

**THE EFFECTS OF MARKETING ENVIRONMENT
AUDIT ON THE PERFORMANCE OF PARASTATALS: A
CASE OF KENYA POWER COMPANY, KENYA**

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Abstract

The paper investigated the effects of market environment audit on performance of parastatals. The specific objectives of the study were to determine the effects of marketing environment audit on the sales volume, sales revenue, market share and share price of Kenya Power Company, Kisumu, Kenya. The study adopted a descriptive research survey design with a target population of 200 employees. A sample size of 41 was used. Data was collected randomly using a semi structured research questionnaire. Collected data was edited, coded and verified. Data was then entered in an excel spread sheet and analyzed using descriptive statistics. The study realized marketing environment audit increased sales volume, sales revenue, market share, and share price of the company by a large proportion. The study will be significant to the management in strategizing and establishing excellent marketing environment audit procedures that will identify threats, weaknesses and constitute measures for competitiveness, profitability and successful sales. The study recommends that management should establish permanent Management Information System department to be able effectively scan the environment on a continuous basis for a more improved sales revenue, sales volume, market share and share price.

Key words: market environment audit, sales revenue, sales volume, market share, share price.

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Introduction

Marketing audit is described as a systematic, critical, and impartial review of the total marketing operations; the basic objectives and policies of the operations and assumptions that underlie them; and the methods, procedures, personnel, and organization employed to implement the policies in order to achieve the objectives (Shuchman, 1959).

Marketing audit is a systematic, independent, and involves periodic examination of a company's operations and/or SBU's strategies, objectives, activities, environment, and is designed to reveal problems and opportunities in order to recommend actions that would improve the company's marketing performance (Kotler et al, 1977).

Marketing audit is still ignored by companies and business managers due to the fact that many marketing managers conceive it as a profusion of checklists and as a distraction from current creative process that is at the heart of marketing functions (Mylonakis, 2003).

The benefits of using marketing audit and implementing its recommendations lie in perceptions of its ability to influence a change in business performance. Thus, it is important to be clear whether and how marketing audits influence the business performance (Clark, Abela, and Ambler, 2006).

Although the marketing audit has been used since its introduction in marketing management process, there is no evidence of the empirical validation of its practice and usefulness. The refined audit model identified six components of the marketing audit, and advocated the use of a standard set of procedures. The six components are marketing strategy audit, marketing organization audit, marketing systems audit, controlling marketing operations audit; marketing productivity audit, and marketing function audit (Kotler et al, 1977).

However, the scope of audit depends on the cost involved, the target markets served and its marketing environment (Mylonakis, 2003).

This paper is therefore set to explore the environmental conditions influencing issues selected and activities implemented for the marketing audit so as to have an insight into what are exactly the company's considerations when marketing audits are implemented.

Hostile marketing environments characterized by intense competition, lack of exploitable opportunities, and dynamic market environments characterized by rapid technological advancements are rapidly changing consumer preferences, and are considered to have a

significant influence on business performance (Covin and Slevin 1989; Gray et al, 1998; Jaworski and Kohl, 1993; Low 2000; Rust et al, 2004; Slater and Narver, 1994).

Structure-conduct-performance (SCP) model states that market structure affects market conduct, which in turn affects marketing performance. This means that industry characteristics affect market conduct e.g. production and pricing strategies, research and innovation, pricing behavior, and advertising can be logically organized, analyzed and put into considerations in order to improve efficiency and effects of market conduct by skillful marketers. Clearly, the desire to be competitive in such environmental conditions may provide the impetus for an organization to implement marketing audits to ensure that marketing executives have adequate environmental information for market conduct, planning and properly allocate resources to different markets, products, and territories (Mason, 1939; Bain, 1954).

Environment is defined as objects external to the organization such as customers, suppliers and competitors; and also as attributes of external environment such as complexity, dynamism, and munificence (Egeren and O'Connor, 1998).

Dynamism is the degree of change or market stability. The overall reason why market environment characteristics may influence marketing audits is because it provides marketing management with programmed appraisals and critical evaluation of environmental analysis and this helps to ensure marketing management identifies opportunities and threats from other markets. Many companies feel that their operations need regular reviews and overhauls but do not know how to proceed. Some companies simply make many small changes that are economically and politically feasible, but fail to get the heart of the matter. One of the potential steps forward in their efforts is to concentrate on systematic marketing audit.

