INFLUENCE OF RELATIONSHIP MARKETING ON GROWTH OF MICRO FINANCE BANKS IN KENYA

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ABSTRACT

This study examined the influence of relationship marketing strategy on growth of MFBs in Kenya. The study was grounded on Resource-based view theory (RBV), Porter's Generic Strategy and Social Cognitive Model of Career Development. The target population was 104 senior and middle level management staff of the 13 licensed MFBs in Kenya. A census method was used to select all respondents to take part in the study. For Primary data, self-administered questionnaires was delivered to the respondent and picked after dully filled other methods included online administration. Data was presented inform of tables and graphs. Descriptive statistics such as frequencies, percentages, mean score and standard deviation were computed to summarize data into meaningful form, while inferential data analysis was done using Pearson correlation coefficient and regression analysis (multiple regression analysis). Hypothesis testing was done using p-value set at P<0.05 and F-statistic computed at 95% confidence level. The study results using both descriptive and inferential statistics indicated that relationship marketing initiatives significantly influence growth of MFBs (dependent variable). The study concluded that MFBs that treat a customer as 'king' can win customer trust and loyalty, thus attract and retain a huge customer base, thus enhance their financial growth. The study recommends that marketing managers of MFBs should embrace innovative customer relationship programs that seamlessly address customer complaints, needs and preferences.

Key Words: *relationship marketing, growth, microfinance banks, customer relationship*

INTRODUCTION

Micro-financing is one of the ways of enhancing the capabilities of the unfortunate who are mainly ignored by commercial banks and other loaning institutions and advancing them to sustainable self-employment undertakings. Through Micro-financing they gain access to financial services like credit, savings and insurance (Bashabe, Kalu, & Christian, 2018). It is through Microfinancing programs that people with serious existence problems in developing countries benefit and for many years, microfinance overlapped with microcredit (small loans) often without traditional guarantees, aimed at humanizing the lives of users and their families or at supporting small-scale commercial undertakings (Diar, 2017). Through Microfinancing the financial activities of low-income people are given a boost and thus meaningfully contributing to poverty mitigation (Gongera & Okoth, 2017).

It is no doubt that the Kenyan microfinance sector is the most vibrant in Sub-Saharan Africa. Kenya takes pride in the diversity of organized systems and an enormous branch network to attend to the poor (Kinyua & Gathungu, 2015). The microfinance act (2006) and the microfinance regulations (2008) set out the legal, regulatory and supervisory framework for the microfinance industry in Kenya (Mburu, 2019). There has been a sequence of interconnected limitations on the development of a banking and finance sector which have acted as the main drivers for microfinance needs. Some of these constraints include the structure and composition of the Kenyan banking and finance sector; lack of regulation and governance required for improvements in banking and finance and the conventional commercial practices of profit motivated banking institutions (Ombati & Muturi, 2017).

STATEMENT OF THE PROBLEM

The Central bank Banks Supervision Report, (2018) reported that there were three large MFB with an aggregate market share of 92.26%, one medium MFB with a market share of 3.79% and eight MFB with a market share of 3.95%. MFB in medium peer group suffered a drop in their combined market share from 5.09% in December 2014 to 3.79% in December 2015. This was attributed to the exit of REMU MFB which moved to the small peer group. Central Bank of Kenya, Annual Supervision Report (2017) reported that MFBs reported an overall decline in performance with a combined loss before tax of Ksh.622 million for the year ended December 31, 2017. This was deterioration from the performance reported in December 31, 2016, where the microfinance sector registered a loss before tax of Ksh.377 million. The decline in profitability in the sector was largely attributed to reduction of financial income by 7.0 percent or Ksh.1.0 billion. As a result of the decline in performance, the sector reported a lower return on assets and equity ratio at negative 0.9 percent and negative 5.5 percent, compared to the previous year in 2016 at negative 0.5 percent and negative 3.2 percent respectively (Central Bank of kenya, 2019). According to AMFI Monthly Reports, (2019) credit-only institutions seem to be slowly improving, banks and MFB improved in March 2019- June 2019 but then worsened while others staggered in November 2019- December 2019. With minimal flexibility to adjust prices due to their financial structure, MFB in Kenya have reported very high competitive pressure in terms of pricing (AMFI Monthly Reports, 2019).This competition between MFIs sector, mainstream commercial banks and the telecommunication money transfer platforms such as Mpesa is highly evidenced by the shifting market share and profitability (Kioko, Shikumo, & Kingori, 2017). From the reports, it is evident that MFBs are finding it difficult to experience optimal growth, a gap that motivated this study to examine the influence of competitive strategies on growth of MFBs in Kenya.

