ORGANIZATIONAL CULTURE, MARKETING CAPABILITIES, MARKET ORIENTATION, INDUSTRY COMPETITION AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

Owino Joseph Odhiambo

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DECLARATION

I declare that the work contained in this thesis is my original work and has not been presented for an award of a degree in any university or institution.

Signed…… Date……

Owino Joseph Odhiambo

D80/60354/2010

This thesis has been submitted for examination with our approval as the appointed university supervisors

Signed…… Date……

Professor Francis N. Kibera

Department of Business Administration

School of Business

University of Nairobi

Signed…… Date……

DR. Raymond Musyoka

Department of Business Administration

School of Business

University of Nairobi

DEDICATION

This thesis is dedicated to my high school guardian, the late DR. Sylvester Ochien'g Adallah for rejuvenating my passion for education and planting the seeds of determination in my pursuit for knowledge.

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ABSTRACT

The broad objective of this study was to assess the influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions in Kenya. Seven specific objectives were pursued to determine direct and indirect relationships among organizational culture, marketing capabilities, market orientation, industry competition and firm performance. Seven hypotheses were formulated based on the specific objectives of the study. The hypotheses were tested through regression analysis. The population of the study comprised all microfinance institutions that were members of the Association of Microfinance Institutions (AMFI) in Kenya. A descriptive cross-sectional survey was used. Secondary data were collected from annual industry performance reports by AMFI. Primary data were collected through structured questionnaire. Data were analyzed through descriptive statistics, contingency tables, Chi-square tests, factor analysis and regression analysis. Results of Cronbach's alpha test confirmed reliability of all the measurement scales used in the study. Results revealed that the influence of organizational culture was stronger on non financial performance than financial performance. The results also revealed that marketing capabilities had strong statistical predictability of firm performance. It was established that industry competition had weak influence on firm performance. Finally, the joint moderating influence of industry competition and marketing capabilities as well as the mediating influence of market orientation on the relationship between organizational culture and performance were established. Findings of the study had implications for theory and policy. The study clarified the strength of influence of marketing capabilities on firm performance. The findings showed that product capability has the greatest explanatory power on firm performance. In addition, the study further explained the indirect influence of market orientation on the relationship between organizational culture and performance. In addition, the study supported findings of previous studies on the influence of competition and firm performance. It was concluded that organizational culture and product capability strongly influence performance outcomes in the microfinance industry. However, the study had a number of limitations. The cross-sectional research design could not measure changes in organizational culture and performance over time. In addition, structured survey instrument could not reveal all cultural values, behaviours and attitude of organization members. Finally, collection of data from top management limits scope of interpretation of findings. Results could have been different if employees at different hierarchical levels of the organization were involved in the study. Based on the limitations of the study, it was recommended that future studies should adopt longitudinal research design to assess changes in organizational culture and performance over time. In addition, future studies need to use mixed methods approach involving both qualitative and quantitative designs in the study of organizational culture. Further, to capture representative view of organization, future studies need to sample respondents at different levels of organizational hierarchy.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

AMFI:	Association of Microfinance Institutions
CRM:	Customer Relationship Management
DTM:	Deposit Taking Microfinance
IC:	Industry Competition
KIPPRA:	Kenya Institute of Public Policy Research and Analysis
MC:	Marketing Capabilities
MFIs:	Microfinance Institutions
MO:	Market Orientation
OC:	Organizational Culture
OCAI:	Organizational Culture Analysis Indicator
ROA:	Return on Asset
ROSCAS:	Rotating Savings & Credit Associations
SACCOS:	Savings & Credit Co-operative Societies

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Business organizations operate in complex, diverse, uncertain and competitive environment where coping mechanisms require consistency between organizational culture and strategies chosen by the firm. In competitive markets, managers are concerned with creating competitive advantage that leads to superior financial performance. This task requires managers to effectively coordinate organizational resources in ways that create synergy to address context specific market challenges. Consequently, resources of the firm must be effectively coordinated and deployed to address current and future customer needs while at the same time managing competitive threats.

Even though competencies are wide ranging, organizations draw their capabilities from a combination of unique, inimitable and complex resources. Organizational culture is one of the key internal resources that enable firms to produce valued market offerings. It does this by shaping behaviours and actions of organizational members and driving organizational adaptation in response to changes in the environment. Although organizations exhibit elements of several types of culture (Deshpande et al., 1993), over time, one type of culture dominates giving organizations unique identity. Extant literature identifies four distinct types of organizational culture namely: market, collaborative, adhocracy and control.

Market culture draws its foundation from the works of Oliver (1975) and Ouchi (1981). It emphasizes competitiveness and goal achievement. Market culture is the foundation of market orientation. Market orientation reflects a special type of culture that permeates through the entire organization enabling firms to emphasize customer and competitor orientations (Day, 1994) as well as inter-functional coordination (Narver & Slater, 1990). Organizations following this culture are oriented towards the external environment (Kohli & Jaworski, 1990) and exhibit shared values such as competitiveness, innovation, teamwork and productivity.

Collaborative culture, also known as clan culture emphasizes flexibility and internal consistency. It is effective for organizations that invest in building cohesive teams through motivation and employee development. Unlike market culture, clan culture is inward oriented and consider employees as the major source of organizational capabilities. Although employees may possess unique competencies, their contribution to capabilities is plausible where firms cannot attract key employees from competitors. Furthermore, overreliance on one source of organizational capability can only be accepted with a pinch of salt since it weakens a firm's competitive advantage especially in industries characterized by rapid and major changes in the marketing environment.

Adhocracy is an externally oriented culture that closely resembles market culture but, differs from the latter through its emphasis on innovation and entrepreneurship. According to Payne et al. (1999) adhocracy is based on the assumptions that organizational success depends on its innovativeness, product leadership and first mover advantages. Adhocracy culture advances the presumption that market driven innovation provides alternative path to creating sustainable competitive advantage.

Microfinance is a growing industry in Kenya's financial sector. It is a development approach that provides financial and social intermediation (Robinson, 2002). Microfinance covers the design and delivery of a wide range of financial services to low income groups at affordable costs (Khandakar & Rahman, 2006). The industry comprises formal and semi-formal institutions such as banks offering micro-credit, wholesale microfinance institutions, deposit-taking microfinance (DTM) institutions and retail microfinance institutions. The imperfect nature of microfinance industry originates from the fact that credit transactions between lenders and borrowers occur under imperfect information. This creates information asymmetry and performance problems that can be managed by understanding the contribution of organizational culture, market orientation and marketing capabilities to performance.

Organizational culture is an important binding factor that guides adaptation of microfinance institutions to competitive markets. The assumptions and values held by leaders permeate the organization thus influencing attitude, behaviour and actions of

organizational members. Organizational market response behaviour is explained by various theories among them the resource based theory, dynamic capabilities theory, comparative advantage theory, and resource advantage theory.

1.1.1 Organizational Culture

Organizations are institutions that are deliberately designed to achieve certain goals. Organizational culture is an internal binding factor that influences how the firm interacts with employees and external stakeholders. Organizational culture has been defined in different perspectives that view it as a metaphor, external or internal organizational variable. The contingency management definitional perspective has been adopted in this study. Within the contingency perspective, organizational culture is recognized as the persistent underlying structure of meaning that constrains perception and behaviour of organizational members (Jelinek, Smircich & Hirsch, 1983). A more comprehensive definition is offered by Tustall (1983) who views organizational culture as a general constellation of beliefs, mores, customs, value systems, behavioural norms and ways of doing business that are unique to each corporation.

The culture of an organization is manifest in leadership, decision making process and in the way through which formal structure and business procedures are transposed into routine activities (Badura, Munch & Ritter, 1999). Even though culture cannot be imposed on organizational members, leadership plays an important role in influencing adoption by employees. Emphasis on certain values and reward management by leaders provide learning opportunity for organizational members, thereby enabling entrenchment and diffusion of cultural values throughout the organization. According to Meldrum (1996) cultural features affect the degree of market orientation. Lloyd (1998) contends that a market oriented culture is characterized by low levels of conflict and politics, highly developed information generation, and human resource management systems geared towards the market. In addition, a high level of marketing input into strategic planning and advanced response to marketing intelligence as well as implementation of customer value enhancing strategies depict a market oriented culture.

1.1.2 Marketing Capabilities

Marketing capabilities connote a complex bundle of firm specific marketing skills and knowledge exercised through organizational processes that enable firms to coordinate marketing activities and resources in response to identified opportunities and challenges. Perry, Stott and Smallwood (1993) identify three categories of capabilities namely: core capabilities, value added support capabilities and essential capabilities. Core capabilities directly lead to competitive advantage while value added support capabilities facilitate the core capabilities. In contrast, essential capabilities neither create advantage but, they are necessary for sustaining continuity of the business.

An alternative perspective of capabilities is offered by Day (1994) who identifies three types of marketing capabilities namely: outside-in, inside-out and spanning capabilities. Outside-in capabilities represent skills and competences that help a firm to understand changes taking place in the market. Inside-out capabilities depict internal resources. On the other hand, spanning capabilities serve to integrate inside-out and outside-in capabilities. On their part, Vorhies and Morgan (2005) posit that two key interrelated marketing capabilities concern marketing mix processes and marketing strategy development and execution.

1.1.3 Market Orientation

Market orientation has been defined through five conceptual lenses namely: the decision making perspective (Shapiro, 1988); the market intelligence perspective (Kohli & Jaworski, 1990); and the culturally based behavioural perspective (Narver & Slater, 1990). In addition, market orientation has been defined through the strategic marketing focus perspective (Ruekert, 1992); and the customer orientation perspective (Deshpande et al., 1993). The market intelligence perspective proposed by Kohli and Jaworski (1990) is an extension of the decision making perspective by Shapiro (1988). While the decision making perspective proposed organization-wide sharing of market information and coordinated decision making, the market intelligence perspective introduces information generation as the third component. Consequently, Kohli and Jaworski (1990) repackaged the three components of market orientation and suggest that it consist of generation of market intelligence, dissemination of

intelligence across departments and organizational responsiveness to market intelligence.

Marketing theorists have critiqued the narrow delineation of market orientation by the market intelligence perspective (Harris, 1996). As a result, the broad based cultural perspective of market orientation has gained support from many marketing scholars. The culturally based behavioural realm (Narver & Slater, 1990; Deshpande et al., 1993) accentuates customer orientation, competitor orientation and inter-functional coordination as the main elements of market orientation. However, by excluding competitor orientation from market orientation definition, Deshpande et al. (1993) narrows the concept to customer orientation. With this in mind, the customer orientation perspective delimits the domain of market orientation to one component visualized by Narver and Slater (1990). Therefore, the customer orientation perspective leads to tapered analytical scope and decision making by managers. Keeping with the view of many researchers (Day, 1990; Deshpande et al., 1993; Pelham, 1997) the inter-functional coordination persuasively identified as the third dimension of market orientation by the cultural perspective, is an integral part of customer orientation. This implies that market orientation in light of the cultural perspective touted by Narver and Slater (1993) comprises of two key dimensions namely: customer orientation and competitor orientation.

1.1.4 Industry Competition

Competition is an external force that affects organizational performance and is influenced by actions and counteractions of firms targeting same market segments. Competitive conditions and intensity vary from one industry to another. Industry competition is exemplified by the degree of product differentiation, threat of entry, rivalry among existing firms and shift in bargaining power between sellers and buyers. Competition within an industry evolves over time and depends on a number of interacting factors such as number and size of rival firms; industry growth rate; immobility of resources and exit barriers. The strength and interactions among these factors influence intensity of competition.

According to Barnett (1997) competitive intensity refers to the effect that a firm has on other firm's survival chances. Rivalry related literature suggests that intensity of competition can influence the strength and effectiveness of marketing strategies leading to favourable or unfavourable performance outcomes (Wu & Pangarkar, 2010). While competition can enhance a firm's market orientation, it can also negatively affect performance through increased pressure on margins and market share decline.

1.1.5 Firm Performance

Carton (1996) asserts that the essence of performance is the creation of value. On the other hand, Combs et al. (2005) describe performance as the economic outcomes resulting from the interplay among an organization's attributes, actions, and the environment. Although many authors frame firm performance within financial perspective, Homburg and Pflesser (2000) posit that performance encompass financial and market dimensions. Market performance refers to effectiveness of organization's marketing activities. Market performance is measured by assessing customer satisfaction, value delivered to customers, customer retention and market share. Performance can be gauged through single or multiple dimension measures. However, a good measure of firm performance should be broad based to cover several dimensions of performance outcomes. According to Carton (1996), an ideal measure of performance must take into account information on both historical performance as well as expectations of future performance. He adds that there is no consensus on the best or sufficient measures of firm performance.

Several studies have reported different factors which influence performance of microfinance institutions. Mulunga (2010) established that performance was dependent on level of outreach by microfinance institutions. Even though she argues that outreach is driven by the amount of financial resources under the firm's control, it is important to note that finances alone cannot in exclusion of other organizational resources increase outreach. Furthermore, increased outreach without superior customer value cannot guarantee improved firm performance. In this connection, empirical evidence by Assefa, Hermes and Meesters (2010) indicate that performance of microfinance institutions is influenced by intensity of industry competition. They

conclude that increased competition leads to lower outreach hence negatively impacting on performance. Conversely, some strand of literature suggests that competition leads to innovation and information asymmetry thereby, positively impacting on outreach.

1.1.6 Microfinance Institutions in Kenya

Microfinance emerged in the 1970s as a means for promoting financial inclusion of the market segments that were unable to access financial services from banks. However, over time, the industry has attracted financial service providers with more commercial motivation and profit maximization objectives (Lahkar, Pingali & Sadhu, 2012). Ahmed (2005) describes microfinance institutions as organizations that are engaged in provision of a variety of financial services to the poor based on market driven and commercial approaches. Microfinance institutions are found in over 85 countries in the world with highest concentration in Latin America and East Asia (Lapenu & Zeller, 2001). Countries leading in outreach of microfinance services to customers are located in the East and are specifically found in Indonesia, Bangladesh, Thailand, Viet Nam, Sri Lanka and India. In addition to the vast Asia, there is high outreach of microfinance in more than 25 percent of countries from Latin America. These countries include Colombia, Ecuador, Bolivia, Mexico, Uruguay and Honduras. In Africa, microfinance services are dynamic and active in East Africa and South Africa.

Although the practice of microfinance has been in existence since 1970s, it took a turning point in the 1980s following Grameen Bank's evidence which linked commercial approaches to profitability of microfinance. This development shifted the modelling of microfinance from thrift to business. In Kenya, microfinance institutions exist in different forms. Omino (2005) found that microfinance institutions in Kenya operate under many legal forms such as companies limited by shares or guarantees, nongovernmental organizations, cooperatives, associations or community based organizations. Furthermore, microfinance institutions even of the same legal status differ by scope of outreach, level of sophistication, target market, size as well as organizational attributes. To streamline operations in the microfinance industry, the Government of Kenya signed into law the Microfinance Act in 2006. The Act creates

a legal framework for supervision and regulation of deposit taking microfinance institutions in Kenya. Even though their operations closely resemble those of commercial banks, majority of deposit taking microfinance institutions are constrained by inadequate capital resources and cannot provide full range of services offered by banks.

1.2 Research Problem

Organizations striving for better performance must nurture and develop organizational culture that supports implementation of market driven strategies capable of delivering superior value to customers. This study is anchored on the resource advantage theory. Resource advantage theory provides the foundation for understanding marketing and overall business competences and capabilities (Hunt & Madhavaram, 2012). Resource advantage is an interdisciplinary theory which views competition as a constant struggle by firms for comparative advantages in resources that lead to superior financial performance. The contribution of organizational resources and capabilities to formulation and implementation of marketing strategies has attracted considerable research attention for many years. Although various types of resources are necessary for building capabilities of a firm, researchers place more emphasis on investigating the influence of tangible resources on performance.

As a consequence, intangible resources such as culture have not been adequately researched. Although organizational culture is central to marketing management, its impact on marketing has not received satisfactory research attention (Deshpande & Webster, 1989). Treatment of organizational culture in marketing literature has been limited to understanding consumer behaviour in the market. In spite of the fact that some empirical studies have been carried out on the relationship between organizational culture and performance, inconsistent findings have been observed (Deal & Kennedy, 1982; Peters & Waterman, 1982; Ott, 1989; Denison & Mishra, 1995). Furthermore, previous studies have focused more on the direct relationship between organizational culture and performance (Kotter & Heskett, 1992; Daft, 2007). For this reason, little is known about the indirect influence of organizational culture on performance. Of central concern to marketers therefore, is to resolve the

debate on direct and indirect relationship between organizational culture and firm performance.

An equally important aspect of organizational culture is its potential contribution to economic growth through increased firm performance and subsequent up-scaling of service delivery to the private sector. Inadequate access to financial services is one of the largest constraints to private sector development and job creation in Kenya. This problem can be addressed by unlocking the potential in microfinance industry. Microfinance industry reaches out to nearly 1.5 million borrowers with an estimated loan book value of 140 billion shillings every year. Microfinance institutions operate in a competitive financial sector where managers need to match organizational resources with marketing opportunities in the external environment. However, managerial discretion is limited without understanding the influence of industry competition on performance. While many scholars (Mia & Clarke, 1999; Chong & Rundus, 2004; Nickell, 2006; Al-Rfou, 2012) have established positive relationship between competition and performance, a negative relationship cannot be ruled out in highly competitive industries.

Whereas several studies have tested the relationship between market orientation and performance, variations in magnitude and direction of the relationship between these variables are evident. Some researchers (Agarwal, Erramili & Dev, 2003; Sandvik & Sandvik, 2003) conclude that market orientation has insignificant impact on performance. Conversely, a positive relationship between market orientation and performance has been reported by Slater and Narver (1994a), Grewal and Tanshuhal (2001), and Njeru (2013). While a positive link between market orientation and firm performance has been found, questions about the robustness of this link still lingers (Shoham, Rose & Kropp, 2005). Therefore, it is apparent that empirical evidence on the relationship between market orientation and performance is inconclusive.

Resource based theories suggest that possession and utilization of distinctive organizational resources leads to superior performance. Although this may be true, the relationship between capabilities and performance in the microfinance context has not been adequately investigated. Substantial portion of past studies focus on describing

the nature of marketing capabilities (Day, 1994). Vorhies and Morgan (2005) in particular focused on capabilities and competitive advantage relationship. It is important to note however, that the relationships among market orientation, marketing capabilities and performance have been investigated in an integrative manner by Foley and Fahy (2009); Morgan, Vorhies and Mason (2009); as well as by Morgan, Slotegraaf and Vorhies (2009). However, the influence of marketing capabilities on the relationship between organizational culture and market orientation has not been empirically studied.

It appears therefore, that while scholars have devoted more attention to examining direct relationships among organizational variables, the relationship between organizational culture and performance has not been adequately explained. This thesis departs from previous studies by depicting market orientation as a mediating variable and examining moderating influence of marketing capabilities on the relationship between organizational culture and market orientation. The question answered by the current study was: What is the influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions in Kenya? This question was addressed by analyzing direct and indirect relationships among organizational culture, marketing capabilities, market orientation, industry competition and performance.

1.3 Research Objectives

The broad objective of the study was to establish the influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions in Kenya. The specific objectives were to:

i. Assess the relationship between organizational culture and performance of microfinance institutions
ii. Assess the influence of industry competition on performance of microfinance institutions
iii. Establish the relationship between marketing capabilities and performance of microfinance institutions
iv. Establish the extent to which industry competition influences the relationship between organizational culture and performance of microfinance institutions
v. Determine the influence of market orientation on the relationship between organizational culture and performance of microfinance institutions
vi. Determine the influence of marketing capabilities on the relationship between organizational culture and market orientation
vii. Establish the joint influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions.

1.4 Value of the Study

Improved organizational performance is a major concern for both scholars and marketing practitioners. Accordingly, marketers need to understand how organizational variables combine and interact with external environmental factors to influence performance. The study contributes to knowledge by testing the joint influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions in Kenya. The relationship between market orientation and performance has been studied in the context of service industries in developed countries. However, little is known about the contribution of market orientation to performance of microfinance institutions in Kenyan context.

Effective regulation of an industry is important for driving government policy agenda and improving investment climate in growing industries including microfinance. However, policy formulation and enforcement can only be effective when it is guided by reliable and adequate information. Therefore, findings of the study will offer insights on formulation and enforcement of policies touching on regulation and promotion of microfinance practice in Kenya.

Undoubtedly, managers of microfinance institutions will benefit from findings of the study by understanding the contributions of organizational culture, marketing capabilities, market orientation and industry competition to performance. Senior managers are directly responsible for creating and nurturing shared culture within their organizations. Therefore, findings of the study will enable managers of MFIs to create organizational climate that promotes emergence and development of market oriented values, behavioural norms and artifacts. Furthermore, considering the involvement of managers in formulation and implementation of strategies, findings of the study will improve analysis, selection and implementation of marketing strategies in the microfinance industry.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter presents a review of theoretical and empirical literature. The review forms the basis for identifying knowledge gaps, developing the conceptual framework and formulation of research hypotheses. The chapter begins by reviewing theories that support the study; it then proceeds by providing a discussion of conceptual and empirical literature on direct and indirect relationships among variables of the study.

2.2 Theoretical Underpinnings of the Study

The study is anchored on market based theories of competitive advantage. Market based theories focus on explaining organizational variables such as culture, market orientation and marketing capabilities from competitive advantage point of view. Market based theories assume that managers play critical role in building and combining resources and competences to create sustainable competitive advantage in the market.

The current study is largely driven by the resource advantage theory. However, various theories have been linked in a unified manner to provide more inclusive explanation of the relationships among organizational culture, marketing capabilities, market orientation, industry competition and firm performance. The resource advantage is a general theory of competition that overarches market based theories among them the resource based theory of the firm, dynamic capabilities theory, and comparative advantage theory.

2.2.1 Resource Advantage Theory

Resource advantage theory is a general theory of competition (Hunt & Morgan, 1995) that combines heterogeneous-demand theory with the resource-based theory of the firm. The theory assumes that demand is heterogeneous across industries and within industries. It presumes that superior financial performance is the key objective of the firm. The resource advantage theory maintains that the role of management is to recognize, understand, create, select, implement and modify strategies (Hunt & Madhavaram, 2006). In view of this demanding role, managers need to make

decisions guided by sufficient, timely and reliable information. Therefore, collection, analysis and dissemination of market and competitive information are essential for predicting the outcome of managerial decisions. The resource advantage theory posits that externally oriented organizational culture enhances a firm's capacity to gather information about customers, competitors and developments in the macro-environment.

Under this theory, resources are classified into seven categories that consist of financial, physical, legal, human, organizational, informational and relational. Within the framework of this theory, culture is one of the organizational resources whereas marketing capabilities is associated with both informational and relational resources. Despite the fact that marketplace positions of competitive advantage relies on organizational abilities to understand and respond to customer needs, in many industries, information about consumers is imperfect and costly. Therefore, the theory places great emphasis on innovation that drives firms to learn through formal market research, intelligence gathering, benchmarking and test marketing.

Given that consumer perceptions influence value of the firm's market offering (Hunt & Morgan, 1995), organizations need to surmount information asymmetry by promoting adoption of market orientation throughout the organization. In doing so, organizations create externally driven culture that proactively responds to market needs and reduces threats from competition through delivery of superior customer value. It is however, important to note the limitations of the resource advantage theory. The theory has been criticized for lack of evidence to justify its claims for superior explanatory and predictive power. For this reason, more empirical studies need to be carried to test explanatory power of the theory.

2.2.2 Resource Based Theory

The resource based view of the firm assumes sustainable competitive advantage as the desired outcome of management effort (Fahy & Smithee, 1999). According to this theory, sustainable competitive advantage is obtained through accumulation of valuable resources that are difficult to duplicate by competitors. Collins and Montgomery (1995) suggest that sustainable competitive advantage can be created on

condition that resources have the attributes of inimitability, durability, appropriability, substitutability, and competitive superiority. In essence, the theory suggests that unique, high value and rare organizational resources lead to superior performance through enhanced competitive advantage.

Resource-based theory suggests that firms possess heterogeneous resources that allow managers to execute value creating strategies. Even though it provides managers with a decision making framework, the theory has been criticized for failing to consider the impact of dynamic marketing environment (Lengnick-Hall & Wolf, 1999) in which many firms operate. Besides, the theory fails to explain how resources are developed and deployed to achieve competitive advantage (Priem & Butler, 2001). In the face of such criticisms, proponents of resource based theory responded by developing the dynamic capabilities theory.

2.2.3 Dynamic Capabilities Theory

The dynamic capabilities theory is an extension of the resource-based view of the firm. It addresses the weaknesses of the resource based theory. It argues that since marketplaces are dynamic, inter-firm performance variance is explained by organizational capabilities for acquiring and deploying resources in ways that match the firm's marketing environment (Makadok, 2001). Teece et al. (1997) explain that capabilities are dynamic when they facilitate implementation of new strategies that reflect changing market conditions.

Capabilities are complex, structured and multi-dimensional. Marketing capabilities are developed through continuous application of marketing knowledge and skills by employees to solving marketing problems (Vorhies, Harker & Rao, 1999). This point is further sustained by the work of Zollo and Winter (2002) who suggest that deliberate investment in organizational learning may facilitate the creation and modification of dynamic capabilities. Even though Winter (2003) argues that dynamic capabilities involve long-term commitment to specialized resources; it is important to note that in the long-run, other firms can acquire resources which may eclipse capabilities of rival firms. Furthermore, changes in technology may dilute the strength of a capability in the long-term.

2.2.4 Comparative Advantage Theory

Comparative advantage theory holds that resources include tangible and intangible entities that enable a firm to efficiently produce market offering which is of value to some market segments (Barney, 1991). Under this theory, resources are visualized as heterogeneous and imperfectly mobile. The theory argues that immobile resources sustain their heterogeneity through time despite attempts by other firms to acquire the same resources (Peteraf, 1993). In a similar fashion like other market based theories, comparative advantage theory assumes that the firm's primary objective is superior financial performance which is pursued under conditions of imperfect information about customers and competitors (Hunt & Morgan, 1995). In light of this assumption, market orientation and marketing capabilities are necessary for reducing information asymmetry and improving the quality of decisions made by marketing managers.

According to the comparative advantage theory, possession of a rare resource in the industry gives a firm comparative advantage. At the same time, the theory clarifies that conversion of comparative advantage to competitive edge and superior financial performance is not a guaranteed process since such relationship depends on the ratio of the value of resources produced to the cost of relative resources. This means that firms must strike a balance between its performance objectives and efficiency of acquiring resources. The theory emphasizes the role of managers in strategy management process which consist of situational review, preparation, selection and implementation of new strategies as well as modification of existing strategies through time.

2.3 Organizational Culture and Performance

The culture of an organization is reflected through dominant leadership styles, language, symbols, organizational procedures and routines as well as unique definition of success in the views of particular organizations. Values and beliefs determine structures and systems that are created within an organization and how people behave towards each other. On the other hand, structures and systems affect attitude of organizational members. According to Schein (1983) culture exists simultaneously in three layers which consist of artifacts, values and basic assumptions

in that order. Assumptions are expectations about behaviour or results that are at least partially shared by organizational members.

Values are social principles, philosophies, goals and standards considered to have intrinsic worth. Sathe (1983) views values as attitudes of organizational members concerning how the world ought to be. Artifacts are the visible, tangible, and audible results of activity and they include stories, arrangements, rituals and language that are created by an organization and they have strong symbolic meaning. Harris (1996) asserts that artifacts are reflected through verbal pronouncements, behavioural expressions by organizational members or physical factors within the organization.

An equally significant component of organizational culture is addressed by Hatch (1993) who proposes symbols as the fourth element of culture. Certainly, there is no shortage of disagreement within organizational culture literature. In his submission, Hatch (1993) explains that Schein's view focuses on what artifacts and values reveal about basic assumptions. He further clarifies that the cultural dynamics perspective does not undermine Schein's interests; it reaches beyond them toward a more complex, process based understanding of organizational culture. Under cultural dynamics perspective, elements of culture are constituted through the processes of manifestation, realization, symbolization and interpretation. While Schein (1985) identifies assumptions as the essence of culture, Hatch (1993) argues that Schein (1985) fails to address the active role of assumptions in constitution and reconstitution of culture. Consequently, Hatch (1993) explains that manifestation contributes to the constitution of organizational culture by translating intangible assumptions into recognizable values.

Organizational culture plays an important role in shaping behaviour and performance of organizational members. According to Deal and Kenedy (1982) performance improvement is linked to deliberate efforts by management towards developing organizational culture. In connection to this point, Bennett et al. (1991) argue that organizational success depends on achieving a good fit between strategy, structure and culture. Further evidence in support of organizational culture and performance relationship is found in Cooper, Cartwright and Earley (2001) who argue that culture

acts as a stabilizer of individual behaviour. In addition, Giberson et al. (2009) emphasize that culture is an integrating mechanism that guides organizational behaviour. Once established, culture tends to become self reinforcing.

From a functional perspective, culture is viewed as a means of social control by which behaviour and beliefs are shaped and determined (O'Reilly & Chatman, 1996). Despite the important role played by organizational culture in driving the behaviour of employees, several studies have reported inconsistent findings on the relationship between organizational culture and performance. A positive association between organizational culture and firm performance has been reported by Deal and Kennedy (1982), Peters and Waterman (1982), and Denison and Mishra (1995). Scholars in support of a positive relationship between the two variables argue that strong cultures are necessary for superior performance because they enhance consistency in organizational performance efforts.

Conversely, Ott (1989) argues that culture is not universally relevant to all organizations. He argues that not all organizations possess a culture developed to a point that it could have significant influence on performance. In support of this view, Byles and Keating (1989) observe that underdeveloped organizational culture may have little or no effect on performance. According to Byles, Aupperle and Arogyaswamy (1991) strong culture may not necessarily translate to improved performance especially where culture is inconsistent with critical success factors. Culture is considered strong where majority of organizational members share common values and believes promoted by leaders of the organization (Deal & Kennedy, 1982). On the other hand, a weak culture occurs where majority of organizational members fail to adopt values and behaviours transmitted by top management. All things considered, critics of positive relationship between organizational culture and performance lack compelling empirical evidence to support their argument.

2.4 Industry Competition and Performance

Performance of an organization is influenced by both internal and external environmental factors. While internal factors play an important role in matching a

firm's strategy with the marketing environment, external environmental factors such as competition if unchecked can whittle away the strength of marketing strategy. Competition affects business firms in varying levels depending on the structure of the industry and market conditions. According to Asikhia and Binuyo (2012) an increasing number of firms in the industry and shrinking opportunities for growth in the market increase intensity of competition. Barnett (1997) contends that competition affects performance through a variety of ways. In turn, changes in performance affect market structure as relatively inefficient firms are replaced by more efficient firms.

A growing body of empirical evidence suggests that competition has both positive and negative impact on performance. In addition, some scholars suggest that competition do not influence organizational performance outcomes. For instance, a study by Patiar and Mia (2009) found no relationship between competition and performance. In contrast, other scholars (Mia & Clarke, 1999; Chong & Rundus, 2004; Nickell, 2006; Al-Rfou, 2012) found a positive relationship between competition and organizational performance. According to Chong and Rundus (2004) competition drives firms to improve product quality which in turn leads to customer satisfaction. As a result, increased customer satisfaction leads to enhanced organizational performance.

Although empirical studies have reported a positive link between competition and performance, a negative relationship has not been ruled out particularly in the context of microfinance industry. Evidence for negative relationship between competition and performance is found in an empirical study by Assefa, Hermes and Meesters (2010) who established that competition adversely affects MFIs through reduced outreach, efficiency, loan repayment and profitability. Furthermore, Shicks and Rosenberg (2011) argue that competition forces MFIs to maintain customer base by lowering lending standards or decreasing screening efforts. Thus, relaxed lending conditions result in high risk borrowers that lead to increased default rates.

2.5 Marketing Capabilities and Performance

The dynamic capabilities theory maintains that competitive firms have the capability to acquire, integrate and deploy resources in ways that match the marketing environment (Morgan, Slotegraaf & Vorhies, 2009). By the same token, superior

market sensing capability allows a firm to gather intelligence about customers and competitor reactions to its market performance efforts (Morgan, Anderson & Mittal, 2005). Therefore, market sensing capability generates insights that are necessary for performance improvement. Newbert (2007) emphasizes that capabilities are more relevant than resources in influencing organizational performance.

Barney (1991) contends that marketing capabilities are interdependent and imitable source of competitive advantage. To elucidate this link, Vorhies and Morgan (2005) identified eight distinct marketing capabilities that contribute to business performance. These capabilities consist of product development, pricing, channel management, marketing communications, selling, marketing information management, marketing planning and implementation of marketing strategies. Though the taxonomy of marketing capabilities offers more insight, further analysis based on empirical evidence is deficient. Merrilees, Rundle-Thiele and Lye (2010) observe that empirical evaluation of marketing capabilities and performance is scant. Considering the important role marketing plays in driving firm performance, there is need for more research to clarify the influence of marketing capabilities on performance.

2.6 Organizational Culture, Industry Competition and Performance

The need to respond to changes in the competitive business environment has led to increased attention to the manner in which organizational resources are used to influence performance. This task requires commitment by organizations to creating unique, complex and strong organizational culture that drive behaviour of organizational members towards achieving superior performance. Organizational culture influences performance through enhanced internal integration and adaptation to the external environment. According to Daft (2007) organizational culture can enhance performance by encouraging and motivating employees; promoting cohesion; and shaping behaviours of organizational members. Therefore, organizational culture can provide a strong foundation for effective performance management and organizational superiority (Kriemadis et al., 2012).

However, organizational culture does not affect performance in a generic manner. Its influence on performance depends on the nature and strength of shared values, norms and assumptions as well as the extent of competition within the industry. Competition plays a major role in the formulation and implementation of marketing strategies. As competition intensifies, performance of individual firms depends on their ability to adapt by delivering superior value to customers. Consequently, organizational culture contributes to adaptation by firms to changing market conditions. Evidence in support of the link between organizational adaptation and improved performance is found in a study by Kotter and Heskett (1992) who established that firms with adaptive values are strongly associated with superior performance over a long period of time. In a hostile competitive environment, firms with externally oriented culture acquire strategic information about industry competition thereby enabling the organization to enjoy information advantage.

Externally oriented organizational culture enables firms to analyse and respond to competitive moves in the market thereby enhancing organizational capacity to develop or modify strategies that are likely to sustain performance over an extended period of time. Apart from organizational adaptability, performance may also differ across firms in the industry as a result of varying strength of organizational culture. Denison and Mishra (1995) established that the relationship between organizational culture and performance is significantly influenced by the strength of culture. Thus, firms with strong externally oriented culture are better placed to overcome competition and improve performance by developing and delivering superior products to customers.

