

**RELATIONSHIP BETWEEN AUDIT QUALITY ATTRIBUTES AND
CLIENT SATISFACTION FOR COMPANIES QUOTED AT THE
NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

This Research Project is my own original work and has not been presented for a Degree Qualification in any other University or Institution of learning.

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This Research Project has been submitted for Examination with my approval as the University Supervisor.

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DEDICATION

This paper is dedicated to my wife Linet for her patience and understanding and my children Dr. Winnie, Elvis and Moses who have been a source of inspiration, endurance and support in the course of my studies

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The MBA programme has been a long, taxing and challenging journey and the successful completion has been as a result of support received from many people. I am indebted not only to people who gave me the inspiration, support and encouragement to pursue MBA programme but also to everybody who gave me the guidance and assistance on what has been reported in this project.

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ABSTRACT

The rapid growth of service sectors all over the world and the deregulation of many services industries have led researchers with an interest in quality issues and the importance of acquiring more understanding about service quality.

The results of the empirical study indicate that the service quality instrument with five-dimension provides good measurement of service quality in the context of professional audit business; only one (i.e., empathy) out of five dimensions of service quality were statistically significant related to customer satisfaction, service quality has a positive effect on customer satisfaction, firm image and the price service have positive impact on customer satisfaction, and the price of service directly influences service quality. The impact on satisfaction from highest to lowest in order was, overall firm image, price compared to quality and service quality (empathy), respectively. This indicates that the firm image is the most important factor to customer satisfaction, price next and service quality last from firms' perspective.

From the study results, a significant expectation gap does exist in the sample population. On average, management appears to be only marginally satisfied with audit firms' service quality. An audit firm always improves its ability by following technical training in the area of client industry and should provide services as required. This research result can be made as input related to policy improvement of audit quality, especially in improving auditor understanding in area of client industry with a more regular performance of technical training in the area of client industry.

The researcher's empirical results showed the researcher may infer that the client believe that no matter which audit firm they choose should have a certain degree of service quality guaranteed in the highly competitive battle field.

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ABBREVIATIONS

| | |
|------------------------|--|
| Tangibles: | Physical facilities, equipment, staff appearance, etc. |
| Reliability: | Ability to perform service dependably and accurately |
| Responsiveness: | Willingness to help and respond to customer need |
| Assurance: | Ability of staff to inspire confidence and trust |
| SERVQUAL | Service Quality |
| ACS | Audit client satisfaction over audit firms |
| PriorExp | Prior experience in auditing the company. |
| IndExpt | Industry expertise for effective audit |
| Resp | Responsive to the company's needs |
| Indp | Never engaged in actions that compromise independence |
| Comm | Commitment to quality |
| ASEAN | Association of South East Asian Nations |
| NSE | Nairobi Securities Exchange |
| IFC | International Finance Corporation |
| DASS | Delivery and settlement system |
| WAN | Wide Area Network |
| CDS | Central Depository System |
| FISD | Financial Information Services Division |
| SIIA | Software and Information Industry Association |
| SPSS | Statistical Package for Social Scientist |
| ICPAK | Institute of Certified Public Accountants of Kenya |

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The rapid growth of service sectors all over the world and the deregulation of many services industries have lead researchers with an interest in quality issues and the importance of acquiring more understanding about service quality. It is recognized that high quality service is essential for firms that want to be successful in their business Parasuraman et al., (1998); Rust & Oliver, (1994). It leads to customer loyalty Lewis (1994), higher profitability Gundersen, Heide & Olsson, (1996) and lower cost Grant (1998). Most would agree without any prompting on the importance of offering their customers with service quality.

“Don’t blame the accountants” (Beattie, 2009), “Don’t blame the auditors” (Williams, 2009), “The blame game” (Holmes & Sukhraj, 2008)... Investors, regulatory bodies, politicians, and the general public have all pointed the fingers at auditors in the turmoil of the recent credit crisis. Yet so far no audit failure has been proved in the courts. This general “over-blaming” attitude has long been stressed. As Humphrey et al. (1992) observe, some practitioners have long recognized that such attribution of blame is altogether “misplaced and regrettable”, but also “inevitable” and “unavoidable”. These authors cite Olson (1993), a former vice-president of the AICPA, who commented: “As long as investors suffer losses from a sudden and drastic drop in earnings or the bankruptcy of a corporation which was widely regarded as a good investment, our profession is going to be criticized in the news media”. Sure enough, auditors always seem to be the ideal whipping boy (Guénin-Paracini & Gendron, 2010) when a significant misstatement is publicly unveiled, although both audit standards and academic research acknowledge that audit quality is a joint function of auditor and auditee (Simunic, 1980; Antle & Nalebuff, 1991).

Some studies have investigated the link between attribution of responsibility to auditors and the pre-existing attitude towards auditors observed in judges (Jennings, Kneer & Reckers, 1993; Anderson, Maletta & Wright, 1998) or business owners (Arrington, Bailey & Hopwood, 1985). Based on attribution theory, these studies point out cognitive differences that may have more impact on blaming behavior than the usually claimed “obvious motivational issues” (Arrington, Bailey & Hopwood, 1985). To our best knowledge, there is no existing formal empirical investigation into the “laymen’s” over-blaming behavior, which is surprising given the profession’s continuing complaints about public attitudes towards auditors. Yet Silvers (2007), for instance, argues that in the wake of the Enron collapse the auditing profession must respond to the millions of U.S. “worker-owners” who invest their money directly or indirectly (e.g. through benefit plans or health care plans) in audited companies, as they will be the most severely injured by an investment decision based on inaccurate financial disclosures. Moreover, studying the individual investor’s behavior is increasingly necessary because changes in pension schemes are leading to a more active role for this particular investor population, and non-professional investors are expected to behave differently from professional investors, being more “irrational” in their decision-making process (Anderson, Henker & Owen, 2005).

1.1.1 Audit Quality

Audit quality is determined by an auditor’s ability to discover breaches of accounting standards and their incentives to report such breaches, i.e., audit quality is a product of auditor competence and independence. DeAngelo (1981) argues that large audit firms are associated with higher audit quality because they are more independent. For large auditors, such as the Big N international audit firms, no single client is of more importance and there is more to lose if they misreport. Furthermore, Big N firms have established brand name reputations and, thus, have incentives to protect their reputation by providing high-quality audits (Simunic and Stein 1987; Francis and Wilson 1988). Motivated by these arguments, early studies use the dichotomy between Big N and non-Big N audit firms, and show that Big N audit firms are of higher quality and are more conservative (Becker et al. 1998; Francis and Krishnan 1999; Teoh and Wong 1993). Big

audit firms consist of many city-based practice offices. DeAngelo's (1981) argument regarding audit quality and firm size can be applied to the office level. In terms of economic importance, for example, a client that is not big relative to a Big N firm could be very important to one of the firm's offices. Accordingly, more recent studies shift the audit quality analysis from the firm level to the office level (Reynolds and Francis 2000; Krishnan 2005; Francis and Yu 2009).

A natural extension of this literature is to move the audit quality analysis further down, from the level of the office to that of the individual auditor, because individual auditors may differ in regard to both dimensions of audit quality, i.e., independence and competence (DeFond and Francis 2005). Accounting scholars have recently begun to investigate the role of individual auditors in determining audit quality. For example, Chen et al. (2010) perform one of the first analyses of how economic dependence affects audit quality at the individual auditor level using Chinese data, and find that the impact of client importance on the independence of individual auditors is conditional on the legal environment.

With the collapse of Enron involving the misconduct of one of the Big 4, Arthur Andersen & Co., the argument for audits for big audit firms as synonymous with quality audit has become questionable. Khurana and Raman (2004a) provide evidence that there is no significant difference in the quality of audit between Big 4 and non-Big 4 audit firms in the Association of South East Asian Nations (ASEAN) countries where the audit environment is less litigious. The study suggests that in the emerging market such as in ASEAN countries, Big 4 audit firms are not living up to their brand name reputation and that, by implication, the quality of Big 4 audits in these countries is not any higher than the quality of non-Big 4 audits Khurana & Raman (2004a). It is argued that in countries with generally less litigious environments than that in litigious environments Saudagaran & Diga (2000). Thus, the absence of litigation risk may weaken the incentives of Big 4 auditors to provide higher quality audits Khurana & Raman (2004a). Khurana and Raman (2004b) argue that in such environments the Big 4 brand name reputation becomes an important professional asset in retaining current audit clients, attracting new

major clients, and in retaining or recruiting outstanding individuals as employees. However, in that environment, auditors have no incentive to provide quality differentiated audit Khurana & Raman (2004a). Consistent with the Big 4 brand name eminence, therefore, reputation concerns could provide sufficient incentives for Big 4 auditors to provide quality audits in the less litigious ASEAN environment. It is a concern, therefore, whether companies audited by the Big 4 receive better quality audit services than those audited by the non-Big 4.

