

The Effect of Marketing Capabilities and Distribution Strategy on Performance of MSP Intermediary Organisations' in Nairobi County, Kenya

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Abstract

The purpose of this study was to determine the effect of marketing capabilities and distribution strategy the performance of MSP intermediary organizations. The mobile service providers sector is a major contributor to the country's economic growth and achievement of development goals and vision 2030. Nevertheless, the performance of MSP intermediary organisations appears to have stagnated and is even on a declining trend in some cases. This study employed a descripto-explanatory cross-sectional survey research design. The study collected primary data from 219 respondents drawn from a target population of 397 selected using stratified and simple random sampling procedures. A semi-structured questionnaire was used to collect data. The data was analysed using descriptive statistics in the form of

frequencies and one sample t-tests. Simple linear regression and multiple linear regression in SPSS were used for inferential statistical analysis. This study established that marketing capabilities and choice of distribution strategy had a composite effect in contributing significantly to the MSP Intermediary organisations 'performance. The study recommends MSP intermediary organisation sales managers need to lobby management to invest in training and appropriate performance compensation plan for its sales people as well as the ICT system that will enable efficient routing of the customers, where daily actual/targets and retailer information is availed, enhancing proper monitoring and evaluation of the sales team and their activities which will lead to improved performance of the MSP intermediary organisation.

Keywords: Mobile Service Providers (MSP), Mobile service providers, Intermediary organisations performance, Distribution strategy, Marketing capability, Resource based theory, Theory of channel power and conflict

1. Introduction

While the Kenya's telecommunication sector can be hailed of tremendous growth which has seen its renown players making profits previous unfathomable within such short time span, the same cannot be said of intermediary organizations within the same sector that operate downstream. Undeniably though is that the sector enjoys a penetration growth rate of over 50 per cent, which is projected to increase to 70 per cent (CCK, 2011). A major contribution attributed to the MSPs, with which they are almost synonymous, is the mobile money transfer platform that has revolutionised conventional banking and access to financial services. Kenya had 26.4 million mobile phone subscribers by September 2011 up from 25.3 million recorded at the end of June the same year, representing an increase of 4.8% (Communications Commission of Kenya (CCK), 2012). In addition, the total teledensity for July to September 2011 increased to 68.1% from 65.15%.

It remains imperative to appreciate that this growth has been possible through the use of intermediaries to reach consumers of telecommunication products in the country with the market leader (Safaricom) boasting of approximately 661 intermediaries for consumer products while Airtel Kenya had 70 intermediary firms; Orange Telkom and Essar had 330 and 111 intermediaries respectively. Yet the growth experienced in the telecommunication sector is not reflected in the performance of intermediary business. This is against an observation that mobile service providers are constantly investing and changing their distribution strategy and execution which in turn impacts the sales growth and performance of MSP intermediary firms. Moreover, the marketing capabilities of the MSP intermediaries which are critical in performance are also being shaped in manner that boosts competitive abilities and thus performance. Of interest to this study is the yet un-assessed composite effect of the interaction of the marketing capabilities and distribution strategy on MSP intermediary organisations' performance.

1.1 Marketing Capability and Distribution Strategy

Day (1994) notes that the capabilities required by intermediary firms to ensure performance take the form of quality and effectiveness of customer service include; expertise in purchasing raw materials, inventory management, and sales; and effective use of logistics management techniques. Therefore, intermediary firms must also possess the ability to motivate, empower, and retain employees and show responsiveness to market trends. Through continued use, capabilities become stronger and more difficult for competitors to understand and imitate. Some of the more socially complex capabilities include the interpersonal relationships, trust, and friendships among managers, and between managers and employees of the firm's suppliers and customers (Day 1994).

On the other hand, Louis *et al* (2009) asserts that a marketer must consider many factors when choosing the appropriate level of distribution coverage in addition to the capabilities existent in the organization. In the context of the MSP intermediary organizations, it would therefore be of immense importance as it would be to all marketers, to understand that

distribution creates costs to the organisation and thus an impact on the overall performance. Some of these expenses can be passed along to customers but some cannot (for instance the need for additional sales people to handle more distributors). Thus, the process of determining the right level of distribution coverage often comes down to analysis of the benefits (for instance more sales) versus the cost associated with these benefits. Various authors such as Coleman (2005), Kintu (2007), Wilson (2008), and McKenna (2009) all recognise the existence of three main levels of distribution coverage strategy namely intensive mass coverage, selective, and exclusive.