2.7 Organizational Culture, Market Orientation and Performance

At first sight, there might appear to be overlap between organizational culture and market orientation constructs (Pinho, Rodrigues & Dibb, 2013). However, in this study, market orientation is treated as a set of behaviours that exist in varying degrees among MFIs. Market orientation implies an expanded focus that pays balanced attention to both customers and competitors (Kohli & Jaworski, 1990). Marketing studies suggest that market orientation is a set of specific behaviours and activities; a resource; a basis for decision making; and an aspect of organizational culture.

McCarthy and Perreasult (1990) argue that market orientation differs from marketing orientation in the sense that marketing orientation is concerned with implementation of the marketing concept. In the same vein, Lafferty and Hult (2001) clarify that market orientation focus on instituting the marketing concept.

According to Narver and Slater (1990) market orientation consists of three behavioural components namely: customer orientation, competitor orientation and inter-functional coordination. They argue that on average, all the three components are equally important. Customer orientation and competitor orientation are concerned with organization's long-term decisions to improve business performance (Gatignon & Xuereb, 1997). Similarly, Kohli and Jaworski (1990) explain that customer orientation facilitate gathering of relevant, accurate and timely information from target market which enables a firm to sustain superior competitive advantage.

The direct relationship between market orientation and performance has been studied over a long period of time. Previous studies offer equivocal results on the relationship between market orientation and performance. A positive relationship between market orientation and organizational performance has been established (Grinstein, 2008; Zebal & Goodwin, 2012). More recently, Njeru (2013) established a positive relationship between market orientation and performance of tour operators in Kenya. Other researchers have reported insignificant link between market orientation and performance (Agarwal, Erramili & Dev, 2003; Sandvik & Sandvik, 2003).

The existence of such equivocal results reinforces the need for more studies on the nature and magnitude of the relationship between market orientation and performance. Previous studies indicate existence of positive relationship between organizational culture and market orientation (Grisstein, 2006; Mcchlure, 2010). Even though researchers argue that organizational culture supports implementation of market orientation, there is little empirical evidence to support this claim. While several researchers have devoted more attention to explaining the nature of culture, fewer articles have been contributed on the relationships among organizational culture, market orientation and performance in an integrated manner.

2.8 Organizational Culture, Marketing Capabilities and Market Orientation

Culture affects other organizational variables through choices of markets, strategies and the means to achieving performance targets (Moorman, 1995). Extant literature suggests existence of a strong link between organizational culture and market orientation (Narver & Slater, 1990; Slater & Narver; 1993; Deshpande et al., 1993). The cultural perspective treats market orientation as part of organizational culture that supports implementation of marketing strategy. On the other hand, market intelligence perspective view market orientation as organizational behaviour for gathering, disseminating and responding to market intelligence.

Although researchers have different frames of reference for market orientation, there is great consensus about its goal of delivering superior customer value. Marketing capabilities are fundamental for the creation of market oriented behaviours that support strategy implementation. Despite the significant role played by organizational culture, market orientation and marketing capabilities in determining performance outcomes; knowledge about the relationships among these variables is fragmented. Several researchers focus on direct relationships such as the link between market orientation and performance; or organizational culture and performance relationships. As a result, little is known about indirect relationships and specifically the influence of marketing capabilities on the relationship between organizational culture and market orientation.

2.9 Organizational Culture, Marketing Capabilities, Market Orientation, Industry Competition and Firm Performance

The relationships among organizational culture, marketing capabilities, market orientation, industry competition and performance are rarely investigated using an integrative approach. This leads to constrained understanding of the complex relationships among the variables. The study of organizational culture has been polarised by two perspectives. On the one hand are scholars who consider culture as organizational resource (Deshpande & Webster, 1989; Narver & Slater, 1990; Deshpande et al., 1993). On the other hand are those who believe culture is what the organization is, and difficult to create or change (Legge, 1994). However, majority of marketing researchers treat organizational culture as intangible strategic resource

which can be manipulated by management to improve performance. According to Barney (1991) strategic resources may be the basis of competition in the industry if they are key determinants of profitability.

Previous studies have treated organizational culture as a variable that indirectly influences performance through marketing strategy (Slater & Narver, 1993). There is limited empirical research on the direct relationship between organizational culture and performance. Therefore, more studies are necessary to clarify the direct influence of organizational culture on performance. Kohli and Jaworski (1990) indicate that market orientation provides unified organizational focus on performance. Similarly, market orientation has been linked to improved performance through superior customer satisfaction (Kohli et al., 1993). Markedly, Hajipour and Ghanavati (2011) established that market orientation plays more important role than organizational culture in influencing financial performance. On the other hand, Mavondo and Farrell (2003) found insignificant relationship between market orientation and performance.

Despite a general positive link between market orientation and performance, evidence is not completely consistent. A contrary explanation is that market orientation and performance relationship is stronger when it is assessed using subjective performance measures (Morgan, Vorhies & Mason, 2009). Subsequently, this suggests that subjective measures of performance may lead to spurious relationship between the two variables. Therefore, additional research is necessary to shed light on direct and indirect influence of market orientation on firm performance. The resource based theory and dynamic capabilities provide theoretical foundation upon which majority of studies on firm capabilities are anchored. Surprisingly many studies have lumped firm capabilities in one basket making it difficult to distinguish the contribution of marketing capabilities on firm performance.

A positive link between marketing capabilities and performance has been found (Morgan et al., 2009; Theodosiou et al., 2012). However, Morgan et al. (2009) unearthed different performance effects depending on the type of capability. Considering that different marketing capabilities can have diverse effects on performance, there is need for further research to measure the different effects in the

microfinance context. The complex relationships among organization culture, industry competition, market orientation and firm performance has not received adequate research attention. Even though the relationship between market orientation, competitive intensity and firm performance has been investigated, findings have been contradictory. On the one hand, intensity of competition has been found to have a positive influence on performance through innovation, product quality improvement, learning and competitor orientation (Tuanmat & Smith, 2011; Al-Rfou, 2012). On the other hand, a negative relationship between competition and performance has been established.

2.10 Summary of Knowledge Gaps

A review of extant literature discussed relationships among organizational culture, competition, marketing capabilities, market orientation and performance. The review also discussed theories that support the study. Literature suggests that organizational culture has indirect positive impact on long-term organizational performance through market orientation.

Moreover, the influence of market orientation on performance is moderated by marketing capabilities. Literature further suggests that market orientated organizational culture is more relevant in turbulent marketing environment characterized by intense competition. Major findings of the review and knowledge gaps are summarized in Table 2.1.

Table 2.1: Summary of Knowledge Gaps

Study	Focus	Findings	Knowledge gaps	Focus of the current study
Njeru 2013)	Market orientation, marketing practices, firm characteristics, external environment and performance	Market orientation is positively associated with firm performance	Did not address the broader organizational culture of which market orientation is part	Testing for both direct and indirect influence of organizational culture on performance
Yesil and Kaya (2013)	Organizational culture and firm financial performance in a developing country	Organizational culture have no effect on firm financial performance (sales growth and ROA)	• Used few indicators of financial performance • Did not test for relationship between culture and non financial performance	• Use of broad indicators of financial performance • Test for relationship between organizational culture and non financial performance
Asikhia and Binuyo (2012)	Competitive intensity, customer orientation and performance relationship in Nigeria	Competitive intensity influences the relationship between customer orientation and performance	• Did not test for direct influence of competition on performance	• Test both direct and indirect influence of industry competition on firm performance
Tajudin, Musa, O., and Musa, C.N. (2012)	Organizational culture, market orientation, innovativeness and new product performance	• Organizational culture influences new product performance through innovativeness • Supplier orientation had greater impact on new product performance than market orientation	Did not test for influence of marketing capabilities	Testing the moderating influence of marketing capabilities
Morgan, Vorhies and Mason (2009)	Market orientation, marketing capabilities and firm performance	• Market orientation is directly associated with return on asset	Influence of marketing capabilities on the relationship between organizational culture and market orientation was not tested	Empirical testing of moderating effect of marketing capabilities on the relationship between organizational culture and market orientation
Morgan, Vorhies and Mason (2007)	Market orientation, marketing capabilities and firm performance	• Market orientation and marketing capabilities are complementary assets that contribute to firm performance	Tested their hypotheses in both service and goods markets; making it difficult to explain the sector where market orientation has greater impact on performance	Hypotheses were tested within the Microfinance industry
Osuagwu (2006)	Market orientation	• Market orientation practiced to a reasonable degree by Nigerian firms	Sampled firms from various sectors hence variation within and between different types	Population will be drawn from one specific industry in the financial service

Table 2.1: Summary of Knowledge Gaps (Cont'd)

			of firms and industry sectors	sector
Aluko (2003)	Culture and organizational performance	• Culture was significantly and positively associated with organizational performance	Did not test for indirect relationship between culture and performance	Tests the intervening influence of market orientation on the relationship between organizational culture and performance
Deshpande, Farley and Webster (1993)	Corporate culture, customer orientation and innovativeness	Business performance was positively associated with customer orientation	Measures of performance was based on individual perceptual assessments	Triangulation of measurement techniques
Jaworski and Kohli (1993)	Antecedents and Consequences of market orientation	• Market orientation is related to top management emphasis, risk aversion and reward system • The link between market orientation and performance is strong in turbulent and competitive markets	• Did not test how organizational culture interacts with market orientation to influence performance • Used subjective measures of performance	• Testing the moderating influence of market orientation on the relationship between organizational culture and performance • Objective indicators of performance will be adopted

2.11 Conceptual Framework and Hypotheses

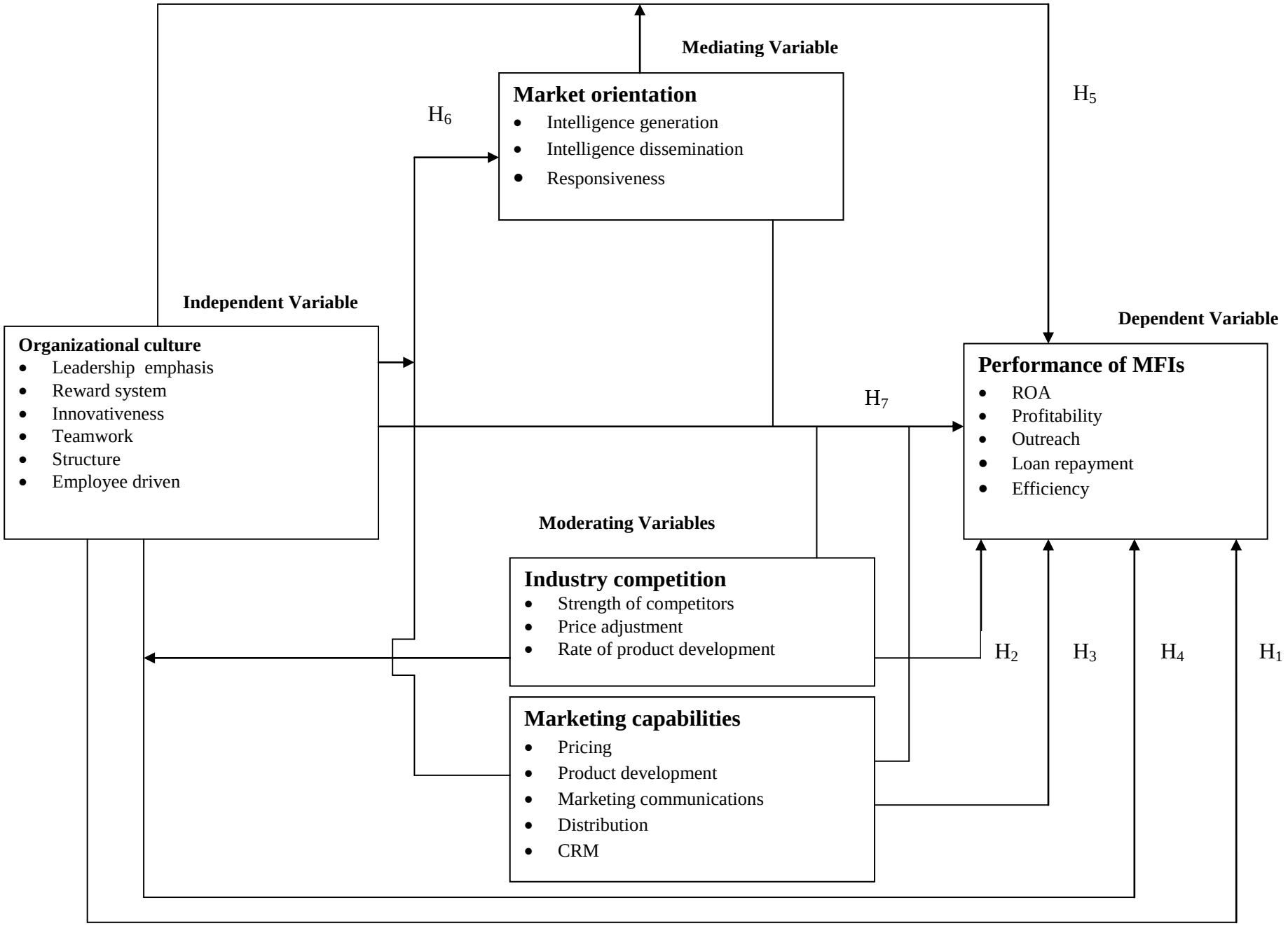
2.11.1 Conceptual Framework

The conceptual fmodel in Fig. 2.1 hypothesizes the influence of organizational culture on performance of MFIs through market orientation as a mediating variable. The model conceptualizes industry competition and marketing capabilities as moderating variables.

The conceptual framework shows direct and indirect relationships among organizational culture, market orientation, marketing capabilities, industry competition and performance. Organizational culture is the explanatory variable whereas firm performance is the explained variable. Market orientation is hypothesized to mediate the relationship between organizational culture and firm performance.

Industry competition is hypothesized to have a direct effect on firm performance besides moderating the relationship between organizational culture and performance. Marketing capabilities moderates the relationship between organizational culture and market orientation. Finally, organizational culture, marketing capabilities, market orientation and industry competition are expected to jointly influence firm performance.

Fig. 2.1 Conceptual Model



Source: Developed by Researcher from Literature Review

2.11.2 Conceptual Hypotheses

The conceptual hypotheses of the study were:

Hypothesis 1: There is a significant relationship between organizational culture and performance of microfinance institutions

Hypothesis 2: There is a significant relationship between industry competition and performance of microfinance institutions

Hypothesis 3: There is a significant relationship between marketing capabilities and performance of microfinance institutions

Hypothesis 4: The relationship between organizational culture and performance of microfinance institutions is significantly moderated by industry competition

Hypothesis 5: The relationship between organizational culture and performance of microfinance institutions is significantly mediated by market orientation

Hypothesis 6: The relationship between organizational culture and market orientation is significantly moderated by marketing capabilities

Hypothesis 7: The joint effect of organizational culture, marketing capabilities, market orientation and industry competition on performance is statistically significant

The hypotheses were derived from theory, conceptual and empirical literature. Literature suggests that organizational culture, market orientation and marketing capabilities are positively associated with performance. The resource advantage theory, dynamic capabilities theory and the comparative advantage theory maintain that organizational culture, market orientation and marketing capabilities are intangible organizational resources that positively influence performance by enhancing a firm's competitive advantage in the market. Empirical literature reveals that industry competition is positively associated with performance. In addition, theories of competition explain that industry competition sensitizes a firm to respond more effectively by delivering superior customer needs hence, leading to improved organizational performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the research philosophy, research design, population of the study and data collection techniques. In addition, the chapter addresses concerns for reliability and validity. The chapter also describes statistical techniques that were used in data analysis.

3.2 Research Philosophy

Research philosophy refers to how knowledge is developed about reality and the nature of that knowledge. It explains assumptions that people make about nature of reality (Babbie, 2010). The various research philosophies consist of positivism, constructivism, participatory and pragmatism. Positivism also called empirical science hold a deterministic philosophy in which causes determine effects or outcomes (Creswell, 2012). Under positivist approach, research begins with theory then data is collected to either support or refute the theory (Creswell, 2012). The philosophy assumes that there is no absolute truth; research is the process of making claims and then refining or abandoning some of them for other claims. It is further assumed that data and rational considerations shape knowledge; and that competent inquiry demands objective judgement and examination of methods and conclusions for bias.

Constructivism also known as interpretivism assumes that individuals seek understanding of the world in which they live and work (Bhattacherjee, 2012). The perspective assumes existence of multiple realities that are socially constructed. Interpretive methods employ inductive approach that starts with data to derive a theory about the phenomena of interest. The current study was guided by positivism philosophy and used a deductive approach. Deductive approach aims at testing concepts and patterns drawn from theory using empirical data. The study was guided by theories and it aimed at testing hypothesized relationships. Positivism is the preferred philosophy for studies that involve hypotheses testing.

3.3. Research Design

The study adopted a descriptive cross-sectional survey design. Descriptive studies are concerned with description of phenomena or characteristics associated with a subject population (Cooper & Schindler, 2006). Descriptive studies determine the direction and strength of relationships between or among variables. The descriptive design was chosen because the study aimed at describing relationships among different variables namely: organizational culture, marketing capabilities, market orientation, industry competition and performance.

Zikmund (2003) points out that cross-sectional study involves collection of data at a single point in time. Babbie (2010) observes that many descriptive studies are cross-sectional in nature. The cross-section research design was selected because the study was a survey involving collection of data at one point in time. In addition, the cross sectional survey was preferred because it enables assessing relationships between variables and it provides opportunity to identify moderators between variables. The descriptive cross-sectional design has been previously used in similar studies by several researchers including Munyoki (2007); Machuki (2011); Kinoti (2012) and Njeru (2013).

3.4 Population of the Study

The target population comprised all microfinance institutions in Kenya that were members of the Association of Microfinance Institutions (AMFI). Out of the 55 MFIs, 5 were commercial banks offering microfinance services. In addition, the population consisted of 5 wholesale microfinance lenders, 16 deposit taking micro-finance (DTM) institutions and 29 retail microfinance lenders. In related studies, Thuo (2010) used a population of 43 registered commercial banks in Kenya while Machuki (2011) sampled 33 firms listed in the Nairobi securities market.

Microfinance institutions were deliberately chosen because of the nature of competition in the industry that forces firms to adopt cultural values, market orientation and to develop marketing capabilities in order to survive. Presence of these conditions was necessary for describing the influence of organizational culture, marketing capabilities, market orientation and industry competition on performance.

In addition, microfinance institutions were selected for the study due to the contribution they make to the economy through financial inclusion and employment creation.

3.5 Data Collection

Data were obtained from both secondary and primary sources. Secondary data were extracted from published annual industry performance reports by AMFI and MF Rating Africa. Secondary data were specifically extracted from the 2012 and 2013 annual reports on the microfinance sector in Kenya. Secondary data were used to measure financial performance of MFIs and to test relationships among independent variables and financial performance. Primary data were collected using semi-structured questionnaire. The questionnaire targeted Chief Executive Officer, Human Resources Manager and Marketing Manager. Aggregated individual scores were used to reduce one source response bias. The choice of these interviewees was informed by the nature of their jobs that makes them custodians of information about organizational culture, marketing capabilities, market orientation, industry competition and firm performance.

The questionnaire was divided into five major sections each of which captured data on key variables of the study. The questionnaire was pretested on deposit taking co-operative societies in Nairobi city. The questionnaire was revised after the pre-test and a final draft prepared for collection of data. The questionnaires were administered through drop and pick method and mail. The questionnaire was emailed to all respondents followed by personal visits to respondent organizations by research assistants. Research assistants were trained on interviewing skills including developing rapport, convincing respondents to provide relevant data and seeking clarifications whenever necessary. Research assistants booked appointment with respondent organizations at least two days before visiting to pick completed questionnaires.

3.6 Reliability and Validity Tests

Reliability refers to consistency or stability of measurement under a variety of conditions (Nunally, 1978). Reliability is influenced by the level of variation in scores

attributed to random errors (Churchill, 1979). Random errors arise from inaccurate recording, ambiguous instructions to respondents, interviewer and interviewee fatigue. Multi-item scales were used to measure factors in the study. Although the items were adopted from established scales documented in literature, the items were modified to fit the current study. Consequently, a pilot study was conducted to assess the reliability of measurement scales. Pilot test data were obtained from senior management of deposit taking co-operative societies in Nairobi City. Deposit taking co-operatives were chosen for pilot test because their operations closely resemble the nature of business carried out by microfinance institutions. Reliability was tested through internal consistency technique by computing Cronbach's alpha. Bryman and Bell (2011) assert that Cronbach's alpha indicates the average of all possible split-half reliability coefficients. Cooper and Schindler (2006) suggest that Cronbach's alpha ranging between 0.7 and 0.9 is considered good for reliability test. Therefore, in the current study, Alpha coefficient of 0.7 and above was interpreted to mean satisfactory reliability.

Validity estimates how accurately the data obtained in the study represents a given variable or construct (Doodley, 2003). The various types of validity consist of face validity, concurrent validity, predictive validity, construct validity and convergent validity (Babbie, 2010). Validity concerns were dealt with in the current study. For instance, face validity was addressed by discussing the questionnaire with experts in marketing, organizational behaviour and strategy. Content validity was enhanced by adopting established measurement scales that were documented in literature. Construct validity was tested through factor analysis.

3.7 Tests of Assumptions of Regression Analysis

Statistical tests rely upon certain assumptions about the variables used in the analysis. When the assumptions are not met, the results may not be trustworthy resulting into either Type I or Type II error or over or under-estimation of significance or effect sizes. The assumptions of the regression analysis are of two kinds; those that are robust to violations and the other kind consist of assumptions that are not robust to violations. This thesis specifically addressed assumptions of multiple regression that

are not robust to violations. These assumptions comprise linearity, reliability of measurement, homoscedasticity and normality.

Regression analysis assumes that variables have normal distribution. In connection to this, variables with substantial outliers can distort relationships and significance tests. Normality was tested through P-P plots. Outliers were removed to reduce measurement error. The relationships between independent and dependent variables were examined for linearity. Theories as well as previous empirical evidence were used to inform analyses in the current study. The assumption of homoskedasticity was checked by visual examination of the standardized residuals by the regression standardized predicted value.

3.8 Operationalization of Study Variables

Each variable was measured using its component indicators. Composite scores were computed to measure the variables. Table 3.1 provides operational domains of the variables and their measurement scales.

Table 3.1 Operational Definitions and Measures of Variables

Variable	Variable Domain	Nature of Variable	Measures	Supporting Evidence from Literature	Investigative Questions
Organizational culture	• Leadership • Systems • Shared values • Employee management • Strategy	Continuous	Rating scale	Deal and Kennedy (1982) Byles and Keating (1989) Denison and Mishra (1995) Hajipour and Ghanavati (2011)	10 - 15
Market orientation	• Market intelligence generation • Market intelligence dissemination • Responsiveness	Continuous	Rating scale	Hajipour and Ghanavati (2011) Asikhwa and Binuyo (2012)	16
Marketing capabilities	• Pricing • Product development • Marketing communications • Distribution • Customer relations	Continuous	Rating scale	Vorhies and Morgan (2005) Morgan, Vorhies and Mason (2009) Morgan, Slotegraaf and Vorhies (2009) Merrilees, Rundle-Thiele and Lye (2010)	17
Industry competition	• Intensity of competitive reaction • Rate of product development • Extent of product differentiation • Frequency of adverts • Intensity of price	Continuous	Rating scale	Mia and Clarke (1999) Chong and Rundus (2004) Nickell (2006)	18-19

Table 3.1 Operational Definitions and Measures of Variables (Cont'd)

	based competition • Market entry costs				
Non financial firm performance (Perceptual measures)	• Financial sustainability • Number of active borrowers • Loan repayment performance • Corporate reputation • Profitability	Continuous	Rating scale	Morgan, Vorhies and Mason (2009) Al-Rfou (2012)	21
Financial Performance	• ROA • Debt/equity ratio • Average loan balance per borrower • Loan repayment performance	Discrete/ Continuous	Ratio scale	Vorhies and Morgan (2005) Morgan, Slotegraef and Vorhies (2009) Morgan, Vorhies and Mason (2009)	20

3.9 Data Analysis

Data obtained were cleaned by removing outliers and incomplete data. Data were analyzed at two stages. The first stage of processing involved descriptive analysis which consisted of frequency distributions, mean scores, standard deviations and coefficient of variation. Descriptive analysis aimed at summarizing distributions and describing a set of data on factors of the study. The second level of analysis involved testing for relationships between and among variables. Simple regression and multiple regression analysis were used to test for direct and indirect relationships respectively.

The general regression model was in the form of:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \ldots + \beta_n x_n + e$$

Where:

y = value of the dependent variable

β_0 = Regression constant

The coefficients $\beta_1, \beta_2, \beta_{3,\ldots,}\beta_n$ measured the change in a dependent variable with respect to a unit change in an explanatory variable, holding other factors constant.

e = the error/disturbance term. It accounted for variables other than those specified in the model that explains changes in the dependent variable.

The regression model that was used to test the influence of explanatory variables on firm performance was in the form:

Firm performance = β_0 + $\beta_1$organizational culture + $\beta_2$market orientation + $\beta_3$marketing capabilities + B_4competition + *e*

A summary of analytical framework is presented in Table 3.2

3.10 Mediation and Moderation Tests

Mediating influence of market orientation on the relationship between organizational culture and firm performance was tested through the four steps of path analysis proposed by Baron and Kenny (1986). Path analysis is a technique used to examine the comparative strength of direct and indirect relationships among variables. In the current study, the technique was used to analyze the direct and indirect influence of organizational culture on performance of MFIs. It was hypothesized that organizational culture indirectly influences performance through market orientation.

The path diagram for mediation tests is shown in Figure 3.1. The moderating influence of industry competition was assessed by testing the influence of interaction term of industry competition and organizational culture on firm performance.

Similarly, the influence of the interaction term between marketing capabilities and organizational culture on market orientation was tested to determine moderation.

Fig. 3.1: Path Analysis Diagram for Mediation Tests

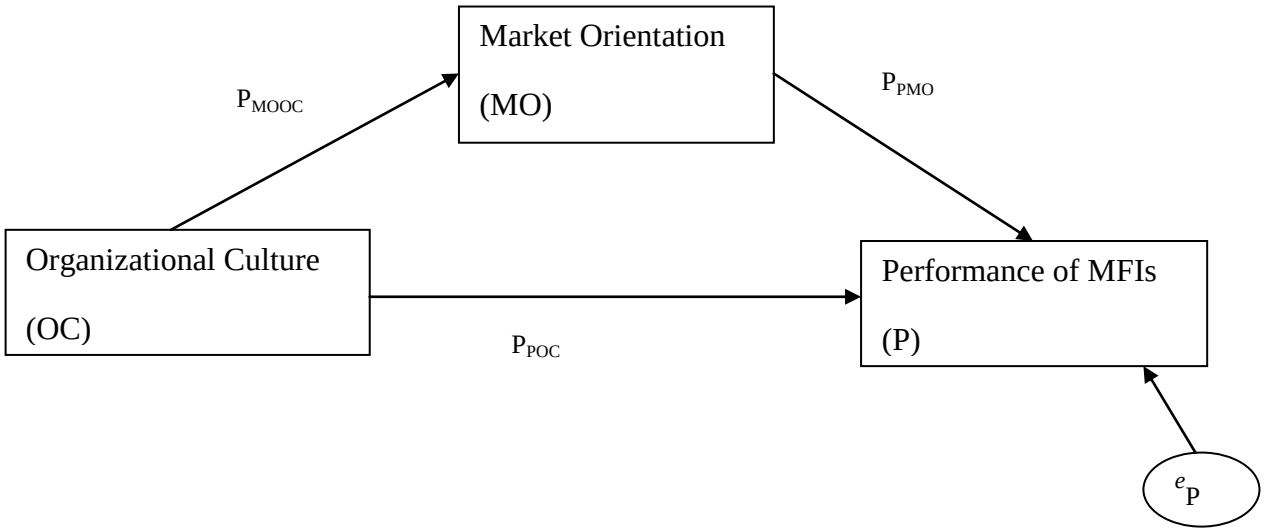


Table 3.2: Summary of Analytical Models

Objectives	Hypothesis	Analysis	Interpretation
Objective1: To assess the relationship between organizational culture and performance of micro-finance institutions	H1: There is a significant relationship between organizational culture and firm performance	Simple regression analysis $y = \beta_0 + \beta_1 OC + e_1$ *Where:* y = composite score of performance β_0 = regression constant OC = composite score of organizational culture e_1 = error term	• R^2 to assess how much change in performance is due to organizational culture • F - test to assess overall robustness and significance of the simple regression model • t - test to determine significance of organizational culture
Objective 2: To assess the influence of industry competition on performance of microfinance institutions	H2: There is a significant relationship between industry competition and performance of microfinance institutions	Simple regression analysis $y = \beta_0 + \beta_2 IC + e_2$ *Where:* y = composite score of performance β_0 = regression constant IC = composite score of industry competition e_2 = error term	• R^2 to assess how much variation in performance is due to industry competition • F - test to assess overall robustness and significance of the simple regression model • t - test to determine significance of industry competition
*Objective 3:*To establish the relationship between marketing capabilities and performance of microfinance institutions	H3: There is a significant relationship between marketing capabilities and performance of microfinance institutions	Simple regression analysis $y = \beta_0 + \beta_3 MC + e_3$ *Where:* y = composite score of performance β_0 = regression constant MC = composite score of marketing capabilities e_3 = error term	• R^2 to assess how much change in performance is due to marketing capabilities • F - test to assess overall robustness and significance of the simple regression model • t - test to determine significance of marketing capabilities
Objective 4: To establish the extent to which industry competition influences the relationship between organizational culture and performance of microfinance institutions	H4: The relationship between organizational culture and performance of microfinance institutions is significantly moderated by industry competition	Multiple regression analysis $y = \beta_0 + \beta_{41} OC + \beta_{42} IC + \beta_{43} U + e_4$ *Where:* y = composite score of performance β_0 = constant $\beta_{41} \ldots \beta_{43}$ = regression coefficients OC= composite score of organizational culture IC= composite score of industry competition U= interaction term of organizational culture and industry competition e_4 = error term	• R^2 to assess how much change in performance is due to its relationship with organizational culture and industry competition • A significant change in R^2 upon introduction of the interaction term U confirms a moderating effect • F - test to assess overall robustness and significance of the regression model • t - test to determine significance of individual variables

Table 3.2: Summary of Analytical Models (Cont'd)

Objective 5: To determine the influence of market orientation on the relationship between organizational culture and performance of microfinance institutions	H5: The relationship between organizational culture and performance of microfinance institutions is significantly mediated by market orientation	Path analysis Step 1: $y = \beta_0 + \beta_{51}OC + e_5$ Step 2: $MO = \beta_0 + \beta_{61}OC + e_6$ Step 3: $y = \beta_0 + \beta_{71}MO + e_7$ Step 4: $y = \beta_0 + \beta_{81}OC + \beta_{82}MO + e_8$ *Where:* y = composite score of performance β_0 = regression constant OC = composite score of organizational culture MO = composite score of market orientation $e_5 \ldots e_8$ = error terms	• R^2 to assess how much change in performance is due to organizational culture and market orientation • F - test to assess overall robustness and significance of the regression model • t - test to determine the significance of individual variables • Some form of mediation is supported if the effect of MO remains significant after controlling for OC • Full mediation is supported if OC is no longer significant when MO is controlled • Partial mediation is supported if both OC and MO significantly predict performance
Objective 6: To determine the influence of marketing capabilities on the relationship between organizational culture and market orientation	H6: The relationship between organizational culture and market orientation is significantly moderated by marketing capabilities	Multiple regression analysis $MO = \beta_0 + \beta_{91}OC + \beta_{92}MC + \beta_{93}U + e_9$ *Where:* MO = composite score of market orientation β_0 = regression constant $\beta_{91} \ldots \beta_{93}$ = regression coefficients OC = composite score of organizational culture MC = composite score of marketing capabilities U= interaction term of organizational culture and marketing capabilities e_9 = error term	• R^2 to assess how much change in performance is due to organizational culture and industry competition • A significant change in R^2 upon introduction of the interaction term U confirms a moderating effect • F - test to assess overall robustness and significance of the regression model • t - test to determine significance of individual variables
Objective 7: To establish the joint effect of organizational culture, marketing capabilities, market orientation and industry competition on performance of micro-finance institutions	H7: The joint effect of organizational culture, marketing capabilities, market orientation and industry competition on performance is significantly greater than the sum of the effects of individual variables	Multiple regression analysis $y = \beta_0 + \beta_{101}OC + \beta_{102}MC + \beta_{103}MO + \beta_{104}IC + e_{10}$ y = composite score of performance OC = composite score of organizational culture MC = composite score of marketing capabilities MO = composite score of market orientation I C= composite score of industry competition e_{10} = error term	• R^2 and change in R^2 to assess how much change in performance is due to independent variables • F - test to assess overall robustness and significance of the simple regression model • t - test to determine significance of individual variables

CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The chapter presents information about the profile of respondents and organizations that constitute population of the study. The chapter begins by presenting response rate, respondent characteristics followed by results of reliability and validity testing. Subsequently, the chapter provides detailed results which are presented using descriptive statistics and a variety of inferential statistics.

4.2 Response Rate

The study was a descriptive cross-sectional survey of microfinance institutions that were members of the Association of Microfinance Institution (AMFI) as of June 2014. Out of the listed 57 members of AMFI, 2 had ceased being microfinance institutions. Consequently, the true population size was 55. One out of the 55 microfinance institutions could not be located. Therefore, questionnaires were sent out to 54 organizations. Out of the 54 MFIs, one declined to participate. Fifty three (53) organizations participated in the survey translating to a response rate of 96%.

This was a high response rate compared to similar studies conducted by Njeru (2013); Kinoti (2012); Machuki (2011); Thuo (2010); and Munyoki (2007). Response rate was boosted by a letter of support from AMFI to members seeking their cooperation in the study (Appendix II). Questionnaires targeted the chief executive officer, human resource manager and marketing manager. Aggregate scores were computed from three individual respondents from each organization. Aggregate scores were used to reduce single source response bias.

4.3 Respondent Characteristics

Descriptive statistics were used to analyze the respondent characteristics. Respondent's bio-data comprised age, gender and length of service in the microfinance industry. The relevant responses are presented in the following sub-sections.

4.3.1 Respondent's Gender and Age

Respondent's gender and age were assessed to understand their distribution among top management in the microfinance industry. In many industries, top management is dominated by elderly people. However, studies have shown that younger executives are associated with greater strategic change and that older executives are slow in driving behavioural change in organizations (Wiersema & Bantel, 1992). The distribution of respondent's gender and age are contained in Table 4.1.