1.1.2 Client Satisfaction

Oliver (1997) defines satisfaction as the consumer's fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant. Zeithaml and Bitner (2000) define satisfaction as the customers' evaluation of a product or service in terms of whether that product or service has met their needs and expectations. Dissatisfaction with the product or service is resulted as failure to meet the customers' needs and expectations.

Satisfaction and perceived quality are highly inter-correlated Bitner and Hubbert (1994); Churchill and Surprenant (1982). Some studies find that satisfaction drives a general perception of quality, while others find that perceptions of quality drive satisfaction De Ruyter, Bloemer, and Peters (1997). Most marketing researchers accept a theoretical framework in which quality leads to satisfaction Dabholkar, Shepherd, and Thorpe (2000); Oliver (1997), which in turn influences purchasing behaviour Johnson and Gustafson 2000; Oliver (1999). These arguments suggest that service quality is likely to affect customer satisfaction.

More recently the Global Financial Crisis has seen policy makers once again focus attention on the importance of an effective audit function as a key component in effective capital markets and attempt to identify key drivers of audit quality. For example, in the US the Advisory Committee on the Auditing Profession (2007) was established to provide advice to the US Treasury Department on the auditing profession. In the UK the Financial Reporting Council released *The Audit Quality Framework (2008)* and in Australia, The Treasury released *Audit Quality in Australia – A Strategic Review (2010)*.

These investigations and regulatory changes make it clear that there has been considerable dissatisfaction with the effectiveness of corporate governance, the quality of the audit process and the roles of auditors and auditing. In response, regulators and the accounting profession have taken a number of policy measures to improve audit quality in both fact and appearance. Recent examples include the SEC's proposed ban on audit firms undertaking non-audit services (NAS) in 2000 (SEC 2000) and the rapid adoption of SOX following Enron's collapse (Francis 2004). However, these policy decisions have been made despite the fact that the empirical evidence regarding factors that can enhance or impair audit quality is inconclusive and uncertain.

The importance of auditor individual differences in the audit process has been articulated by several writers. For example, Nelson and Tan (2005, p.42) make the following point: "Auditors need to perform a variety of tasks to form an overall assurance or attestation opinion. To do so, various personal attributes of the auditor (e.g., skills and personality) influence the outcome." As such it is likely that individual characteristics of the auditor could affect the quality of the audit being undertaken. However, prior archival research has largely conducted the audit quality analysis at the audit firm or individual office level Francis (2004). The importance of individual auditors in determining audit quality has received increasing attention from policy-makers and academics in recent years. Wallman (1996) suggests that in assessing auditor independence, the focus should be on "the *individual*, office, and other unit of the firm making audit decisions with respect to a particular audit client". In a recent review paper, DeFond and Francis (2005) suggest that the audit quality analysis be pushed from the audit firm or office level down to the *individual* auditor level.

1.1.3 Relationship between Audit Quality and Client Satisfaction

Service quality, customer satisfaction and customer loyalty are three elements that many services firms would gladly profess to be striving to provide to their customers. Companies of various shades, the popular business press, as well as business schools in particular have relentlessly expounded service quality. Recent research indicates that these three concepts are quite distinct. Customer satisfaction or dissatisfaction results

from experiencing a service quality encounter and comparing that encounter with what was expected Oliver, (1980). Whereby perceived service quality can be defined as the customer's judgement about the superiority or excellence of a product while perceived value is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given Zeithaml, (1988). The dimensions underlying quality are fairly specific while satisfaction judgement has a broader range of dimensions that also include quality aspects Oliver, (1993). Moreover, satisfaction assessments require customer experience while quality does not Bolton & Drew, (1991); Boulding, (1993).

The importance of auditing and perceptions of auditing to the efficient operation of capital markets is well recognized. For example, Wallman (1996) and Coffee (2001) argue that without high quality audits the capital market would be inefficient and the cost of capital higher. Similarly, Monroe and Tan (1997 p.35) conclude that "the quality of an audit can affect the reliability of audited financial information, which in turn plays an important role in capital markets". Audit quality is, therefore, fundamental in providing the confidence that capital-market participants require and plays an important role in the effective allocation of economic resources. As a result of a series of corporate collapses and audit failures, perceptions of audit quality have been an issue over recent decades. These events and the ensuing investigations have resulted in changes to regulatory arrangements.

1.1.4 Nairobi Securities Exchange

In Kenya, dealing in shares and stocks started in the 1920's when the country was still a British colony. However the market was not formal as there did not exist any rules and regulations to govern stock broking activities. Trading took place on a 'gentleman's agreement.' Standard commissions were charged with clients being obligated to honour their contractual commitments of making good delivery, and settling relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because

these firms were engaged in other areas of specialization, the need for association did not arise.

A Wide Area Network (WAN) platform was implemented in 2007 and this eradicated the need for brokers to send their staff (dealers) to the trading floor to conduct business. Trading is now mainly conducted from the brokers' offices through the WAN. However, brokers under certain circumstances can still conduct trading from the floor of the NSE. In 2008, the NSE All Share Index (NASI) was introduced as an alternative index. Its measure is an overall indicator of market performance. The Index incorporates all the traded shares of the day. Its attention is therefore on the overall market capitalization rather than the price movements of select counters.

In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. In the same year, the equity settlement cycle moved from the previous T+4 settlement cycles to the T+3 settlement cycle. This allowed investors who sell their shares, to get their money three days after the sale of their shares. The buyers of these shares will have their CDS accounts credited with the shares, in the same time.

In September 2011 the Nairobi Securities Exchange converted from a company limited by guarantee to a company limited by shares and adopted a new Memorandum and Articles of Association reflecting the change. In October 2011, the Broker Back Office commenced operations. The system has the capability to facilitate internet trading which improved the integrity of the Exchange trading systems and facilitates greater access to our securities market. In November 2011 the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices were launched. The launch of the indices was the result of an extensive market consultation process with local asset owners and fund managers and reflects the growing interest in new domestic investment and diversification opportunities in the East African region. As of March 2012, the Nairobi Securities Exchange became a member of

the Financial Information Services Division (FISD) of the Software and Information Industry Association (SIIA).

In March 2012 the delayed index values of the FTSE NSE Kenya 15 Index and the FTSE NSE Kenya 25 Index were made available on the NSE website www.nse.co.ke. The new initiative gives investors the opportunity to access current information and provides a reliable indication of the Kenyan equity market's performance during trading hours.

1.2 Problem Statement

Business organizations make considerable use of professional services. However, it has received less attention in the context of professional business services than of other consumer services in general. There are few articles to investigate customer satisfactions of professional accounting firms and how business organizations select and switch accounting firms.

In the present economic environment, characterized by technological dynamism and intensive competition, the issue of customer satisfaction has become extremely important for the success of any business. If not recognized and responded to rapidly changing business environments effectively, a firm may result in increased pressure of work, lost revenue opportunities, increased costs and, ultimately, in increased levels of customer dissatisfaction (Gurau and Ranchhod 2002). Nowadays many audit firms are also stuck in a highly competitive market. Sometimes, a firm gets a disturbing message that the client is not pleased with the services. By this time it may be too late for taking any correctable action. Therefore, a firm must constantly ask itself, "what do clients want from us?" and "how do we improve what clients actually perceive?" With the emergence of competitive battlefield, the need for an appropriate approach to quality measurement in the context of professional business became apparent.

Most of the studies consider delivering quality service as an essential strategy for success and survival for any organization. A principle emphasis of recent academic and managerial inquiry has focused on determining what service quality means, developing

appropriate measures, and creating market-focused strategies to meet customer's expectation.

A study by Mugo (1988) observed at the scope of independence of internal auditing in publicly quoted companies in Kenya, Kemei (1992) looked at the determinants of auditor changes by unquoted companies operation in Nairobi. In 1994 Gichini undertook an investigation into the determinants of auditor's fees for companies quoted on the Nairobi Stock Exchange. Wachiuri (1996) looked at an investigation of the relationship between selected corporate auditor attributes and the timelines of annual reports of companies quoted on the Nairobi Stock Exchange while Keitany (2000) observed the internal audit control function and its implication for risk assessment by the external auditor, a case of quoted companies.

