

**MARKETING PRACTICES, ENVIRONMENTAL
DYNAMICS AND PERFORMANCE OF
MICROFINANCE BANKS IN KENYA**

JOSPHINE KINYA KIOGORA

**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD
OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION (MBA), SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

OCTOBER 2015

DECLARATION

This research project is my original work and has never been submitted for examination to any other University.

Signature..... Date.....

Josephine Kinya

This project has been submitted with my authority as the university supervisor.

Signature..... Date.....

Dr. Raymond Musyoka

School of Business,

University of Nairobi

ACKNOWLEDGEMENT

This research project could not have been possible without the valuable input of a number of groups whom I wish to acknowledge. First and foremost, I say thank you to God for His grace and guidance during the period of the study.

I wish to also express my gratitude to my supervisors: Dr. Raymond Musyoka for his guidance, professional advice and availability when it came to discussing issues involved with this project.

I am thankful to microfinance banks and their staff for the assistance that they accorded to me during the period of data collection.

Last but not least, thank you to my family and friends for their moral support and encouragement when I was undertaking this project.

DEDICATION

This project is dedicated to my parents Mr. & Mrs. Kiogora for their sacrifice to see me through my university education. May God bless you!

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
ABSTRACT	xi
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABBREVIATIONS AND ACRONYMS	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Marketing Practices	2
1.1.2 Environmental Dynamics.....	3
1.1.3 Firm Performance	3
1.1.4 The Banking Industry in Kenya.....	4
1.1.5 Microfinance Banks in Kenya	5
1.2 Research Problem	6
1.3 General Objective	8
1.3.1 Specific Objectives	8
1.4 Value of the Study	8
CHAPTER TWO: LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Theoretical Foundation	10
2.2.1 Resource-Based Theory	10
2.2.2 Commitment Trust Theory	11
2.3 Marketing Practices	12
2.2.1 Market Segmentation	12
2.2.2 Targeting	13
2.2.3 Marketing Planning.....	14
2.2.4 Marketing Module	14
2.2.5 SWOT Analysis	15
2.3 Environmental Dynamics and Firm Performance.....	16
2.4 Marketing Practices, Environmental Dynamics and firm Performance	18

2.5 Firm Performance	19
2.6 Summary of the Literature Review	20
CHAPTER THREE: RESEARCH METHODOLOGY	21
3.1 Introduction.....	21
3.2 Research Design.....	21
3.3 Population	21
3.4 Data Collection	21
3.5 Data Analysis	22
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERETATION.....	24
4.1 Introduction.....	24
4.2 Response Rate	24
4.3 Demographic Information.....	24
4.3.1 Duration of Operation by Microfinance banks	25
4.3.2 Position of the Respondents.....	25
4.3.3 Length of Service in the Current Position.....	26
4.3.4 Length of Service in the Organization	27
4.4 Marketing Practices	28
4.4.1 Market Segmentation	29
4.4.2 Targeting	30
4.4.3 Marketing Planning.....	30
4.4.4 Marketing Module	31
4.4.5 Ranking of marketing practices used microfinance banks in Kenya.....	32
4.5 Marketing Practices and Performance of Microfinance Banks in Kenya.....	33
4.5.1 Analysis of Variance.....	33
4.5.2 Model Coefficients.....	34
4.6 The Influence of Environmental Dynamics on Performance of Microfinance Banks in Kenya	36
4.7 Chapter Summary and Discussions	37
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION	39
5.1 Introduction.....	39
5.2 Summary of Findings.....	39
5.3 Conclusion	40

5.4 Recommendations and Policy Implications.....	41
5.5 Limitations of the Study.....	42
5.6 Suggestions for further Research.....	43
REFERENCES.....	45
APPENDICES.....	50
APPENDIX I: RESEARCH QUESTIONNAIRE.....	50
APPENDIX II: LIST OF MICROFINANCE BANKS IN KENYA.....	54

LIST OF TABLES

Table 4.1 Marketing Segmentation.....	29
Table 4.2 Targeting.....	30
Table 4.3 Market Planning.....	31
Table 4.4 Marketing Module	31
Table 4.5 Model Summary	33
Table 4.6 Analysis of Variance.....	34
Table 4.7 Model Coefficients	34
Table 4.8 The influence of environmental Dynamics on performance of microfinance banks in Kenya.....	36

LIST OF FIGURES

Figure 4.1 Duration of Operation.....	25
Figure 4.2 Positions of the Respondents.....	26
Figure 4.3 Length of Service in the Current Position	27
Figure 4.4 Length of Service in the Organization.....	28

ABBREVIATIONS AND ACRONYMS

AMFI	Association of Microfinance Institutions
B2C	Business to Business
BSC	Balanced Score Card
CBK	Central Bank of Kenya
NGO's	Non-Governmental Organizations

ABSTRACT

Marketing practices are seen as essential tools for enhancing performance to most institutions. However, some of the firms that have adopted these practices have succeeded while others have failed. This study was guided by the following objectives: to determine the marketing practices used by microfinance banks in Kenya, to determine the effect of marketing practices on the performance of microfinance banks in Kenya and to establish the influence of environmental dynamics on the performance of microfinance banks in Kenya. The study used a descriptive research design. The population for this study included all the 12 microfinance banks in Kenya that are licensed under the central bank of Kenya. The study collected primary data using a semi-structured questionnaire. Out of the 12 questionnaires that were distributed for data collection only 10 questionnaires were successfully filled and returned to the researcher. This represents a response rate of 83% which was considered sufficient for making generalization of all the microfinance banks in Kenya. Data analysis was done using descriptive statistics and a regression model. The study findings conclude that market segmentation and targeting were most popularly used by microfinance banks as compared to market module and planning. The findings observed that these practices acted as essential tools for attracting new customers. Implementation of these practices enabled the bank to accommodate the changing needs of the customer and thus improved customer satisfaction. This was achieved in light of the environmental dynamics that are envisaged in the environment. The regression found that there was a statistically significant relationship between marketing practices and performance of microfinance banks in Kenya. Some of the most notable environment dynamics include; information communication technology (ICT), banking regulations and changing customer needs. These external changes influenced performance of microfinance banks according to most of the respondents. One of the limitations of this study is that the selection of the variables is not exhaustive. Specifically, the conceptualization of marketing practices might be limited and it's arguable that marketing practices might consist of more than market segmentation, targeting, marketing planning and marketing module. This means that other additional factors could provide further insight marketing practices and performance relationship. The factors included in the current conceptual framework may not provide a clear picture of the firms' marketing practices, external environmental factors and performance measures. Future researchers should consider replicating this study in the whole of banking industry like commercial banks and Saccos. Other sectors like manufacturing and insurance companies would also be suitable to provide comparative findings. This will give a more detailed view of the nature of the relationship identified in the study. It would be appropriate to study the relationship between market practices and performance in the whole of banking industry. The replication of this study in other countries especially in the Sub-Saharan region would demonstrate the universality and significance of the market practices and performance relationship in general.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globalization has opened up the markets to environmental forces. This has resulted to stiff competition forcing firms to adopt ways of coping with the changes in the external and internal environment. Marketing is one of the tools used by firms to gain competitive advantages against competitors in the external environment (Hunt, 2011). Businesses that create products and services that specifically meet identified consumer needs are likely to be successful. But meeting consumer needs involves more than assumptions made by businesses about the customers' wants and preferences. Kotler and Keller (2009) argue that companies that take the time to specifically identify market segments and take steps to gather input through market research, one-on-one interactions and customer feedback, are likely to be successful in ensuring that everything they do is designed to resonate with their audience.

This study is anchored by the resource-based theory and commitment trust theory: Bowman and Ambrosini (2003) puts forth that resource-based theorists argue that a sustainable competitive advantage is created through the possession and deployment of distinct resources that create value for customers and that resist duplication by competitors. The resource based view argues that resources should be deployed so as to create better value for customers than competitors do. The other theory that supports this study is commitment trust theory by Hutt and Speh (2001) who argue that the desire to establish and maintain a relationship with the customers is influenced by the realization of the important roles that customers play in any business.

In Kenya, microfinance banks are growing at a very rapid pace with new entrants, new products and practice. McIntosh and Sadoulet (2005) explain that technological advancement and other microeconomic factors like financial liberalization have led to improved services, new products and growth of microfinance banks. This has created a need for microfinance banks to adopt marketing practices to effectively accommodate the changing needs of their customers to meet their expectations (Dondo, 2001).

1.1.1 Marketing Practices

According to Kotler (2000) marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. Market segmentation is the process of dividing an entire market up into different customer segments. Targeting or target marketing then entails deciding which potential customer segments the company will focus on. Marketing segmentation always comes before targeting, which helps a company be more selective about who they are marketing their products to. Marketing segmentation and targeting are equally important for ensuring the overall success of a company. Marketing segmentation and targeting are particular important for finding customers that are the best match for a business products and services. It is not feasible to go after all customers, because customers have different wants, needs and tastes. Some customers want to be style leaders (Kotler, 2009).

Keller and Keller (2009) argue that target marketing involves breaking a market into segments and then concentrating your marketing efforts on one or a few key segments. It can be the key to attracting new business and making your small business's a success. The importance of target marketing is that it makes the

promotion, pricing and distribution of your products and services easier and more cost-effective. It provides a focus to all of your marketing activities.

1.1.2 Environmental Dynamics

Environmental dynamism represents the rate of change in an environment. Keskin (2008) points out that environmental dynamism are the rate at which the preferences of consumers and the products of organizations change over time (Bowman and Ambrosini, 2003). Dynamic environments are also unpredictable, devoid of patterns and regularities. Organizations prefer predictable environments, in which rational decisions can be reached. That is, organizations like to identify, measure, and predict key variables as well as understand the causal relationships among these factors.