In marketing environment audit, managers seek to find out the major developments in income, prices, savings, and credit that affect the company. They also try to find out what action the company has taken in response. Marketers require buying power as well as people. Economic environment consists of factors that affect purchasing power and spending patterns. Marketers must pay close attention to major trends and consumption spending patterns both across and within their world markets. Marketing managers also attempt to establish major demographic developments and trends that pose opportunities or threats to their organization. They try to establish what actions the company needs to take in response to demographic changes.

Demographic environment is of major interest to marketers because it involves people, and people make up markets (Richard B A, 1998).

In marketing environment audit, the managers also seek to establish the major changes in product and process technology. They attempt to establish the company's position in these technologies. The technological environment is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, laptop computers, and the internet. It also has released such horrors as nuclear missiles, chemical weapons, and assault rifles. It has released such mixed blessings as the automobile, television and credit cards. Our attitudes towards technology depend on whether we are more impressed with its wonders or its blunders. For example, planting tiny transmitters in all the products we buy for tracking products from their point of production to the consumption point. On the one hand, it would provide many advantages for both buyers and sellers. On the other hand, it could be a bit scary. Either way, it's already happening. New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum tube industry, xerography hurt the carbon paper business CD hurt phonograph records, and the digital photography hurts the film business. When old industries fought or ignored new technologies, their businesses declined. Thus marketers should watch the technological environment closely. Companies that do not keep up with these changes will soon find their products out of date; and they will miss new products and market opportunities.

As products and technology becomes more complex, the public needs to know whether they are safe or not. Government agencies normally investigate potentially unsafe products. The public's attitude towards business and towards the company's products should be known. Changes in customers' lifestyle and values might affect the company. The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. People grow up in a particular society that shape their basic beliefs and values. They absorb a world view that defines their relationship with others. People in a given society hold many beliefs and values. Their core beliefs and values have high degree of persistence. These beliefs shape more specific attitudes and behaviors found in everyday life. Marketers have some chances of changing secondary values but little chance of changing core values. Marketers want to predict cultural shifts in order to spot new opportunities or threats. The major cultural values are expressed in people's view of themselves and others as well as their view of the organization,

society, nature and the universe. People use products, brands, and services as a means of self-expression, and they buy products and services that match their own views. Marketers can target their products and services based on such self views (Amstrong, 1977).

Benefits of using environmental analysis and implementing its recommendations lie in perceptions of its ability to influence change in business performance. Thus, it is important to be clear whether and how environmental analysis influence the business performance. All firms in the world must do environmental analysis to be able to exploit opportunities and avoid threats (Amstrong, 1977).

Companies and all of the other actors operate in large microenvironments that shape opportunities and pose threats to the company. When doing an environmental analysis the company does both the internal environment audit and external environment audit. In marketing environment audit the manager seeks to find out the major developments effects of income, prices, savings, and credit on the company. They also try to find out what actions the counter response the company takes (Kotler, 2001).

Business managers examine formal structure of an organization, functional efficiency and interface efficiency. They investigate whether business managers have adequate authority and responsibility for promoting company activities that affect customer satisfaction; and whether the business activities are optimally structured along functional, product, segment, end-user, and geographical lines. They investigate whether there are good communication and working relations between the marketing and sales departments; and whether the product management system is working effectively. They determine whether product managers are able to plan profits or only sales volumes and whether there are groups in marketing that need more training, motivation, supervision or evaluation (Capella, 1978).

Business function audit, examines the appropriateness of their products, prices, distribution and promotion. They determine the company's product line objectives and whether the current product lines are meeting the objectives. They find out whether the product lines should be stretched, contracted, or which one should be completely phased out. They should find out the buyers' knowledge and attitudes towards the company's and towards the competitor's products quality, features, styling, and brand names among others (Amstrong, 1977).

Firm managers find out the companies pricing objectives, policies, strategies, and procedures. The extent the prices offset cost, influence demand and competitive criteria. They find out

whether customers see company's prices as being in line with the value of its offer. The marketers should investigate what the management knows about the price elasticity of demand, experience curve effects, competitors' pricing and pricing policies. The pricing policies should be reasonably compatible with the needs of distributors, dealers, suppliers, and government regulation (Covin, 1989).

