DRIVERS OF CUSTOMER LOYALTY AMONG SMALL AND MEDIUM SERVICE FIRMS IN KENYA

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DECLARATION

I declare that this project is my original work and has not been submitted for an award of a degree of any other university for examination/academic purposes.

Signature…………………. Date…………………………..

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D61/64729/2013

This research project has been submitted for examination with my approval as the university supervisor.

Signature……………… Date………………………….

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CHAPTER ONE: INTRODUCTION

1.1 Background

The service sector is rapidly increasing in both developed and emerging countries due to the changing political, economic, social, and technological trends. These in turn affect aspects such as the quantity of services desired by buyers, what is made available by firms, competition, and customers' style of decision-making. In Kenya, amidst the high levels of unemployment and a difficult business environment, the country is scoring high as a professional services center.

As the service industry becomes more competitive, customers become more demanding and have high expectations for superior service delivery (Parasuraman et al 1998).Consequently, customers display unique decision making styles (Schwenk 1995, Hart 1992) and these may be influenced by the information available on the services and time. Competitiveness comes from the ability to price the services at a level that will attract customers. This pricing represents different values in different situations created by the service organizations.

The key concept identified is value creation. Creating superior value enables firms to build long-term relationships and loyalty with their customers. The customers evaluate service quality by comparing what they expected with what they perceive they received from the firms. Acceptable value to a customer makes them more likely to make repeat purchase and to remain loyal; however if they complain about poor services, there is a high likelihood that they will switch providers.

1.1.1 Customer Loyalty

Customer loyalty is the degree to which a customer exhibits a repeated purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using this provider whenever a need for this service arises (Gremler and Brown, 1996). It has been termed as a key aspect in an organization's success as it provides consistent source of revenue through repeat and increased purchases.

However, customers who may describe themselves as satisfied are not necessarily loyal (Reichheld, 1994).Loyal customers are willing to re-buy products despite attractive competitive alternatives, spend money to try products within the same firm, recommend the firm to others, and give the firm sincere feedback and suggestions (Reichheld and Sasser, 1990).

1.1.2 Drivers of Customer Loyalty

Customer loyalty is mediated through customer satisfaction and influences the overall profitability of an organization, Anderson et al 1994).Customer satisfaction is however not a goal by itself but a factor that improves the performance of firms. This is influenced by a number of factors such as customer attitudes, products and services on offer, level of technology, human resources in an organization and the organization culture. These can be driven by the effort extended to customers in terms of perceived service levels, product and service quality and the position of a firm within a market or an industry.

The mentioned factors constitute customer value. According to Zeithaml (1988), value involves low prices, inclusion of all aspects that customers may want in a product or service, the quality that customers get for the price they pay and what customers get for what they give. Driving customer value may involve the identification of customers' needs, designing the products or services while taking into consideration the output quality and the customers' perception. It has been observed that achieving these factors is likely to result to customer loyalty (Reichheld et al., 2000).

1.1.3 Small and Medium Enterprises in the Kenyan service sector

An SME may be registered as a sole proprietorship, a partnership, or a limited liability company. The sector has been identified as the most innovative in Kenya (Ogada, 2006) and operates in sub-sectors such as services, manufacturing and trade in both wholesale and retail terms.

Major issues in managing SMEs' growth and profitability include tedious registration and certification processes, lack of credit and inadequate business skills. Others include lack of resources (Hogarth-Scott et al., 1996). SMEs have been reported to contribute to approximately 18.4% of the GDP; in 2003 they contributed about 18 percent and employed 5.1 million representing 74 percent of Kenyan labour force (Obwocha, 2006).

The positive aspects of SMEs include low overheads, low sensitivity to market downturns, easy change in business strategies and lean structures which enable more efficiency and less waste. With these, they can offer lower pricing. Additionally, they are closely knit resulting to more motivated employees and more energy on projects. SMEs' quick decision making nature allows for flexibility and adaptability in understanding their business environment. This in turn adapts their products based on customer feedback resulting to easier, long-term, and more profitable customer relations.

However, size may be a disadvantage where economies of scale is concerned; when buyers have more bargaining power and may opt to buy from larger firms. The presence of many SMEs supplying to larger firms within the same market also enhances the large buyers' bargaining power. SMEs experience low barriers to market entry and are not in a position to keep other businesses off due to market fragmentation; they also experience high market rivalry and excessive price competition. New product development and advertising may be impractical due to inadequate funds to absorb losses. However, SMEs can increase their bargaining power by improving quality or reducing the prices of services. However, in so doing, they may reduce their profitability resulting to reduced viability.

Key issues for SMEs include how they can take advantage of their less rigid culture to achieve flexibility, cost effectiveness for profitable operations and achieving focused quality to satisfy their customers using limited financial resources. Others are improving customer loyalty in a context of limited resources and skills.

1.2 Research Problem

It has been argued that customer loyalty arising from purchase behavior is a key factor in the formation of a customer's desire to purchase in future from the same firm. Loyalty is a direct result of overall customer satisfaction which is largely influenced by the quality of services offered, (Hayes, 2008). It has been discussed that good service quality leads to customer retention and loyalty. Customer value is achieved by maximizing benefits and minimizing sacrifices.

The increase in the number of SMEs has seen an equal increase in the number of products and services. Among the items the businesses pursue towards meeting their goals include quality and price. SMEs may increase the quality of their services and price them highly anticipating high return on their investments. However, these high prices are likely to result to reduced market share. On the other hand, offering low quality as a way to keep prices low may result to low purchases (Jacoby and Olson (1977).

