RELATIONSHIP BETWEEN MARKET ORIENTATION AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This research project report is my original work and has not been presented for a degree or any award in any other University.

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DEDICATION

This work is dedicated to my late dad Mr. Peter Udoyi, late uncle Mr. John Ongech and to my cousin Mr. Charles Ooko who inspired and inculcated in me the value of education during my tender years.

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TABLE OF CONTENTS

PAGE

DECLARATION .... **ii**
DEDICATION .... **iii**
ACKNOWLEDGEMENT .... **iv**
LIST OF TABLES .... **vii**
LIST OF ABBREVIATIONS AND ACRONYMS .... **viii**
ABSTRACT .... **ix**

CHAPTER ONE: INTRODUCTION **1**
1.1 Background of the Study 1
1.1.1 Market Orientation 2
1.1.2 Firm Performance 4
1.1.3 Market Orientation and Firm Performance 5
1.1.4 Commercial Banks in Kenya 6
1.2 Research Problem 7
1.3 Research Objective 8
1.4 Value of the Study 9

CHAPTER TWO: LITERATURE REVIEW **10**
2.1 Introduction 10
2.2 Theoretical Literature Review 10
2.2.1 Resource-based Theory 10
2.2.2 Game Theory 11
2.2.3 Dynamic Capability Theory 11
2.3 Determinants of Firm Performance 11
2.4 Empirical Literature Review 13
2.4.1 Customer Orientation and Firm Performance 15
2.4.2 Competitor Orientation and Firm Performance 16
2.4.3 Inter-Functional Coordination and Firm Performance 16

CHAPTER THREE: RESEARCH METHODOLOGY 18
3.1 Introduction 18
3.2 Research Design 18
3.3 Study Population 18
3.4 Data Collection 19
3.5 Data Analysis Techniques 19
3.6 Operationalization of Study Variables 21

CHAPTER FOUR: RESULTS AND DISCUSSION 22
4.1 Introduction 22
4.2 Response Rate 22
4.3 Performance of Commercial Banks in Kenya 22
4.4 Customer Orientation and Bank Performance 23
4.4.1 Customer Orientation Strategies Adopted by Commercial Banks in Kenya 24
4.4.2 Relationship Between Customer Orientation and Bank Performance 25
4.5 Competitor Orientation and Bank Performance 26
4.5.1 Competitor Orientation Strategies Adopted by Commercial Banks in Kenya 27
4.5.2 Relationship between Competitor Orientation and Bank Performance 28
4.6 Inter-Functional Coordination and Bank Performance 29
4.6.1 Inter-Functional Coordination Strategies by Commercial Banks in Kenya 30
4.6.2 Relationship Between Inter-Functional Coordination and Bank Performance 31
4.7 Regression Analysis of the Relationship Between Marketing Orientation and Bank Performance 32

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS 34
5.1 Introduction 34
5.2 Summary of the Findings 34
5.3 Conclusion 35
5.4 Recommendations 36
REFERENCES 37
APPENDICES 1: QUESTIONNAIRE 41

LIST OF TABLES

Table 3.1: Operationalization of Study Variables 21

Table 4.1: Performance of Commercial Banks in Kenya 23

Table 4.2: Customer Orientation Strategies Adopted by Commercial Banks in Kenya 24

Table 4.3: Relationship Between Customer Orientation and Bank Performance 25

Table 4.4: Competitor Orientation Strategies by Commercial Banks in Kenya 27

Table 4.5: Relationship between Competitor Orientation and Bank Performance 28

Table 4.6: Inter-Functional Coordination Strategies by Commercial Banks in Kenya....... 30

Table 4.7: Relationship Between Inter-Functional Coordination and Bank Performance.. 31

Table 4.8: ANOVA Results for Regression Model 32

Table 4.9: Regression Coefficients for Marketing Orientation Strategies 33

LIST OF ABBREVIATIONS AND ACRONYMS

SPSS	-	Statistical Package for Social Scientists
MO	-	Market Orientation
CBK	-	Central Bank of Kenya
DC	-	Dynamic Capabilities
US	-	United States

ABSTRACT

In the prevailing, highly competitive business environment characterized globalization and deregulation of markets, aggressive competition and ever-rising expectations of customers, organizations need to adopt strategies that provide a competitive advantage within their sector. Market orientation focuses on discovering and meeting the needs and desires of customers through the product mix. Although a substantial amount of research on market orientation and firm performance can be found in the marketing literature, little attention has been paid in investigating the relationship between customer orientation, competitor orientation and inter-functional and firm performance in the banking industry in Kenya. The objective of this study was to determine the relationship between market orientation and the performance of commercial banks in Kenya. The study adopted the descriptive survey research design to determine and ascertain whether there existed any association between MO and performance of commercial banks. The study population comprised all the commercial banks in Kenya. Since the study population was manageable, the study adopted the census survey in the collection of data and included all the 43 commercial banks in Kenya. A structured, self-administered questionnaire was utilized in collecting the data. The data collected from the study respondents was analyzed with the aid of the Statistical Package for Social Scientists (SPSS) Version 20. Descriptive statistics were used to summarize the data and establish characteristics of the study population and the distribution of the response variations on market orientation strategies in the commercial banks. The relationships between market orientation strategies and bank performance were explored using correlation analyses by conducting the Pearson's Product Moment Correlation and regression analyses. Further analysis involved simple regression analysis to determine the percentages in performance that may be explained by the variances in market orientation strategies. The study established that there was a significant positive relationship between and bank performance and customer orientation ($r=0.489$; $n=39$; $p<0.05$; competitor orientation ($r=0.76$; $n=39$; $p<0.05$); inter-functional coordination ($r=0.57$; $n=39$; $p<0.05$). Multivariate correlation and regression analysis revealed that at $p<0.05$, MO strategies positively affected bank performance. Thus, the study recommended that commercial banks should make deliberate attempts to recognize and take into consideration their customers' needs better than competitors. If a bank is able to

recognize early enough which services customers need and design as well as implement strategies to satisfy those needs, the bank will gain a competitive advantage over its competitors thus gain a larger market share, hence better performance. Banks should effectively analyze competitor strategies and actions and make efforts to counter the actions by providing superior products and services to their customers. The bank managers need to recognize that their institutions would do well if they develop inter-functional coordination capabilities, which will support the competitive behavior of innovativeness.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Market Orientation (MO) is a popular term used by marketers as an indicator of the extent a firm implements its marketing concept (Aziz and Yassin, 2010). In the existing market orientation research, most definitions of market orientation were derived from the conceptualization of either Kohli and Jaworski (1990) or Narver and Slater (1990). Kohli and Jaworski (1990) compared three core elements of market orientation which are intelligence generation, intelligence dissemination, and responsiveness. In the same fashion, Narver and Slater (1990) postulated that market orientation has three components which are customer orientation, competitor orientation, and inter-functional coordination. The first component which is customer orientation involves the understanding of target customers and effectively deploying the skills and resources of the firm to satisfy customers by creating superior value. The second component which is competitor orientation has to do with creating superior value through understanding the principal competitors' short-term strength and weaknesses and long-term capabilities and strategies. The final component which is the inter-functional coordination involves getting all business functions working together to provide superior value (Slater & Narver, 1994; Narver and Slater, 1990). Thus, market orientation salient dimensions, which are competitor and customer orientation, are considered important strategic orientations.

Organizational research, management and marketing scholars have, over the years, highlighted the importance of developing market orientations in organizations (Harris, 2001). This is premised on the understanding that MO is one of the critical antecedents of organizational performance. Several theories have linked market culture (orientation) of an organization to its viability and eventually profitability. Some of such theories include the resource base theory, game theory and options theory. The resource base theory looks at how the organization uses its available resources (tangible and intangible) to achieve competitive advantage and growth. Here the firm's uses its experiences to understand the needs of the customers and serve them better; again its resources in the form of knowledge

and skills are used to predict competitors' moves to foil any treacherous moves which could affect its growth and profitability. Similarly, the game theory helps analyze dynamic and sequential decisions of an organization. It emphasis on proactively anticipating the needs of your clients whilst being ahead of your competitors, thinking of the alternatives, and anticipating the reactions of other players in the game (competitors) with respect to the payoff. In effect the ability to focus on the needs of the customer and serve them better than your competitors leads to good financial performance. This is because as Brandenburger and Nalebuff (1995) posit, such strategy leads to new product introduction, pricing and research and development.