In these environments, managers can consider as well as integrate a comprehensive range of alternatives (Spyropoulou, 2007). In dynamic environments, however, these preferences to identify, measure, and predict key variables or to understand relationships among factors cannot be fulfilled. Rational decisions, defined as a comprehensive analysis of information as well as the formulation of enduring plans, also consume valuable time. Only incremental changes rather than comprehensive analyses are appropriate in these environments. According to this perspective, rational decision making approaches are most applicable in stable, rather than dynamic, environments (Balabanis, 2007).

1.1.3 Firm Performance

Kaplan and Norton (2010) defines performance as the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. The

performance outcomes vary depending on how a firm's performance for instance return on investment, enhancing sales, market share and the settings studied for instance, service firms, industrial firms and manufacturing firms.

Different organizations use diverse types of measurements to evaluate their overall performance. The measurements of performance are categorized into non-financial and financial indicators. These measures are widely used by managers to evaluate their organizational performance. Most financial institutions use financial indicators such as return on investment (ROI), return on equity (ROE), and return on sales (ROS), market share, and net profit. The weaknesses of these measures are failure to elucidate the current business conditions, new goals, strategic focus of stakeholders and lag in time (Kaplan and Norton, 2002).

1.1.4 The Banking Industry in Kenya

The banking industry in Kenya is regulated by the Central Bank of Kenya Act, Banking Act, and the Companies Act among other guidelines issued by the Central Bank of Kenya (CBK). Commercial banks in Kenya are licensed, supervised and regulated by the Central Bank of Kenya (CBK) as mandated under the Banking Act (Cap 488). Banking industry in Kenya was liberalized back in 1995 and exchange controls revoked (CBK, 2015).

Currently there are there are 43 licensed commercial banks and 1 mortgage finance company, 11 microfinance banks and eighty six (86) Forex Bureaus that are licensed to work and operate in Kenya as of December 2013. The banks have come together under the Kenya bankers Association (KBA), which works as lobby for the local banking industry. Kenya bankers Association (KBA) also serves as a forum to address issues affecting the banking sector. The forex bureaus conduct business and are

regulated under the provisions of the sections 33A to 33O of the Central Bank of Kenya Act (Cap 491) and Guidelines issued thereunder (CBK, 2015).

Mwende (2014) indicates that the banking industry has over the past few years enjoyed exponential growth in deposits, assets, profitability and products offering, mainly attributed to automation of services and branch network expansion both locally and regionally. This growth has brought about increasing competition among players and new entrants into the banking sector. Currently, banks are now focusing on the diverse customer rather than traditional banking products such as over the counter deposits and withdrawal.

1.1.5 Microfinance Banks in Kenya

According to (CBK, 2015), the Microfinance Act, 2006 and the Microfinance (Deposit Taking Institutions) Regulations 2008 issued thereunder sets out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The Microfinance Act became operational with effect from 2nd May 2008. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance banks in Kenya through licensing and supervision. The Act enables deposit taking microfinance banks licensed by the Central Bank of Kenya to mobilize savings from the general public, thus promoting competition, efficiency and access. Through An Act of Parliament, Microfinance Act (2006) was amended by deleting the term institution and substituting it to microfinance bank licensed under this Act; microfinance bank means a company which is licensed to carry on microfinance bank business, and includes all branches, marketing units, outlets, offices and any other place of business that may be licensed by the Central Bank of Kenya.

The Association of Microfinance institutions (AMFI) is a member-based institution, registered in 1999 under the Societies Act by the leading MFIs in Kenya, with the aim to build the capacity of the Kenyan microfinance industry. The main reasons for its establishment were the felt need for MFIs to have a common voice; to lobby government for favorable policies; to share information and experiences and to link up and network with both local and international actors. AMFI currently has 62 member institutions serving more than 6,500,000 poor and middle class families with financial services throughout the country (AMFI, 2014).

One of the Central Bank of Kenya's mandate is fostering the liquidity, solvency and proper functioning of a market-based financial system. This is achieved through the following:-developing appropriate laws, regulations and guidelines that govern the players in the banking sector. These include the Banking Act, Microfinance Act, Central Bank of Kenya Act and related Prudential Guidelines and Regulations (CBK, 2015).

Microfinance banks in Kenya to play a pivotal role in deepening financial markets and enhancing access to financial services and products by majority of the

1.2 Research Problem

Competitive market pressures have forced organizations to adopt marketing practices as a way of market penetration to increase sales volumes and boost performance. Marketing play an integral role of identifying and selecting the target markets in a bid to understand the customer needs. Coviello and Milley (2001) explain that without competition, well-known companies would continue to sell while lesser known companies or new companies would stand little chance of ever becoming successful. Kotler (2000) contend that marketing facilitates the healthy competition that allows

small businesses and new businesses to be successful to enter and grow in the marketplace. The business environment is ever changing; due to macroeconomic variables like technology, regulatory framework and competition among other factors. This has forced microfinance banks to adjust themselves in a manner that accommodates changes in the external environment.

The banking industry in Kenya did not experience any fundamental transformation until the early 1990s. There was no competition and therefore most microfinance banks did not worry about competition. However, in the recent years there has been a tremendous increase in competition among microfinance banks in Kenya (McIntosh, 2005). In Kenya, we have 10 microfinance banks that are mandated to provide financial services to low income earners and other customers. In order to effectively serve the growing needs of their customers marketing practices play a crucial role for this purpose (Dondo, 2011).

Gachugu (2013) showed that firm characteristics do not influence firm performance nor moderate the relationship between market orientation and marketing practices. It was further observed that market orientation, marketing practices influenced performance of firms in Kenya. Kinoti (2012) revealed that the joint effect of green marketing practices, corporate image led to organizational performance among certified organizations in Kenya. Kiriga (2013) did a study on effect of strategic marketing practices on performance of Telecommunication. It was concluded that strategic marketing practices have an effect on performance of telecommunication firms on Nairobi County.

From the above review, little has been done in relation to marketing practices used by microfinance banks in Kenya. The study therefore sought to find answers to the

following research questions: what are the marketing practices used by microfinance banks in Kenya?, what is the influence of environmental dynamics on performance of microfinance banks in Kenya? and what are the joint-effects of marketing practices and environmental dynamism on the performance of microfinance banks in Kenya?

1.3 General Objective

To determine the marketing practices, environmental dynamics and performance of microfinance banks in Kenya.

1.3.1 Specific Objectives

The objectives of the study will be to:

- i. Determine the marketing practices used by microfinance banks in Kenya.
- ii. To determine the effect of marketing practices on the performance of microfinance banks in Kenya.
- iii. Establish the influence of environmental dynamics on the performance of microfinance banks in Kenya.

1.4 Value of the Study

This study will benefit the other microfinance banks , the government of Kenya, development partners, NGO's and other stakeholders as the findings will facilitate policy setting in promoting marketing practices that can facilitate and sustain growth of microfinance banks in Kenya.

Commercial banks may also benefit from the findings of this study; they will be enlightened on the best marketing practices to adopt in order to boost performance through improved sales and the effect of environmental dynamics on performance of microfinance banks.

This study add more knowledge to the available literature about marketing practices adopted by microfinance banks and how the influence performance of these institutions. To researchers, this study will serve as a point of reference for further studies or related disciplines.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical foundation, marketing practices, environmental dynamics and firm performance, marketing practices, environmental dynamics and firm performance, firm performance summary of the literature review and the conceptual framework.

2.2 Theoretical Foundation

This section provides theories anchoring the study, they include resource based theory and commitment trust theory.

2.2.1 Resource-Based Theory

Resource-based theorists argue a sustainable competitive advantage is created through the possession and deployment of distinct resources that create value for customers and that resist duplication by competitors (Barney, 1991). There are two basic premises to the resource based view of competitive advantage. First, the resource based view argues resources should be deployed so as to create better value for customers than competitors do. Secondly, the advantage will be sustained only if the resources or the competitive position generated are difficult to imitate (Quader, 2007).

The second source of advantage is capabilities, often defined as the “glue” that binds the assets together; that is the skills and accumulated knowledge that enable business processes to be carried out (Barney, 1991). Hunt et al. (2006) emphasizes that market-driven organizations display at least two key human resources capabilities that

is superior customer linking and superior market sensing capabilities. Customer linking, however, reflects creating and managing customer relationships and underlies the concept of relationship marketing. It includes an ability to identify customer needs and wants and a capability to create and build appropriate relationship with customers and has been identified as a key driver of organizational outcomes (Hooley et al., 2005). Such a competency equates to a strategic choice involving relational exchanges with other firms and with consumers when such relationships enable firms to compete more effectively (Bharadwaj et al. 2003).

2.2.2 Commitment Trust Theory

Hutt and Speh (2001) posit that this theory commitment is a desire to establish and maintain a relationship with your customers. This desire is influenced by the realization of the important roles that customers play in any business. This theory assumes that trust and commitment exist to for a relationship without these two factors the relationship is likely to is breakdown.

The commitment-trust theory of relationship marketing maintains that the two essential factors for a relationship to exist are trust and commitment. Hunt and Morgan (1994) argue that relationship marketing involves forming bonds with customers by meeting their needs and honoring commitments. This theory emphasizes on the need to build a strong relationship with customers and through providing quality products and services that meet customers' needs (Hunt, Arnett and Madhavaram, 2006).

To achieve a successful relationship between the customers and the organization there has to be mutual trust and commitment between the customers and the organization. To gain trust with the customers, the organization has to build confidence through

providing quality goods and services and sometime making follow ups to ensure that the customers are satisfied with the value of goods and services they get from an organization (Moller and Halinen, 2000).

2.3 Marketing Practices

The marketing practices that have been discussed in this study include: market segmentation, Targeting, marketing module, marketing planning and SWOT analysis.