Table 4.1: Distribution of Respondents by Gender and Age

Age	**Gender**				**Row Total (%)**
	Male		Female		
	n	%	n	%	
Below 25	0	0	2	3.8	3.8
25 - 29	10	18.9	8	15.1	34
30 - 34	9	17	2	3.8	20.8
35 - 39	7	13.2	3	5.7	18.9
40 - 44	3	5.7	2	3.8	9.5
45 - 49	5	9.4	0	0	9.4
50 and above	2	3.8	0	0	3.8
Column Total	**36**	**68%**	**17**	**32%**	**100**

Source: Primary Data

As shown in Table 4.1, more than one third (37.8%) were below 30 years old. Respondents aged 50 and above accounted for only 3.8 percent of the sample. Results suggest that youths constitute 59% of top management in the microfinance industry. Involvement of the youth in top management is likely to enhance adoption of new cultural norms and values by organizational members. Males were more than double the number of females. Results in Table 4.1 reveal that 68% of the respondents were males while females constitute 32%. The gender distributions are not surprising considering underrepresentation of women in management positions in both public

and private sector in Kenya. Although women are underrepresented in management positions in the microfinance industry, studies have indicated positive relationship between female representation in top management and firm performance (Hussein & Kiwia, 2009).

4.3.2 Respondent's Gender and Length of Service in the Microfinance Industry

Length of service in a particular industry is relevant in explaining acquisition of relevant skills, industry knowledge and employee productivity. Adoption of organizational culture by employees is a gradual process that is facilitated by social interactions among organizational members, length of service in the organization and employee personal factors. Therefore, information about length of service in a particular industry is necessary for explaining other organizational variables such as culture and performance. The pertinent data on gender and length of service by top management in the microfinance industry is presented in Table 4.2.

Table 4.2: Distribution of Respondents by Gender and Length of Service

Gender	**Years of Service in Microfinance Industry**						**Row Total (%)**
	n	Below 5 (%)	5 – 9 (%)	10 – 14 (%)	15 – 19 (%)	20 and above (%)	
Male	36	18.9	32.1	9.4	1.9	5.7	67.9
Female	17	20.8	7.5	3.8	0	0	32.1
Column Total	**53**	**39.7**	**39.6**	**13.2**	**1.9**	**5.7**	**100**

Source: Primary Data

The Results in Table 4.2 show that 5.7% of respondents had a service of at least 20 years in the microfinance industry. Majority of the respondents (79.3%) had length of service of less than 10 years. These results reflect relatively low levels of cumulative industry experience among top management in the microfinance industry. Results in Table 4.2 further show that males had longer work experience in the microfinance industry as compared to females. With exception of two, females had less than 10 years of work experience in the microfinance industry. In contrast, 17% of males had work experience exceeding 10 years in the microfinance industry. From the above

analysis, it is evident that longer length of service among men in the microfinance industry partly explains their dominance in top management positions.

The relationship between age of managers and length of service in the microfinance industry was assessed through Chi-square test. The relevant results are presented in Table 4.3.

Table 4.3: Chi-square Results of Age and Length of Service in the Microfinance Industry

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	82.082[a]	24	.000
Likelihood Ratio	51.489	24	.001
Linear-by-Linear Association	26.543	1	.000
N of Valid Cases	**53**		

Source: Primary Data

Results presented in Table 4.3 shows that a manager's age is significantly associated with length of service in the microfinance industry. These results are consistent with common sense expectation that older people are more likely to have greater cumulative work experience than younger employees. The results suggest that elderly managers are more inclined to stay longer in the microfinance industry.

4.4 Demographic Profile of Respondent Firms

The demographic characteristics of respondent firms covered information about age of the institution, geographic coverage and number of employees engaged on permanent terms. Age of the firm was assessed by measuring the number of years that each firm has been operating as microfinance institution. Outreach was assessed by measuring the number of branches operated by each microfinance institution. Results of respondent firm characteristics are presented in the following sub-sections.

4.4.1 Age of Microfinance Institutions

Age was defined as the number of years since inception of the microfinance institution. Results of the distribution of age of MFIs are presented in Table 4.4.

Table 4.4: Age of Microfinance Institution

Age (Number of Years)	Frequency	Percent (%)
Less than 5	16	30.2
5 - 9	16	30.2
10 - 14	10	18.9
15 and above	11	20.8
Total	**53**	**100.0**

Source: Primary Data

It was established that microfinance institutions were at different stages of growth as exemplified by results in Table 4.4. Thirty percent of the firms had been in operation for less than 5 years. Another 30% of microfinance institutions had been operating for a period ranging between 5 and 9 years. In contrast, 40% of the firms had been offering microfinance services for more than 10 years. The results demonstrate diversity of age among organizations in the microfinance industry. Majumdar (1997) supports the argument that older firms enjoy the benefits of experience and learning and therefore, are likely to achieve superior performance. Building on this argument, holding other things constant, one would expect superior performance in at least 21% of the microfinance institutions in Kenya.

An opposing explanation is that there is a negative relationship between age of a firm and performance (Vlachvei & Notta, 2008). Proponents of this argument suggest that older firms grow less rapidly than younger firms. However, explanation of the relationship between age of the firm and performance can be clearly understood when the environmental context in which firms are operating is considered in the analysis. Furthermore, the ability of organizations to acquire and deploy resources as they grow

is an important factor that should be considered in analyzing age and performance relationship.

4.4.2 Level of Outreach by Microfinance Institutions

Microfinance institutions have both social and financial objectives. Level of outreach is used as an indicator of social performance among microfinance institutions. Outreach is measured in many dimensions including depth, breadth, length and scope (Kereta, 2007). In the current study, outreach was measured using number of branches operated by a microfinance institution. Relevant data are shown in Table 4.5.

Table 4.5: Number of Branches Operated by Microfinance Institutions

Number of Branches	Frequency	Percent (%)
Less than 10	31	58.5
10 – 19	9	17.0
20 – 29	6	11.3
30 and Above	7	13.2
Total	**53**	**100.0**

Source: Primary Data

The results in Table 4.5 show that more than half (59%) of microfinance institutions in Kenya had less than 10 branches. Seventeen percent of the firms had between 10 and 19 branches. The results further indicate that 34% of the MFIs offer their services in at least 20 branches across the country. The findings connote low levels of outreach by majority of the microfinance institutions. Low level of outreach is an indicator of weak social performance in the microfinance industry. On the other hand, low levels of outreach signify level of competition or stage of growth in the industry life cycle. It appears that a quarter (25%) of the firms have relatively good outreach and subsequently good social performance.

To enable better understanding of the link between age of microfinance institutions and outreach, a Chi-square test was performed. Results of Chi-square test are presented in Table 4.6.

Table 4.6: Chi-square Results of Age and Outreach

Chi-Square Tests	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.929a	9	.050
Likelihood Ratio	18.880	9	.026
Linear-by-Linear Association	10.204	1	.001
N of Valid Cases	53		

Source: Primary Data

The results in Table 4.6 indicate existence of a significant association between age of the firm and outreach level. This means that older firms are more likely to have many branches than relatively younger firms. Consequently, older firms are better placed to accomplish their social performance objective than younger firms. Although a relationship between age and outreach is evident, the significance levels suggest a moderate relationship implying that one cannot rule out younger firms opening many branches. Furthermore, scope of outreach cannot be explained by age of the organization alone. Other factors including access to resources such as finances are necessary for operating large branch network. Therefore, young firms with access to resources can accommodate the cost burden of large branch network.

4.4.3 Number of Permanent Employees

Employees are key pillars of organizational performance. Organizations which employ people with superior skills, knowledge and appropriate attitude can improve their competitive advantage. In addition, organizational culture and market orientation are behavioural constructs that are influenced by social interactions among employees. Behaviour of organizational members is influenced by the culture emphasized by leaders and transmitted through socialization process. Therefore, culture is both a product of employee interactions and a determinant of employee

behaviour. Results of permanent employees in the microfinance institutions are contained in Table 4.7.

Table 4.7: Number of Permanent Employees

Number of Permanent Employees	Frequency	Percent
1 – 50	29	54.7
51 – 100	5	9.4
101 – 150	6	11.3
151 and above	13	24.5
Total	**53**	**100.0**

Source: Primary Data

Microfinance institutions in Kenya operate at different levels of human resource capacity. The pertinent results in Table 4.7 illustrate three different categories of firms in terms of size of permanent workforce. Majority of the firms (55%) employed at most 50 on permanent basis. It was also observed that 21% of the firms employed between 51 and 150 employees on permanent terms. Further, 25% of MFIs employed at least 150 employees on permanent basis. From these results, it can be deduced that MFIs exist in three tiers namely: small, medium and large. The results suggest that the microfinance industry is dominated by 25% of the firms.

4.4. Reliability and Validity of the Instrument

Although the study adopted established scales from literature, it was necessary to test their internal consistency since majority of the measures were modified to suit the current study. Reliability of measurement scales was assessed by computing Cronbach's Alpha coefficients. The results of reliability tests are summarized in Table 4.8.

Table 4.8: Summary of Reliability Tests

Variable	Measures	N	Grand Mean	No. of Items	Cronbach's Alpha Coefficient
Organizational Culture	Leadership emphasis Reward system Innovativeness Teamwork Employee driven	53	3.85	12	.819
Market Orientation	Intelligence generation Intelligence dissemination Responsiveness	53	3.47	27	.903
Marketing Capabilities	Pricing Product development Marketing communications Distribution CRM	53	3.63	20	.921
Industry Competition	Strength of competitors Price adjustment Rate of product development	53	3.39	12	.724
Non Financial Firm Performance	ROA Profitability Outreach Loan repayment Efficiency	53	3.56	12	.896
Financial Performance	Debt/equity ratio Operating expense ratio Average loan balance	53		28	.764

Source: Primary Data

Table 4.8 shows that Cronbach's alpha coefficient ranged from 0.724 (Industry Competition) to 0.921 (Marketing Capabilities) revealing a high degree of reliability. The results indicate that all constructs had high scores of reliability coefficients. Marketing Capabilities and Market Orientation in that order had the highest reliability scores. Industry Competition had lowest reliability score although it was above the 0.7 cut-off point for reliability test (Nunnally, 1978).

Construct validity was measured through factor analysis. Construct validity test shows how well the measure reflects the target construct (Doodley, 2003). The Principal Component Analysis was used in extracting the factors. Factors were rotated through Varimax rotation method. Four factors loaded on the organizational culture construct. Seven factors loaded on market orientation construct. Besides, five factors loaded on marketing capabilities construct. Industry competition and non financial performance were each represented by 3 factors. It was established that factors for all the variables under the study were uni-dimensional. Consequently, the measures were considered both reliable and valid indicators of the constructs of the study.

4.5 Descriptive Statistics for Organizational Culture

Table 4.9 presents descriptive statistics for organizational culture. The measurement scale comprised of 12 question items. The items were measured using a monotonic 5-Point rating scale ranging from 1 to 5; where 1 represented 'not at all' and 5 signified 'very large extent'. Respondents were asked to indicate the extent to which each statement matched cultural traits in their organizations. Results of descriptive analysis are presented in Table 4.9.

Table 4.9: Mean Scores and Standard Deviations for Organizational Culture

No.	Organizational Culture Items	N	Mean	Std. Dev.	C_V
1	Departmental heads strive to deliver superior customer value	53	4.40	.660	.15
2	Emphasis on customers and competitors by CEO across departments	53	4.40	.793	.18
3	Employees embrace teamwork	53	4.25	.782	.184
4	Existence of established effective systems, policies and guidelines	53	4.19	.833	.199
5	Strategies reviewed from time to time to effectively respond to environmental changes	53	4.08	.874	.214
6	Management creates bonding sessions at least once a year	53	4.00	1.000	.25
7	Risks are avoided in business practices	53	4.00	.941	.235
8	Inputs of every employee is considered in management decision	53	3.87	.878	.227
9	Structural adjustments are carried out to adapt to changes in the market	53	3.83	1.051	.274
10	Customer satisfaction is the basis of employee rewards	53	3.34	1.143	.342
11	Focus on external environment takes priority over internal orientation	53	2.98	.930	.312
12	Investment in research and innovation	53	2.87	1.210	.422
	Overall Mean and Std. Dev		**3.85**	**0.925**	**.24**

Source: Primary Data

The first item on the scale sought to find out the extent to which departmental heads strived to deliver superior customer value. A mean score of 4.4 and coefficient of variation of 15% were obtained. The results indicate that delivery of superior value to

customers was a major focus of departmental heads in majority of the firms. This implies that majority of microfinance institutions are customer oriented.

The second item (Mean = 4.4, C_V = 18%) asked respondents to indicate the extent to which Chief Executive Officer (CEO) placed emphasis on customers and competitors across all departments. The results indicate that in majority of the microfinance institutions, top management emphasized market oriented values across all departments within the organization. Items 3 and 6 tested the extent to which teamwork was embraced by employees and the extent to which management created annual bonding sessions respectively. The results (M = 4.25, C_V= 18.4%) for item 3 and (M = 4.0, C_V = 25%) for item 6 indicate that organizational members in majority of the firms embraced teamwork. Teamwork was enhanced through regular bonding sessions and interpersonal interactions. Teamwork is an element of both collaborative culture and market culture. Therefore, results suggest the presence of both market and collaborative culture in the microfinance industry.

Item 4 sought to assess the extent to which effective systems, policies and guidelines existed among microfinance industry. Results (M = 4.19, C_V = 19.9%) demonstrate that majority of the firms had put in place effective systems, policies and guidelines. This implies that MFIs had formal and established way of doing things. Consequently, organizational members shared common cultural values that are congruent with existing policies and systems. Item 5 and 9 had a mean score of 4.08 and 3.83 respectively. The two items intended to detect the extent to which strategies and structure were reviewed to respond to changes in the external environment. It was established that majority of the firms from time to time reviewed their strategies and organizational structure to make them more responsive to changes in the environment. Item 7 sought to assess the extent of risk avoidance in business practices by organizations. The results (M = 4.0, C_V = 23.5%) indicate that risk taking behaviour was discouraged by majority of the firms. Risk taking is an element of entrepreneurial culture. Considering that employees adopt values and behaviours that are emphasized by top management, avoidance of risks is an indication of low levels of entrepreneurial thrust in the microfinance industry. Item 8 assessed the extent to which employees were involved in decision making. The Results (M = 3.87, C_V =

22.7%) point out involvement of employees in decision making in majority of the firms. Therefore, it appears that the contributions of every employee in decision making were valued by organizations.

Consultative engagement with organizational members indicates presence of collaborative culture and is unlikely to be experienced in bureaucratic organizations. The results indicate that majority of the firms had attributes of collaborative culture. Investment in research and innovation (Item 12) attracted low rating ($M = 2.87$; $C_V = 42.2\%$). The low rating suggests that research and innovation was not a common practice among microfinance institutions. Putting into consideration these findings, it can be argued that majority of the firms did not have values associated with entrepreneurial culture.

4.6 Descriptive Statistics for Industry Competition

Competition affects firms in different ways depending on industry characteristics. In some industries, competition negatively affects performance and in extreme cases eliminates weaker firms from the market. In other industries, competition positively impacts on performance by forcing firms to embrace innovation and deliver superior value to customers. Industry competition in the microfinance industry was measured by 12 question items. The items were constructed using indicators of competition documented in literature. A 5-point monotonic rating scale was used to measure the items. The lowest rating on the scale was 1 which symbolized 'not at all'. On the other hand, the highest rating on the scale was 5 which represented 'very large extent'. Results of mean scores and standard deviation distributions are presented in Table 4.10.

Table 4.10: Mean Scores and Standard Deviations of Industry Competition

No.	Industry Competition Items	N	Mean	Std. Deviation	C_V
1	Customers have several alternative service providers	53	4.40	.768	.175
2	Top management emphasize wider geographic outreach	53	3.79	1.098	.29
3	Quick matching of competitor's market offering	53	3.74	1.095	.293
4	High start-up costs for microfinance	53	3.74	1.179	.315
5	Intensity of industry competition	53	3.62	.904	.25
6	Competitors react fast to actions by any single company in the industry	53	3.55	1.030	.29
7	Lending rates reviewed to attract more borrowers as competition intensifies	53	3.49	1.085	.311
8	Rapid rate of new products introduction in the industry	53	3.45	1.048	.304
9	Presence of promotion wars	53	3.21	1.116	.348
10	Cost of serving customers keeps on rising over time	53	3.00	1.193	.398
11	Lending rates reviewed at least twice a year	53	2.72	1.246	.458
12	Competitors are relatively weak	53	1.98	1.101	.556
	Overall Mean and Std. Deviation		**3.39**	**1.072**	**.316**

Source: Primary Data

Table 4.10 indicates that the overall mean score was 3.39 which imply that the intensity of competition was moderate in the microfinance industry. Evidence for large number of service providers is contained in item 1 which scored a mean of 4.40. The item had asked respondents to indicate the extent to which customers have alternative service providers. The results indicate that to a large extent, customers had several alternative service providers. This partly explains the extent of customer orientation in the microfinance industry. Closely related to the number of alternative

service providers, was item 5 which asked respondents to indicate the extent to which competition was intense in the industry. A mean score of 3.62 and coefficient of variation of 25% were obtained. The mean score indicates that majority of the firms believed that intensity of competition was moderate. The mismatch between results of item 1 and item 5 suggests that majority of the firms serve niche markets. Alternatively, it can be argued that microfinance institutions offer differentiated products which reduces the direct impact of competition on individual firm performance.

Item 2 sought to find out the extent to which top management emphasized wider geographic outreach. A mean score of 3.79 and a coefficient of variation of 29% were obtained. This suggests that wider geographic coverage was emphasized by managers in majority of the firms. Although emphasis on wider geographic coverage was observed, majority of the firms had few branches. This implies that managers were interested in expanding geographic coverage but, they lacked resources to implement expansion strategy. Item 3 and 6 aimed at assessing the speed at which firms responded to product introductions and competitive threats. Item 3 scored a mean of 3.74 while item 6 obtained a mean score of 3.55. The findings show that majority of the firms selectively responded to competitor's actions. A significantly large number of firms responded fast to new product offering by competitors. This implies that new product launch by a competitor was matched by counter launches by rival firms in the industry.

Item 4 had asked respondents to indicate the extent to which setting up a microfinance institution required large start-up costs. The item obtained a mean score of 3.74 and a coefficient of variation of 31.5%. The mean score illustrates that starting microfinance institution attracts large cost outlays. High set up costs is influenced by capital requirements by the Central Bank of Kenya in the case of deposit taking microfinance institutions. On the other hand, non deposit taking microfinance institutions do not enjoy the privilege of mobilizing funds from the public. Consequently, they need large capital deposits to engage in lending business. Of particular interest were items 7 and 11 which attempted to assess the extent to which lending rates were reviewed by firms. Item 7 obtained a mean score of 3.49 and a coefficient of variation of

31.1%. The results indicate moderate review of lending rates to attract more borrowers as competition intensified in the industry. This means that the review of lending rates as competition intensified was practiced by few firms in the industry. This tendency can be explained by the fact that firms can utilize alternative response strategies including relaxing lending conditions when competition intensifies.

Item 11 scored a mean of 2.72 and coefficient of variation of 45.8% suggesting that bi-annual review of lending rates was not common in the industry. Majority of the firms maintained relatively stable lending rates over an extended period of time. It is also important to note that review of lending rates by a single firm destabilizes the industry leading to competitive rivalry. By maintaining stable lending rates, firms attempt to keep the industry peace and avoid retaliatory attacks by competitors. Furthermore, microfinance firms tend to benchmark their lending rates with those set by commercial banking industry. Since interest rates charged by commercial banks are regulated by the Central Bank of Kenya (CBK), they remain stable over time. Item 12 had the lowest mean score. It obtained a mean of 1.98 and coefficient of variation of 55.6%. This indicates that majority of the firms were of the view that competitors were not weak. Clearly, this means that firms do not take their competitors for granted. The following section displays results of descriptive analysis for marketing capabilities.

4.7 Descriptive Statistics for Marketing Capabilities

Marketing capabilities are essential for formulation and execution of marketing strategies. Although preparation of strong strategies is vital in the marketing planning process, successful execution and subsequent performance relies on the ability of the firm to develop and deploy capabilities from its pool of resources. In the current study, five dimensions of marketing capabilities were assessed. These comprised pricing, product development, distribution, marketing communications and relationship management capabilities.

Twenty question items were used to measure marketing capabilities. A 5-point rating scale was used to measure capabilities. On the lower part of the scale was 1 which represented ‘much worse than competitors’. The upper limit of the scale had 5 which

signified ‘much better than competitors’. The following sub-sections present mean scores and standard deviations for the various components of marketing capabilities.

4.7.1 Pricing Capability

Pricing decisions influence behaviour of consumers and competitors. The use of pricing to positively influence sales and marketing performance is common in several industries. However, the pricing irony lies in dual effects that it can create on business performance. If used intelligently, pricing can increase sales volume or profit margin consequently leading to improved performance. In contrast, price wars transfer the benefit to customers through reduced prices which in turn erode profit margins forcing less adaptable firms out of business. Therefore, managers need to build pricing capability to position brands appropriately, reduce the risk of churning by consumers and improve sales performance. In the current study, pricing implied interest rate charged on loan products and savings accounts maintenance charges. Pricing capability was assessed using 5 items. Results of descriptive analysis are presented in Table 4.11.

Table 4.11: Mean Scores and Standard Deviations of Pricing Capability

No.	Pricing Capability Items	N	Mean	Std. Deviation	C_V
1	Customer rating of service quality	53	3.94	.842	.214
2	Flexible pricing policies	53	3.74	.964	.258
3	Monitoring competitors' interest rate changes and charges	53	3.68	.915	.249
4	Knowledge of competitors' pricing tactics	53	3.66	.898	.245
5	Speed of adjusting interest rates to respond to market changes	53	3.58	.887	.248
	Overall Mean Scores and Std. Dev.		**3.72**	**0.901**	**0.242**

Source: Primary Data

The results displayed in Table 4.11 show that mean scores for the five items ranged between 3.58 and 3.94. The overall mean score for pricing capability was 3.72. Item

1 on the scale sought to assess how customers rated the quality of service from microfinance institutions. A mean score of 3.94 and a coefficient of variation of 21.4% were obtained. This means that customers rated service quality favourably. This implies that in majority of the firms, customers were satisfied with the quality of services. Item 2 assessed flexibility of pricing policies. The item attained a mean score of 3.74 and a coefficient of variation of 25.8%. This means that majority of the firms had flexible pricing policies. Ideally, the result is an indicator of management willingness to change their prices in response to changes in the market. Item 3 and 4 obtained mean scores of 3.68 and 3.66 respectively.

This means that monitoring of competitor's interest rate charges was moderately practiced in the microfinance industry. Likewise, relatively few firms were aware of pricing tactics used by their competitors. Item 5 had the lowest score (Mean = 3.58, C_V = 24.8%). This means that adjusting interest rates was moderate in majority of the firms. This implies that firms were afraid of disrupting the status quo in the market for fear of reprisal by competitors. The finding could also imply that many firms were price followers incapable of taking the lead in making price changes in either direction.

4.7.2 Product Development Capability

Product development capability is one of the major sources of competitive advantage and a valuable competency in the delivery of superior value to customers. The challenge for firms therefore, is to build product development competencies as part of organizational culture. Majority of brands that enjoy superior global rating are known for creating and nurturing organizational culture that support production of high quality products, maintenance of product standards and development of new products to respond to ever changing customer needs and preferences. The importance of product development capability in the microfinance industry cannot be underestimated. Product development capability was assessed using four question items. A 5-point rating scale was used to measure the performance of each firm relative to competitors. The lowest rating on the scale was 1 which symbolized 'much worse than competitors'. On the other hand, the highest rating on the scale was 5

which represented 'much better than competitors'. The results of product development capability are presented in Table 4.12.

Table 4.12: Mean Scores and Standard Deviations of Product Development Capability

No.	Product Development Capability Items	N	Mean	Std. Deviation	C_V
1	Ensuring that products respond to customer needs	53	3.92	1.016	.259
2	Product development ability	53	3.77	.954	.253
3	Innovation and new idea generation abilities	53	3.74	.858	.229
4	Vibrant research department	53	3.25	1.239	.381
	Overall Mean Score and Std. Dev.		**3.67**	**1.017**	**.277**

Source: Primary Data

The results in Table 4.12 show that majority of the firms performed well in matching products to customer needs. Item 1 obtained the highest score (Mean = 3.92, C_V = 25.9%). The item was aimed at finding out how organizations performed in ensuring that products matched customer needs. This implies that microfinance institutions were effective in identifying and responding to customer needs through development of suitable products. The second item asked respondents to rate how their organization performed in product development ability. The item attained a mean score of 3.77 and a coefficient of variation of 25.3%. This means that majority of the firms significantly invested resources in new product development. Similarly, item 3 solicited respondent's view on how their organization performed in innovation and new idea generation. A mean score of 3.74 and a coefficient of variation of 25.3% were obtained. This implies that majority of the firms performed above average in innovation and generation of new ideas.

Innovation is an important attribute for adaptation to the marketing environment and improved business performance. Therefore, it appears that firms in the microfinance industry strived to remain relevant by being innovative and coming with new ideas

aimed at bolstering their performance. In contrast, results of item 4 show that majority of microfinance institutions performed dismally in research. The item attained a mean score of 3.25 suggesting that most firms did not have vibrant research department. Absence of research department in majority of the firms can be explained by liability of age as well as the outsourcing of research activities. As shown by demographic profile in Table 4.4, majority of the firms (>60%) had been in operation for less than 10 years. Therefore, several firms may not have fully developed structures that incorporate market research unit. Furthermore, research is not the core business for microfinance institutions. Therefore, from a cost and priority points of view, it would make sense for majority of the firms to outsource market research activity than to establish in-house research capacity.

4.7.3 Distribution Capability

Distribution provides the channel through which products and services are delivered to customers. Ineffective distribution network can weaken a firm's marketing efforts irrespective of the success in product development, promotion and pricing strategies. In other words, organizations have no choice but, to ensure that they develop distribution capability. In the microfinance industry, services can be distributed through physical outlets, sales force field visits and online facilities such as mobile money transfer. Distribution capability was measured using 3 items that revolved around physical distribution and electronic distribution. A 5-point rating scale was used to compute the mean scores and standard deviations. Results of the distribution of mean scores and standard deviations are presented in Table 4.13.

Table 4.13: Mean Scores and Standard Deviations of Distribution Capability

No.	Distribution Capability Items	N	Mean	Std. Deviation	C_V
1	Partnership with money transfer service providers	53	4.00	1.074	.269
2	Size of sales force	53	3.42	1.232	.360
3	Distribution of branch network	53	3.28	1.231	.375
	Overall Mean Score and Std. Dev.		**3.57**	**1.179**	**.330**

Source: Primary Data

Table 4.13 shows that item 1 had the highest score (Mean = 4.0, C_V = 26.9%). This implies that partnering with money transfer service providers was largely practiced in the microfinance industry. It can be construed from the results that mobile money transfer was a popular distribution channel in the microfinance industry. Developments in the mobile telephone industry have increased distribution scope for services besides offering convenience to both upstream and downstream users.

With regard to increased scope, mobile money transfer enables microfinance institutions to channel loans to clients in different parts of the country including where they lack physical presence. In addition, mobile money transfer service empowers borrowers to amortize their loans without the trouble of physically going to the premises of a microfinance institution. Mobile money transfer service provides convenience to customers by providing multiple solutions such as making deposits, withdrawals, payments and receipt of cash at convenient locations throughout the day. As for upstream users such as microfinance institutions, mobile money transfer reduces the cost of maintaining a large branch network.

Item 2 sought to assess the size of a firm's sales force relative to that of competitors. A mean score of 3.42 and a coefficient of variation of 36% were obtained suggesting that majority of the firms had small sales force. This implies that majority of the firms had insufficient number of sales people to push their products in the market. The third item sought to measure the distribution of branch network. A mean score of 3.28 and a coefficient of variation of 37.5% were obtained indicating that majority of the firms had modest branch distribution.

4.7.4 Marketing Communications Capability

Organizations communicate with their customers through a variety of channels. Marketing communication enables firms to pass information aimed at achieving marketing objectives in chosen target segments. The state of marketing communications in the microfinance industry was assessed by 4 items containing public relations, online communication and advertisement management. A 5-point rating scale was used to measure communications capability. Findings are presented in Table 4.14.

Table 4.14: Mean Scores and Standard Deviations of Marketing Communications Capability

No.	Descriptors of Marketing Communications Capability	N	Mean	Std. Deviation	C_V
1	Public relations management skills	53	3.53	.992	.281
2	Online and mobile telephone marketing skills	53	3.36	1.039	.309
3	Advertising management and creative skills	53	3.21	1.098	.342
4	Advertising program development and execution	53	3.17	1.122	.354
	Overall Mean Score and Std. Deviation		**3.32**	**1.063**	**.320**

Source: Primary Data

The results in Table 4.14 show that the overall mean score of communication capability was 3.32. The scores for the items ranged between 3.17 and 3.53. Item 1 aimed at assessing public relations capability. A mean score of 3.53 and a coefficient of variation of 28.1% were obtained indicating that majority of the firms had reasonably good public relations management capability. In contrast, firms scored poorly in advertising. This indicates that only a few firms within the industry have developed advertising capability. Adoption of online and telephone marketing was moderate in the industry. Unlike expectation, online and mobile marketing scored better than advertising. The low scores in advertising can be explained by the prohibitive costs of developing and executing adverts. Although conventional mass media adverts are expensive, there are several low cost advertising alternatives that can be explored by microfinance institutions. Therefore, failure to adopt low cost advertising suggests weak advertising capability in the microfinance industry.

4.7.5 Relationship Management Capability

Relationship management enables a firm to customize communication through the use of databases and modern communication technologies. Customer relationship management allows organizations to respond to market pressures by adopting

customer centric approaches in the design and delivery of products and services. Effective management of customer relations enhances customer retention and reduces consumer sensitivity to price changes introduced by the firm. Relationship management capability was assessed through 4 question items. The items were measured using a 5-point rating scale. The scale consisted of statements such as 'much worse than competitors' which was represented by 1. The highest rating on the scale was 5 which symbolized 'much better than competitors'. Descriptive results of relationship management capability are presented in Table 4.15.

Table 4.15: Mean Scores and Standard Deviations of Relationship Management Capabilities

No.	Relationship Management Capability Descriptors	N	Mean	Std. Deviation	C_V
1	Customer retention abilities	53	3.83	.826	.216
2	Thorough understanding of customer needs and wants	53	3.83	.826	.216
3	Customer complaints management	53	3.81	.709	.186
4	Trained and motivated front office staff	53	3.79	.968	.255
	Overall Mean and Std. Deviation		**3.82**	**0.832**	**0.218**

Source: Primary Data

Table 4.15 reveals that the 4 items had high mean scores. Item on customer retention abilities obtained a mean score of 3.83 and a coefficient of variation of 21.6%. The item sought to assess customer retention abilities of microfinance institutions. The results indicate that majority of the firms retained customers. This implies that customer churning was minimized by firms. Item 2 was aimed at assessing the level at which customer needs were understood by microfinance institutions. A mean score of 3.83 and a coefficient of variation of 21.6% were obtained suggesting that majority of the firms had adequate knowledge of customer needs and wants. Need identification is the starting point for product development.

Item 3 focused on assessing organizational performance on complaints management. The mean score of 3.81 reveals that majority of the firms were effective in management of complaints. This signifies presence of complaints management system in majority of the firms. Item 4 on the other hand attained a mean score of 3.79 and a coefficient of variation of 25.5% indicating that majority of the firms in the industry had well trained and motivated front office staff.

Since marketing capabilities was measured using five components, the construct composite score was computed as the simple average of each of the component. Table 4.16 presents summary scores for marketing capabilities of microfinance institutions in Kenya.

Table 4.16: Summary of Mean Scores and Standard Deviation of Marketing Capabilities

Dimensions of Marketing Capabilities	**Number of Items**	**Mean**	**Std. Dev.**	**C_V**
Relationship management	4	3.82	0.832	.218
Pricing	5	3.72	0.901	.242
Product development	4	3.67	1.017	.277
Distribution	3	3.57	1.179	.330
Marketing communications	4	3.32	1.063	.320
Overall Score	**20**	**3.62**	**0.998**	**.276**

Source: Primary Data

Table 4.16 reveals that microfinance institutions were strong in managing customer relationship and pricing. In contrast, the firms were weak in marketing communications and distribution. It was also noted that microfinance institutions had moderate product development capability. The results imply that majority of the firms have strong customer relationship management skills. In addition, microfinance institutions offer competitive services. Although majority of the firms have relationship management and pricing capabilities, it is important to note that marketing mix elements are more effective when integrated in a way that creates

synergy. Consequently, weak communication and poor distribution weaken the effectiveness of relationship management hence reducing performance outcomes.

4.8 Descriptive Statistics for Market Orientation

Market orientation consists of three components namely: intelligence gathering, intelligence dissemination and responsiveness. These components were measured using previously published multi-item scale (MARKOR) with slight modification to suit the current study. A monotonic 5-point rating scale was used to measure the variable. At the tail of the scale was 1 which represented 'not at all' while at the top of the scale was 5, which signified 'very large extent'. The scale was designed to measure the extent to which market orientation was adopted by firms in the microfinance industry. Mean scores for the items were computed and results are presented in the following sub-sections.

4.8.1 Intelligence Gathering

Marketing intelligence gathering is the starting point of market orientation (Maltz & Kohli, 1996). Marketing intelligence gathering is the process that links the organization to the marketing environment, enabling it to obtain happenings data for purposes of decision making. Intelligence is an information resource that is critical for combination of organizational resources in ways that lead to superior performance. Intelligence gathering was measured using 10 question items. Results of descriptive analysis are presented in Table 4.17.

Table 4.17: Mean Scores and Standard Deviations for Intelligence Gathering Items

No.	Intelligence Gathering Descriptors	N	Mean	Std. Dev.	C_V
1	Regular communication with customers	53	4.00	.877	.219
2	Customer views about product and services are gathered	53	3.98	.951	.239
3	Business objectives are driven by customer feedback	53	3.98	.843	.212
4	Regular monitoring of customer satisfaction	53	3.83	.995	.260
5	Regular interactions between top managers and customers	53	3.81	.982	.258
6	Quick in detecting consumer preference changes	53	3.74	.880	.235
7	Daily collection of customer complaints	53	3.74	1.195	.320
8	Review of changes in the marketing environment	53	3.62	1.096	.303
9	Sales force trained to spot and report marketing intelligence	53	3.51	1.154	.329
10	Market research is carried out at least once a year	53	3.36	1.162	.346
	Overall Mean and Std. Dev.		**3.76**	**1.014**	**0.270**

Source: Primary Data

Items 1 through to 5 had high mean scores ranging between 4.0 and 3.81. The items were aimed at assessing frequency of communication and engagement with customers. Item 1 and 5 for example, sought to find out the extent to which microfinance institutions regularly communicated and interacted with customers. A mean score of 4.0 and a coefficient of variation of 21.9% were obtained for item 1. On the other hand, item 5 attained a mean score of 3.81 and a coefficient of variation of 25.8%. The results show that largely, the microfinance institutions were engaged in regular communications and interactions with customers. Frequency of

communication with customers demonstrates the health of relationship management between an organization and its customers.