An environmental analysis starts with a meeting between the company officers and the business auditors to work out an agreement on the analysis objectives, coverage depth, data sources, report formats and time frame (Hambrick, 1984).

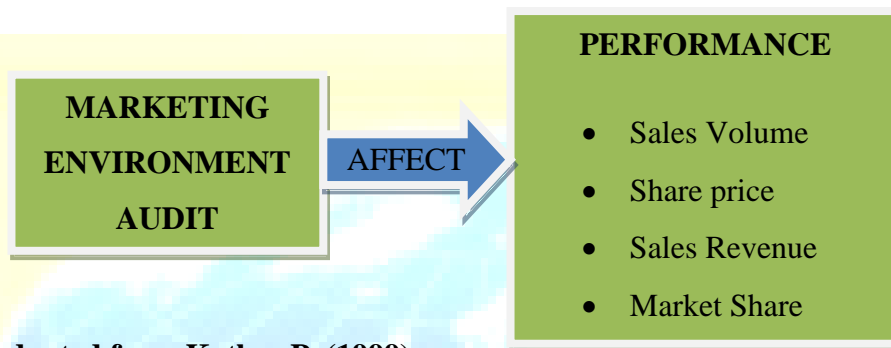
A detailed plan as to who is to be interviewed, the questions to be asked, the time and place of contact are prepared so that analysis time and cost are kept at a minimum. The cardinal rule in environmental analysis is not to rely solely on company managers for data and opinion. Customers, dealers, and other outside groups must also be interviewed. Many companies do not really know how their customers and dealers see them, nor do they fully understand customer needs and value judgment (Santel, 1999).

Kenya is currently experiencing the proliferation of alternative forms of energy, which are being embraced as a result of environmental concern. The utilization of solar energy, biogas, wind energy and others have made other players to invade the Kenyan market which, initially, was solely being served by Kenya Power Company. The attainment of Millennium Development Goal number 7 on environmental sustainability touches on the provision of clean energy, which is viewed as an important option for Kenya. It stresses the use of renewable energy, which includes biomass, solar, Geothermal, tidal waves, wind, mini and micro hydro power. This has provided an opportunity for companies that have posed stiff competition to Kenya Power Company. These companies include Chloride Exide, Jatropa, Lake Turkana Wind Power, Ngong Wind Farm, Croton in Kieni and Aggreko. The market has become more globalized and open to increasingly fierce international competition, which local enterprises grapple to deal with. With the increasing changes in consumers' tastes and preferences, accelerating technological breakthroughs and the increasing intensity of competition in many growing industries, Kenya Power Company has been trying to incorporate attitudinal and directional change in planning and implementing their marketing efforts. They have therefore re examined their marketing activities in order to remain in the market. It is because of this that the paper was set to investigate the

effects of marketing environmental audit on the performance of parastatals with particular reference to Kenya Power Company, Kenya.

To achieve the purpose of this paper, a conceptual framework showing the effects of marketing environment audit on performance of parastatals figure 1 was developed.

Figure 1: Conceptual framework showing the effects of market environment audit on performance



Source: Adapted from Kotler, P. (1999)

Figure 1 shows a conceptual framework showing the effects of marketing environment audit on performance. Marketing environment audit is the independent variable, while performance is the dependent variable. Indicators of performance, which are believed to be influenced by marketing environment audit in the organization, are sales volume, profitability, sales revenue and market share.

In line with the conceptual framework figure 1, the specific objectives of the study developed were to:

- i. Determine the effects of marketing environment audit on the sales volume of Kenya Power Company;
- ii. Find the effects of marketing environment audit on sales revenue of Kenya Power Company;
- iii. Investigate the effects of marketing environment audit on market share of Kenya Power Company; and
- iv. To determine the effects of marketing environment audit on share price of Kenya Power Company.

Research methodology

The study adopted a descriptive research survey design. Descriptive research survey is concerned with describing the characteristics of a particular individual, or of a group. This is done to portray an accurate profile of a person or a group of persons in the population (Kothari, 2001).