This study starts from a point of appreciating the individual effect of marketing capability and distribution strategy on MSP intermediary organizations' performance; it then proceeds to find out the effect of the two combined (composite effect) on the MSP intermediary performance.

1.2 The Concept of Intermediary Firm Performance

The concept of a firm's performance is an aggregate phenomenon. According to Itami and Roehl (1987) the multidimensional aspect of the concept of organisational performance is linked to several factors including the effects of structure, motivation, and group dynamics. The authors also associate organisational performance with such factors as job enrichment, decision making, leadership, goal setting, and planning.

Kaplan and Norton (1996) note that business enterprises must keep track of their financial and non-financial measures of performance such as market share, speed of response, and product quality; pay attention to externally focused measures such as customer satisfaction and brand preference; and take into account forward-looking measures such as employee satisfaction, retention, and succession planning. Wiele, Boselie and Hesselink (2002) on the other hand, have demonstrated that business performance can be measured in terms of sales volume, sales margin, number of hours service was sold to the customer, and number of placement per customer. The resulting deduction is that organisational performance, therefore, is a multidimensional construct tapping into the financial, operational, and customer-related domains.

Business growth can therefore be perceived as a reflection of performance trends in terms of sales and market share gains as well (Vorhies, *et al.*, 1999; Kaplan & Norton, 1996; & Venkatraman, 1989). With regards to Intermediary performance, as viewed from another perspective, performance may be regarded as resulting from two variables: firm specific which are the internal capabilities of the firm, including the marketing capabilities and non-firm-specific variables and what can best be described as environmental variables because they exist outside the immediate boundaries of the firm (Mugambi, *et al.*, 2011). According to Mugambi *et al.* (2011), the interaction of these environmental variables (contextual factors) and firm-specific variables produces performance outcome. The corporate strategy, which in this study refers to the distribution strategy, among other strategies would therefore affect intermediary performance thus the unique focus of this

study.

1.3 Research Problem

The Kenyan telecommunication industry is not new to the importance of building marketing capabilities to enhance competitiveness and performance. Indeed, it is neither new to the ever changing distribution channel choices by Mobile Service Providers (MSPs); the most recent of these being the attempts by MSPs to by-pass their intermediaries in the distribution of scratch cards by popularizing the use of web-based recharge platforms. With regards to marketing capabilities, research and practice point towards an increasingly complex link between marketing capabilities and intermediary performance and does however conclude of its effect on performance. As appertains to distribution strategy, studies by Vorhies and Morgan (2009) positively identified a relationship between distribution channel management and firm performance and used this relationship to benchmark several firms' performance.

Nevertheless, there exists a research gap regarding the effect of the interaction of a firm's marketing capabilities and the adopted distribution strategy in driving performance. consequently, little can be said about this composite effect thus the current discussion's intention to understand the composite effect of marketing capabilities and distribution strategy on MSP intermediary organizations' performance.

1.4 General Objective

This study sought to establish the composite effect of marketing capabilities and distribution strategy on performance of MSP intermediary organisations in Nairobi County, Kenya.

The study hypothesized that;

H₀ - There is no statistically significant relationship between the composite effect of marketing capabilities and distribution strategy and performance of MSP intermediary organisations in Nairobi County, Kenya.

2. Literature Review

2.1 Theoretical Review

Various theories attempt to explain the dynamics upon which the ultimate performance of a firm depends on. With regards to marketing capabilities is the Resource Based View (RBV) which argues that firms possess some resources that enable them to achieve competitive advantage and some that lead to superior long-term performance. It intimates that valuable and rare resources can lead to the attainment of competitive advantage whose sustenance over a long time can protect a firm against resource imitation, transfer, or substitution. On the other hand, with respect to the distribution strategy is the theory of Channel Power that explains the existence of a relationship between power and conflict with the impact of one channel member's power on the amount of intra-channel conflict present being of particular interest. According to Gaski (1984), the nature and sources of power possessed by a channel entity may affect the presence and level of conflict.

The composite effect is however best articulated through the Structuralist Approach which intimates that ‘Structure shapes Strategy’ the deduction here being that marketing capabilities being an internal aspect affecting structure would shape distribution which is a strategy. The premise of this approach is that a company’s strategic options are within the bounds of the environment; thus the popular approach that “structure shapes strategy” and hence the structuralist approach (Kim, Cohen & Mauborgne, 2013).