None of the studies observed the relationship between audit quality attributes and client satisfaction and that is the basis of this research, thus the need to answer the question, what is the relationship between Audit quality attributes and client satisfaction for the quoted companies at the Nairobi Security Exchange?

1.3 Objectives of the Study

The main objective of the study is to determine the relationship between audit quality attributes and client satisfaction for company's quoted at the Nairobi Securities exchange.

Other objectives;-

1. To determine the relative importance of each of the service quality dimensions.
2. To determine the expectations and perceptions of audit clients' regarding the services offered by audit firms.
3. To find whether there is a significant difference between perception and expectation for each of the service quality dimensions.

1.3.1 Hypothesis

The researcher sought to respond to the following hypothesis.

H1: Service qualities have a positive effect on overall customer satisfaction

H2: Firm image have a positive effect on overall customer satisfaction

H3: Price of service directly influences customer satisfaction

H4: Price of service directly influences service quality

1.4 Significance of the Study

In a world where many companies are increasingly relying on Audit, it is necessary for a company's management to understand the full degree of operational dependence on audit systems or the extent to which audit plays a role in shaping the firm's strategies.

This research is necessary to the Directors/Owners of a firm to set standards for Audit governance. Many firms on the NSE have embraced audit and according to past studies expenditures on audit have significantly increased. It is therefore necessary to monitor the spending and use of audit to ensure value for money.

The research finding is important to scholars by adding to the body of existing knowledge on internal audit and risk management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, a literature review of the various research objectives will be undertaken. It will further present a review of past studies and the critical review and lastly it will present the general literature review of the subject matter.

2.2 Literature Review

2.2.1 Theory A: Service Quality

By definition, service quality construct is the difference between perceived service and expected service Parasuraman, Zeithaml and Berry (1985). Customer expectations capture a customer's prior consumption experience with a firm's products or services as well as advertising and word-of-mouth information. Fornell (1992). Researchers generally agree that expectations serve as reference points in customers' assessment of service performance. Zeithaml & Bitner (2000) stated, "the dominant view among CS/D researchers is that expectations are predictive standards- i.e., what customers feel a service provider will offer."

Service providers must realize that the key to service quality is consistently meeting or exceeding consumer expectations Bojanic (1991). The consumer's perception of the service does matter rather than the service provider's. Consumers' perceptions of service quality depend on the size and direction of the gap between perceived service and expected service which, in turn depend on the nature of the gaps associated with the design, marketing and delivery of services Parasuraman et al. (1985).

Service quality is more difficult for the consumer to evaluate than product quality because of the lack of tangible evidence associated with service. This is especially true for professional services because they tend to be very people-based. Service quality can be measured by how well the service delivery matches a client's expectations Lewis and Booms (1983).

Most work performed evaluating or using the SERVQUAL instrument indicates that the generic determinants of the instrument provide a platform for expanding the instrument to include constructs for assessing extra case specific determinants such as professionalism, value for money and especially the core service or the business Walbridge and Delene (1993). Since the SERVQUAL instrument has been productively used for measuring service quality in many proprietary studies, this study intended to employ SERVQUAL instrument to measure service quality in the context of professional service.

2.2.2 Theory B: Customer Satisfaction

Oliver (1997) defines satisfaction as “the consumer’s fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant.” Zeithaml and Bitner (2000) define satisfaction as the customers’ evaluation of a product or service in terms of whether that product or service has met their needs and expectations. Dissatisfaction with the product or service is resulted as failure to meet the customers’ needs and expectations.

Satisfaction and perceived quality are highly inter-correlated Bitner and Hubbert (1994); Churchill and Surprenant (1982). Some studies find that satisfaction drives a general perception of quality, while others find that perceptions of quality drive satisfaction De Ruyter, Bloemer, and Peters (1997). Most marketing researchers accept a theoretical framework in which quality leads to satisfaction Dabholkar, Shepherd, and Thorpe (2000); Oliver (1997), which in turn influences purchasing behaviour Johnson and Gustafson (2000); Oliver (1999). These arguments suggest that service quality is likely to affect customer satisfaction.

Customer satisfaction is a key and valued outcome of good marketing practice. According to Drucker (1954), the principle purpose of a business is to create satisfied customers. Increasing customer satisfaction has been found to lead to higher future profitability Anderson, Fornell, and Lehmann (1994), lower costs related to defective goods and services Anderson, Fornell, and Rust (1997), increased buyer willingness to pay price premiums, provide referrals, and use more of the product Reichheld (1996);

Anderson and Mittal (2000), and higher levels of customer retention and loyalty Fornell (1992); Anderson and Sullivan (1993); Bolton (1998). Increasing loyalty, in turn, has been found to lead to increases in future revenue Fornell (1992); Anderson, Fornell, and Lehmann (1994) and reductions in the cost of future transactions Reichheld (1996); Srivastava, Shervani, and Fahey (1998). All of this empirical evidence suggests that customer satisfaction is valuable from both a customer goodwill perspective and an organization's financial perspective. A firm's future profitability depends on satisfying customers if the present retained customers should be viewed as revenue producing assets for the firm Anderson and Sullivan (1993); Reichheld (1996); Anderson and Mittal (2000). Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. Fornell (1992); Anderson, Fornell, and Rust (1997). However, the key to building long-term customer satisfaction and retention and reaping the benefits these efforts can offer is to focus on the development of high quality products and services. Customer satisfaction and retention that are bought through price promotions, rebates, switching barriers, and other such means are unlikely to have the same long-run impact on profitability as when such attitudes and behaviors are won through superior products and services Anderson and Mittal (2000). Thus, squeezing additional reliability out of a manufacturing or service delivery process may not increase perceived quality and customer satisfaction as much as tailoring goods and services to meet customer needs Fornell, Johnson, Anderson, Cha, and Everitt (1996).

2.2.3 Theory C: Firm image

Firm image is defined as perceptions of a firm reflected in the associations held in consumer memory Keller (1993). Gronroos (1990) contended that a favourable and well-known image is an asset for any organization because image can impact perceptions of quality, value, and satisfaction. Researchers have emphasized firm image affects perceptions of quality performance as well as satisfaction and loyalty Andreassen & Lindstand (1998). Zeithaml and Bitner (2000) argued that firm image would influence customer perceptions of the service firm's operations and would be reinforced by actual service experiences to solidify the desired image. Some researchers also mentioned that

firm image would have been affected by the customer's more recent consumption experiences, or customer satisfaction Johnson, Fornell, Andreessen, Lervik, and Cha (2001).

Price is defined as what is given up or sacrificed to obtain a product or service from the consumer's perspective Zeithaml (1988). Considerable empirical studies have shown different results of the relationship between price and service quality. Peterson and Wilson (1985) concluded that the relationship between price and quality is not universal and that the direction of the relationship may not always be positive. A positive price-service quality relationship does appear to exist in some empirical results Monroe and Krishnan (1985); Dodds, Monroe, and Grewal (1991); Teas and Agarwal (2000). Based on the conceptual model of service quality proposed by Parasuraman et al. (1985), discrepancies between service delivery and external communications cause Provider Gap. Zeithaml and Bitner (2000) stated, "one of the important types of external communications in services is the price of the service." In addition, customers likely depend on price as a cue to quality and because price sets expectations of quality, service prices must therefore be considered.

On the other hand, the effect of price on satisfaction has received considerably less research attention than have the roles of expectations and performance perceptions Spreng, Dixon, and Olshavsky (1993). Post-purchase price perceptions have a significant, positive effect on satisfaction Voss, Parasuraman, and Grewal (1998). Zeithaml and Bitner (2000) contended, "the price of the service can greatly influence perceptions of quality, satisfaction, and value. Because services are intangible and often difficult to judge before purchase, price is frequently relied on as a surrogate indicator that will influence quality expectations and perceptions." Some researchers argued that client satisfaction with the audit team is positively associated with fees Behn et al., (1999).

2.3 Review of Empirical Studies

The issue of audit quality is not new. It has been subject to research since early 1980s in different countries such as the US DeAngelo (1981); Australia Craswell, Francis &

Taylor (1995), UK. Che Ahmad & Houghton (1996) and Malaysia, Mohd-Mohid & Takiah (2004). In a survey conducted among members of the Malaysian Institute of Accountants (MIA) in 1990, audit quality is cited by respondents as one of the critical issues to the profession Teoh (1990). However, the study did not identify factors contributing to the problem or specifying the desirable attributes of audit quality.