To determine the value attached by organizations to customer feedback and suggestions, item 2 asked respondents to indicate the extent to which customer views about products and services were gathered. A mean score of 3.98 and a coefficient of variation of 23.9% were obtained. The results indicate that majority of the firms attached great importance to gathering feedback information and suggestions from customers. Item 4 and 3 aimed at assessing the extent to which customer feedback was gathered and the degree of influence of customer feedback on business objectives respectively. Item 4 had a mean a mean score of 3.83 suggesting that regular monitoring of customer satisfaction was largely practiced by microfinance institutions. Item 3 had a mean score of 3.98 and a coefficient of variation of 21.2%. This meant that business objectives were influenced by customer feedback.

It was found that firms largely factored customer feedback information in the formulation of business objectives. This implies that majority of the firms were focused on delivering value to customers. Results of item 1 through to 5, put together illustrate that firms in the microfinance industry had effective systems for gathering customer intelligence. Therefore, the results signify existence of customer oriented behaviours among majority of the firms in the microfinance industry.

Since market intelligence has both customer and competitor dimensions, respondents were asked questions related to gathering of competitor intelligence. Item 8 for instance asked respondents to indicate the extent to which firms reviewed changes in the marketing environment. A mean score of 3.62 and a coefficient of variation of 30.3% were obtained. This clearly illustrates that collection of competitor intelligence was not a regular practice in the microfinance industry. Item 9 sought to find out the extent to which sales force was trained to spot and report marketing intelligence. A mean score of 3.51 and a coefficient of variation of 32.9% were obtained. The finding implies that the use of sales force to capture and transmit market intelligence to management was not widely practiced by majority of the firms.

Item 10 had the lowest score (Mean = 3.36, C_V = 34.6%). The item was geared towards assessing the extent to which market research was carried out at least once every calendar year. It was found that in many organizations, annual marketing research was not a common practice. Although this was the case, it does not imply that microfinance institutions did not engage in formal market research. It means that formal market research was not regularly carried out on annual basis by majority of the organizations. Furthermore, the result supports findings by Deshpande and Zaltman (1987) who established that formal marketing research is relatively small and sometimes nonexistent in many organizations. Results of items 8, 9 and 10 signify low levels of competitor orientation. Although it could be said that intelligence gathering was effective, it is more skewed towards customer oriented data than competitor based intelligence. Consequently, it appears that competitor orientation is the weakest link in intelligence gathering process in the microfinance industry.

4.8.2 Intelligence Dissemination

Market intelligence management is the process that involves collection, dissemination and the use of market information by managers to improve organizational performance. Dissemination of market intelligence is a necessary step that enables relevant actors to access and utilize marketing information in making decisions. Market intelligence dissemination was measured using 9 question items. A 5 – point monotonic rating scale ranging from 1 to 5 was used. Findings are presented in Table 4.18.

Table 4.18: Mean Scores and Standard Deviations of Intelligence Dissemination

No.	Descriptors of Intelligence Dissemination	N	Mean	Std. Deviation	C_V
1	Departmental meetings are held quarterly to discuss market trends and developments	53	3.92	1.190	.304
2	Sales force regularly share customer and competitor information within the organization	53	3.83	1.139	.297
3	Regular dissemination of customer satisfaction data at all levels within the organization	53	3.66	1.176	.321
4	Top management regularly discuss competitors' strength and weaknesses	53	3.64	1.002	.275
5	New product development opportunity is jointly analyzed	53	3.64	1.178	.324
6	Marketing personnel discuss customer's future needs with other functional departments	53	3.55	1.218	.343
7	Marketing unit periodically circulates documents that provide customer information	53	3.23	1.187	.367
8	Minimal communication exist between marketing department and other departments about market developments	53	2.23	1.103	.495
9	Slow inter-departmental sharing of competitor information	53	1.98	1.263	.638
	Overall Mean and Std. Deviation		**3.30**	**1.162**	**0.352**

Source: Primary Data

The results presented in Table 4.18 show that the mean scores for the items ranged from 1.98 to 3.92. Item 1 recorded the highest score (Mean = 3.92, C_V = 30.4%). The

item was aimed at determining the extent to which organizations held quarterly departmental meetings to discuss market trends and developments. It was established that majority of the firms consistently held departmental meetings after every three months to discuss market developments and trends. The finding implies that sharing of market intelligence across departments was espoused by management of microfinance institutions in Kenya.

Item 2 and 3 had a mean score of 3.83 and 3.66 respectively. Item 3 specifically asked respondents to rate their organizations on the extent to which customer and competitor information was disseminated by sales force. On the other hand, item 2 sought to find out the extent to which customer data was regularly disseminated throughout the organization. The results indicate that sharing of customer and competitor information by sales force was a common practice among microfinance institutions. Although intelligence sharing was largely practiced in the industry, it was also observed that dissemination of market intelligence at all levels within the organization was moderate. This implies that marketing intelligence was domiciled within specific levels of the organizational hierarchy. Alternatively, it can be argued that marketing information was departmentalized, although non marketing departments were briefed about market happenings during routine departmental meetings.

Item 4 asked respondents to indicate the extent to which top management regularly discussed competitor's strengths and weaknesses. A mean score of 3.64 and a coefficient of variation of 27.5% were obtained. The results suggest that even though competitor analysis was carried out by some microfinance institutions, the practice was moderate in the industry. Contrary to expectation, less emphasis was placed on competitor analysis by top management. Therefore, it is evident that top management emphasized customer analysis than competitor analysis. In theory, a market oriented firm is expected to balance both customer and competitor orientation since both dimensions affect organizational performance. Probably, the impact of competition is underestimated by managers of the microfinance institutions. This can occur due to ambiguous identification of the strategic group by MFIs. Alternatively, it appears that majority of the firms serve niche markets that eclipse the impact of competition on performance.

Item 5 aimed at establishing the extent to which all departments were involved in joint analysis of new product development opportunity. A mean score of 3.64 and a coefficient of variation of 32.4% were obtained. This means that joint analysis for new product development opportunity was moderately practiced. However, the finding does not preclude representation of functional departments in new product development analysis. The finding suggests that majority of MFIs develop new products through project teams whose membership is drawn from various functional areas. In real life, it may be difficult though not impossible to get everyone involved in new product development analysis. In some organizations, new product development is handled confidentially to avoid leakage of strategic information to competitors that may weaken the success of product launch.

Item 6 and 7 sought to assess the extent to which marketing department circulated intelligence to other departments within the organization. Item 6 focused on assessing the extent to which marketing personnel discussed customer's future needs with other functional departments. The results (Mean = 3.55, C_V = 34.3%) show that discussion of future customer needs was not a major practice between marketing personnel and non marketing departments. The results imply that marketing departments were less proactive in engaging non marketing departments in discussing future customer needs. Item 7 asked respondents to indicate the extent to which marketing units periodically circulated documents that contained customer information. A mean score of 3.23 and a coefficient of variation of 36.7% were obtained. This denotes low levels of formalization of intelligence dissemination by marketing department to other departments. Item 8 assessed the extent to which marketing department was slow in communicating with other departments. The item wording was reversed to avoid conditioned response. A mean score of 2.23 and a coefficient of variation of 49.5% were obtained. This shows that in many organizations, marketing department was swift in communicating with other departments.

4.8.3 Responsiveness to Marketing Intelligence

Superior performance depends more on the ability of the organization to use marketing intelligence than access to intelligence. Effective use of marketing intelligence improves the quality of marketing decisions and hence higher chances of organizational success. Responsiveness to market intelligence was measured using 8 items. A 5-point monotonic rating scale ranging from 1 to 5 was used. Results of descriptive analysis for responsiveness to market intelligence are displayed in Table 4.19.

Table 4.19: Mean Scores and Standard Deviations for Responsiveness to Intelligence

No.	Marketing Intelligence Responsiveness Descriptors	N	Mean	Std. Deviation	C_V
1	Coordinated response to customer complaints	53	4.17	.826	.198
2	Response to customer product/service modification needs	53	3.96	.808	.204
3	Regular meetings held by all departments to respond to changes in business environment	53	3.87	.962	.249
4	Products are continuously reviewed to match changing customer needs and preferences	53	3.79	.927	.245
5	Fast response to competitors' product development initiatives	53	3.42	1.082	.316
6	Immediate counter response strategies to competitor's incentives targeting customers	53	3.38	1.096	.324
7	Slow decision making about response strategies to competitor's interest rate changes	53	1.92	1.207	.629
8	Product lines sold influenced by internal politics than market needs	53	1.85	1.133	.612
	Overall Mean and Std. Dev.		**3.30**	**1.005**	**0.305**

Source: Primary Data

The mean scores for the question items on the scale ranged from 1.85 to 4.17. Item 1 had the highest score (Mean = 4.17, C_V = 19.8%). The item was geared towards assessing the extent to which organizations responded to customer complaints in a coordinated manner. It was found that to a large extent, majority of the firms handled customer complaints in a coordinated manner. This implies that majority of the firms had complaints handling policy or guidelines that improved sharing of complaints across the organization.

Item 2 and 4 sought to find out the extent to which organizations matched products to customer needs. Item 2 had a mean score of 3.96 and a coefficient of variation of 20.4%. This means that majority of the organizations modified products and services to respond to customer needs. This implies that majority of microfinance institutions effectively responded to intelligence gathered from customers. Item 4 focused on assessing the extent to which products were continuously reviewed to match changing customer needs and preferences. The results (Mean = 3.79, C_V = 24.5%) show that a significantly large number of firms were engaged in continuous review of products to suit changing customer needs and preferences. In competitive markets, customers have high expectations from service providers. Therefore, successful firms are those which set up systems that deliver superior value to customers through timely response to market intelligence.

Item 3 sought to establish the frequency at which all departments in the organization held meetings to respond to changes in the business environment. A mean score of 3.87 and a coefficient of variation of 24.9% were obtained. This illustrates the importance attached to holding regular departmental meetings for purposes of responding to changes in the business environment. Unlike the first four items that were aimed at assessing response to customer intelligence, item 5 and 6 sought to assess organizational response to competitor intelligence. In item 5, respondents were asked to indicate the rate of speed at which the firm responded to product development initiatives by competitors. A mean score of 3.42 and a coefficient of variation of 31.6% were attained. This means that fast response to product development initiatives was moderate in the microfinance industry. This implies that majority of the firms adopted lukewarm response to new product launches by

competitors. Alternatively, the finding may imply that firms in the microfinance industry selectively responded to intelligence about new product developments by competitors.

Item 6 sought to determine the extent to which management quickly implemented strategies to offset competitor's incentives targeting same market segments. The results (Mean = 3.38, C_V = 32.4%) demonstrate that immediate counter response to competitor's incentive targeting same market segment was moderate in the microfinance industry. This implies that firms were slow in responding to competitor intelligence. Such slow response behaviour can be explained by customer loyalty to specific service providers or lack of capacity to respond to competitive manoeuvres. Although slow response behaviour to competitor's activities was evident, a shift in response speed was observed in item 7. It was noted that firms responded fast to changes in interest rates by competitors. This means that price (interest rate) is a factor that significantly influences consumer purchase behaviour in the microfinance industry. Therefore, failure to respond to changes in interest rate by competitors can have negative consequences on firm performance.

Given the three components of market orientation, the construct composite score was computed as the simple average scores of intelligence gathering, intelligence dissemination and responsiveness. Table 4.20 presents a summary of market orientation in the microfinance industry.

Table 4.20: Summary of Mean Scores and Standard Deviation of Market Orientation

Market Orientation Dimensions	**Number of Items**	**Mean**	**Std. Dev.**	**C_V**
Intelligence gathering	10	3.76	1.014	.270
Intelligence dissemination	9	3.30	1.162	.352
Responsiveness	8	3.30	1.005	.305
Overall Score	**27**	**3.45**	**1.06**	**.307**

Source: Primary Data

Results in Table 4.20 show that intelligence gathering had the highest score (M = 3.76, C_V = 27%). Both intelligence dissemination and responsiveness obtained a mean score of 3.30 each. The findings imply that majority of the microfinance institutions were effective in intelligence gathering but, weak in dissemination and responsiveness. In addition, it suggests that majority of the firms have put up systems to gather marketing intelligence. However, little attention has been given to intelligence sharing and utilization. Poor sharing of intelligence and slow responsiveness can be linked to weak internal structures and systems that either slow or curtail the flow of information from one department to another.

Furthermore, weak coordination between marketing department and other departments may account for poor sharing of and responsiveness to marketing intelligence. Since intelligence gathering is an expensive exercise, the findings suggest that microfinance institutions may be losing market opportunities by investing in data gathering while at the same time failing to respond to market signals.

4.9 Descriptive Statistics for Non Financial Firm Performance

Performance of a firm can be assessed using both objective and subjective indicators. Objective indicators rely on secondary accounting data. On the other hand, subjective measures are perceptual in nature and are collected from respondents using primary data collection tools. In the current study, both objective and subjective measures were used to measure performance. However, this section presents descriptive results of non financial performance which was measured using 12 question items. The items were constructed using information obtained from extant literature on performance measurement. A 5-point rating scale was used to measure each item. Results of the distribution of mean scores and standard deviations are presented in Table 4.21.

Table 4.21: Mean Scores and Standard Deviations for Non Financial Firm Performance

No.	Organizational Performance Descriptors	N	Mean	Std. Deviation	C_V
1	Long-term focus	53	3.85	.928	.241
2	Efficiency	53	3.85	.928	.241
3	Customer satisfaction	53	3.85	.662	.172
4	Corporate goal achievement	53	3.70	.799	.216
5	Corporate reputation	53	3.68	.754	.205
6	Innovation	53	3.64	1.021	.280
7	Loan repayment performance	53	3.47	.846	.244
8	Financial sustainability	53	3.43	.991	.289
9	Product development	53	3.43	.747	.218
10	Asset growth	53	3.36	.942	.280
11	Outreach	53	3.28	1.063	.324
12	Profitability	53	3.19	.810	.254
	Overall Mean and Std. Deviation		**3.56**	**0.874**	**.246**

Source: Primary Data

The overall mean score was 3.56 indicating moderate performance among majority of the firms. Majority of the firms performed well in long term focus (Mean = 3.85, C_V = 24.1%); efficiency (Mean = 3.85, C_V = 24.1%); and customer satisfaction (Mean = 3.85, C_V = 17.2%). On the other hand, many firms performed poorly on the dimensions of profitability (Mean = 3.19, C_V = 25.4%); outreach (Mean = 3.28, C_V = 32.4%); asset growth (Mean = 3.36, C_V = 28%); and financial sustainability (Mean = 3.43, C_V = 28.9%). Performance of the firms was moderate with respect to corporate reputation (Mean = 3.68, C_V = 20.5%); and innovativeness (Mean =3.64, C_V = 28%). The findings imply that majority of the firms embraced strategic planning and were focused on pursuing strategies that reduce costs in a bid to boost long-term performance outcomes. Weak performance in the area of profitability implies that majority of the firms do not attract volume of business large enough to offset costs.

Alternatively, it could also mean that many firms have high proportion of non performing loans.

Microfinance institutions extend credit facilities to low income earners and micro-enterprises. Poor vetting of loan applicants by the firms may lead to a large proportion of non-performing loans. Low performance in the area of sustainability can be explained by the history of majority of microfinance institutions. Many of the firms were founded by Non Governmental Organizations (NGOs) and rely on grant financing from the donor community. Unlike loans, grants neither attract interest nor are paid back. Consequently, this financing model reduces performance pressure on management.

4.10 Tests of Hypotheses

This section presents results of tests of hypotheses and interpretations of the relationships among the various factors of the study. The section begins by presenting results of direct relationships followed by indirect relationships. The section concludes by providing results of the joint effect of organizational culture, marketing capabilities, market orientation, industry competition and firm performance. Inferential statistics such as simple regression analysis, multiple regression analysis and correlation analysis were used to test hypotheses. Direct relationships between various variables were tested through simple regression analysis. On the other hand, multiple regression analysis was used to test indirect relationships. In addition, mediation effect was tested through path analysis (Baron & Kenny, 1986). The choice of analytical tools was guided by objectives of the study, type of data and measurement scales.

4.10.1 Organizational Culture and Non Financial Performance

The objective of the study was to establish the relationship that exists between organizational culture and performance of microfinance institutions in Kenya. Literature review, industry observations and theoretical reasoning contributed to the belief that organizational culture is associated with performance of the firm. Indicators from extant literature showed that there are four different known types of organizational culture and each of them have diverse influence on performance. Literature further suggests that strong cultural values are associated with positive financial performance. Therefore, it was anticipated that organizational culture would have a significant and positive influence on performance of microfinance institutions. Consequently, the following hypothesis was tested.

Hypothesis 1_a: There is a significant relationship between organizational culture and non financial performance of microfinance institutions

Data used to test this hypothesis was collected using 12 question items measuring organizational culture; and 12 items measuring non financial performance. The items were contained in a structured questionnaire (Appendix II). In organizational culture scale, each item consisted of a statement that measured the extent to which the item matched cultural traits in the firm. Respondents were asked to rate the extent to which each statement matched organizational cultural practice on a scale of 1 to 5 where 1 represented 'not at all' and 5 represented 'to a great extent'. A continuous 5-point rating scale consisting of 1 to 5 where 1 represented 'much worse than competitors' and 5 stood for 'much better than competitors' was used to measure non financial firm performance. Results of regression analysis for the relationship between organizational culture and performance are contained in Table 4.22.

Table 4.22: Regression Results for the Relationship between Organizational Culture and Non Financial Firm Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
	B	Std. Error	Beta					
1 (Constant)	.820	.466		1.761	.084			
Organizational culture	.712	.120	.640	5.942	.000	.640	.409	35.31

Source: Primary Data

Results presented in Table 4.22 show that organizational culture had a positive and significant effect on non financial performance with a correlation coefficient of 0.64, $R^2 = 0.409$ and F = 35.31. This implies that organizational culture explained 40.9% of the variance in non financial firm performance. The standardized beta coefficient indicate that organizational culture makes significant contribution to non financial performance (Beta = 0.640, t = 5.942, $p < 0.05$). Therefore, organizational culture is a good predictor of non financial performance.

Table 4.23 presents results of test of significance of the relationship between organizational culture and non financial performance. The F statistics was significant at 0.000 which shows fitness of the regression model. The relationship was positive and statistically significant.

Table 4.23: Test of Significance of the Relationship between Organizational Culture and Non Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.729	1	7.729	35.311	.000a
	Residual	11.162	51	.219		
	Total	18.891	52			

a. Predictors: (Constant), Organizational culture

b. Dependent Variable: Organizational non financial performance

The regression model that explains variation in performance as a result of direct influence of organizational culture is stated as follows:

$y = .820 + .640\ OC$

Where:

y = performance

OC = organizational culture

4.10.2 Organizational Culture and Financial Performance

Theoretical arguments in literature revealed inconsistencies on the relationship between organizational culture and financial performance. Although several scholars (Kotter & Heskett, 1992; Daft, 2007; Kriemadis et al., 2012) provided empirical evidence to support the link between organizational culture and performance, the latter construct was measured using subjective indicators. On the other hand, critics of the relationship between organizational culture and performance (Ott, 1989; Byles & Keating, 1989) argue that organizational culture has insignificant influence on financial performance. Strong views on organizational culture – performance relationship has been expressed by Kandula (2006) who maintains that culture differentiates performance among various organizations in the same industry. Persuaded by inconsistencies in literature, the study sought to test the following hypothesis.

Hypothesis 1_b: There is a significant relationship between organizational culture and financial performance

Organizational culture was measured using a five point rating scale with anchors 'not at all' (=1) to 'strongly agree' (=5). Some of the items included in the scale are for example: 'our CEO emphasizes focus on customers and competitors across all departments'; 'our departmental heads work towards delivering superior value to customers'; 'management tolerates reasonable degree of error'; and 'our employees work through teamwork'. Financial performance was measured using financial indicators such as debt/equity ratio, operating expense ratio, return on asset, average loan balance per borrower and loan repayment performance. Return on asset and loan repayment performance was measured in percentages. Average loan balance was measured in Kenya Shillings. Annual performance data were collected from secondary sources covering the period between 2009 and 2012. Direct relationship between organizational culture and each indicator of the explained variable (financial performance) was analyzed separately. This is because the various indicators were measured in different units and therefore not additive. Table 4.24 presents results of regression analysis for the relationship between organizational culture and debt/equity ratio.

Table 4.24: Regression Results for the Relationship between Organizational Culture and Debt/equity Ratio

Model		Unstandardized Coefficients		Standardized Coefficients			R	R^2	F
		B	Std. Error	Beta	t	Sig.			
1	(Constant)	14.714	5.484		2.683	.015			
	Organizational culture	-3.199	1.403	-.464	-2.280	.034	.464	.215	5.199

a. Dependent Variable: Debt/equity ratio

With exception of debt/equity ratio, it was found that the relationship between organizational culture and financial performance indicators were not statistically significant. Unlike expectation, non significant results were obtained for the relationship between organizational culture and operating expense ratio ($F = 2.06$, $t = 1.435$, $R^2 = 0.093$). On the other hand, a significant relationship was established between organizational culture and debt/equity ratio ($F = 5.199$, $t = -2.683$, $R^2 = 0.215$). This means that organizational culture is inversely related to debt/equity ratio. Organizational culture explains 21.5% of the variation in debt/equity ratio. F statistics was significant at 0.034 which indicates fitness of the model. The results presented in Table 4.24, Table 4.25, Table 4.26 and Table 4.27 show that organizational culture does not have universal influence on financial performance measures. Since mixed results were obtained on the relationship between organizational culture and indicators of financial performance, the hypothesis was partially supported.

Table 4.25 shows the results of significance test for the relationship between organizational culture and debt/ equity ratio. The results indicate that F statistics was significant at <0.05 implying fitness of the model.

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Table 4.25: Test of Significance of the Relationship between Organizational Culture and Debt/equity Ratio

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66.036	1	66.036	5.199	.034[a]
	Residual	241.344	19	12.702		
	Total	307.380	20			

a. Predictors: (Constant), Organizational culture

b. Dependent Variable: Debt/equity ratio

The regression model used to explain variations in debt/equity ratio arising from the influence of organizational culture was fitted as follows:

$y = 14.714 – .464OC$

Where:

y = debt/equity ratio

OC = organizational culture

Table 4.26 shows that the relationship between organizational culture and return on asset.

Table 4.26 shows that the relationship between organizational culture and return on asset were not statistically significant (p-value > 0.05, F = 1.320, R^2 = 0.047). This

Table 4.26: Regression Results of the Relationship between Organizational Culture and ROA

Model		Unstandardized Coefficients		Standardized Coefficients					
		B	Std. Error	Beta	t	Sig.	R	R^2	F
1	(Constant)	3.050	1.889		1.614	.118			
	Organizational culture	-.556	.484	-.216	-1.149	.261	.216	.047	1.320

a. Dependent Variable: Return on Asset

implies that organizational culture is not a good statistical predictor of the variations in return on asset.

Results for the relationship between organizational culture and operating expense ratio are presented in Table 4.27.

Table 4.27: Regression Results of the Relationship between Organizational Culture and Operating Expense Ratio

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
	B	Std. Error	Beta					
1 (Constant)	-3.807	3.272		-1.164	.258			
Organizational culture	1.205	.839	.306	1.435	.167	.306	.093	2.060

a. Dependent Variable: Operating expense ratio

Table 4.27 reveals non significant linear relationship between organizational culture and operating expense ratio (p-value > 0.05, F = 2.060, R^2 = 0.093). This shows that organizational culture does not explain variation in operating expense ratio.

4.10.3 Industry Competition and Performance of Microfinance Institutions

The second objective of the study focused on assessing the influence of industry competition on performance of microfinance institutions. Previously, inconsistent findings have been reported by empirical studies documented in literature. Patiar and Mia (2009) for instance found no relationship between organizational culture and performance. On the other hand, several scholars (Mia & Clarke, 1999; Chong & Rundus, 2004; Nickell, 2006; Al-Rfou, 2012) established positive relationship between competition and performance. Therefore, based on evidence from literature it was expected that competition has a positive and significant influence on performance. Consequently, the following hypothesis was tested.

Hypothesis 2_a: There is a significant relationship between industry competition and non financial performance of microfinance institutions

Data used to test this hypothesis was collected using a questionnaire consisting of 12 items each, for organizational culture and industry competition. Some of the items included in the industry competition scale for instance include: 'anything that one competitor can offer, others can match easily'; 'our competitors react fast to moves by any single company within the industry'; and 'customers have several alternative financial service providers to choose from'. The hypothesis was tested using simple regression analysis. The regression results are shown in Table 4.28.

Table 4.28: Regression Results of the Relationship between Industry Competition and Non Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients				
		B	Std. Error	Beta	t	Sig.	R	R^2
1	(Constant)	2.174	.502		4.330	.000		
	Industry competition	.409	.146	.365	2.796	.007	.365	0.133

a. Dependent Variable: Organizational non financial performance

The results presented in Table 4.28 indicate that industry competition had a positive and significant influence on non financial performance with a correlation coefficient of 0.365, $R^2 = 0.133$ and $F = 7.815$. This implies that industry competition explains 13.3% of the variation in non financial firm performance. The t - statistics indicate that industry competition makes significant contribution to non financial performance ($t = 2.796$, $p < 0.05$). As a result, the hypothesis was supported. The finding concurs with previous empirical findings by Mia and Clarke (1999); Chong and Rundus (2004); Nickell (2006); and Al-Rfou (2012) who reported a positive relationship between competition and performance. However, the low influence of competition on performance can be attributed to the practice of multiple borrowing in the industry. As the number of firms increase, clients borrowing under the terms of joint liability tend to spread the risk of default burden by borrowing little amounts of loan from different

lenders. Table 4.29 presents results of test of significance of the relationship between industry competition and non financial performance.

Table 4.29: Test of Significance of the Relationship between Industry Competition and Non Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.510	1	2.510	7.815	.007[a]
	Residual	16.381	51	.321		
	Total	18.891	52			

a. Predictors: (Constant), Industry competition

b. Dependent Variable: Organizational non financial performance

The results indicate that F = 7.815, implying that the model is fit for prediction of the relationship. F statistics was significant at 0.007. The regression model that explains variations in performance arising from the direct influence of industry competition was fitted as follows:

$y = 2.174 + .365IC$

Where:

y = firm performance

IC = industry competition

Although previous studies had reported positive and significant relationship between industry competition and performance, majority of the studies used perceptual measures of performance. Consequently, the current study attempted to assess the influence of industry competition on financial performance of microfinance institutions. Therefore, the following hypothesis was tested:

Hypothesis 2_b: There is a significant relationship between industry competition and financial performance

Industry competition was measured using a five point Likert type rating scale with anchors 'not at all' (=1) to 'strongly agree' (=5). Financial performance was measured using financial indicators such as average loan balance per borrower, loan repayment performance and return on asset. Return on asset and loan repayment performance was measured in percentages. Average loan balance per borrower was measured in Kenya Shillings. Each measure of dependent variable was analyzed separately since they were measured in different units. It was established that industry competition had insignificant influence on financial performance. For instance, the relationship between industry competition and average loan balance per borrower was insignificant (R^2 = 0.006, p-value > 0.05). It was also revealed that the relationship between industry competition and loan repayment performance was not statistically significant (R^2 = 0.00, p-value > 0.05, F = 0.013).

The results displayed in Tables 4.30 to Table 4.32 imply that variations in average loan balance per borrower; loan repayment performance; and return on asset cannot be explained by industry competition. The results of regression analysis were not statistically significant and therefore, the hypothesis was not supported.

Table 4.30: Regression Results of the Relationship between Organizational Culture and Average Loan Balance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
		B	Std. Error	Beta					
1	(Constant)	1032459	774784		1.333	.192			
	Industry competition	-254229	231423	-.188	-1.099	.280	.188	.035	1.207

a. Dependent Variable: Average loan balance

Table 4.31 shows that the relationship between industry competition and loan repayment performance was not statistically significant (R^2 = 0.00, F = 0.013, p-value

>0.05) implying that variations in loan repayment performance cannot be explained by industry competition.

Table 4.31: Regression Results of the Relationship between Industry Competition and Loan Repayment Performance

Model		Unstandardized Coefficients		Standardized Coefficients					
		B	Std. Error	Beta	T	Sig.	R	R2	F
1	(Constant)	.828	.170		4.876	.000			
	Industry competition	.006	.050	.021	.116	.908	.141	.020	0.013

a. Dependent Variable: Loan repayment performance

Table 4.32 shows the results of regression analysis for the relationship between industry competition and Return on Asset.

Table 4.32: Regression Results of the Relationship between Industry Competition and Return on Asset

Model		Unstandardized Coefficients		Standardized Coefficients					
		B	Std. Error	Beta	t	Sig.	R	R2	F
1	(Constant)	-.385	1.753		-.220	.828			
	Industry competition	.380	.513	.141	.741	.465	0.141	0.02	0.550

a. Dependent Variable: Return on Asset

Table 4.32 reveals that the relationship between industry competition and return on asset (ROA) was statistically insignificant (R^2 = 0.02, F = 0.550, p-value > 0.05)

indicating that variation in return on asset cannot be explained by industry competition.

4.10.4 Marketing Capabilities and Performance of Microfinance Institutions

Existing literature provided conceptual arguments linking marketing capabilities to organizational performance. Although Merrilees, Rundle-Thiele and Lye (2010) observed that empirical evaluation of marketing capabilities and performance is scant, empirical evidence of positive relationship between marketing capabilities and performance have been provided by Morgan et al. (2009); and Theodosiou et al. (2012). Therefore, theoretical logic and empirical evidence in literature led to the belief that marketing capabilities is positively and significantly associated with performance. The study sought to establish the relationship between marketing capabilities and performance of microfinance institutions by testing the following hypothesis:

Hypothesis 3: There is a significant relationship between marketing capabilities and performance of microfinance institutions

To understand in detail the influence of marketing capabilities on non financial and financial performance, two sub hypotheses derived from the third hypothesis were tested. Results of analysis are presented in the following sub-sections.

4.10.5 Marketing Capabilities and Non Financial Performance

The study sought to determine the influence of marketing capabilities on non financial performance by testing the following hypothesis:

Hypothesis 3_a: There is a significant relationship between marketing capabilities and non financial performance

Marketing capabilities consisted of five components namely: pricing capability, product capability, distribution capability, marketing communications capability and relationship management capability. A set of 20 indicators representing the five components was presented to respondents in a five – point rating scale, where 1

equated to ‘much worse than competitors’ and 5 to ‘much better than competitors’. Overall marketing capabilities score was computed as the average score across the 20 items. The alpha for the scale was good at 0.921 and the item to item correlations were all in the expected direction and statistically significant demonstrating internal consistency of the scale. Non financial measurement scale comprised of 12 indicators each of which asked respondents to judge whether results of each item were ‘much worse than competitors’, ‘worse than competitors’, ‘same level with competitors’, ‘better than competitors’, or ‘much better than competitors’. Average score for the 12 items was calculated forming the composite score for non financial performance. Reliability of the scale was good with alpha 0.896. Results of hypothesis test are displayed in Tables 4.33 to 4.39.

Regression results for the relationship between marketing capabilities and non financial performance are contained in Table 4.33.

Table 4.33: Regression Results for the Relationship between Marketing Capabilities and Non Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
	B	Std. Error	Beta					
1 (Constant)	1.009	.334		3.024	.004			
Marketing capabilities	.704	.091	.736	7.766	.000	.736	.542	60.317

a. Dependent Variable: Organizational non financial performance

The results presented in Table 4.33 provide evidence in support of the existence of a strong association (r = .736) between marketing capabilities and organizational performance. The statistical test of overall significance of the model (F = 60.317) was strong and significant at 0.000. The t statistics (t = 7.766) demonstrate strong influence of marketing capabilities on firm performance. The results show that

marketing capabilities was a good statistical predictor (R^2 = .542) of non financial performance. The finding implies that marketing capabilities explains 54.2% of the variation in performance. At a conceptual level, this means that marketing capabilities is a source of competitive advantage.

The regression model that predicts variations in performance arising from marketing capabilities was fitted as follows:

y = 1.009 + .736MC

Where:

y = performance

MC = marketing capabilities

The results in table 4.33 prompted the interest to test the influence of various components of marketing capabilities on performance. The segregated tests also responds to calls by Vorhies and Morgan (2005) who emphasized the necessity of establishing the influence of distinct parts of marketing capabilities. Consequently, tests were carried out to determine the influence of pricing capability; product capability; distribution capability; marketing communications capability; and relationship management capability on performance. Moreover, joint analysis of the various components comprising of composite score for each component was undertaken to determine the relative influence of the various components of marketing capabilities on performance.

Table 4.34 presents regression results for pricing capability and non financial performance.

Table 4.34: Regression Results of the Relationship between Pricing Capability and Non Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
		B	Std. Error	Beta					
1	(Constant)	1.619	.399		4.055	.000			
	Pricing capability	.522	.106	.569	4.939	.000	.569	.324	24.390

a. Dependent Variable: Organizational non financial performance

The results in Table 4.34 show that the relationship between pricing capability and non financial performance was statistically significant. The results indicate that pricing capability was a significant predictor of performance. Pricing explained 32.4% of the variation in performance.

Table 4.35 displays results of regression analysis for product capability and non financial performance.

Table 4.35: Regression Results of the Relationship between Product Capability and Non Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
		B	Std. Error	Beta					
1	(Constant)	1.706	.264		6.469	.000			
	Product capability	.506	.070	.711	7.221	.000	.711	.506	52.143

a. Dependent Variable: Organizational non financial performance

The results in Table 4.35 show that the relationship was positive and statistically significant (t = 4.939, p-value < 0.05, R^2 = .506) implying that product capability was a strong predictor of performance. This means that product capability explained 50.6% of the variation in performance.

Table 4.36 presents results of regression analysis for marketing communications capability and non financial performance.

Table 4.36: Regression Results of the Relationship between Marketing Communications Capability and Non Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
		B	Std. Error	Beta					
1	(Constant)	2.053	.236		8.714	.000			
	Marketing Communications capability	.455	.069	.680	6.628	.000	.680	.463	43.931

a. Dependent Variable: Organizational non financial performance

Table 4.36 shows that F statistics (F = 43.931) was significant at 0.000. The results show that marketing communications was a good statistical predictor of performance (R^2 = .463, t = 7.221) meaning that marketing communications capability explained 46.3% of the variation in performance.

Table 4.37 presents results of regression analysis for distribution capability and non financial performance.

Table 4.37: Regression Results of the Relationship between Distribution Capability and Non Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
		B	Std. Error	Beta					
1	(Constant)	2.352	.272		8.638	.000			
	Distribution Capability	.339	.074	.541	4.599	.000	.541	.293	21.155

a. Dependent Variable: Organizational non financial performance

The results in Table 4.37 indicate that the relationship between distribution capability and performance was positive and significant (t = 4.599, R^2 = .293, p-value < 0.05). The results imply that distribution capability explained 29.3% of the variation in performance.