The focus on the composite effect marketing capabilities and distribution strategy on MSP performance both of which are aspects of structure and conduct is thus theoretically underpinned on the structuralist approach; in the context of Kenya’s intermediary performance, these two aspects can be deduced from the structuralist approach in that the performance of any firm is determined by the capabilities, resources, and strategic mindset.

2.2 Empirical Review

Literature on the composite effect of marketing capability and distribution strategy on performance is scanty with economics literature on bilateral bargaining that originates in the 1950’s focusing on simply “how to divide up a pie” that is not affected by any endogenous decisions of the parties involved. However, the perpetual question of which distinctive capability or resource is most important in a given environment in terms of having the most impact on strategic choices and thus successful business performance has received focus of a number of researchers. A study by Afzal (2009) on Marketing Capabilities and Distribution choices in the Pakistan market shows a great intertwinement between channel management (distribution strategy) and the existent marketing capabilities, thus firm performance. This study is in agreement to research works by (Blesa & Ripolle, 2008); they opine that marketing capabilities are firm specific and could provide superior market sensing, customer linking, and channel bonding capabilities in global markets. These capabilities can lead to global market success. Al-aali *et al* (2013) contend that these marketing capabilities enable exporting firms to implement new export marketing strategies to reflect changing global market conditions through transforming and combining available resources in new and different ways (Al-aali *et al.*, 2013).

3. Methodology

3.1 Theoretical Framework

The theoretical literature on performance maintains that there exists an effect of market capabilities and channel choices on a firm’s performance since both pertain to aspects of a firm’s conduct, structure and strategic mindset all which are aligned towards better performance; this is as expounded in the Structuralist Approach.

3.2 Analytical Framework

The analytical framework underlying this position is fashioned in this study in line with positivism approach, which seeks to use existing theory to develop hypotheses that are tested and confirmed wholly, in part, or otherwise refuted leading to further development of theory

to be tested with further research. Saunders *et al.*, (2009) affirms that through positivism the researcher is concerned with facts and not impressions. In achieving the study's objective, the following model was used to test the statistical significance of relationships involving the variables of MSP intermediary organisations' performance, distribution strategy and marketing capabilities; the Equation took the form of a linear regression.

The composite effect of marketing capabilities and distribution strategy on MSP intermediary organisations' performance:

$$IP_{ij} = \alpha + \beta MC_{ij} + \beta DS_{ij} + \epsilon \dots\dots\dots (3)$$

Where;

α is the model equation intercept

β is the path coefficient

ϵ is the error term

IP_{ij} =MSP Intermediary organisations' performance for firm performance i given operating context j ,

MC_{ij} =Marketing capability influence on the intermediary firm i performance given operating context j .

3.2.1 Operationalisation and Measurement of Variables

The dependent variable in this study was intermediary performance while marketing capabilities and distribution strategy were the independent variables. This were operationalised and measured as shown in Table 1 below;

Table 3.1. Operationalisation and Measurement of Variables

Variable	Nature	Operationalisation	Measures
MSP Intermediary Organisations' performance	Dependent variable (DV)/ Endogenous	The actual rating of performance variables in the study as in sales performance (financial measures), market share (non-financial measures), and customer satisfaction (non-financial measures)	Interval measure, Interval scale for the weekly sales performance for question 2a and Sum of management/ respondents judgments on 1-5 scale for Questions 2b-d; ordinal measure.

Marketing capabilities	Exogenous independent variable (IV) and moderating the relationship between IV and DV	The appropriate capabilities required in the execution of business strategies to achieve desirable performance. The indicative skills appropriate are market research, pricing, product development, channel management, promotion, and market management capabilities	Sum of management / respondent judgments on 1-5 scale; ordinal measure
Distribution strategy	Exogenous independent variable	The choice of the strategy to deliver products and services to the retailer or either through direct ,indirect or hybrid (dual) distribution strategies; warehousing; administration/operations; Manpower/people; customer servicing/routing	Nominal measure of response Yes or No

3.2.2 Profile of the Study: Location, Target Population, Design and Data Collection Instrument

Kenya is located on the eastern coast of Africa and has a surface area of 582,664 square kilometres and a population of about 40 million (Republic of Kenya, 2011). Nairobi County has the majority of telecommunications intermediaries because 397 out of the 1,172 MSP Intermediary organisations in Kenya are located here representing 34% of the entire intermediaries' population.

