Influence of marketing innovation on the performance of coffee cooperatives in Kenya

Peter Ngibuini Kuguru (a)* | Jan-Erik Jaensson (b) | Kinyanjui Nganga (c)

(a) Open University of Tanzania, United Republic of Tanzania
(b) Assoc. Prof., Open University of Tanzania, United Republic of Tanzania
(c) Ph.D., University of Nairobi, Nairobi, Kenya

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ABSTRACT

The purpose of the study was to assess the influence of marketing innovation on the performance of coffee cooperatives in Kenya. A descriptive research design was applied. The target population of this study was 525 coffee cooperative societies in Kenya registered with the Commissioner for Cooperatives and licensed by AFFA (Coffee Directorate) as of 30th of October 2016. The sample size was 227 respondents. Structured questionnaires were used to collect primary data from the selected respondents. The results revealed that marketing innovation and performance are positive and significantly related (β=0.674, p=0.001). This implied that significant changes in product design and packaging led to a positive change in the performance of coffee cooperatives. The study affirms that to improve performance by targeting the customers, constant improvements in how the company promotes its new products to capture the attention of new customers is a key aspect to be considered. The study recommends the management employ skills in developing clear operating procedures to run the business successfully, coordinate different areas of the business to achieve results and the ability and design jobs to suit staff capabilities and interests.

Introduction

The superior quality of Kenyan coffee has earned it a global reputation as a market leader. This coffee is often considered to be the greatest in the world and consistently sells for a substantial premium overseas. The crop may be responsible for as much as 4 percent of the total export value (Mitchell, 2011). Sixty percent of coffee is produced by small farmers belonging to cooperative societies, and the other forty percent is grown by large farmers on plantations or estates (Nyangito, 2005). Cooperative societies in agriculture are crucial because they allow farmers to pool their resources and provide services to each other as a group, which increases productivity and income (Wanyama, 2008).

At the turn of the millennium, real prices for coffee had dropped to a historic low for farmers. When it comes to public goods, most farmers also lack sufficient institutional support from their respective national or regional governments (FAO, 2014). Production decline was more severe in smallholder farms, according to Karanja and Nyoro (2002). Even ignoring the overall downward trend, weather fluctuations and the biannual nature of coffee harvests are major contributors to the large annual fluctuations in yield. Despite the government of Kenya's best efforts through policy execution, the economic survey (2008) reports that the industry has not flourished. A wide variety of policies have been implemented to encourage expansion in the coffee industry. However, the complexity of the problems that have arisen over the past few decades and the coffee crisis have prompted governments, grower organizations, development agencies, and individual farmers to rethink their approaches.

According to Hitt, Ireland, and Hoskisson (2010), most successful businesses in the 21st century will need to prioritize long-term planning if they want to take advantage of the numerous possibilities and counteract the myriad risks they will encounter in the global economy. Companies are investing heavily in R&D to find game-changing breakthroughs that will give them an edge in a competitive
market and help them thrive in the face of constant change (Barney, 2007). In order to survive and prosper in the face of intense market competition, valuable innovation techniques have emerged as crucial aids to their success. A manager’s job is made easier when he or she is able to instill important values in their staff and encourage them to adopt them as their own; cultivate and retain talented workers; convey critical information effectively; and have a thorough understanding of the company’s customers and work to ensure their satisfaction (Stoman, 2009). Hitt and Ireland (2005) argue that, to succeed, businesses must prioritize the implementation of novel marketing strategies.

Tavassoli and Karlsson (2015) claim that in order to fully take use of the potential of cutting-edge marketing technology, businesses will need to adopt novel approaches to marketing and design, which in turn will have far-reaching implications for product design, advertising, and pricing. The forward-thinking firm either develops its own unique forms of advertising, or it adopts and adapts the methods used by other businesses. A conscientious innovator will prioritize the item or commodity’s design, marketing, packaging, and any other modifications that are relevant to product development. Customer loyalty, service excellence, and overall impression of the product will all much improve as a result of this (Kneipp et al., 2019).

To maintain growth, profits, and revenues over the short and long term, coffee cooperatives must diversify in all possible ways. Businesses can’t thrive without a healthy dose of creative thinking (Teece, 2018). From a Malaysian viewpoint, enterprises need to invest in TICs—which can include marketing innovations—in order to improve their competitiveness through knowledge acquisition and the development of new skills (Rahim and Zainuddin, 2019). In addition, companies are improving their competitiveness and output as a result. Innovating is a must, but the path there is murky and hard to anticipate (Nagy et al., 2016).