The target population comprised of 200 employees of Kenya Power Company Kisumu branch, Kenya. The population included employees in the top management, Middle management and operations.

A sample size of 41 employees was selected. In determining a sample size, at least 10% of the population is adequate in descriptive research (Gay L. R, 1981). A stratified random sampling technique was used in selecting sample size from various departments. This was used to ensure that all levels of management were proportionately represented in the sample. The strata in this study included top management, departmental heads and operational staff. The sample was distributed as indicated in table 1 below.

Table 1: Summary of population and sample distribution

Level of Management	Population size	Sample size
Top management	20	5
Department heads	30	6
Operational staffs	150	30
Total	200	41

Source: Research data (2013)

Table 1 shows that out of a sample of 41 employees, 5 were randomly selected from top management, 6 were departmental heads and 30 were from operations.

Data was collected using semi structured questionnaires. A questionnaire is a collection of pre-formulated items in definite order on a form or set of forms to which a respondent is expected to react, usually in writing (Kothari, 1990; Oso & Onen, 2009). It can also be defined as a pre formed and written item which respondents are expected to respond to orally but usually in written form. A questionnaire was chosen because of the ease of administration and scoring beside results being readily analyzed (Oso and Onen, 2009). It was also used because it is fast, cheap and easy to administer. The items on the questionnaire were developed in line with the study objectives. Before administering the questionnaire, it was tested for validity and reliability to authenticate its usefulness in quality control. Quality control ensures acceptable

level of validity and reliability of research findings (Amin, 2005; Cohen, 1988; Oso and Onen 2009). Validity is the extent to which the results of the study can be accurately interpreted and generalized to other populations (Cohen, 1988). The questionnaire was tested in order to check its content, construct and face validity. Content validity was done to ensure that the content that the instrument contained was an adequate sample of the domain of content it was supposed to represent. Face validity deals with formatting the instrument and includes aspects like clarity of printing, font size and type, adequacy of workspace, and appropriateness of language among others. Construct validity determines the nature of psychological construct or characteristics measured by the instrument. Experts, supervisors and peers from the Department of Business Studies, Kenyatta University, Kenya helped in reviewing to ensure the instrument accurately measured the variables it was intended to measure in the study. Reliability is the extent to which research results are consistent and replicable (Amin, 2005; Kothari, 1990). Reliability is the consistency of the scores obtained and how consistent they are from one administration of an instrument to another and from one set of items to another, and also from one set of time to another (Frankel and wallen, 2006). The instrument was pre-tested with a sample of 10 employees randomly selected from the study area. The number 10 was chosen for pre-test because it is the smallest number that can yield meaningful results in data analysis of a survey research (Kathuri and Pals, 1993).

Data was analyzed using descriptive statistics; that is, frequencies and percentages. The data was sorted, edited, validated, coded, and cleaned to check for missing values and errors. It was then entered in an excel spreadsheet for onward analysis. It was then presented using tables, bar graphs and pie charts.

Findings and interpretation

The research question sought to find out whether marketing environment audit had increased sales revenue, sales volume, market share, and share price of Kenya Power Company, Kisumu, Kenya. The findings were as shown in table2.

Table 2: Influence of marketing environment audit on the performance of Kenya Power Company

	Performance			
	Sales revenue	Sales volume	Market share	Share price

Responses	Frequency	% frequency	Frequency	% Frequency	Frequency	% Frequency	Frequency	% Frequency
Strongly agree	20	49	20	49	41	100	41	100
Agree	11	27	10	24	-	-	-	-
Disagree	10	24	11	27	-	-	-	-
Strongly disagree	-	-	-	-	-	-	-	-
Total	41	100	41	100	41	100	41	100

Source: Research Data (2013)

Table 2 shows that out of the 41 respondents that took part in the study, 49 % (20) strongly agreed that marketing environment audit had increased sales revenue, 27 % (11) agreed that it had increased sales revenue, and the remaining 24% (10) disagreed that it did increase sales revenue. Those who agreed and strongly agreed that it had increased sales revenue cited activities like rebranding, road shows, media advertizing, and employment of marketing staff, which in their view improved sales during the season and hence increased sales revenue. Based on majority view of 49% who strongly agreed and 27% who agreed, it was concluded that on average marketing environment audit had increased sales revenue at Kenya Power Company during the season.

