

**GAINING SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH SERVICE
DIFFERENTIATION AMONG PRIVATE HOSPITALS IN NAIROBI**

BY MAUREEN ATIENO ANYIM

D61/72720/2009

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS OF THE MASTER OF BUSINESS ADMINISTRATION OF THE
UNIVERSITY OF NAIROBI**

OCTOBER, 2012

DECLARATION

I hereby declare that this is my original work and has not been presented in this or any other University for the award of a degree.

Maureen Atieno Anyim

D61/72720/2009

Sign: -----

Date: 01/11/2012-----

SUPERVISOR

This work has been submitted with my approval as University supervisor
Dr. Raymond Musyoka (Department of Business Administration, University of Nairobi)

Sign: -----

Date: 08/11/2012-----

DEDICATION

This work is dedicated to my dearest parents, my loving husband Justus and loving son Kyleman

ACKNOWLEDGEMENT

I am indeed indebted and grateful to School of Business, University of Nairobi for the opportunity and support provided during the entire period of my studies. Besides, I would like to express my sincere gratitude to my supervisor Dr. Musyoka Raymond for his invaluable and tireless efforts in guiding me through this work.

I register my appreciation to my parents Mr. and Mrs. Anyim whose prayers, encouragement and advice during difficult times enabled me reach this far. Special thanks go to all my MBA colleagues for their support, assistance and comradeship during the entire program. My sincere appreciation goes to the management of the respondent hospitals who allowed data collection to be done within their institutions.

Last but not least, I want to thank my friends, family and colleagues for their emotional, prayers, encouragement and material support during this period. God bless you all.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
ABSTRACT	viii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.1.1 Service Differentiation	2
1.1.2 Sustainable Competitive Advantage	2
1.1.3 The Medical Sector in Kenya	3
1.1.4 Private Hospitals Sector in Kenya	4
1.2 Statement of problem	5
1.3 Objectives of the study	6
1.4 Importance of study	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.2 Meaning of Services	7
2.2.1 Characteristics of services	7
2.2.2 Service Quality	9
2.3 Differentiation strategy	9
2.4 Service Differentiation Strategies	10
2.4.1 Service offering	10
2.4.2 Service delivery	11
2.4.3. Corporate Image	13
2.5 Challenges of adopting service differentiation strategies	14
2.6 Competitive Advantage	15
2.7 Sustainable Competitive Advantage	15
2.7.1 Conditions for Sustainable Competitive Advantage	16
2.7.2 Performance Outcomes of Sustainable Competitive Advantage	17

CHAPTER THREE	18
RESEARCH METHODOLOGY	18
3.1 Research Design	18
3.2 Sampling Procedure	18
3.3 Data collection	18
3.4 Data Analysis	18
3.5 Operationalizing Service Differentiation Dimensions	19
CHAPTER FOUR	21
DATA ANALYSIS AND INTERPRETATIONS	21
4.1 Introduction	21
4.2 Socio-Economic Characteristics of the Respondents	21
4.2.1 Respondents age and gender	21
4.2.2 Education level of the respondents	22
4.2.3 Respondents Income Level	22
4.3 Service Differentiation Strategies and Dimensions	23
4.3.1 Extent to which service delivery influence customer satisfaction	23
4.3.2 The extent to which service people are used in service differentiation	25
4.3.3 Influence of physical facilities on customer satisfaction and loyalty	26
4.3.4 Influence of service processes on customer satisfaction and loyalty	27
4.4 Duration of being a customer with the private hospital	28
4.5 Family seek medical services in the hospital	28
4.6 Willingness to recommend the hospital to a friend	29
4.7 Challenges faced by customers	29
CHAPTER FIVE	31
DISCUSSION, CONCLUSION AND RECOMMENDATIONS	31
5.1 Introduction	31
5.2 Discussion	31
5.3 Conclusion	33
5.4 Recommendations	34
5.5 Recommendations for Further Research	34
REFERENCES	35
APPENDIX 1: RESEARCH QUESTIONNAIRE	41
APPENDIX 2: LIST OF HOSPITALS	46

LIST OF TABLES

Table 4.1: Respondents age and gender.....	21
Table 4.2: Education levels of the respondents	22
Table 4.3: Respondents Income Level.....	22
Table 4.4: The extent to which service delivery influence customer satisfaction	24
Table 4.5: The extent to which service people are used in service differentiation	25
Table 4.6: The Influence of physical facilities on customer satisfaction and loyalty	26
Table 4.7: Influence of service processes on customer satisfaction and loyalty	27
Table 4.8: Duration of being a customer with the private hospital.....	28
Table 4.9: Family seek medical services in the hospitals	29
Table 4.10: Willingness to recommend the hospital to a friend	29
Table 4.11: Challenges faced when seeking medical services	30

ABSTRACT

Competition in both private and public hospitals in Kenya has become stiff. Hospitals therefore need to differentiate their services to remain competitive. Private hospitals especially have a challenge just like any other organization (profit or not for profit) of matching consumer preferences, providing quality service, managing productivity, controlling costs and by so doing capturing and maintaining their customers. They depend entirely on the fees they collect from their clients for survival. The study objectives were to determine how private hospitals have gained competitive advantage through service differentiation. The specific objectives included a study on how these service differentiation strategies have contributed to customer satisfaction and loyalty. It was also a survey of the challenges customers face while seeking medical services from these private hospitals. This study was a descriptive survey. The population of study was private hospitals in Nairobi. The sample of interest included 30 out of the 64 private hospitals in Nairobi, according to Kenya Medical and Dentists Practitioners Directory 2012. Primary data was collected using structured questionnaires. The target respondents were the customers seeking medical services from these hospitals.

Data was analyzed using descriptive statistics by SPSS software. The findings indicated that service delivery as one of the service differentiation strategies was widely practiced to a great extent consistently across the industry hence contributed to customer satisfaction and loyalty. Other factors were service people, service processes and physical facilities; contributing to a great extent to customer satisfaction and loyalty. This implied that most of the patients with their families sought medical care in these private hospitals and were very willing to recommend these private hospitals to their friends. The main challenges faced by patients while seeking medical services from these private hospitals were long waiting time and high costs of services. It is therefore recommended that the hospitals should ensure that the patients are attended to in the shortest time possible so that can have value for their money and these can be achieved by the hospitals employing sufficient staff. The limitation of this study was that the survey was based on only private hospitals in Nairobi. A more regional representation would have provided better results. The researcher recommended that a study should be conducted to cover both private and public hospitals in Kenya as well as health management organizations (HMOs).

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The World economy is being shaped by several forces among them; advances in Science and Technology, Global Redistribution of Knowledge, Power, and Wealth, Competing Political, Cultural, and Religious Ideologies, and Sustainability of the Physical Environment. As a result of these forces, the customer is now empowered with information and has a wide range of choices. Organizations now face new marketing challenges with customers growing more sophisticated, price sensitive, short of time, wanting more convenience and having high service expectations (Kotler, 1985). These global force define how organizations must interact with customers and respond to competitors in order to achieve sustained business performance. Organizations must therefore adapt themselves to the empowered customer by implementing strategies that can sustain them in this competitive environment such as differentiation, cost leadership, diversification, and new product development among others.

The service sector has grown tremendously and services now form the dominant sector of most western economies and comprising about three-quarters of all employment in the USA, UK, Canada and Australia (Zeithaml and Bitner, 1996). According to Philip Kotler (1997) service is an action or an activity which can be offered by a party to another party, which is basically intangible and cannot affect any ownership. Service may be related to tangible product or intangible product. Service organizations range in size from huge international corporations in such fields as airlines, banking, insurance, telecommunications, hotel chains and freight transportation to a vast array of locally owned and operated small businesses including restaurants, taxis, laundries and hospitals among others (Lovelock, 1991).

Lovelock (1991) observes that the service sector is going through a period of revolutionary proportions in which established ways of doing business continue to be shunted or put aside. Innovative new comers offering new standards of service have succeeded in markets where established competitors have failed to please today's demanding customer.

In this competitive environment a firm succeeds in competing by becoming different from its competitors in a way that is recognized and appreciated by its potential clients (Looy et al,

1998). Kotelnikov (2004) asserts that with enormous competition, markets today are driven by choice. Choosing among multiple options is always based on differences, implicit or explicit, so firms ought to differentiate in order for a customer to choose their product or service.

1.1.1 Service Differentiation

Porter (1980) asserts that differentiation is one of the generic strategies that a firm can use to leverage its strengths. Others are cost leadership and focus strategies. It's easier in products where the variables are tangibles but pretty different in case of services. When the physical product cannot be differentiated easily, the key to competitive success may lie in adding valued services and improving their quality. This is the outlook of service differentiation.