GENERAL OBJECTIVE

The general objective of the study was to examine the Influence of competitive strategies on growth of MFBs in Kenya.

SPECIFIC OBJECTIVES

1. To examine the influence of Business mentoring on growth of MFB's in Kenya.
2. To evaluate the influence of product differentiation on growth of MFB's in Kenya
3. To assess the influence of relationship marketing on growth of MFB's in Kenya.
4. To determine the influence of Business process re-engineering on the growth of MFB's in Kenya.

THEORETICAL REVIEW

The resource based theory (RBT) was developed by Penrose (1959). RBT proposes that possession of strategic resources gives the firm an opportunity to achieve competitive advantage over its competitors (Penrose, 1959). The resource based theory assesses the resources that firms possess as a collection of dynamic capabilities as well as competencies for competitive advantage. According to Freeman, Harrison, Wicks, Parmar, & Colle, (2010) firms are operating in a competitive environment and there is a need for them to leverage their unique resources, competencies and capabilities as well as perform tasks well to grab new opportunities, expel threats, and satisfy the needs of the customers.

The resource based theory classifies the resources of the organization into two; tangible and intangible resources. Tangible resources include equipment, plant, raw materials, physical resources, and financial reserves. Intangible organizational resources include company reputation, technology, and personnel. According to Freeman et al., (2010) a company achieves competitive advantage (CA) if it has resources that are rare, unique, valuable and inimitable.

CA allows a firm to earn above-average returns. According to RBT, a company attains a CA if its resources have value, barriers to duplication, as well as relevance (Mwangangi, 2018). An organization can obtain competitive advantage if it deploys these resources effectively in its market. Resources of a firm drive its competitiveness by assisting it to develop competences to survive and achieve superior performance (Mwangangi, 2018) . RBT enhances the understanding of resources that support the alternative positioning strategies considered by organizations. RBT anchors the first and third objective of the study.

EMPIRICAL REVIEW

It is worth noting that organizations are progressively becoming customer-oriented by embracing marketing initiatives that are aimed at to attracting, understanding and retaining profitable customers by building close, long term relationships. However, whilst relationship marketing has been the key strategy employed towards sustaining and improving relationships with customers to increase customer retaining in the MFB sector, the quality of such relationships and their effects on customer behavioral intentions remains largely under-researched (Nasserinia & Fan-Fah, 2014).

The ultimate goal of relationship marketing efforts for the organization is to create a consumer champion or advocate, who is loyal and also recommends the company and its products to others (Onuonga, 2014). Current thought on relationship marketing has evolved from a number of theories in the last century. It began with institutional economics theory in the 1950s, then to exchange and dependence theory in the 1970s, relational contracting theory in the 1980s, social exchange theory, transaction cost economics, commitment-trust theory in the 1990s and finally to resource-based view of the firm, inter-firm relationship marketing based on social exchange and network theories and micro-theory of interpersonal relationships in the 2000s and currently

(Kasekende, 2013). Researchers and marketing managers have developed key interest in relationship marketing. This study investigated whether application of relationship strategies such as customer satisfaction, brand trust and customer loyalty has any significance influence on growth of MFB's.

RESEARCH METHODOLOGY

The study applied Descriptive design, a design that seeks to ask individuals about their perceptions, attitudes and values in order to obtain information that describes existing phenomenon (Choy, 2014). This design includes systematic collection of data in standardized form from an identifiable population or representative. Primary data was collected using open ended questionnaires which were administered using drop and pick later method. Data analysis was done using SPPSS where the Descriptive statistics such as frequencies, percentages, mean score and standard deviation were estimated for all the quantitative data and the qualitative data from the open-ended questions was analyzed using conceptual content analysis. Inferential data analysis was done using multiple regression analysis. The multiple regression model generally assumed the following equation:

$$Y = \beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Where: Y= Dependent variable [performance of MFBs]; X1= Business Mentoring; X2= Product differentiation; X3= Relationship Marketing; X4= Business process re-engineering; ε is the error term.

