

# Effect of Internal Marketing on Performance of Dairy processors in Kenya

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**Abstract:** Dairy industry in Kenya contributes 14 % of agricultural Gross domestic product (GDP) and 3.5% of total GDP. Dairy industry is therefore, one of the sub sectors in agriculture which has potentials of improving the economic and social welfare of a country. Secondary and tertiary production operations are conducted by the employees (internal customers) steered by the management for purposes of satisfying the market (external customers). The matching of the employees, who buy into the goals and objectives of the organization and its product, to effectively and efficiently serve the external customers is realized through internal marketing. Internal marketing calls for well motivated employees in the dairy firms who intern pass on their service to the external customers (markets of dairy products) to their satisfaction. Internal marketing therefore helps settle the market demand and reach customer satisfaction. With internal marketing, the processors are therefore able to sell what they produce and customers buy what they require thus the firm's profitability and customer satisfaction are realized. Sustainability of the firm is realized through repeat purchase and royal customers.

**Keywords:** Dairy industry, Gross domestic product (GDP), Internal Marketing.

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## I. INTRODUCTION

Kotler and Keller[5] states that, internal marketing necessitates that everybody within the firm buy into the goals as well as concepts of marketing and take part in providing, communicating and choosing value of customer. Piercy and Lane[8] add that, internal marketing contributes to alignment of employees and managers training, development process with customer priorities and, looking at ways in which internal communication approaches support external market strategy.

Bunea [2] argue that the employees need to be motivated so as to buy the organisation and its products as internal customers so that they can successively serve the external customers. Dairy processing firms need to consider ensuring that the employees are motivated to carry out their respective tasks of serving the external customers.

Valdo and Marina [13] argue comprehensively that, knowing the best way to lead, motivate and guide employees and to achieve the best results to the satisfaction of all involved is becoming an enterprise's major competitive advantage. When properly planed for and implemented, internal marketing creates the preconditions an enterprise needs to gain greater competitive advantage, while satisfied and motivated employees can contribute substantially to achieving the strategic objectives of the enterprise.

Shyh- Rong[11] stated that, Internal Market Orientation is made up of three dimensions: internal information communications as well as disseminations, responsiveness to the internal market and internal information gathering. The orientation of internal market eases the growth of both capabilities of market and consecutively improves performance of an organization. The results as well show that linking of a customer is a stronger intermediary between orientation of internal market and performance of an organization. In addition orientation of learning doesn't restrain the association between capabilities of external market and orientation of internal market.

Ahmend and Rafiq[1] agree that, Internal marketing is seen as encompassing the efforts of the firm to encourage employees to respond to the market which includes being able to adapt quickly to (often unpredictable) changes within the external market. Internal marketing this case can be referred to as planned management processes on employees who in turn will be able and willingly provide satisfying results to customers in future. Cahill, [3] agree that, benefits born from this approach include building a universal business vision, employee empowerment, increased employee interaction and employee skills and knowledge development. Varey and Lewis [12] add that internal marketing may enhance employee creativity, innovation and performance, as an approach directed towards employee behavioural change towards meeting external customer expectations through their enhanced performance as internal customers.

## **II. THEORY AND HYPOTHESIS**

### **Relationship theory**

The study was anchored on Relationship marketing theory. According to Kristian Moller (2008), Relationship marketing does not have a general theory but is broken down to two : marketing based (more consumer oriented relationship marketing) and Net work based (more organisationally oriented relationship marketing).

The theory advocates companies, individual, organisations as in government and research agencies existence and play. The dairy processing firms fall under the categories of parastatals, cooperatives and private ownership hence conform to this characteristic of relationship marketing.

Relationship marketing advocates exchange behaviour and relationship development. Exchange behaviour and relationship development is a vital practice in internal marketing. The internal customers( Employees and front office), in the dairy firms exchange dairy products and services with external customers (buyers both in domestic and foreign markets. This can only be well achieved through cordial relations behaviour of both internal and external customers.

Relationship marketing theory explains how the actors in the market and their marketing functions evolve. For instance, marketing orientations have evolved through production, product. Selling, marketing, societal and in 2013 holistic marketing was revised and approved.. Likewise relationship marketing advocates strong interdependence between the actors due to heterogeneity of markets. Dairy processors require all measures of interdependence with the suppliers of milk (raw product) and with the customers (individual, organisations or markets).to be put in place. Due to the commonality of internal marketing and relationship marketing theory, we found the most appropriate guide for the study.