Many studies on customer loyalty have been carried out globally and locally: A study by Lam, Lo and Burton (2005) examines the association between perceived service quality and customer retention in the banking sector in Hong Kong and finds that banks need strategies that focus on service to develop sustained relationships with their customers. A study by Filip and Anghel (2009) examines the environmental context versus customer loyalty in the Romanian banking sector and finds that customers remain in relationships with banks due to favorable attitudes or positive motivations by the banks. Thirdly, a study by Bagram and Khan (2012) examines perceived value, perceived quality and product attributes as contributory factors to customer loyalty in mobile handsets sector in Pakistan and finds that customer perceived value and customer perceived quality are the major factors which contribute for the customer loyalty.

Locally, a study by Auka (2012) examines service quality, perceived value, satisfaction and loyalty reveals a positive and significant relationship and finds that service quality, customer value and satisfaction are critical success factors that influence the competitiveness of an organization. A study by Tarus and Rabach (2013) examines the moderating role of corporate image on customer loyalty-mobile services in Kenya and finds that perceived service value, service quality and social pressure are significant predictors of customer loyalty. Finally, Kihara and Ngugi (2014) examine the factors influencing customer loyalty in telecommunication industry in Kenya and find a strong relationship between innovation dimensions and perceived customer value.

The studies by Lam, Lo and Burton (2005), Filip and Anghel (2009), Filip and Anghel (2009) and Auka (2012) are all in the banking sector while the one by Bagram and Khan (2012), Tarus and Rabach (2013) and Kihara and Ngugi (2014) are in the telecommunications sector. These studies focused on large firms and most were done in other geographical locations.

There appears to be few studies on the drivers of customer loyalty, specifically targeting SMEs and the service sector in Kenya. The current study fills this gap by examining factors in the Small and Medium Enterprises (SMEs) service firms in Kenya. It will seek to provide answers to the research questions: What are the drivers of customer loyalty in SME service firms? What is the relationship between customer value and customer loyalty?

1.3 The objectives of the study

To answer the above research questions, the following specific objectives will be achieved:

i. Determine customer loyalty levels among SME service firms in Kenya.
ii. Determine customer satisfaction levels among SME service firms in Kenya.
iii. Determine customer value perception among SME service firms in Kenya
iv. Determine the relationship between customer value perception and customer loyalty among SME service firms in Kenya.

1.4 Value of the Study

This study will guide managers of SMEs to make decisions about service quality and placing strategies that enhance perceived customer value to drive repeat purchases and customer loyalty. It will also contribute to knowledge on customer value relationships; the study will show what is important to customers in making choices among competing service providers.

By bringing together different literatures and research concepts, this study will contribute to the extension of customer value and customer loyalty research; while focused on SME service firms, other service industries with similar characteristics should benefit from the insights. Finally, policy makers will benefit in terms of formulation of flexible guidelines and requirements for licensing and certification of SMEs and the need to establish training opportunities for owners, managers and employees of SMEs with relevant knowledge and skills for growth and profitability.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature reviewed in the study is grouped into three streams. These include the description of Small and Medium Enterprises (SMEs), issues of perceived service quality as a concept and finally literature on the relationship between customer value and customer loyalty is reviewed. This review aims to identify what has already been investigated and is known and to clarify any existing gaps. Additionally, the outcome of this review will be used to conceptualize a theoretical framework relevant in the study.

2.2 The Nature of Small and Medium Enterprises

The concepts at play in SMEs include risk management approaches (Duong, 2009), types of structures in operations, nature of operations during production, nature of labour requirements and levels of investments and competitiveness (Muponda andChaneta, 2014). These literature examine issues related to these concepts in Small and Medium Enterprises.

A case study by Duong (2009) sought to assess the risk management processes among SMEs and to build an applicable model of project risk management. The findings indicate a high vulnerability to business, funding and budgeting risks among SMEs. Duong (2009) identifies two broad risk management approaches. These are project-based risk management and the managerial risk management. The study concludes that the project-based risk management approach is more applicable in SMEs as it matches the normal operations of small business while the managerial risk management approach is effective among larger firms. The study identifies ease of information sharing, risk awareness by employees and ease of follow up as the main advantages of project based risk management approach.

Other findings link the risks to resource limitations which cause an interruption in the normal operations of SMEs and may cause low productivity and negative brand image leading to reduced customer satisfaction and customer loyalty. The study suggests that the risks arise from customer, staff and supplier engagements and may be caused by lack of professionalism by managers, high employee turnover and unexpected expenditures.

The universality of the findings by Duong (2009) needs clarification in terms of context. This is because the environmental issues that shape the structures and operations in SMEs are different across the different regions in the world.

A study by Muponda and Chaneta (2014) examined the issue of resource limitations among SMEs. The objective of this study was to assess the characteristics of operating structures among SMEs and to identify their sources of competitive advantage. The statistical study used data from small furniture-making firms in Zimbabwe to identify the operating structures making their competitive environment. The study finds that small firms operate within their competitive environment involving multiple SMEs that are linked through collaborative relationships. The conclusion from the findings indicate that, as opposed to small firms operating in isolation, clusters promote flexible production techniques and extends division of labour leading to increased competitive advantage. This is because the extended dimension of division of labour in the clusters allows firms to adapt to operational changes in the external environment by switching products according to market demands.

According to the study, clustering promotes flexibility and efficiency in production that leads to the satisfaction of various customers' needs. Consequently, customer satisfaction maintained over time leads to customer loyalty and in return, a competitive advantage is achieved. The study highlights the characteristics of clustered structures as collaborative but each firm specializes only in one type of product. Using standard transformation processes and hired labour for routine jobs, their multi-skilled employees concentrate only on one phase of the production process. Due to limited ownership of heavy machinery and equipment, the firms outsource readily available inputs or pay for outsourced machine-time and only purchase small tools for minor routines.