From a customers' point of view, service value is a function not only of cost to the customer but also of results achieved for the customer. Value is relative because it is based on perceptions of the way a service is delivered and on initial customer perception. Since value varies with individual expectations, efforts to improve value inevitably require service organizations to move all levels of management closer to the customer and give front line service employees the latitude to customize a standard service to individual needs.

Kotler (2003) says that firms can differentiate their services by using service offer, service delivery and image. Doyle (1998) asserts that service differentiators are hard to copy because they depend on a deep rooted culture of the organization. Like any other strategy, service differentiation strategy has a number of challenges. These include: lack of patent protection, difficulties in controlling customer interface, problems in motivating customers in new innovations and difficulties in improving productivity among others (Doyle, 1998). Regardless of the size, industry, sector or geographical location of an organization, the benefits of excellent service soon becomes evident. Improved staff morale, increased productivity and improvements in overall business strategy are all possible from the implementation service quality initiatives.

1.1.2 Sustainable Competitive Advantage

A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.(Barney,1991).Sustainable Competitive Advantage is the prolonged benefit of

implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy (Barney,1991)

Barney (1991) states that not all firm resources hold the potential of Sustainable Competitive Advantage; instead, they must possess four attributes: rareness, value, inability to be imitated, and inability to be substituted. Similarly, Hunt and Morgan (1995) propose that "potential resources can be most usefully categorized as financial, physical, legal, human, organizational, informational, and relational". Prahalad and Hamel (1990) suggest that firms combine their resources and skills into core competencies, loosely defined as that which a firm does distinctively well in relation to competitors. Therefore, firms may succeed in establishing an Sustainable Competitive Advantage by combining skills and resources in unique and enduring ways. By combining resources in this manner, firms can focus on collectively learning how to coordinate all employees' efforts in order to facilitate growth of specific core competencies.

1.1.3 The Medical Sector in Kenya

Kenya has a pluralistic health system whereby health services are offered by the government and a host of non-governmental providers which includes religious organizations, the for-profit private sector, pharmacies/chemists, traditional healers and community health workers. A further classification of private health providers by type include: hospitals, health centers and sub-health centers (Berman et al 1995). Kenya has both public (NHIF) and private health insurance; the latter is a growing industry but is still limited to urban areas and those employed in the formal sector.

According to MOH (Ministry of Health) records of 2004, Kenya has 4214 health facilities out of which 218 are hospitals, 575 are health centers, 3421 health sub centers and dispensaries. Of this total, 2149 are government institutions, 845 are NGO operated and 1220 are private institutions. Most of the private hospitals are concentrated in urban cities while mission and government ones are distributed throughout the country (NHSSP 1999-2004).Facilities identified as hospitals in Kenya vary enormously in size ,range and quality of services provided. Hospitals are expected to provide both curative inpatient and outpatient care.

1.1.4 Private Hospitals Sector in Kenya

Private healthcare system in Kenya has grown tremendously over the last two decades due to various reasons, among them lack of adequate and quality public healthcare services and introduction of user fees. This growth can also be associated with the health sector reforms undertaken in the 1980s and 1990s when the government relaxed the licensing and regulation of private healthcare providers and also relaxed the prohibition of public sector personnel from working in private practice (Hursh-Cesar et al, 1994). The reform measures implemented by the government called for greater involvement of the private sector in the economy. These reforms were a result of fiscal constraints that compelled the government to reduce overall expenditure, including budgetary allocations to the health sector, and therefore the need to encourage private healthcare providers to expand and play a greater role in healthcare provision.

Although the relaxation of government policies, regulations, and licensing procedures in the health sector seems to have encouraged growth in private healthcare provision, most of these providers are concentrated in urban areas (Hursh-Cesar et al, 1994). Also, the laws and regulations in private healthcare provision tend to be weakly enforced and show large gaps in application. Nevertheless, the nonrestrictive policy environment towards private provision of healthcare services has, among other factors, contributed to the rapid expansion of the Kenyan health system. Health Management Information Systems (Government of Kenya, 2001a) indicates that non-governmental organizations, private, and mission organizations account for 47% of all health facilities in Kenya.

In his study on the industry forces of the private hospitals, Gakombe (2002) found out that a high degree of competition exists in the industry. This was due to competitive forces of rivalry among players and the bargaining power of customers, which had increased. There were new entrants into the industry who included for-profit providers, medical centers, nursing homes, herbal therapy among others. Coddington et al (1985) observes that hospitals are responding to these competitive forces through strategic alliances, integration through diversification of hospitals into health insurance, setting of consultant wings on hospital grounds, shift of control of hospitals from doctors to professional managers, market segmentation and development of specialized services.

1.2 Statement of problem

Hospitals have been viewed as an important component of the healthcare system and are central to the process of reforms, and yet as institutions, they have received remarkably little attention from policy makers and researchers (Mckee and Healy,1999).If hospitals are ineffectively organized, however, their potentially positive impact on health will be reduced or even be negative. One of the strategies a firm can use in a competitive market is differentiating its market offering. Kibiru(2001) quotes Kotler (1999) as saying that a research on different marketing strategies carried on over twenty years in three thousand businesses revealed that differentiation is a more superior strategy than other marketing strategies for achieving competitive advantage.

Private hospitals have a challenge just like any other organization (profit or not for profit) of matching consumer preferences, providing quality service, managing productivity, controlling costs in order to capture and maintain their customers. They depend entirely on the fees they collect from their clients for survival. In addition to the above challenges, hospitals have been prohibited by the law and professional code of ethics from aggressively advertising their services all over the world (Muhia , 2001) It is necessary for private hospitals to adopt service differentiation strategies to gain competitive advantage in health care sector in Kenya. It is however not known which service differentiation strategies the private hospitals in Nairobi have adopted and the main challenges faced in their efforts to attract new and maintain the old customers.

Studies by Mwindi (2003), Goro (2003), Gitonga (2003) and Migunde (2003) were mainly based on the generic strategies in general that companies may adopt to achieve competitive advantage in response to changing environment. In the hospital industry, Gakombe (2002) and Muhia (2001) focused on strategic choices and advertising practices adopted by private hospitals in Nairobi respectively. Studies that have been conducted on differentiation was by Kibiru(2001).However, emphasis was on chemical fertilizers ,which are tangible products and not services. According to Kotler (2003), other product differentiators are easy to copy. This study seeks to examine how hospitals in Nairobi can use service differentiation strategies to achieve competitive advantage in order to adapt to changes in rising expectations of their customers. This would go a long way in enabling them to achieve business objectives.

1.3 Objectives of the study

The general objective of the study was to determine service differentiation as a phenomenon among private hospitals in Nairobi in order to assess the extent to which service differentiation can be used to gain sustainable competitive advantage in the private hospital sector.

Specific objectives of this study:

- a) To determine the extent to which service differentiation has contributed to customer satisfaction in private hospitals in Kenya.
- b) To determine the extent to which service differentiation has contributed to customer loyalty
- c) To determine the challenges that customers face as they seek medical services from private hospitals

1.4 Importance of study

This study could help management in both private and public hospitals to have knowledge on how differentiation strategies can enhance their competitiveness. It also helps investors interested in getting into the industry to gain knowledge on how to compete. Scholars and Researchers will be able to use this study as a source of reference for further studies. It will also help policy makers in allocating funds for the general improvement of health sector in Kenya.

This study will also help the consumers in making better decisions on which service providers/private hospitals to choose.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses in detail the meaning and characteristics of service. It also discusses service quality and the strategies companies can use to differentiate their services. It further presents competitive advantage and how companies can gain sustainable competitive advantage. Finally, the conditions of gaining sustainable competitive advantage and the performance outcomes of sustainable competitive advantage have been elaborated.

2.2 Meaning of Services

Kotler (2003) defines services as 'any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product'. Services are the core offerings of hospitals, hotels, banks and utilities comprise primarily of deeds and actions performed for customers. Zeithaml and Bitner (1996) say that the broad definition of services implies that intangibility is a key determinant whether an offering is or is not a service. Services are produced not only by service but service businesses but are also integral to the offerings of manufactured goods producers, for example car manufacturers offer warranties and repair services for cars.

2.2.1 Characteristics of services

Doyle (1998), Zeithaml and Bitner (1996) and Palmer (2001) all articulate that services have a number of distinctive characteristics that differentiate them from goods and have implications in their marketing. These characteristics are intangibility, inseparability, variability, perishability and ownership.