### **Hypothesis**

The purpose of the study was to analyse the effect of internal marketing on performance of dairy processors in Kenya

Consistent with this objective the hypothesis of the study was:

H<sub>0</sub>: There is no significant relationship between internal marketing and performance of dairy processors in Kenya.

## **III. METHODOLOGY**

### **Research design**

Descriptive research design was adopted as the guide to this study. According to Saunders, Lewis and Thornhill ,[10], descriptive research studies are those which are concerned with specific predictions, describing the characteristics of particular individual, a group or situation. Accordingly, descriptive research design helps answer questions on, what, why, where and how of the study (Kothari and Garg,[4].The research design was therefore found most appropriate guide for the study.

### **Target population**

According to Mugenda and Mugenda [7] target population is that population to which the researcher wants to generalize the results of the study. The target population was a census of 14 dairy processors in Rift Valley and Central region of Kenya. The list of the processors was provided by the Kenya Dairy Board, an organ in Kenya which is charged with licensing and dairy businesses, hence most reliable source of this information. Rift Valley and central region of Kenya produce 78% of the amount of milk in the country. We found the target population as most appropriate and conforming with the study objective, “performance of the dairy processors”.

### Sampling size and sampling technique

The study adopted purposive sampling technique. According to Mugenda and Mugenda [7] the sampling technique allows the researcher to use cases that have the required information with respect to the objectives of the study. A census of 14 dairy processing firms was picked in Rift valley and central regions of Kenya. Out of 8 regions of Kenya, Rift valley and Central region were sampled being the highest amount of milk produced, 53% and 25% respectively a sum of 78% of the milk produced in the country (Kenya Dairy Board, 2016). The sample size was considered representative. Refer to sample size on table 1.

**Table 1: Sample size**

Ownership of firms	Rift valley	Central	Total
Parastatal	1	-	1
Cooperatives	1	3	3
Private	3	6	10
Target processors	5	9	14

Source: Kenya Dairy Board 2014

### Data collection method and instrument

A self administered questionnaire was dropped to each of the fourteen dairy processing firms. The questionnaire was picked from the respondents the same day or latter day. This was dependant on the situation or convenience of the respondents.

### Pilot study

Pilot study was conducted in two mini dairy processors within the locality of study. This was 14.3% of the total population and according to Kothari and Garg,[4] this was a good representation in testing reliability.

### Reliability test

Reliability test was conducted to measure the degree to which the questionnaire yielded consistent results. Cronbach alpha was used as the measure of internal consistency reliability .The reliability test conducted confirmed Cronbach Alpha for internal marketing 0.68. According to Sekaran U.,[10] a value of Cronbach alpha for constructs variables should be above 0.6. Cronbach alpha for internal marketing was therefore acceptable..

### Validity

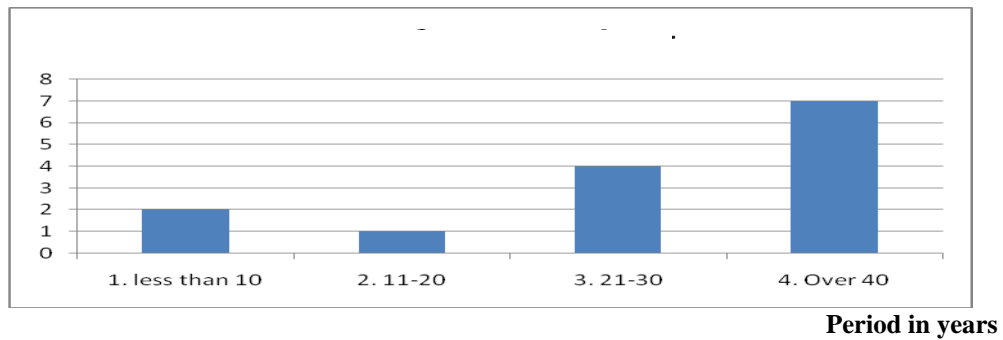
To ensure that the instrument produced valid data, the designed questionnaire was administered to two mini dairy processing firms. The objective of validity test was to ensure that the questionnaire measured and collected what it was intended to. The questionnaire was also given to an expert and consultant in marketing to check on its validity. The inputs of the expert were adhered to. The result of the respondents showed that the questionnaire measured what it was intended to.