Audit quality is often associated with the quality of financial reporting. Evidence shows voluntary differential audit quality exists along a number of dimensions such as firm size, industry specialization, office characteristics, and cross-country differences in legal system and auditor liability exposure Francis (2004). A study in Malaysia shows that size of audit firms has a significant positive relationship with the quality of financial reporting Lily Marlina & Takiah (2003). Financial statements issued to shareholders by board of directors are required to be attested to by external auditors. Such an attestation by an external party, independent of the preparers of the statements, gives the financial statements a measure of credibility. Financial statements are expected to be free of material misstatements if auditors provide quality audits. This is consistent with DeAngelo (1981) who defines audit quality as the probability that a material misstatement in the financial statements can be detected and reported by auditors. It implies the significance of auditors' competency and independence in determining the quality of audit. Both elements of audit quality, independence and competency, relate to personnel characteristics of auditors.

With the above-mentioned characteristics, auditors are able to perform their role in reducing the information gap between the management and stakeholders in order to provide an assurance that financial statement in general are free from material misstatements. The external audit of high quality serves a corporate governance role in enhancing the quality of reporting. It enhances the credibility of financial statements and users' confidence in the statements. The importance of high quality audit in improving management controls and processes is recognized by Cadbury Committee (1992). Hence, it helps reduce the cost of capital by reducing the risk of information. Thus, a high quality external audit improves the monitoring and controlling mechanism of the company

Khurana & Raman (2004a). Being a monitoring mechanism, an audit is used by companies to reduce the agency cost being borne by financiers and shareholders Jensen & Meckling (1976); Watts & Zimmerman (1983). It is concluded that an audit reduces the positive bias of net earnings and net assets before the audit Kinney and Martin (1994). Consequently, an audit improves the distribution of resources in the capital market through effective decision making processes.

Despite the significant role of quality audit in enhancing quality corporate financial reporting, consensus has not been reached on how audit quality should be measured. It is often perceived that an unqualified audit opinion describes the quality of audited financial statements implying that financial statements are free from material misstatements. Some observable proxies are used for financial statements credibility expected from high quality audit. These proxies include earnings response coefficient Teoh & Wong (1993) and magnitude of the discretionary accrual components of reported earnings Becker *et al.* (1998); Francis *et al.* (1999). Catanach and Walker (1999) see audit quality as a function of auditor performance. They argue that audit quality is affected by the ability and professional conduct of auditors. Hence, auditors' failure to detect material misstatements or failure to report the misstatement would reflect poor audit quality. However, the quality of the audit work performed by auditors is not assessable for scrutiny by financial statements users because users are not privy to the working papers of the auditors nor can they observe what the auditors actually did. The question of what constitutes an audit quality remains unanswered. Therefore, some other indicators of audit quality have often been adapted to proxy for quality.

DeAngelo (1981) in her seminal work concludes that size of audit firm alone can be used as the proxy for quality. She suggests that the big firms supply better quality audit compared to the small firms. Big audit firms demonstrate the ability to provide quality audit in two dimensions. The first dimension is the ability to detect misstatement and the second is the reporting of the misstatement (DeAngelo 1981). According to DeAngelo (1981), auditors' ability to detect misstatement is a function of technical competence whereas the willingness to report the misstatement is a reflection of the auditors' independence. A crucial attribute of audit quality is therefore the exercise of professional

judgments by auditors in an independent manner because it essentially enhances the informational value of auditing to third parties.

However, studies on quality differences between audit firms provide inconsistent results. For example, Jang and Lin (1993) find that information associated with big firm is perceived to be more reliable. This is consistent with Morris and Strawser (1990) who find that banks receiving modified audit reports by big firms are more likely to be closed by regulators compared to banks receiving modified audit reports by small firms. These findings are inconsistent with earlier studies, which find no significant difference in the audit price of the big firms.

Perceived audit quality may also be measured by evaluating client satisfactions with the performance of the auditors. Behn *et al.* (1997) relate the client overall satisfaction with external audit work to audit quality attributes based on the evaluation made by company controllers. The study finds that the client satisfaction is significantly related to certain audit quality attributes, which underlying components of audit quality include responsiveness to client needs, executive involvement, effectiveness and ongoing interaction with the audit committee, conduct of field works, industry expertise, and prior experience with the clients. Results indicate the important role of communication and relationships in promoting client satisfaction. From the study, it is found that the attributes of audit quality consistently recognized as critical are technical and industry expertise, responsiveness to client's need and interpersonal rapport with client personnel. However, different groups of financial statement users (i.e. shareholders, financial journalists, managing directors, and public accountants) assign significantly different values to the quality dimensions in external audit services Warming-Rasmussen & Jensen (1998). Warming-Rasmussen & Jensen (1998) find that external users tend to perceive audit quality attributes as those attributes which inspire confidence in the auditor. The main dimensions that are of users' concerns are the aspects of moral and ethical. The Nahariah *et al.* (2005) shows that audit partners, audit committees and investment analysts perceive audit quality is influenced by auditors' knowledge in accounting and

auditing, accounting and financial reporting, and industry as well as their compliance on ethical standards.

Based on the above discussion, it is concluded that audit quality is characterized by a number of quality attributes, which mainly relate to audit firm as an entity and specific to audit team assigned to an audit work Schroeder et al. (1986). High quality audit would result in auditors producing timelier reporting Idawati et al. (2004), facing fewer lawsuit cases Francis (2004), spending audit time more efficiently, hence, charging higher audit fees Mohd-Mohid & Takiah (2004). Those studies conclude that audit fee is associated with audit quality. Higher audit fees are asserted to be the result of better audit quality DeAngelo (1981); Francis (1984); Mohd-Mohid & Takiah (2004).

2.4 Chapter Summary

The SERVQUAL, an instrument frequently employed to assess the quality of consumer services, was adapted to assess customers' perceptions of service quality in the context of professional business (Bojanic 1991; Freeman and Dart 1993; Weekes, Scott, and Tidwell 1996). Some researchers examined the relationship between audit quality attributes and client satisfaction (Behn, Carcello, Hermanson, and Hermanson 1997). Client satisfaction with the audit team was positively associated with audit fees paid by Fortune 1000 clients (Behn et al., 1999). Taking these studies into consideration, the literature is focused on either examining the determinants of service quality only or audit quality attributes oriented. Business organizations make considerable use of professional services. However, it has received less attention in the context of professional business services than of other consumer services in general. Besides, external satisfaction research offers little insight into the relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi securities exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter defines the design of the study and the research method, which was used to get responses from the target population. It further highlights data collection procedures including data collection instruments that were used. The chapter concludes with highlighting how data was analyzed.

3.2 Nature of the design

The research design was descriptive. It is often used to study the general condition of people and organizations as it investigates the behavior and opinions of people usually through questioning them (Cooper, 2003). Descriptive research is the process of collecting data in order to answer questions concerning the current status of the subjects under study. The design was appropriate for the study because the study came up with findings that shows the current situation in the audit attributes and client satisfaction for the listed companies in Kenya.

3.3 Population of the study

The population of interest in this study consisted of all the 60 listed companies at the Nairobi Securities Exchange as at 31st December 2011. This is because the information for the listed companies was readily available.

3.4 Sample size

The researcher sampled companies listed at the Nairobi Securities Exchange which have been in operation continuously from 2006-2011. This is because the information within the timeframe was current and could be accessed with ease.

3.5 Data collection

The research instrument, adapted from Behn *et al.* (1997) which requested controllers of Fortune 1000 companies in the US to evaluate their existing auditors on each identified

dimensions of audit quality. In the Behn *et al.* (1997) study, the controllers were also asked to rate their overall level of satisfaction with their auditors' performance. Using the above approach, this study was able to obtain perceptions of the company management represented by the financial controllers. They were required to give their perceptions of the company external auditor on each attribute of audit quality based on questions contained in the research instrument. This study identified the possible relationships between the company management satisfaction of auditors' works and each audit quality attribute. Although the Behn *et al.* (1997) study was conducted in the US environment which may differ culturally, politically and legally from that of Kenya, the basic principles that underlie the audit quality are similar. In developing the standards for auditing practices in Kenya, the Institute of Certified Public Accountants of Kenya has adopted the International Standards on Auditing Devi, Hooper & Davey (2004). Hence, auditors in Kenya are guided by the same auditing framework as that in other countries although the context within which the audit takes place may differ. Although institutional environments in Kenya may differ from those in the US, common attributes are expected to characterize audit quality in these countries.