Table 4.38 presents results of regression analysis for the association between customer relationship management capability and non financial performance.

Table 4.38: Regression Results of the Association between Relationship Management Capability and Non Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
		B	Std. Error	Beta					
1	(Constant)	2.219	.466		4.763	.000			
	Relationship Management capabilities	.352	.120	.379	2.922	.005	.379	.143	8.540

a. Dependent Variable: Organizational non financial performance

The results presented in Table 4.38 show that relationship management capability had significant (F = 8.540) though moderate influence (R^2 = .143, t = 2.922) on performance. This means that relationship management capability explained 14.3% of the variation in performance. Compared to other components of marketing capabilities presented in previous sub-sections, relationship management capability was the lowest statistical predictor of performance.

The joint influence of the five components of marketing capabilities was assessed to determine statistical variations of the components on predicting performance. Table 4.39 presents results of regression analysis for the joint effect of the five components of marketing capabilities.

Table 4.39: Regression Results of Joint Influence of Marketing Capabilities Components on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.569[a]	.324	.310	.50058	.324	24.390	1	51	.000
2	.711[b]	.506	.486	.43203	.182	18.468	1	50	.000
3	.773[c]	.598	.574	.39357	.092	11.249	1	49	.002
4	.785[d]	.615	.583	.38903	.017	2.149	1	48	.149
5	.803[e]	.644	.606	.37816	.029	3.801	1	47	.057

a. Predictors: (Constant), Pricing capability

b. Predictors: (Constant), Pricing capability, Product capability

c. Predictors: (Constant), Pricing capability, Product capability, Marketing Communications capability

d. Predictors: (Constant), Pricing capability, Product capability, Marketing Communications capability, Relationship Management capabilities

e. Predictors: (Constant), Pricing capability, Product capability, Marketing Communications capability, Relationship Management capabilities, Distribution Capability

The results show that the joint effect of pricing, product development, marketing communication, distribution and relationship management capabilities was statistically significant. The five components of marketing capabilities jointly explain more variations in performance (Adjusted R^2 = .606) than each component separately. This implies that the five components are jointly strong statistical predictors of performance outcome. The results further reveal that product capability, communications capability and pricing capability jointly explain 57.4% of the variations in performance (Adjusted R^2 = .574). It was noted that relationship management made the least contribution to explaining variations in performance (change in R^2 = .017).

4.10.6 Marketing Capabilities and Financial Performance

Organizations can possess a diverse pool of marketing capabilities. However, the current study focused on assessing pricing capability, product capability, communications capability, distribution capability and relationship management capability. Previous studies concentrate on assessing the relationship between marketing capabilities and non financial performance. Consequently, there is little evidence on the link between marketing capabilities and financial performance. Therefore, the current study sought to assess possibility of a relationship between marketing capabilities and financial performance. The influence of marketing capabilities on financial performance was assessed by testing the following hypothesis:

Hypothesis 3_b: There is a significant relationship between marketing capabilities and financial performance

Financial performance data was measured using indicators such as debt/equity ratio, average loan balance per borrower, loan repayment performance and return on asset. The data were collected from secondary sources for the period covering between 2009 and 2012. Regression results for the relationship between marketing capabilities and financial performance are presented in Table 4.40.

Table 4.40: Regression Results of the Relationship between Marketing Capabilities and Debt/equity Ratio

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R2	F
		B	Std. Error	Beta					
1	(Constant)	11.041	4.884		2.261	.036			
	Marketing capabilities	-2.396	1.326	-.383	-1.807	.087	.383	.147	3.267

a. Dependent Variable: Debt/equity ratio

Unlike the results obtained for non financial performance, the influence of marketing capabilities on debt/equity ratio; average loan balance per borrower; loan repayment performance; and return on asset were not statistically significant. For instance, the F statistics (F = 1.139) for marketing capabilities and loan repayment performance was insignificant at 0.294 (p-value > 0.05). The F statistics (F = .134) for marketing capabilities and return on asset (ROA) was insignificant at 0.717 (p-value > 0.05). In addition, results displayed in Table 4.40 show that marketing capabilities had insignificant influence on debt/equity ratio (F = 3.267, p-value > 0.05). The findings suggest that marketing capabilities is a poor statistical predictor of financial performance.

4.10.7 Industry Competition, Organizational Culture and Performance

The fourth objective of the study aimed at establishing the extent to which industry competition influences the relationship between organizational culture and performance of microfinance institutions. Theoretical reasoning and mixed evidence (positive and negative) from literature led to the belief that industry competition moderates the relationship between organizational culture and performance. Proponents of negative relationship argue that competition increases the level of information asymmetry between lenders (McIntosh & Wydick, 2005). In contrast, researchers who support the view of positive influence of competition on performance argue that it enhances innovativeness and consequently improves competitiveness of the firm. In light of divergent views on the influence of competition on performance, the study sought to assess the moderating influence of competition by testing the following hypothesis:

Hypothesis 4: The relationship between organizational culture and performance of microfinance institutions is significantly moderated by industry competition

Since the study was assessing both non financial and financial performance, two sub hypotheses were derived from the fourth hypothesis. The first sub hypothesis aimed at testing the moderating influence of industry competition on the relationship between

organizational culture and non financial performance. Therefore, the following sub hypothesis was tested:

Hypothesis 4$_a$: The relationship between organizational culture and non financial performance of microfinance institutions is significantly moderated by industry competition

Data used for testing the hypothesis were obtained from survey questionnaires comprising of 12 items for organizational culture scale, 12 items for industry competition scale, and 12 items for non financial performance scale. Organizational culture, industry competition and non financial performance were measured using a five point rating scale. Tables 4.41 and 4.42 present results of regression analysis for the moderating influence of industry competition on the relationship between organizational culture and non financial performance. The interaction term was computed by obtaining the product of standardized scores of organizational culture and industry competition.

The analysis was carried out in two steps. The first step involved testing the influence of organizational culture and industry competition on performance. The second step involved introduction of the interaction term through stepwise regression analysis. Regression results for the influence of industry competition on the relationship between organizational culture and performance are contained in Table 4.41.

Table 4.41: Regression Results for the Relationship between Organizational Culture, Industry Competition and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.686[a]	.471	.450	.44702	.471	22.269	2	50	.000
2	.693[b]	.481	.449	.44735	.010	.925	1	49	.341

a. Predictors: (Constant), Industry competition, Organizational culture

b. Predictors: (Constant), Industry competition, Organizational culture, Interaction term industry competition

Table 4.41 shows that model 1 is significant (F = 22.269, p-value < 0.05, Adjusted R^2 = .450) implying that industry competition and organizational culture jointly explain 45% of variation in performance. However, upon introduction of the interaction term, the model becomes insignificant (p-value = .341) implying that industry competition does not moderate the relationship between organizational culture and performance. Consequently, the fourth hypothesis was not supported.

Table 4.42 presents results of regression coefficients for the moderating influence of industry competition on the relationship between organizational culture and performance.

Table 4.42: Regression Coefficients for Organizational Culture, Industry Competition and Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.059	.545		.109	.914
	Organizational culture	.659	.117	.592	5.655	.000
	Industry competition	.285	.118	.253	2.421	.019
2	(Constant)	-.092	.567		-.162	.872
	Organizational culture	.720	.133	.647	5.429	.000
	Industry competition	.256	.121	.228	2.115	.040
	Interaction term industry competition	.072	.075	.113	.962	.341

a. Dependent Variable: Organizational non financial performance

The results demonstrate that the moderating influence of industry competition is insignificant (p-value >0.05) meaning that industry competition does not affect the explanatory power of organizational culture on performance. The model statistics (t = 0.962, F = 0.925) further illustrate that the moderation model is insignificant.

The regression model that explains variations in performance as a result of the moderating influence of industry competition was fitted as follows:

$y = .092 + .647OC + .228IC + .113U$

Where:

y = performance

OC= composite score of organizational culture

IC= composite score of industry competition

U= interaction term of market orientation and organizational culture

The results of test for hypothesis 1 revealed a positive and significant relationship between organizational culture and debt/equity ratio. Therefore, the study attempted to assess whether industry competition moderates the relationship between organizational culture and debt/equity ratio. Consequently, the following sub-hypothesis was tested.

Hypothesis 4_b: The relationship between organizational culture and debt/equity ratio is significantly moderated by industry competition

Table 4.43 presents a summary of regression results for moderation of industry competition on the relationship between organizational culture and debt/equity ratio.

Table 4.43: Significance Test for Organizational Culture, Industry Competition and Debt/equity Ratio Relationship

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	14.135	6.582		2.148	.046
	Organizational culture	-3.288	1.532	-.476	-2.146	.046
	Industry competition	.265	1.559	.038	.170	.867
2	(Constant)	13.589	6.897		1.970	.065
	Organizational culture	-2.939	1.820	-.426	-1.615	.125
	Industry competition	-.002	1.746	.000	-.001	.999
	Interaction term industry competition	.349	.922	.096	.378	.710

a. Dependent Variable: Debt/equity ratio

The results reveal that the moderating influence of industry competition on the relationship between organizational culture and debt/equity ratio was not statistically significant (F = 1.623, p-value = .710). Hence, the hypothesis was not supported.

4.10.8 Market Orientation, Organizational Culture and Performance

Several studies have tested the direct influence of market orientation on performance (Sandvik & Sandvik, 2003; Cano et al., 2004; Kirca et al., 2005; Shoham et. al., 2005; Grinstein, 2008; Zebal & Goodwin, 2012; Njeru, 2013). However, the mediating influence of market orientation has not been empirically tested. Instead, previous studies on organizational culture and market orientation relationship tend to configure organizational culture as a mediating variable (Baron & Kenny, 1986). As a result, the moderating influence of market orientation on the relationship between organizational culture and performance is unclear. Therefore, the study attempted to shed light on the mediating role of market orientation by testing the following hypothesis:

Hypothesis 5: The relationship between organizational culture and performance of microfinance institutions is significantly mediated by market orientation

Organizational culture was measured through 12 indicators based on organizational culture assessment indicator (OCAI) scale. Market orientation was measured using the MARKOR scale (Kohli, Jaworski & Kumar, 1993). Performance was measured using 12 perceptual indicators of firm performance. Respondents were asked to indicate on a five point scale, the extent to which each of the items of organizational culture and market orientation matched their organization. In addition, respondents were asked to rate the performance of their organization on a scale of 1 to 5 where 1 symbolized 'much worse than competitors' and 5 represented 'much better than competitors'.

Mediation test proceeded through four steps proposed by Baron and Kenny (1986). The first test involved assessing the significance of influence of organizational culture on performance. Results of mediation tests are reported in Table 4.44.

Table 4.44: Regression Summary Results for Organizational Culture, Market Orientation and Performance

Model	R	R^2	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.640[a]	.409	.398	.46784	.409	35.311	1	51	.000
2	.684[b]	.468	.446	.44852	.058	5.488	1	50	.023

a. Predictors: (Constant), Organizational culture

b. Predictors: (Constant), Organizational culture, Market orientation

The step of analytical procedure revealed a positive and significant relationship between organizational culture and performance (R^2 = .409, F = 35.311, p-value <0.05). Consequently, the second step involved testing the significance of the relationship between organizational culture and market orientation. The results (R^2 = .598, F = 75.959, p-value < 0.05) revealed a positive and significant relationship between organizational culture and market orientation. In the third step, the significance of the relationship between market orientation and performance was tested. The results were positive and significant (R^2 = .420, F = 36.909, p-value < 0.05) implying that market orientation explained 42% of the variation in performance. The results further indicate that the contribution of market orientation to performance is marginally higher than the contribution of organizational culture. The final step involved testing the combined influence of organizational culture and market orientation on performance. Results indicate that both market orientation and organizational culture had positive and significant influence on performance when combined. As a result, partial mediation was supported.

Table 4.45 presents ANOVA results for the mediating influence of market orientation on the relationship between organizational culture and performance. The F statistics for organizational culture (F = 35.311) indicates significance of organizational culture and performance relationship. The introduction of market orientation in organizational culture and performance model yields F statistics of 21.953. This shows that the model is significant.

Table 4.45: Analysis of Variance Results for Organizational Culture, Market Orientation and Performance Relationships

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.729	1	7.729	35.311	.000[a]
	Residual	11.162	51	.219		
	Total	18.891	52			
2	Regression	8.833	2	4.416	21.953	.000[b]
	Residual	10.058	50	.201		
	Total	18.891	52			

a. Predictors: (Constant), Organizational culture

b. Predictors: (Constant), Organizational culture, Market orientation

c. Dependent Variable: Organizational non financial performance

Table 4.46 presents regression coefficients for mediation test of market orientation on the relationship between organizational culture and performance. Results indicate that both organizational culture and market orientation have independent influence on performance. However, the relationship between organizational culture and performance is partially mediated by market orientation.

Table 4.46: Regression Coefficients for Organizational Culture, Market Orientation and Performance Relationship

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	.820	.466		1.761	.084	-.115	1.755		
Organizational culture	.712	.120	.640	5.942	.000	.472	.953	1.000	1.000
2 (Constant)	.687	.450		1.526	.133	-.217	1.591		
Organizational culture	.384	.181	.345	2.116	.039	.020	.748	.402	2.489
Market orientation	.403	.172	.381	2.343	.023	.057	.749	.402	2.489

a. Dependent Variable: Organizational non financial performance

Arising from results of the study, the regression model that predicts variations in performance as a result of mediation effect of market orientation was fitted as follows:

$y = .687 + .345OC + .381MO$

Where:

y = firm performance

OC = organizational culture

MO = market orientation

14.10.9 Marketing Capabilities, Market Orientation and Performance

The sixth objective sought to determine the influence of marketing capabilities on the relationship between organizational culture and market orientation. Although the influence of capabilities on performance has attracted enormous research attention, the moderating influence of marketing capabilities on the relationship between organizational culture and market orientation is scant. Based on leads from literature and theoretical reasoning, a positive and significant influence was expected on the moderating influence of marketing capabilities on the relationship between organizational culture and market orientation. Therefore, the following hypothesis was tested:

Hypothesis 6: The relationship between organizational culture and market orientation is significantly moderated by marketing capabilities

Organizational culture scale comprised 12 items measured using a five point rating scale with anchors 'not at all' (=1) to 'very large extent' (=5). Marketing capabilities scale comprised 20 proxy indicators. Market orientation scale consisted of 25 items based on the MARKOR scale. Respondents were asked to indicate on a scale of 1 to 5, the extent to which each item matched their organization. The interaction term was computed by obtaining the product of standardized scores of organizational culture and marketing capabilities. The analysis was carried out in two steps. The first step involved testing the influence of organizational culture and marketing capabilities on market orientation. The second step involved introducing the interaction term through

stepwise regression analysis. Tables 4.47 and 4.48 present regression results for moderating influence of marketing capabilities on the relationship between organizational culture and market orientation.

Table 4.47: Summary of Regression Results for Marketing Capabilities, Organizational Culture and Market Orientation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.768[a]	.590	.574	.39359	.590	35.974	2	50	.000
2	.768[b]	.590	.565	.39742	.000	.041	1	49	.840

a. Predictors: (Constant), Marketing capabilities, Organizational culture

b. Predictors: (Constant), Marketing capabilities, Organizational culture, Interaction term marketing capabilities

Table 4.47 shows that organizational culture and marketing capabilities jointly have positive and significant (Adjusted R^2 = .574) influence on market orientation. This implies that organizational culture and marketing capabilities are good statistical predictors of market orientation. In addition, results indicate that organizational culture and marketing capabilities jointly explain 57.4% of the variations in market orientation. The results of F statistics (F = 35.974) for model 1 indicate that the independent influence of organizational culture and marketing capabilities on market orientation is significant. In contrast, the F statistics (F = .041) for model 2 implies that the moderating influence of marketing capabilities on the relationship between organizational culture and market orientation is insignificant. Therefore, the hypothesis was not supported.

Table 4.48 displays regression coefficients for the moderating influence of marketing capabilities on the relationship between organizational culture and market orientation. The results in Table 4.48 suggest that both organizational culture and marketing capabilities independently influence variations in market orientation. However, results of t statistics shows that marketing capabilities (t = 4.696) contributes more to the variations in market orientation than does organizational culture (t = 2.423). Results

of model 2 illustrates that the interaction term is insignificant (p-value = 0.840) implying that the moderating influence of marketing capabilities is insignificant. Therefore, the results fail to support the hypothesis.

Table 4.48: Regression Coefficients for Organizational Culture, Marketing Capabilities and Market Orientation Relationship

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	.419	.401		1.044	.302			
	Organizational culture	.318	.131	.286	2.423	.019	.640	.324	.219
	Marketing capabilities	.529	.113	.553	4.696	.000	.736	.553	.425
2	(Constant)	.463	.462		1.004	.320			
	Organizational culture	.312	.136	.280	2.291	.026	.640	.311	.209
	Marketing capabilities	.525	.116	.549	4.548	.000	.736	.545	.416
	Interaction term marketing capabilities	-.010	.049	-.021	-.203	.840	-.341	-.029	-.019

a. Dependent Variable: Organizational non financial performance

The regression model that explains the influence of organizational culture on market orientation, taking into consideration the moderating influence of marketing capabilities was fitted as follows:

MO = .463 + .280OC + .549MC - 021U

Where:
MO = composite score of market orientation
OC = composite score of organizational culture
MC = composite score of marketing capabilities
U = interaction term of organizational culture and marketing capabilities

4.10.10 Joint Effect of Organizational Culture, Market Orientation, Industry Competition and Marketing Capabilities on Performance

The study sought to establish the joint influence of organizational culture, market orientation, industry competition and marketing capabilities on performance. Theoretical reasoning led to the belief that the joint effect of organizational culture, marketing capabilities, market orientation and industry competition on performance is statistically significant. To assess the joint effect, the following hypothesis was tested.

Hypothesis 7: The joint effect of organizational culture, market orientation, industry competition and marketing capabilities on performance is statistically significant

The pertinent results of hypothesis testing are displayed in Tables 4.49 to 4.51.

Table 4.49: Summary of Regression Results for Joint Effect Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.640[a]	.409	.398	.46784	.409	35.311	1	51	.000
2	.684[b]	.468	.446	.44852	.058	5.488	1	50	.023
3	.714[c]	.510	.480	.43464	.042	4.245	1	49	.045
4	.778[d]	.605	.572	.39430	.095	11.539	1	48	.001

a. Predictors: (Constant), Organizational culture

b. Predictors: (Constant), Organizational culture, Market orientation

c. Predictors: (Constant), Organizational culture, Market orientation, Industry competition

d. Predictors: (Constant), Organizational culture, Market orientation, Industry competition, Marketing capabilities

The results displayed in Table 4.49 reveal that the joint effect of organizational culture, marketing capabilities, market orientation and industry competition on performance was statistically significant. The results show that organizational culture, marketing capabilities, market orientation and industry competition explain 57.2% of the variations in firm performance (R^2 = .572). Therefore, the hypothesis was supported by the results of the study. The results show that organizational culture independently explains 40.9% of the variation in firm performance. Organizational culture and market orientation jointly explain 44.6% of the variations in performance (R^2 = .446). Organizational culture, market orientation and industry competition jointly explain 48% of the variations in firm performance. The results suggest that marketing capabilities make the greatest contribution to firm performance (R^2 change = .095, F change = 11.539). On the other hand, industry competition makes the least contribution to variations in firm performance (R^2 change = .042, F change = 4.245).

Table 4.50 presents test of significance results for the joint effect of organizational culture, market orientation, industry competition and marketing capabilities on performance. The F statistics shows that all the models were significant.

Table 4.50: Analysis of Variance Results for Joint Effect of Organizational Culture, Market Orientation, Industry Competition and Marketing Capabilities on Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.729	1	7.729	35.311	.000[a]
	Residual	11.162	51	.219		
	Total	18.891	52			
2	Regression	8.833	2	4.416	21.953	.000[b]
	Residual	10.058	50	.201		
	Total	18.891	52			
3	Regression	9.634	3	3.211	17.000	.000[c]
	Residual	9.257	49	.189		
	Total	18.891	52			
4	Regression	11.428	4	2.857	18.377	.000[d]
	Residual	7.463	48	.155		
	Total	18.891	52			

a. Predictors: (Constant), Organizational culture

b. Predictors: (Constant), Organizational culture, Market orientation

c. Predictors: (Constant), Organizational culture, Market orientation, Industry competition

d. Predictors: (Constant), Organizational culture, Market orientation, Industry competition, Marketing capabilities

e. Dependent Variable: Organizational non financial performance

Table 4.51 presents regression coefficients of the joint effect of organizational culture, marketing capabilities, market orientation and industry competition on performance. The beta coefficients illustrate that marketing capabilities (β = .443) contributes more than the rest of the variables in explaining firm performance. The contribution of organizational culture (β = .255) to performance is greater than the influence of market orientation (β = .130). Industry competition (β = .118) makes the lowest contribution to firm performance.

Table 4.51: Regression Coefficients of Organizational Culture, Market Orientation, Industry Competition and Marketing Capabilities Joint Effect Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.820	.466		1.761	.084
	Organizational culture	.712	.120	.640	5.942	.000
2	(Constant)	.687	.450		1.526	.133
	Organizational culture	.384	.181	.345	2.116	.039
	Market orientation	.403	.172	.381	2.343	.023
3	(Constant)	.068	.530		.128	.899
	Organizational culture	.394	.176	.354	2.244	.029
	Market orientation	.335	.170	.317	1.972	.054
	Industry competition	.240	.116	.214	2.060	.045
4	(Constant)	.126	.481		.263	.794
	Organizational culture	.255	.165	.229	1.546	.129
	Market orientation	.130	.166	.123	.784	.437
	Industry competition	.118	.112	.105	1.055	.297
	Marketing capabilities	.443	.130	.463	3.397	.001

a. Dependent Variable: Organizational non financial performance

The regression model used to predict performance arising from the joint effect of organizational culture, market orientation, industry competition and marketing capabilities was fitted as follows:

y = .126 + .229OC + .123MO + .105IC + .463MC

Where :

y = performance
OC = composite index of organizational culture
MO = composite index of market orientation
I C = composite index of industry competition
MC = composite index of marketing capabilities

The overall summary of research objectives, hypotheses and results of statistical analyses is presented in Table 4.52.

14.11 Discussion of Findings

This section presents discussion of findings of the study. The discussion is guided by the objectives and hypotheses of the study. Formulation of research hypotheses was guided by literature review and theoretical reasoning. Conceptual relationships among variables were presented in a conceptual model. Hypotheses were tested through regression analysis.

14.11.1 Organizational Culture and Performance of Microfinance Institutions

The influence of organizational culture on performance of firms has attracted significant research attention. Conceptually, organizational culture is linked to performance through its influence on behaviour, attitudes and conduct of employees. Literature also suggests that the influence of culture on performance depends on the strength of culture itself. Organizations with strong cultures are those where majority of the members share common cultural values. Previous studies (Denison & Mishra, 1995; Kotter & Heskett, 1992) established that organizational culture is associated with long term performance of the firm. In the current study, it was established that

organizational culture significantly and strongly (R^2 =0.409) explained performance outcomes when the latter was measured using perceptual indicators.

The finding demonstrates the relationship between organizational culture and performance. The finding is consistent with results obtained by Deal and Kennedy (1982); Peters and Waterman (1982); Denison (1984); and Denison and Mishra (1995) who established a positive association between organizational culture and performance. On the other hand, the findings are contrary to results obtained by Ott (1989); and Byles and Keating (1989) who established a negative relationship between culture and performance. Based on empirical evidence presented in the current and majority of previous studies, it means that organizational culture is an intangible resource that should be nurtured in performance management.

Although organizational culture has a significant and positive influence on performance, findings of the study suggest that the relationship is more significant where performance is assessed using perceptual proxy indicators. When performance was measured using financial indicators, mixed results were obtained. With exception of debt/equity ratio, the influence of organizational culture on financial performance indicators was insignificant. The findings are consistent with results obtained by Yesil and Kaya (2013). On the other hand, the findings of the present study contradict results obtained by Fekete and Borcskei (2011) who empirically established a positive link between market culture and financial performance. Considering inconsistent findings reported in literature, findings of the current study suggest that culture may have indirect influence on financial performance through other variables. Based on findings of the current study, it may be premature and misleading to conclude that there is no relationship between organizational culture and financial performance. Such a conclusion can only be arrived at after carrying out tests in different contexts using different performance measurement tools such as balance score card.

Since culture is unique to each organization, it can neither be mimicked nor destroyed by competitors making it a major source of competitive advantage. Therefore, presence of strong and positive organizational culture influences performance outcomes by enhancing common focus by organizational members and creation of

synergy through teamwork. In the current study, organizational culture was characterized by strong customer orientation, teamwork, risk avoidance and planned response to forces emanating from the environment. Customer orientation is a key success factor in competitive industries. Therefore, it is expected that firms that have strong cultural values consisting of customer orientation and teamwork are likely to experience superior performance.

Although culture is positively and significantly associated with performance, the possibility of a negative relationship cannot be ruled out. For instance, risk avoidance disposition can lead to lost performance growth opportunities and hence reduced performance. Once established, cultural values may encourage programmed response to changes in the business environment. Consequently, strong values may lead to organizational rigidity and reluctance to embrace change in management of marketing programmes. Yilmaz (2008) argues that culture shapes business procedures and provides solutions to problems faced by organizations thereby, hindering or facilitating achievement of organizational goals.

14.11.2 Industry Competition and Performance of Microfinance Institutions

Empirical evidence from previous studies indicates that competition has both positive and negative influence on performance of organizations. However, evidence on the relationship between industry competition and performance of microfinance institutions in scant. Therefore, the influence of competition on performance of microfinance firms deserved empirical investigation. The present study found that industry competition had positive and significant influence on performance (R^2 = .133). The finding concurs with results obtained by Mia and Clarke (1999); Chong and Rundus (2004); Nickell (2006); and Al-Rfou (2012). However, the finding is contrary to empirical evidence provided by Assefa, Hermes and Meesters (2010) which linked competition to negative performance in the microfinance industry. Unlike Patia and Mia (2009) who did not find a relationship between competition and performance, the current study indicates that competition has a directional and positive influence on performance.

Although a positive association between competition and performance was established, the strength of the relationship was modest. This may be influenced by intensity of competition. Industries characterized by information asymmetry experience intense competition. In the microfinance industry, it is likely that information sharing through various forms of formal and informal channels reduces information asymmetry and therefore, leads to reduced competitive intensity. The low influence of industry competition on performance can be attributed to stumpy competition that is linked to increased product differentiation, customer orientation and niche marketing practices by microfinance institutions. It has also been empirically established that under intense competition from commercial banks, microfinance institutions respond by deepening their outreach and consequently neutralize pressure from competitors (Cull et al., 2009b).

14.11.3 Marketing Capabilities and Performance of Microfinance Institutions

The role of marketing capabilities in improving firm performance has been in focus since the beginning of 21st Century. According to Morgan et al. (2009), firms spend large sums of money on building, maintaining and leveraging marketing capabilities. Therefore, unearthing the contribution of marketing capabilities in growing industries such as microfinance is important. The present study constitutes one of the few works to empirically demonstrate the link between marketing capabilities and performance. It further augments knowledge by demonstrating how the various components of marketing capabilities are associated with performance. The direct influence of marketing capabilities on performance was tested through univariate analysis. As expected, it was found that marketing capabilities had significant and positive influence on performance (R^2 = .542). The finding is consistent with previous findings by Krasnokov and Jayachandran (2008); Morgan et al. (2009); and Theodosiou et al. (2012) who unswervingly reported positive relationship between marketing capabilities and performance.

Persuaded by analytical approach proposed by Morgan et al. (2009), the current study explored dissected analysis of the contributions of various components of marketing capabilities to performance. Contrary to expectation, product capability (R^2 = 0.506) followed by marketing communications (R^2 = 0.463) had the highest positive and

significant influence on performance. In contrast, the contribution of relationship management to performance was modest (R^2 = 0.143). Although this was not expected, the findings are not isolated and match those reported by Morgan et al. (2009) who empirically showed that customer relationship management had insignificant influence on revenue growth.

Results of regression analysis prompted the need to carry out bi-variate correlation analysis. Correlation results were consistent with regression analysis output and indicated that product capability (r = .711) was positively and strongly associated with performance. The relationship between marketing communications capability and performance was positive and strong (r = .680). The relationship between pricing capability (r = .569) and performance was positive and significant. Similarly, the relationship between distribution capability (r = .541) and performance was moderately strong. In contrast, the contribution of relationship management capability to performance was modest (r = .379). From a practical perspective, the findings suggest that firms can improve performance by increasing investments in product development and marketing communications.

Scrutiny of descriptive results suggests that microfinance institutions in Kenya concentrate on marketing capability areas that makes minimal contribution to performance outcomes at least in the short run. Although, empirical evidence demonstrate that relationship management do not contribute to variations in performance in equal or greater measure as compared to other marketing capability components, it does not mean that firms should completely ignore relationship management. Moreover, firms may benefit from relationship management in the long-term as customers gain trust and consequently become loyal, less price sensitive and engage in word-of-mouth promotion. Therefore, findings of the study should be interpreted with caution bearing in mind its cross-sectional nature that limits assessment of long-term influence of relationship management on performance.

Although marketing capabilities was significant in explaining firm performance, the relationship was plausible when the latter was measured using perceptual indicators. In contrast, it was established that the influence of marketing capabilities on financial

performance was not significant. For instance, the influence of marketing capabilities on loan repayment performance was not statistically significant (p-value = .259, F statistics = 1.139). Similarly, non significant results were obtained for return on asset and debt/equity ratio. The results were consistent with findings by Morgan et al. (2009) who did not find evidence linking marketing capabilities to financial performance. Therefore, marketing capabilities is likely to influence financial performance indirectly through other variables such as sales growth.

14.11.4 Influence of Industry Competition on the Relationship between Organizational Culture and Performance

In spite of existence of equivocal results in literature concerning the relationship between industry competition and performance, the current study empirically established that the influence of competition on the relationship between organizational culture and performance was not statistically significant. This means that organizational culture and competition independently influence performance. The results signify uniqueness and enduring nature of culture that enables organizations to overcome competition by adapting to changes in the marketing environment.

Moreover, organizations with positive and strong externally oriented culture are likely to be closer to customers, gather market intelligence and respond decisively to competitive threats. As a result, organizational culture enhances delivery of superior value to customers by firms. In addition, organizational culture provides buffer against competition thereby, enabling firms to maintain and improve performance outcomes.

14.11.5 Influence of Market Orientation on the Relationship between Organizational Culture and Performance

Several studies have concentrated on investigating the link between market orientation and performance (Narver & Slater, 1990; Ruekert, 1992; Kohli, Jaworski & Kumar, 1993). In other words, little research attention has been directed towards establishing the mediating influence of market orientation on the relationship between organizational culture and performance. Beyond the mere link between organizational culture and performance, findings of the current study demonstrate that market

orientation partially mediates the relationship between organizational culture and performance.

Although organizational culture and marketing orientation independently contribute towards firm performance, market orientation makes greater contribution than organizational culture when they are acting together. This suggests that culture compliments market orientation to positively influence performance. In line with this argument, scholars including Narver and Slater (1990); and Deshpande (1993) observe that market orientation has cultural elements. Considering that organizational culture consists of a mix of sub-cultures, it therefore reinforces cultural values that are consistent with market oriented behaviours making it stronger and hence improved performance.

14.11.6 Moderating Influence of Marketing Capabilities on the Relationship between Organizational Culture and Market Orientation

Market orientation has been studied using five different perspectives; the dominant ones being cultural and the behavioural perspectives. In spite of the large number of articles that are documented in the area of market orientation, opinion is divided over the residence of market orientation within the organization fabric. Some researchers believe that market orientation is culturally embedded (Narver & Slater, 1993). In contrast, other scholars are of the view that market orientation is a type of marketing capability (Day, 1994). Although these kinds of controversies abound in marketing literature, the moderating influence of marketing capabilities on the relationship between organizational culture and market orientation has not been empirically tested. The current study shares the view of Morgan et al. (2009) that market orientation is associated with both capabilities and culture but, it is not synonymous to either of the two. Consequently, the study sought to empirically test the influence of marketing capabilities on the relationship between organizational culture and market orientation.

Contrary to expectation, it was revealed that the hypothesized moderating influence of marketing capabilities on the relationship between organizational culture and market orientation was not statistically significant. Therefore, the finding implies that organizational culture (p-value = 0.026) and marketing capabilities (p-value = 0.000)

independently and significantly contribute to changes in market orientation. In a related study, Vorhies et al. (1999) found that marketing capabilities was positively and significantly associated with market orientation. The current study further revealed that the contribution of marketing capabilities to market orientation exceeds that of organizational culture. This means that organizations need to be strong in developing and deploying marketing capabilities to enhance market orientation. Notably, the development and deployment of capabilities may require consistent and supportive culture. Therefore, it appears that organizational culture and marketing capabilities are complimentary.

14.11.7 Joint Effect of Organizational Culture, Marketing Capabilities, Market Orientation and Industry Competition on Performance

Findings of the study revealed that the joint effect of organizational culture, marketing capabilities, market orientation and industry competition on firm performance was statistically significant. The study found that all explanatory variables had positive and significant influence on performance. Marketing capabilities, market orientation and organizational culture in that order were significant and positive statistical predictors of firm performance. The contribution of industry competition to performance was significant but, modest.

The findings signify the importance of managing internally controllable organizational resources to improve performance. As indicated by the findings of the study, generic external factors such as competition are important for analysis but, managers need not to emphasize competitor orientation at the expense of developing, coordinating and deploying internal resources. Organizations are more likely to experience superior performance by emphasizing customer orientation and enhancing marketing capabilities to deliver superior customer value. In addition, firms that create organizational climate where strong positive values are adopted stand the chance of sustaining superior performance through positive employee attitude, teamwork and market driven behaviours.