These practices have been discussed below:

2.2.1 Market Segmentation

According to Hunt (2000) segmenting is the process of dividing the market into segments based on customer characteristics and needs. The main activity segmenting consists of four sub-activities. These are: determining who the actual and potential customers are, identifying segments, analyzing the intensity of competitors in the market and selecting the attractive customer segments. The first, second and fourth steps are described as market segmentation. The third step of analyzing the intensity of the competitors is added to the process of segmenting in this process description. When different segments are identified, it is not necessary that these segments are attractive to target (Gronroos, 1991).

A company is almost never alone in a market competitors have a great influence on the attractiveness of entering a certain market. When there is a high intensity of competitors, it is hard to obtain a profitable market share and a company may decide not to enter a certain market. The third step of segmenting is the first part of the topic of competitor analysis. The need for segmenting a market is based on the fact that no market is homogeneous. For one product the market can be divided in different customer groups (Ford, 2002) .The variables used for this segmenting in these groups

are usually geographical, psychographical, behavioral and demographic variables. This results in segments which are homogeneous within and heterogeneous between each other. When these segments are known, it is important to decide on which market to target. Not every market is an attractive market to enter. A little filtering has been done in this activity, but there are more factors to take in account before targeting a certain market segment. This process is called targeting (Hutt and Speh, 2001).

2.2.2 Targeting

Coviello et al. (2001) argue that these consist of a set of buyers who share common needs or characteristics that the company decides to serve. After the most attractive segments are selected, a company should not directly start targeting all these segments other important factors come into play in defining a target market (Lindgreen, 2001). Four sub activities form the basis for deciding on which segments will actually be targeted. The four sub activities within targeting are defining the abilities of the company and resources needed to enter a market, analyzing competitors on their resources and skills, considering the company's abilities compared to the competitors' abilities and deciding on the actual target markets (Denison and McDonald, 2005).

The first three sub activities are described as the topic competitor analysis. The last sub activity of deciding on the actual target market is an analysis of the company's abilities to those of its competitors. The results of this analysis lead to a list of segments which are most attractive to target and have a good chance of leading to a profitable market share (Avlonitis and Gounaris, 1997). Obviously, targeting can only be done when segments have been defined, as these segments allow firms to analyze the competitors in this market. When the process of targeting is ended, the markets to

target are selected, but the way to use marketing in these markets is not yet defined. To decide on the actual marketing strategy, knowledge of the differential advantages of each segment is needed (Lindgreen, 2001).

2.2.3 Marketing Planning

According to Doyle (2000) marketing planning is the process of analyzing one or more potentially interesting marketplaces in order to determine how a business can optimally compete in them. The market planning process typically results in a marketing strategy that can be used to enhance sales for the business producing it (Hunt, 2000). The marketing plan can function from two points: strategy and tactics. In most organizations, strategic planning is an annual process, typically covering just the year ahead (Coviello, Milley and Marcolin, 2000).

Occasionally, a few organizations may look at a practical plan which stretches three or more years ahead. The corporate objective forms the most important part of the marketing plan it has to be aligned with the corporate mission to realize the strategic goals of the organization. In a sales-oriented organization, the marketing planning function designs incentive pay plans to not only motivate and reward frontline staff fairly but also to align marketing activities with corporate mission. The marketing plan basically aims to make the business provide the solution with the awareness with the expected customers (Buttle, 1996).

2.2.4 Marketing Module

People often get confused between the marketing of a product and the selling of a product. Marketing is concerned with identifying, anticipating and meeting the needs of customers in such a way as to make a profit for the organization. Christopher and Payne (2001) maintain that market research is thus an important element of marketing

because this is the process involved in finding out what customers want. Meeting customer requirements then involves applying a relevant marketing mix i.e. providing the right product, at the right price, through the right distribution channels (place) and supported by the most suitable promotional and advertising activity (Egan, 2001).

2.2.5 SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis is a straightforward model that analyzes an organization's strengths, weaknesses, opportunities and threats to create the foundation of a marketing strategy. It takes into account the things that an organization can do and those that the organization cannot do well as any potential favorable or unfavorable conditions related to the firm's products and services. The process of SWOT analysis involves evaluating the firm's strengths, weaknesses, market opportunities and potential threats to provide competitive insight into the potential and critical issues that impact the overall success of the business (Andrus and Norvel, 1990).

The primary goal of a SWOT analysis is to identify and assign all the significant factors that could positively or negatively impact success to one of the four categories namely strength, weaknesses, opportunities and threats by providing an objective and in-depth look at the business. Strengths often encompass resources, competitive advantages, the positive aspects of those within your workforce and the aspects related to your business that you do particularly well, focusing on all the internal components that add value or offer you a competitive advantage (Quader, 2007).

Denison and McDonald (2005) explain that weaknesses are factors that are within your control yet detract from your ability to obtain or maintain a competitive edge such as limited expertise, lack of resources, limited access to skills or technology,

substandard services or poor physical location. Weaknesses encapsulate the negative internal aspects to your businesses that diminish the overall value your products or services provide.

This category can be extremely helpful in providing an organizational assessment, provided you focus on an accurate identification of your company's weaknesses. Opportunities are the external factors that represent the motivation for your business to exist and prosper within the marketplace. These factors include the specific opportunities existing within your market that provide a benefit, including market growth, lifestyle changes, resolution of current problems or the basic ability to offer a higher degree of value in relation to your competitors to promote an increase in demand for your products or services.

According to Quader (2007) one element to be aware of is timing. Under the threats there are external factors that go beyond the control of the organization that have the potential to place a marketing strategy, or the entire business, at risk. The primary and ever-present threat is competition. However, other threats can include unsustainable price increases by suppliers, increased government regulation, economic downturns, negative press coverage, and shifts in consumer behavior. Though these forces are external and therefore go beyond the firm's control, SWOT analysis may also aid in the creation of a contingency plan that will enable the firm to quickly and effectively address these issues should they arise (Moller and Halinen, 2000).

2.3 Environmental Dynamics and Firm Performance

The objective of every business is to provide services to its customers in a manner that meets their satisfaction. To achieve this goal the organization should be dynamic in order to accommodate the changes in the external environment. This enables the

firm to offer competitive services that are flexible, cost effective and value adding to its customers. Denison and McDonald (2005) argues that customer's satisfaction leads to repeat business since the customer get value for money. This increases sales for the business since the customers refer new customers to the same organization since they are satisfied and happy about the services offered.

According to Andrus and Norvel (1990) demographic factor highly influences an organization's sales turnover. Demography involves studying the human population in terms of size, density, location, age, gender and occupation. This feature of the population aids the organization to divide the population into market segments which can be beneficial to a marketer in deciding how to tailor their marketing plan to attract that demographic. Through demographic the marketer can be able to know their needs and the best way to address them (Moller and Halinen, 2000). A marketing plan helps the organization is to design its products and services in a manner that meet customer needs better than the competition. The organization is able to identify its target consumers the organization should develop a clear picture of the expected sales revenues and financials. This will improve sales since the organization is able to meet customer needs and expectations (Avlonitis and Gounaris, 1997).

The economic environment is an important consideration to a marketer because it defines the purchasing power of potential customers and the ways in which people spend their money. It is important for the marketer to know the incomes of its customers because each has a highly different spending pattern as well as a different distribution of wealth. This enables the marketer to categorize customers according to their class. That is the high-end, middle class and the lower-end. Goods and services are designed in terms of size, quality and cost in a manner that suites all the three

classes based on affordability. This attracts a large pool of customer's hence increased sales turnover and firm performance (Quader, 2007).

2.4 Marketing Practices, Environmental Dynamics and firm Performance

Brodie, Danaher and Johnston (2002) investigated the influence of marketing practices on performance in a competitive market environment. A survey was carried out a number of services firms. The results depicted that most service firms that adopted marketing practices performed better. This is because they were able to cope with then changes in the external environment.

In network marketing firms that seek to expand their market share must study the external environment. They should develop inter-firm relationships to create synergy through improved coordination of activities and functions among multiple parties. This assists the firm to cut on their communication costs through improved information sharing between the individual and the firm. This kind of integration enhances improved decision making processes which might lead to improved performance. This is consistent with the findings of Coviello, Brodie and Munro (2000) who investigated on the relationship between marketing practices and performance among commercial banks in Europe. The study found that commercial banks that adopted modern technologies for example use of ATM's, internet banking, electronic fund transfer and other integrated products were competitive.

Most customers indicated that they were more impressed by flexible and convenient services. According to the findings; this saved their time and money. Day and Montgomery (1999) argue that marketers study the market and understand the needs of their customers. Organizations that aspire to succeed should invest in modern

technology to provide flexible and convenient services that meets the needs of the customers. This will attract and more customers, increase sales and thus profitability.

Gruen (1995) studied the relationship between interaction marketing and market share among commercial banks in Netherlands. The study found that interaction marketing led to improved face to face interpersonal interactions which created strong bonds between the customers and the organization. This improved the relationship between the buyers and the sellers as a result of trust and confidence. This was attributed to consistent sales that led to increased market share and performance of commercial banks. The findings of this study are coherent with Brodie et al. (1997) who argued that interaction marketing allows face-to-face interpersonal interactions that enhance cooperative interactions between buyers and sellers for mutual benefit.

2.5 Firm Performance

Performance includes efficiency, effectiveness, quality, and productivity, quality of work life, innovations and profitability. Performance can be examined from different aspects; actual results or outputs of activities for example financial results or how an activity is carried out for instance efficiency, quality of production process. It may also refer to the organizations' ability to achieve results in the future for example competence of employees. Performance is difficult to define; its content depends on the perspectives of the examination. Regarding measurement, performance may be defined as ability of the object measured to achieve objectives defined (Kaplan and Norton, 2002).

According to Norton (2010) that performance is defined to include the action or process of performing a task or function in terms of how successfully it is performed. Organizational performance relates to how successfully an organized group of people

with a particular purpose perform a function. Essentially, this is what we are speaking about when we refer to organizational performance and achievement of successful outcomes.