There are four major telecommunications companies in Kenya; namely Safaricom, Airtel, Essar, and Orange Telkom. The target population of this study consisted of the 397 intermediary organisations of mobile service providers selling airtime scratch cards in Nairobi County, Kenya. The proportional stratified random sampling technique was used to select 219 respondents from the target population of 397 (the sampling frame) intermediary companies in Nairobi County. The population was divided into four strata based on type of MSP and each stratum was used to identify the respective respondents. Each intermediary business was assigned a unique number and simple random sampling was used to select the sample in each stratum. This study collected primary and secondary data. A semi-structured questionnaire was used to collect primary data from the distributors; this allowed the researcher to collect both quantitative and qualitative data (Muathe, *et al.*, 2010).

4. Results Discussions

4.1 Data Collection Procedures

The semi-structured questionnaire was administered by seven trained research assistants. The research assistants delivered the questionnaires to the respondents and agreed the time upon which they collected them. Using a semi-structured questionnaire to collect data serves as a mutual validating role for the information collected. The period of data collection was from 14 June 2013 to 15 August 2013.

4.2 Data Analysis Method

The completed questionnaires were scanned and cleaned to remove deficient, erroneous, incoherent, and irrelevant answers. The descriptive statistics of mean and standard deviation were used to assess data characteristics. The output was presented in the form of tables. The researcher made use of frequencies, percentages, mean, and standard deviations to interpret the information.

4.3 Response Rate

The study sought responses from a total of 219 respondents drawn from the intermediary organisations of the four MSPs including Safaricom, Airtel Kenya, Orange, and Essar. After data cleaning, screening, and verification only 213 questionnaires could be regarded as complete representing a response rate of 97.3%.

Table 2. Response Rate of Sample

Responses	Values	Percentage
Administered questionnaires	219	100.0%
Unusable, unreturned and disqualified questionnaires	6	2.7%
Completed usable questionnaires	213	97.3%

This study achieved a response rate of 97.3%. Six questionnaires representing 2.7% of the 219 questionnaires issued were excluded from analysis because they were incomplete, not returned, or not completed at all.

4.4 Multi-Collinearity Test

As indicated, the study used a positivism approach of hypothesis testing to find the relationship that existed between the study variables thus a need to run a diagnostics of the relationship between the variables for multi-collinearity. Notably, multi-collinearity exists when two or more variables are highly correlated with each other. A proper multi-collinearity diagnostic test must be conducted since highly correlated variables designed to test different concepts usually measure the same theoretical concepts.

During multi-collinearity diagnostics analysis, a tolerance value of less than 0.1 suggests the

existence of a serious collinearity problem. In addition, there is cause for concern when the variance inflated factor (VIF) values are greater than 10. The results of multi-collinearity diagnostics test for the study variables in the current study are shown in Table 3 below

Table 3. Results of the Multi-collinearity Diagnostics for Study Variables

Dependent variable: MSP Intermediary organisations Performance	Multi-collinearity statistics	
	Tolerance value	VIF
Marketing capabilities	0.711	1.407
Distribution strategy	0.732	1.366

The tolerance values obtained for the variables of marketing capabilities and distribution strategy and contextual were 0.711 and 0.732 respectively, which were higher than the acceptable limit of 0.1. In addition, VIF values for the variables were less than 10, suggesting that the variables were not highly correlated with each other; hence the data set was free from multi-collinearity problems.

This study also sought to determine the composite effect of marketing capabilities and distribution strategy on MSP Intermediary organisations' performance in Nairobi County, Kenya. The third null hypothesis tested in this study was stated as follows:

H1: There is no statistically significant relationship between the composite effect of marketing capabilities and distribution strategy and intermediary performance within MSP Intermediary organisations in Nairobi County, Kenya.

Testing Hypothesis Three

The Regression Model capturing the hypothesised relationship is presented in Equation below:

The equation depicting the relationship between the composite effect of marketing capabilities and distribution strategy and intermediary performance was given as follows:

$$IP_{ij} = \alpha + \beta MC_{ij} + \beta DS_{ij} + \epsilon \dots\dots\dots$$

(iii)

Where; α is the model equation intercept

β is the path coefficient

ϵ is the error term

IP_{ij} =MSP Intermediary organisations' Performance for firm performance i given operating context j ,

MC_{ij} =Marketing capability influence on the firm i performance given operating context j .

DS_{ij} = Distribution strategy for firm i performance given operating context j .