The purpose of the instrument was to solicit perceptions of financial controllers over the quality of audit. The questions were categorized into two parts. First part contained a set of fifteen items of audit quality attributes. The second part contained two items to measure the client satisfactions. Respondents were required to evaluate the performance of their external auditors on the stated audit quality attributes by indicating scores along a 5 point Likert scale ranging from 'strongly disagree' to 'strongly agree.' With respect to client satisfaction with audit performance, respondents were required to provide their evaluation on a separate 5 point Likert scale ranging from 'very dissatisfied' to 'very satisfied.'

Primary data was collected by use of "drop and pick later" questionnaire and where possible the researcher discussed the contents of the questionnaire with the respondent and left him/her to fill it at his/her own time. These was a variant of mail questionnaire and aimed at capturing the benefits of personal interview and to speed up data collection.

However where the company's head office was situated outside Nairobi, questionnaires were sent and responses received via mail. Any clarification was sought by telephone calls.

3.6 Data analysis

The SPSS programme was used to analyze the results of the questionnaire. The researcher assessed the validity (reliability) by reviewing the t-test, and after that the researcher explored the interrelationship among dependent variable (customer satisfaction) and the independent variables (service, quality, firm image, and price of services rendered). Durbin-Watson statistic was used to test for the presence of serial correlation among the residuals and Collinearity Diagnostics was tested for possible multicollinearity among the above mentioned explanatory variables.

Since SERVQUAL is a well-established measure, the scale can be considered to possess content validity. Empirically, convergent validity can be assessed by reviewing the t-tests for the factor loadings of the indicators. If all factor loadings for the indicators measuring the same construct are statistically significant (greater than twice their standard error), this can be viewed as evidence supporting the convergent validity of those indicators (Anderson and Gerbing 1988).

The data collected was analyzed by the use of descriptive statistics. First, data was coded to facilitate computer data input. The data was then presented in a model form.

The model begun with SERVQUAL measurement scale, consisting of five-dimensional structure (responsiveness, assurance, empathy, tangibles, and reliability), to assess service quality. Next, the researcher developed a set of hypotheses surrounding major variables (such as price, firm image, service quality and client satisfaction). Then, he examined the effect of these variables. Finally, a discussion was presented in support of the hypothesized influence of the various variables on service quality and client satisfaction.

The model is presented below:

$$ACS_{af} = \alpha + b_1 \text{PriorExp} + b_2 \text{IndExpt} + b_3 \text{Resp} + b_4 \text{Indp} + b_5 \text{Comm}$$

The model is based on a study conducted by Behn et al (1997) where the Financial Controllers of 1000 fortune companies in the US were requested to evaluate their existing auditors on each identified dimensions of the audit quality attributes and rate their overall level of satisfaction with their auditor's performance. A detailed explanation is at 3.5 above.

Where:

ACS_{af} = Audit client satisfaction over audit firms

PriorExp = Prior experience in auditing the company.

IndExpt = Industry expertise for effective audit

Resp = Responsive to the company's needs

Indp = Never engaged in actions that compromise independence

Comm = Commitment to quality

The measurement of these variables is explained under 3.5 page 21 second paragraph and the likert scales are as shown on Appendix II annexed at the back of the document.

3.7 Data validity and reliability

Data obtained from the listed companies was considered authentic and can therefore be relied upon for deriving conclusions. Such data was also considered credible and free from error or any bias.

Data was moved from the field only by the researcher to ensure confidentiality and reliability was observed, discussion and clarification were sought from the organizations targeted to ensure reliability, remained confidential and used only for the purpose of this study.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The main objective of this study was to determine the relationship between audit quality attributes and client satisfaction for companies listed at the Nairobi securities exchange. A total of 42 questionnaires were sent out, of which 35 were satisfactorily filled and returned, this formed 83% response rate. In order to achieve this objective, the entire set of data for service quality attributes and client satisfaction was analyzed using the SPSS package. The chapter starts with the analysis of results and concludes with giving the summary and interpretation of the findings.

4.2 Data presentation and explanation

4.2.1 Validation of Measures

The SPSS programme was used to analyze the results of the questionnaire. The researcher assessed the validity (reliability) by reviewing the t-test, and after that he explored the interrelationship among dependent variable (customer satisfaction) and the independent variables (service, quality, firm image, and price of services rendered). Durbin-Watson statistic was used to test for the presence of serial correlation among the residuals and Collinearity Diagnostics was tested for possible multicollinearity among the above mentioned explanatory variables.

4.2.2 Regression results of customer satisfaction and service quality

H1: Service qualities have a positive effect on overall customer satisfaction

Table 4.1 Regression results for Service Quality and Customer Satisfaction

| Model | R Square | Adjusted R Square | Durbin-Watson | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|----------|-------------------|---------------|------------|----------------|----|-------------|--------|---------|
| 1 | .389 | .332 | 1.791 | Regression | 12.478 | 4 | 2.468 | 10.920 | .000(a) |
| | | | | Residual | 21.322 | 93 | .232 | | |
| | | | | Total | 34.186 | 98 | | | |

- a Predictors: (Constant), rel2q, tan2q, res2q, emp2q, ass2q
- b Dependent Variable: customer satisfaction

This table displays R, R squared, adjusted R squared, and the standard error. R, the multiple correlation coefficient, is the correlation between the observed and predicted values of the dependent variable. The values of R for models produced by the regression procedure range from 0 to 1. Larger values of R indicate stronger relationships. R squared is the proportion of variation in the dependent variable explained by the regression model. The values of R squared range from 0 to 1. Small values indicate that the model does not fit the data well. The sample R squared tends to optimistically estimate how well the models fit the population. Adjusted R squared attempts to correct R squared to more closely reflect the goodness of fit of the model in the population. Choose a model with a high value of R squared that does not contain too many variables. Models with too many variables are often over fit and hard to interpret.

The above model summary indicates that the model explains 38.9 % of the variability (dispersion) in the dependent variable also above F value and significance level indicates that the independent variables, service quality (res, ass, emp, tan, rel) explain a highly significant proportion of the variation in the dependent variable, customer satisfaction. Therefore our first hypothesis has been accepted.

Table 4.2 Coefficients for Service Quality and Customer Satisfaction

| Model | | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. |
|-------|------------|-----------------------------|------------|-----------------------------------|--------|------|
| | | B | Std. Error | | | |
| 1 | (Constant) | 4.386 | .056 | | 75.944 | .000 |
| | RESAVEQS | .217 | .187 | .250 | 1.073 | .286 |
| | ASSAVEQS | -.045 | .239 | -.054 | -.205 | .838 |
| | EMPAVEQS | .272 | .130 | .305 | 2.111 | .035 |
| | TANAVEQS | .017 | .066 | .019 | .201 | .841 |
| | RELAVEQS | .134 | .117 | .159 | 1.185 | .239 |

a. Dependent Variable: customer satisfaction

The above coefficients and significance levels indicate that empathy has the greatest influence on the dependent variable, customer satisfaction, (0.305).The direction of influence is positive.

Table 4.3 Collinearity Diagnostics for Service Quality and Customer Satisfaction

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | | | | |
|-------|-----------|------------|-----------------|----------------------|-----------|-------|-------|-------|-------|
| | | | | (Constant) | res2 q | ass2q | emp2q | tan2q | rel2q |
| 1 | 1 | 3.776 | 1.000 | .02 | .01 | .00 | .02 | .01 | .02 |
| | 2 | 1.137 | 1.823 | .19 | .00 | .00 | .00 | .44 | .00 |
| | 3 | .555 | 2.608 | .77 | .02 | .01 | .00 | .34 | .00 |
| | 4 | .268 | 3.757 | .00 | .08 | .04 | .04 | .15 | .67 |
| | 5 | .219 | 4.153 | .01 | .03 | .00 | .87 | .04 | .30 |
| | 6 | .045 | 9.139 | .01 | .87 | .95 | .07 | .03 | .00 |

a) Dependent Variable: customer satisfaction1

4.2.3 Coefficients for Service Quality and Customer Satisfaction

H2: Firm image have a positive effect on overall customer satisfaction

Table4.4 Regression results between Firm Image and Customer Satisfaction

| Model | R Square | Adjusted R Square | Durbin-Watson | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|----------|-------------------|---------------|------------|----------------|----|-------------|-------|---------|
| 2 | .167 | .149 | 1.949 | Regression | 5.859 | 2 | 2.930 | 9.699 | .000(a) |
| | | | | Residual | 29.301 | 97 | .302 | | |
| | | | | Total | 35.160 | 99 | | | |

a. Predictors: (Constant), firm image8, firm image7

b. Dependent Variable: customer satisfaction1

The R value in the above table indicates that model explain 16,7% of the variable in the dependent variable. Significance level in the above table indicates that the independent variables (firm image) explain a highly significant proportion of the variation in the dependent variable (customer satisfaction).