Intangibility: Palmer (2001) and Bitner (1996) all articulate that services, unlike physical products cannot be seen, tasted, felt, heard or smelled before they are bought because they are performances rather than objects. They are an experience or process. For example healthcare services like examination, diagnosis, surgery and treatment are performed by healthcare providers and directed towards patients. These services cannot be seen or touched by the patient although the patient may be able to see and touch certain tangible components of the service like equipment and hospital room. In making choices, buyers will look for evidence of service quality from the place, people, equipment and communication materials, symbols and price that they see. Palmer (2001) says that marketers have to reduce service complexity,

stress on tangible cues like communication materials, symbols, equipment, place and people. Gronroos (1990) asserts that the perceived quality of service delivery and its outcome against what they expected.

Inseparability: Services are typically produced and consumed simultaneously, while physical goods are manufactured, put in inventory, distributed through multiple sellers and consumed later. Owing to inseparability of services, customers become co-producers and co-consumers of the service with other consumers and often have to travel to the point of service production. For example the doctor cannot produce the service without the patient being involved in the production. Palmer (2001), Zeithaml and Bitner (1996), say that this characteristic provides opportunities to 'customize' services. One of the key strategic issues for many marketers is to determine the circumstances under which customization or standardization should apply. Iron (1995) says that in a service business, you live with your customers since they partly shape the service delivery and influence how your business is run and managed. The service provider thus has to attempt to separate production and consumption, manage the interaction of the customer and the producer and improve service delivery systems.

Variability: Palmer (2001) says that services are highly variable because they depend on who provides them, where and when they are produced. Services are produced in real time and often there is no chance to correct mistakes before consumption as they rely on fallible human inputs. No two services or customers are precisely alike; they each have unique demands or experiences. A company must put emphasis in quality control by recruiting the right people, standardizing the service performance process and monitoring customer satisfaction through suggestion and complaint systems and customer surveys (Palmer, 2001)

Perishability: Zeithaml and Bitner (1996), Palmer (2001), Rust et al (1996) and Doyle (1998), all agree that services cannot be resold, inventoried or returned since they are performed in real time. The perishability of services is not a problem when demand is steady, only when it fluctuates. Unfortunately for most services demand fluctuates creating major peak load problems. Failure to meet peak demands creates great customer dissatisfaction. Therefore service providers must adopt strategies to match demand and supply. The fact that they cannot be returned or resold implies a need for strong recovery strategies when things go wrong (Palmer, 2001).

Ownership: This is the inability to own a service and is related to intangibility and perishability. When a service is performed, no ownership is transferred from seller to the buyer. A customer has only personal access to service and for a limited time. This has implication to the design of distribution channels. In service companies, distribution is more direct and if intermediaries are used, they generally act as co – producers with the service provider. The service provider has to stress on the benefits of non-ownership, for example, less risk of capital and create membership association to provide the appearance of ownership. Given the above unique characteristics, Kotler(2003) says that service companies face three tasks: competitive differentiation, productivity and service quality, and that all these interact.

2.2.2 Service Quality

Service quality is the single most effective and sustainable means of differentiation between competing companies (Reid, 2001).Palmer (2001) says that the level of quality to which a service is designed is a crucial element in the total service offering. Quality is an important factor used by customers to evaluate the services of one organization in comparison to the offerings of other organizations. Ozmet and Morash (1994) asserts that service quality has been used as a viable strategy for marketers endeavoring to differentiate service offerings ,establish customer value and ultimately satisfy customer needs. Swan and Combs (1976) and Gronroos (1984) identified technical and functional quality as being two principal components of quality. Technical quality refers to the relatively quantifiable aspects of a service which consumers receive in their interaction with the service firm while functional quality is concerned with how technical quality is delivered to them.

2.3 Differentiation strategy

Johnson and Scholes (2002) defines Strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations (Johnson and Scholes, 2002).One method of identifying and selecting strategies is to identify those activities which give an organization competitive advantage over its competitors.

In order to achieve sustainable competitive advantage, two distinct conditions should be met. The first one is differentiation in important attributes. Customers perceive a consistent difference in important attributes between the firms offerings verses that of its competitor.

The second distinct condition is the direct consequence of a capability gap between the firm and its competitors. An advantage is durable only if competitors cannot readily imitate the firm's superior product/delivery attributes.

In 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. One way in which to gain advantage over competitors is by offering greater quality services relative to price than their competitors. 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. Sometimes a firm could differentiate itself through some perceived edge on intangibles like corporate image, its brand name or foreign collaborator's name (Porter, 1985).

2.4 Service Differentiation Strategies

Service firms can differentiate their services by using three distinct service dimensions :service offerings, service delivery and Image (Kotler,2003).Iron (1995) asserts that since service is a process, value has to be related to the discontinuities within this process – the interactions and the factors that build to these- the critical experiences. A firm should go beyond providing threshold values (essential in gaining market entry) and provide incremental values (customers see as providing distinction).

2.4.1 Service offering

Service organizations can differentiate their service offering using features of their as service culture, packaging and buyer – seller relationships. Most service offers can be analyzed in terms of differentiating features, for example, insurance companies offer different insurance policies to different customer segments with different needs. Other features may be ease of access for example by telephone, internet or local branches.

Palmer (2001) says that using styling as a differentiator means giving the product a distinctive look. The style of service is as a result of combination of features, including tangible décor and the intangible manner in which front – line staff interacts with customers. This is referred to as service culture of the organization (Iron, 1995).Culture gives direction to some extent towards common goals. Culture is a key part of what the customer buys and the reason for their choice or satisfaction. The values of the organization should be well communicated

throughout the organization so that they can be internalized, owned and the right calibre of employees be hired.

Packaging can also be used to give a service offering a distinctive look. A service offer can be packaged using tangible and intangible elements bundled together ,for example a hospital may package specialized clinic offer to include scans or a restaurant may include a home delivery service in its service package.

Ongoing buyer-seller relationship is another basis of differentiation that a service offering can be distinguished. An ongoing relationship between a service provider and its customers is often a key feature of a firm's service offering. Iron (1995) says that services are relationships and that successful services are successful relationships. This ongoing relationship is what is termed as relationship marketing. Payne and Ballatyne(1994) says that marketer's challenge is to bring service quality ,customer service and marketing into close alignment , leading to long-term and mutually beneficial customer relationship. Service providers benefit from these arrangements because they are guaranteed stable, long-term customer loyalty, customer satisfaction and profitability. Strategies for relationship marketing include providing what is promised and keeping to contacts, building learning relationships with customers and rewarding them.

2.4.2 Service delivery

According to Palmer (2001), just as delivery can be an important differentiator for goods, it can be equally important for a service. Because services are intangible, customers are searching for evidence of service in every interaction with an organization. Differentiating of the service delivery entails managing these interactions which are the building blocks of customer's satisfaction and service quality (Zeithaml and Bitner, 1996). The service delivery system consists of visible elements of the service operating systems and may include services facilities, equipment, personnel and even other customers

Service people in a service organization consist of employees and other customers. Zeithaml and Bitner (1996) points out that employees are an important element of the service offer as they affect service quality perceptions through their influence on the five dimensions of service quality: Reliability – delivery of service as promised; Responsiveness – through their personal willingness to help and their promptness in serving customers; Assurance –

employers ability to communicate their credibility and to inspire trust and confidence; Empathy – employees paying attention, listening, adapting and being flexible when delivering what individual customers need. Employee's appearance and dress are important aspects of the tangibles dimensions of quality.

Firms should strive to hire the right people, develop their employees to deliver quality services while providing needed support systems and retaining the best people. Heskett(1987) refers to the 'quality wheel' where highly motivated employees deliver high quality service which in turn leads to satisfied customers, more business and add on to employees' satisfaction and enhanced motivation.

Service delivery can also be differentiated using physical evidence/environment in which the service is delivered and tangible commodities that facilitate performance or communication of the service. Lovelock (1991) asserts that as a powerful differentiator, changes in physical environment can be used to reposition a firm and or attract a new market segment. Signage's, colours used in decoration and displays, signals the intended market segment. The design of a physical setting can also differentiate one area of service from another and this is used to achieve price differentiation. Management should think strategically about the tangible evidence of service by planning it as part of the marketing strategy as this will influence the choice, expectations, satisfaction and other behaviors of customers. This will increase employee productivity, motivation and satisfaction.

The process of service delivery can also be a basis of differentiation. Iron (1995) points out that it is vital that technology be seen as part of the service, as a method of service delivery rather than a method of administration, if it is not to be seen as a barrier between the business and the customer. Organizations focusing on delivery of quality service must manage demand and capacity of their service delivery, that is they may strive to balance capacity utilization and demand at an optimum level in order to meet customer expectations (Palmer,2001). Lovelock(1991) asserts that where it is not possible to align supply and demand, the inevitable result is customer waiting strategies for effectively managing waiting lines which include employing operational logic, establishing customers and process, differentiate waiting customers and make waiting fun or at least tolerable. Service recovery strategies include offering service guarantees that offer unconditional guarantee of satisfaction, refund or credit

in the event of dissatisfaction, training on complaint handling and management, empowerment of frontline personnel to take remedial action and strategies of learning from customers' complaints.