Despite the aforementioned movements, the Kenyan sector has continued to underperform in terms of both quality and quantity. As 2019 came to a close, coffee production in Kenya had dropped by 18 percent as farmers shifted their attention from the cash crop to the more lucrative real-estate ventures. Farmers only managed to harvest 36,873 metric tons of coffee in the 2019/2020 crop year, down from 44,990 in the previous year's harvest. As can be seen from the preceding research, the coffee industry is struggling with issues related to diminishing production, variable production, and variance in prices. As a result, this has impacted coffee cooperatives’ financial performance, resulting in lower returns to members and growers.

Empirically, there has also been abundance of research that has attempted to tackle the relationship between marketing and performance of organizations. However, few if any specifically address coffee cooperatives, particularly in Kenyan context. Medase and Barasa (2019) studied the absorptive capacity, marketing capabilities, and innovation commercialization in Nigeria however little generalizability was done on coffee firms in Kenya. Therefore, these studies present a contextual gap.

The present study sought to investigate the relationship between marketing innovation and coffee cooperative performance in Kenya in order to address those gaps.

**Literature Review**

**Theoretical and Empirical Review**

The agency theory was advanced by Jensen (1993). It suggests that the relationship between the principal and the agent is that of self-interest. Competitive advantage can be created through ensuring a proper agency relationship that safeguards the interest of stakeholders such as owners of capital, managers, employees, government, and the general public. The theory explains the nature of dynamic relationship between parties which if not managed can lead to poor competitive advantage.

However, the theory had various weakness. It failed to clarify the organization innovation capabilities that are required to manage the dynamic nature of the relationship between the agent and the principal. While agency theory offers corporate governance mechanism as a solution to addressing the existence of the agency problem, it ignores the dynamic nature of organizations and the social economic environment. New stakeholders are created every day, and their needs and responsibilities differ and hence only a dynamic organization can incorporate the needs of this new stakeholders. It is this apparent weakness that is addressed by dynamic capability theory.

Ngamsutti and Ussahawanitchakit’s (2016) research delves at how proficiently designed advertisements have fared for Thai material-handling equipment companies. The research was quantitative throughout, and data from 639 participants was collected. The results showed that the potential for creative advertising does affect advertising efficiency. Since the study was done in Thailand and the research was being done in Kenya, the analysis revealed a geographical discrepancy.

The reaction of Kenyan banks to new business innovations was tested by Simiyu (2013). Findings revealed novel evidence that banks had adopted some forms of advertising. Furthermore, the study’s authors discovered that even among the institutions that had implemented the purchaser-use design techniques program, there was faster profit growth, greater investment, and an enhanced consumer-usefulness system. The findings from Simiyu’s (2013) study provide some context for understanding the range of industry trends that businesses may adopt to boost their efficiency. While the suggested research centered on the coffee market, the results are based on the financial system.
Creativity in business requires a focus on optimizing the matching of key demographics and the best ways to meet selected markets. It has helped us see (new) future possibilities and find efficient methods of working with clients that share our goals. The industry, which divides a yearly market into smaller, more sensitive pieces, is crucial if profits are to be increased for businesses (Teece, 2018).

Creativity in this situation seems to derive from the acquisition of functional capacities as a rational desirable consequence. From this vantage point, it's clear that inventiveness is what powers adaptive capacities. Dynamic capabilities are the firm's potential to systematically handle challenges based on its inclination to identify opportunities and make timely market-oriented decisions. Businesses should determine their unique areas of strength and expertise in order to develop efficiently. This means that they must acquire the skills necessary to spot and seize opportunities in both emerging and established industries (Teece, 2018).

Complex and volatile situations, where the competitive landscape is constantly changing, necessitate the use of dynamic talents that allow marketers to incorporate, grow, and reorganize internal and external competences to keep up with the ever-evolving markets, Itkien (2018) explains. Sensing capabilities (to perceive and describe incentives and threats), ability (to take particular incentives), and strengths for reconfiguration are the three categories under which Teece (2018) classifies functional capacities (to achieve and sustain competitive advantage by strengthening, preserving and reconfiguring the tangible and intangible assets of an organization).

Executives who are both competent and creative are seen as a valuable commodity because of their potential to drive economic growth in the future. Accordingly, these abilities are manifested in the design of processes like product innovation, alliance building, and the implementation of strategic decisions that enable businesses thrive in today's dynamic marketplace. As a result of this reliability, the company is able to form sound and long-lasting opinions regarding its target audience and the viability of the service at its current price point in the market. This is the foundation for increased profits.

A knowledge gap occurs when desired research findings provide a different perspective on the issue discussed. For instance, Ngamsutti and Ussahawanitchakit (2016) examined the link between marketing innovation capability and marketing performance of electrical and electronic appliances businesses in Thailand. The study conducted a survey of 639 firms (sampled to 187) doing business in electrical and electronic appliances in Thailand. The study found out that Marketing innovation capability has a positive effect on marketing performance. The study was focused on the context of firms doing business in electrical and electronic appliances in Thailand whereas little evidence is provided with regard to coffee firms in Kenya. Our study intends to fill that gap.