Additionally, the study attributes the success of the clustering approach to the firms' close geographical proximity to each other. The study further suggests the need to attract more private capital in the clusters rather than the individual firms. This can be achieved through the formulation of policies to have the firms within the clusters registered as limited liability companies that issue shares to investors to attract capital. The registration is preferably done according to the product ranges in the clusters so that each group is a single limited liability company.

The findings in the studies by Duong (2009) and Muponda and Chaneta (2014) are consistent in their suggestions about the characteristics of SMEs, risk management approaches to be used, resource limitations and types of operational structures as key factors that influence their desired operating levels in SMEs. The role of organizational context and the effect of culture are however not clarified.

2.3 Perceived Service Quality

The factors in perceived service quality include customers' expectations and perceptions (Phiri and Mcwabe (2013), employee involvement and service quality (Munhurrun, Bhiwajee and Naidoo (2010). Finally, service priorities, efficiency, control, and customer orientation (Dean (2004) has been discussed.

A major source of competitive advantage is value creation but this is linked to customer value perception to ensure superior customer perceived service quality (Phiri and Mcwabe (2013). Concepts identified include customer expectations and employee involvement (Munhurrun, Bhiwajee and Naidoo, 2010). Others are service priorities, efficiency, control, service levels and customer orientation (Dean, 2004).

A statistical study by Phiri and Mcwabe (2013), sought to find out how customers make decisions in regards to service quality. The findings indicate that customers create zones of tolerance of service quality levels. Service levels that go below customers' adequate levels negatively affect their loyalty to firms. The findings of the study are consistent with the SERVQUAL model Parasuraman, Zeithaml, and Berry (1988).The study concludes that customers' expectations of service quality in the food retail sector are higher than their perceptions of service quality received.

This study focuses on private firms and the issue on the operating context should be considered. The study was carried out in the food retail industry and data was obtained from a sample of customers in supermarkets. The findings may however be different when it comes to the public service sector involving other retail stores located in regions outside South Africa.

Munhurrun, Bhiwajee and Naidoo (2010) on the other hand did a statistical study involving the public service sector in Mauritius. Their objective was to investigate the relationship between customer expectations of service quality and employees' perceptions of customer expectations. The findings reveal that all the service quality gaps are negative, in that customer expectations are greater than their perceptions. This is in agreement with the results of the study by Phiri and Mcwabe (2013) specifically on customer perceived quality levels falling below their perception levels, with additional recommendation on the key contribution of front line employees in understanding customer needs and customer expectations of service quality. Similar to the study by Phiri and Mcwabe (2013), the findings of this study are also consistent with the SERVQUAL model Parasuraman, Zeithaml, and Berry (1988).The study concludes that the service quality gaps are the cause of unmet customer expectations.

The study explains the significant role played by front office employees in terms of how well they understand customers' expectations besides internal processes that support the delivery of service quality. The employees create service awareness, influence customers' impression of the services and suggest on how service levels can be improved. The study emphasizes on the need for firms to continually improve the quality of services provided to their customers and there is a further call for total participation by all the various segments in the firms including the top management. The study asserts that given the financial and resource limitations in the public sector, it is crucial to measure the top management perceptions of organizational service quality practices so that they can also understand customer expectations.

Dean (2004) introduces the concept of customer orientation. The objective of the study was to assess the customers' service quality levels received compare to what the customers consider as adequate and whether the perceived customer orientation relates to service quality expectations. The findings show that customers have high levels of adequate expectations of services and these are not related to their predicted expectations. Secondly, it shows that customer orientation is associated with predicted expectation but not adequate expectations. This study based on data collected from call center customers in the insurance and banking sectors in Australia concludes that customers do not expect low service quality and that their adequate expectations are not related to their predicted expectations.

The results are consistent with those of Phiri and Mcwabe (2013) in terms of customers' tendency to set zones of tolerance of service quality levels. As customers' adequate expectations continue to rise, it is important for firms to consider the effect of the zone of tolerance to the customers' ongoing loyalty and repeat purchases. A narrow zone of tolerance means that the customers will be harder to please hence will affect the customers' relationship with the organization in terms of commitment and loyalty.

2.4 Customer Value and Customer Loyalty

Value refers to the consumer's overall assessment of the utility of a product or a service based on the perceptions of what is received and what is given (Zeithaml 1988, p. 14).The concepts in this section include perceived value dimensions, attitudinal and behavioral components of customer loyalty and commitment (Pura, 2005). Finally, customer satisfaction and perception of value and their influence on market share, relationship marketing and repurchase intentions have been discussed (Patterson and Spreng, 1997).

Pura (2005) did a statistical study to analyze the effect of customers ‘perceived value dimensions. Customer loyalty aspects identified include monetary, convenience, social, emotional, conditional, and epistemic values. The findings show that both commitment and behavioral intentions by customers to use services are strongly influenced by conditional value: The context in which the service is used. By involving location-based mobile services in Finland, the conclusion supports the findings in that customers are only motivated to use services conditionally; only when it matters to them to achieve their desired value.

Additionally, Patterson and Spreng (1997) did a statistical study to investigate the relationships between customer values, satisfaction and repeat purchase intentions for professional business services in USA. The findings indicate that customer value is completely mediated through satisfaction, which influences repeat purchase behavior. Unlike the first study, these results introduce the concept of satisfaction as a mediator between customer value and customer loyalty.

