Assessing the Influence of Loyalty Programs on Customer Satisfaction by Mobile Phone Users in Selected Public Universities in Western Region of Kenya

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Abstract:
Customers have become more sophisticated and they are enjoying more alternative options of brands, for any organization, there is a need to understand what kind of service or products it offers, and for whom. Organizations have embraced the concept customer relationship management practices since it focuses on managing relationship between its current and prospective customer base hence helping in building long lasting relationships which consequently give the organization the joy of retained customers. The specific objective of study was to determine the effect of loyalty programs on customer satisfaction. The study was guided by the social exchange theory which focused on the fundamental principle that humans in social situations choose behaviors that maximize their likelihood of meeting self-interests in those situations. Descriptive and explanatory research designs were utilized in this study and the following networks were sampled; Safaricom, Airtel, Orange and, yuMobile A questionnaire was used to collect data from sample size of 250 respondents who were sampled from the staff of public universities in the Western region which included Moi, Masinde Muliro, Maseno, Jaramogi Oginga Odinga, University of Eldoret and Kisii University. Data collected was analyzed by use of descriptive and inferential statistics. Multiple regressions were used to establish the effect between customer relationship management practices, customer satisfaction and customer Retention. Further, Loyalty programs had significant effect on Customer satisfaction, also it was established that, Customer satisfaction was significant in predicting customer retention. The study recommends that service providers should put more emphasis on Customer Relationship Management Practices since they influence customer satisfaction and hence customer retention. The study provides new theoretical insight into factors influencing customer retention by incorporating customer satisfaction as a mediator in the relationship between Customer Relationship Management Practices and customer retention.

Keywords: Satisfaction, Loyalty programs, customer, customer relationship, management practices

1. Background Information
Retaining customers has become increasingly more important since the business environment is dynamic and competitive. Therefore, as the competitive business environment becomes more turbulent, the most important issue the sellers face is no longer to provide quality products or services, but keep loyal customers who will contribute long-term profit to organizations (Tseng, 2007). Many firms recognize the importance of customer's retention but relatively few understand the economics of customer retention within their own firms. Organizations both private and public in today's dynamic market place are increasingly leaving anticipated marketing philosophies and strategies to the adoption of more customer-driven initiatives that seeks to understand, attract, retain and build long term relationship with profitable customers (Kotler, 2006, Gronroos, C 1994). This paradigm shift has undauntedly led to the growing interest in CRM practices that aim at ensuring customer identification, interactions, customization and personalization that unreservedly lead to customer satisfaction, retention and profitability (Thompson, 2004, Gronrooset al., 1996; Xu et al, 2002, store, 2000). CRM practices is defined as, ‘activities that focuses on managing the relationship between a firm and its current and prospective customer base, as a key to success, (Gebert, 2003). It further, means developing a comprehensive picture of customer needs, expectations and behaviors and managing those factors to affect business performance. CRM practices help in building long lasting relationships and these relationships give a company joy of retained customers.

Customer satisfaction is one of the most areas being researched in many service studies due to its importance in determining the success and the continued existence of the service business (Gursoy et al., 2007). Customer satisfaction conceptually has been defined as feeling of the post utilization that the consumers experience from their purchase (Westbrook and Oliver, 1991; Um et al., 2006). Opposite to cognitive focus of perceptions, customer satisfaction is deemed as affective response to a products or services (Yuan et al., 2005). A consumer is deemed to be satisfied upon the experience weighted sum total produce a feeling of enjoyment when compared with the expectation (Choi and Chu, 2001).
In service studies, customer satisfaction is the customers’ state of emotion after experiencing the service (Baker and Crompton, 2000; Sanchez et al., 2006). Homburg et al. (2008) suggested that customer satisfaction has been a crucial issue in marketing field in the past decades since satisfied customers are able to offer to the company such as customer loyalty and continuous profitability.