Table 4.5 Coefficients for Firm Image and Customer Satisfaction

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|-------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 2 | (Constant) | 2.737 | .349 | | 7.831 | .000 |
| | firm image7 | .383 | .119 | .442 | 3.221 | .002 |
| | firm image8 | -.036 | .103 | -.047 | -.345 | .731 |

a Dependent Variable: customer satisfaction1

Coefficients in the above table indicate that overall firm image is highly significant explanatory variable for the customer satisfaction (0.442). The direction of influence is positive. Therefore our second hypothesis has been accepted.

Table 4.6 Collinearity for Firm Image and Customer Satisfaction

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | |
|-------|-----------|------------|-----------------|----------------------|-------------|-------------|
| | | | | (Constant) | Firm image7 | Firm image8 |
| 2 | 1 | 2.974 | 1.000 | .00 | .00 | .00 |
| | 2 | .019 | 12.622 | .81 | .02 | .31 |
| | 3 | .007 | 19.996 | .19 | .98 | .69 |

a Dependent Variable: customer satisfaction

This table displays statistics that help you determine if there are any problems with collinearity. Collinearity (or multicollinearity) is the undesirable situation where the correlations among the independent variables are string. Eigenvalues provide an indication of how many distinct dimensions there are among the independent variables. When several eigenvalues are close to zero, the variables are highly intercorrelated and small changes in the data values may lead to large changes in the estimates of the coefficients. Condition indices are the square roots of the ratios of the largest eigenvalue to each successive eigenvalue. A condition index greater than 15 indicates a possible problem and an index greater than 30 suggests a serious problem with collinearity. The variance proportions are the proportions of the variance of the estimate accounted for by each principal component associated with each of the eigenvalues. Collinearity is a problem when a component associated with a high condition index contributes substantially to the variance of two or more variables.

4.2.4 Regression results of firm image and customer satisfaction:

H3: Price of service directly influences customer satisfaction

Table 4.7 Regression results of Price and Customer Satisfaction

| Model | R Square | Adjusted R Square | Durbin-Watson | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|----------|-------------------|---------------|------------|----------------|----|-------------|-------|---------|
| 3 | .103 | .075 | 1.928 | Regression | 3.638 | 3 | 1.213 | 3.694 | .014(a) |
| | | | | Residual | 31.522 | 96 | .328 | | |
| | | | | Total | 35.160 | 99 | | | |

a. Predictors: (Constant), price6, price4, price5

b. Dependent Variable: customer satisfaction

The R square in the above table indicates that model explains 10.3 % of the variability in the dependent variable also the above F value and significance level indicates that the independent variable, price, explain a moderately significant proportion of the variation in the dependent variable (customer satisfaction). Therefore our third hypothesis has been accepted.

Table 4.8 Coefficients for Price and Customer Satisfaction

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 3 | (Constant) | 3.079 | .357 | | 8.630 | .000 |
| | price4 | .244 | .108 | .296 | 2.267 | .026 |
| | price5 | .049 | .100 | .067 | .488 | .627 |
| | price6 | -.018 | .109 | -.025 | -.168 | .867 |

a Dependent Variable: customer satisfaction

The above coefficients and significance levels indicate that the price compared to quality has the greatest influence on the dependent variable, customer satisfaction, (0.296). The direction of influence is positive.

Table 4.9 Collinearity for Price and Customer Satisfaction

| Model | Dimensi on | Eigenvalue | Condition Index | Variance Proportions | | | |
|-------|------------|------------|-----------------|----------------------|--------|--------|--------|
| | | | | (Constant) | price4 | price5 | price6 |
| 3 | 1 | 3.953 | 1.000 | .00 | .00 | .00 | .00 |
| | 2 | .023 | 13.067 | .65 | .01 | .23 | .10 |
| | 3 | .014 | 16.943 | .21 | .41 | .58 | .15 |
| | 4 | .010 | 19.774 | .14 | .58 | .19 | .75 |

a. Dependent Variable: customer satisfaction

From table 4.9 above several eigenvalues are close to zero (i.e on dimensions 2,3,&4) suggesting the variables are highly intercorrelated hence small changes in the data may lead to large changes in the estimates of the co-efficients. Two of the conditions index's (16.943 and 19.744) are greater than 15 indicating a possible collinearity problem. Collinearity is a problem when a component associated with a high condition index contributes substantially to the variance of two or more variables.

4.2.5 Regression results of price and customer satisfaction:

H4: Price of service directly influences service quality

Table 4.10 Regression results of price and service quality

4.2.6 Regression results of price and service quality

| Model | R Square | Adjusted R Square | Durbin-Watson | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|----------|-------------------|---------------|------------|----------------|----|-------------|-------|---------|
| 4 | .225 | .201 | 1.857 | Regression | 7.584 | 3 | 2.528 | 9.278 | .000(a) |
| | | | | Residual | 26.159 | 96 | .272 | | |

| | | | | | | | | | |
|--|--|--|--|-------|--------|----|--|--|--|
| | | | | Total | 33.743 | 99 | | | |
|--|--|--|--|-------|--------|----|--|--|--|

a. Predictors: (Constant), price6, price4, price5

b. Dependent Variable: SQ

The R square in the above table indicates that model explains 22.5% of the variability in the dependent variable (service quality).

Table 4.11 Coefficients for price and service quality

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 4 | (Constant) | -1.913 | .325 | | -5.887 | .000 |
| | price4 | .199 | .098 | .247 | 2.032 | .045 |
| | price5 | .150 | .091 | .210 | 1.640 | .104 |
| | price6 | .061 | .100 | .086 | .613 | .542 |

a. Dependent Variable: service quality

The above findings indicates that the independent variable price, explain a slightly significant proportion of the variation in the dependent variable (service quality) and price compared to quality (price4) has the greatest influence on the dependent variable (service quality). The direction of influence is positive (0.247).

Table 4.12 Collinearity price and service quality

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | | |
|-------|-----------|------------|-----------------|----------------------|--------|--------|--------|
| | | | | (Constant) | price4 | price5 | price6 |
| 4 | 1 | 3.953 | 1.000 | .00 | .00 | .00 | .00 |
| | 2 | .023 | 13.067 | .65 | .01 | .23 | .10 |
| | 3 | .014 | 16.943 | .21 | .41 | .58 | .15 |
| | 4 | .010 | 19.774 | .14 | .58 | .19 | .75 |

a. Dependent Variable: service quality

Autocorrelation' and 'multicollinearity' are the basic problems of regression analysis. When tables for four models are considered together, the same generalized evaluation can be made as follows:

The Durbin-Watson test is a widely used method of testing for autocorrelation. The Durbin-Watson Statistic is used to test for the presence of serial correlation among the residuals. The value of the Durbin-Watson statistic ranges from 0 to 4. As a general rule of thumb, the residuals are uncorrelated if the Durbin-Watson statistic is approximately 2. A value close to 0 indicates strong positive correlation, while a value of 4 indicates strong negative correlation (Durbin and Watson, 1971). *Durbin-Watson should be between 1.5 and 2.5 indicating the values are independent* (Statistica). As shown in the relevant tables above all Durbin-Watson values belonging to four models are between 1.5 and 2.5 showing the absence of auto correlation.

Collinearity diagnostics were run to test for possible multicollinearity among the explanatory variables in model 1, model 2, model 3 and model 4. The relevant tables show multicollinearity test results. As can be seen from all relevant tables, there is no evidence of a multicollinearity problem since the condition index for each dimension is lower than 30 and at least two variance proportions are lower than 0.50 (Tabashnick and Fidell, 1996).

Summary and Interpretation of the findings

The regression model summary indicates that the model explains 38.9 % of the variability (dispersion) in the dependent variable also above F value and significance level indicates that the independent variables, service quality (res, ass, emp, tan, rel) explain a highly significant proportion of the variation in the dependent variable, customer satisfaction. Therefore our first hypothesis has been accepted.

The coefficients and significance levels indicate that empathy has the greatest influence on the dependent variable, customer satisfaction, (0.305). The direction of influence is positive.

The R value indicates that model explain 16,7% of the variable in the dependent variable. Significance level in the above table indicates that the independent variables (firm image) explain a highly significant proportion of the variation in the dependent variable (customer satisfaction).