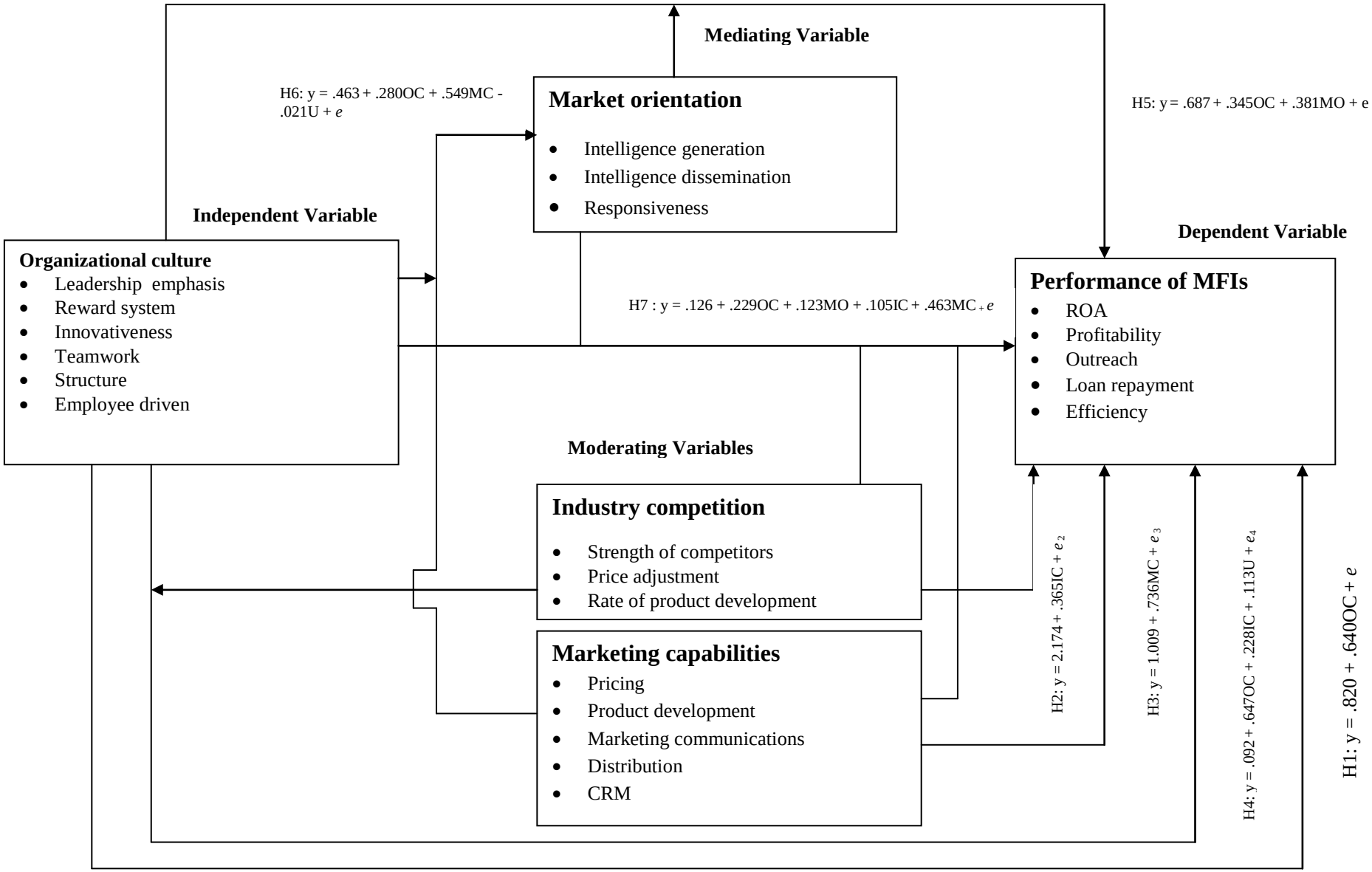
Table 4.52: Summary of Research Objectives, Hypotheses, Results and Interpretation

Objective	Hypotheses	R^2	p-value	F statistics	Interpretation
1. To assess the relationship between organizational culture and performance of microfinance institutions	**H_1**: There is a significant relationship between organizational culture and performance of microfinance institutions	.409	.000	35.31	• Organizational culture is a good statistical predictor of performance • Hypothesis 1 is supported
2. To assess the influence of industry competition on performance of microfinance institutions	**H_2**: There is a significant relationship between industry competition and performance of microfinance institutions	.133	.007	7.815	• Industry competition is a moderate predictor of performance • Hypothesis 2 is supported
3. To establish the relationship between marketing capabilities and performance of microfinance institutions	**H_3**: There is a significant relationship between marketing capabilities and performance of microfinance institutions	.542	.000	60.317	• Marketing capabilities is a strong predictor of variations in performance • Hypothesis 3 is supported
4. To establish the extent to which industry competition influences the relationship between organizational culture and performance of microfinance institutions	**H_4**: The relationship between organizational culture and performance of microfinance institutions is significantly moderated by industry competition	.481	.341	.925	• Moderating influence of industry competition is insignificant • Hypothesis is not supported
5. To determine the influence of market orientation on the	**H_5**: The relationship between organizational	.468	OC = 0.39	5.488	• Market orientation partially mediates the

Table 4.52: Summary of Research Objectives, Hypotheses, Results and Interpretation (Cont'd)

relationship between organizational culture and performance of microfinance institutions	culture and performance of microfinance institutions is significantly mediated by market orientation		MO = 0.23		relationship between organizational culture and performance • Hypothesis 5 is supported
6. To determine the influence of marketing capabilities on the relationship between organizational culture and market orientation	**H_6**: The relationship between organizational culture and market orientation is significantly moderated by marketing capabilities	.590	.840	23.536	• The moderating influence of marketing capabilities on the relationship between organizational culture and market orientation is insignificant • Hypothesis 6 is not supported
7. To establish the joint effect of organizational culture, market orientation, industry competition and marketing capabilities on performance of micro-finance institutions	**H_7**: The joint effect of organizational culture, market orientation, industry competition and marketing capabilities on performance is significantly greater than the sum of the effects of individual variables	.605	.001	18.377	• The independent variables jointly explain more variations in performance than each variable separately • Hypothesis 7 is supported

Fig. 4.1 Empirical Model of organizational culture, marketing capabilities, market orientation, industry competition and firm performance.



4.12 Summary of the Chapter

The chapter presented results of the study and tests of hypotheses. Out of the seven hypotheses, five were supported by empirical evidence. In contrast, results obtained from regression analysis for moderation tests were not statistically significant and consequently, hypotheses 4 and 6 were not supported. Univariate analysis showed that organizational culture had positive and significant influence on performance. The results further showed that marketing capabilities was a strong positive predictor of performance. By and large, majority of the findings were consistent with findings of other previous studies. The next chapter presents discussion, summary of findings, conclusion derived from findings and recommendations.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The central theme of the study was to examine the influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions in Kenya. To accomplish objectives of the study, seven hypotheses were formulated and tested and findings reported in chapter four. The present chapter presents summary, conclusion, limitations of the study and recommendations.

5.2 Summary

The broad objective of the study was to establish the direct and indirect relationships among organizational culture, marketing capabilities, market orientation, industry competition and firm performance. Seven specific objectives were formulated and pursued by testing seven major hypotheses. The population of the study comprised microfinance institutions that were members of the Association of Microfinance Institutions in Kenya (AMFI). Data for testing hypotheses were obtained from secondary and primary sources. Secondary data on financial performance indicators were obtained from annual industry performance assessment reports by AMFI. Primary data were collected through questionnaires targeting Chief Executive Officers, Marketing Managers and Human Resource Managers or their equivalents. Data were processed through descriptive statistics, Chi-square tests, factor analysis and regression analysis.

The study established that majority of the microfinance institutions in Kenya have been operating for less than ten years suggesting that the industry is fairly young. This was further evidenced by low penetration of branch network in more than half of the firms within the industry. Cultural values and behaviours in the microfinance industry largely fit specifications of market and collaborative culture typologies. The presence of market culture was evidenced by high concentration of customer orientation and external focus behaviours among majority of the firms. On the other hand, collaborative culture was reflected through heavy presence of teamwork, structured

planning and bonding sessions among organizational members. It was also established that presence of adhocracy culture was relatively low in the microfinance industry as firms tended to avoid risk taking behaviours. Competition within the microfinance industry was less intense although it was observed that customers had alternative service providers. High entry barriers such as high start-up costs reduced threats of potential entrants and hence reduced intensity of competition.

Majority of the firms had moderately strong marketing capabilities with significant variations across the firms. It was established that majority of the firms performed better in relationship management and pricing capabilities than in other components of marketing capabilities. Market orientation was depicted by more emphasis on customer orientation than competitor orientation. Customer orientation was exhibited by regular communications with customers, consistent gathering of customer intelligence and strong drive towards delivering customer satisfaction. Firms had varying levels of performance across the three components of market orientation. Whereas intelligence gathering was effectively undertaken by majority of the firms, weak dissemination and slow response to intelligence curtailed creation and sustenance of competitive advantage within the industry. Although microfinance institutions were strategically focused, majority of the firms performed dismally in outreach, profitability, loan repayment by clients and financial sustainability.

Out of the seven formulated hypotheses, five were supported while two were not empirically supported. It was established that organizational culture had positive and significant influence on performance. However, non significant results were obtained on the relationship between organizational culture and financial performance. Industry competition had modest but, positive and significant influence on performance. Results of the study demonstrate that marketing capabilities significantly and strongly explained variations in firm performance. Further analysis revealed that product capability and marketing communications capabilities in that order had greater influence on performance than any of the marketing capability components. Inconsistent with expectation, it was established that marketing capabilities do not moderate the relationship between organizational culture and performance, suggesting that both market orientation and organizational culture independently contribute

towards performance variations. It was also revealed that the relationship between organizational culture and performance was partially mediated by market orientation. Contrary to expectation, it was empirically established that marketing capabilities do not moderate the relationship between organizational culture and market orientation. In harmony with expectation, it was found that organizational culture, marketing capabilities, market orientation and industry competition altogether, had greater influence on performance outcomes.

5.3 Conclusion

The study tested a conceptual model based on market theories of competition. Data collected from top management of microfinance institutions and secondary sources were used to empirically test conceptual hypotheses. The results obtained show that organizational culture has significant direct influence on non financial performance. Mixed results were obtained on the relationship between organizational culture and financial performance. The relationship between organizational culture and debt/equity ratio was positive and significant. In contrast, the relationship between organizational culture and return on asset was not empirically supported. Similarly, non significant results were obtained for the relationship between organizational culture and loan repayment performance. Consequently, it was concluded that organizational culture is a significant predictor of non financial performance. It was also concluded that organizational culture is a poor statistical predictor of financial performance.

The study also examined the direct relationship between industry competition and performance. The results showed that industry competition has positive and significant influence on performance. However, the influence of competition on performance was modest. The relationship between marketing capabilities and performance was tested. It was established that marketing capabilities had positive, significant and strong influence on performance. The study exposed findings that have important theoretical value to scholars and managers in the microfinance industry. It was empirically shown that product capability followed by marketing communications capabilities independently have greater positive influence on performance. This was a major surprise considering the belief that pricing is the most

flexible marketing mix element and therefore, a major source of competitive advantage.

Relationship management had the lowest but, positive influence on performance outcomes. The combined influence of all the marketing capability components on performance was greater than the contribution of individual component. Based on results obtained, it was concluded that product development and marketing communications capabilities are a major source of competitive advantage. Remarkably, the relationship between marketing capabilities and financial performance was not statistically significant. Consequently, it was concluded that marketing capabilities possibly influence financial performance through other mediating variables. The moderating influence of marketing capabilities on the relationship between organizational culture and market orientation was not significant. In the same fashion, non significant results were obtained for the moderating influence of industry competition on the relationship between organizational culture and performance.

Conversely, it was established that market orientation has partial mediating influence on the relationship between organizational culture and performance. Even though both organizational culture and market orientation had independent and positive influence on performance, the contribution of market orientation to performance outcomes was greater than organizational culture. Therefore, it was concluded that organizational culture compliments market orientation when they are acting together to influence performance. Based on results of joint effect tests, it was concluded that the combined influence of organizational culture, marketing capabilities, market orientation and industry competition on performance is significant. Therefore, the combined influence of the independent variable creates synergy that delivers superior firm performance.

5.4 Contributions of the Study

5.4.1 Contributions to Theory

The study is one of the very few that have demonstrated that different components of marketing capabilities have varying levels of influence on performance. The study has empirically demonstrated that product development capability has the greatest influence on performance while customer relationship management capability has the lowest influence on performance. The study has further shown that the combined influence of different components of marketing capabilities delivers greater influence on performance than each of the component acting independently.

Secondly, the study departed from the conventional approach of testing direct relationship between market orientation and performance that saturate marketing literature. The departure was by testing the moderating effect of marketing capabilities on the relationship between organizational culture and market orientation. For the first time, it was established that moderating effect of marketing capabilities on the relationship between organizational culture and market orientation is not significant. On the other hand, the study revealed statistical significance of the mediation of market orientation on the relationship between organizational culture and firm performance. Thirdly, the study has demonstrated that the contributions of intangible organizational resources to firm performance depend on the nature and strength of a particular type of resource. Specifically, the contribution of organizational culture to performance depends on the type and strength of culture shared by organizational members. Finally, the study showed that the joint influence of organizational culture, marketing capabilities, market orientation and industry competition creates synergy that delivers greater performance.

5.4.2 Contributions to Policy

Microfinance institutions play a significant role in deepening access to financial services in Kenya. Therefore, their distribution across the country and subsequent performance is a matter of policy concern. Findings of the study has shown that majority of microfinance institutions have narrow scope of outreach implying that a large number of Kenyans are still locked from access to microfinance. Furthermore,

the study has shown that microfinance institutions are grappling with sustainability and low loan repayment performance issues that threaten their existence. Arising from these findings, deliberate policy measures aimed at enhancing outreach, increasing loan repayment performance and improving financial sustainability are necessary.

The study has also revealed that industry competition has positive influence on general performance of firms in the industry. The study suggests that policy interventions are necessary in strengthening and promoting microfinance institutions in Kenya. In addition, the study point out that licensing of more microfinance institutions is beneficial to the industry.

5.4.3 Contributions to Marketing Practice

From a practical perspective, the study revealed that managers need to emphasize marketing capabilities, market orientation and organizational culture to achieve and sustain superior performance. Furthermore, the study has demonstrated that by developing marketing capabilities in general and investing in product development in particular, organizations are more likely to experience better performance outcomes. The study has shown that by being market oriented, microfinance firms can improve their performance. The study has also broken ground by describing the nature of organizational culture, market orientation and marketing capabilities in Kenyan microfinance industry. More importantly, the study has revealed weaknesses in marketing intelligence dissemination and responsiveness across the industry. Therefore, managers of microfinance institutions have a rear opportunity to gain from the study by bridging performance gaps and strengthening strategic factors that hold greatest potential in influencing performance.

5.5 Limitations of the Study

The study attempted to address methodological challenges including reliability of measurement scales, sampling adequacy and response bias. Response bias was specifically addressed by collecting organizational data from multiple respondents. Reliability was addressed by adopting established measurement scales from literature and testing their reliability as well as validity. Although these attempts improved the overall quality of the study, findings are not without limitations. One of the limitations is cross-sectional research design that was adopted in the study. The design was limited in assessing long-term influence of organizational culture and customer relationship management capability on performance. There is a likelihood that different results would have been obtained if longitudinal design was adopted in measuring relationships among these variables.

The second limitation relates to data collection instrument. Since culture is unobservable in real life, structured questionnaire could not reveal values and behaviours that are difficult to express. Therefore, an interview guide would have generated detailed qualitative data that capture opinions, believes and value expressions by respondents. Thirdly, the study was limited to microfinance institutions that were members of AMFI. Therefore, findings of the study cannot be generalized beyond the defined population. Although there are some microfinance institutions that are not members of AMFI, findings of the study are not reflective of them since they were not represented. Finally, data used to test hypotheses were collected from top management. This limits representation of organizational members in the study. Different results would have been obtained if data were collected from organizational members at different hierarchical levels.

5.6 Recommendations of the Study

The resource advantage theory, dynamic capabilities theory and the comparative advantage theory provide plausible explanation of the relationship between organizational variables and sustainable competitive advantage. Findings of the current study support the explanatory power of resource based marketing theories. However, the theories do not explain the link between organizational resources and financial performance. Although resource based theories assume that financial

performance is the ultimate outcome of organizations, they fail to address how marketing resources contribute to superior financial performance. Therefore, there is need for more research aimed at developing a general marketing theory that can adequately explain the relationship between organizational resources and financial performance. Although the dynamic theory explain how resources are developed and deployed, it does not shed light on organizational factors that influence reconfiguration of resources and how this process influences performance outcomes. Therefore, research driven towards theory development is of great concern.

On a practical front, the study recommends strengthening of product development and marketing communications capabilities in the microfinance industry. Product development capability can be strengthened through research, employee training, and by employing educated, skilled and talented individuals with positive attitude. Product development capability can further be enhanced by rewarding innovativeness. On the other hand, marketing communications capability can be enhanced by developing and implementing promotions strategy, continuous employee training and exposure, reviewing internal policies, increasing media presence and participating in corporate sponsorship.

In addition, deliberate efforts towards building positive relations with the media and advertising agencies would be useful in enhancing communications capability. The study further recommends strengthening of intelligence dissemination and responsiveness in the microfinance industry. Intelligence dissemination can be strengthened through intra-nets, regular interdepartmental meetings, regular management briefs and database management. On the other hand, responsiveness can be strengthened by improving internal coordination, reviewing internal policies and structures and employee training.

5.7 Suggestions for Further Research

The limitations of the study can be addressed by future studies but, beyond that, there are more exciting research possibilities based on findings of the study. While the objectives of the study were achieved, it would be interesting to test the moderating influence of market orientation on the relationship between marketing capabilities and

performance. In addition, future studies need to test the influence of organizational climate on performance. This is because organizational climate is related to but, not similar to organizational culture.

Future studies need to investigate variables in the conceptual model by adopting a triangulated method involving qualitative and quantitative research designs. A qualitative investigation of organizational culture prior to quantitative survey would add value to research output. In addition, there is urgent need to assess the influence of organizational culture, market orientation and marketing capabilities using a longitudinal research design. This kind of methodological variation will depict the true picture of relationships over time.

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APPENDICES

APPENDIX I: RESEARCHER'S LETTER OF INTRODUCTION

Joseph Odhiambo Owino
P.O. Box 24993
Nairobi - 00100
July 02, 2014

The Chief Executive Officer

Dear Sir,

RE: REQUEST FOR PARTICIPATION IN MICROFINANCE ACADEMIC RESEARCH

I am a PhD candidate at the School of Business, University of Nairobi. Research is a mandatory requirement for completing the doctoral studies programme. In this connection, I am undertaking a study titled '**The Influence of Industry Competition, Market Orientation and Marketing Capabilities on the Relationship between Organizational Culture and Performance of Microfinance Institutions in Kenya**'. The population of the study consist of members of the Association of Microfinance Institutions (AMFI) in Kenya. Therefore, your organization is one of the respondents for the study.

Microfinance Institutions were chosen as the context of the study due my conviction of the potential that they hold in revolutionizing Kenyan economy; the role they play in enhancing financial inclusion and access; and ripple down effect they are likely to cause in job creation and poverty reduction. Evidence from secondary sources suggests that performance of microfinance is influenced by a number of variables. Therefore, my thesis seeks to test the joint contribution of marketing forces and organizational variables on performance of MFIs. Findings of the study will be important for managers of MFIs in managing performance in an increasingly dynamic and complex business environment.

Due to the nature of variables under investigation, the study seeks to obtain information from heads of departments (Marketing & Human Resource) and the Chief Executive Officer. Data obtained will be treated with utmost confidentiality and will be analyzed among others for academic purposes only. Data will be collected through structured questionnaire. A copy of the questionnaire and letter of introduction from the university are attached for your information and action. The purpose of this letter is to kindly ask you to participate in the study by providing relevant data by completing the attached questionnaire. Upon request, a soft copy of the report will be emailed to you after completion of the study.
Thank you very much for your assistance.

Yours faithfully,

Joseph Odhiambo Owino

APPENDIX II : AMFI LETTER OF INTRODUCTION

Association of Microfinance Institutions–Kenya (AMFI-K)
1st Floor, Methodist Ministries Centre, Oloitoktok Road Off Argwings Kodhek - Lavington
P.O. Box 10701-00100, Nairobi, Telephone 020 2106090 / 2, 020 3864053, 0737 409 059
Email: info@amfikenya.com, Website: www.amfikenya.com.

July 9, 2014.

TO WHOM IT MAY CONCERN.

Dear Sir/Madam,

REFERENCE FOR MR. JOSEPH ODHIAMBO OWINO.

This is to introduce the above named student of the University of Nairobi who approached the Association with a need to carry out a study on "The influence of the industry competition, Market Orientation and, Marketing capabilities for Microfinance Institutions."

I request you to accord him the necessary assistance to facilitate his research/study. He has committed to release a copy of the findings of the study to the Association.

Thank you.

Yours sincerely

Benjamin Nkungi
Chief Executive Officer.

APPENDIX III: QUESTIONNAIRE

The questionnaire aims to collect data from microfinance institutions with the goal of examining "**The Influence of Industry Competition, Market Orientation and Marketing Capabilities on the Relationship between Organizational Culture and Performance of Microfinance Institutions in Kenya**". Data obtained will be held in confidence and identity of respondents will be kept anonymous. Your cooperation in data collection exercise is highly appreciated.

SECTION A: BACKGROUND INFORMATION

Respondent details:

1. Designation……

2. Department……

3. Gender……

4. Age……

5. Years of Service in the Microfinance Industry……

6. Please indicate the number of years your organization has been operating as a microfinance institution

Number of years in business	Less than 5	5 – 9	10 – 14	15 and more
Tick appropriate box				

7. Please indicate the number of branches operated by your organization?

Number of branches	Less than 10	10 – 19	20 – 29	30 and more
Tick appropriate box				

8. Would you please tell us the number of people employed by your organization?

Employment terms	Up to 50	51 – 100	101 – 150	151 and more
Permanent terms				
Contractual terms				

SECTION B: ORGANIZATIONAL CULTURE

10. The following statements relate to cultural characteristics of organizations. Kindly indicate the extent to which each of the statement match cultural traits in your organization

Cultural characteristics	Not at all (1)	Small extent (2)	Moderate extent (3)	Large extent (4)	Very large extent (5)
Our CEO/ MD emphasizes focus on customers and competitors across all departments					
Our Departmental Heads work towards delivering superior value to customers					
Our employees are rewarded by management on the basis of customer satisfaction					
Management tolerates reasonable degree of error					
We invest more than 5% of revenue on research and innovation					
Our employees work through teamwork					
We create bonding sessions for employees at least once a year					
We carryout adjustments in the organization structure to make it more responsive to changes in the market					
We have established effective systems, policies and guidelines					
The inputs of every employee are considered in management decision					
We avoid risks in our business practices					
We are more focused on external environment than internally oriented					
We review our strategies from time to time to make them more effective to changes in competitive environment					

11. Organizations are known to have a culture shared by organizational members. How would you describe the culture in your organization?

……

……

……

12. Which conditions facilitate development of organizational culture in your institution?

……

.....

……

13. What kind of people are more likely to make a successful career in your organization?

……

……

……

14. What kind of things do employees like to see happening in your organizations?

……

……

……

15. What are the biggest mistakes employees avoid making in your organization?

……

……

……

SECTION C: MARKET ORIENTATION

16. Below are a number of statements regarding the extent of market orientation in organizations. Please indicate how your company rates on each statement

Intelligence gathering	Not at all (1)	Small extent (2)	Moderate extent (3)	Large extent (4)	Very large extent (5)
We carry out market research at least once a year					
We monitor customer satisfaction regularly					
Our top managers from every department regularly interact with current and prospective customers					
We collect customer complaints daily					
We communicate with customers on regular basis					
Our sales people are trained to spot and report marketing intelligence					
We are quick to detect changes on consumer preferences					
Our business objectives are driven by customer feedback					
We seek customer views about our products and services					
We review changes in the marketing environment at least once a year					
Intelligence dissemination					
We hold interdepartmental meetings at least once every three months to discuss market trends and developments					
Marketing personnel in our organization spend time discussing customers' future needs with other functional departments					
We hold joint opportunity analysis on new product development process					
Top management regularly discusses competitor's strengths and weaknesses					
Our sales people regularly share information within our organization concerning customers and competitors					

Data on customer satisfaction are disseminated at all levels in our company at regular intervals					
There is minimal communication between marketing and other departments concerning market developments					
Our marketing unit periodically circulates documents that provide information on our customers					
When one department finds out something important about competitors, it is slow to alert other departments					
Responsiveness					
We respond fast to our competitors product development initiatives					
It takes us forever to decide how to respond to our competitors' interest rates changes					
We continuously review our products to ensure that they are in line with changing customer needs and preferences					
All departments within our organization regularly hold meetings to respond to changes in the business environment					
If a major competitor were to launch an intensive targeted at our customers, we would immediately implement a response strategy					
We respond to customer complaints in a coordinated manner					
When we find that our customers would like us to modify products or service, the concerned departments take concerted efforts to do so					
The product lines we sell depend more on internal politics than real market needs					

SECTION D: MARKETING CAPABILITIES

17. Please rate your organization relative to your major competitors in terms of marketing capabilities in the areas listed in the table below (*where 1 = much worse than competitors; and 5 = much better than competitors*)

Pricing capabilities	Much worse than competitors (1)	Worse than competitors (2)	Same level with competitors (3)	Better than competitors (4)	Much better than competitors (5)
Adjusting interest rates/lending rates to respond quickly to market changes					
Knowledge of competitors' pricing tactics					
Monitoring competitors' interest rates and charges					
Flexible pricing policies					
Customer rating of service quality					
Product capabilities					
Ability to develop new products					
Ability to innovate and generate new ideas					
Vibrant research department					
Ensuring products and services are responsive to customer needs					
Distribution capabilities					
Well distributed branch network					
Partnership with money transfer service providers (Mpesa, Airtel Money)					
Large hardworking sales force					
Marketing communications					

capabilities					
Developing and executing advertising programs					
Advertising management and creative skills					
Public relations skills					
Online and mobile phone marketing skills					
Relationship management capabilities					
Trained and motivated front-office team					
Managing customer complaints					
Customer retention abilities					
Ability to thoroughly understand customer needs and wants					

SECTION E: INDUSTRY COMPETITION

18. Below are a number of statements regarding intensity of competition within the micro-finance industry. Kindly indicate (by ticking one box for each statement) the level at which you agree with each statement

Industry competition	Not at all (1)	Small extent (2)	Moderate extent (3)	Large extent (4)	Very large extent (5)
Competition in our industry is cutthroat					
There are many promotion wars in our industry					
Anything that one competitor can offer others can match readily					
Our competitors react fast to moves by any single company within the industry					
Our competitors are relatively weak					
Rate of introduction of new products and services in the industry is rapid					

Setting up a micro-finance institution requires large start-up costs					
Customers have several alternative financial service providers to choose from					
Our profit margins keep declining over time					
We review our lending rates at least twice a year					
Our costs of serving customers keeps on rising					
Our lending terms are reviewed to attract more borrowers as competition intensifies					
Top management emphasizes wider geographic outreach					

19. Competition affects organization in different ways. Tell us how your institution has been affected by competition in the lending industry

……

……

……

SECTION F: ORGANIZATIONAL PERFORMANCE

20. Please indicate performance level of your organization using the indicators provided on the table below

Performance indicator	**Year**				
	2008	2009	2010	2011	2012
Number of active borrowers					
Average loan balance per borrower (Ksh)					
Loan repayment performance (%)					
Return on Asset (%)					
Customer satisfaction index					
Number of branches					

21. How would you rate your performance relative to your competitors on the following indicators?

Performance indicator	Much worse than competitors	Worse than competitors	Same level as competitors	Better than competitors	Much better than competitors
Outreach					
Loan repayment performance					
Profitability					
Customer satisfaction					
Efficiency					
Financial sustainability					
Asset growth					
Long-term focus					
Achievement of corporate objectives					
Corporate Reputation					
Product development					
Innovation					

APPENDIX IV: MICROFINANCE INSTITUTIONS IN KENYA

	Name	Contacts
1	Faulu Kenya DTM Limited	Postal Address: P. O. Box 60240 – 00200, Nairobi Telephone: +254-20- 3877290 -3/7, 38721883/4 Fax: +254-20-3867504, 3874875 Email: info@faulukenya.com , customercare@faulukenya.com Website: www.faulukenya.com Physical Address: Faulu Kenya House, Ngong Lane -Off Ngong Road
2	Kenya Women Finance Trust DTM Limited	Postal Address: P. O. Box 4179-00506, Nairobi Telephone: +254-20- 2470272-5, 2715334/5, 2755340/42 Pilot Line: 070 - 3067000 Email: info@kwftdtm.com Website: www.kwftdtm.com Physical Address: Akira House, Kiambere Road, Upper Hill,
3	SMEP Deposit Taking Microfinance Limited	Postal Address: P. O. Box 64063-00620 Nairobi Telephone: 020-3572799 / 26733127 / 3870162 / 3861972 / 2055761 Fax: +254-20-3870191 Email: info@smep.co.ke info@smep.co.ke info@smep.co.ke Website: www.smep.co.ke Physical Address: SMEP Building - Kirichwa Road, Off Argwings Kodhek Road
4	Remu DTM Limited	Postal Address: P. O. Box 20833-00100 Nairobi Telephone: 2214483/2215384/ 2215387/8/9, 0733-554555 Email: info@remultd.co.ke info@remultd.co.ke info@remultd.co.ke Physical Address: Finance House, 14th Floor, Loita Street
5	Rafiki Deposit Taking Microfinance	Postal Address: 12755-00400 Nairobi Telephone: 020-216 6401 Cell - phone: : 0719 804 370/0734 000 323 Email: info@rafiki.co.ke Website: www.rafiki.co.ke Physical Address: : 2nd Floor, El-roi Plaza, Tom Mboya Street
6	UWEZO Deposit Taking Microfinance Limited	Postal Address: 1654-00100 Nairobi Telephone: 2212917 / 9 Email: info@uwezodtm.com Website: www.uwezodtm.com Physical Address: Park Plaza Building, Ground Floor, Moktar Daddah Street
7	Century Deposit Taking Microfinance Limited	Postal Address: P. O. Box 38319 – 00623, Nairobi Telephone: +254-20- 2664282, 20 6768326, 0722 168721, 0733 155652 Email: info@century.co.ke

		Physical Address: KK Plaza 1st Floor, New Pumwani Road, Gikomba
8	SUMAC DTM Limited	Postal Address: P. O. Box 11687-00100, Nairobi Telephone: (254) 20 2212587, 20 2210440 Fax: (254) 2210430 Email: info@sumacdtm.co.ke Website: www.sumacdtm.co.ke Physical Address: Consolidated Bank House 2nd Floor, Koinange Street
9	U&I Deposit Taking Microfinance Limited	Postal Address: P.O. Box 15825 – 00100, Nairobi Telephone: (254) 020 2367288, Mobile: 0713 112 791 Fax: (254) 2210430 Email: info@uni-microfinance.co.ke Website: http://uni-microfinance.co.ke/uni-microfinance/ Physical Address: Asili Complex Building 1st Floor, River Road
10	Blue Limited	Chester House, Koinange Street P.O. Box 27749, 00100 Nairobi
11	K-Rep Development Agency	K-Rep Centre, 7th Floor, Wood Avenue, Kilimani P.O. Box 10528, 00100 Nairobi
12	Eclof Kenya	Chiromo, Royal Offices, Mogotio Road P.O. Box 34889, Nairobi
13	KADET	Capital Hill, Cathedral Road, Community P.O. Box 1676, 00200 Nairobi
14	Bimas	Bimas Complex P.O. Box 2299 Embu
15	Sisdo	Ngong Road, Ngong Lane P.O. Box 76622, 00508 Nairobi
16	Micro Africa Ltd	P.O. Box 52926, Nairobi
17	Opportunity Kenya	Geomaps Centre, Matumbata Road, Upper Hill P.O. Box 19497, 00202 Nairobi
19	Yehu Microfinance Trust	Buxton, Tom Mboya Street P.O. Box 82120 Nairobi
20	Fusion Capital Ltd	ACK Garden Hse., Wing A, Ground Floor, 1st Ngong Avenue, Community (Next to Ardhi Hse)

21	Canyon Rural Credit Ltd	Studio Hse., 3rd Floor P.O. Box 46532, 00100 Nairobi
22	One Africa Capital Ltd	Koinange Street, Ratansi Education Trust Building, 2nd Floor P.O. Box 74093, 00200 Nairobi
23	Jitegemea Credit Scheme	Jogoo Road, KCB Building P.O. Box 46514 Nairobi
24	AAR Credit Services	Methodist Ministries Centre, 1st Floor, Oloitokitok Road
25	Agakhan Foundation Microcredit Programme	Mpaka Plaza, Westlands, 3rd Floor P.O. Box 13149, 00100 Nairobi
26	Adok Timo	Sifa House, Ground Floor, Mission Road (Off Kakamega Road, Opposite Kibuye Market) Kisumu
27	Pamoja Women Development Programme	Kikinga House, Kiambu Town P.O. Box 2472, 00100 Nairobi
28	Juhudi Kilimo Co. Ltd	Mucai Road, Ngong Road P.O. Box 10528, 00100 Nairobi
29	Musomi Kenya Ltd.	Cape Office Park, Along Ring Road, Kilimani, Opposite Yaya Centre P.O. Box 25351, 00100 Nairobi
30	Molyn Credit Ltd.	Bruce Hse, 9th Floor, Standard Street P.O. Box 10144, 00100 Nairobi
31	Renewable Energy Technology Assistance Programme (RETAP)	Waumini Hse, Westlands, 1st Floor P.O. Box 28201, 00200 Nairobi
32	Rupia Ltd.	View Park Towers, 10th Floor P.O. Box 2987, 00200 Nairobi
33	Taifa Options Microfinance	Finance House, Kenyatta Highway P.O. Box 727 Ruiru
34	U & 1 Microfinance Ltd.	1st Floor, Asili Complex, River Road/ Latema Road Junction (Opposite Kampala Coach)
35	Select Management Services Ltd.	Kenya Re Towers, Off Ragati Road P. O. Box 27639, 00506 Nairobi

36	Greenland Fedha Ltd.	KTDA Farmers Building P.O. Box 30213, 00100 Nairobi
37	Youth Initiatives Kenya (YIKE)	Kariobangi North, Sanoda House, 2nd Floor P.O. Box 50622, 00200 City Square, Nairobi
38	Biashara Factors	Finance House, 11th Floor, Loita Street P.O. Box 66065, 00800 Nairobi
39	Platinum Credit Ltd.	2nd Floor, NHIF Building, Community P.O. Box 73304, 00200 Nairobi
40	Ngao Credit Ltd.	2nd Floor, NHIF Building, Community P.O. Box 60776, 00200 Nairobi
41	Indo Africa Finance	Museum Hill Centre, 3rd Floor, Museum Hill Road P.O. Box 39435, 00623 Nairobi
42	Springboard Capital	Kensia House (Along Muran'ga Road, Opposite Kobil Petrol Station), 1st Floor, Suite No. 12 P.O. Box 23720, 00100 Nairobi
43	Mini Savings & Loans Ltd.	Highway Building, Githunguri Town (Near Githunguri Post Office) P.O. Box 874, 00216 Githunguri, Kiambu
44	KEEF-Kenya Enterprise Empowerment Foundation	Mapa House, 3rd Floor, Kiambu Road P.O. Box 648 Kiambu
45	Women Enterprise Solutions	Development House, Moi Avenue P.O. Box 4083, 00200 Nairobi
46	Focus Capital Ltd.	Donholm Mina Centre P.O. Box 2406, 00202 Nairobi
47	Samchi Credit Ltd.	Parklands Plaza P.O. Box 16982, 00620 Nairobi
48	Fountain Credit Services Ltd.	Ngong Road (Near Kobil Petrol Station) P.O. Box 72367, 00200 Nairobi
49	Milango Financial Services	Rozina Building, Moi Avenue P.O. Box 99637, 80107 Mombasa

50	Nationwide Credit Kenya Ltd.	Trishul Towers, 1st Floor (Near Globe Cinema Roundabout, Next to Paramount Plaza) P.O. Box 41873, 00100 Nairobi
51	Fort Credit Limited	Equity Plaza, Thika, 2nd Floor P.O. Box 6685, 00100 Thika
52	Jitegemee Trust	K-Rep Centre, Wood Avenue P.O. Box 21768, 00505 Nairobi
53	Oiko Credit	Methodist Ministries Centre, Oloitokitok Road, 2nd Floor P.O. Box 67181 Nairobi
54	MESPT	2nd Floor, Vision Towers, Muthithi Road, Westlands P.O. Box 187, Sarit Centre, oo606 Nairobi
55	Women Enterprise Fund	NSSF Building, Eastern Wing, Block A, 14th Floor P.O. Box 17126, 00100 Nairobi

Source: amfikenya.com

APPENDIX V: SAMPLING ADEQUACY TESTS

KMO and Bartlett's Test for Organizational Culture

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.759
Bartlett's Test of Sphericity	Approx. Chi-Square	235.736
	df	78
	Sig.	.000

KMO and Bartlett's Test for Market Orientation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.763
Bartlett's Test of Sphericity	Approx. Chi-Square	923.410
	df	351
	Sig.	.000

KMO and Bartlett's Test for Marketing Capabilities

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.817
Bartlett's Test of Sphericity	Approx. Chi-Square	654.179
	df	190
	Sig.	.000

KMO and Bartlett's Test for Industry Competition

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.641
Bartlett's Test of Sphericity	Approx. Chi-Square	226.023
	df	78
	Sig.	.000

APPENDIX VI: SUPPLEMENNTARY STATISTICAL ANALYSIS

Table A1: Factor Analysis for Organizational Culture

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.539	34.915	34.915	3.138	24.139	24.139
2	1.526	11.735	46.650	2.392	18.403	42.542
3	1.289	9.918	56.567	1.538	11.828	54.369
4	1.207	9.283	65.850	1.492	11.481	65.850
5	.948	7.290	73.140			
6	.878	6.753	79.893			
7	.534	4.111	84.004			
8	.497	3.822	87.826			
9	.408	3.137	90.964			
10	.374	2.875	93.838			
11	.320	2.464	96.302			
12	.282	2.165	98.468			
13	.199	1.532	100.000			

Extraction Method: Principal Component Analysis.