The BSC offers four diverse perspectives: financial, customer intensive, internal process diagnostic, and innovation. Financial viewpoints recognize the crucial financial drivers in producing shareholder affluence. Customer intensive comprises methods of brand awareness and image, customer satisfaction, retention and profitability. Internal process diagnostic mainly focuses on the competencies of the whole business structure, whereas innovation emphasizes the effective alteration and the progression of the business in shifting situations. Thus, Balanced Score Card (BSC) keeps financial measures that ratify the outcomes of previous activities and choices and then it also extends non-financial indicators that will initiate future functional performance (Kaplan and Norton, 2002).

2.6 Summary of the Reviewed Literature

From the above review, the empirical findings depict a positive relationship between marketing practices and performance of firms. Examples include; Gruen (1995) and Brodie (1997). These findings are consistent with the hypothesis of this study which predicts a positive relationship between marketing practices and performance of microfinance banks in Kenya. This is also in line with commitment trust theory as demonstrated by above under the theoretical foundation of this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used in conducting the study. It discusses the research design, population, data collection procedures and instruments.

3.2 Research Design

The study used a descriptive research design. Kothari (2004) defines a descriptive survey as a way of describing a population with respect to important variables with the major emphasis being on determining the frequency with which something occurs or the extent to which two variables co-vary. This study used a descriptive survey in order to obtain information concerning the current status of the phenomena to describe with respect to variables or conditions in a situation.

3.3 Population of the Study

According to Singh and Nath (2010), a population refers to an entire group of individuals, events or objects having a common observable characteristic. To achieve the objective, the study focused on twelve (12) microfinance banks in Kenya (see Appendix II). The firms are licensed under the central bank of Kenya (CBK, 2015). The study used a census survey since the entire population was studied as opposed to selecting a sample. A census approach was used; this is because detailed information on microfinance banks is easy and economical to get since the population is small.

3.4 Data Collection

The study used primary data which was collected using a semi-structured questionnaire. The study used both qualitative and quantitative methods. Primary data

was collected from marketing managers, finance managers and human resource managers of microfinance banks in Kenya or their equivalents. Marketing managers were considered appropriate since they understood the marketing practices and their relationship with performance. The questionnaire was administered by a drop and pick later method at an agreed time with the researcher.

The questionnaire had four sections: Section A which sought data on the company profile; section B sought data to address the first objective of the study by collecting data on the marketing practices used by microfinance banks in Kenya. Section C sought data to address the second objective of the study which was to determine the effect of marketing practices on the performance of microfinance banks in Kenya. Section D addressed the third objective of the study by seeking data on the influence of environmental dynamics on the performance of microfinance banks in Kenya. A questionnaire is appropriate to use when collecting large amounts of data from a large number of people in a short period of time and in a relatively cost effective way, data can easily be quantified, it can be used to compare and contrast other research and may be used to measure change. This makes it difficult to affect validity and reliability of collected data.

3.5 Data Analysis

The data collected was sorted, cleaned and coded before analysis. The data was analyzed using descriptive statistics for objective one. This included percentages, mean and standard deviation to determine the frequency of marketing practices that was used by microfinance banks in Kenya. To achieve the second objective of the study, the study used a regression model to determine the effect of marketing practices on the performance of microfinance banks in Kenya. To achieve the third

objective this was the influence of environmental dynamics on performance of microfinance banks in Kenya descriptive statistics was used.

In the second objective; the regression model had five variables: the independent variables which were marketing practices while the dependent variable was performance of microfinance banks in Kenya. Below is the regression model that the researcher adopted for data analysis.

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + e$$

Where:

Y is performance

a is the Y intercept when x is zero

b₁, b₂, b₃ and b₄ are regression weights attached to the variables

X₁...X_n are the coefficients

X₁= Segmentation

X₂= Targeting

X₃= Marketing Planning

X₄= Marketing Module

€= Error term.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERETATION

4.1 Introduction

This chapter discusses data analysis and interpretation in line with the objectives of the study which were as follows: to determine the marketing practices used by microfinance banks in Kenya, to determine the effect of marketing practices on the performance of microfinance banks in Kenya and to establish the influence of environmental dynamics on the performance of microfinance banks in Kenya.

4.2 Response Rate

Out of the 12 questionnaires that were distributed for data collection only 10 questionnaires were successfully filled and returned to the researcher. This represents a response rate of 83% which was considered sufficient for making generalization of all the microfinance banks in Kenya. According to Mugenda and Mugenda (1999) this represents response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was considered to be sufficient.

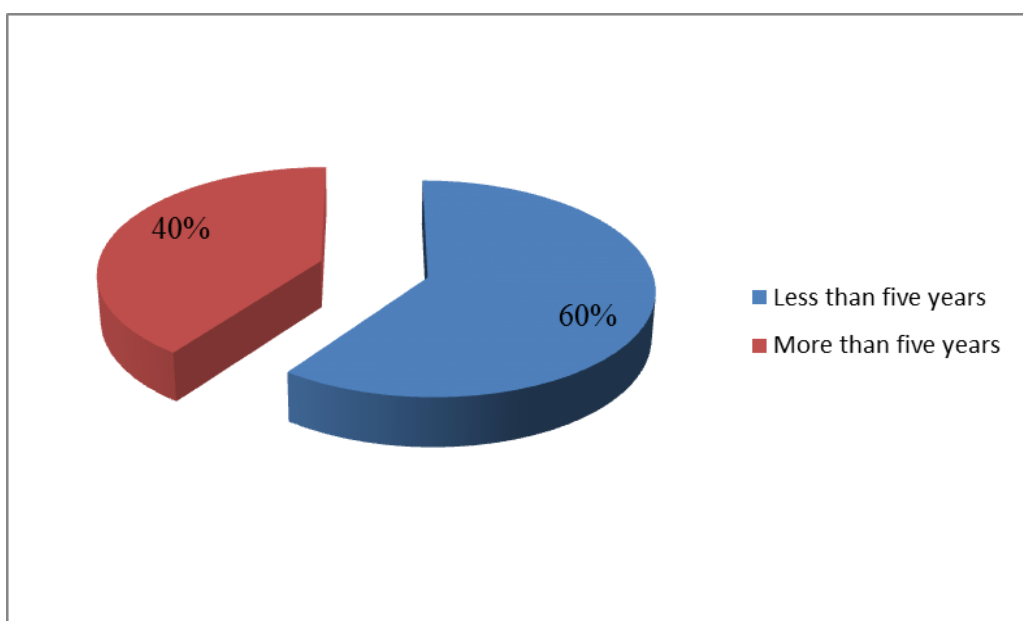
4.3 Demographic Information

This section provides the demographic information of the respondents and the organization. This information is important in evaluating whether the respondents are qualified to give reliable information in line with the objectives of this study.

4.3.1 Duration of Operation by Microfinance banks

The study sought to determine the duration which the organization had been in operation to find out whether it was long enough for the organization to have adequately implemented marketing practices. The findings are presented in the Table 4.1:

Figure 4.1 Duration of Operation



Source: Primary Data (2015)

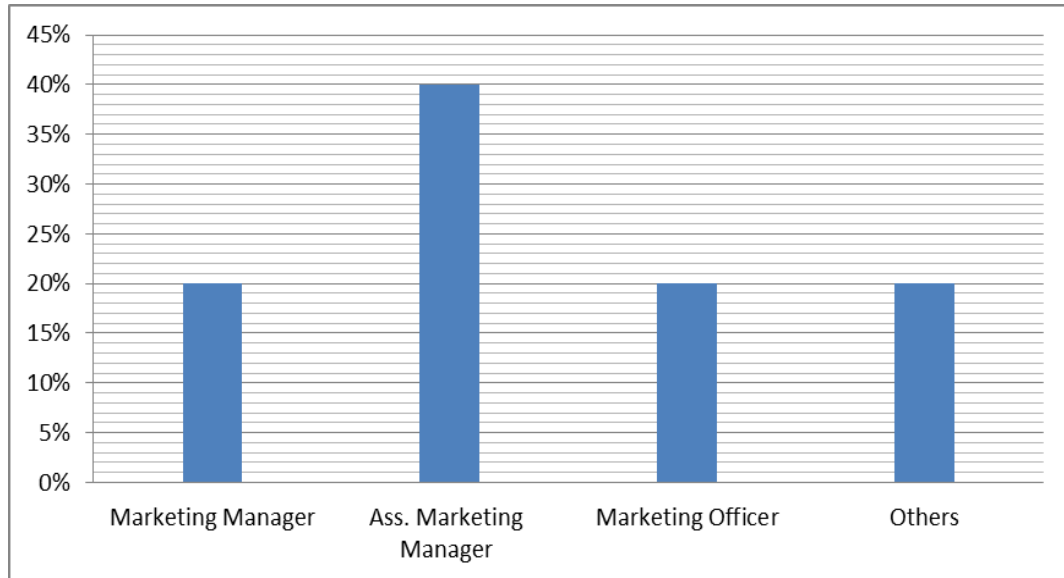
From the above findings in Table 4.1, 60% of the respondents indicated that most microfinance banks had been in operation for a period of less than five years. 40% of the respondents indicated that microfinance banks had been operation for a period of more than five years after being licensed as a microfinance bank in Kenya. This implies that most microfinance banks had been in operation for a period of less than five years.

4.3.2 Position of the Respondents

The respondents were requested to indicate the position that they served to find out if they were qualified to give accurate and reliable information about marketing

practices and how they relate to performance. The findings are presented in the Figure 4.2.