2.4.3. Corporate Image

Lovelock (1991) asserts that a service firm's corporate image plays a role in defining customer's perception of quality since it is based on both technical and functional quality. Customers build up an image of quality service through their personal contacts with the service provider's products and staff. According to Palmer (2001), service companies can differentiate their image through branding and positioning.

Dibb et al (1997) defines a brand as a unique set of tangible and intangible added values that are perceived and valued by the customer. The purpose of branding is to identify products as belonging to a particular organization and to enable differentiation of its products from those of its competitors. Most brand offerings are branded using the providers corporate image while there are cases where the service itself is branded or there is a hierarchy of brands and sub-brands representing both corporate identity and service specific identity; for example M-pesa by Safaricom Limited. Berry (1980) state that competitive advantage can be gained by making the service more touchable or easily understood. Some of the strategies include strong visual symbols, concrete specific language. For example Kenya Breweries Limited uses a logo of a lion to symbolize power and strength while other companies that use relevant tangible cues like "we are you" by Cooperative bank giving a sense of understanding and belonging to their customers.

Service companies can also differentiate their image through distinct positioning especially as competition intensifies in the service sector. Specifically firms should be selective in targeting customers and distinctive in the way they present themselves. A market consist of people with distinctive characteristics and needs, hence a service firm should select a target segment not only on the basis of their sales and profit potential but also with the firm's ability to match or exceed competing offering directed at the same segment (Lovelock,1991).

2.5 Challenges of adopting service differentiation strategies

According to Doyle (1998) there are various challenges that are faced by service firms that adopt service differentiation strategies. One of them is integrated marketing and operations approach found in most service firms. In manufacturing firms, marketing and production decisions are usually taken by separate functional managers while in service firms, Unit managers like bank managers and hospital administrators are normally responsible for both marketing and operational activities. Marketing activities can often be crowded out by operational problems of keeping the bank or the hospital functioning efficiently. Doyle (1998) says that the fact that there is no tangible product differentiation also poses a challenge in service firms. Unlike in physical good marketing, services cannot be displayed. For example, a prospective buyer of a management consultancy service cannot see which of the alternative suppliers look most attractive.

Another challenge is the lack of patent protection which makes it easy for service advantages generated by innovation systems or layouts to be easily copied. As a result, it will be easy for new competitors to enter or encode the differential. In addition Doyle (1998) says that innovation poses another challenge in that service innovations normally have the added problem of requiring customers to change their behavior, for example when automated teller machines were introduced, customers had to be motivated to use cash dispensers and learn how to use them. It is also difficult to control customer interface hence consistent performance in quality is hard to obtain because it depends upon the unpredictable, behavior of individual customers and employees. A consistent brand image is not easily built.

Palmer (2000) says that mass production of services is impossible hence making growth difficult. Scale economies in producing services can rarely be achieved. Growth normally requires setting up of small, autonomous factories and attracts more 'general' managers. Related to the challenge of growth is that of improving productivity. Services are hard to automate without bringing down the service quality. When services are automated, control is lost on service delivery and quality, like in the case of ATM machines, which are impersonal and have limited interaction with the customer. Heskett et al (1994) says that the challenge is to find a balance between increase in customer throughput and perceived service quality. Generally service firms have more restrictive regulations than manufacturers in what they can do or say about their business. This is especially for professional service so far for

professional services like legal and hospital services where their professional code of ethics limits the extent to which they can advertise the services.

2.6 Competitive Advantage

The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Christensen and Fahey 1984, Kay 1994, Porter 1980). The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player, (Barney 1991). These unique skills and assets (resources) are referred to as sources of competitive advantage in strategy literature. Competitive advantage can result either from implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors (Barney, McWilliams, and Tirk 1989; Barney 1991) or through superior execution of the same strategy as competitors.

Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Passemar and Calantone 2000). To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage (Reed and Fillippi 1990). Superior performance outcomes and superiority in production resources reflects competitive advantage (Day and Wesley 1998).

2.7 Sustainable Competitive Advantage

Barney (1991) defines sustainable competitive advantage as a long-term competitive advantage that is not easily duplicable or surpassable by the competitors. The superior performers conceivably possess something special and hard to imitate that allows them to outperform their competitors. Sustainability is achieved when the advantage resists erosion by competitor behavior (Porter, 1985).

2.7.1 Conditions for Sustainable Competitive Advantage

A number of studies have explored the conditions under which a business's competitive advantage is sustainable (Barney 1991; Coyne 1985). Barney lists four essential requirements for a resource/skill to be a source of Sustainable Competitive Advantage:

- a) It must be valuable
- b) It must be rare among a firm's current and potential competitors
- c) It must be imperfectly imitable
- d) There must not be any strategically equivalent substitutes for this resource/skill

Firm resources and skills are considered valuable when they aid a firm in formulating and implementing strategies that improve its efficiency and/or effectiveness. However, if certain resources/skills are possessed by a large number of present or potential competitors, they cannot be a source of Sustainable Competitive Advantage. Valuable and rare organizational resources/skills can be sources of Sustainable Competitive Advantage only if firms that do not possess these resources cannot obtain them (as a direct consequence of a capability gap [Coyne 1985], the critical resources being imperfectly imitable [Lippman and Rumelt 1982; Coyne 1985; Barney 1986a; 1986b]). The final requirement for a resource/skill to be a source of SCA is that the resource/skill be non-substitutable.

Substitutability can take two forms. If a competitor cannot duplicate a firm's resources/skills exactly, but can substitute similar resources that enable it to formulate and implement identical strategies and use very different resources/skills as strategic substitutes (Barney 1991), then a resource/skill cannot be a source of Sustainable Competitive Advantage. Coyne (1985) points out that, not only must a firm have a skill or resource that its competitors do not have (i.e., there must be a capability gap), but also the capability gap must make a difference to the customer. In other words, for a business to enjoy a Sustainable Competitive Advantage in a product-market segment, the difference(s) between the firm and its competitors must be reflected in one or more product/delivery attributes that are key buying criteria. Furthermore, in order for a competitive advantage to be sustainable, both the key buying criteria and the underlying capability gap must be enduring. Additionally, in the face of changes in key buying criteria, the sustainability of a business's competitive advantage would depend on its ability to adapt to these changes and/or influence key buying criteria (Boulding et al. 1993; Hamel and Prahalad 1991; Treacy and Wiersema 1993).

2.7.2 Performance Outcomes of Sustainable Competitive Advantage

Sustainable Competitive Advantage can be expected to lead to superior market place performance (e.g., market share, customer satisfaction) and financial performance (e.g. return on investment, shareholder wealth creation). Accounting ratios and market measures constitute two broad indicators of a business's financial performance. However, they have been criticized for their inadequate handling of intangibles and improper valuation of sources of competitive advantage (i.e., allocating historic and current costs to satisfy tax requirements [Day and Wensley 1988]). Financial performance measures characterized by a future orientation (e.g., shareholder value creation potential) though not entirely free of shortcomings are generally viewed as more appropriate for evaluating the desirability of planned investments in defensible positional advantages. In this study, customer satisfaction will be the major performance measures to be used.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study was a descriptive survey which aimed at establishing the service differentiator used in private hospitals and the extent to which these contribute to sustainable competitive advantage. According to Cooper and Schindler (2003), such a study that is concerned with finding out what, where and how of a phenomenon is a descriptive study. This design has been used successfully by Njoroge (2003) and Mwaura (2001) in their study.

3.2 Sampling Procedure

The study population was private hospitals in Nairobi. A sample of study was 30 private hospitals in Nairobi selected through purposive sampling method. According to the Kenya Medical and Dentists Directory of 2012 there are 64 private hospitals in Nairobi. This excludes Missionary hospitals and Non- Governmental Organizations offering medical services. This is because missionary hospitals are funded by the church and other religious organizations while Non-Governmental Organizations are funded by donors. A random sample of 5 patients within the specialty clinics in the hospital was selected because of their consistency in visiting these hospitals.

3.3 Data collection

Primary data was collected using structured questionnaire. The questionnaire was pre-tested to find out its appropriateness and workability. The target respondents are the customers seeking medical services from the various hospitals. The questionnaire was divided into four parts. Part A consisted of general information, part B consisted of questions on the extent of usage of service differentiator, Part C were questions on assessing customer loyalty while Part D were on challenges that customers face when seeking medical services.

3.4 Data Analysis

The data collected was analyzed using descriptive statistics. Part A and D was analyzed using frequency tables, while Part B and C was analyzed using frequencies, mean scores, tabulations and standard deviations.