Chart A1: Scree Plot for Organizational Culture

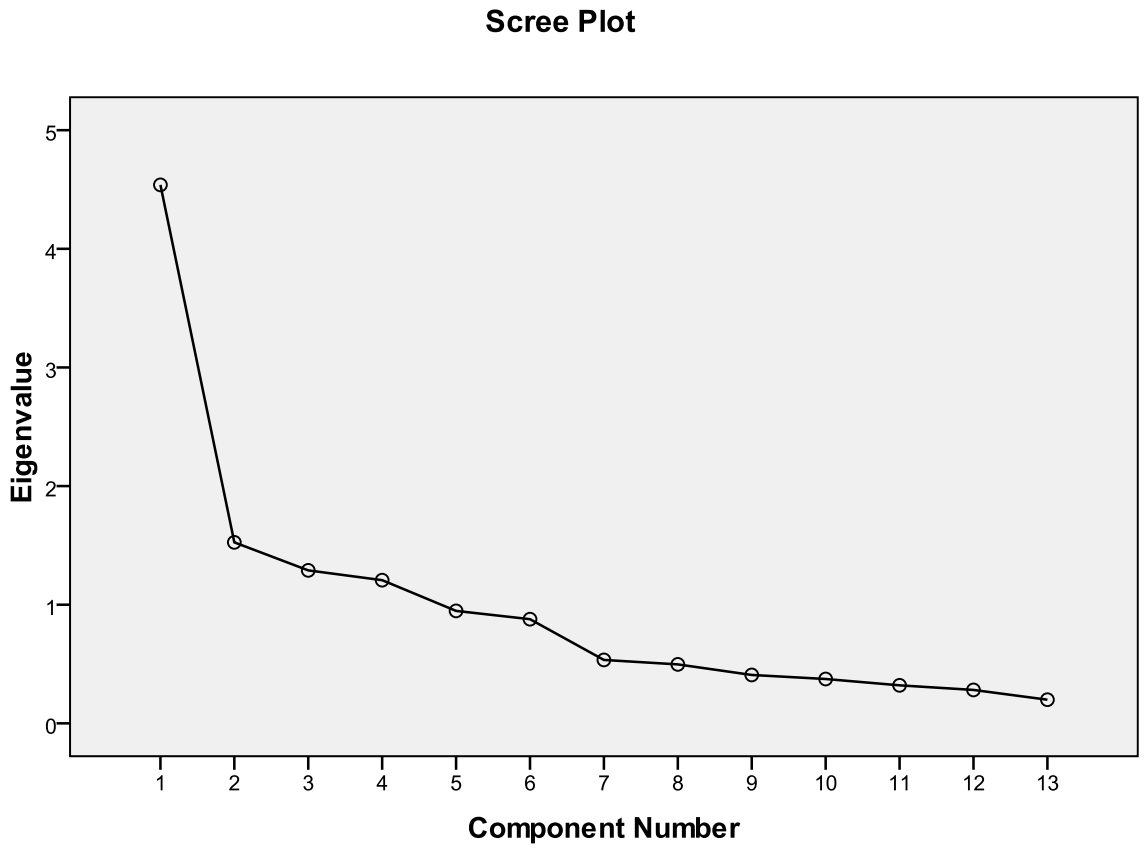

Table A2: Rotated Component Matrix for Organizational Culture

Organizational Culture Items	Component			
	1	2	3	4
Inputs of every employee is considered in management decision	.825	.013	-.145	.137
Employees embrace teamwork	.825	.112	.061	.140
Strategies reviewed from time to time to effectively respond to environmental changes	.721	.341	.171	.162
Departmental heads strive to deliver superior customer value	.659	.542	-.122	-.193
Customer satisfaction is the basis of employee rewards	.604	.376	.163	.151
Emphasis on customers and competitors by ceo across departments	.183	.826	-.016	.102
Existence of established effective systems, policies and guidelines	.118	.634	.017	-.046
Structural adjustments are carried out to adapt to changes in the market	.393	.632	.226	.280
Focus on external environment takes priority over internal orientation	-.187	.075	.680	.084
Management tolerance to error	.216	-.439	.676	-.193
Investment in research and innovation	.330	.358	.587	.186
Risks are avoided in business practices	.247	-.030	-.183	.832
Management creates bonding sessions at least once a year	.067	.138	.307	.711

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Table A3: Factors Analysis Results for Market Orientation

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.976	40.651	40.651	10.976	40.651	40.651	4.246	15.727	15.727
2	1.941	7.189	47.840	1.941	7.189	47.840	4.073	15.086	30.813
3	1.844	6.830	54.670	1.844	6.830	54.670	3.391	12.560	43.373
4	1.364	5.051	59.721	1.364	5.051	59.721	2.537	9.394	52.767
5	1.196	4.430	64.151	1.196	4.430	64.151	2.338	8.659	61.426
6	1.129	4.182	68.333	1.129	4.182	68.333	1.576	5.836	67.262
7	1.005	3.723	72.055	1.005	3.723	72.055	1.294	4.794	72.055
8	.944	3.497	75.553						
9	.838	3.103	78.656						
10	.799	2.959	81.615						
11	.692	2.564	84.179						
12	.575	2.131	86.310						
13	.542	2.006	88.316						
14	.505	1.869	90.185						
15	.459	1.699	91.885						
16	.376	1.393	93.278						
17	.312	1.157	94.435						
18	.280	1.039	95.474						
19	.267	.988	96.461						
20	.225	.832	97.293						
21	.162	.598	97.891						
22	.156	.576	98.467						
23	.120	.445	98.912						
24	.115	.424	99.337						
25	.074	.274	99.611						
26	.063	.232	99.843						
27	.042	.157	100.000						

Chart A2: Scree Plot for Market Orientation

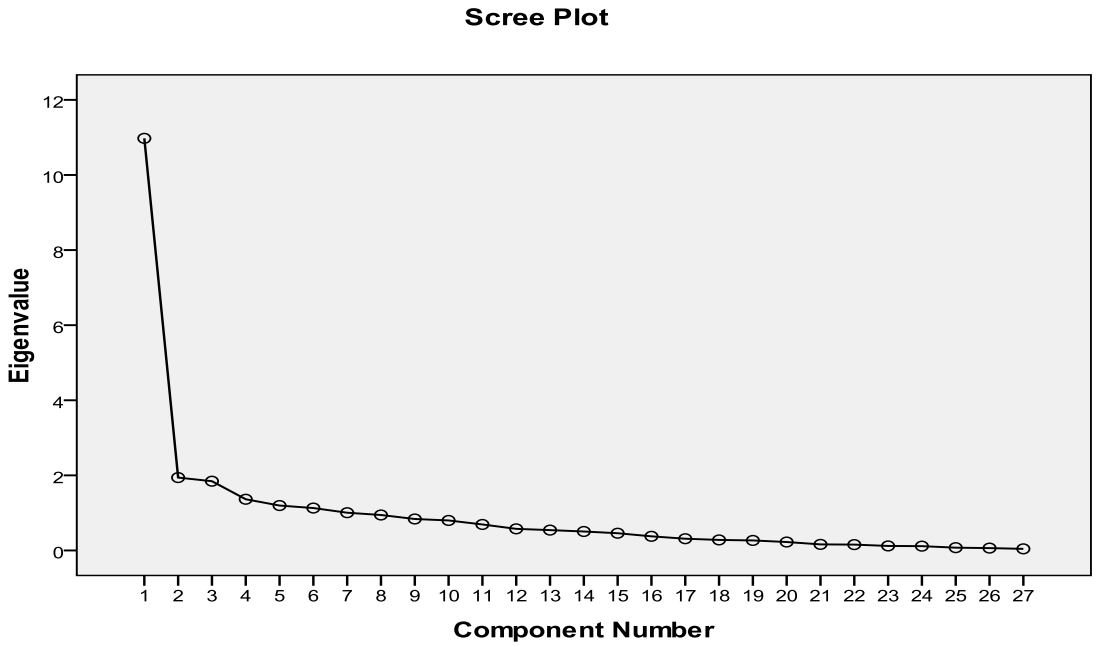

Table A4: Rotated Component Matrix for Market Orientation

Market Orientation Items	Component						
	1	2	3	4	5	6	7
New product development opportunity is jointly analyzed	.798	.095	-.030	-.074	.245	.082	.022
Regular meetings held by all departments to respond to changes in business environment	.780	-.161	.087	-.113	.201	-.181	.171
Top management regularly discuss discuss competitors' strength and weaknesses	.777	.256	-.009	.143	.134	-.038	-.094
Marketing personnel discusss customer's future needs with other functional departments	.770	.227	-.220	.227	-.014	-.139	.117
Salesforce trained to spot and report marketing intelligence	.754	.121	.244	-.318	-.031	-.031	-.019
Quick in detecting consumer preference changes	.747	.016	.153	-.061	-.123	.271	-.012
Fast response to competitors' product development initiatives	.717	-.057	.114	-.204	.121	.295	.151
Coordinated response to customer complaints	.716	-.150	-.373	-.003	.112	.113	.008
Business objectives are driven by customer feedback	.710	-.186	.259	.178	.127	.270	.132
Regular monitoring of customer satisfaction	.710	-.224	.325	.289	-.197	-.020	.003

Departmental meetings are held quarterly to discuss market trends and developments	.709	.075	-.041	-.244	.163	-.378	.101
Products are continuously reviwed to match changing customer needs and preferences	.701	-.375	-.076	-.108	.273	.072	.235
Review of changes in the marketing environment	.666	.504	.055	.239	-.069	.062	.021
Customer views about product and services are gathered	.642	-.014	.132	.475	-.112	.027	-.030
Salesforce regularly share customer and competitor information within the organization	.636	.206	-.417	-.273	-.083	-.271	-.046
Marketing unit periodically circulates documents that provide customer information	.616	.470	-.025	-.315	-.095	.066	-.113
Market research is carried out at least once a year	.608	-.025	.037	.222	-.351	-.073	.109
Slow decision making about response strategies to competitor's interest rate changes	-.605	.434	.037	.184	.155	-.149	.316
Regular interactions between top managers and customers	.599	-.087	-.170	.164	-.120	-.068	-.011
Regular communication with customers	.595	-.263	.465	-.068	.034	-.088	-.003
Regular dissemination of customer satisfaction data at all levels within the organization	.592	.201	-.535	-.011	-.137	-.091	-.207

Daily collection of customer complaints	.567	.074	.367	.270	-.029	-.422	-.299
Immediate counter response strategies to competitor's incentives targeting customers	.517	.053	.050	-.307	-.396	.414	-.241
Minimal communication exist between marketing department and other departments about market developments	-.325	.543	-.029	.236	-.117	.338	.205
Response to customer product/service modification needs	.494	-.081	-.506	.243	.200	.181	.274
Slow inter-departmental sharing of competitor information	-.009	.546	.371	-.013	.587	.134	-.239
Product lines sold influenced by internal politics than market needs	-.013	.293	.334	-.295	-.327	-.167	.595

Extraction Method: Principal Component Analysis.

a. 7 components extracted.

Table A5: Factor Analysis Results for Marketing Capabilities

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.339	41.696	41.696	3.688	18.440	18.440
2	2.345	11.724	53.419	3.319	16.594	35.034
3	1.579	7.894	61.313	2.781	13.903	48.937
4	1.123	5.613	66.926	2.475	12.376	61.313
5	1.033	5.165	72.091	2.156	10.778	72.091
6	.892	4.458	76.549			
7	.730	3.650	80.198			
8	.645	3.223	83.421			
9	.534	2.668	86.089			
10	.473	2.364	88.453			
11	.400	2.000	90.453			
12	.372	1.862	92.315			
13	.350	1.748	94.063			
14	.281	1.404	95.466			
15	.223	1.115	96.581			
16	.211	1.055	97.635			
17	.153	.767	98.403			
18	.147	.733	99.136			
19	.107	.535	99.671			
20	.066	.329	100.000			

Extraction Method: Principal Component Analysis.

Chart A3: Scree Plot for Marketing Capabilities

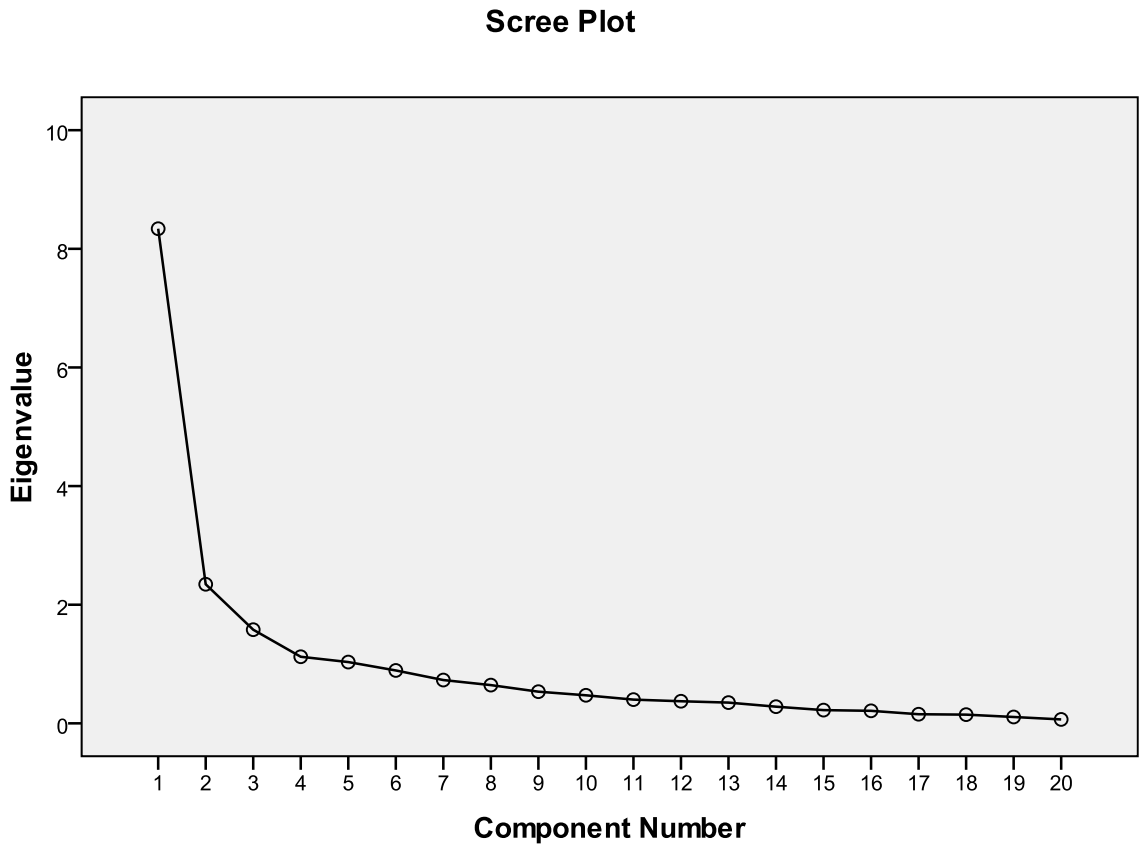

Table A6: Marketing Capabilities Rotated Component Matrix

Marketing Capabilities Items	Component				
	1	2	3	4	5
Innovation and new idea generation abilities	.861	-.113	.058	.081	.061
Product development ability	.794	.207	.163	.317	.107
Vibrant research department	.716	.340	.212	.264	.187
Customer rating of service quality	.541	.214	.136	.179	.204
Partnership with money transfer service providers	-.084	.793	.127	.014	.009
Distribution of branch network	.179	.755	-.041	-.075	.084
Size of salesforce	.096	.700	.471	.291	-.070
Advertising program development and execution	.171	.681	.166	.263	.458
Advertising management and creative skills	.341	.575	.262	.035	.485
Online and mobile telephone marketing skills	.332	.569	.491	.121	-.100
Customer complaints management	-.002	.080	.858	.136	.161
Trained and motivated front office staff	.262	.175	.735	.012	.190
Public relations management skills	.285	.364	.590	.169	.359
Speed of adjusting interest rates to respond to market changes	.219	-.053	.000	.800	.185
Thorough understnading of customer needs and wants	.155	.133	.302	.674	.445
Ensuring that products respond to customer needs	.414	.177	.414	.611	-.097
Flexible pricing policies	.497	.191	.021	.565	.061
Monitoring competitors' interest rate changes and charges	.559	.171	.051	.035	.681
Customer retention abilities	-.059	.042	.412	.379	.625
Knowledge of competitors' pricing tactics	.501	-.077	.224	.334	.554

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 14 iterations.

Table A7: Factor Analysis Results for Industry Competition

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.848	29.598	29.598	3.702	28.480	28.480
2	2.007	15.438	45.035	2.123	16.330	44.809
3	1.565	12.039	57.074	1.594	12.264	57.074
4	.991	7.622	64.695			
5	.852	6.558	71.253			
6	.765	5.886	77.139			
7	.716	5.511	82.650			
8	.649	4.991	87.640			
9	.536	4.126	91.767			
10	.409	3.144	94.911			
11	.284	2.188	97.098			
12	.201	1.546	98.644			
13	.176	1.356	100.000			

Extraction Method: Principal Component Analysis.

Chart A4: Scree Plot for Industry Competition

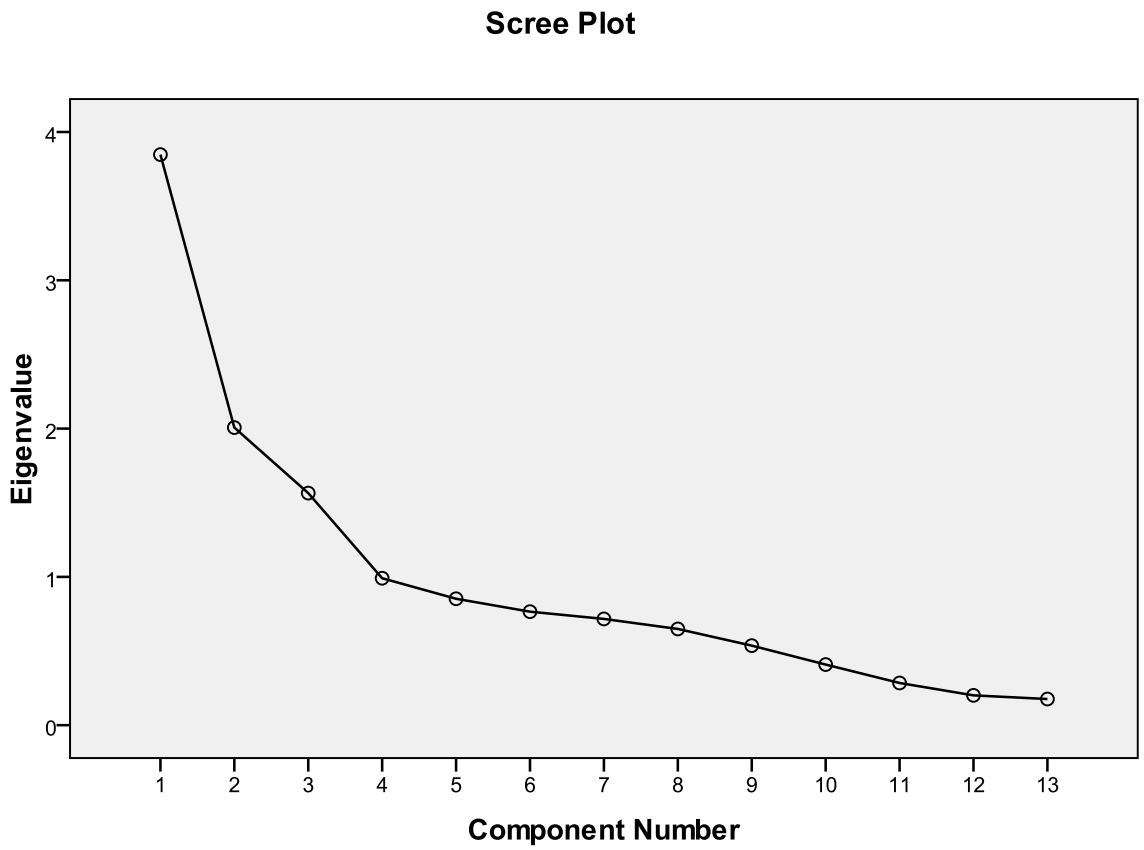

Table A8: Rotated Component Matrix for Industry Competition

Industry Competition Items	Component		
	1	2	3
Quick matching of competitor's market offering	.815	.195	.063
Competitors react fast to actions by any single company in the industry	.814	.166	.059
Presence of promotion wars	.813	.158	.022
Rapid rate of new products introduction in the industry	.728	.058	-.138
Intensity of industry competition	.698	-.351	.158
Customers have several alternative severvice providers	.613	.029	-.381
Lending rates reviewed at least twice a year	.011	.766	-.041
Lending rates reviewed to attract more borrowers as competition intensifies	.047	.716	-.036
Cost of serviving customers keeps on rising over time	.121	.667	.411
Top management emphasize wider geographic outreach	.344	.441	-.145
High start-up costs for microfinance	.113	.308	-.688
Profit margins keep declining over time	.316	.042	.644
Competitors are relatively weak	-.268	.260	.563

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 4 iterations.

Table A9: Factor Analysis for Firm Performance

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.737	47.807	47.807	3.610	30.081	30.081
2	1.133	9.440	57.247	2.726	22.716	52.797
3	1.109	9.245	66.492	1.643	13.695	66.492
4	.891	7.428	73.920			
5	.753	6.278	80.199			
6	.640	5.333	85.532			
7	.486	4.050	89.582			
8	.386	3.221	92.802			
9	.287	2.395	95.197			
10	.267	2.221	97.419			
11	.185	1.539	98.958			
12	.125	1.042	100.000			

Extraction Method: Principal Component Analysis.

Chart A5: Scree Plot for Firm Performance

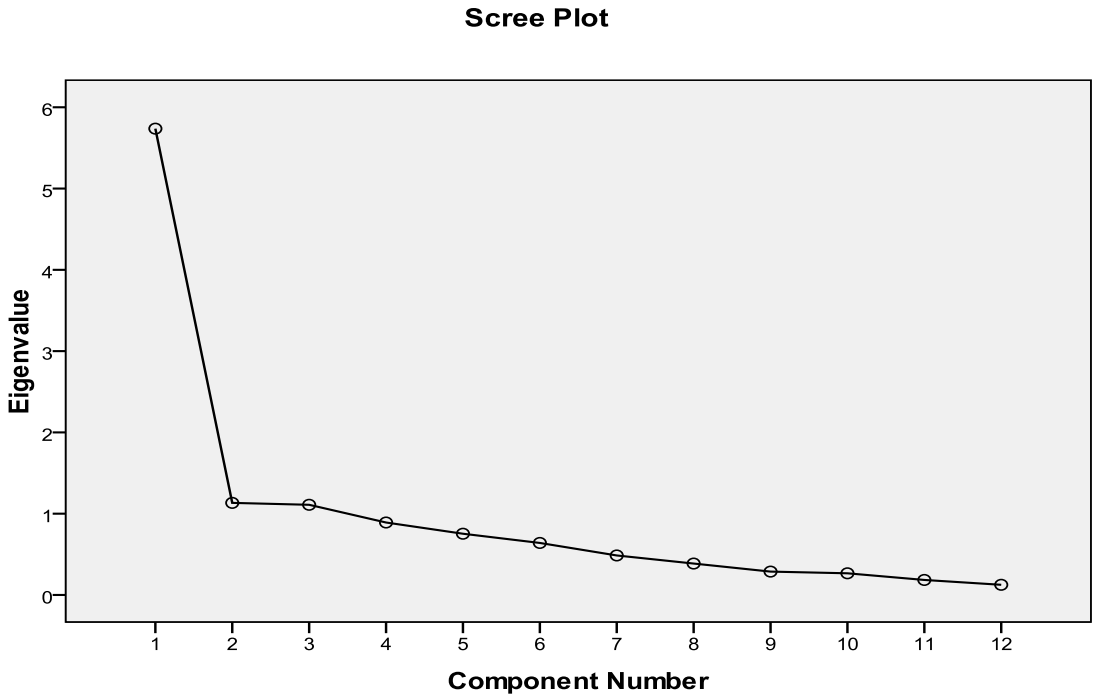

Table A10: Firm Performance Rotated Component Matrix

Non Financial Performance Items	Component		
	1	2	3
Asset growth rating	.828	.111	.147
Profitability rating	.790	.272	.071
Loan repayment performance rating	.748	.145	.095
Long-term focus rating	.693	.416	.106
Financial sustainability rating	.606	.282	.426
Innovation rating	.293	.816	-.005
Corporate reputation rating	.018	.748	.158
Product development rating	.277	.661	.305
Corporate goal achievement rating	.566	.579	.195
Outreach rating	.392	.539	.046
Customer satisfaction rating	.042	.094	.922
Efficiency rating	.504	.266	.637

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Table A11: Bi-Variate Correlations of Marketing Capabilities Components

		Organizational non financial performance	Pricing capability	Product capability	Marketing Communications capability	Relationship Management capabilities	Distribution Capability
Organizational non financial performance	Pearson Correlation	1	.569**	.711**	.680**	.379**	.541**
	Sig. (2-tailed)		.000	.000	.000	.005	.000
	N	53	53	53	53	53	53
Pricing capability	Pearson Correlation	.569**	1	.781**	.569**	.588**	.273*
	Sig. (2-tailed)	.000		.000	.000	.000	.048
	N	53	53	53	53	53	53
Product capability	Pearson Correlation	.711**	.781**	1	.624**	.519**	.350*
	Sig. (2-tailed)	.000	.000		.000	.000	.010
	N	53	53	53	53	53	53
Marketing Communications capability	Pearson Correlation	.680**	.569**	.624**	1	.615**	.656**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	53	53	53	53	53	53
Relationship Management capabilities	Pearson Correlation	.379**	.588**	.519**	.615**	1	.401**
	Sig. (2-tailed)	.005	.000	.000	.000		.003
	N	53	53	53	53	53	53
Distribution Capability	Pearson Correlation	.541**	.273*	.350*	.656**	.401**	1
	Sig. (2-tailed)	.000	.048	.010	.000	.003	
	N	53	53	53	53	53	53

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

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

APPENDIX VII: TESTS FOR REGRESSION ANALYSIS ASSUMPTIONS

Chart B1: Normality Test for the Relationship between Organizational Culture and Performance

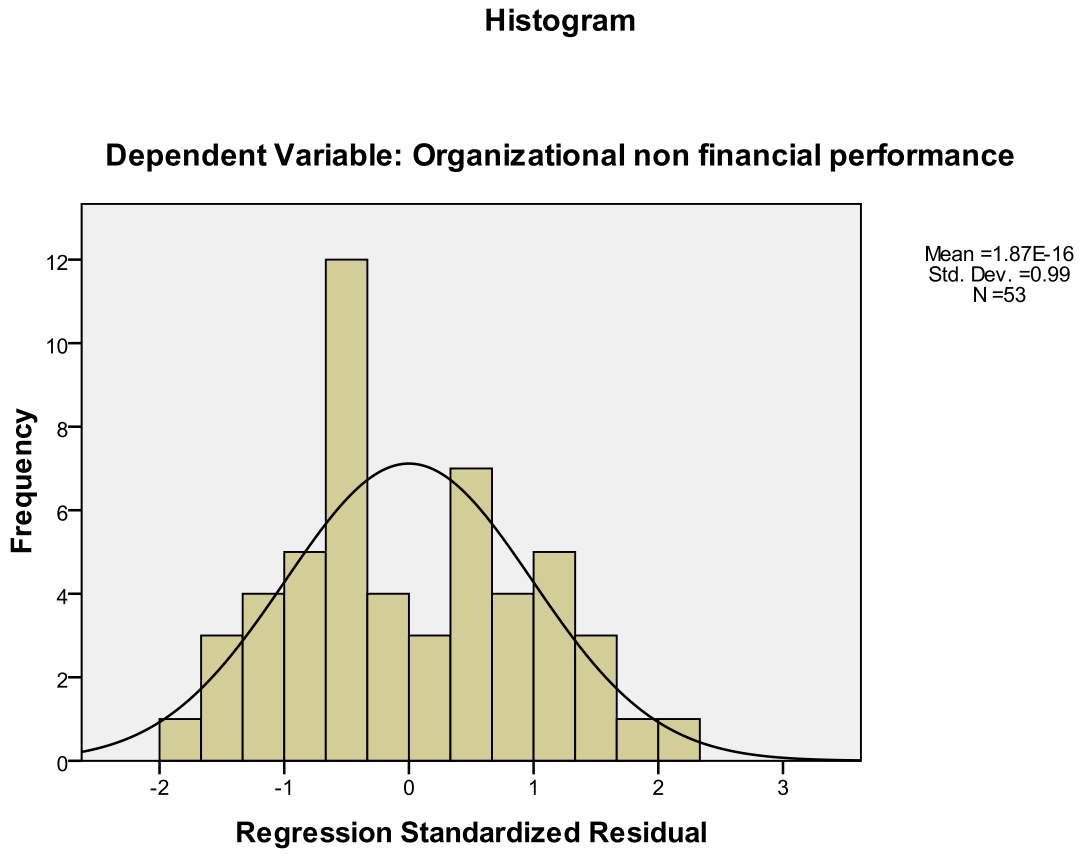

Chart B2: Linearity Test for the Relationship between Organizational Culture and Performance

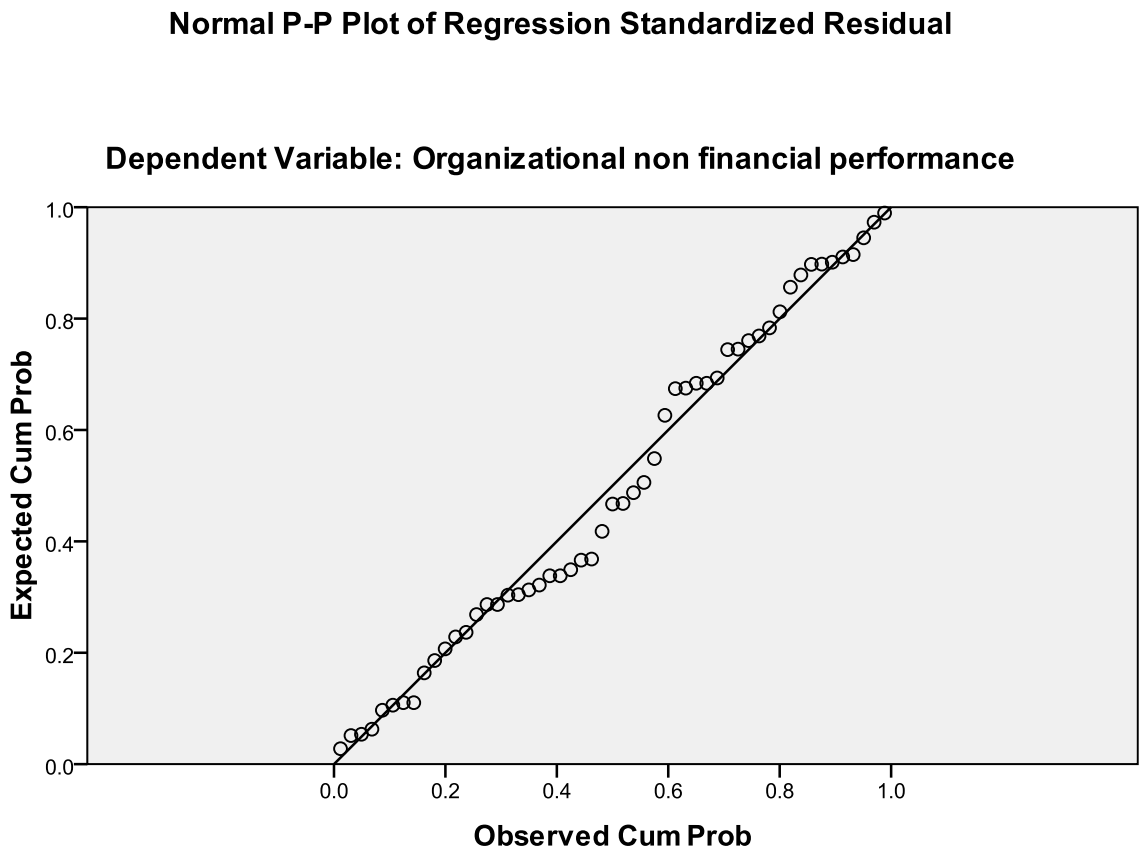

Chart B3: Normality Test for the Relationship between Industry Competition and Performance