2.5 Drivers of Customer Loyalty

A statistical study by Afsar, Rehman, Qureshi and Shahjehan (2010) sought to identify the factors that influence customer loyalty within the banking industry in Pakistan. The findings show that perceived quality, satisfaction, trust, switching cost and commitment are the factors which influence the loyalty of the customers and that the factors also influence each other as well. The conclusion agrees with the findings in terms of the direct effect of satisfaction and trust, the relationship between perceived quality on customer satisfaction and the effect of satisfaction, switching cost and commitment on customer loyalty.

2.6 Theories in the study

Resource Based Theory

Guided by the literature review, the current study highlights resource-based theory. This focuses on the sources of profitability and the nature of competitive strategies among Small and Medium sized enterprises. The studies by Duong (2009), Muponda and Chaneta (2014) suggest than internal resources rather than the market environment should provide the foundation for a firm's strategy.

Summary and conceptual framework

After reviewing the literature of the study, various gaps have been identified. In the fulfillment of the requirements of the current study, these gaps indicated on figure 1.0 below require further investigations:

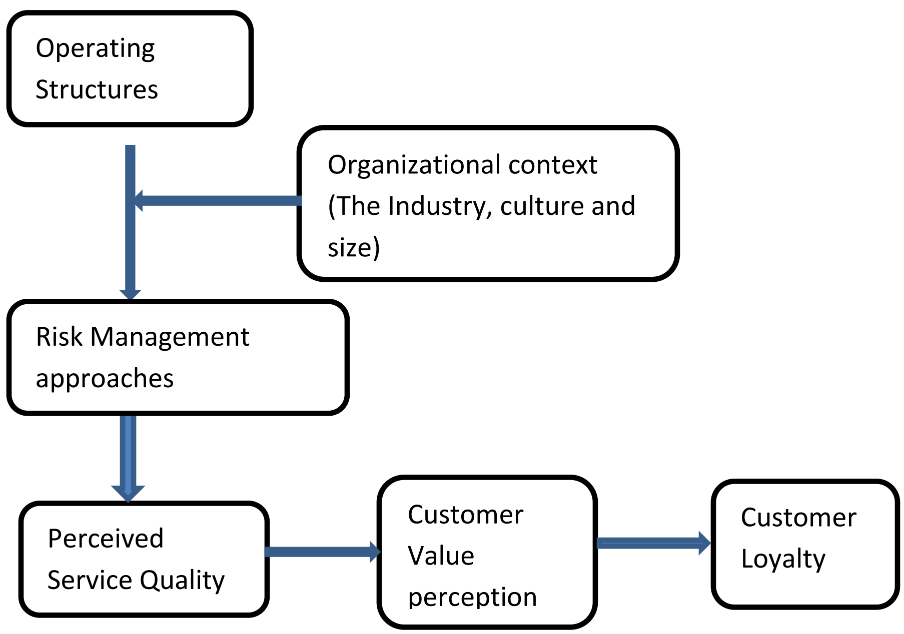
Figure 1.0

Author and type of study	Variables and Findings	Knowledge Gaps	How the proposed study will fill the gap
Duong (2009) Case study	Risk management approaches are based on firms' sizes. Project based option is appropriate for SMEs.	Study done in Finland. The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Muponda and Chaneta (2014) Statistical	Operating structures: Based on firms' sizes. Collaborative structure is recommended for SMEs.	Study done in Zimbabwe. The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Phiri and Mcwabe (2013) Statistical	Customer context and quality perception	Study done in South Africa. The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Munhurrun, Bhiwajee and Naidoo (2010) Statistical	Expectations and perceptions as components of customer satisfaction	Study done in Mauritius: The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Dean (2004) Statistical	Service delivery and customer prediction and perception of service standards	Study done in Australia. The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Patterson and Spreng (1997) Statistical	Customer satisfaction as a mediating factor between customer value and customer loyalty	Study done in Australia. The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Pura (2005) Statistical	Customer attitudes, behavior, context (location) and commitment as dimensions of perceived value and loyalty.	Study done in Finland. The influence of sector and geographical location is not explained.	Investigate in the context of SMEs in Kenya.
Afsar, Rehman, Qureshi and Shahjehan (2010)	Perceived quality, satisfaction, trust, switching cost and commitment	The influence of sector and geographical location is not explained	Investigate in the context of SMEs in Kenya.

Conceptual Framework

From the above table, the variables identified are risk management approaches, operating structures, perceived service quality, customer value and customer loyalty and can be conceptualized as shown on figure 1.1 below. The findings in the literature are supported in different regions but the issues can be examined further in a different context, having different socio-cultural factors as per the relationships below:

Fig. 1.1



This conceptual framework can be tested using the hypotheses below:

H1-The operating structure within a firm has a significant influence on the firm's risk management approaches.

H2-The context of a firm moderates its operating structures and its risk management approaches.

H3-The risk management approaches applied by a firm determines the customers' perception of service quality.

H4-Customers' perception of service quality influences their perceived value

H5-Customers perception of value influences their loyalty to a firm.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section set out the research methodology used in this study to meet its objectives of identifying the drivers of customer loyalty in Small and Medium Enterprises in Kenya. A statistical study design will be used.

3.2 The Research design

The aim of the current research is to investigate the drivers of customer loyalty in the SME service firms and to find out the relationship between customer value and customer loyalty in Kenya. The specific objectives therefore, are to determine customer satisfaction levels, perceived customer value of services and the relationships between the perceived value and customer loyalty among SME service firms in Kenya. This is a formalized study as the issues in the research proposal have been refined at the research questions level.

A cross-sectional approach is applicable as it enables comparisons at a single point in time. This approach is also more appropriate due to time limitations. The subsequent intention is to generalize the research findings to a wider population. To achieve this, a statistical method was applied as opposed to a case study.