Coefficients indicate that overall firm image is highly significant explanatory variable for the customer satisfaction (0.442). The direction of influence is positive. Therefore our second hypothesis has been accepted. The Collinearity table displays statistics that help you determine if there are any problems with collinearity. Collinearity (or multicollinearity) is the undesirable situation where the correlations among the independent variables are string. Eigenvalues provide an indication of how many distinct dimensions there are among the independent variables.

The coefficients and significance levels indicate that the price compared to quality has the greatest influence on the dependent variable, customer satisfaction, (0.296). The direction of influence is positive.

The R square indicates that model explains 22.5% of the variability in the dependent variable (service quality). The findings indicates that the independent variable price, explain a slightly significant proportion of the variation in the dependent variable (service quality) and price compared to quality (price4) has the greatest influence on the dependent variable (service quality). The direction of influence is positive (0.247).

Collinearity diagnostics were run to test for possible multicollinearity among the explanatory variables in model 1, model 2, model 3 and model 4. The relevant tables show multicollinearity test results. As can be seen from all relevant tables, there is no evidence of a multicollinearity problem since the condition index for each dimension is lower than 30 and at least two variance proportions are lower than 0.50.

An analysis of the components of service quality, the study found that only one out of five dimensions of service quality was statistically significant related to customer satisfaction. It is empathy. This may indicate those sample companies are not quite

pleased with this area. Specifically, we can conclude that audit firms need to recognize and respond effectively to this area (empathy). If they still want to retain customers in a highly competitive environment.

The results from H1 to H4 suggest that (1) service quality has a positive effect on customer satisfaction, (2) overall firm image does have a positive effect on customer satisfaction, (3) the price of service compared to quality has a significant and positive impact on customer satisfaction and (4) the price of service directly influences the service quality. Among the components of service quality, the study found that only empathy out of five dimensions was statistically significant related to customer satisfaction. This indicates that audit firms have to bear this particular area in mind if they expect to own their clients' hearts. This study added to the understanding and applicability of service quality dimensions by examining the validity of the instrument in the context of audit firms. In addition, it also explored the relationship among customer satisfaction, service quality, firm image and price of service rendered.

Price, firm image and service quality had a positive relationship with customer satisfaction. The impact on satisfaction from highest to lowest in order was, overall firm image, price compared to quality and service quality (empathy), respectively. This tells us the firm image is the most important factor to customer satisfaction, price next and service quality last from firms' perspective. From the empirical results, we may infer that the client believes that no matter which audit firm they choose should have a certain degree of service quality guaranteed in the highly competitive battle field.

The previous study recognized that high quality service is essential for firms that want to be successful in their business, this finding is the same as the study. A study by (Beattie, 2009) "Don't blame the accountants", (Williams, 2009) "Don't blame the auditors", and "The blame game" by (Holmes & Sukhraj, 2008) all found out that investors, regulatory bodies, politicians, and the general public have all pointed the finger at auditors in the turmoil of the recent credit crisis, however this finding indicates that clients have confidence in the auditors other than the empathy dimension.

Some studies have investigated the link between attribution of responsibility to auditors and the pre-existing attitude towards auditors observed in judges (Jennings, Kneer & Reckers, 1993; Anderson, Maletta & Wright, 1998) or business owners (Arrington, Bailey & Hopwood, 1985). Based on attribution theory, these studies point out cognitive differences that may have more impact on blaming behavior than the usually claimed “obvious motivational issues” (Arrington, Bailey & Hopwood, 1985).

DeAngelo (1981) argues that large audit firms are associated with higher audit quality because they are more independent. However the findings of this study indicate that service quality is key to all audit firms irrespective of their size.

CHAPTER FIVE

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

The five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were supported by the data collected here. This study also found that a significant expectation gap does exist in the sample population. On average, management appears to be only marginally satisfied with audit firms' service quality. Since the average difference score was calculated by perception minus expectation (negative values imply that perceptions fall short of expectation, and positive values imply that perceptions exceed expectations), the mean score also indicates that the higher (less negative) the score, the higher is the level of perceived service quality.

This implies that there is still some room for improvement in terms of service quality. This indicates that clients need more responsiveness and empathy from their audit firms and less care about audit firms' assurance. This result makes sense since most of the filed work is performed at the client's sites. So if an audit firm needs to stand out in a highly competitive environment, more concerns to their clients are greatly needed. We have positive mean score only for tangibles which means that perceptions of respondents statistically equal to their expectations.

As is evident the components of service quality the study found that only one out of five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were statistically significant related to customer satisfaction. It is empathy. This may indicate those sample companies are not quite pleased with this area. These findings are also coincided with the results showing one of the largest negative difference score (empathy). Specifically, we can conclude with that audit firms needs to recognize and response effectively to this area (empathy). If they still want to retain customers in highly competitive environment.

5.2 Conclusion

The findings of the components of service quality the study found that only one out of five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were statistically significant related to customer satisfaction. It is empathy. This may indicate those sample companies are not quite pleased with this area. These findings are also coincided with the results showing one of the largest negative difference score (empathy). Specifically, we can conclude with that audit firms needs to recognize and response effectively to this area (empathy). If they still want to retain customers in highly competitive environment.

Price, firm image and service quality had a positive relationship with customer satisfaction. The impact on satisfaction from highest to lowest in order was, overall firm image, price compared to quality and service quality (empathy), respectively. This tells us the firm image is the most important factor to customer satisfaction, price next, and service quality last from firms' perspective. From the researcher's empirical results, the researcher may infer that the client believe that no matter which audit firm they choose should have a certain degree of service quality guaranteed in the highly competitive battle field.

The results from H1 to H4 suggest that (1) service quality has a positive effect on customer satisfaction, (2) overall firm image does have positive effect on customer satisfaction ,(3) the price of service compared to quality has a significant and positive impact on customer satisfaction and (4) the price of service directly influences the service quality .Among the components of service quality ,the study found that only empathy out of five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability)were statistically significant related to customer satisfaction. This indicates that audit firms have to bear this particular area in mind if they expect to own their clients hearts. This study added to the understanding and applicability (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) by examining validity of the instrument in the context of audit firms. In addition, it also explored the relationship among customer satisfaction, service quality, firm image and price of service rendered.

5.3 Policy Recommendations

ICPAK is expected to improve its audit quality with concerned about the followings: Audit firms must give timely service, Audit firms staff must always be ready to help client but not in the form of compromising, Audit firms always improves its ability by following technical training in the area of client industry and audit firms provides service as required.

ICPAK is expected that this research result can be made as input related to policy improvement of audit quality, especially in improving auditor understanding in area of client industry with a more regular perform of technical training in the area of client industry.

The results suggest that service quality has a positive effect on customer satisfaction, overall firm image does have positive effect on customer satisfaction, the price of service compared to quality has a significant and positive impact on customer satisfaction and the price of service directly influences the service quality. Among the components of service quality, we found that only empathy out of five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were statistically significant related to customer satisfaction.

This indicates that audit firms have to bear this particular area in mind if they expect to own their clients hearts. This study added to the understanding and applicability of (Responsiveness, Assurance, Empathy, Tangibles, and Reliability) by examining validity of the instrument in the context of audit firms. In addition, it also explored the relationship among customer satisfaction, service quality, firm image and price of service rendered. Audit firms should take keen interest in the findings and improve on their short comings if they have to satisfy their clients.

5.4 Limitation of the Study

The limitations of the study need to be acknowledged.

The empirical data collected was representative of the listed firms only and this should not be taken as a generalization for other industries because of different industry characteristics, business culture, and management styles imposed.

Due to time factor, the study was not done on all the companies listed at the Nairobi stock Exchange, as only 35 companies out of the listed 60, responded to the study, it also targeted only companies which have their head quarters in Nairobi.

Due to logistical constraints, most of the questionnaires were sent online where the respondents were expected to respond and send back, the author could not meet the respondents physically to explain the questionnaire thus most of them were not fully answered, as a result 21 out of the responses of 35 were satisfactorily answered for and considered for analysis.

Most of the respondents targeted were senior managers who make audit decisions, but majority were busy and therefore delegated the duty of answering the questionnaire to junior employees, this explains why some of the questionnaires were not considered for further analysis.

5.5 Suggestions for further studies

For academic world. This research Result is expected to become a valuable input in studying related to the theories audit quality and auditee satisfaction. This Research has not yet expressed all variables that can influence audit quality and auditee satisfaction, then in order to increase science/knowledge development, other researchers who are interested in similar problems are suggested to conduct a continuation research by adding variable exogen like : auditor reputation, auditor size, auditor firm tenure, institute membership, auditor professionalism and auditor commutation.