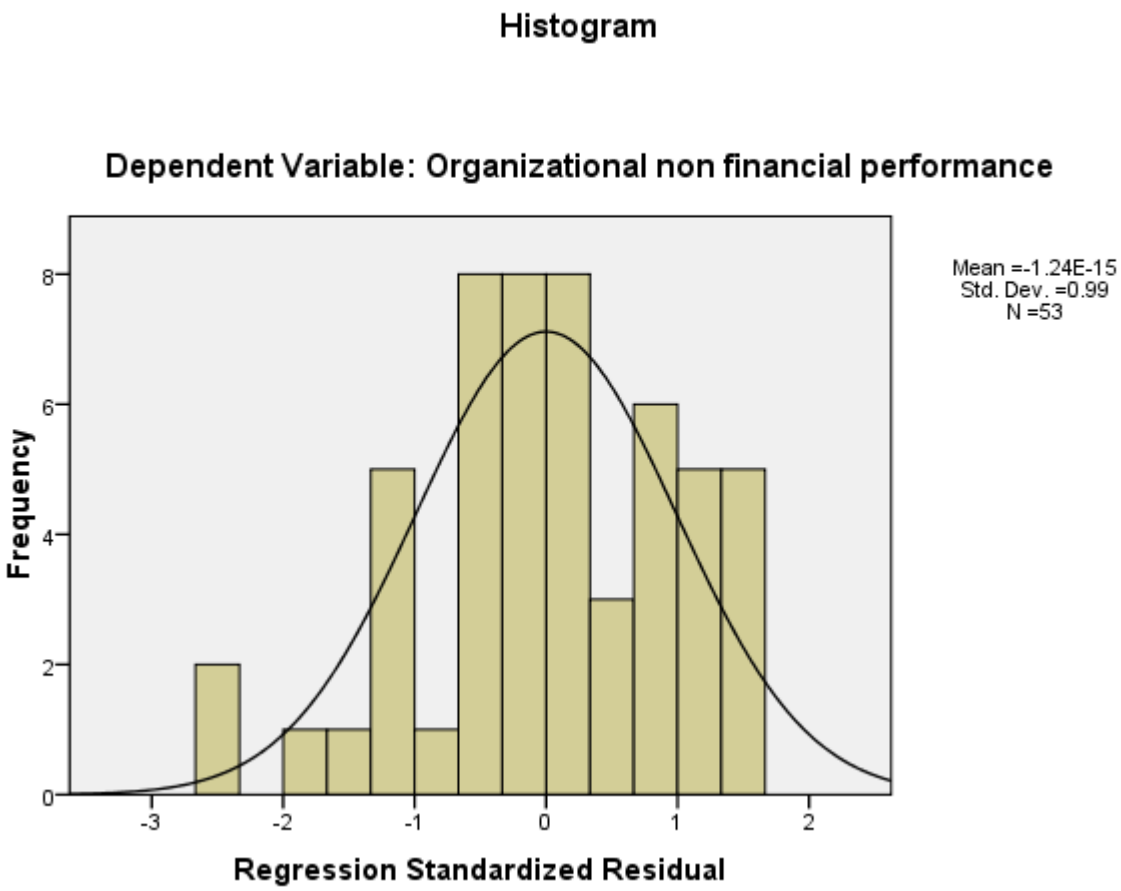

Chart B4: Linearity Test for the Relationship between Industry Competition and Performance

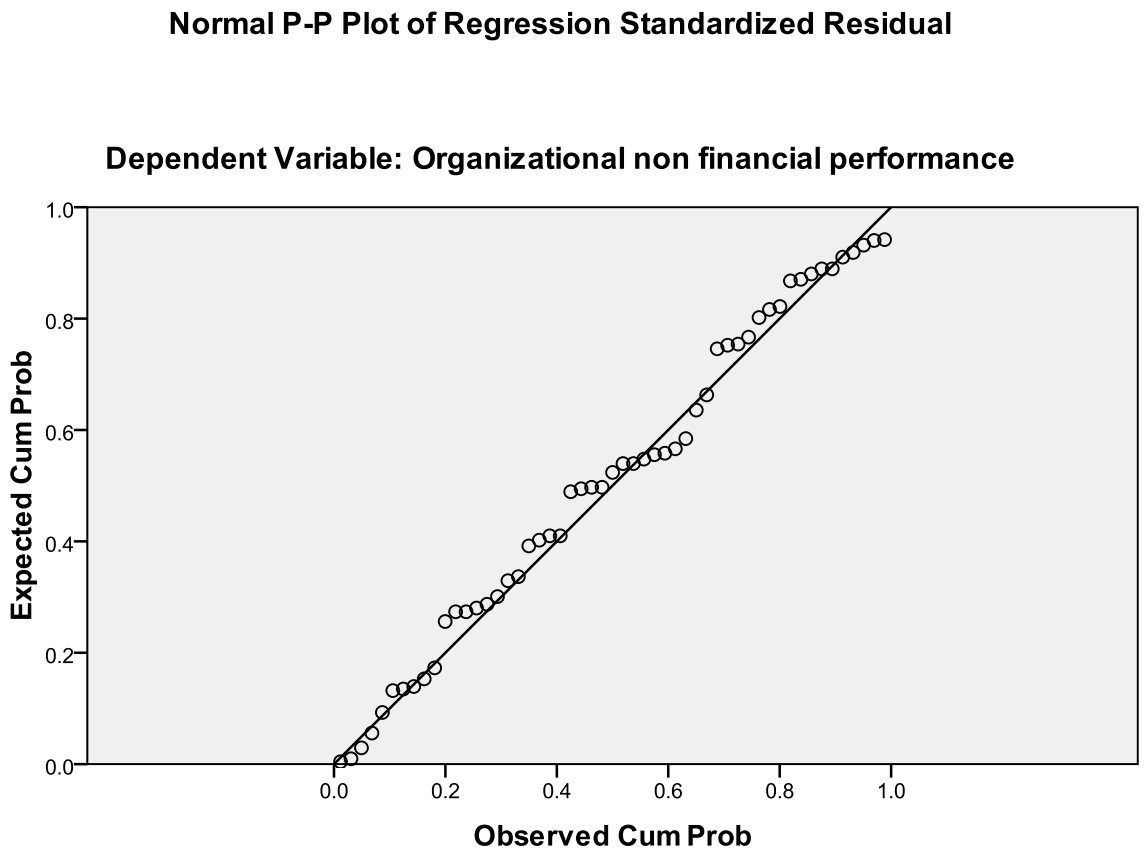

Chart B5: Normality Test for the Relationship between Marketing Capabilities and Performance

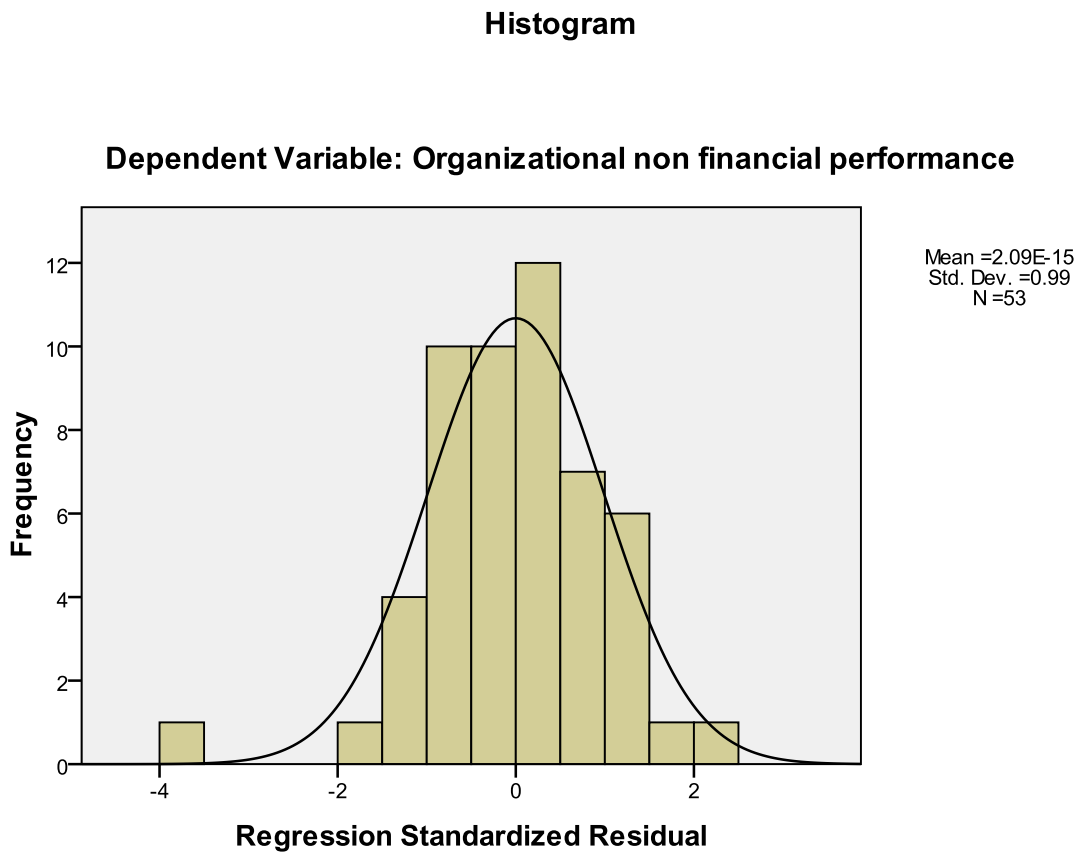

Chart B6: Linearity Test for the Relationship between Marketing Capabilities and Performance

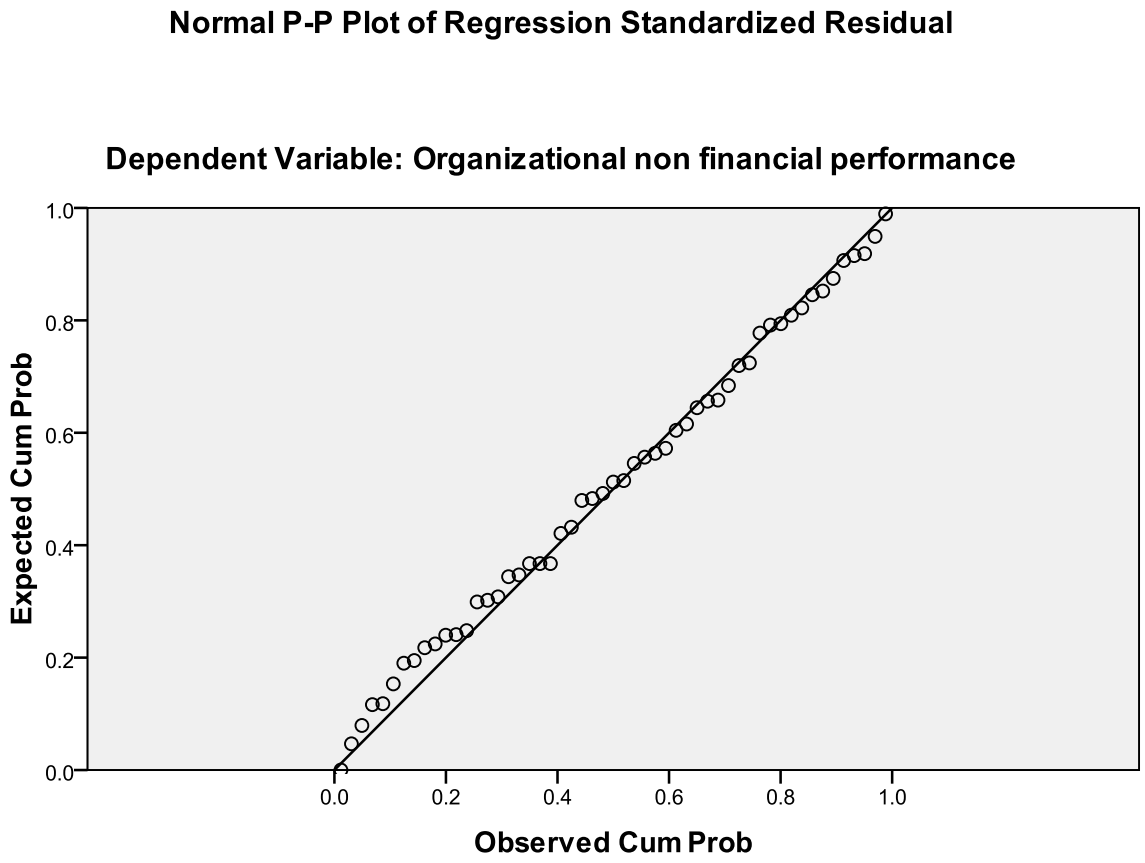

Chart B7: Normality Test for the Influence of Industry Competition on the Relationship between Organizational Culture and Performance

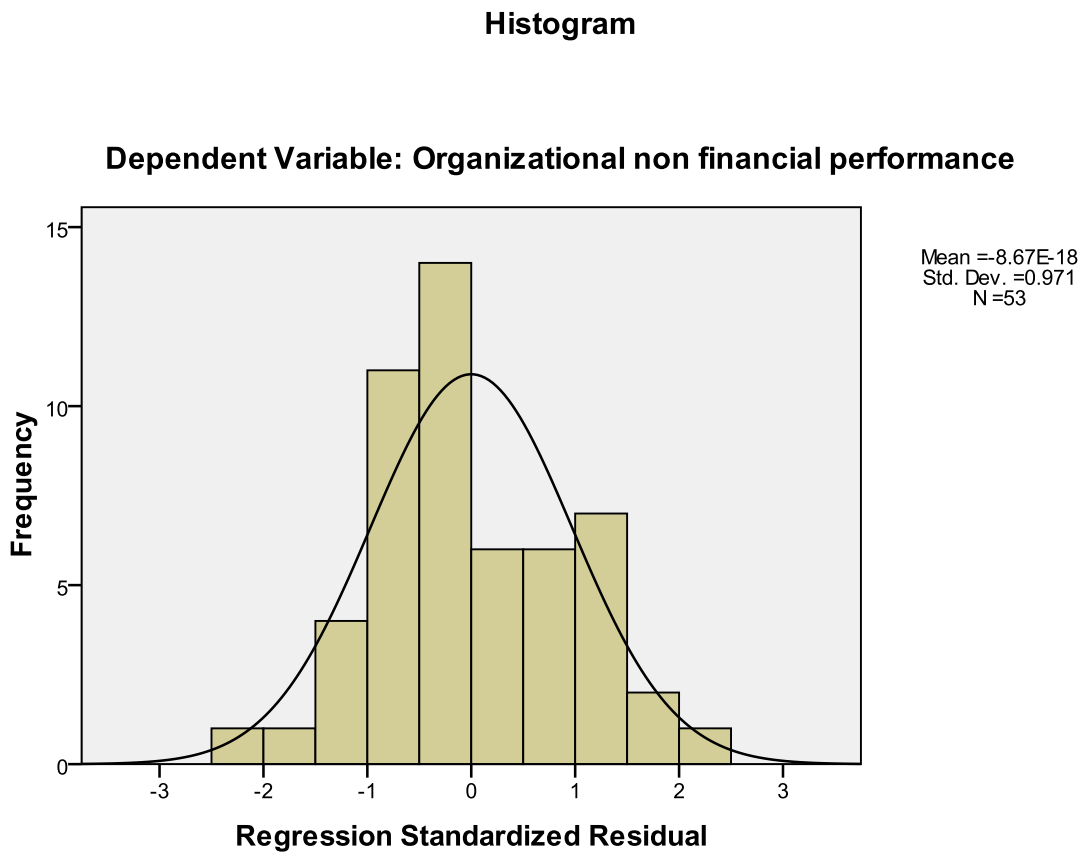

Chart B8: Linearity Test for the Influence of Industry Competition on the Relationship between Organizational Culture and Performance

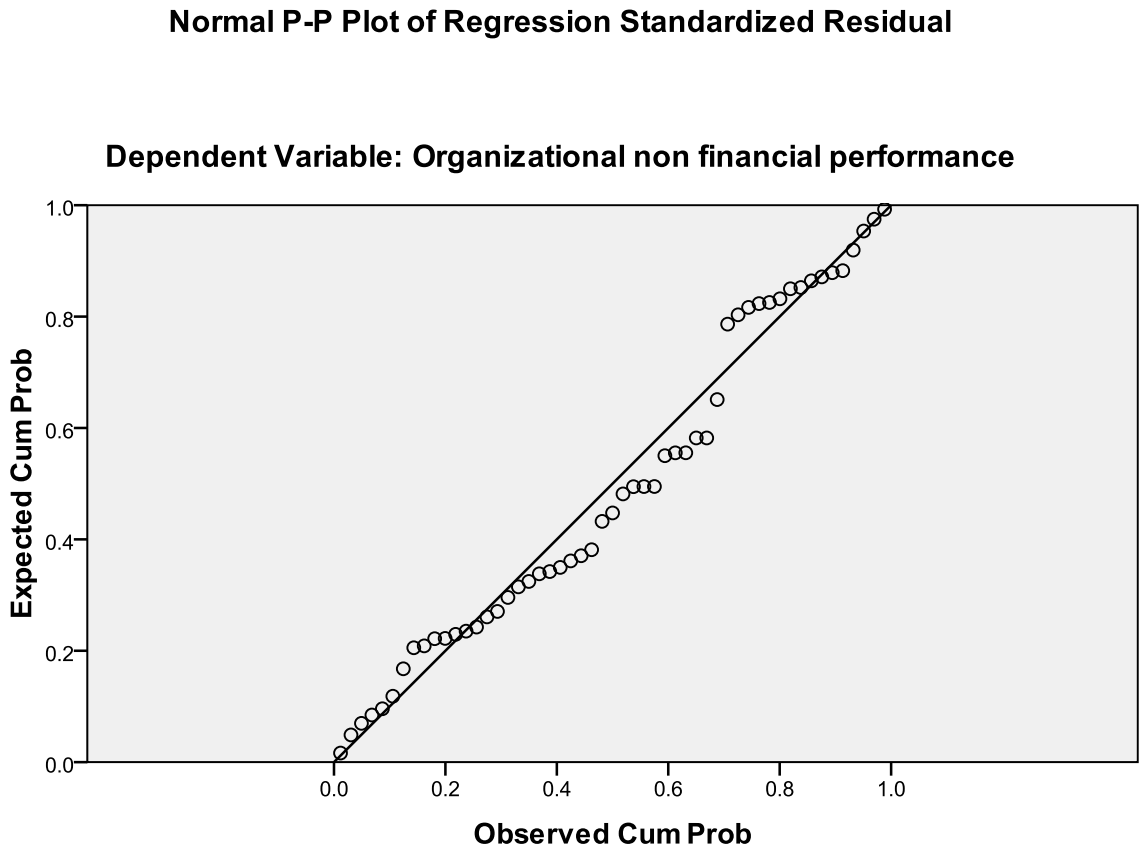

Chart B9: Normality Test for the Influence of Market Orientation on the Relationship between Organizational Culture and Performance

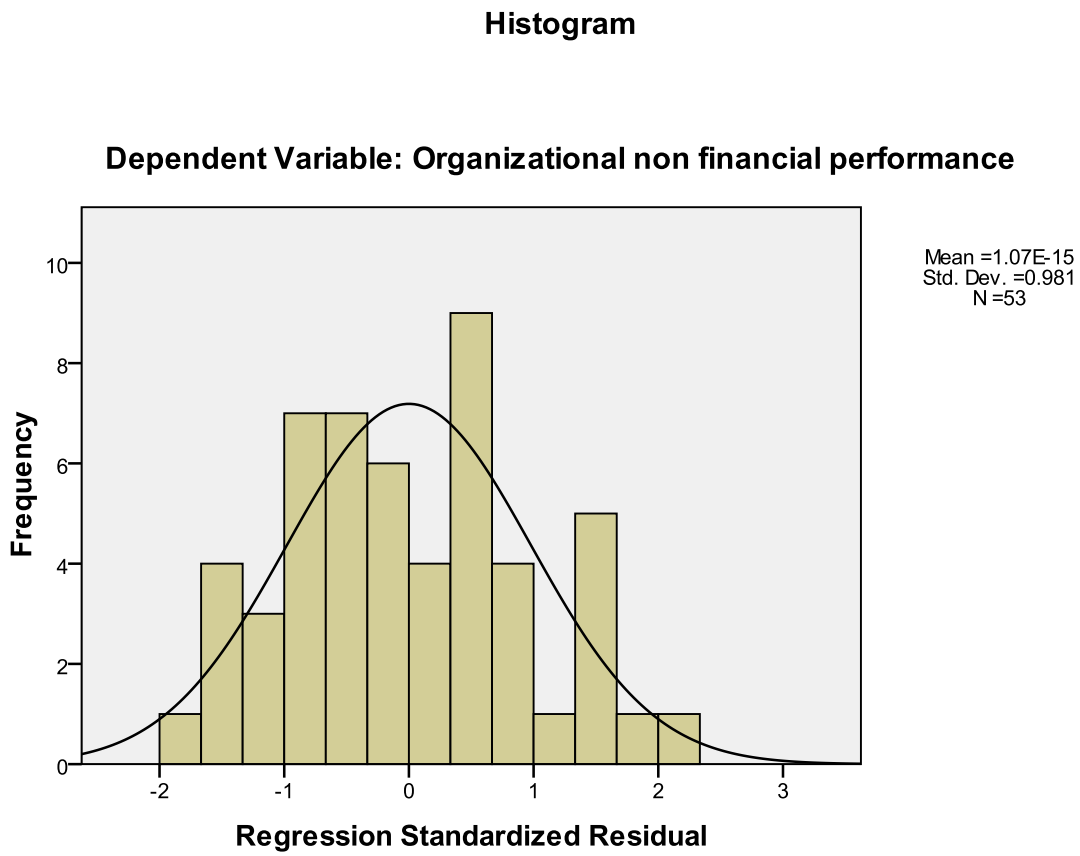

Chart B10: Linearity Test for the Influence of Market Orientation on the Relationship between Organizational Culture and Performance

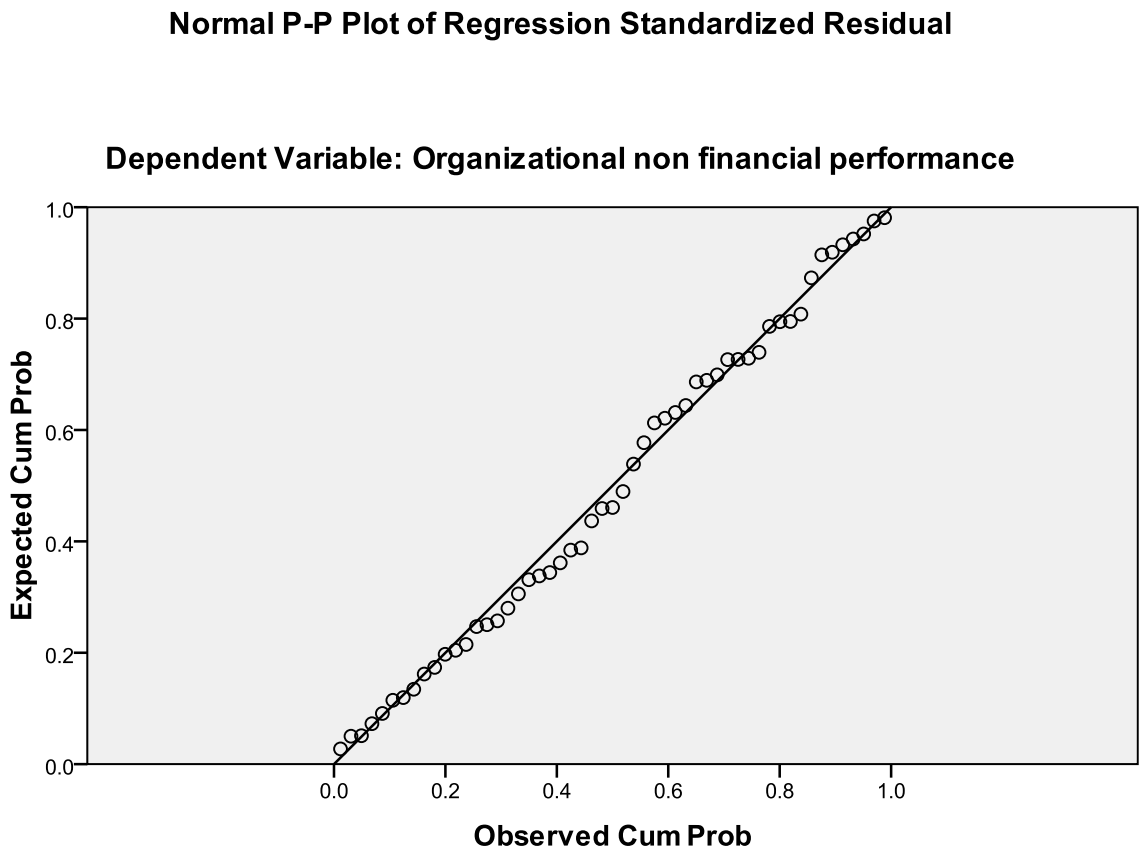

Chart B11: Normality Test for the Influence of Marketing Capabilities on the Relationship between Organizational Culture and Market Orientation

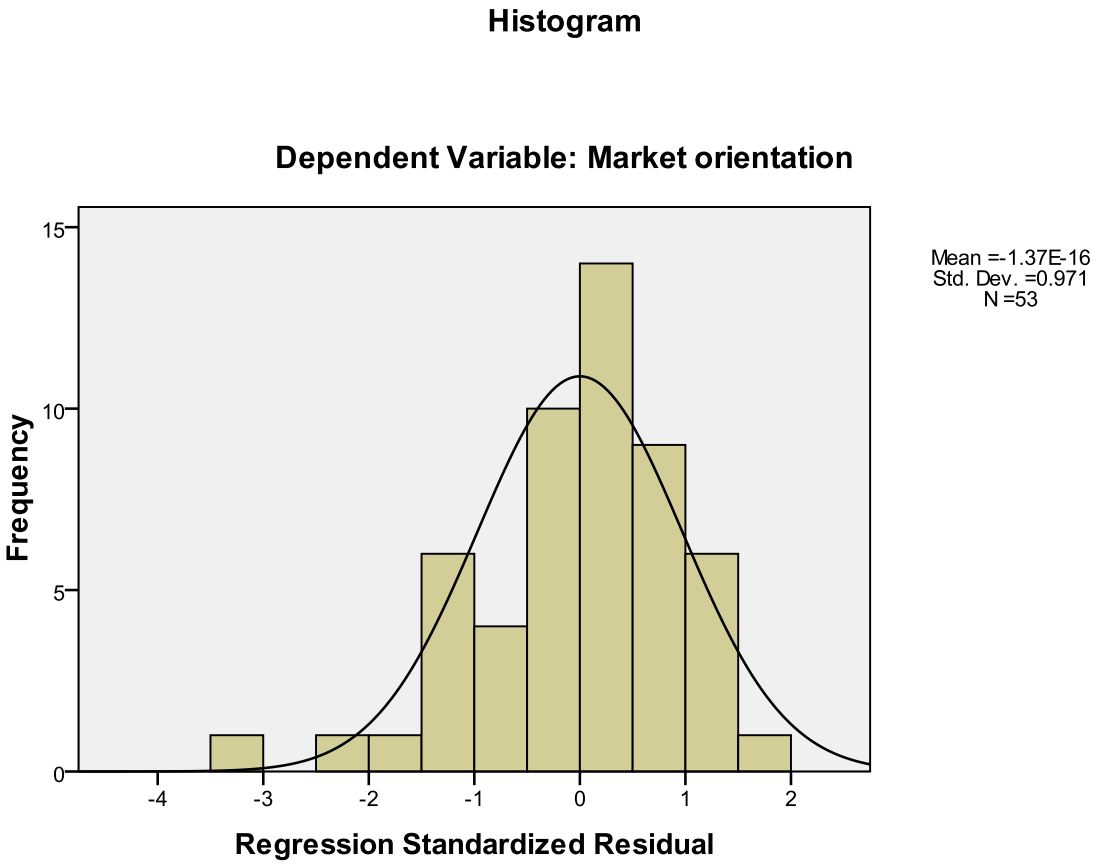

Chart B12: Linearity Test for the Influence of Marketing Capabilities on the Relationship between Organizational Culture and Market Orientation

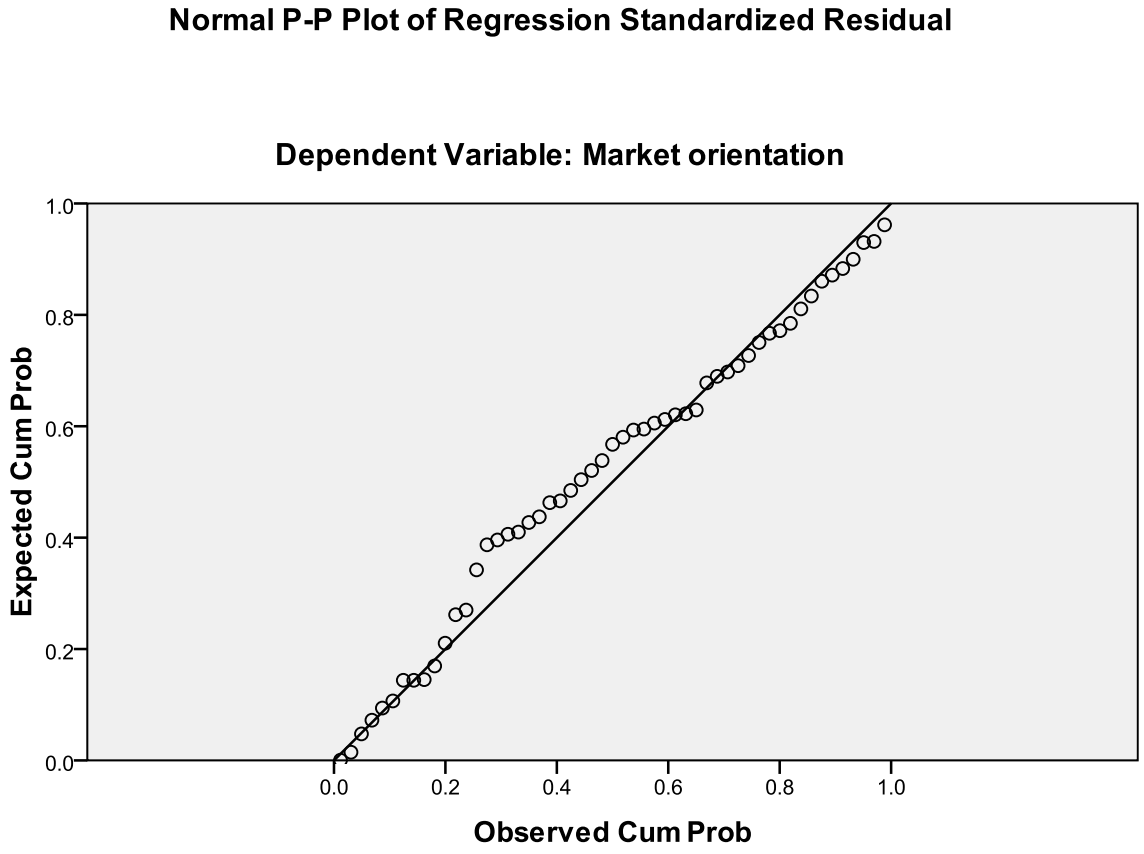

Chart B13: Normality Test for the Joint Influence of Organizational Culture, Marketing Capabilities, Market Orientation and Industry Competition Performance

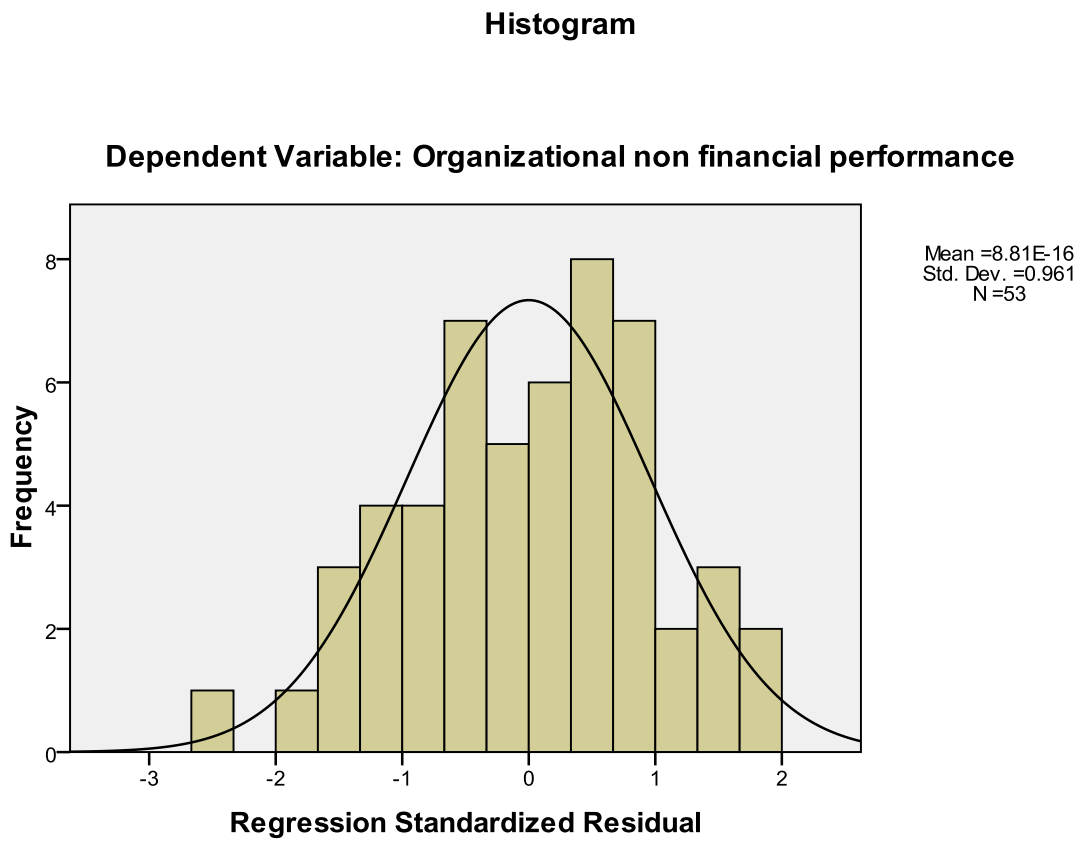

Chart B14: Linearity Test for the Joint Influence of Organizational Culture, Marketing Capabilities, Market Orientation and Industry Competition Performance