The prevalent business environment is highly competitive and is characterized by such norms as globalization and deregulation of markets, aggressive competition and ever-rising expectations of customers. To compete and survive in the severely competitive global marketplace, firms have to pay attention to the needs of customers. They must constantly innovate in every aspect of their business and continuously improve their products and services to guarantee their positive performance. They need a strategy that align the firm with the stakeholders and the management system that facilitates the continuous improvement of every aspect of their operation (Darabi, 2007). Thus, in order to improve business performance, companies worldwide rely on market orientation based on the classic marketing doctrine. According to the classic doctrine, satisfying customer's needs and requirements is the basic path to the improvements of business performance. Conventional marketing wisdom holds that market orientation leads to superior firm performance (Kara, 2005) since it facilitates the firm's ability to anticipate, react to and capitalize on environmental changes, there by leading to superior performance (Vieira, 2010).

1.1.1 Market Orientation

The concept of market orientation (Kohli & Jaworski, 1990, Narver & Slater, 1990) is a basis of marketing and strategic marketing research and it has received a great deal of attention in the literature (Bard, 2007). Marketing concept was first introduced in the early 1950's, and it was defined as "a philosophical foundation of a market orientation concept"

(Jaworski & Kohli, 1993). Market orientation research has largely diverged to a cultural versus behavioural approach. The cultural approach first introduced by Narver and Slater (1990) views market orientation as an aspect of an organizational culture that prioritizes the creation and maintenance of superior customer value. The cultural market orientation approach includes three dimensions: customer orientation, competitor orientation and inter-functional coordination. The behavioural approach, introduced by Kohli and Jaworski (1990) is action oriented and views market orientation as "the generation of, dissemination of and response to customer intelligence". Market orientation concept in general highlights the need to understand the existing and potential customers and competitors thoroughly, as well as inter-functional coordination of firm's resources and activities (Zhou *et al.,* 2008).

Market oriented companies perform better than companies that are less market oriented, focus on adapting their products and services to the needs and expectations of their customers instead of those who are product oriented and focus on developing a product or service that is then marketed and hopefully sold (Grönroos, 2006). To achieve this customer focus, a firm with a high degree of market orientation cultivates a set of shared values and beliefs about putting the customer first and reaps results in form of a defendable competitive advantage, decreased costs and increased profits (Desphandé, 1999). Market oriented behavior in marketing new solutions leads to better performance, has positive effects on customer satisfaction and loyalty as well as innovation, employee satisfaction and cooperation (Wei Hao, 2008).

Market orientation if implemented in a commercial bank may lead to an increase in the performance of the institution, both financial and nonfinancial. This is because the institution will be assumed to be in a better position to be able to provide customers with superior products and services that meet customer requirements and also be in a better position to compete with other financial institutions. Given the worldwide current competition in banking industry has been accentuated by globalization, high tech-change and privatization of public banks, there is a need for commercial banks to adopt market strategies that create superiority on rival banks. The rationale linking MO and business performance is that the former facilitates collection and use of market information as well as focusing on coordinating resources to deliver superior customer value (Li *et al*, 2008).

Thus a bank with a high degree of MO continuously examines alternative sources of sustainable competitive advantage to determine how it can effectively create superior value and future target customers. Banks that develop better or more appropriate MO tend to pay more attention to understanding and meeting customer needs, understanding the economic environment which they face and responding to changing markets and competitive environments (Li *et al*., 2008) and thus realizing superior performance.

1.1.2 Firm Performance

Firm performance is defined as the satisfaction of stakeholders (Connolly, Conlon & Deustch, 1980; Hitt, 1988; Zammuto, 1984). According to the Stakeholder theory (Freeman, 1984), measuring performance under this conceptualization involves identifying the stakeholders and defining the set of performance outcomes that measure their satisfaction (Connolly *et al.*, 1980; Hitt, 1988; Zammuto, 1984). Freeman (1984, p. 46) defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Clarkson (1995) suggests some important groups of stakeholders: shareholders, customers, employees, government and society. Each stakeholder has its own agenda in relation to the company and values a particular set of goals (Fitzgerald & Storbeck, 2003). Pleasing all parties equally may be an unachievable task, so managers need to prioritize. Based on satisfying the stakeholders, firm performance can be thought of as having at least seven facets: growth, profitability, market value, customer satisfaction, employee satisfaction, social performance and environmental performance (Santos & Brito, 2012).

Traditional measures of firm performance widely used in empirical studies are primarily centred on financial indicators (Witcher & Chau, 2007). Superior financial performance is a way to satisfy shareholders/investors (Chakravarthy, 1986) and can be represented by profitability, growth and market value (Cho & Pucik, 2005; Venkatraman & Ramanujam, 1986). Shareholders invest in a business to increase their wealth, which is measured in terms of the financial performance of the business. A firm's financial performance, in the view of the shareholder, is measured by how better off the shareholder is at the end of a period, than he was at the beginning and this can be determined using ratios derived from

financial statements; mainly the balance sheet and income statement, or using data on stock market prices (Berger & Patti, 2002). Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS) are the most commonly used financial ratios to measure performance. These ratios give an indication of whether the firm is achieving the owners' objectives of making them wealthier, and can be used to compare a firm's ratios with other firms or to find trends of performance over time thus determine the value of the firm.

According to the stakeholder theory, a firm has various stakeholders. Thus, measuring performance using financial indicators alone may not bring about satisfaction of all the stakeholders. This is also due to the fact that financial measures do not take into consideration non-financial objectives of organizations. In this study firm performance is measured using two constructs namely objective fulfillment and relative competitive performance. Objective fulfillment is defined as the extent to which the firm has achieved its short-term and long-term performance objectives and minimized the problems. Relative competitive performance is defined as the extent to which firm performance has either improved or deteriorated in terms of sales, profit, market share, return on assets, return on equity, return on sales, current ratio, overall firm performance and competitive position. Prior empirical evidence on firm performance (e.g. Hart & Banbury, 1994) indicates that there is a strong correlation between perceived performance measures and hard measures. Hence the performance measures used in this study can be considered to be robust.

1.1.3 Market Orientation and Firm Performance

Several studies have been conducted to understand market orientation and its impact on company performance. Many of the empirical findings provide support for the proposition that market orientation is positively related to firm performance. Traditionally, firm performance is measured by business efficiency; it can be improved either by increasing the output for the same input or by decreasing the input required to produce a given output. According to Narver and Slater (1990), the three major components of market orientation - customer orientation, competitor focus, and cross-functional coordination are long-term in vision and profit-driven. Based on extensive interviews with managers and executives, they

conclude that market orientation provides a unifying focus for the efforts and projects of individuals, thereby leading to superior performance.

A developing stream of empirical research has found a strong relationship between market orientation and several measures of business performance, including profitability, customer retention, satisfaction, innovation, sales growth, and new product success. In order to become market oriented, all employees must participate in working towards a common goal. Employees that feel that their colleagues support and empower them are more likely to create superior customer value (Zeithaml and Bitner, 2003). A market-oriented firm will continuously monitor customers' changing needs and will attempt to satisfy those needs by modifying its offerings, while making a profit. Since changes in offerings often require significant financial investment, organizations may not be able to recover their investment in the short-run. However, in the long-term, Zeithaml *et al.* (1990) argued that a market-oriented firm may produce higher profits through superior quality and stronger customer loyalty. Productivity, efficiency and reduced waste in management, and competitive advantage can also be achieved if organizations understand what customers want and do not want.