The demand for mobile phones in Kenya in the last few years has been more than most people expected and continues to expand. According to the Communications Commission of Kenya (CCK), mobile phone usage in Kenya has grown to an average of 65 percent a year for the past five years.

2. Literature Review

2.1. Understanding of Customer Satisfaction

Customer satisfaction is perceived as a relative judgment that considers the qualities versus the cost and efforts obtained through a purchase (Ostrom and Lacoubucci, 1995). Customer satisfaction is considered as important outcome of a buyer-seller interaction (Roos et al., 2006; Smith and Barclay, 1997). The literature contains two general conceptualizations of customer satisfaction: transaction-specific satisfaction and cumulative satisfaction (Bolton and Drew, 1991; Cronin and Taylor, 1994; Shankar et al., 2003). While transaction-specific satisfaction may provide specific diagnostic information regarding a specific product or service encounter, cumulative satisfaction resulting from a series of transactions or service encounter is a more fundamental indicator of a firm’s past, current and future performance (Anderson et al., 1997; Lam et al., 2004; Oliver, 1997). Therefore, this study focuses on cumulative satisfaction and defines satisfaction as the emotional state developed from a relationship that resulted from customer interactions over time. The notion of customer satisfaction is part of a wider focus on building total customer value, which can be defined as: ‘the perceived monetary value of the bundle of economic, functional and psychological benefits customers expect from a given market offering’ (Kotler and Keller, 2009). Zeithaml and Bitner (2000), define customer satisfaction as follows: ‘Satisfaction is the customer evaluation of a product or service in terms of whether that product or service has met their needs and expectations.

Customer satisfaction has been fundamental to the marketing concept for over three decades (Parker and Mathews, 2001). It is widely recognized in the good and service sectors that customer satisfaction as the main performance indicator and the key to success for any business organization (Mihelis, Grigorousis, Siskos, Politis, and Malandrakis, 2001). However, the intangible nature of customer satisfaction makes the term hard to measure. Therefore, many researchers attempt to discover the antecedents and consequences of customer satisfaction in order to provide a better understanding of customer, increase market share and profitability, reduce cost and enhance product or service performance as well as internal quality control (Anderson and Sullivan, 1993; Ndubisi and Chan, 2005). Sprowls and Asimow (1962) contrasted and discussed customer behavior model and reported that customer satisfaction result in repeated purchase and emphasize the importance of customer satisfaction for the organization. In early 1970s, Anderson (1973) and Olshavsky and Miller (1972) investigated customer satisfaction based on the expectation and perceived product performance. Churchill and Suprenant (1982) study identify the antecedent and construct measurement of customer satisfaction based on disconfirmation paradigm. Previous studies define customer satisfaction as ‘disconfirmation paradigm’ (Churchill and Suprenant, 1982), which is a result of confirmation/disconfirmation of expectations that compare product (or service) performance with their expectations and desire (Spreng, MacKenzie, and Olshavsky, 1996). Boulding, Kalra, Staelin, and Zeithaml (1993) conceptualized customer satisfaction into transaction specific and cumulative (Anderson, Fornell and Lehmann, 1994). The transaction specific viewed customer satisfaction as evaluative judgement after a specific buying process (Hunt 1977; Oliver, 1993). However, cumulative customers’ satisfaction emphasizes more on the total evaluation based on total consumption over time (Johnson and Fornell 1991; Fornell 1992). Other researchers consider the term customer satisfaction as an attitude or evaluation formed by customers who compares pre-purchase expectations about the outcome of a product or service from the actual performance they received (Oliver, 1980; Fornell, 1992). According to Hoyer and MacChnis (1997), consumers measure their experiences of a product or service after acquisition, consumption and disposition. Customer satisfaction / dissatisfaction require experience with the product which depends on the quality and value of the service (Anderson et al., 1994). Any discrepancy may cause disconfirmation (Hoyer et al, 1997), thus, failure to meet the needs and expectations is assumed to result in dissatisfaction with the product or service. Hoyer and MacChnis (1997), argued that a favourable outcome means they are satisfied whilst an unfavourable outcome results in dissatisfaction. Customers stay longer in consuming company services due to a developed sense of security and loyalty brought about by the satisfaction and they deepen their relationship with the company. Customers will also demonstrate less price sensitivity, due to the fact that the products and services provided exceed the customers’ expectations and thus raising the individual switching costs. Customers tell and recommend company product or service. Satisfied customers tend to tell others of the benefits of the products and services received, thus marketing the organizations products and services. Theoretically, service attributes can be considered as a cognition-based construct, while customer satisfaction is mainly an effective and evaluative response (Oliver, 1993). The cellular phone companies are, therefore, doing everything possible to attract new customers and retain the existing ones. Service quality has, therefore, become very crucial for the service providers in the retention of their customers. In recent times, subscribers have complained vehemently on the quality of services provided by service providers. A substantial number of customers of mobile telephones have taken service providers to task for rendering unsatisfactory services. However, there is little empirical research undertaken, as far as can be ascertained on how quality service leads to customer retention in the mobile telephony industry. The study aims at investigating whether a service
provider in general is doing what customers perceive as quality service to improve customer retention. The study is undertaken to clarify certain questions related to customer retention in the mobile telephone Industry.