3.5 Operationalizing Service Differentiation Dimensions

In order to operationalize the service differentiation dimensions, the determinants were defined in the questionnaire with the use of the 5-point Likert scale to measure the extent to which the dimensions are used by hospitals according to the customers. Mazrui (2003) and Mwaura (2001) have used the Likert scale successfully in related studies.

Service marketing mix elements	Relevant issues	Relevant questions
Product	<ul style="list-style-type: none"> -Different types of service appealing to different customers -Use of distinct packaging material for drugs to differentiate from other hospitals 	<p>1,2</p> <p>6</p>
People	<ul style="list-style-type: none"> -Intangible manner in which front line staff interact with customers. - Distinct fashion/uniform for employees to differentiate with other hospitals. - Staff are well trained, professional and competent in the delivery of services - Have performance standards throughout the hospital defining required levels of competency plaints from customers Have resident doctors who are available on demand 	<p>4</p> <p>5</p> <p>9</p> <p>10</p> <p>27</p>
Place	<ul style="list-style-type: none"> -Ease of accessibility of the hospital. -Designated areas within the hospital for patients with different ailments. -Designated areas for different patients e.g. children. Physical environment communicate the service quality attributes like reliability/responsiveness/ empathy Physical environment meets the needs and preferences of employees and patients 	<p>3</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p>

Price	-Use of price to position hospital in market place	22
Physical evidence	Is easily accessible in terms of courtesy bus for patients and designated parking for patients	3
	Interior décor reflect style of the hospital	7
	Physical environment communicate service quality attributes	15
Process	-Communication of values throughout the organization and passed on to customers	8
	Use of computers in service delivery.	12
	-Use of technology to improve service quality.	17
	-Degree of complexity of services	17
	-Conduct research to determine patient needs ,wants and satisfaction levels	23
		24
	-Use reservation/advanced booking to manage demand	25
	-Separate emergency cases	26
	-Complaints are recorded, solved and learnt from.	28
	-Have effective recovery systems so that complaints are dealt with quickly and effectively	29
	30	
	-Have service guarantee, financial compensation for cases of dissatisfaction	
Promotion	-Hospital reputation for service quality provision	18
	-Use of specific language to describe benefits of service offering	19
	-Use strong visual symbols to describe to describe virtues of their service offering or organization	31
	-Have names of wards creating an impression of service experience	31
	-Use of perceived image of quality to position hospital in market place	32
		20
	-Have associations or support groups or referral networks for patients who need support services	33

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

The objectives of the study was to assess the extent to which service differentiation can be used to gain sustainable competitive advantage among private hospitals in Nairobi and to determine the extent to which service differentiation has contributed to customer satisfaction and loyalty as well as the challenges that customers face while seeking medical services in Nairobi. In this chapter, data pertaining to the study is hereby analysed and interpreted. Data analysis has been done using frequencies, percentages, means and standard deviations.

4.2 Socio-Economic Characteristics of the Respondents

This section presents general information about patients who participated in this study.

4.2.1 Respondents age and gender

The respondents were asked to indicate their age brackets and the results are as shown below.

Table 4.1: Respondents age and gender

Variables	Frequency	Percent
Age in years		
20 – 30	6	4.0
30 – 40	54	36.0
40 – 50	75	50.0
Above 51	15	10.0
Gender		
Male	78	52
Female	72	48

Source: Research data

The results on the respondents age bracket was that (50%) of the respondents were 40 – 50 years old, (36.0%) were 30 – 40 years old, (10.0%) of the respondents were above 51 years old while (4%) of the respondents were between 20 and 30 years. Majority of the respondents were over 30 an indication that majority of those who visit the hospital are older patients although the young could be visiting the hospital although they are accompanied by those

above thirty years old. The respondents were to indicate their gender and of the 150 respondents, (52%) were female while (48%) were male. This therefore means that majority of the respondents were female but the difference is not significant and this indicates that majority of those who visit the hospitals mostly were female.

4.2.2 Education level of the respondents

The respondents were asked to indicate the highest level of education which they have attained and the results as presented in table 4.2.

Table 4.2: Education levels of the respondents

Education level	Frequency	Percent
Secondary	10	6.7
Certificate	17	11.3
Graduate	89	59.3
Postgraduate	34	22.7
Total	150	100.0

Source: Research data

The findings on the highest education level attained was that (59.3%) of the respondents were graduates, (22.7%) had attained post graduate level, (11.3%) indicated that they were certificate holders while (6.7%) said their highest level was secondary school. The analysis indicates that majority of the respondents were graduates an indication that a higher proportion of those who visit the private hospitals were employed and thus have medical cover.

4.2.3 Respondents Income Level

The respondents were to indicate their income level.

Table 4.3: Respondents Income Level

Income level	Frequency	Percent
Below 50,000	3	2.0
51, 000 – 100,000	12	8.0
101, 000 – 150,000	66	44.0
151, 000 – 200,000	50	33.3

Above 200,000	19	12.7
Total	150	100.0

Source : Research data

The findings on the respondents income level was that (44%) of the respondents income level was between 101,000 and 150,000, (33.3%) indicated that their income level was 151,000 to 200,000, (12.7%) of the respondents indicated their income level to be above 200,000, (8%) said their income level was 51,000 to 100,000 and the other (2%) said their income level was below 50,000. The results indicate that the income level of the respondents was above 50,000 and that enables them to visit private hospitals where their charges are slightly higher than the public hospitals or where they benefit from corporate medical insurance cover or through individual subscription.

4.3 Service Differentiation Strategies and Dimensions

This section presents the core findings of the study, that is, the extent of usage of service differentiation strategies and dimensions. The first sub section presents the findings along each service differentiation. These dimensions, which comprise of expanded service differentiation, include service offering, service delivery and corporate image.

4.3.1 Extent to which service delivery influence customer satisfaction

The respondents were requested to give their independent opinion on service differential features in a five point Likert scale. The range was 'no extent at all' (1) to 'very large extent' (5). The scores of no extent at all/small extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous likert scale; ($0 \leq S.E < 2.4$). The scores of 'some extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous likert scale: $2.5 \leq M.E. < 3.4$) and the score of both great extent and very great extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of > 0.7 implies a significant difference on the impact of the variable among respondents.

Table 4.4: The extent to which service delivery influence customer satisfaction

Features dimensions	Mean	Std. Deviation
Offer a wide range of hospital services including specialized services and outreach programs	3.9400	0.6778
Have specific programs for specialized needs e.g heart programs , operation smile	3.6600	0.5535
Accessibility to the hospital in terms of courtesy bus for patients and designated parking for patients	3.1000	0.6424
Use distinct packaging material for drugs	3.1600	0.6763
Values are well communicated to the customer	3.6600	0.8421
Hospital has a reputation for service quality provision	3.8936	0.5694
Use perceived image of quality to position hospital in market place	3.8936	0.5438
Use price to position hospital in market place	3.7092	0.6040
Degree of complexity of services eg offering limited range of treatment or adding other services	3.2553	0.6370
Conduct research to determine patient needs ,wants and satisfaction levels	2.9362	0.6235
Use reservation/advanced booking to manage demand	3.3333	0.6725
Have resident doctors who are available on demand	4.4800	0.5399
Complaints are recorded, solved and learnt from	3.1000	0.7304
Overall mean	3.5254	0.6339

Source: Research data

The findings on the features differentiation in the private hospitals indicates that the respondents were satisfied to a great extent with having resident doctors who are available on demand (mean 4.48), the hospitals offering a wide range of hospital services including specialized services and outreach programs (3.9400), the hospitals having a reputation for service quality provision (mean 3.8936), the use of perceived image of quality to position the hospitals in the market place (mean 3.8936), use of price charged to position the hospital in

the market place (mean 3.7092), availability of specific programs for specialized needs like the heart programs and operation smile (mean 3.66) and values being well communicated to the customer (mean 3.66).

On the other hand, the respondents were satisfied to some extent with the availability of reservation/advanced booking to manage demand (mean 3.3333), the degree of complexity of services like offering limited range of treatment or adding other services (mean 3.2553), use of distinct packaging material for drugs (mean 3.16), complaints being recorded, solved and learnt from (mean 3.10), accessibility to the hospital in terms of courtesy bus for patients and designated parking for patients (mean 3.10) and conducting research to determine patient needs, wants and satisfaction levels (2.9362). The overall mean was found to be 3.5254 and these indicates that the respondents were satisfied to a great extent with the hospital features which are used for service differentiation.