1.1.4 Commercial Banks in Kenya

The banking industry of Kenya is undergoing a phase of intense competition. As at July, 2012, Kenya's commercial banking sector comprised a total of 43 commercial banks: 3 public, 27 local (private), 11 foreign (private) and 2 Islamic (private) commercial banks (Central Bank of Kenya, 2012). According to the CBK (2012) the banking sector has in the recent years recorded a very fast growth rate and huge profits. There has been substantial growth in the number of banks and branches countrywide. Other growth indicators include the increase in the number of account holders as well as an increase in the number of banks listed in the Nairobi Stock Exchange. On the other hand, players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. This huge network of branches depicts an intense competition among the banks.

Mombasa hosts branches of virtually all the 43 commercial banks registered in Kenya. Just like in the other towns of Kenya, banks in Mombasa, which is dominated by members of the Muslim religion equally operate within a competitive environment and try to appeal to the customers with diverse needs. Under such competitive environments, market orientation will help the banks to gather information on customers and competitors and disseminate such information within functional units/employees in the organization. This information disseminated will be used to the bank's advantage of creating value for customers and also beat the competition. However, evidence of the effects of such strategies on the performance of financial institutions in Kenya, in particular Mombasa is still scanty.

1.2 Research Problem

Market orientation is a firm philosophy focused on discovering and meeting the needs and desires of customers through the product mix. Unlike past marketing strategies that concentrated on establishing selling points for existing products, MO works in reverse, attempting to tailor products to meet the demands of customers. In essence, market orientation can be thought of as a coordinated marketing campaign between a company and its customers (Amirkhani and Fard 2009). Strategic management (e.g., Dobni and Luffman, 2003; Hult and Ketchen, 2001) and marketing (e.g., Jaworski and Kohli, 1993) researchers posit that MO provides firms with a source of competitive advantage. If implemented in an organization, MO leads to an increase in the performance of the organization, both financial and nonfinancial, because the organization will be assumed to be in a better position to be able to provide customers with superior goods and services that meet customer requirements and also be in a better position to compete.

The increase in the number of commercial banks in Kenya has resulted in high competition among banks. As a result, bank managements have to market their banking services in different and attractive ways to satisfy and fulfill customer needs and desires which are continuously changing. Banks are exerting their best efforts for the purpose of achieving profits that help in covering their expenses, ensuring their survivals, and maximizing their values. It is critical that managers identify and understand strategic orientations such as

MO to enable their firms to achieve competitive advantage that leads to superior performance. Although a substantial amount of research on market orientation and firm performance can be found in the marketing literature, little attention has been paid in investigating the relationship between customer orientation, competitor orientation and inter-functional coordination and firm performance in the banking industry in Kenya. Yet, it is vitally essential for banking managers to comprehend and measure the impact of these dimensions of market orientation on the performance of their institutions.

A number of researches have established a relationship between market orientation and performance in businesses (e.g. Akimova, 2000; Vazquez, Santos & Alvarez, 2001; Olimpia, Chawit & Amorant, 2007). Most of these studies were conducted in the developed countries (Elg, 2003; Keskin, 2006; Sen, 2006; Low, Chapman & Sloan, 2007) with very few conducted in the developing countries (Kuada & Buatsi, 2005; Osuagwu, 2006; Dwairi, Bhuain & Turkus 2007; Hinson, Kastner, Ofori & Mahmoud 2008). Moreover, a review of the literature reveals that only anecdotal empirical research in this area of market orientation was focused on issues concerning its relationship with the performance of commercial banks, with no such a study conducted in Kenya. Yet, business firms cannot assume that market orientation findings in one firm or cultural context work well in other countries with different business cultures (Aziz & Yassin, 2010). Thus the disagreement on the relationship between market orientation and business performance amongst scholars and the theoretical gap in Kenya and particularly in the banking sector as a new empirical context, underpinned the basis of this study. This raised the question; what is the relationship between market orientation and the performance of commercial banks in Kenya?

1.3 Research Objective

The objective of this study was to determine the relationship between market orientation and the performance of commercial banks in Kenya

1.4 Value of the Study

Theoretically, many market orientation strategies have not been fully discussed in Kenya, and it is unknown how Kenyan managers implement and practice marketing strategies and theories such as market orientation from other developed economies. To this end, this study might shed some light on whether Kenyan managers and staff understand (and consequently practice) marketing strategies and theories differently from their counterparts in other developed economies.

The study’s findings will be valuable to policy makers in the banking sector by providing a clear guide on policy direction to take with respect to market orientation strategies that would create customer value and enhance competitiveness within the financial services sector.

In practice, the empirical results may guide managerial action to improve market orientation and offer practitioners a structured way to go about the implementation of a market orientation. The results will help financial firms, specifically commercial banks in Kenya, still compounded with marketing challenges and above all do not seem to understand the concept of market orientation, to guide them in their market orientation implementation efforts and thus realize superior business results, with a competitive advantage that strategically positions them within the prevailing competitive financial sector environment.

Finally, the study identifies a conceptual gap in the literature between market orientation and firm performance and offers a model to bridge this gap that can serve as a guide for future theory development and empirical research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature related to the study. The first section of this chapter presents theoretical underpinnings of the study while the second section is a review of empirical literature. The empirical literature is discussed under sub-sections in line with the elements of market orientation namely; customer orientation and performance of commercial banks, competitor orientation and performance of commercial banks and inter-functional coordination and performance of commercial banks.

2.2 Theoretical Literature Review

Several theories have linked market orientation of an organization to its viability and eventual profitability. Some of such theories include the resource based theory, game theory and dynamic capabilities (DC) theory.

2.2.1 Resource-based Theory

The resource based theory looks at how the organization uses its available resources (tangible and intangible) to achieve competitive advantage and growth. Here the firm uses its experiences to understand the needs of the customers and serve them better; again its resources in the form of knowledge and skills are used to predict competitors' moves to foil any treacherous moves which could affect its growth and profitability. Resource-based theory views heterogeneity among firms in resources - assets tied semi-permanently to the firm that allow its managers to conceive and execute value-creating strategies - as fundamental in explaining firm performance (Barney, 1991). However, resource-based theory has been criticized for its inability to explain how resources are developed and deployed to achieve competitive advantage (Priem & Butler, 2001), and its failure to consider the impact of dynamic market environments (Lengnick-Hall & Wolff, 1999).

2.2.2 Game Theory

The primary insight of game theory is the importance of focusing on others. In other words, companies should consider both cooperative and competitive ways to change the game. The game theory helps analyze dynamic and sequential decisions of an organization. It emphasis on proactively anticipating the needs of your clients whilst being ahead of your competitors, thinking of the alternatives, and anticipating the reactions of other players in the game (competitors) with respect to the payoff. In effect the ability to focus on the needs of the customer and serve them better than your competitors leads to good financial performance. This is because as Brandenburger and Nalebuff (1995) posit, such strategy leads to new product introduction, pricing and research and development.

2.2.3 Dynamic Capability Theory

The theory posits that since marketplaces are dynamic, rather than simple heterogeneity in firms' resource endowments, it is the capabilities by which firms' resources are acquired and deployed in ways that match the firm's market environment that explains inter-firm performance variance over time (Eisenhardt & Martin, 2000; Makadok, 2001; Teece, Pisano & Shuen, 1997). These capabilities involve complex coordinated patterns of skills and knowledge that, over time, become embedded as organizational routines (Grant, 1996) and are distinguished from other organizational processes by being performed well relative to rivals (Bingham, Eisenhardt & Furr, 2007; Ethiraj *et al*., 2005). Capabilities are dynamic when they enable the firm to implement new strategies to reflect changing market conditions by combining and transforming available resources in new and different ways (Teece *et al*., 1997). Thus, the literature indicates that while possessing valuable, rare, inimitable, and non-substitutable resources may be beneficial, firms also require complementary capabilities to be able to deploy available resources in ways that match the market conditions faced in order to drive firm performance (Teece, 2007; Helfat, 1997).