2.2. Social Exchange Theory

The theory attempts to explain the nature of the relationships between Customer relationship management practices, Customer satisfaction and Customer Retention. The theoretical model adopted for this study was derived from the social exchange theory (Homans, 1958), which posits that all human relationships are formed by the use of cost-benefit analysis and comparisons of alternatives. Homans suggested that when an individual perceives the cost of a relationship outweighs the perceived benefits, then the person will choose to leave the relationship. The theory further states that persons that give much to others try to get much from them, and persons that get much from others are under pressure to give much to them.

The social exchange relationships between two parties develop through a series of mutual exchanges that yield a pattern of reciprocal obligations to each party. Social exchange theory indicates that individuals are willing to maintain relationships because of the expectation that to do so will be rewarding. Individuals voluntarily sacrifice their self-benefits and contribute these benefits to other individuals with the expectation for more future gains. Thibaut and Kelly (1959) propose that whether an individual retains a relationship with another one depends on the comparison of current relationship, past experience and potential alternatives. The constant comparison of social and economic outcomes between a series of interactions with current partners and available alternatives determines the degree of an individual's commitment to the current relationship.

The theory is appropriate for this study because service encounters can be viewed as social exchanges with the interaction between service provider and customer being a crucial component of satisfaction and providing a strong reason for continuing a relationship (Barnes, 2007). Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationships. In other words, people (or business firms) evaluate their reward - cost ratio when deciding whether or not to maintain a relationship. Rewards and costs have been defined in terms of interpersonal (e.g., liking, familiarity, influence), personal (gratification linked to self esteem, ego, personality) and situational factors (aspects of the psychological environment such as a relationship formed to accomplish some task). In a services context, considering the level of interpersonal contact needed to produce services, there is a range of psychological, relational and financial considerations that might act as a disincentive for a hypothetic change of service providers. In the late 1960s and early 1970s, exchange theory began to play a major role in family studies. Scholars pointed out how exchange theory could be applied to a variety of family issues such as mate selection, courtship, sexual bargaining, marital quality, marital power, family violence, and many others at both the micro- and macro-levels.

2.3. Loyalty Programs and Customer Retention

Loyalty programs have long been an important element of customer relationship management for firms. Information technology that enables firms to practice individual-level marketing has facilitated the spread of loyalty programs into such diverse industries as gaming, financial services, and retailing (Deighton 2000). Actually, academic researchers have begun to study loyalty programs. Behaviorally oriented researchers, such as Soman (1998) and Kivetz and Simonson (2002), have studied the effect of delayed incentives on consumer decisions. Zhang, Krishna, and Dhar (1999), Kim, Shi, and Srinivasan (2001), and Kopalle and Neslin (2003) have proposed analytical models to study the impact of loyalty programs in categories with different structures. This study contributes to the literature that is focused on empirically measuring response to loyalty programs (Drèze and Hoch 1998; Sharp and Sharp 1997).