Figure 4.2 Positions of the Respondents



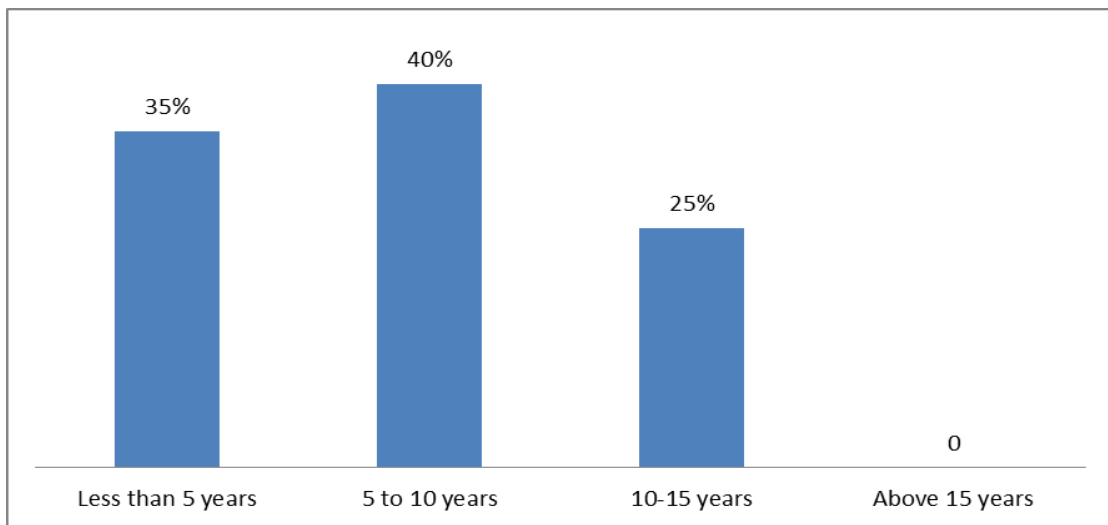
Source: Primary Data (2015)

From the above findings in Figure 4.2, 40% of the respondents indicated that they served as assistant marketing manager, there was a tie of 20% of the respondents who indicated that they served as marketing managers, marketing officer and others. Others in this case included the branch and the operations managers. The findings therefore conclude that most respondents were qualified to give information as per the study objectives.

4.3.3 Length of Service in the Current Position

The respondents were asked to indicate the period that they had served in the bank. This was intended to determine whether the respondents had a relevant working experience in the field of marketing practices. The findings are presented in the Table 4.3.

Figure 4.3 Length of Service in the Current Position



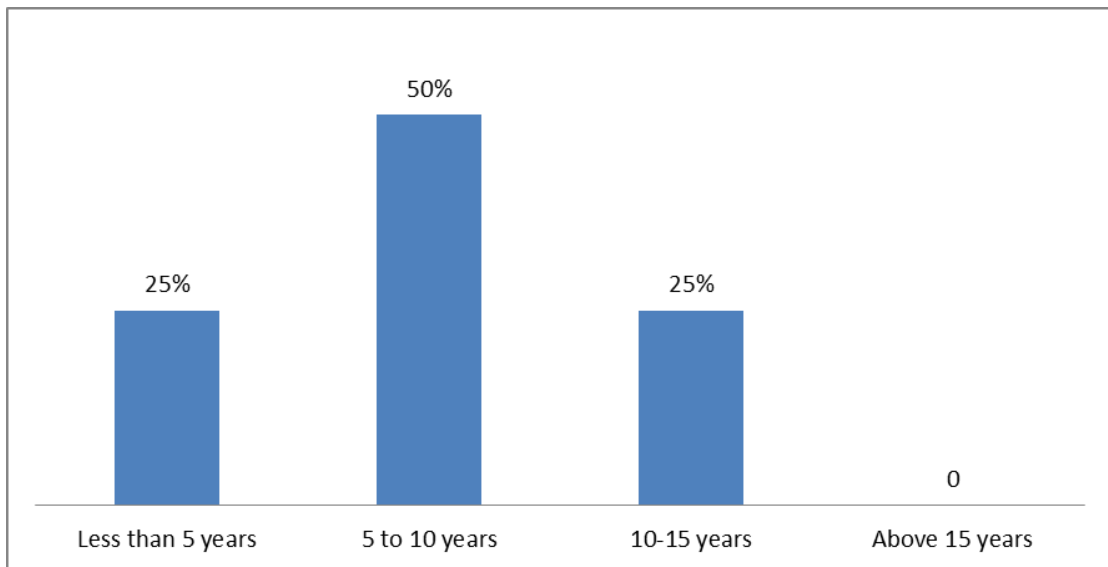
Source: Primary Data (2015)

From the above findings in the figure 4.3 above, it was found that 35% of the respondents had worked for a period of less than five years, 40% of the respondents indicated that they had worked between 5-10 years while only 25% of the respondents worked for a period between 10-15 years. The findings concluded that most of the respondents had a relevant experience in marketing practices in microfinance banks in Kenya.

4.3.4 Length of Service in the Organization

The respondents were asked to indicate the period the length of service in the organization. Below are the results of the findings in Figure 4.4:

Figure 4.4 Length of Service in the Organization



Source: primary data

From the above findings in the Figure 4.4, it was found that 50% of the respondents had worked for a period between 5-10 years, there was a tie of 25% respondents who indicated that they had worked in the organization for less than 5 years and between 10-15 years. None of the respondents had worked in the organization for a period exceeding 15 years. This implies that more than fifty percent respondents had worked in microfinance banks for a period of more than five years which means that they had a relevant experience in marketing practices.

4.4 Marketing Practices

The study sought to determine the extent to which microfinance banks implemented marketing practices. Below are the results of the findings in Table 4.1:

4.4.1 Market Segmentation

The study sought to determine the extent to which market segmentation was used by microfinance banks in Kenya being one of the marketing practices. Below are the results in Table 4.1.

Table 4.1 Marketing Segmentation

Market Segmentation	Mean	Std Deviation
1 Products and services are offered based on customer needs	4.52	.792
2 The firms divides the market into segments	4.10	.694
3 The firm selects attractive customer segments	3.76	.983
4 The firm analyses the intensity of competitors	3.65	.882
Average scores	4.008	.6702

Source: Primary Data (2015)

From the results in Table 4.1, the individual market segmentation practices found that most banks offered products and services based on customers' needs. This practice had the highest scores. Secondly, most microfinance banks were found to divide their market into segments and selecting attractive customer segments, Analysis of competitors had the lowest score. The mean scores for all the individual practices are as follows: 4.52, 4.10, 3.76 and 3.65 respectively. Their standard deviations (S.D) were as follows: .792, .694, .983 and .882 respectively. The overall mean score for market segmentation as one of the marketing practice used by microfinance banks is 4.008 and the S.D was .6702. The findings conclude that most microfinance banks in Kenya used market segmentation to a large extent.

4.4.2 Targeting

The respondents were requested to indicate the extent to which targeting was used by microfinance banks in Kenya. Below are the results in Table 4.2.

Table 4.2 Targeting

Targeting	Mean	Std Deviation
1 The firm defines its resources needed to enter market	4.10	.768
2 The firm decides the market strategy to use	3.96	.892
3 The identifies market segment to analyze its competitors	3.54	.969
4 The firm lists attractive segments to target	3.45	.875
5 The firm targets customers with similar needs	3.31	.972
Average scores	3.672	.8952

Source: Primary Data (2015)

From the results in Table 4.2, most microfinance banks define their resources needed to enter the market. This score had the highest mean. The banks decided the market strategy to use, and they also identify the markets segment to analyze their competitors. The banks list attractive segments to target with similar customer needs. This practice had the lowest score. The mean scores for all the individual practices are as follows: 4.10, 3.96, 3.54, 3.45 and 3.31 respectively. Their standard deviations were as follows: .768, .892, .969, .875 and .972 respectively. The overall mean score for targeting being a marketing practice used by microfinance banks was 3.672 and the S.D was .8952. The findings conclude that most microfinance banks in Kenya used targeting to a large extent.

4.4.3 Marketing Planning

The respondents were requested to indicate the extent to which market planning was used by microfinance banks in Kenya. Below are the results in Table 4.3.

Table 4.3 Market Planning

Marketing Planning	Mean	Std Deviation
1 The bank analyses potential market places	3.92	.568
2 The bank conducts strategic planning	3.85	.782
3 The bank' strategic planning enables it to boost its sales	3.67	.794
4 The bank has a marketing plan	3.61	.885
5 The bank designs incentive pay plans	3.41	.972
Average scores	3.652	.8002

Source: Primary Data (2015)

From the results in Table 4.3, most microfinance banks analyze potential market places. This practice had the highest score. Strategic planning is meant to specifically boost its sales. The bank has a marketing plan, it also designs incentive pay plans. These practices had the lowest score. The mean scores were as follows: 3.92, 3.85, 3.67, 3.61 and 3.41 respectively. Their standard deviations were as follows: .568, .782, .794, .885 and .972 respectively. The overall mean score for marketing planning was 3.652 and the S.D was .8002. The findings conclude that most microfinance banks in Kenya used marketing planning to a large extent.

4.4.3 Marketing Module

The respondents were requested to indicate the extent to which marketing module was used by microfinance banks in Kenya. Below are the results in Table 4.4.

Table 4.4 Marketing Module

Marketing Module	Mean	Std Deviation
1 The bank is able to identify its customers' needs	3.52	.405
2 The bank uses the right distribution	3.64	.789
3 The bank is able to provide the right product	3.07	.494
4 The bank is able to provide the product at the right place	2.91	.765
5 The bank is able meet customer needs	2.78	1.003
Average scores	3.184	.6912

Source: Primary Data (2015)

From the results in Table 4.4, the individual practices indicated that microfinance banks were able to identify their customers' needs. This practice had the highest scores. The banks used the right distribution and the bank was able to provide the right product, at the right place. A number of these banks were able to meet their customer needs. This practice had the lowest mean. The mean scores for all the individual practices were as follows: 3.52, 3.64, 3.07, 2.91 and 2.78 respectively. Their standard deviations were as follows: .405, .789, .494, .765 and 1.003 respectively. The overall mean score for marketing module was 3.184 and the S.D was .6912. The findings conclude that most microfinance banks in Kenya used marketing module to a large extent.