4.3.2 The extent to which service people are used in service differentiation

The findings on Table 4.5 indicate that the respondents were satisfied to a great extent on the use of distinct fashion/uniform for employees (mean 4.44), staff being well trained, professional and competent (mean 4.26), employees responding quickly and effectively to unforeseen needs and complaints of the customers (mean 3.98), having performance standards defining required levels of competency (mean 3.88) and the employees unique interaction with patients that reflect style of the hospital (mean 3.56).

Table 4.5: The extent to which service people are used in service differentiation

Service Differentiators	Mean	Std. Deviation
Employees unique interact with patients that reflect style of the hospital	3.5600	0.72796
Use of distinct fashion/uniform for employees	4.4400	0.4980
Staff are well trained, professional and competent	4.2600	0.5956
Have performance standards defining required levels of competency	3.8800	0.6545

Employees respond quickly and effectively to unforeseen needs and complaints of the customers	3.9800	0.7091
The hospitals have service guarantee, financial compensation for cases of dissatisfaction	3.2800	0.6963
Have associations or support groups or referral networks for patients who need support services	3.3200	0.6787
Overall mean	3.8171	0.6514

Source: Research data

The respondents were satisfied to some extent with having associations or support groups or referral networks for patients who need support services (mean 3.32) and the availability of service guarantee, financial compensation for cases of dissatisfaction (mean 3.28). The overall mean of 3.8171 indicates that the service people contribute to customer satisfaction and loyalty.

4.3.3 Influence of physical facilities on customer satisfaction and loyalty

The results on the influence of physical facilities on customer satisfaction and loyalty were presented in Table 4.6. The customers were satisfied to a large extent with separate emergency cases (mean 4.36), use of designated areas for patients with different ailments (mean 4.28), use of designated areas for different patients like children and adults (mean 4.16).

Table 4.6: The Influence of physical facilities on customer satisfaction and loyalty

Physical facilities	Mean	Std. Deviation
Interior decorations of the hospital	3.9600	0.77615
Use designated areas for patients with different ailments	4.2800	0.60335
Use designated areas for different patients like children and adults	4.1600	0.67635
Clean physical environment communicate the service quality attributes like reliability/responsiveness/ empathy	4.0071	0.68135
Physical environment meets the needs and preferences of patients	3.9858	0.58537

Use consistent colours for physical environment, vehicles, employees uniform	4.1206	0.47019
Separate emergency cases	4.3600	0.48161
Use strong visual symbols to describe virtues of their service offering or organization	3.9600	0.85042
Have names of wards creating an impression of service experience	3.9200	0.66069
Use specific language to describe the benefits of your service offering like use of tag line to describe the hospital	3.5191	.58942
Overall mean	4.0073	0.6375

Source: Research data

In addition, the use of consistent colours for physical environment, vehicles, and employees, clean physical environment communicate the service quality attributes like reliability/responsiveness/empathy (mean 4.0071), the physical environment meeting the needs and preferences of patients (mean 3.9858), use of strong visual symbols to describe virtues of their service offering or organization (mean 3.96), the interior decorations of the hospital (mean 3.96), the hospitals having the names of the wards creating an impression of service experience (mean 3.92) and the use of specific language to describe the benefits of your service offering like use of tag line to describe the hospital (mean 3.5191). The overall mean of 4.0073 indicates that the respondents were satisfied to a great extent with the private hospitals physical facilities.

4.3.4 Influence of service processes on customer satisfaction and loyalty

Table 4.7: Influence of service processes on customer satisfaction and loyalty

Service Processes	Mean	Std. Deviation
Availability of computerized processes	4.5028	0.5763
Adapted technology optimizes the service delivery process	4.1702	0.5607
Have effective recovery systems so that complaints are dealt with quickly and effectively	3.0246	0.6020
Overall mean	3.8901	0.5795

Source: Research data

The results on the influence of service processes on customer satisfaction and loyalty was that the respondents were satisfied to a great extent with the availability of computerised processes (mean 4.5028) and that adapted technology optimizes the service delivery process (mean 4.1702). The respondents were however satisfied to some extent on the availability of effective recovery systems so that complaints are dealt with quickly and effectively (mean 3.0246). The low standard deviation variation indicates that there was a general consensus among the respondents on their level of satisfaction and loyalty to the hospitals.

4.4 Duration of being a customer with the private hospital

The findings on the duration in which the respondents have been customers with the private hospital was that 48% said they have been customers for two to three years, 24% indicated that they have been customers for one to two years, 20% said they have been customers for over three years while 8% of the respondents indicated to have been customers for less than one year. The results indicate that majority of the respondent have been visiting the hospitals for over one year and thus service satisfaction could have influenced their loyalty to the hospitals.

Table 4.8: Duration of being a customer with the private hospital

Duration	Frequency	Percent
6 months-1 year	12	8.0
1-2 years	36	24.0
2-3years	72	48.0
over 3 years	30	20.0
Total	150	100.0

Source: Research data

4.5 Family seek medical services in the hospital

The result indicates that 80% of the respondents and their families seek medical services in the various private hospitals while 20% indicated that they do not seek services with their families and these respondents could still be single and thus their medical cover only caters for themselves only.

Table 4.9: Family seek medical services in the hospitals

Family seek medical services	Frequency	Percent
Yes	120	80
No	30	20

Source: Research data

4.6 Willingness to recommend the hospital to a friend

The finding on the respondent's willingness to recommend the hospital to a friend was that, 43.4% of the respondents were very willing to recommend a friend, 41.3% were willing while 9.3% indicated that they were unwilling while 6% of the respondents were neutral.

Table 4.10: Willingness to recommend the hospital to a friend

Willingness to recommend	Frequency	Percent
Unwilling	14	9.3
Neutral	9	6.0
Willing	62	41.3
Very willing	65	43.4
Total	150	100.0

Source: Research data

The willingness by the respondents to recommend a friend to the hospital indicates that their level of satisfaction to the services was high and thus increased loyalty.

4.7 Challenges faced by customers

The findings on the challenges which were encountered by the customer when seeking medical services was that 60% of the respondents face the challenge occasioned by high cost of service while 40% indicated that they do not face the challenge while on the other hand, 67% of the respondents said staff shortage was not a challenge while 33% said it was a challenge.

Table 4.11: Challenges faced when seeking medical services

Challenge	Yes (Percent)	No (Percent)
High cost of service	60	40
Staff shortage	33	67
Poor behaviour of staff	20	80
Long waiting time	70	30
Inadequate facilities	28	72
Patient not given feedback by doctors/nurses about their condition.	24	76
Medical staff not knowledgeable	10	90

Source: Research data

The poor behaviour of staff was not a challenge to 80% of the respondents while 20% indicated that it was a challenge. The findings on the challenges caused by long waiting time were that 70% of the respondents said they face the challenge while 30% said they did not face the challenge.

The result on inadequate facilities was that 72% of the respondents were on the view that it was not a challenge while 28% said it was a challenge. On the other hand, the patient not being given feedback by doctors/nurses about their condition was indicated as not being a challenge by 76% of the respondents while 24% said it was a challenge. An overwhelming majority of the respondents (90%) indicated that medical staff not knowledgeable was not a challenge while 10% of the respondents said it was a challenge. The results indicate that high cost of service and long waiting time were the major challenges which were encountered by the respondents.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter addresses the research questions and objectives outlined in chapter one. The section also covers summary discussions, recommendations and suggestions for further research. This study attempted to answer the questions: To what extent do private hospitals in Nairobi use service differentiation strategies to gain sustainable competitive advantage? To what extent do service differentiations contribute to customer satisfaction and loyalty? What challenges do customers face while seeking medical services in these hospitals?

5.2 Discussion

Trout (2000) emphasizes that service differentiation is the most important strategic and tactical activities in which companies must constantly engage in. It is also the most sustainable source of differentiation and advantage, (Horovitz,2000). The findings of this research indicate that generally hospitals use service differentiation strategies to some extent tending to a greater extent with minimal deviation across the industry. The findings showed that the service differentiation strategies which led to customer satisfaction was having resident doctors who are available on demand, the hospitals offering a wide range of hospital services including specialized services and outreach programs, the hospitals having a reputation for service quality provision, the use of perceived image of quality to position the hospitals in the market place, use of price charged to position the hospital in the market place, availability of specific programs for specialized needs like the heart programs and operation smile and values being well communicated to the customer. To the contrary, the findings showed that a number of aspects touching on differentiation feature were satisfying to some extent. These include: availability of reservation/advanced booking to manage demand, the degree of complexity of services like offering limited range of treatment or adding other services, use of distinct packaging material for drugs, complaints being recorded, solved and learnt from, accessibility to the hospital in terms of courtesy bus for patients and designated parking for patients and conducting research to determine patient needs, wants and satisfaction levels. Palmer (2001) says that differentiating features appeal to different segments and hence can be used for service differentiation. Specific hospital programs can be used to package services like heart programs. The intangible nature of services prevents them

from being packaged in the traditional sense of providing physical wrapping, which can both protect the product and help develop a distinctive identity (Palmers, 2001).