2.3 Determinants of Firm Performance

Determinants of firm performance are factors that influence or contribute to the success of any firm. A variety of factors ranging from the personal characteristics of the entrepreneur

to the economic policy affect firm performance (Schutjens & Wever, 2000). The literature classifies the determinants of firm performance into two main streams; the economic variables that focus on the external factors such as industry growth, concentration, capital intensity, advertising intensity, market share and size and the organizational variables also considered as the internal factors include the decision making practices, communication flow, goal emphasis, HRM practices, leadership, group process and job conditions etc. (Hansen & Wernerfelt, 1989). Both type of variables influence firm profitability, however it is suggested that organizational factors are more effective than economic factors (Hansen & Wernerfelt 1989).

One of the organizational determinants of performance, the human resource practices refer to the organizational activities a firm employs to manage the pool of human capital and to ensure that it is aligned with the organizational goals (Schuler & Jackson, 1987). Compensation and training practices both are marginally related to motivation of operators. To firm performance, appraisal, compensation and selection are strong indicators if paired with the workers participation system. Explaining the relationship of HRM effectiveness and firm performance Huselid, Jackson, Schuler (1997) concluded that strategic HRM effectiveness was significantly associated with firm performance, but technical HRM effectiveness was not associated with it.

Age of the firm shows the experience and relationships with customers, financial institutions, investors and suppliers that build goodwill so it influences the firm performance (Inmyxai & Takahashi, 2010). Older firms have more customer base showing large sales volume, more employees and capacity indicates the chances of better performance (Rosa, Carter, & Hamilton, 1996). It is conventionally perceived that the bigger the organization the more its profitability will be. Jim Lee (2009) argues that along with market share, absolute size plays a positive and dominant role as it is significantly correlated with firm profitability. Firm size is an indicator of firm survival and success as it can absorb more shocks than smaller firms. Larger firms enjoy the benefits of economies of scale, have more access to resources and low cost of capital due to high volume (Mukhtar, 2002; Penrose, 1995). Organizational Structure in terms of ownership affects performance of firm in different dimensions. Highly concentrated and Govt. owned

enterprises as compared to family owned enterprises have more returns (Gursoy & Aydogan, 2002).

Another determinant of firm performance which has been widely discussed in the literature during last three decades is market orientation. Simply, market oriented firm is one that focuses on customer needs, competitor's actions and coordination within the internal divisions of firm to be responsive. Market oriented business culture leads to improved business performance by focusing on customers (Slater and Narver, 2000). Market orientation is a significant predictor of innovation effects and is compiled from customer orientation, competitor orientation and inter-functional orientation (Bozic & Radas, 2005). Amirkhani and Fard, (2009) concluded that positive and significant relationship exists between market orientation and firm performance.

2.4 Empirical Literature Review

Market orientation consists of three behavioral components: customer orientation, competitor orientation, and inter-functional coordination. To create superior customer value continuously, customer orientation emphasizes the role of sufficiently understanding target customers, competitor orientation focuses on understanding competitors' strengths and weaknesses and monitoring their activities, and inter-functional coordination emphasizes coordinating the use of company resources and customer-related activities throughout the entire organization (Narver & Slater, 1990).

Some researchers suggest that customer orientation echoes the classic tenet of 'stay close to the customer' and 'put the customer at the top of the organizational chart' and therefore is the most essential part of a market orientation. Others argue that competitor orientation, with its focus on the strengths and weaknesses of its competitors rather than the particular needs of its customers, can be antithetical to a customer orientation (Deshpande´ *et al.*, 1993; Armstrong & Collopy, 1996). Furthermore, Day and Wensley (1988) indicate that customer and competitor orientations are two distinct approaches that lead to competitive advantage. A customer orientation, with its detailed analyses of customer needs and wants, helps a firm satisfy its customers better, and thus is more likely to lead to a differentiation advantage. In contrast, a competitor orientation may lead to a cost advantage because

competitor-oriented businesses tend to watch costs closely, so they may quickly match the marketing initiatives of competitors.

A dominant position amongst MO pundits is that the firm's degree of MO has a positive effect on business performance (Kohli and Jaworski, 1990; Rojas-Mendez *et al*., 2006), more especially on sales, market share and profitability (Raaij & Stoelhorst, 2008). Recent studies have provided empirical support for the positive impacts of MO on customer perceived quality, customer satisfaction and loyalty, and employees as well (Jaworski and Kohli, 1996; Kirca et al. 2005; Dauda, 2010). Thus MO is critical to a firm's performance because it encourages and supports new product development to meet current and future market needs. The study of Kara *et al.* (2005) attests that MO is positively correlated with performance in transitional economies, and particularly China, where their empirical study was conducted. Thus if possible to extrapolate the above findings to any industry and or culture, MO should be expected to have a positive effect on business performance.

The rationale linking MO and business performance is that the former facilitates collection and use of market information as well as focusing on coordinating resources to deliver superior customer value (Li *et al,* 2008). Thus a firm with a high degree of MO continuously examines alternative sources of sustainable competitive advantage to determine how it can effectively create superior value and future target customers. Firms that develop better or more appropriate MO tend to pay more attention to understanding and meeting customer needs, understanding the economic environment which they face and responding to changing markets and competitive environments (Li *et al.*, 2008) and thus realizing superior performance.

However, a number of authors on the concept have questioned the existence of a positive relationship between MO and business performance. Greenley (1995) found existence of no relationship between MO and business performance. This is corroborated with the findings of Jaworski and Kohli (1993) that MO is not related to a firm's actual market share. While Narver and Slater (1990) report a negative coefficient for MO, Diamantopoulos and Hart (1993, cited in Rojas-Mendez *et al.,* 2006) identified a weak association between MO and business performance. Rojas-Mendez *et al.* (2006) observe

that the variations in the findings of studies conducted on MO impacts on business performance in different contexts could be due to variations in the cultural factor, that in turn affect the information dissemination function.

2.4.1 Customer Orientation and Firm Performance

McEachern and Warnaby (2005) define customer orientation as a component of market orientation that focuses on putting the customers at the centre of strategic focus. Cross, Brashear, Rigdon and Bellenger (2007), Ali and Bharadwaj (2010), and Chahal and Kumari (2011) emphasize the need for organizations to move from the level of studying customer segments to shaping separate offers, services and messages to individual customers. Hence such firms may need to collect information on each customer's past transactions, demographics, psychographics, and media and distribution preferences. And they would hope to achieve profitable growth through expenditures by building high customer lifetime value. They further assert that the ability of a company to deal with customers one at a time has become practical as a result of advances in factory customization, computers, the internet and database marketing software. Nakata and Zhu (2006) assert that customer orientation encompasses the analysis of customers' needs, and responsiveness of organization to such needs. But some salient questions have been raised concerning whether customer orientation actually translates to better performance, (Gera, 2011; Ang & Buttle 2006; Avnet & Higgins, 2006; Best, 2005; Anderson, 2003).

Traditionally, the literature concerning the marketing concept has assumed that the implementation of the customer orientation would lead to superior organizational performance (Piercy, Harris, & Lane, 2002). And customer orientation is significantly important in enabling firms to understand the market place and develop appropriate product and service strategies to meet customer needs and requirements (Cross et. al., 2007 and Liu, Luo & Shi, 2003). Customer orientation is seen to provide a firm with a better understanding of its environment and customers, which ultimately lead to enhanced customer satisfaction. Empirical studies, offer results that suggest a positive relation between customer orientation and firm performance irrespective of the size. Slater and Narver (1994), Kirca, Jayachandran and Bearder (2005) and Chen and Lin (2011) opine

that the logic for expecting a strong link between customer orientation and performance is based on the concept of a sustainable competitive advantage and a number of researchers have examined the link between customer orientation and performance. Although several studies have supported an association between customer orientation and profitability, most of these studies were conducted in the US, Europe and Asia (Cross *et al.*, 2007; Martin & Grobac, 2003; Slater & Narver, 2000).