4.4.4 Ranking of marketing practices used microfinance banks in Kenya

The Table 4.5 below gives a summary of the raking of marketing practices based on their implementation in microfinance banks in Kenya.

Table 4.5 Ranking of marketing practices used microfinance banks in Kenya

Rankings	Marketing practices	Average Mean scores	Std. Deviation
1	Market Segmentation	4.008	.6702
2	Targeting	3.672	.8952
3	Marketing planning	3.652	.8002
4	Marketing module	3.184	.6912

Source: Primary Data (2015)

The study findings conclude that the marketing practices that had the highest scores were market segmentation and targeting. Their mean scores were as follows; 4.008 and 3.672 respectively. Their standard deviation was as follows: .6702 and .8952 respectively. On the other hand, the marketing practices that had the least scores as per the marketing practices raking were: marketing planning and marketing module

and. Their mean scores were as follows: 3.652 and 3.184 respectively. Their standard deviation is as follows: .8002 and .6512 respectively.

4.5 Marketing Practices and Performance of Microfinance Banks in Kenya

To achieve the second objective which was to determine the effect of marketing practices on the performance of microfinance banks in Kenya. The study did a regression analysis to establish whether there was any relationship between marketing practices and performance of microfinance banks in Kenya. Coefficient of determination (R^2) explains the variance of the dependent variable as explained by the independent variables. The results of R^2 are depicted in Table 4.6.

Table 4.6 Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.707 ^a	.500	.100	1.46996

a. Predictors: (Constant), Marketing Module, Marketing Planning, Market Segmentation, Targeting

From the table 4.6 above $R^2=0.50$ i.e. 50% variation in the performance of microfinance banks is explained by the predictors in the model. However, the other 50% variation in performance of microfinance banks is due to other factors not in the regression model. From this test result, the model is a satisfactory predictor and can be used for estimation purposes.

4.5.1 Analysis of Variance

The study used analysis of variance to test the goodness of fit for the model as shown in the Table 4.7.

Table 4.7 Analysis of Variance

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.796	4	2.699	16.764	.038 ^b
	Residual	0.804	5	0.161		
	Total	11.600	9			

a. Dependent Variable: Customer Satisfaction

b. Predictors: (Constant), Marketing Module, Marketing Planning, Market Segmentation, Targeting

(i) Using p-value

The model is significant since the p-value is less than 0.05 i.e. (0.038 < 0.05)

(ii) Using F test statistics

The numerator whose degrees of freedom (df) =4 and denominator df =5 and critical F value is 2.571. The above findings show that computed F-value is 16.764. From these findings, the regression model is significant since the computed F-value exceeds the critical value that is $16.764 > 2.571$.

4.5.2 Model Coefficients

The table below summarizes the results of the regression equation. The values in column B represent the extent to which the value of independent variables contributes to the value of the dependent variable. The other column shows the level of significance of the study variables. Below are the results in the Table 4.8.

Table 4.8 Model Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.272	4.477		.508	.633
	Market Segmentation (X ₁)	.802	.457	.608	1.754	.140
	Targeting (X ₂)	-1.201	.657	-.749	-1.828	.027
	Market Planning (X ₃)	.500	.731	.264	.685	.524
	Marketing Module (X ₄)	-.079	.948	-.027	-.084	.937

a. Dependent Variable: Customer Satisfaction

The regression model obtained for this study is as follows;

$$Y = 2.272 + .802X_1 - 1.201X_2 + .500X_3 - .079X_4$$

Where Y is performance

X_1 = Segmentation

X_2 = Targeting

X_3 = Marketing Planning

X_4 = Marketing Module

ϵ = Error term.

The model was subjected to statistical significant tests to establish the reliability or adequacy of the model for estimation purposes.

The regression model obtained shows that there is a positive relationship between market segmentation and market planning with performance of microfinance banks in Kenya. This implies that holding all other factors constant a unit increase in one of the variables obtained in the regression model results into a corresponding increase in performance of microfinance banks in Kenya. Targeting and marketing module shows an inverse relationship with performance of microfinance banks in Kenya.

The above analysis was conducted at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was done by comparing the corresponding probability value obtained; $\alpha = 0.05$. If the probability value was less than α , then the predictor variable was significant. The regression model observed that targeting was statistically significant in explaining the relationship between marketing practices and performance of microfinance banks in Kenya. This is because its p-value was less than 5%, $p = .027$. All the other variables

that is market segmentation, market planning and marketing module were statistically insignificant since their p-values were above 5%, $p=.140$, $p=.524$ and $p=.937$ respectively.

4.6 The Influence of Environmental Dynamics on Performance of Microfinance Banks in Kenya

To achieve the third objective of the study sought to determine extent to which environmental dynamics influenced performance of microfinance banks in Kenya.

Below are the results of the findings in Table 4.9

Table 4.9 The influence of environmental Dynamics on performance of microfinance banks in Kenya

	Mean	Std Deviation
1 Use of ICT has improved the bank's efficiency	4.05	.915
2 Banking regulations affects the functions of the banks	3.66	.684
3 Customer's changing needs affects sales	3.63	.799
4 Competition affects the bank's sale turnover	3.59	.634
5 Insecurity state of the country affects the bank's growth	3.35	.772
6 Political instability influences the operations of the banks	3.06	.593
Average scores	3.56	0.7328

Source: Primary Data (2015)

From the results in Table 4.9, the findings revealed that use of ICT among microfinance banks influenced performance. This had the highest mean score 4.05, S.D .915. Banking regulations, customer needs and changing customer needs influenced performance of microfinance banks to large extent. Their mean scores were as follows: 3.66 3.63, and 3.59 respectively. S.D=. 684,.799 and .634 respectively.

Insecurity and political instability were some of the environmental dynamics that had the lowest mean scores as follows: 3.35 and 3.06 respectively. Their S.D was .772, and .593 respectively. The overall mean score for environmental dynamics that

influence performance of microfinance banks in Kenya is 3.56 and S.D is.7328. The findings conclude that use of ICT, banking regulations and changing needs were the main environmental factors that influenced performance of most microfinance banks in Kenya.

4.7 Chapter Summary and Discussions

The findings concluded that most of the respondents had a relevant experience and thus were in a position to give accurate and reliable information in line with the study objectives. The study utilized a cross-sectional survey while evaluating the marketing practices used by microfinance banks in Kenya. This was appropriate since most microfinance banks in Kenya had been in operation for a period of less than five years.

The study findings conclude that market segmentation and targeting were most popularly used by microfinance banks as compared to market module and planning. The study further concluded that use of ICT, banking regulations; changing customer needs were key environmental dynamics that affected performance of microfinance banks in Kenya.

The regression results concluded that 50% variation in the performance of microfinance banks is explained by the predictors in the model. However, the other 50% variation in performance of microfinance banks is due to other factors not in the regression model. Analysis of variance concluded that the linear regression model adopted for the study was significant in explaining the relationship between marketing practices and performance of microfinance banks in Kenya. The findings further revealed that targeting was statistically significant in explaining the relationship between marketing practices and performance of microfinance banks in Kenya. This

is because its p-value was less than 5%, $p=.027$. All the other variables that is market segmentation, market planning and marketing module were statistically insignificant since their p-values were above 5%, $p=.140$, $p=.524$ and $p=.937$ respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The purpose of this study was to examine the relationship between marketing practices, environmental dynamics and performance of microfinance banks in Kenya. This chapter gives a summary of the major findings of the study, discussion on theory and practice and conclusions. It also highlights the limitations of the study and outlines proposed areas of future research. The first objective was to determine the marketing practices used by microfinance banks in Kenya, to determine the effect of marketing practices on the performance of microfinance banks in Kenya and to establish the influence of environmental dynamics on the performance of microfinance banks in Kenya.

5.2 Summary of Findings

The findings concluded that most of the respondents had a relevant experience and thus were in a position to give accurate and reliable information in line with the study objectives. The study utilized a cross-sectional survey while evaluating the marketing practices used by microfinance banks in Kenya. This was appropriate since most microfinance banks in Kenya had been in operation for a period of less than five years.

The study findings conclude that the marketing practices that had the highest scores were market segmentation and targeting. Their mean scores were as follows; 4.008 and 3.672 respectively. Their standard deviation was as follows: .6702 and .8952 respectively. On the other hand, the marketing practices that had the least scores as per the marketing practices ranking were: marketing planning and marketing module

and. Their mean scores were as follows: 3.652 and 3.184 respectively. Their standard deviation is as follows: .8002 and .6512 respectively.

Further the findings revealed that use of ICT, banking regulations, changing customer needs were key environmental dynamics that influenced performance of microfinance banks in Kenya. Their mean scores were as follows: 4.05, 3.66 3.63, and 3.59 respectively. S.D= .915, .684,.799 and .634 respectively.

The regression results concluded that 50% variation in the performance of microfinance banks is explained by the predictors in the model. However, the other 50% variation in performance of microfinance banks is due to other factors not in the regression model. Analysis of variance concluded that the linear regression model adopted for the study was significant in explaining the relationship between marketing practices and performance of microfinance banks in Kenya. The findings further revealed that targeting was statistically significant in explaining the relationship between marketing practices and performance of microfinance banks in Kenya. This is because its p-value was less than 5%, $p=.027$. All the other variables that is market segmentation, market planning and marketing module were statistically insignificant since their p-values were above 5%, $p=.140$, $p=.524$ and $p=.937$ respectively.

5.3 Conclusion

The study findings conclude that market segmentation and targeting were most popularly used by microfinance banks as compared to market module and planning. The findings observed that these practices acted as essential tools for attracting new customers. Implementation of these practices enabled the bank to accommodate the changing needs of the customer and thus improved customer satisfaction. This was achieved in light of the environmental dynamics that are envisaged in the

environment. Some of the most notable environment dynamics include; information communication technology (ICT), banking regulations and changing customer needs. These external changes influenced performance of microfinance banks according to most of the respondents.