The results of the Regression Model Three are presented in tables 4.16 to 4.18

Table 4. Summary Results of Regression Model Three

Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	.367	.135	.127	.28319

Predictors: Distribution strategy, market capabilities

Source of data: Survey (2013)

Table 5. Results of Significance of Regression Model Three

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2.626	2	1.313	16.369	.000
Residual	16.842	210	.080		
Total	19.467	212	-		

Predictors: Distribution Strategy, Marketing capabilities

Dependent Variable: Intermediaries performance

Source of data: Survey (2013)

Table 6. Results of Coefficients of Regression Model Three

Model	Beta Coefficients		T-Statistic	Sig.
	B	Std. Error		
(Constant)	1.208	.459	2.631	.009
Market Capabilities	.592	.135	4.386	.000
Distribution Strategy	.076	.087	.880	.380

Dependent Variable: Intermediary Performance

2013) The Adjusted R-square statistic indicates that only 12.7% of the variance in performance of the intermediary firms is explained by the regression model. The overall model, however, was statistically significant ($F_{(2,210)} = 16.369$, p -value <0.05). This observation supports rejection of the null hypothesis of no statistically significant relationship between the composite effect of marketing capabilities and distribution strategy and intermediary performance. The results of the regression model revealed a statistically significant influence of marketing capabilities ($\beta=0.592$, $T=4.386$, p -value <0.05) and a

non-significant effect of distribution strategy ($T=0.880$, $p\text{-value} > 0.05$) over the performance of MSP Intermediary organisations. This result implies that an improvement in the marketing capabilities by a factor of 0.592 would produce a positive improvement in the MSP Intermediary organisations' Performance.

The study findings also indicate that although marketing capabilities significantly influence MSP Intermediary organisations' performance, they contribute minimally to the variance in the intermediary performance as reflected by the Adjusted R-Square statistic of 12.7%. Consequently, the application of multiple regression equation that can be used to estimate MSP Intermediary organisations' Performance given a set of market capabilities and distribution strategy is as follows:

$$\text{Intermediaries performance} = 1.208 + 0.523 * MC + \varepsilon$$

5. Conclusions

The study demonstrated through empirical evidence that superior marketing capabilities and the choice of distribution strategy contributed significantly to the performance of MSP Intermediary organisations. Based on the results obtained, it was established that the composite effect of marketing capabilities and distribution strategy further enhanced the performance of MSP Intermediary organisations.

The existence of this statistically significant relationship between distribution strategy and MSP intermediary organisations' performance within the telecommunication sector drew this study to a recommendation that the management within the MSP intermediary organisations' ought to enhance their marketing capabilities to develop competitive ability and then actualize this in the market through the choice of the appropriate distribution channel. This would be through investing in more people and an ICT system that will enable tracing, tracking and trending of performance of each salesperson and route to ensure adequate coverage of the territory. This would ensure that MSP Intermediaries have a on the ground knowledge and facts of the market and can gather market intelligence promptly.

First, the sales manager need to lobby the management to set aside a training budget to be used in training the sales team to their marketing skills since marketing capability was found to significantly influence performance of the MSP intermediary organisation. Furthermore, the manager need to organise training of the sales team on marketing research skills that will enable them to identify, understand market trends and the need of new products and services that will enhance performance of the MSP intermediary organisation. The sales manager need to ensure training on effective pricing, new product and range extension, channel relationship management and promotions as they form key aspects in sales team marketing capabilities.

secondly, the sales manager need to lobby the management to approve a performance compensation plan, bonus/incentive scheme that will motivate the salesperson to ensure efficient routing of the customers, where daily actual/targets and retailer information is availed which will lead to improved performance of the MSP intermediary organisation. Such moves would see a better re-assessment and capturing of the market areas of profit contribution such as scratch card distribution and mobile accessories which the MSP organizations has previously tried to elbow the intermediaries out of. In general, the study insists on a need to apply both marketing capabilities and appropriate distribution strategies simultaneously to achieve enhanced MSP Intermediary organisations' Performance.

With regards to further areas of research, this study appreciates that further work should be conducted in the field of distribution as appertains to the distribution choice, network management and amount of revenues spent by MSP intermediaries on their distribution related activities. It is worth noting that the bulk of knowledge on distribution abounds in export oriented companies with scanty focus in other industries such as telecommunication within the local environment. Furthermore, future studies could also take the dimension of an upstream analysis of the effect caused by the choices made by the parent organisation on intermediary organisation; this arises from the apparent scenario where MSP parent organizations and their Intermediary firms may be adopting different distribution strategies co-currently which both affect the outcome of the other.

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