2.4.2 Competitor Orientation and Firm Performance

Competitor-oriented firm is firm that regulates practices and activities used to influence the actions and reactions of competitors. In such a situation, company of competitor orientation spend their time on more important issues of the movements of competitors and the market and trying to find policies that can apply against them. Sometimes companies based on their strengths and weaknesses relative to competitors and an analysis of competing strategies are planned (Heiens Richard, 2000). When a business has competitor orientation, the management constantly re-evaluates the strengths and weaknesses of their competitors. This performance evaluation could include manufacturing productivity, pricing, delivery time, customer satisfaction, innovation, and employee retention and market share. In a competitive economic system, each financial

2.4.3 Inter-Functional Coordination and Firm Performance

Inter-functional coordination refers to the degree of co-operation between the different functions/departments within the organization (Tay & Tay, 2007). It is the coordination of all the functions of the organization and operation of customer and market information in order to create value for the customer. Tse & *et al*. (2003) opine that Inter-functional coordination is dissemination of information about customers and competitors among all sections of staff and organizations in order to make a correct understanding of the needs and wishes of the customer and planning to overcome competition. They divided inter-functional coordination to four parts: functional integration in strategy, information shared among functions, dissemination of information and coordination among all units towards creating value for the customer. Inter-functional coordination can therefore be seen as the

harmonization of all internal functions and processes in a company. It consists of two parts, namely corporate culture and information coordination.

Many authors, e.g. Slater & Narver (1995), Harris (1996), Lafferty & Hult (2001), identified inter-functional coordination as a barrier of the implementation of market orientation. The barriers connected with corporate culture are systematic, structural, procedural and communication ones. It is important not to have any weaknesses in a system, a structure, a procedure or a communication in a company. Thus other barriers as too high centralization, formalization or departmentalization can also appear. The second barrier of inter-functional coordination is connected with information coordination. It is important to gain information, analyze it and then use the results in the decision process in a company (Tomaskova, 2009).

Inter-functional coordination is aimed at internal environment, however, the effects of inter-functional coordination are connected with internal, external and branch environment as well. According to Tomaskova & Kopfova (2011) management has high impact on inter-functional coordination and employees. Improving of management style leads to improving inter-functional coordination. Improvements in internal processes are visible during a short period. Employees can perceive changes very soon. Improvements in branch and external environment need more time.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design, study population, data collection and a summary of data analysis procedures.

3.2 Research Design

The study adopted the descriptive survey research design to determine and ascertain whether there existed any association between MO and performance of commercial banks. Descriptive survey was appropriate for this study to the extent that it sought to describe the relationship between MO and performance of the commercial banks in terms of their objective fulfillment. Descriptive research aimed to describe the characteristics of the phenomenon on the basis of some prior understanding of the nature of the research problem (Veal, 2005). The previous understanding may have been provided by the results of a preceding exploratory research. In this case, the literature reviewed provided the basis for previous understanding of the research problem in different contexts

3.3 Study Population

The study population comprised all the commercial banks in Kenya. The Central Bank of Kenya annual report (2013) indicated that as at June 30th 2013, there were a total of 43 commercial banks in Kenya. However, the target population for the study constituted all commercial banks with branches in Mombasa County, Kenya. All the 43 commercial banks in Kenya had branches in Mombasa

Since the study population was manageable, the study adopted the census survey in the collection of data. With this method, branch managers of all the banks in Mombasa participated in the study. According to Orodho, (2004) small populations can form samples and be studied as distinct cases.

3.4 Data Collection

The study utilized primary data. Primary data enabled the researcher to have a higher level of control over how the information was collected, focus on specific issues related to the study and have a greater control of the research design.

A structured, self-administered questionnaire was utilized in collecting the data. Generally, the questionnaire had three main sections: the first section was designed to collect information on the profile of the banks. The second section broadly contained items related to market orientation strategies while the final section sought to establish the performance of the commercial banks.

Before actual field data collection, approval letter was first obtained from the Graduate School of the University of Nairobi. Permission to collect data from the management of the commercial banks in Mombasa County was obtained from the bank managers, then appointments secured with the branch managers who were the study respondents. On the appointed dates, the researcher explained the purpose of the study to the respective bank branch managers, sought consent and administered the questionnaire after consent was given. The respondents were allowed a day to fill in their responses and the filled in questionnaires collected the next day to allow the respondents enough time for filling in their responses.

3.5 Data Analysis Techniques

The data collected from the study respondents was checked for completeness, cleaned and coded for ease of analysis. The coded data was then entered into the computer and analyzed with the aid of the Statistical Package for Social Scientists (SPSS) Version 20. Descriptive statistics were used to summarize the data and establish characteristics of the study population and the distribution of the response variations on market orientation strategies in the commercial banks. The findings of this kind of analysis were presented in means and standard deviations. The relationships between market orientation strategies and bank performance were explored using correlation analyses by conducting the Pearson's Product Moment Correlation analyses. Further analysis involved simple regression analysis

to determine the percentages in performance that may be explained by the variances in market orientation strategies. The following regression model was used to analyze the relationship between the variables:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + e$$

Where;

Y = Bank Performance (Dependent variable)

a = Constant

$\mathbf{b_1}$, $\mathbf{b_2}$, and $\mathbf{b_3}$ are regression coefficients of the independent variables

$\mathbf{x_1}$ = Customer orientation

$\mathbf{x_2}$ = Competitor orientation

$\mathbf{x_3}$ = Inter-functional coordination

e= Error term

3.6 Operationalization of Study Variables

The variables of the study were operationailzed as shown in Table 3.1.

Table 3.1: Operationalization of Study Variables

Variable	Sub-variables	Measurement	Data analysis tools
Market orientation (independent)	Customer orientation	Ability and the will to identify, analyze, understand, and answer customer needs.	Means, standard deviations and Pearson's Product Moment Correlation
	Competitor orientation	Understanding of the strengths, weaknesses, capabilities and strategies of the current and potential competitors, and the ability to analyze the competitors' actions and respond to them	Means, standard deviations and Pearson's Product Moment Correlation
	Inter-functional coordination	Extent of communication among the organization's different functions	Means, standard deviations and Pearson's Product Moment Correlation
Firm performance (dependent)	Objective fulfillment	Extent to which the organization has achieved its short-term and long-term performance objectives and minimized the problems	Means, standard deviations and Pearson's Product Moment Correlation
	Relative competitive performance	Extent to which organizational performance has either improved or deteriorated in terms of volume of sales, profit, market share, return on sales, overall firm performance and competitive position	Means, standard deviations and Pearson's Product Moment Correlation

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The purpose of this study was to determine the relationship between market orientation and the performance of commercial banks in Kenya. In this chapter, the results of the research study are presented, interpreted and discussed. The chapter is divided into: response rate; performance of commercial banks in Kenya, customer orientation and bank performance, competitor orientation and bank performance and inter-functional coordination and bank performance and regression model analysis.

4.2 Response Rate

Thirty nine (39) out of 43 questionnaires that were administered were successfully filled and returned back. This represented a 90.7% response rate, ensuring that the sample size remained as close as to the original sample size as possible. Campion (1993) suggested that authors need to make reasonable efforts to increase questionnaire return rates, address the influence of non-respondents, and that they do not contain any obvious biases. To increase the return rate for this study, the questionnaires were administered using the strategies as described in chapter three of this study. Babbie (1990); Dillman (2000), suggest 50% as the minimal return rate; Fowler (1984) suggests 60%; and De Vaus (1986), argues for 80%. Thus, the achieved response rate was considered appropriate to allow for generalization of the findings to the target population, the commercial banks in Kenya.

4.3 Performance of Commercial Banks in Kenya

The respondents were required to the extent to which their respective banks had realized each of the changes listed during the period they had worked with the banks. The changes ranged from “Not at all” with a score of 1 to “To a greed extent” with a score of 5. The respondents rating of their respective banks’ performance were analyzed descriptively using means and standard deviations. The findings were as shown in Table 4.1.