## IV. DATA PROCESSING AND ANALYSIS

### Processor's Experience in the Dairy Industry

Referring to figure 1, The highest period of milk processor's experience in the dairy industry operations was over 40 years comprising of 50% of the respondents followed by 29% with an experience of 21-30 years, 14% had less than 10 years of experience, and the lowest, 7% had an experience of 11-20 years. Majority of the processors (50%) had an experience of over 21 years, an ample period of acquiring skills and knowhow in dairy industry operations. However 14% of the processors had an experience of less than 10 years.

**Number of Processors**

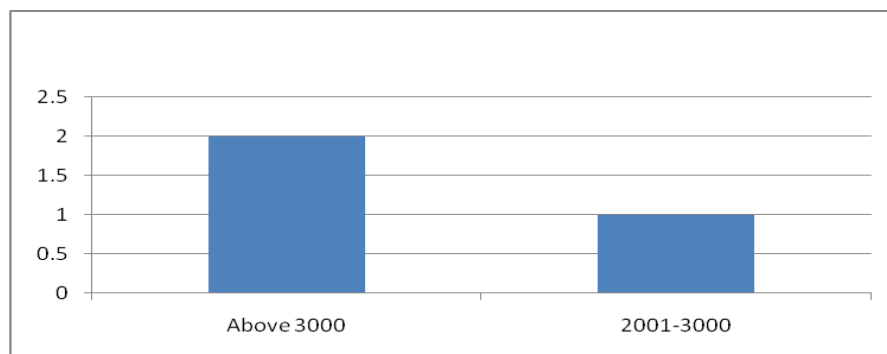


**Figure 1: Processor’s period of experience in dairy**

**Processed Milk in Litres**

Referring to figure 2, out of 14 milk processors, 67% processed above 3000 litres of milk while 33% of them processed 2001-3000 litres. The results of high amount of milk processed showed potentiality in performance of the dairy processors. Internal marketing practices, creating demand for milk products and serving suppliers of milk fairly hence increasing supply of milk and sales of milk products are recommended.

**Number of Processors**



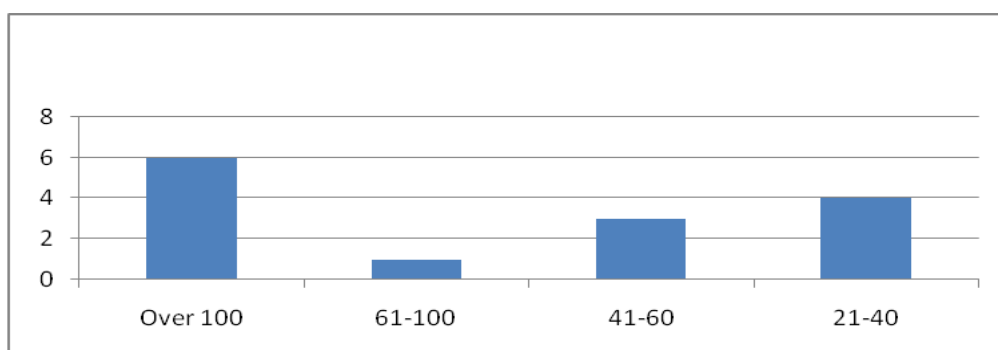
**Quantity of milk processed (litres)**

**Figure 2: processed milk in litres**

**Number of Processor’s Employees**

Referring to figure 3, majority of the processors, 43% had engaged over 100 employees, 29% had engaged 21-40 employees, 21% had employed 41-60 employees and 7%, 61-100 employees. The implication was that the dairy firms were a good source of employment and had potential of employment creation with growth and development of the processing firms, a direction towards achievement of the country’s economic and social pillars of Kenya vision 2030.

**Number of Processors**



**Figure 3: Number of Processor’s Employees Number of employees**

### Manager's Level of Education

Referring to table 2, out of 14 dairy processors, 79% firm manager's highest level of education was degree holders and 21% master degree holders. None of the managers responded to the level of diploma or secondary school certificate. Most employees had a high standard of education and could understand, implement management approaches and make credible decisions based on situational factors. From the observation we derived training and development of the employees to keep pace with the dynamic environment as of vital importance.