3.3 The Study Population

The target population of this study is the small and medium sized (SMEs) service firms operating in Nairobi and registered with the Public Procurement Oversight Authority as at 19th August 2016; sample indicated on appendix 1. The list available comprises a total of 641 firms categorized into hospitality, ICT, professional consultancy, security and cleaning services. Information will be obtained from a sample of these sectors.

3.4 The Sampling Design

Probability sampling was used so that each element in the target population had an equal and a non-zero chance of being selected. This also resulted to a higher level of accuracy. Data was collected from a sizeable population and the findings generalized to the wider population. Stratified random sampling was used in that a representative sample size from each of the population sectors was adopted.

The Sample Size (n)

With a finite population (N) of 638, the minimum sample size (n) is calculated using Slovins formula as below:

$n=N/(1+Ne^2)$ **where**; N is the population and e is the margin of error

A confidence level of 95% corresponds to a margin of error (e) of 5%

A point scale of 1-5 is used to calculate the margin of error. In this case, the mean is 3.

The margin of error is then computed as 5% of the mean i.e. 0.15

The resultant sample size (n) is calculated as below:

$n=638/(1+638(0.15*0.15)$

$n=638/1+14.36$ (rounded off to 2 decimal places)

$n=638/15.36=41.53$

Sample size=42 (rounded off to the next whole number)

3.5 Data Collection

Primary data was collected from the sampled firms by the use of questionnaires. The questionnaires contained close-ended questions and were issued to non-managerial staff to enhance objectivity in the feedback. The employees were contacted through their published telephone numbers of the firms. Additionally, the questions were framed disguisedly so that bias is minimized.

The five main variables identified for this study are risk management approaches, operating structures, perceived service quality, customer value and customer loyalty. The variable of risk management approaches are indicated by the approach adopted for risk management which use two states: the project risk management and the managerial risk management approaches.

Categorization of firms' sizes was done as indicated by Duong (2009).This was guided by the number of employees and indicated either as micro, small, medium or large enterprises. The variable of operating structures of these firms is as per the nature of their relationships and takes the states of collaborative and stand-alone business entities.

The variables of perceived service quality, customer value and customer loyalty were indicated using self-reported perceptual data in which the employees in the firms rated their firms' performance in comparison to others within the same industry and sector.

The items for measuring the above mentioned variables are obtained from past studies as per the figure 1.2 below:

Variable	Items/Indicators	Source Publication
Risk Management Approaches	Risk management methods, types of risks and risk response methods	Duong (2009)
Operating Structures	Whether collaborative relationships exist, complimentary products are produced and sold, firms operate in close proximity to each other or they compete internally and externally. Whether they are stand-alone firms producing and selling a single product/service, own and use minimal machinery and equipment or compete externally only.	Muponda and Chaneta (2014)
Perceived Service Quality	Measured on the elements of the five indicators of SERVQUAL	Phiri and Mcwabe(2013),Munhurrun, Bhiwajee and Naidoo (2010) and Dean (2004)
Customer Value	Features and benefits of services, brand values, customers' expectations and their involvement in the transformation process.	Patterson and Spreng (1997) and Pura, (2005)
Customer Loyalty	Pricing of the services, physical location of services/businesses, target market segments and marketing strategies	Patterson and Spreng (1997) and Pura, (2005)

Table 1.3 Application of statistical techniques versus variables

Objectives	**Variables at play**	**Statistical techniques/Interpretation**
Determine customer loyalty levels among SME service firms in Kenya.	Customer loyalty, customer value, perceived service quality	Means and percentages
Determine customer satisfaction levels among SME service firms in Kenya.	Perceived service quality and customer loyalty	Means and percentages
Determine customer value perception among SME service firms in Kenya	Customer value, perceived service quality, customer loyalty	Means and percentages
Determine the relationship between customer value perception and customer loyalty among SME service firms in Kenya.	Customer value, perceived service quality, customer loyalty	Partial correlation

CHAPTER FOUR

RESULTS DATA ANALYSIS, AND DISCUSSION

4.1 Results

Online questionnaires were sent on email to 154 firms. Each firm received a maximum of 7 questionnaires and the successful responses obtained from each organization were between 2-7 completed questionnaires. The sample for analysis comprises 46 respondents who sent back their completed questionnaires.

The questionnaires were edited for completeness and checked for any errors and omissions. The responses were coded and the data analysis done using percentages; mean, standard deviation and partial correlation using Statistical Package for Social Sciences (SPSS). The data representing the variables has been analyzed and presented on the table 4.1.1 below:

Figure 4.1.1 Context (sizes of firms), operating structures and risk management approaches:

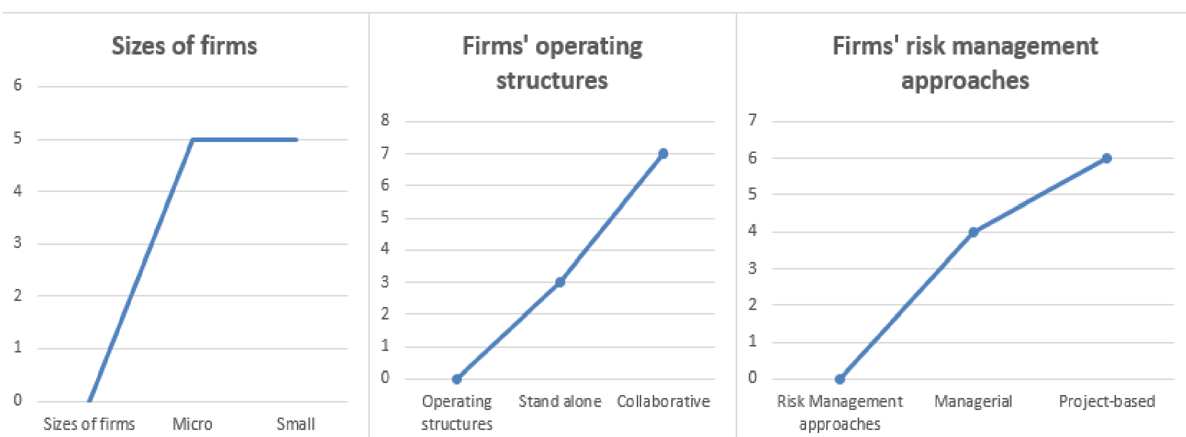


Table 4.1.2: Representation of the variables

The table below is a representation of the variables set out in the study. This indicates the feedback from the respondents in the 10 companies sampled. The feedback on the number of employees, types of operating structures and risk management approaches have been indicated exactly as were provided by the respondents. The variables of customer value, perceived service quality and customer loyalty have been indicated using the mean of all the responses provided in a given organization for each question The standard deviation of the means has also been indicated:

Organization	**Context (Size of firms**	**Operating structure**	**Risk Management Approach**	**Perceived Service Quality**		**Customer Value Perception**		**Customer Loyalty**	
				Mean	***Std Dev***	***Mean***	***Std Dev***	***Mean***	***Std Dev***
1	Small	Collaborative	Managerial	2.83	1.55	4.45	0.62	4.44	0.79
2	Small	Collaborative	Managerial	2.89	1.43	4.17	1.08	4.35	0.86
3	Micro	Collaborative	Managerial	3.37	1.49	4.44	1.02	4.64	0.69
4	Micro	Collaborative	Project based	4.00	0.00	4.5	0.59	4.21	0.71
5	Micro	Stand-alone	Project based	4.87	0.23	4.58	0.67	4.52	0.49
6	Small	Stand-alone	Managerial	4.7	0.42	3.21	0.29	3.07	0.10
7	Small	Collaborative	Project based	2.48	1.10	4.25	0.77	2.48	1.10
8	Micro	Collaborative	Project based	2.73	1.15	4.75	0.56	4.55	0.67
9	Micro	Stand-alone	Project based	3.8	0.28	3.67	0.83	3.36	0.51
10	Small	Collaborative	Project based	3.63	1.25	4.31	0.98	4.33	0.91
	Mean of means			3.53	0.89	4.23	0.74	3.99	0.68
	Lower bound			1.78		2.78		2.67	

From the table 4.1.2 above, customer value perception, at a score of 2.78 holds the most significant influence on customer loyalty in comparison with perceived service quality at a score of 1.79. Perceived service quality is also an integral part in influencing customer loyalty but pricing ought to be factored in. To achieve the objectives of the study, statistical techniques were applied as follows:

4.2 Data Analysis

The objectives of the study were to find out the customer loyalty levels, customer satisfaction levels and customer value perception among SME service firms in Kenya. Additionally, the relationship between customer value perception and customer loyalty would be determined.

Table 4.2.1: Sizes of firms

Firms sizes	**Frequency**	**Percent**
Micro	21	45.7
Small	25	54.3
Total	**46**	**100**

In the data on table 4.2.1, 45.7 percent of the companies have between 10 to 49 employees and are categorized as small enterprises. The 54.3 percent belongs to the medium category having between 49 to 200 employees.

The medium sized companies comprise mainly firms in the hospitality sector. This is a likely suggestion that the industries/sectors that firms operate within are a significant determinant of their sizes.

4.2.2 Findings on Operating Structures

From the analysis, 3 firms are in the stand alone business entities while 7 practice collaborative relationships as per the indicated responses on the table 4.2.2 below .As per the table below, 30.4% of the respondents indicated that they practice the stand-alone model while 69.6% indicated collaborative patterns within their locations and industries. Collaborative relationships among firms have been put across as more cost effective and an efficient way of managing market demands.

Table 4.2.2: Operating structures; percentages

Structure	Frequency	Percent
Stand alone	14	30.4
Collaborative	32	69.6
Total	**46**	**100**

An observation from the analysis from the respondents within some organization on the type of operating structure of their businesses highlighted the issue of possible insufficient awareness of these structures among the employees. Some respondents indicated the structures as stand-alone while their colleagues in the same firm indicated collaborative structures. Further discussion on the possibility of a given firm adopting the two structures of operations has been suggested.

Table 4.2.3 Operating structures per organization using means and standard deviation:

Collaborative		Stand-alone	
Mean	**Std Dev.**	**Mean**	**Std Dev.**
1	0		
1.71	0.48		
1.66	0.51		
2	0		
		1.2	0.44
		1.66	0.51
2	0		
2	0		
		1	0
2	0		
Mean=1.77	**Std Error= 0.053**	**Mean=1.2**	**Std Error= 0.18**

According to the findings indicated on table 4.2.4 below, collaborative structures are applicable across the various sectors among the small and medium enterprises.

Table 4.2.4: Types of risks

Risk	Frequency	Percent
Market changes and Govt regulations	21	45.7
Market and currency fluctuations	6	13
Govt regulations and currency fluctuations	2	4.3
Budget/finances and Govt regulations	3	6.5
Budget/Finances and currency	2	4.3
Market changes and budget	12	26.1
Total	**46**	**100**

4.2.4.1 Risk types per organization using means and standard deviation:

Means	Std Deviation
2.1667	1.94079
1.8571	1.46385
1.6	0.54772
3.5	2.73861
3.6	2.40832
2.6	2.30217
2.6667	2.88675
6	0
3	0
6	0
Mean of means=3.29	**Std. Error=0.45**

Market changes and government regulations are the most notable critical risks across the firms. In the Kenyan context, the emergence of larger firms offering similar to the small and medium enterprises continues to increase. For instance, the introduction of Uber Company; an international company offering transport and taxi services has affected the smaller travel companies. This results to more competition on the part of the small and medium firms and more bargaining power on the customers.