Table 4.1: Performance of Commercial Banks in Kenya

Performance Indicators	N	Min	Max	Mean	Std. Dev
1. Predicting future trends	39	3	5	4.31	.655
2. Resolving Problems	39	3	5	4.21	.801
3. Enhancing management development	39	3	5	4.10	.552
4. Growth in profit after tax	39	2	5	4.10	.940
5. Overall bank performance and success	39	3	5	4.08	.807
6. Improvement in long-term performance	39	3	5	3.95	.857
7. Evaluating alternatives based on relevant information	39	3	5	3.95	.686
8. Sales growth	39	3	5	3.90	.788
9. Improvement in short-term performance	39	2	5	3.64	.811
10. Market share change	39	2	5	3.56	1.119

Among the bank performance indicators, the mean performance rating ranged from 4.31 (highest) to 3.56 (lowest). The highest mean was related to prediction of future trends while the lowest mean was in relation to change in market share. The minimum and maximum scores in each of the performance indicators accompanied by the low standard deviations indicate that the respondents rating scores did not significantly deviate. Generally, the findings imply that changes across the performance indicators assessed could be classified as having occurred “to a considerable extent”.

4.4 Customer Orientation and Bank Performance

Customer orientation is a component of market orientation that focuses on the analysis of customers’ needs and responsiveness of an organization to such needs. This study sought to establish the extent to which commercial banks in Kenya adopted customer orientation strategies and further examined the relationship between the customer orientation and performance of the banks. Under this section, findings are presented and discussed on the respondents’ responses on customer orientation strategies and the results of the analyzed relationship between customer orientation and performance of the banks.

4.4.1 Customer Orientation Strategies Adopted by Commercial Banks in Kenya

The respondents asked indicate the extent to which they agreed with statements listed which described market orientation strategies adopted by their respective banks to cultivate a competitive advantage within the banking sector. The rating scale ranged from strongly disagrees with a score of 1 to strongly agree with a maximum score of 5. The respondents' ratings of the customer orientation strategies were analyzed descriptively using means and standard deviations and the findings were as presented in Table 4.2.

Table 4.2: Customer Orientation Strategies Adopted by Commercial Banks in Kenya

Customer Orientation Strategy	N	Min	Max	Mean	Std. Deviation
1. The top management of my bank often emphasizes the need to be customer oriented.	39	3	5	4.54	.720
2. The employees of my bank spend a great deal of effort trying to understand customer needs.	39	4	5	4.54	.505
3. Employees of my bank do whatever it takes to create value for our customers.	39	3	5	4.46	.682
4. My bank continuously monitors our customers' needs.	39	4	5	4.36	.486
5. My bank regularly measures customer satisfaction.	39	3	5	4.21	.522
6. My bank rewards employees and managers who are committed to customer satisfaction.	39	2	5	3.97	.903

The findings indicate that the means of the respondents rating of customer orientation strategies ranged from 4.54 (highest) to 3.97 (lowest). The highest mean related to two customer orientation strategic practices: "The top management of my bank often emphasizes the need to be customer oriented" and "The employees of my bank spend a great deal of effort trying to understand customer needs" while the lowest mean related to "My bank rewards employees and managers who are committed to customer satisfaction". The standard deviations across all the customer orientation strategic practices were less

than unitary, indicating that the respondents' ratings did not significantly vary. Overall, all the strategic practices had means above 4 except the one with the lowest mean of 3.97. Thus, it may be argued that the respondents mainly confirmed that indeed, their banks adopted the listed customer orientation strategies. Banks that are customer-oriented focus on customers by identifying, analyzing, understanding, and answering their needs, demands, and expectations, and generating, creating and increasing their satisfaction, acceptance, and reliability.

4.4.2 Relationship Between Customer Orientation and Bank Performance

To analyze the relationship between customer orientation and bank performance, individual scores for customer orientation strategic practices were cumulated to obtain a total composite score for this market orientation strategy for each bank. Similarly, a composite score for bank performance was obtained by cumulating individual performance indicator scores for each bank. The total scores were used to compute the Pearson's Product Moment Correlation (PPMC) to determine whether there was a relationship between customer orientation and bank performance. The findings were as shown in Table 4.3.

Table 4.3: Relationship Between Customer Orientation and Bank Performance

		Customer Orientation	Bank Performance
Customer Orientation	Pearson Correlation	1	.498**
	Sig. (2-tailed)		.001
	N	39	39
Bank Performance	Pearson Correlation	.498**	1
	Sig. (2-tailed)	.001	
	N	39	39

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

The PPMC analysis revealed that there was a significant positive relationship between customer orientation and bank performance ($r=0.489$; $n=39$; $p<0.05$). The correlation was of moderate strength, indicating that commercial banks that were more customer oriented

exhibited better performance compared to those that were less customer oriented. A bank that is customer oriented has customers who are more satisfied. Banks with stronger customer orientation positively foster more value related to market tracking and offer greater value to their customers. Accordingly, customer oriented banks tend to obtain information about current and latent customers' needs, understand the expressed desires, needs, and demands of the customers in their served markets and develop products and services that satisfy those desires.

Customers of a bank with a high degree of market orientation experience great value for money and excellent service that is gladly delivered by skilled and professional employees of that bank. Market oriented banks focus on adapting their products and services to the needs and expectations of their customers instead of those who are product oriented and focus on developing a product or service that is then marketed and hopefully sold (Gronroos, 2006). Such banks cultivate a set of shared values and beliefs about putting the customer first and reap results in form of a defendable competitive advantage, decreased costs and increased profits as suggested by Desphande (1999). Gray and others (1998) found that the more market oriented a company, the more satisfied and loyal its customers and employees are. Satisfied customers are likely to have stronger patronage to their banks, while satisfied employees will work towards the achievement of set targets and goals, which is requisite to better performance.

4.5 Competitor Orientation and Bank Performance

Competitor orientation is the second component of market orientations which relates to the banks' identification, analysis and use of the strengths, weaknesses, opportunities and capabilities of both current and future competitors to fulfill current and future customer needs and expectations. Under this section, results are presented and discussed on competitor orientation strategies adopted by the banks and the analyzed relationship between competitor orientation and bank performance.

4.5.1 Competitor Orientation Strategies Adopted by Commercial Banks in Kenya

A similar rating scale used in customer orientation strategies was also adopted in assessing the extent to which commercial banks in Kenya were competitor oriented. The respondents' ratings of competitor orientation strategies in their respective commercial banks were analyzed descriptively using means and standard deviations. The findings were as shown in Table 4.4.

Table 4.4: Competitor Orientation Strategies by Commercial Banks in Kenya

Competitor Orientation Strategies	N	Min	Max	Mean	Std. Dev
bank constantly looks for opportunities to gain an antage over our competitors.	39	3	5	4.21	.656
bank performs regular monitoring of the development ompetitors and their marketing policies	39	3	5	3.85	.670
ıagement of my bank responds rapidly to our ıpetitors' actions.	39	1	5	3.51	1.189
bank regularly analyzes competitive strategies of our n competitors	39	1	5	3.49	1.167
· sales and marketing people regularly share competitor ırmation and strategies with other departments.	39	1	5	3.44	1.334
bank often tries to predict the behavior of our main ıpetitors	39	1	5	3.38	1.161
bank regularly carries out benchmarking towards our n competitors	39	1	5	3.38	1.248

The findings in Table 4.4 show that the means of competitor orientation strategies ranged from 4.21 (highest) to 3.38 (lowest). The highest mean related to "My bank constantly looks for opportunities to gain an advantage over our competitors", while the lowest mean was in relation to "My bank regularly carries out benchmarking towards our main competitors". Whereas the first two competitor orientation strategies with the highest

means also had less than unit standard deviations, with a minimum and maximum ratings of 3 and 5 respectively indicating that the respondents' ratings of these strategies across the commercial banks did not vary significantly. The means of these strategies also imply that the respondents largely agreed that their respective banks adopted these strategies. On the other hand, the means for the other four competitor orientation strategies were lower than 4, with standard deviations more than unit and larger than those of the first two strategies, indicating that the response scores were scattered and mostly converged to neutral positions of neither disagreeing nor agreeing to the practices**.**

4.5.2 Relationship between Competitor Orientation and Bank Performance

The total scores for competitor orientation and bank performance were used to compute the Pearson's Product Moment Correlation to determine whether there was a relationship between competitor orientation and bank performance. The results were as shown in Table 4.5.