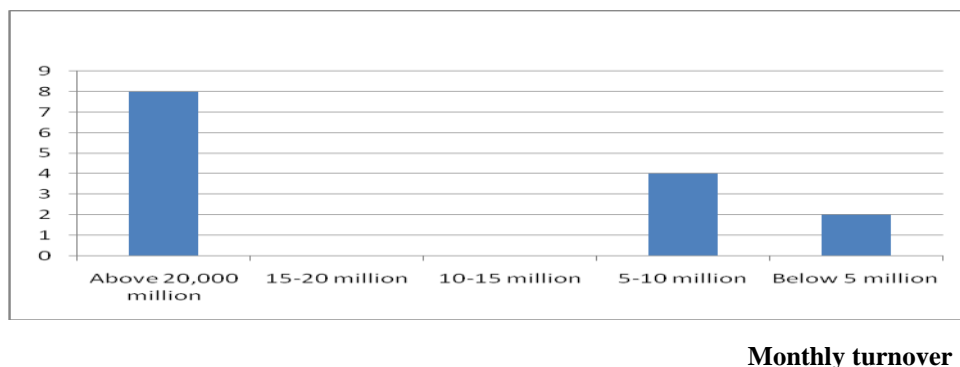
**Table 2: Managers Level of Education**

Level of Education	Number of respondents	Percentage
Masters	3	21
Degree	11	79
Total	14	100.

### Processor's Average Monthly Turnover

Out of 14 processing firms, 60% had the highest turnover of above 20 million Kenya shillings, 30% had 5-10 million Kenya shillings and 10% had less than 5 million Kenya shillings per monthly. The competency in management of resources hence the high and promising turnover was well demonstrated by the findings.

#### Number of Processors



**Figure 4: Processor's Average Monthly Turnover**

### Dairy processor's performance

Referring to table 3, majority of the respondents 64% agreed and 7% strongly agreed that, firm profits had been on the rise over the previous 3 years. A small number, 29% neither agreed nor disagreed. None disagreed or strongly disagreed.

Majority 64% agreed and 14% strongly agreed that quantity of milk had been on the rise for the previous 3 years. A small number of managers, 21% neither agreed nor disagreed. None of the respondents disagreed or strongly disagreed.

Among the respondents, 21% strongly agree, 29% agreed, 21% neither agreed nor disagreed, 21% disagreed and 7% strongly disagreed that the dairy processors offer farmers inputs at lower prices. The responses were indifferent, spread out through the likert scale. This shows how different the processors were in handling the performance practice.

A high number of respondents, 36% strongly agreed, an equal number 29% agreed, neither agreed nor disagreed and 7% disagreed that, no milk wastage was experienced at any period of the year.

Majority of the dairy processors 42% strongly agreed that, the processors produced more than three products, 29% agreed, an equal number, 14% neither agreed nor disagreed. None of the respondents strongly disagreed.

Half the number of respondents (50%) were positive (21%) neither agreed nor disagreed that, the processors sold the dairy products locally and internationally, an equal number 21% were neutral and disagreed. A small number 7% strongly disagreed.

A general outlook of the responses showed that majority of the processors was positive on the dairy performance practice parameters.

**Table 3: Dairy Processors Performance**

Statement	Percentage				
	SA	A	NAD	D	SD
Firm profits have been on rise over last 3years	7	64	29	0	0
Qty of milk has been on rise over last 3years	14	64	21	0	0
We offer farmers inputs at relative lower price	21	29	21	21	7
No milk wastage is experiences at any period	36	29	29	7	0
We produce more than three dairy products	42	29	14	14	0
Our products sell locally and internationally	21	29	21	21	7

Where: SA; Strongly Agree, A; Agree, NAD: Neither Agree nor Disagree, Disagree, SD; strongly Disagree

### Processors Internal Marketing and Performance of the Dairy Industry

Referring to table 3, majority (79%) and the majority, agreed that decision making was encouraged to the employees, 21% neither agreed nor disagreed, none of the respondents disagreed or strongly agreed. The firms reinforce their employees with this important internal marketing practice of decision making. It helps the employees to be more initiative, innovative and creative. This makes the employees flexible in serving the external customers. .

Majority of the processors (58%) agreed, 14% strongly agreed, 21% neither agreed nor disagreed 7% disagreed and none strongly disagreed that innovation and creativity was rewarded for in the firms. Decision making, a practice of internal marketing, enhance employee creativity, innovation and performance. This conforms to Varey and Lewis [12]

Majority of the dairy processing firm’s managers, 50% agreed, 14% strongly agreed, 29% neither agreed nor disagreed and 7% disagreed that, training and development was a major subject in the processing firms. Training and development of employees was found a major objective of the processing firms. Training and development equip employees with knowledge, skills and empowerment hence being able to respond and adopt quickly to often unpredictable changes within external market as is in conformance with Ahmed & Ratfiq[1]

Majority (93%) of the respondents strongly agreed that internal communication venues at all levels of employees were in place, 7% strongly agreed and none disagreed nor strongly disagreed. Communication is considered as the life blood of businesses which results to efficiency and effectiveness in achieving objectives. Processing firms were therefore credited for facilitating communication at all levels of employees.