Currency fluctuations affect companies that receive their payments on foreign currencies. This is the third most critical risk given that the firms under this study are in the hospitality industry which is partly dependent on income from foreign tourists. Some ICT equipment and parts may be imported from other counties and the foreign currency payables directly affect the local firms.

Resource limitation in terms of availability of funds to run their operation is a challenge to most of the firms. A more adequate conclusion would be drawn from this observation if the total annual or monthly expenses per company were compared with the annual turnover in terms of profits. Market changes however, emergence as the most critical as only a couple of the firms indicated budget and finances as being the critical risk items.

The table 4.2.5 below indicates project risk management approach as more preferred among the small and medium firms. This is because their business terms are most likely to run on short term periods to realize their profits. This is unlike the managerial risk management approach as practiced by medium and other larger firms. However, a considerable tendency of professional consultancy firms using managerial risk management approach has been observed. This may be resulting from the type and expectations of their businesses.

Table 4.2.5: Findings on risk management processes

Approach	**Frequency**	**Percent**
Project based risk mgmt.	29	63
Managerial risk mgmt.	17	37
Total	**46**	**100**

Table 4.2.5.1: Risk Management approaches: Analysis by mean and Standard Deviation:

Means	**Standard Deviation**
1.5	0.54772
1.7143	0.48795
1.4	0.54772
1.5	0.54772
1.2	0.44721
1.6	0.54772
1	0
1	0
1	0
1	0
Mean of means=1.29	Standard error=0.098

4.3 Hypotheses Testing

The hypotheses in the study were tested using correlation described as below:

H1-The operating structure within a firm has a significant influence on the firm's risk management approaches

H2-The context of a firm moderates its operating structures and its risk management approaches.

Table 4.3.1. The relationship between firms' operating structures and their risk management approaches.

		Operating structures	**Risk management approach**
Operating structures	Pearson Correlation	1	-.637*
	Sig. (2-tailed)		0.048
	N	10	10
Risk management approach	Pearson Correlation	-.637*	1
	Sig. (2-tailed)	0.048	
	N	10	10
*. Correlation is significant at the 0.05 level (2-tailed).			

The study hypothesized a significant influence of firms' operating structures on the firms' risk management approaches used. On table 4.3.1, the score of 0.048 indicates a significant relationship between the two variables. According to the study, the decision by firms to adopt either the collaborative relationships or to operate singly will determine the approach used in managing their risks. This rejects the null hypothesis.

H3-The risk management approaches applied by a firm determines the customers' perception of service quality.

Table 4.3.2 The relationship between firms' risk management approaches and perceived service quality.

		Risk Management approach	Perceived Service Quality
Risk management approach	Pearson Correlation	1	-.752*
	Sig. (2-tailed)		0.012
	N	10	10
Perceived Service Quality	Pearson Correlation	-.752*	1
	Sig. (2-tailed)	0.012	
	N	10	10
*. Correlation is significant at the 0.05 level (2-tailed).			

The scores on table 4.3.2 above indicate a positive relationship between risk management approach and customers' perceived service quality.

H4-Customers' perception of service quality influences their perceived value

Table 4.3.3 The relationship between perceived service quality and perceived value.

		Perceived service quality	Perceived customer value
Perceived service quality	Pearson Correlation	1	-0.269
	Sig. (2-tailed)		0.452
	N	10	10
Perceived customer value	Pearson Correlation	-0.269	1
	Sig. (2-tailed)	0.452	
	N	10	10

Table 4.3.3 indicates that there exists no relationship between perceived service quality and perceived customer value. As per the previous literature reviewed, significant relationship can be achieved when the component of pricing is incorporated.

H5-Customers perception of value influences their loyalty to a firm.

Table 4.3.4 The relationship between perceived customer value and customer loyalty

		Perceived customer value	**Customer Loyalty**
Perceived customer value	Pearson Correlation	1	.655*
	Sig. (2-tailed)		0.04
	N	10	10
Customer Loyalty	Pearson Correlation	.655*	1
	Sig. (2-tailed)	0.04	
	N	10	10
*. Correlation is significant at the 0.05 level (2-tailed).			

Table 4.3.4 indicates a significant relationship between perceived customer loyalties.

4.3 Discussion

In the study, the preference of project risk management approach was explored. From the analysis, the result of a study by Duong (2009) on the recommended risk management approach for small and medium sized firms has been observed as 63 % of the respondents indicated this option. The current study additionally indicates the need for firms to take into consideration on the type of business, industry and sector in which they operate while formulating their risk management strategies. It has been observed that managerial risk management approach could be applicable in some specific small and medium enterprises.

The current study recommends the collaborative approach in structuring small and medium enterprises. The finding is similar to the one in a study by Muponda and Chaneta (2014) who recommended it as appropriate for small and medium enterprises to enhance competitiveness. However, the current study brings out the need for awareness of this structure by both employees and business managers needs to be emphasized.

The current study highlights customer satisfaction as a factor that improves performance in firms. Customer satisfaction has been indicated by customer attitudes, the services that firms offer, human resources and the organization culture. The mentioned factors are on the other hand driven by perceived service quality levels, products and services and the position of firms in their competitive environment. This is in agreement with the results of a study by Patterson and Spreng (1997) specifically highlighted the role of customer satisfaction as a mediating factor between customer value and customer loyalty.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section comprises a summary of the study, highlighting the findings, the conclusions, limitations of the current study and suggestions for further research. Additionally, recommendations for managers of small and medium sized enterprises.