Table 4.5: Relationship between Competitor Orientation and Bank Performance

		Competitor Orientation	Bank Performance
Competitor Orientation	Pearson Correlation	1	.759**
	Sig. (2-tailed)		.000
	N	39	39
Bank Performance	Pearson Correlation	.759**	1
	Sig. (2-tailed)	.000	
	N	39	39

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

The PPMC analysis revealed that there was a significant, positive relationship between competitor orientation and bank performance ($r=0.76$; $n=39$; $p<0.05$). The correlation was very strong, indicating that banks that put emphasis on analyzing competitor behavior and responding to their possible influence perform better than those that focus less on competitor orientation. The competitors whether direct or indirect rivals are key-players in

the banking sector. In choosing a development strategy, it is important to take into account their actions and reactions. A bank's autonomy is affected by two factors: the competitive structure of the market, measured by the number of competitors; and the intensity of products and services perceived differentiation.

Competitor orientation implies the establishment of a monitoring system of the most dangerous competitors, and the choice of a strategy based on a defensible competitive advantage. Competitor-oriented banks look for determining their weaknesses and strengths. They revise regularly their capabilities to others in terms of skills and knowledge based on people, technical and physical systems, managerial systems, organizational structures, values and cultural norms (Bircall & Tovstiga, 2005). Competitor-orientation breeds innovation and new products (Augusto and Colho, 2009). A key goal for banks is to oppose the actions of competitors or even destroy them. However, the risk of a wild marketing strategy, following Ries and Trout (1988), is devoting too much energy and resources to fight competitors losing sight of the main objective which remains customer satisfaction. Maintaining a good balance between competitor orientation and customer orientation is critical for a banks survival.

4.6 Inter-Functional Coordination and Bank Performance

The study sought to establish the relationship between inter-functional coordination and bank performance. Inter-functional coordination or integrated marketing means that all departments within the company play a critical role in satisfying customers. In order to become market-oriented, adoption of inter-functional coordination among the various departments of the company is required. This coordination is also known as intelligence dissemination that shares activities (market intelligence) across the various parts/departments of the company. Under this section, findings are presented on inter-functional coordination practices in commercial banks in Kenya. The second part of the section presents findings on the relationship between inter-functional coordination and bank performance.

4.6.1 Inter-Functional Coordination Strategies by Commercial Banks in Kenya

The respondents' ratings of inter-functional coordination strategies in their respective commercial banks were analyzed descriptively using means and standard deviations. The findings were as shown in Table 4.6.

Table 4.6: Inter-Functional Coordination Strategies by Commercial Banks in Kenya

Inter-Functional Coordination Strategies	N	Min	Max	Mean	Std. Dev
1. The various departments in my bank share a great deal of information with each other.	39	3	5	4.26	.595
2. All of our business functions such as marketing, sales, etc are integrated in serving the needs of our target markets	39	3	5	4.21	.695
3. My bank's strategy emphasizes coordination of the various departments.	39	3	5	4.08	.664
4. In my bank, tightly coordinating the activities of all departments adds customer value.	39	3	5	4.00	.607
5. In my bank, resources are frequently shared by different departments.	39	2	5	3.97	.959
6. Our top managers from across the company regularly visit our current and prospective customers	39	2	5	3.82	1.048

The findings show that among inter-functional strategies adopted by commercial banks in Kenya, the means of the respondents' ratings ranged from 4.26 (highest) to 3.82 (lowest). The highest mean was related to "The various departments in my bank share a great deal of information with each other" while the lowest mean related to "Our top managers from across the bank regularly visit our current and prospective customers". On a general scale, the mean range shows that the respondents "agreed" that all the inter-functional coordination strategies and practices were adopted in their respective banks. Inter-functional coordination in the banks involves demonstrating willingness by members of different functional areas of in the bank to communicate, think, and work together to

achieve their objectives, effectiveness, competitive advantage, and performance (Woodside, 2005). It comprises the organization-wide coordinated effort of a bank to create superior value for customers.

4.6.2 Relationship Between Inter-Functional Coordination and Bank Performance

The total scores for inter-functional coordination were obtained by cumulating individual inter-functional coordination strategies' scores to obtain a composite score for this market orientation strategy for each bank. The total scores for inter-functional coordination and bank performance were then used to compute the Pearson's Product Moment Correlation to determine whether there was a relationship between inter-functional coordination and bank performance. The results were as shown in Table 4.7.

Table 4.7: Relationship Between Inter-Functional Coordination and Bank Performance

		Bank Performance	Inter-functional Coordination
Bank Performance	Pearson Correlation	1	.567**
	Sig. (2-tailed)		.000
	N	39	39
Inter-functional Coordination	Pearson Correlation	.567**	1
	Sig. (2-tailed)	.000	
	N	39	39

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

The results indicate that there was a significant, positive relationship between inter-functional coordination and bank performance ($r=0.57$; $n=39$; $p<0.05$). The correlation was of moderate strength, indicating that better performance among the commercial banks was associated with stronger inter-functional coordination/sharing market intelligence across the various parts/departments of the bank. Inter-functional coordination facilitates the involvement of all the levels of the organization in order to create a market-oriented culture. Inter-functional coordination represents the integration of all functions in a organization to satisfy and serve customer needs, wants, and demand (Zhao and Cavusgil,

2006). With better inter functional coordination; banks incorporate it to enhance their advantages and competitiveness. It allows communication and exchanges between functions that are related or opposed to one or more of the four market players, the customers, distributors, competitors and prescribers. The main idea is that market-orientation relates to all corporate functions and not only to marketing. Thus, market-orientation can be spread within the organization, disseminating market information, both formally and informally, through decisions taken by inter-functional groups, the coordination of activities and the regular contact with customers. Achieving effective inter functional coordination requires an alignment of the functional areas' incentives and the creation of inter functional dependency.

4.7 Regression Analysis of the Relationship Between Marketing Orientation and Bank Performance

The relationship between the marketing orientation strategies (customer orientation, competitor orientation and inter-functional) coordination and bank performance was tested by using linear regression analysis, based on the regression model presented in Chapter three of this research project report. When bank performance was regressed against the components of MO, the ANOVA results shown in Table 4.8 indicated that the regression model was significant ($p<0.05$).

Table 4.8: ANOVA Results for Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	472.309	3	157.436	21.862	.000[b]
	Residual	252.050	35	7.201		
	Total	724.359	38			

a. Dependent Variable: Bank Performance
b. Predictors: (Constant), Customer Orientation, Competitor Orientation, Inter-functional Coordination

The regression model coefficient results for the independent variables (marketing orientation strategies) were as shown in Table 4.9.

Table 4.9: Regression Coefficients for Marketing Orientation Strategies

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.034	5.872		.176	.015
	Customer Orientation	.539	.239	.244	2.256	.030
	Competitor Orientation	.603	.126	.594	4.787	.000
	Inter-functional Coordination	.171	.152	.140	1.124	.026

a. Dependent Variable: Bank Performance

The multivariate correlation and regression analysis revealed that at $p<0.05$, MO strategies namely customer orientation, competitor orientation and inter-functional positively affected bank performance. Thus, the resulting regression model would be:

Bank Performance = 1.034 + 0.539(Customer Orientation) + 0.603(Competitor Orientation) + 0.171(Inter-functional Coordination).

The above empirical analysis provides backing to prior research evidence that shows that a high level of market orientation will lead to increased innovation and organizational learning, which in turn lead to better organizational as an organization obtains more knowledgeable employees that make better products and provide better service (Rapp, Schillewaert, Wei Hao, 2008; Shepstone and Currie, 2008; Laforet, 2008).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The purpose of this study was to determine the relationship between market orientation and the performance of commercial banks in Kenya. This chapter therefore presents a summary of findings, conclusions and recommendations. The chapter further gives suggestions for further research.

5.2 Summary of the Findings

The study achieved a 90.7% response rate. In terms of bank performance, the study established that the mean performance rating ranged from 4.31 (highest) to 3.56 (lowest). The highest mean was related to prediction of future trends while the lowest mean was in relation to change in market share. The overall mean performance was 3.98 against a maximum value of 5, generally indicating that changes across the performance indicators assessed could be classified as having occurred “to a considerable extent”.