Majority (64%) agreed, 14% strongly agreed and 21% neither agreed nor disagreed that responsibility given to employees was entirely on performance grounds. None of the members disagreed nor strongly disagreed with the statement. Giving responsibility on performance grounds to employees is an internal marketing practice which is considered credential in terms of incentive provision, recognition and motivation of employees for continuity of better performance of employees. The finding was in conformance with Shyh- Rong [11].

**Table 4: Processors Internal Marketing and Performance of the Dairy Industry**

Statement	Percentage				
	SA	A	NAD	D	SD
Decision making is encouraged to our employees	0	79	21	0	0
Innovation and creativity is rewarded in our farms	14	58	21	7	0
Training and development is a major objective	14	50	29	7	0
Internal communication to our employees is in place	7	93	0	0	0
Responsibility is entirely on performance grounds	14	64	21	0	0

Where: SA; Strongly Agree, A; Agree, NAD: Neither Agree nor Disagree, Disagree, SD; strongly Disagree

### Regression coefficients of processor’s internal marketing

Our regression model says that, the performance of the processors is a linear function of internal marketing. The coefficient of internal marketing explains its effect on the response variable (performance) of the dairy processors. The regression estimate value of internal marketing was 0.32. The standard error also the measure of statistical accuracy of the sampled population was 0.15.

#### t- Statistics

The t statistics is the ratio of coefficient estimate divided by the standard error. The ratio tells us how large the coefficient is relative to how much it varies in repeated sampling which is inversely proportional. This means the larger the variation (standard error), the less the t statistics. The computed t-statistics was 2.16. The coefficient estimate was larger (0.32) than the standard error (0.15) hence the t- statistics was large (2.16) as shown on table 5.

#### R –squared (R<sup>2</sup>)

R- Squared or coefficient of determination is the degree of the variance which is explained by the regression. The coefficient of determination (R<sup>2</sup>) was 0.28. This meant that 28% of the variation was explained by the regression and the rest 72% were left over in the residuals. This also meant that 72% of the variations of performance of processors remained unexplained. However the coefficient 0.28 is a considerate value given the numerous variables which can be considered impacting on a given marketing environment.

#### Hypothesis test

The hypothesis for Internal marketing was; H<sub>0</sub>: There is no significant relationship between internal marketing and performance of dairy processors in Kenya. The hypothesis test was: Accept the null hypothesis if P > 0.05 alternatively Reject the null hypothesis if P ≤ 0.05. The computed P = 0.05 which is equal to the standard p = 0.05. The decision was therefore, to reject the null hypothesis and conclude that; there was a significant relationship between internal marketing and performance of the dairy processors in Kenya.

**Table 5: Regression coefficients of internal marketing**

	Estimate	Std. Error	t value	Pr(> t )
<b>Coefficients:</b>				
(Intercept)	1.56	0.72	2.17	0.05
Internal marketing	0.32	0.15	2.16	0.05
Residual standard error: 1.631 on 12 degrees of freedom, Multiple R-squared: 0.28, Adjusted R-squared: 0.22 ,F-statistic: 4.67 on 1 and 12 DF, p-value: 0.05				

### V. CONCLUSION

Majority of the respondents were positive on performance parameters; increase in milk processed, quality inputs at relatively lower prices, no milk wastage, and access to domestic and foreign markets. We arrived at the conclusion that, processors should cultivate the spirit of Performance by implementing management practices enhancing the performance..

The demographic results showed that the processors had a considerate experience in the dairy industry and high level of education. This should be utilized in implementation of marketing concepts in our case internal marketing for better results. Measures should be taken to develop the dairy industry as it was found contributively to the social economic welfare of the country. The dairy had a high potential of employment, with a high percentage engaging over 100 employees. Likewise, most processors had a monthly turnover of over 20 million. This indicated potentiality of revenue generation and higher standards of living, in the country.

The tested hypothesis confirmed that there was a significant relationship between internal marketing and performance of the dairy processors. This decision was reinforced by a positive R<sup>2</sup> of 0.28. We concluded that, internal marketing is an essential marketing practice and therefore worth to be implemented for improvement of results. The dairy firms employees need to be to be well motivated, trained, rewarded and recognized as they serve the external customers to their satisfaction hence improved returns and dairy processing firms performance. This conforms to Ahmed & Rafiq, (2002) and Shyh - Rong (2014).



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