A theoretical gap occurs when theoretical framework in the study provides a different perspective on the issue discussed. For instance, Simiyu (2013) conducted a study on market innovations adoption by commercial banks in Kenya. Descriptive Research Design was used where a sample of 387 top, middle and lower-level managers commercial banks. The study collected primary data using questionnaires. The study found out that Banks had adopted several innovative marketing strategies. The study however, presented little contribution to the theoretical backgrounds that impact underlying innovation. This presents a theoretical gap which the current study sought to contribute to the dynamic capability theory.

**Research and Methodology**

**Research Design and Data**

In this study, the descriptive research design was applied. The target population of this study was 525 coffee cooperative societies in Kenya registered with the Commissioner for Cooperatives and licensed by AFFA (Coffee Directorate) as at 30th of October 2016. The sample size was 227 respondents.

Stratified random sampling was used to classify the coffee cooperatives into strata according to their regions in order to select the particular coffee cooperatives to be used in the research. Stratified random sampling was used in each stratum. This involved randomly selecting the coffee cooperatives from a given region (stratum) until the sampled size was attained. The study targeted the board chairpersons/ assistant chairpersons of each of the coffee cooperatives in Kenya. Structured questionnaires were used to collect primary data from the selected respondents.

Quantitative data was analyzed descriptively and inferentially. Descriptive data was analyzed through measures of central tendency including means, standard deviations, frequencies and percentages.

Data was processed using the SPSS version 21.0. Regression analysis was done to establish the causal effects of the predictor variables on the dependent variable. It was also done to show the magnitude of the effect of independent variables on the dependent variable. The magnitude was measured by use of beta coefficients, F and t statistics which at 95% confidence interval (0.05 significance level), implying little room for chances of error. At 5%, there is little risk of error probabilities.

**Analysis and Findings**

**Descriptive statistics**

The respondents were required to indicate whether they agree or disagree with the following statements relating to market innovation. The results are as shown below.
Table 1: Descriptive statistics on market innovations

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Total</th>
<th>Mean</th>
<th>S. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listening to opinions of the customers is key to effective marketing innovation</td>
<td>0%</td>
<td>5%</td>
<td>35%</td>
<td>40%</td>
<td>20%</td>
<td>100%</td>
<td>3.74</td>
<td>0.83</td>
</tr>
<tr>
<td>New product pricing is important in the realization of effective marketing strategies.</td>
<td>4%</td>
<td>2%</td>
<td>10%</td>
<td>51%</td>
<td>33%</td>
<td>100%</td>
<td>4.07</td>
<td>0.95</td>
</tr>
<tr>
<td>New product design/packaging is important in the realization of effective marketing strategies.</td>
<td>2%</td>
<td>0%</td>
<td>7%</td>
<td>48%</td>
<td>43%</td>
<td>100%</td>
<td>4.3</td>
<td>0.77</td>
</tr>
<tr>
<td>The company focuses on the market in which it has competitive strength.</td>
<td>2%</td>
<td>0%</td>
<td>12%</td>
<td>42%</td>
<td>44%</td>
<td>100%</td>
<td>4.25</td>
<td>0.83</td>
</tr>
<tr>
<td>New product promotion techniques are important in the realization of effective marketing strategies.</td>
<td>1%</td>
<td>0%</td>
<td>7%</td>
<td>41%</td>
<td>51%</td>
<td>100%</td>
<td>4.4</td>
<td>0.73</td>
</tr>
<tr>
<td>Product replacement is important in the realization of effective marketing strategies.</td>
<td>0%</td>
<td>2%</td>
<td>9%</td>
<td>37%</td>
<td>52%</td>
<td>100%</td>
<td>4.39</td>
<td>0.75</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>4.19</strong></td>
<td><strong>0.83</strong></td>
</tr>
</tbody>
</table>

The results in Table 1 above revealed that 59.56% of the respondents agreed with the statement that listening to opinions of the customers is key to effective marketing innovation. The results also exposed that 84.00% of the respondents agreed that new product pricing is important in the realization of effective marketing strategies.

Additionally, 91.07% of the respondents agreed that new product design/packaging is important in the realization of effective marketing strategies. The results also showed that 85.78% of the respondents agreed that the company focuses on the market in which it has competitive strength. Moreover, 92.00% of the respondents agreed that new product promotion techniques are important in the realization of effective marketing strategies with the responses. The results also showed that 89.33% of the respondents agreed that product replacement is important in the realization of effective marketing strategies.