With regard to customer orientation strategies, the means ranged from 4.54 (highest) to 3.97 (lowest). The highest mean related to two customer orientation strategic practices: “The top management of my bank often emphasizes the need to be customer oriented” and “The employees of my bank spend a great deal of effort trying to understand customer needs” while the lowest mean related to “My bank rewards employees and managers who are committed to customer satisfaction”. Overall, all the strategic practices had means above 4 except the one with the lowest mean of 3.97, producing an overall mean score of 4.35 in customer orientation strategies. The PPMC analysis revealed that there was a significant positive relationship between customer orientation and bank performance ($r=0.489$; $n=39$; $p<0.05$), indicating that commercial banks that were more customer oriented exhibited better performance compared to those that were less customer oriented.

The study established that the means of competitor orientation strategies ranged from 4.21 (highest) to 3.38 (lowest). The highest mean related to “My bank constantly looks for

opportunities to gain an advantage over our competitors". The lowest mean was in relation to "My bank regularly carries out benchmarking towards our main competitors". Overall, competitor orientation had a mean score of 3.61. The PPMC analysis revealed that there was a significant, positive relationship between competitor orientation and bank performance ($r=0.76$; $n=39$; $p<0.05$), indicating that banks that put emphasis on analyzing competitor behavior and responding to their possible influence perform better than those that focus less on competitor orientation.

Further, the study established that among inter-functional strategies adopted by commercial banks in Kenya, the means of the respondents' ratings ranged from 4.26 (highest) to 3.82 (lowest). The highest mean was related to "The various departments in my bank share a great deal of information with each other" while the lowest mean related to "Our top managers from across the bank regularly visit our current and prospective customers". The overall mean for inter-functional coordination strategy was 4.1, implying that the respondents "agreed" that all the inter-functional coordination strategies and practices were adopted in their respective banks. A significant, positive relationship existed between inter-functional coordination and bank performance ($r=0.57$; $n=39$; $p<0.05$).

Finally, the multivariate correlation and regression analysis revealed that at $p<0.05$, MO strategies namely customer orientation, competitor orientation and inter-functional positively affected bank performance. The resulting regression model was:

Bank Performance = 1.034 + 0.539(Customer Orientation) + 0.603(Competitor Orientation) + 0.171(Inter-functional Coordination).

5.3 Conclusion

Based on the findings of this study, the study concludes that the three components of market orientation in the context of the banking sector are interdependent, and inter-functional coordination has an impact on customer and competitor orientations in a bank. The level of adoption of each of the three components of market-orientation positively influences the level of bank performance

5.4 Recommendations

The following recommendations were made based on the study's findings:

Commercial banks should make deliberate attempts to recognize and take into consideration their customers' needs better than competitors. If a bank is able to recognize early enough which services customers need and design as well as implement strategies to satisfy those needs, the bank will gain a competitive advantage over its competitors thus gain a larger market share, hence better performance.

Failure of a commercial bank to recognize its competitors' strategies and activities poses a great risk to the bank's performance. Therefore, commercial banks should effectively analyze competitor strategies and actions and make efforts to counter the actions by providing superior products and services to their customers.

Managers of commercial banks need to recognize that their institutions would do well if they develop inter-functional coordination capabilities, which will support the competitive behavior of innovativeness. This combination will help the banks to become more effective in developing greater performance in the highly competitive banking industry market place. Thus, bank management should develop structures and procedures to promote inter-departmental and inter-functional connections throughout the organization with an eye to innovation.

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APPENDICES 1: QUESTIONNAIRE

Introduction

This questionnaire seeks to collect data that will be used to analyze **the effect of market orientation strategies on the performance of commercial banks in Mombasa.** You have been selected to assist in providing the required information, since your views are considered important to this study. I therefore kindly request you to answer the questions in the questionnaire as honestly as possible as per the guidelines indicated. Note that your answers to this questionnaire will be used for purposes of research only. All information given will be treated with utmost confidentiality. You are not required to fill in your names.

Instructions:

Please fill in the blanks or tick (√) in the box/spaces to provide the information requested for on the spaces provided.

SECTION A: Profile of the Bank

1. Name of your bank___________________________
2. For how long has your bank been in operation in Mombasa?

   ☐ Less than 1 year ☐ 6 to 10 years

   ☐ 2 to 5 years ☐ More than 10 years
3. How many branches does your bank have in Mombasa?________________
4. What is the ownership structure of your bank?

   ☐ Public

   ☐ Private

   ☐ Multinational

5. Who are you main target customers?
   - ☐ Corporate customers
   - ☐ Retail banking customers
   - ☐ SMEs
6. What is your branch's total customer base with respect to:
   a) Current Accounts____________________

   b) Savings Accounts___________________

Section B: Market Orientation Strategies Adopted by Commercial Banks

The statements in the following tables relate to your views of various strategies adopted by your banks to cultivate a competitive advantage within the banking sector. Please, show the extent to which you agree with each of the statements by circling the number that best describes your views on the right side of the table. You should rank each statement as follows:

1 - Strongly Disagree
2 - Disagree
3 - Neither disagree nor agree
4 - Agree
5 - Strongly Agree

i) Customer orientation

Statement	Response				
1. The top management of my bank often emphasizes the need to be customer oriented.	**1**	**2**	**3**	**4**	**5**
2. My bank rewards employees and managers who are committed to customer satisfaction.	**1**	**2**	**3**	**4**	**5**
3. My bank regularly measures customer satisfaction.	**1**	**2**	**3**	**4**	**5**
4. The employees of my bank spend a great deal of effort trying to understand customer needs.	**1**	**2**	**3**	**4**	**5**
5. Employees of my bank do whatever it takes to create value for our customers.	**1**	**2**	**3**	**4**	**5**
6. My bank continuously monitors our customers' needs.	**1**	**2**	**3**	**4**	**5**

ii) Competitor orientation

Statement	Response				
1. Our sales and marketing people regularly share competitor information and strategies with other departments.	**1**	**2**	**3**	**4**	**5**
2. Management of my bank responds rapidly to our competitors' actions.	**1**	**2**	**3**	**4**	**5**
3. My bank constantly looks for opportunities to gain an advantage over our competitors.	**1**	**2**	**3**	**4**	**5**
4. My bank performs regular monitoring of the development of competitors and their marketing policies	**1**	**2**	**3**	**4**	**5**
5. My bank often tries to predict the behavior of our main competitors	**1**	**2**	**3**	**4**	**5**
6. My bank regularly analyzes competitive strategies of our main competitors	**1**	**2**	**3**	**4**	**5**
7. My bank regularly carries out benchmarking towards our main competitors	**1**	**2**	**3**	**4**	**5**

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iii) Inter-functional coordination

Statement	Response				
1. The various departments in my bank share a great deal of information with each other.	**1**	**2**	**3**	**4**	**5**
2. My bank's strategy emphasizes coordination of the various departments.	**1**	**2**	**3**	**4**	**5**
3. All of our business functions such as marketing, sales, etc are integrated in serving the needs of our target markets	**1**	**2**	**3**	**4**	**5**
4. In my bank, resources are frequently shared by different departments.	**1**	**2**	**3**	**4**	**5**
5. In my bank, tightly coordinating the activities of all departments adds customer value.	**1**	**2**	**3**	**4**	**5**
6. Our top managers from across the company regularly visit our current and prospective customers	**1**	**2**	**3**	**4**	**5**

Section C: Performance of the Bank

The statements in the table below relate to the performance of your bank for the period you have worked with the bank. Indicate the extent to which your bank has realized each of the

changes by placing the numbers on the provided scale in the each of the boxes corresponding to each statement in the right column.

Not at all	To a small extent	To a moderate extent	To a considerable extent	To a great extent
1	2	3	4	5

Statement	
Improvement in short-term performance	☐
Improvement in long-term performance	☐
Predicting future trends	☐
Evaluating alternatives based on relevant information	☐
Resolving Problems	☐
Enhancing management development	☐
Sales growth	☐
Growth in profit after tax	☐
Market share change	☐
Overall bank performance and success	☐

Thank you for your cooperation