5.4 Recommendations and Policy Implications

The empirical findings in this study have concluded that there is a positive relationship between marketing practices and performance of microfinance banks in Kenya. These findings might be useful to policy makers and microfinance banks in policy setting and identifying some of the best marketing practices to adopt to effectively increase sales.

Due to the dynamic nature of the business environment, the study recommends that microfinance banks should adopt marketing practices that are in line with the changing needs of the customers. This can be achieved by evaluating their market needs based on priority areas. This will provide a platform for the microfinance banks to adapt and implement marketing practices in order to attract new customers and retain existing ones. This will boost sales and enhance performance of microfinance banks in Kenya.

From the current study, it is evident that the marketing practices have a direct and positive effect on performance of microfinance banks in Kenya. Policy makers in the banking industry should set policies that promote microfinance banks to adopt and implement marketing practices in order to improve on their performances.

The study findings observed marketing practices contribute to improved performance of microfinance banks measured by dimensions such as customers' satisfaction, cost reduction, efficiency and effectiveness. The literature supports that marketing

practices are essential tools for improving performance. Marketing practices enable the firm to identify the changing needs of the customers, this helps the firm to improve on their products and services and thus meet the customer needs.

The empirical findings have shown that marketing practices contributes to performance of microfinance banks. This was also revealed the results that marketing practices contribute to performance of microfinance banks in Kenya. The bank managers can consider developing a culture that supports behaviors and create a supportive environment to adopt and implement marketing practices in order realize the benefits of reduced costs, flexibility, and differentiation and improved customer satisfaction.

5.5 Limitations of the Study

One of the limitations of this study is that the selection of the variables is not exhaustive. Specifically, the conceptualization of marketing practices might be limited and it's arguable that marketing practices might consist of more than market segmentation, targeting, marketing planning and marketing module. This means that other additional factors could provide further insight marketing practices and performance relationship. The factors included in the current conceptual framework may not provide a clear picture of the firms' marketing practices, external environmental factors and performance measures.

The other limitation of this study is that primary data was collected using a Likert-scale approach which limits the ability to access information. The response was based on self- reported data comprising the perceptions of the respondent, as opposed to absolute values. In addition, although the choices of each question adopted were from previous studies, all possible alternatives might not have been considered. The

findings of a survey based on other sources of information and the use of absolute data could provide additional findings.

Due to time and cost constraints, the study was limited itself to microfinance banks that are concentrated within Nairobi County. It would have been appropriate to collect data from all the microfinance institutions across the country in order to draw more conclusive and detailed results. Further, the banking industry constitutes commercial banks, Saccos' among other institutions. The findings obtained herein can only be used for comparative purposes only and not for direct application in another sector.

The respondents agreed to fill in the questionnaires on condition that the information would be treated with high degrees of confidentiality. Some of the respondents completely refused to fill in the questionnaires since they thought the process was tedious and non-paying. The researcher had to make follow-ups through phone calls and visits in an effort to convince the respondents to fill in and complete the questionnaires. This was not easy while it took a long period of time.

5.6 Suggestions for further Research

Future researchers should consider replicating this study in the whole of banking industry like commercial banks and Saccos. Other sectors like manufacturing and insurance companies would also be suitable to provide comparative findings. This will give a more detailed view of the nature of the relationship identified in the study. It would be appropriate to study the relationship between market practices and performance in the whole of banking industry. The replication of this study in other countries especially in the Sub-Saharan region would demonstrate the universality and significance of the market practices and performance relationship in general.

Secondly, the study used a cross-sectional research design whereby the respondents were asked questions only once to assess their perspectives of the variables under study. Although a cross-sectional data enable generalization of the findings while offering cost and control advantages, it prevents close investigation of several aspects of the relationships in this study. The development of a time-series database and testing of the relationship between marketing practices and performance in a longitudinal framework should provide more insight into probable causation.

REFERENCES

- Akgun, A. E., Keskin, H., & Byrne, J. (2008). The moderating role of environmental dynamism between firm emotional capability and performance, *Journal of Organizational Change Management*. Vol 21(2), 230-252.
- Andrus, D.M. & Norvell, W. (1990). Marketing differences between large and small firms: a test of the industrial consumer dichotomy hypothesis, *Akron Business and Economic Review*, 21(3): 81-90.
- Aslund, A. (2002). *Building Capitalism: The transformation of the former soviet Bloc*. Cambridge University Press, Cambridge.
- Avlonitis, G. J. & Gounaris, S. P. (1997). Marketing orientation and company performance: industrial vs. consumer goods companies, *Industrial Marketing Management*, 26 385-402.
- Balabanis, G., & Spyropoulou, S. (2007). Matching modes of export strategy development to different environmental conditions, *British Journal of Management*, 18, 45-62.
- Barney, J. (1991). Firm resources and sustained competitive advantage, *Journal of Management*, 17(1):99-120.
- Bharadwaj, S.G., Varadarajan, P.R. & Fahy, J. (1993). Sustainable competitive advantage in service industries: A conceptual model and research propositions, *Journal of Marketing*, 57 (4) 83-99.
- Bowman, C., & Ambrosini, V. (2003). How the resource-based and the dynamic capability views of the firm inform competitive and corporate level strategy, *British Journal of Management*, 14, 289-303.
- Brodie, R.J., Coviello, N.E., Brookes, R.W. & Little, V. (2002). Towards a paradigm shift an examination of contemporary marketing practices, *Journal of Marketing Management*, 13 (5) 383-406.
- Buttle, F. (1996). *Relationship marketing*, in Buttle, F. (Ed.), *Relationship marketing: theory and practice*, Paul Chapman Publishing, London, 1-16.

- CBK (2015). <https://www.centralbank.go.ke/>
- Christopher, M. & Payne, A. (2001). Relationship marketing: bringing quality, customer service and marketing together, *Butterworth-Heinemann*, Oxford.
- Coviello, N. & Milley, R. (2001). Understanding IT-enabled interactivity in contemporary marketing, *Journal of Interactive Marketing*, 15(4):18-33.
- Coviello, N.E., Brodie, R. J. & Munro, H.J. (1997). Understanding contemporary marketing: development of a classification scheme, *Journal of Marketing Management*, 13(6): 501-22.
- Coviello, N.E., Brodie, R.J. & Munro, H.J. (2000). An investigation of marketing practices and performance by commercial banks, *Journal of Business Venturing*, 15, 6, 523-45.
- Coviello, N.E., Brodie, R.J., Danaher, P.J. & Johnston, W.J. (2002). How firms relate to their markets: an empirical examination of contemporary marketing practices, *Journal of Marketing*, 66:33-46.
- Czinkota, M.R. & Ronkainen, I.A. (2001). *International Marketing, 6th ed.*, Harcourt College Publishers, Fort Worth, TX.
- Dawar, N. & Chattopadhyay, A. (2002). Rethinking marketing programs for emerging markets, *Long Range Planning*, 35(5); 457-74.
- Day, G.S. & Montgomery, D.B. (1999). Charting new directions for marketing, *Journal of Marketing*, 63, 3-13.
- Day, G.S. (1994). The capabilities of market-driven organizations, *Journal of Marketing*, 58, 37-52.
- Denison, T. & McDonald, M. (2005). The role of marketing: past, present and future, *Journal of Marketing Practice Applied Marketing Science*, 1(1):54-76.
- Dondo, O. (2001). Microfinance banks in Kenya, *Africa Economic Policy paper*, 70, Nairobi K-Rep Bank
- Doyle, P. (2000). *Value-Based Marketing: marketing strategies for corporate growth and shareholder value*, Wiley, Chichester.

- Egan, J. (2001). *Relationship marketing: exploring relational strategies in Marketing*, Financial Times/Prentice Hall, Harlow.
- Ford, D. (2002). *The business marketing course: managing in complex networks*, Wiley, Chichester.
- Gacugu, N. (2013). Market Orientation, marketing practices, firm characteristics, External Environment and Performance of Tour Firms in Kenya, *Unpublished MBA Project*, University of Nairobi
- Gronroos, C. (1990). Relationship approach to marketing in service contexts: the marketing and organizational performance, *Journal of Business Research*, 20(1):3-11.
- Gronroos, C. (1996). *The rise and fall of modern marketing and its rebirth*, in Shaw and Hood, N. (Eds), *marketing in Evolution, Essays in Honour of Michael Baker*, Macmillan Press, London, 14-35.
- Gruen, T.W. (1995). The outcome set of relationship marketing in consumer markets and performance, *International Business Review*, 4(4): 447-69
- Hooley, G. & Greenley, G. (2005). The resource underpinnings of competitive positions, *Journal of Strategic Marketing*, 13 93-116
- Hunt, S., Arnett, D. B. & Madhavaram, S. (2006). The explanatory foundations of marketing theory, *Journal of Business & Industrial Marketing*, 21(2); 72-87
- Hunt, S.D. & Morgan, R.M. (1994). Relationship marketing in the era of network competition, *Marketing Management*, 3(1):18-28.
- Hunt, S.D. (2000). *A general theory of competition*, Sage, Thousand Oaks, CA.
- Hunt, S.D. (2011). The theory of monopolistic competition, marketing's intellectual history, and the product differentiation vs. market segmentation controversy, *Journal of Micromarketing*, 31, 1, 73-84
- Hutt, M.D. & Speh, T.W. (2001). *Business marketing management: a strategic view of industrial and organizational markets*, Harcourt Publishing, Orlando, FL.