On a five-point scale, the average mean of the responses was 4.1 which means that majority of the respondents agreed with the above statements. The standard deviation of 0.83 implied that there was low variation in responses among respondents. The findings agreed with those of Ngamsutti and Ussahawanitchakit (2016) who examined the link between marketing innovation capability and the marketing performance of electrical and electronic appliances businesses in Thailand, and noted that electrical and electronic appliances businesses in Thailand reported a high mean for marketing innovation capability.

Regression Analysis

Bivariate/simple regression analysis was conducted so as to establish the influence of market innovation on the performance. The resultant beta coefficient and level of significance were used to evaluate the hypothesis associated with market innovation.

Table 2: Model of Fitness for Market Innovation

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.557a</td>
<td>0.31</td>
<td>0.307</td>
<td>0.5287</td>
</tr>
</tbody>
</table>

Sum of Squares | df | Mean Square | F | Sig. |
---|----|-------------|---|-----|
Regression     | 27.88 | 1   | 27.88 | 99.735 | .000b |
Residual       | 62.058 | 222 | 0.28 |
Total          | 89.938 | 223 |

a Dependent Variable: Performance
b Predictors: (Constant), Marketing Innovation

<table>
<thead>
<tr>
<th>β</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.355</td>
<td>0.285</td>
<td>4.76</td>
<td>0.000</td>
</tr>
<tr>
<td>Marketing Innovation</td>
<td>0.674</td>
<td>0.067</td>
<td>0.557</td>
<td>9.987</td>
</tr>
</tbody>
</table>

The results in the Table 2 above present the fitness model of regression which is used in expounding the study phenomena. Marketing innovation was found to be satisfactory in the firm’s performance as supported by the coefficient of determination, the R square of 0.310. This means that marketing innovation explains 31% of the firm’s overall performance.
The findings agreed with those of Ngamsutti and Ussahawanitchakit (2016) who examined the link between marketing innovation capability and the marketing performance of electrical and electronic appliances businesses in Thailand. The results revealed that marketing innovation capability has a positive effect on marketing performance.

Table 2 above provided the results on the analysis of variance (ANOVA). The results revealed that the model was statistically significant. This was supported by the F statistic of 99.735 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. Where, \( F_{\text{statistic}} = 99.735 > F_{\text{critical}} = 3.89 \) (1,222).

Regression of coefficients results in the Table 2 above revealed that marketing innovation and performance are positively and significantly related \((p=0.674, \ p=0.001). This implies that improvement in 1 unit of the aspects related to marketing innovation leads to an improvement in the performance by 0.674 units.

**Hypothesis Testing for Marketing Innovation**

The hypothesis was tested by using the multiple linear regression results shown in the Table 2. The acceptance/rejection format was that, if the p value is greater than 0.05, the \( H_{AI} \) is not accepted but if it’s less than 0.05, the \( H_{AI} \) fails to be rejected. The null hypothesis was that there is a negative and insignificant relationship between marketing innovation and coffee cooperatives performance. Table 2 show that the p-value was 0.000<0.05. Therefore, the alternative hypothesis was accepted since there is a significant relationship between marketing innovation and performance of coffee cooperatives in Kenya.

**Conclusion**

The results revealed that marketing innovation and the performance are positive and significantly related. Significant changes in product design and packaging leads to a positive change in the performance of coffee cooperatives. In the light of the above, the study concluded that the market is the main focus of a company to determine how it performs. The market which is a function of the number of customers and how loyal they are, the firm entirely depends on them in order to sell its products. Thus, a continuous improvement in the way to satisfy the existing customers and attract more new customers is a multiplier on the sales revenue the cooperative will accrue. This is a process and as the study notes, the firm has to listen to the opinions and remarks of the customers, since the research and development relies on this kind of information to make adjustments for better productivity. In addition, the study affirms that in order to improve the performance by targeting the customers, constant improvements on the ways the company promotes its new products to capture the attention of new customers is a key aspect to be considered.

The study therefore recommends the management to employ skills in developing clear operating procedures to run the business successfully, to coordinate different areas of the business to achieve results and the ability and to design jobs to suit staff capabilities and interest. The study also recommends that the National government in conjunction with the County Government needs to review its constitutional laws and regulations that target coffee firms in Kenya. This particularly can be reviewed to address the price regulation in the market in order to offer protection of the producers in order for them to reap more and not be exploited by the cooperative societies they are affiliated to. In addition, since the market in Kenya is majorly a free market, the intervention of the government to the extent of influencing prices of the market can be detrimental to the market players (particularly coffee producers). Therefore, the government is advised to exercise extra caution in this kind of monetary policy mechanism and protect the market.

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**Institutional Review Board Statement:** Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

**Data Availability Statement:** The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

**Conflicts of Interest:** The authors declare no conflict of interest.

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