the use of wholesalers and retailers to bulk-break and bulk-build products for consumers. Kotler and Armstrong (2010) suggest that companies should practice an intensive distribution strategy by having many outlets in as many areas as possible so as to ensure the marketplace is fully covered.

A study by Dastgerdi (2012) on the impact of distribution-channel innovation on SME performance in Indonesia was conducted. 120 representatives were gathered, and the analysis was conducted using regression, which found that an organization's performance success is positively related to revolution in assortment, information sharing, and coordination in transportation. An investigation by Adimo (2018a) into the relationship between differentiation strategy and the performance of Sameer Africa Ltd was conducted. 134 respondents were selected for the study, using a correlational research design. A collection of primary data was conducted using questionnaires, and the analysis was conducted using descriptive statistics. Findings indicated that superior organizational performance can be achieved through channel differentiation. In other words, there exists a constructive link connecting channel differentiation and performance through customer satisfaction, sales, revenue, and market allocation.

Adegboyega and Box (2017) conducted an evaluation of the effects of channel strategy and marketing on the performance of selected consumer goods firms in Lagos State, Nigeria. A survey research design was used, and 592 participants were included in the sample. Descriptive and inferential statistics were used to analyze the data, and the findings indicated that channel strategy influenced marketing performance.

### 2.3 Conceptual Framework

Figure 1 presents the conceptual framework.



**Figure 1: Conceptual Framework**

### 3. Methodology

The descriptive survey research method was adopted in the study. This design was ideal for the study, as it helped collect data to describe the setting and organization without influencing the results (Maxwell, 2009). The target population comprised all 395 managerial-level staff of cement companies in Kenya. This study used a two-stage cluster sampling technique, in which the population of cement factories was first subdivided into top and bottom management levels. 30 percent of the total population from the eight companies was selected to make up the sample

size. The sample size was also useful for collecting primary data from a geographically dispersed population, as in this study.

The researcher used both primary and secondary data. The primary data collection method for this study was questionnaires and interview schedules administered to respondents. Secondary data was derived from the company's performance reports for a period of five years, the Kenya Bureau of Standards, and Dyer and Blair Investments websites. Validity was assessed through content validity during the pilot testing stage. Pilot testing was conducted to demonstrate that the questionnaire is fit for use. In this study, 20 respondents from the lower-level management were used to collect the pilot data.

Descriptive statistics were used to analyze quantitative data, and the findings were presented in the form of frequency tables and percentages. Means and standard deviations were used to assess agreement levels for the statements on the Likert scale. Furthermore, inferential statistics were used to generate correlation results for models of fitness, analysis of variance, and regression coefficients. The bivariate correlation analysis was used to assess the relationship between the company's performance and the independent variables. Lastly, regression analysis controlled for the effects of the explanatory variables on the company's production.

Qualitative data were scrutinized through content analysis, where the researcher was required to code and classify various responses. The coded information is later run into the Statistical Package for the Social Sciences (SPSS) for analysis, as it can easily be linked to MS Office utility programs. This helped derive the mean and percentages for data analysis of each variable. Once the analysis was complete, the results were dispensed in tables, pie charts, and bar graphs.

## **4. Results and Discussion**

### **4.1 Descriptive Analysis**

#### **4.1.1 Distribution Channel Differentiation and Organizational Performance**

The study examined the effect of distribution channel differentiation on the performance of cement manufacturing companies in Kenya. The mean response rates and the Standard deviations from the respondents were calculated. For ease of interpretation of the study results, 5 and 4 (strongly agree and agree) were grouped together as agree, 2 and 1 (disagree and strongly disagree) were grouped as disagree, and 3 (no opinion) was grouped as no opinion. The results of this study were presented in Table 1.

**Table 1: Distribution Channel Differentiation**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Having a variety of distribution channels, such as wholesalers, retailers, distributors, and online, increases sales volume.	5 (5.6%)	5 (5.6%)	8 (9%)	30 (33.7%)	41 (46.1%)	4.09	1.13
Having a direct distribution channel that involves the manufacturer selling directly to the customer increases customer loyalty	4 (4.5%)	7 (7.9%)	7 (7.9%)	30 (33.7%)	41 (46.1%)	4.09	1.12
Distribution of cement to private, public, and commercial construction sectors increases the company's sales.	2 (2.2%)	12 (13.5%)	7 (7.9%)	27 (30.3%)	41 (46.1%)	4.04	1.14
The convenient location of the distribution channels increases the company's sales.	0.00%	0.00%	0.00%	45 (50.6%)	44 (49.4%)	4.49	0.5
Better resources in the distribution outlets increase the company's sales.	4 (4.5%)	10 (11.2%)	2 (2.2%)	36 (40.4%)	37 (41.6%)	4.03	1.14