Among the components of service quality, the study found that only empathy out of five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were statistically significant related to customer satisfaction. The study was done on listed companies on how they perceive the audit firms. It is suggested that a similar study be done for other services e.g. accounting firms or insurance companies' e.t.c.

The study was done for the listed companies at the Nairobi Stock Exchange, a suggestion is made that a similar study be done for unlisted companies either public or private and results be compared.

The study was done for Kenya i.e. companies operating in Kenya, it is suggested that a cross sectional study be done for the other East African companies listed at the Stock Exchanges.

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APPENDIX 1: QUESTIONNAIRE

An Empirical assessment of relationship between audit quality attributes and client satisfaction

(Name of the Company _____ Ltd)

The aim is to measure the relationship between audit quality attributes and client satisfaction for the listed firms on the Nairobi Securities Exchange. Please respond to all questions set in three sections below. Your responses will be kept in strict confidence.

Thank you for your kind co-operation.

University of Nairobi

Section 1 – Company/respondent identification

What is the registered name of your company?

| |
|--|
| |
|--|

How long has your company been in operation?

| 0-5 years | 6-10 years | 11-15 years | 16-20 years | 21+ years |
|-----------|------------|-------------|-------------|-----------|
| | | | | |

How long has your company been receiving accounting services from.....? ?

| 0-5 years | 6-10 years | 11-15 years | 16-20 years | 21+ years |
|-----------|------------|-------------|-------------|-----------|
| | | | | |

What is your current position at the company?

| |
|--|
| |
|--|

Do you have a say in selecting an audit firm for your company?

Yes No

Section 2 – SERVQUAL measurement variables

Please use the following table to rank your responses to situations 1 to 19.

| | | | | |
|--------------------|-------------------|------------------------------------|----------------------|-----------------------|
| Strongly satisfied | Somehow satisfied | Neither satisfied nor dissatisfied | Somehow dissatisfied | Strongly dissatisfied |
| 5 | 4 | 3 | 2 | 1 |

| Latent Variable | Measurement Variable | Expectation | | | | |
|----------------------|--|-------------|---|---|---|---|
| | | 5 | 4 | 3 | 2 | 1 |
| Responsiveness (RES) | 1. Willingness to help customers | | | | | |
| | 2. Prompt service to customers | | | | | |
| | 3. Keeping customer informed about when services will be performed | | | | | |
| | 4. Readiness to respond to customers' request | | | | | |
| Assurance (ASS) | 5. Employees who instill confidence in customers | | | | | |
| | 6. Employees who are consistently courteous | | | | | |
| | 7. Employees who have the knowledge to answer customer questions | | | | | |
| | 8. Making customers feel safe in their transactions | | | | | |
| Empathy (EMP) | 9. Convenient business hours | | | | | |
| | 10. Giving customers personal attention | | | | | |
| | 11. Employees who understand the customer's needs | | | | | |
| | 12. Having the customer's best interest at heart | | | | | |
| Tangibles (TAN) | 13. Employees who have a neat, professional appearance | | | | | |
| | 14. Visually appealing facilities | | | | | |
| | 15. Modern equipment | | | | | |
| Reliability (REL) | 16. Providing services at the promised time | | | | | |
| | 17. Dependability in handling customers' service problems | | | | | |
| | 18. Providing services as promised | | | | | |
| | 19. Maintaining error-free records | | | | | |

Section 3 - variables for satisfaction, price, and corporate image

Please use the following table to rank your responses to situations 1 to 8.

| | | | | |
|--------------------|-------------------|------------------------------------|----------------------|-----------------------|
| Strongly satisfied | Somehow satisfied | Neither satisfied nor dissatisfied | Somehow dissatisfied | Strongly dissatisfied |
| 5 | 4 | 3 | 2 | 1 |

| Latent variable | Measurement variable | 1 | 2 | 3 | 4 | 5 |
|-----------------------|--|---|---|---|---|---|
| Customer satisfaction | 1. Overall satisfaction | | | | | |
| | 2. Expectancy disconfirmation (performance that falls short of or exceeds expectations) | | | | | |
| | 3. Performance versus the customer's ideal service provider in the category | | | | | |
| Price | 4. Price compared to quality | | | | | |
| | 5. Price compared to other companies | | | | | |
| | 6. Price compared to expectations | | | | | |
| Firm image | 7. Overall firm image | | | | | |
| | 8. firm image compared to other companies | | | | | |

Thank you for your kind co-operation.

APPENDIX 11: QUOTED COMPANIES

AGRICULTURAL

- 1 Eaagads Ltd Ord 1.25
- 2 Kapchorua Tea Co. Ltd Ord 5.00
- 3 Kakuzi Ord.5.00
- 4 Limuru Tea Co. Ltd Ord 20.00
- 5 Rea Vipingo Plantations Ltd Ord 5.00
- 6 Sasini Ltd Ord 1.00
- 7 Williamson Tea Kenya Ltd Ord 5.00

COMMERCIAL AND SERVICES

- 8 Express Ltd Ord 5.00
- 9 Kenya Airways Ltd Ord 5.00
- 10 Nation Media Group Ord. 2.50
- 11 Standard Group Ltd Ord 5.00
- 12 TPS Eastern Africa (Serena) Ltd Ord 1.00
- 13 Scangroup Ltd Ord 1.00
- 14 Uchumi Supermarket Ltd Ord 5.00
- 15 Hutchings Biemer Ltd Ord 5.00
- 16 Longhorn Kenya Ltd

TELECOMMUNICATION AND TECHNOLOGY

- 17 AccessKenya Group Ltd Ord. 1.00
- 18 Safaricom Ltd Ord 0.05

AUTOMOBILES AND ACCESSORIES

- 19 Car and General (K) Ltd Ord 5.00
- 20 CMC Holdings Ltd Ord 0.50
- 21 Sameer Africa Ltd Ord 5.00
- 22 Marshalls (E.A.) Ltd Ord 5.00

BANKING

- 23 Barclays Bank Ltd Ord 2.00
- 24 CFC Stanbic Holdings Ltd ord.5.00
- 25 Diamond Trust Bank Kenya Ltd Ord 4.00
- 26 Housing Finance Co Ltd Ord 5.00
- 27 Kenya Commercial Bank Ltd Ord 1.00
- 28 National Bank of Kenya Ltd Ord 5.00
- 29 NIC Bank Ltd Ord 5.00
- 30 Standard Chartered Bank Ltd Ord 5.00
- 31 Equity Bank Ltd Ord 0.50
- 32 The Co-operative Bank of Kenya Ltd Ord 1.00

INSURANCE

- 33 Jubilee Holdings Ltd Ord 5.00
- 34 Pan Africa Insurance Holdings Ltd Ord 5.00

- 35 Kenya Re-Insurance Corporation Ltd Ord 2.50
- 36 CFC Insurance Holdings
- 37 British-American Investments Company (Kenya) Ltd Ord 0.10
- 38 CIC Insurance Group Ltd Ord 1.00

INVESTMENT

- 39 City Trust Ltd Ord 5.00
- 40 Olympia Capital Holdings Ltd Ord 5.00
- 41 Centum Investment Co Ltd Ord 0.50
- 42 Trans-Century Ltd

MANUFACTURING AND ALLIED

- 43 B.O.C Kenya Ltd Ord 5.00
- 44 British American Tobacco Kenya Ltd Ord 10.00
- 45 Carbacid Investments Ltd Ord 5.00
- 46 East African Breweries Ltd Ord 2.00
- 47 Mumias Sugar Co. Ltd Ord 2.00
- 48 Unga Group Ltd Ord 5.00
- 49 Eveready East Africa Ltd Ord.1.00
- 50 Kenya Orchards Ltd Ord 5.00

MANUFACTURING AND ALLIED

- 51 A.Baumann CO Ltd Ord 5.00

CONSTRUCTION AND ALLIED

- 52 Athi River Mining Ord 5.00
- 53 Bamburi Cement Ltd Ord 5.00
- 54 Crown Berger Ltd Ord 5.00
- 55 E.A.Cables Ltd Ord 0.50
- 56 E.A.Portland Cement Ltd Ord 5.00

ENERGY AND PETROLEUM

- 57 KenolKobil Ltd Ord 0.05
- 58 Total Kenya Ltd Ord 5.00
- 59 KenGen Ltd Ord. 2.50
- 60 Kenya Power & Lighting Co Ltd