As to whether marketing environment audit improved sales volume during the season, the study showed that, of the 41 respondents who took part in the study, 49% (20) strongly agreed that it had increased sales volume, 24% (10) agreed that it had improved sales volume, the remaining 27% (11) disagreed that it did increase sales volume. Those who had the view that it had increased sales volume cited embracement of rural electrification program, media advertisement, stima loan and road shows, which according to them had immensely expanded sales volume during the period. Based on the majority view of 47% who strongly agreed and 24% who agreed, the study concluded that marketing environment audit did increase sales volume at Kenya Power Company during the period.

The analysis of the influence of marketing environment audit on market share and share price showed 100% of the respondents who strongly agreed that it had increased market share and share price at Kenya Power Company. The respondents who strongly agreed that marketing environment audit had increased market share attributed it to increased media advertising, rural

electrification program, opening of more branches, and employment of more marketing experts. The respondents who strongly agreed that marketing environment audit had increased share price of Kenya Power Company in stock market cited corporate social responsibility, rebranding, and use of public relations as major strategies that contributed to this.

Discussion of the results

The study had an excellent rate of response. This was because of the 41 respondents that took part in the study; there was 100% response rate. Though the responses were based on opinion of the respondents, there was however a feeling that this could not negatively influence data on the ground. This was assumed so because of reasonably high education and professional training of the respondents' with 72% having college and university education. Also, up to 73% of the respondents had over 4 years work experience and this contributed immensely to effectively responding to research questions. The sample size of 21% was also large enough and precision level was thus so high. This was in response to (Gay, 1981), who asserted that at least 10% of the population is adequate in descriptive research in determining sample size. The research instrument used was also a watertight questionnaire, which was rigidly pre-tested for reliability and validity. Before administering the questionnaire, it was tested for validity and reliability to authenticate its usefulness in quality control.

In the study, marketing environment audit had increased sales revenue of Kenya Power Company. This view was supported by 49% of the respondents strongly agreeing and 27% agreeing. They cited activities like rebranding, road shows, media advertising, and employment of marketing staff, which in their view had improved sales during the period and hence increased sales revenue.

The study also showed that marketing environment audit improved sales volume of the company during the period. This was supported by 49% of the respondents who strongly agreed that it had increased sales volume and 24% who agreed that it had improved sales volume. They cited embracement of activities like rural electrification program, media advertisement, stima loan and road shows, which according to them had immensely expanded sales volume during the period.

Analysis of the influence of marketing environment audit on market share was supported by 100% of the respondents who strongly agreed that it had increased market share at Kenya Power

Company. They attributed it to increased media advertising, rural electrification program, opening of more branches, and employment of more marketing experts.

On the analysis of the influence of marketing environment audit on share price, 100% of the respondents strongly agreed that it had increased share price of Kenya Power Company in the stock market. This was attributed to getting involved in corporate social responsibility, rebranding, and use of public relations as major strategies.

Conclusion and recommendations

The study, therefore, concludes that marketing environment audit is an effective control strategy, which increased sales revenue of Kenya Power Company during the period. This was because the company used sub strategies like rebranding, road shows, media advertizing, and employment of marketing staff, which in their view improves sales revenue.

The study also concludes that marketing environment audit improved sales volume of the company during the period. This was because of involvement in activities like rural electrification program, media advertisement, stima loan and road shows, which according to them had immensely expanded sales volume during the period

Marketing environment audit was also effective in increasing market share of Kenya Power Company. This was attributed to increased media advertising, rural electrification program, opening of more branches, and employment of more marketing experts.

Marketing environment audit was effective in increasing share price of the company. This was attributed to corporate social responsibility, rebranding, and use of public relations as major strategies.

The study recommends that management of Kenya Power Company should establish permanent Management Information System department to be able effectively scan the environment on a continuous basis. Though the company has relatively done well in environmental marketing audit, establishing a permanent Management Information System will go a long way in effectively scanning the environment for a more improved sales revenue, sales volume, market share and share price. The department will help in carrying out thorough customer analysis to find out all factors that improve consumption behavior of clients with a view to becoming more competitive.

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