- Kaplan, R. S. & Norton, D. P. (2002). The balanced scorecard: measures that drive performance, *Harvard Business Review*. 70 (1), Jan/Feb 1992, 71-79
- Kaplan, R. S. & Norton, D. P. (2010). Putting the balanced scorecard to work. *Harvard Business Review*, 71 (5), 134-147
- Kinoti, W. (2012). Image, organizational characteristics and performance of ISO 9000 and 14000 certified organizations in Kenya, *Unpublished MBA Project*, University of Nairobi
- Kirigia, M. (2013). Effect of strategic marketing practices on performance of Telecommunication Companies in Nairobi County, *Unpublished MBA Project*, University of Nairobi
- Kohli, A.K. & Jaworski, B.J. (1990). Market orientation: the construct, research propositions and managerial implications, *Journal of Marketing*, 54(2):1-18
- Kothari, R. (2004). *Research methodology: methods and techniques*. New Delhi: Age publishers.
- Kotler, P. & Keller, K.L. (2003). *Marketing Management*, Pearson/Prentice Hall, Upper Saddle River, NJ.
- Kotler, P. & Keller, K.L. (2009). *Marketing Management*, Pearson/Prentice Hall, Upper Saddle River, NJ.
- Kotler, P. (2000). *Marketing management*, Prentice Hall, Englewood Cliffs, NJ.
- Kotler, P. (2003). *Marketing management*, Pearson Education, Upper Saddle River, NJ.
- Lindgreen, A. (2001). An exploration of contemporary marketing practices in the New Zealand wine sector: evidence from three cases, *International Journal of Wine Marketing*, 13(1):5-22.
- McIntosh, C., A. & Sadoulet, E. (2005). Rising competition among microfinance banks Affects Incumbent Lenders. *Economic Journal*, 115: 987-1004
- Mwende, J. (2014). Overview of banking industry in Kenya: Accessed from, <http://www.kenyanbusinessreview.com/557/banking-industry-in-kenya/>

- Moller, K. & Halinen, A. (2000). Relationship marketing theory: its roots and direction, *Journal of Marketing Management*, 16, 29-54.
- Quader, M.S. (2007). Human resource management issues as growth barriers in professional service firm SMEs, *Journal of Services Research*, 7(2):115-61
- Shaw, E.H. & Jones, D.G.B. (2005). A history of schools of marketing thought, *Marketing Theory*, 5 3, 239-81
- Singh, Y. K., & Nath, R. (2010). *Research methodology*, New Delhi: A. P. H. Publishing Corporation

APPENDICES

APPENDIX I: RESEARCH QUESTIONNAIRE

Introduction

This questionnaire has been designed for the sole purpose of collecting data on marketing practices and performance of microfinance banks in Kenya. The data collected will be treated with a very high degree of confidentiality and it is meant for academic purpose only.

Part A: General Information

1. Duration that the organization has been in operation

(i). Less than 5 years []

(ii) More than 5 years []

2. What is your position in this organization?

a) Marketing manager []

b) Assistant marketing manager []

c) Marketing officer []

3. How long have you worked in your current position

a) Less than 5 years

b) 5 to 10 years

c) 10 to 15 years

d) Above 15 years

4. How many years have you worked for the organization?

a). Less than 5 years

a) 5 to 10 years

b) 10 to 15 years

c) Above 15 years

Part B: Marketing Practices

5. What is the extent to which your firm has implemented the following marketing practices in its work place? .Using a five point scale below, Please tick appropriately against each statement? The scale stand for the following: 1 = No Extent at All; 2= Small Extent; 3= Moderate Extent; 4= Great Extent; 5= Very Great Extent

Marketing Practices	Extent				
	No extent at all	Small Extent	Moderate Extent	Great Extent	Very Great Extent
	(1)	(2)	(3)	(4)	(5)
1. Market Segmentation					
i. The firms divide the market into segments					
ii. Products and services are offered based on customer needs					
iii. The firm analyses the intensity of competitors					
iv. The firm selects attractive customer segments					
2. Targeting					
i. The firms targets consumers with similar needs					
ii. The firm defines its resources needed to enter the market					
iii. The identified market segments enable the firm to analyze its competitors					
iv. The firm decides the market strategy to use					
v. The firm lists attractive segments to target					
3. Market Planning					
i. The firm analyses potential market places					
ii. Marketing planning enable your					

banks to boost sales					
iii. The banks marketing plan involves strategy and tactics					
iv. The bank conducts strategic planning					
v. The bank's designs incentive pay plans					
4. Marketing Module					
i. The bank's is able to identify customer needs					
ii. The bank is able to meet customer needs					
iii. The banks is able to provide the right product					
iv. The bank is able to provide the product at the right place					
v. The bank uses the right distribution channels.					

Part C: Determine the effect of Marketing Practices on the Performance of Microfinance banks in Kenya.

6. Please indicate the extent to which you concur with the following statements concerning the effect of marketing practices on performance of microfinance banks in Kenya. Use the scale of: 1 Use the scale of: 1= strongly disagree 2= disagree 3= undecided 4= agree 5= strongly agree.

No	Statement	1	2	3	4	5
1	The firm is able to attract and satisfy its customer					
2	The firm has formally been providing quality goods and services its customer					
3	The firm offers affordable goods and services to its customers					
4	The organization has gained trust and confidence from most of its customers					
5	The organization makes follow ups that the customer is fully satisfied with the products and services offered					

6	The company has formally expanded its market share through inter-firm relationships to enhance coordination of activities and functions among multiple parties.					
7	The firms has formally reduced communication costs					
8	The organization has created strong bonds with its customers due to face-to-face interactions					
9	The firm has improved its sales turnover					
10	In generally, marketing practices used by this firm has improved performance					

7. Any other? Please indicate.

.....

Part D: Establish the influence of environmental dynamics on performance of microfinance banks in Kenya.

7. Please indicate the extent to which you agree with the following statements concerning the relationship that exists between environmental dynamics and performance of microfinance banks in Kenya. Use the scale of: Use the scale of: 1= strongly disagree 2= disagree 3= undecided 4= agree 5= strongly agree.

No	Statement	1	2	3	4	5
1	Use of ICT by microfinance banks has improved efficiency					
2	Competition affects the bank's sales turnover					
3	Banking regulations affects the functions of the banks and business processes					
4.	Political instability influences the operations of the banks					
5	Changing customer needs might affect sales turnover					
6.	Insecurity state of the country affects the bank's growth					

8. Any other? Please indicate.

.....

THANK YOU FOR YOUR TIME

APPENDIX II: LIST OF MICROFINANCE BANKS IN KENYA

1. Choice Microfinance Bank Limited

Postal Address: P. O. Box 18263 – 00100, Nairobi

Telephone: +254-20-3882206, 20-3882207, 0736662218

Email: info@choicemfb.com, enquiries@choicemfb.com

Website: www.choicemfb.com

Physical Address: Siron Place, Magadi Road, Ongata Rongai

Date Licenced: 13th May 2015 1

Branches: 1

2. Faulu Microfinance Bank Ltd

Postal Address: P. O. Box 60240 – 00200, Nairobi

Telephone: +254-20- 3877290 -3/7, 38721883/4

Fax: +254-20-3867504, 3872183/4; 3867503, 0711 074 074, 0708 111 000

Email: info@faulukenya.com, customercare@faulukenya.com

Website: www.faulukenya.com

Physical Address: Faulu Kenya House, Ngong Lane -Off Ngong Road

Date Licenced: 21st May 2009 5

Branches: 32

3. Kenya Women Microfinance Bank Ltd

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,

Date Licenced: 31st March 2010 4

Branches: 29

4. SMEP Microfinance Bank Ltd

Postal Address: P. O. Box 64063-00620 Nairobi

Telephone: 020-3572799/2055761, 2673327/8, 0711606900

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

Date Licensed: 14th December 2010 3

Branches: 7

5. Remu Microfinance Bank Ltd

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

Date Licensed: 31st December 2010 2

Branches: 3

6.Rafiki Microfinance Bank Ltd

Postal Address: 12755-00400 Nairobi

Telephone: +254-020-2166401/0730 170 000/0730 170 500

Email: info@rafiki.co.ke

Website: www.rafiki.co.ke

Physical Address: : Rafiki House, Biashara Street

Date Licensed:14th June 2011

Branches: 17

7. Uwezo Microfinance Bank Ltd

Postal Address: 1654-00100 Nairobi

Telephone: 2212919, 0703591302 / 9

Email: info@uwezodtm.com

Website: www.uwezodtm.com

Physical Address: Rehani House, 11th floor, Koinange Street

Date Licensed: 08 November 2010 1

Branches: 2

8. Century Microfinance Bank Ltd

Postal Address: P. O. Box 38319 – 00623, Nairobi

Telephone: +254-20-2664282, 6768326, 0722168721, 0756305132

Email: info@century.co.ke

Physical Address: KK Plaza 1st Floor, New Pumwani Road, Gikomba

Date Licensed: 17th September 2012 2

Branches: 1

9. Sumac Microfinance Bank Ltd

Postal Address: P. O. Box 11687-00100, Nairobi

Telephone: 020-2212587, 2210440, 2249047, 0738637245, 0725223499

Fax: (254) 2210430

Email: info@sumacdtm.co.ke

Website: www.sumacdtm.co.ke

Physical Address: Consolidated Bank House 2nd Floor, Koinange Street

Date Licensed: 29th October 2012 3

Branches: 3

10. U&I Microfinance Bank Ltd

Postal Address: P.O. Box 15825 – 00100, Nairobi

Telephone: (254) 020 2367288, 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

Date Licensed: 8th April 2013 4

Branches: 2

11. Daraja Microfinance Bank Ltd

Postal Address: P.O. Box 100854 – 00101, Jamia, Nairobi

Telephone: 020-3879995 / 0733 988888/0707 444888 / 0718 444888

Email: daraja@darajabank.co.ke

Website: www.darajabank.co.ke

Physical Address: Karandini Road, off Naivasha Road

Date Licensed: 12th January 2015 5

Branches: 1

12. Caritas Microfinance Bank Ltd

Postal Address: P.O. Box 15352 - 00100, Nairobi, Kenya

Telephone: 020-5151500

Email: info@caritas-mfb.co.ke

Website: www.caritas-mfb.co.ke

Physical Address: Cardinal Maurice Otunga Plaza, Kaunda Street

Date Licensed: 2nd June 2015 6

Branches: 1