RESEARCH RESULTS

These are summated scores on the perceived influence of relationship marketing dimensions such as service quality and reliability, brand trust and value, customer loyalty programs on growth of MFBs in Kenya as shown in the table below. They are summarized responses measured by Likert scale of measurement showing frequencies and percentages in brackets, means and standard deviations.

First, most respondents agreed (60.4%) and strongly agreed (12.4%) that developing inter-organizational information systems to efficiently and effectively manage the customer relationships is an effective growth strategy. This was supported by 51.9% of respondents who agreed that developing distinctive competences and capabilities that are in line with customer needs and preferences enhances brand trust and consequently organization growth. Those who disagreed (17.3%) and were uncertain (8.6) implied that some MFBs have possibly not really embraced distinctive competences and capabilities that are in line with customer needs.

More so, most respondents agreed (67.9%) that exhibiting high level of trustworthiness and reliability, being continuously committed to meeting customer needs and preferences leads to customer loyalty, hence influences growth. This implies that marketing managers from MFBs that reliably and trustfully handle customer needs build stronger customer relationships. This is supported by 64.2% of respondents who agreed that managing customers as important assets is an effective relationship marketing strategy that enhances growth.

On overall, most respondents (65.4%) indicated that generally relationship marketing tactics influence MFB growth. This was also shown by a grand mean of 3.478 rounded to "4" which is "agree" on the likert scale of measurement. This generally implies that MFBs that effectively utilize relationship marketing strategy can attract and retain a huge customer base. This is supported by Mutuku (2017) assertion that organizations are increasingly becoming customer-oriented by embracing marketing initiatives that seek to attract, understand and retain profitable customers by building intimate, long term relationships.

INFERENTIAL STATISTICS

From Table 1 the model summary shows R2 =0.726 which implies that 72.6% variation in growth of micro finance banks is explained by the bank's relationship marketing initiatives while other factors not in the study model accounts for 27.4% variation in the growth of micro finance banks.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852[a]	.726	.722	.56139

Further, Table 2 and 3 indicate that there is a positive significant linear influence of relationship marketing initiatives on growth of micro finance banks (β= 0.886(0.061); at $p<.01$. That is MFBs that strongly embrace customer relationship management strategies to cater for customer needs and preferences can attract and retain a huge customer base.

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	65.945	1	65.945	209.242	.000[a]
	Residual	24.898	79	.315		
	Total	90.843	80			

The linear coefficient analysis results therefore imply that a single increase in feasible relationship marketing initiatives by the micro finance banks will result to 0.886 unit growth of micro finance banks; and the linear regression model equation is:

$$Y = 0.557 + 0.886X_3$$

Where: Y is growth of micro finance banks; X_3 is relationship marketing

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.567	.201		2.825	.004
	Relationship Marketing	.886	.061	.852	14.465	.000

a. Dependent Variable: Growth of MFBs

HYPOTHESIS TESTING, INTERPRETATION AND DISCUSSION

Study's null hypothesis (H_0) stated that relationship marketing does not significantly influence growth of Microfinance banks in Kenya. Regression results indicated that relationship marketing has significant relationship with growth of Microfinance banks in Kenya; (β = 0.483 (0.116) at $p<0.05$). The null Hypothesis was therefore rejected since $\beta \neq 0$ and p value = 0.000 significant at $p<0.01$). The results indicate that a single increase in relationship marketing initiatives will lead to 0.483 unit growth in Micro finance banks in Kenya.

The study results are consistent with prior researches which reiterated that business firms exhibiting high level of customer trustworthiness, quality and reliable customer service; and being continuously committed to meeting customer needs and preferences leads to customer loyalty, improve customer retention, hence a huge customer base for the firm.

CONCLUSIONS

Both descriptive and inferential statistics showed that relationship marketing tactics such as ensuring reliable service quality, brand trust/value plus rolling out viable customer loyalty programs significantly influence growth of MFB's in Kenya.

The study results are consistent with prior researches which reiterated that business firms exhibiting high level of customer trustworthiness, quality and reliable customer service; and being continuously committed to meeting customer needs and preferences leads to customer loyalty, improve customer retention, hence a huge customer base for the firm.

RECOMMENDATIONS

The study concludes that MFBs which treat a customer as 'king' can win customer trust and loyalty, thus attract and retain a huge customer base. The study recommends that marketing managers of MFBs should embrace innovative customer relationship programs that seamlessly address customer complaints, needs and preferences.

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