Regarding the extent to which service differentiation has contributed to customer loyalty, the respondents indicated that they were satisfied to a great extent with the use of distinct fashion/uniform for employees, staff being well trained, professional and competent, employees responding quickly and effectively to unforeseen needs and complaints of the customers, having performance standards defining required levels of competency and the employees unique interaction with patients that reflect style of the hospital. Iron (1995) says that all organizations possess a culture, a set of beliefs about the purpose of the organization, the values by which it executes that purpose, structures and style, which have evolved or have been developed to control the organization. Styling/culture gives the hospital a distinctive look. They were however somewhat satisfied with having associations or support groups or referral networks for patients who need support services and the availability of service guarantee, financial compensation for cases of dissatisfaction.

The respondents unanimously agreed that the physical facilities in the hospitals influenced their satisfaction and loyalty as they were satisfied with the hospitals handling of separate emergency cases, use of designated areas for patients with different ailments, use of designated areas for different patients like children and adults, use of consistent colours for physical environment, vehicles, and employees, clean physical environment communicate the service quality attributes like reliability/responsiveness/empathy, the physical environment meeting the needs and preferences of patients, use of strong visual symbols to describe virtues of their service offering or organization, the interior decorations of the hospital, the hospitals having the names of the wards creating an impression of service experience and the use of specific language to describe the benefits of your service offering like use of tag line to describe the hospital.

The hospitals service processes which influenced customer satisfaction and loyalty was the availability of computerised processes and that adapted technology optimizes the service delivery process while they were satisfied to some extent on the availability of effective recovery systems so that complaints are dealt with quickly and effectively. The respondents have been customers for their respective hospitals for a period of over one year and these

could have been influenced by service quality. Majority of the respondents seek medical services with their families in the private hospitals they visit. The respondents are willing to recommend a friend to the private hospital they visit for medical services. The findings on the challenges encountered when seeking medical services was found to be the challenge occasioned by high cost of service and long waiting time. On the other hand, staff shortage, poor behaviour of staff, inadequate facilities, patient not being given feedback by doctors/nurses about their condition and medical staff not knowledgeable was not a challenge to the respondents.

The study established that majority of the respondents were over thirty years an indication that majority of those who visit the hospital are older patients although the young could also be visiting the hospitals although they are accompanied by those above thirty years old. The educational level of the respondents varied although majority was graduates and postgraduates. On the income level, the study found out that the majority of the respondents income level was over 50,000 and despite the private hospitals chargers being slightly higher, they were able to visit the hospitals and it can be attributed to the respondents working in various institutions thus they have medical insurance cover.

5.3 Conclusion

The study found out that service differentiation was used by the private hospitals to gain competitive advantage as the hospitals have been providing unique services which led to high customer loyalty. The study found out that the hospitals have built customer and brand loyalty through quality offering of services, having sufficient staff, good behavior of staff, adequate facilities, having knowledgeable medical staff, process, technology and customer service. However, for the strategy to be effective, the message of service differentiation must reach the clients, as the customer's perceptions of the hospital are important and suggest bending the customer's will to match the company's mission through differentiation. The study found out that the customers' encountered challenges occasioned by high cost of service and long waiting time. However, since customers perceive the service as unique, they are loyal to the company and willing to pay the higher price for its service.

5.4 Recommendations

The study established that the patients were satisfied to some extent with service delivery in the hospitals and it is recommended that in order for the hospitals to achieve maximum competitive advantage through service differentiation, they ought to improve their services especially availability of reservation/advanced booking to manage demand, offering limited range of treatment or adding other services, accessibility to the hospital in terms of courtesy bus for patients and designated parking for patients and conducting research to determine patient needs, wants and satisfaction levels.

The study found out that the patients encounters challenges occasioned by high cost of service and long waiting time. It is therefore recommended that the hospitals should ensure that the patients are attended to in the shortest time possible so that can have value for their money and these can be achieved by the hospitals employing sufficient staff.

5.5 Recommendations for Further Research

The study confined itself to private hospitals operating in Nairobi. This research therefore should be replicated in other sectors of the economy and the result be compared so as to establish whether organizations which practice service differentiation gains competitive advantage.

REFERENCES

Berman, P., Nwuke, K., Kariuki, M., Mbugua, K., Ngugi, j., Omurwa, T., Ongayo, S., (1995) **Non-Governmental Healthcare Provision**; NCPA Report.

Berry and Parasuraman (1983), **Marketing of Services** PP 136-42

Berry, L. I., (1980), **Services marketing is different**, Business magazine May – June; pp 24-29 College of Business administration, Georgia State University Atlanta.

Berry, L. L., (1968), **Relationship marketing in emerging perspective on service marketing**, Chicago: American Marketing Association, PP 25-28.

Berry, L. M., Parasuraman, A. and Zeithaml, V. A. (1994), **Improving service quality in America Lessons learned**, Academy of management executive Vol 8 no 2.

Bitner, MaryJo, Booms, Benard, H. Lois, A. Mohr (1994) **Critical Service Encounters: The Employees view point**: Journal of Marketing vol 58 (October) pp95 – 106

Brynesm, J. (2003), **Strategy: The Dilemma of Customer Service**: Harvard School Working Knowledge February 3.

Christensen, M. C. (2000), **Innovation: Growing Pains Prescriptions for U.S. Healthcare**: Harvard Business School Working Knowledge: February 15, 2000.

Coddington, D. L. E., & Trollinger, W. V. (1985), **Strategies for Survival in Hospital Industry**, Harvard Business Review, May – June, pp 129-138.

Cooper, D.R and Schindler, P.S (2003), **Business Research Methods**. 8th edition .McGraw – Hill Edition

Dibb, S., Simkin L., Pride, W, and Ferrell, O. (1997), **Marketing Concepts and Strategies**, Boston: Houghton Mifflin Company .



Doyle , P. (1998) , **Marketing Management and Strategy** , Prentice Hall, Europe.

Gakombe, K.K (2002), **Analysis of the industry forces and the strategic choices adopted by private hospitals** , Unpublished MBA Project , University of Nairobi.

Gitonga , C.K (2003) , **Porter's generic strategies framework in hospitality establishments in Nairobi**, Unpublished MBA Project , University.

Goldsmith, (1980), **The Healthcare Market. Can the Hospital Survive?** September/October): Harvard Business Review; 100-112.

Goro, R. w. (2003) **Strategic responses of commercial banks to the threats of substitute products**. Unpublished MBA Project, University of Nairobi.

Gronroos, C. (1984), **A Service quality model and its marketing implications**, European journal of Marketing vol. 1B, NO. 4 PP 36-43.

Gronroos, C. (1990), **Service management and marketing**, MA Lexington Books chap.2.

Hart, C. W. (1996),” **Made to order**” Marketing Management 5, no.2, summer PP 11-23.

Hesaje, H . J., Baltagi, A. D., Kassak, K.(2000), **The Healthcare Management Present and Future Challenges**” April 11-13.

Henkoff, R. (1994), **Service is Everybody's business**; Fortune, June 27, PP-48-60;

Hensher, M., Edwards N., and Stockes, R, (September, 1999), **“International Trends in the provision and Utilisation of Healthcare”** British Medical Journal, Volume 319 pp.345-348.

Heskett, J. L., Jones J. O., Loverman, G. w., Sasser, Jr. E. w. and Schlesinger, A. L. (1994), **Putting the service profit chain to work**; Harvard Business Review march-April .

Heskett, J. L., (1987), 'Lessons in the Service Sector', Harvard Business Review, Vol. 65, No.2, March-April,p118.

Horovitz, J. (2000), **Seven Secrets of Service Strategy**, Prentice Hall, Europe.

Iron , K. (1995) , **Managing Service Companies : Strategies for Success** : Economist Intelligent Unit

Kibiru , C.R (1999) , **Achieving Competitive advantage through differentiation of market offering: The case of Chemical fertilization Importing companies in Kenya**, Unpublished MBA Project, University of Nairobi.

Kotelnikov, V (2004), **Differentiation Strategy, How to survive in the Era of Hypercompetition**, www.1000ventures.com.

Kotler, P. (1985) , **How to Create , Win and Dominate Markets**, The Free Press.

Kotler, P. (2003) **Marketing Management**, 11th Edition , New Delhi : Pearson Education.

Legg, D. and Baker, J.(1987), **Advertising Strategies for Service Firms; Add value to your service**, PP 163-168 published by the American marketing association, Chicago.