5.2 A Summary of the findings

The study indicates the influence of firms' sizes on their operating structures and the approaches applied in risk management. The results also highlight the flexibility that small and medium enterprises have in their competitive environment. The firms are not necessarily restricted to a single way of operating but can use various approaches for a competitive advantage.

Project-based risk management has been found to be a more applicable approach in the operations of small and medium enterprises. However, this does not restrict all the firms in this sector to this approach only, the alternative managerial risk management approach is also applicable dependent on sector, industry and the level of professionalism that these firm operate. Additionally, it has been observed that risks regarding market changes and government regulations are a concern to most small and medium enterprises. In Kenya, government regulations may include certification, registration and location of the businesses.

In the study, customer value perception has been highlighted as the most significant factor in driving customer loyalty and that customer value perception is as a result of customer satisfaction. Value arising from customer satisfaction has been established as a key driver of customer loyalty. Additionally, firms ought to incorporate service quality in their operations and strategies. There is needed to strike a balance between perceived service quality and pricing of services for the realization of profitability and competitiveness.

5.3 Conclusion

From the study, market changes and government regulations are the most critical risks in small and medium enterprises in Kenya. While project risk management approach is a preferred approach in managing risks in this sector. Customer satisfaction has been identified as a significant factor that drives customer perceived value. When this is practiced over time, firms are more likely to achieve sustainable customer loyalty levels.

5.4 Recommendations

The results of this study suggest that there is need for managers to create awareness among their employees on their business strategies and competitive edges. On the risk management approaches among small and medium sized firms, the managers not only need to practice the recommended approach of collaborative relationships but also ought to be willing to try out other approaches or a combination of these. Even though collaborative operating structures are currently practiced by these firms, such partnerships will only thrive if the government policies and regulations are reviewed to fully accommodate such competitive approaches to business.

5.5 Limitations

The study involved small and medium enterprises only. The discussion on the variables and findings may not be fully applicable among the micro and the large organizations in Kenya. Also this research study cannot be generalized to other geographical location because the other factors such as culture and government policies may influence the variable in different ways.

5.6 Suggestions for further research

There is need to study further on the effects of other variables such as the pricing of products and services and its relationship to quality, customer perceived value and customer loyalty. Finally, further studies on the specific and practical ways that managers need to put in place in the transformation of their products and services are recommended. This is in regards to improving their strategies regarding human resources, customers and suppliers.

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Questionnaire

Dear Sir/Madam,

My name is Ruth Agutu, a student at the University of Nairobi. I am carrying out a research involving service firms in Kenya and you have been identified as having vast knowledge and experience in the area that can be useful to many people.

It is acknowledged that you are very busy but you are kindly requested to spare just a few minutes to provide information that is very critical to this study by completing the short questionnaire below. The information will be summarized and presented in data summary form and no firm will be identified by name in the report.

Thanking you in advance.

Ruth Agutu,

Researcher.

1. Please indicate your company name (*This will aid in analysis and will remain confidential*)

Firms' Sizes

2. How many employees do you have in your organization
   a) Less than 10
   b) Between 10-49
   c) Between 10-200
   d) More than 200

Operating structures

3. Please select one item below that may describe your business

   a) You produce and sell a range of complimentary products/services.

   b) You produce and sell a single product/service only.

Types of risks

4. Please tick what constitutes the most critical risk in your business: (*Select one*)

a) Market changes and Government regulations

b) Market changes and Currency fluctuations

c) Government regulations and Currency fluctuations

d) Budget/finances and Government regulations

e) Budget/finances and Currency Fluctuations

f) Market changes and Budget and finances

g) Budget/finances and Market changes

Risk Management processes

5. Tick one statement on the items below which clearly describes your risk management process:

a) Risk management activities are done by a special team within the business

b) Risk management activities vary per department in the business

6. The following listed items contain features that relate to your feelings about the service quality that you provide to your customers. Please tick the response that is close to your view as compared to your competitors.

Customer value perception

	Features	Much worse	Somewhat worse	Just the same	Somewhat better than	Much better than	Not sure
a	All our employees are fully knowledgeable about our services						
b	All our employees fully understand the needs of our customers						
c	Our business is more visually appealing than other businesses.						
d	Our employees appear neater than employees in other firms						
e	Our adverts are more visually appealing.						
f	We perform our services right the first time.						
g	Our customers feel safe in their transactions with us.						
h	We have the knowledge and skills to answer all customers' questions.						
i	We always give our customers prompt services.						

	Features	Much worse	Somewhat worse	Just the same	Somewhat better than	Much better than	Not sure
j	We are always willing to help our customers.						
k	We normally me individual attention to our customers						
l	We understand our customers' specific needs.						
m	We have better operating hours that are convenient for our customers.						

Perceived service quality:

Description	Extremely not true	Somewhat not true	Not sure/Do not know	Somewhat true	Extremely true
The appearance of our physical facilities, equipment and employees is good					
We are able to perform the promised service in a dependable and accurate manner					
We are willing to help our customers and provide a prompt service					

Description	Extremely not	Somewhat not	Not sure/Do	Somewhat true	Extremely true
We are knowledgeable, courteous and the able to show trust and confidence in our customers					
We provide our customers with caring and individualized attention					

Customer Loyalty

	Features	Much worse	Somewhat worse	Just the same	Somewhat better than	Much better than	Not sure/Do not know
a	Our customers are happy with our services						
b	We constantly show courtesy to our customers.						
c	When we promise to do something to our customers by a certain time, we do so without fail.						
d	We show a sincere interest in solving our customers' problems.						
e	Our behavior instills confidence in our customers						
h	We are constantly courteous to our customers.						
g	We constantly inform our customers on when service requests will be performed.						