Results in Table 1 showed that the majority of respondents (71, 79.8%) agreed that having a variety of distribution channels, such as wholesalers, retailers, distributors, and online, increases sales volume (mean=4.09, std.dev=1.13). This implies that different distribution channels attracted different customers from different parts of the country, thereby increasing sales volume. Further results showed that the majority of respondents (76, 79.8%) agreed that having a direct distribution channel, in which the manufacturer sells directly to the customer, increases customer loyalty (mean=4.09, std.dev=1.12). This implies that having a direct distribution channel enables customers to buy goods directly from producers, thus boosting their confidence and loyalty. In addition, results showed that the majority of respondents (68, 76.4%) agreed that the distribution of cement among the private, public, and commercial construction sectors increases the company's sales (mean=4.04, std dev=1.14). This implies that expanding distribution to all classes of people boosts the company's sales.

Further results showed that all respondents agreed that the convenient location of the distribution channels increases the company's sales (mean=4.14, std dev=0.5). This implies that a convenient location enables most customers to access the products easily, thus increasing sales. Further results showed that most respondents (73, 82.0%) agreed that better resources at distribution outlets increase the company's sales (mean=4.03, std dev=1.14). This implies that better resources attract more customers, thereby boosting the company's sales.

#### 4.1.2 Descriptive Statistics of Organizational Performance

The descriptive results for organizational performance were displayed in Table 2.

**Table 2: Organizational Performance**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Disagree	Mean	Std.Dev
The company's profitability has increased, which could be attributed to its 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, which could be attributed to its 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, which could be attributed to its use of differentiation strategies.	4 (4.5%)	4 (4.5%)	5 (5.6%)	32 (36%)	44 (49.4%)	4.21	1.05
Average						4.1	1.0

The outcome in Table 2 shows that a large proportion of the population (73, 82.0%) agreed that their company's profitability had increased, which could be attributed to the use of differentiation strategies (Mean=4.10, Std.dev=1.03). This implies that the use of differentiation strategies enhanced company profitability. Further results showed that the majority of respondents (70, 78.6%) reported that their company's sales volume had increased, which could be attributed to the use of differentiation strategies (Mean=3.98, Std.dev=1.18). This implies that the use of differentiation strategies increased company sales. To add to these, results revealed that most respondents (76, 85.4) concurred with the remark that their company's return on investment had increased, which could be attributed to the use of differentiation strategies (Mean=4.21, Std.dev=1.05). This implies that the use of differentiation strategies enhanced company ROI.

#### 4.2 Correlation Analysis

To understand the relationship between the independent variables and the dependent variable, a correlation analysis was performed to assess the strength of the association. Results were presented in Table 3.

**Table 3: Correlation Results**

		Organizational Performance	Distribution channel distribution
Organizational Performance	Pearson Correlation		1
	Sig. (2-tailed)		
Distribution channel distribution	Pearson Correlation	.566**	1
	Sig. (2-tailed)	0.000	

Results in Table 3 showed that distribution channel differentiation was positively and significantly correlated with organizational performance ( $r=0.566$ ,  $p=0.000$ ). This implied that distribution channel differentiation was moderately strongly positively correlated with organizational performance. The study findings agreed with Adegboyega and Box (2017) whose findings indicated that channel strategy influenced marketing performance.

### 4.3 Regression Analysis

Regression analysis was one of the inferential statistics used to assess relationships between variables. It showed the relationship between distribution channels and the performance of cement manufacturing companies. Regression coefficients are presented in Table 4.

**Table 4: Regression of Coefficient**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.2	0.383		-3.132	0.002
Distribution channel distribution	0.362	0.086	0.275	4.215	0.000

Regression results showed that distribution channel differentiation and cement companies' performance were positively and significantly related ( $\beta = 0.362$ ,  $p = 0.000$ ). This implied that an improvement in distribution channel differentiation with one unit would increase cement companies' performance by 0.362. The study findings agreed with Dastgerdi, (2012) who found that distribution-channel innovation significantly affected SME performance in Indonesia.

$$Y = -1.2 + 0.362 X + \epsilon$$

Where:

$Y$  = Firm Performance,  $x$  = Channel Differentiation,

### 5. Conclusion

Correlation results showed that distribution channel differentiation is moderately strongly and significantly positively correlated with organizational performance. In addition, regression results showed a positive and significant relationship between distribution channel differentiation and organizational performance. Further, having a variety of distribution channels, such as wholesalers, retailers, distributors, and online, increases sales volume. Targeting all sectors of the economy as potential customers increases the company's sales volume. Having a convenient location for distributing products to customers also increases the company's sales.

### 6. Recommendations

The cement company's management should consider opening branches in strategic locations to tap into Kenya's growing market. Further, they can increase customer education on their online and digital platforms to improve understanding of product use and reach customers without physical branch locations.

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