Levitt, T .(1980), 'Marketing Success through Differentiation - of Anything', Harvard Business Review, Jan-Feb.

Looy , B.V, Dierdonck, R.V , Gemmel, P. (1998), **Services Management : An integrated Approach**, Pitman Publishing.

Lovelock , C.H. , (1991), **Services Marketing** , London: Prentice Hall.

Lovelock, C.H., Vandermerwe, S. Lewis, B. (1996), **Services Marketing : A European Perspective** , London : Prentice Hall

Lowe, S. (2004), **Marketplace Masters: How Professional Firms Compete to Win**, Expertise Marketing LLC.

Majumdar, R.(1996), **Marketing Strategies**, Allied publishers.

Matseshe, K. L. (1999), **Structure and Strategy Relationship in the Kenyan Enterprises**, Unpublished MBA Project, University of Nairobi.

Mazrui,S. (2003) **Marketing Approaches Used By Managers to Address Customer Service Challenges in Banking in Kenya**, Unpublished MBA Project, University of Nairobi.

Mckee, M. and Healy, J. (1999), **Hospitals in changing Europe**; European Observatory on healthcare Systems.

Migunde, F. A. (2003), **Strategic responses by the Kenya Broadcasting Corporation to Increased Competition**. Unpublished MBA Project University of Nairobi.

Muhia , C.M (2001) , **The State of Advertising practices by private hospitals ;** Unpublished MBA Project , University of Nairobi.

Mwaura, A. K. (2001), **Percieved Service Quality, The case of matatu industry**. Unpublished MBA Project, University of Nairobi.

Njoroge , J.K (2003) , **Customer Perception of Service Quality in the Public Utility sector in Kenya : The case of KPLC after Decentralization of services ;** Unpublished MBA Project , University of Nairobi.

Palmer, A. (1998) , **Principles of Services Marketing** , McGraw – Hill.

Parasuraman, A., Valerie, A., Zeithaml, V. And Berry, L. L. (1985), "A Model of Service Quality and Its Implications for Future Research", Journal of Marketing, Fall, Vol.49, pp41-50.

Payne, C. M. and Ballantyne, (1994), **Relationship marketing, Bringing Quality Customer Service**, Buitenworth-Heinemann (2nd edn).

Porter, M.E (2004), **Michael Porter's Prescription For the High Cost of Healthcare** : Harvard Business School Working Knowledge : Strategy, July 12.

Porter, M.E (1980), **Competitive Strategy : Techniques for Analysing Industries and Competitors** ; Free Press.

Porter, M.E (1985), **Competitive Advantage : Creating and Sustaining Superior Performance** ; The Free Press.

Reid, C. (2000), **Managing Service Quality**: 28 Sep 2000.

Sasner, W. E., Olsen, R. P., and Wyckoff, D. D. (1978), **Management of Service Operations: Texts, Cases, readings**, Allyn and Bacon, Boston, MA.

Schnelzr, B., and Bowen, D. (1993), **The Service Organization human resources management is crucial organization Dynamics**, Spring, PP 39-52.

Scholes, K and Johnson, G. (2002), **Exploring Corporate Strategy**; 6th edition; Prentice hall India.

Shostack, G. L. (1977), 'Breaking free from Product Marketing', Journal of Marketing, April vol .41.

Shostack, G. L. (1987) **Service Positioning through Structural Change**, Journal of marketing, vol. SL.PP 34,43.

Zeithaml, V. and Bitner, M. (1996) , **Services Marketing** , New York : Mcgraw Hill.

Kenya Medical and Dentists Directory (2012)

www.ministryofhealth.go.ke (20th May 2012)

APPENDIX 1: RESEARCH QUESTIONNAIRE

PART A: GENERAL INFORMATION

1. Name of respondent (optional) _____
2. Age of respondent :
 - 1= 20 – 30 []
 - 2= 30 – 40 []
 - 3= 40 – 50 []
 - 4= 51 and above []
3. Gender of respondent 1=Male [] 2=Female []
4. Education level of the respondent (Tick appropriately)
 - 1=Primary []
 - 2 =Secondary []
 - 3 =Certificate []
 - 4=Under-graduate[]
 - 5=Post graduate []
5. Net Income levels of respondents per month (KSH): (Tick appropriately)
 - 1 = Below 50, 000 []
 - 2 = 51 – 100,000 []
 - 3 = 101 – 150 000[]
 - 4 = 151 – 200 000[]
 - 5 = Above 200 000[]

PART B

Please indicate the extent to which these service differentiators adopted by the hospital contribute to customer satisfaction and loyalty, on a scale of 1 – 5 where,

- 5 – to a very large extent
- 4 – to a great extent
- 3– some extent
- 2– small extent
- 1 – no extent at all

To what extent does the private hospital...

No	Service differentiators	Very Large extent	Great extent	Some extent	Small extent	No extent at all
1	Offer a wide range of hospital services including specialized services and outreach programs					
2	Have specific programs for specialized needs e.g heart programs, operation smile.					
3	Is easily accessible in terms of courtesy bus for patients and designated parking for patients					
4	Employees have a unique way of interacting with patients that reflect style of the hospital					
5	Use of distinct fashion/uniform for employees to differentiate with other hospitals					
6	Use distinct packaging material for drugs					
7	Interior décor reflect style of the hospital					
8	values are well communicated throughout the organization and passed on to the customer					
9	Staff are well trained , professional and					

	competent in the delivery of services					
10	Have performance standards throughout the hospital defining required levels of competency					
11	Have employees that are empowered to respond quickly and effectively to unforeseen needs and complaints of the customers.					
12	Have computerized processes					
13	Use designated areas for patients with different ailments					
14	Use designated areas for different patients eg children and adults					
15	Physical environment communicate the service quality attributes like reliability/responsiveness/ empathy					
16	Physical environment meets the needs and preferences of employees and patients					
17	Adapted technology optimizes the service delivery process					
18	Hospital has a reputation for service quality provision					
19	Use specific language to describe the benefits of your service offering ie use of tag line to describe the hospital					
20	Use perceived image of quality to position hospital in market place					
21	Use consistent colours for physical environment ,vehicles, employees uniform					
22	Use price to position hospital in market place					
23	Degree of complexity of services eg offering limited range of treatment or adding other					

	services					
24	Conduct research to determine patient needs ,wants and satisfaction levels					
25	Use reservation/advanced booking to manage demand					
26	Separate emergency cases					
27	Have resident doctors who are available on demand					
28	Complaints are recorded, solved and learnt from.					
29	Have effective recovery systems so that complaints are dealt with quickly and effectively					
30	Have service guarantee, financial compensation for cases of dissatisfaction.					
31	Use strong visual symbols to describe to describe virtues of their service offering or organization					
32	Have names of wards creating an impression of service experience					
33	Have associations or support groups or referral networks for patients who need support services					

PART C.

1.How long have been a customer in this private hospital?

1 = Less than 6months

2 = 6months – 1 year

3 = 1year – 2 years

4 = 2 years – 3 years

5 = Over 3 years

2. Do you and your family as a whole seek medical services in this hospital?

1 = yes

2 = No

3. How willing would you be to recommend the hospital to a friend?

5= Very willing

4= Willing

3=Neutral

2= Unwilling

1= Very Unwilling

PART D

Please tick from the list below any challenges you face when seeking medical services in this private hospital.

Challenge	yes	No
High cost of service		
Staff shortage		
Poor behaviour of staff		
Long waiting time		
Inadequate facilities		
Patient not given feedback by doctors/nurses about their condition.		
Medical staff not knowledgeable		

List other challenges below

THANK YOU FOR YOUR PARTICIPATION

APPENDIX 2: LIST OF HOSPITALS

1. The Aga Khan Hospital, Nairobi
2. Avenue Hospital
3. Coptic Church Nursing Home
4. Eastleigh Community Clinic and Maternity
5. Emmaus Nursing Home Inner core
6. Getrude's Garden Children's Hospital
7. Guru Nanak Ramgarhia Sikh Hospital
8. Huruma Nursing Home
9. Jamaa Home & Maternity Hospital
10. Karen Hospital
11. Kasarani Maternity & Nursing Home
12. Komarock Nursing Home
13. Lions Sight first Hospital
14. Mariakani Cottage Hospital
15. Marie Stopes Clinic & Maternity
16. The Mater Hospital
17. Melkizedek Hospital
18. Menelik Hospital
19. Meridian Hospital
20. Metropolitan Hospital
21. Mother & Child Hospital
22. MP Shah Hospital
23. Nairobi Equator Hospital
24. Nairobi West Hospital
25. Nairobi Women's Hospital
26. The Nairobi Hospital
27. Sinai Hospital
28. South B Hospital
29. South C Hospital
30. Umoja Nursing Home