Loyalty programs that base rewards on cumulative purchasing are an explicit attempt to enhance retention. Such programs encourage repeat buying and thereby improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes. However, dynamically oriented promotions, such as loyalty programs, represent just one possible technique for increasing customer retention. Repeat buying may also be encouraged through various means such as short-term discounts on merchandise or reduced shipping charges. Therefore, it is important to develop models that can simultaneously estimate the influence of dynamic and current factors on long term customer behavior. A relevant study by Sharp and Sharp (1997) analyzes individual-level data by using a one-period switching model to measure the ability of a loyalty program to alter normal repeat-purchase rates.

Unfortunately, the study's results are inconclusive. In contrast, Drèze and Hoch (1998) report on a category specific loyalty program that results in increases for both the specific category and total store traffic. It should be emphasized that studies that question the value of loyalty programs (e.g., Dowling and Uncle's 1997: Sharp and Sharp 1997) are largely based on research that uses single-period switching models. Additional research with models that fully replicate the dynamics of consumer response is needed to judge the effectiveness of dynamically oriented loyalty programs. For a frequency program to be effective in increasing loyalty, it must have a structure that motivates customers to view purchases as a sequence of related decisions rather than as independent transactions. That is, the structure must give customers an incentive to adopt a dynamic perspective. O'Brien and Jones (1995) suggest that the major factors that customers consider when evaluating programs are the relative value of awards and the likelihood of achieving a reward. Furthermore, the likelihood of achieving a reward is a function of cumulative buying thresholds and time constraints. These design elements (e.g., thresholds, rewards, time constraints) combine with individual-level requirements and preferences to determine the customer's expected benefits of participating in a loyalty program. A special characteristic of loyalty programs is that their attractiveness may change dynamically with a customer's decisions. As purchases are made, both the customer's investment in the program and the customer's likelihood of earning a reward increase. Conversely, when a customer decides not to purchase in a given period, the likelihood of earning a reward decrease, because the
customer moves no closer to the reward threshold, and the time left to earn rewards shrinks. The assessment of a program’s attractiveness is further complicated because customers usually have imperfect knowledge of their future requirements and of the marketing policies of the firm. These dynamic factors are a challenge in the modeling of customer response to loyalty programs. This study empirically estimates the impact of a reward program and other elements of the marketing mix on customer buying behavior over time by developing a model that replicates dynamic consumer response to a loyalty program.

In contrast to previous models, the current model considers the impact of previous purchasing activity and customer expectations. The underlying behavioral assumption is that a reward program can motivate customers to base their purchasing decisions both on the current environment and on a long-term goal of achieving a frequent buyer reward. In other words, an effective reward program can encourage customers to make decisions that maximize expected utility over an extended time horizon rather than at each purchase occasion. This assumption is consistent with previous findings in the literature that expectations of the future can affect consumers’ current-period decisions (e.g., Boulding et al. 1993; Lemon, White, and Winer 2002). The empirical section of this article uses individual-level customer data from an Internet grocer to develop a dynamic model of customer retention. The model identifies the key factors that influence customers to make repeat purchases over time. A loyalty program that bases awards on the level of purchasing over a specified period is a prime example of such a decision problem. A further benefit of dynamic programming methods is that the estimated coefficients can be used to conduct simulations that replicate the consumer’s dynamic decision process.

The primary contribution of this research is a framework for modeling the influence of a reward program and other marketing instruments on customer retention. Firms have multiple options for their promotional budgets, so models that can quantify the long-term effects of loyalty programs and other options (e.g., pricing, coupons, shipping fees) can help the firm justify its choices. Although most database marketing applications focus on tasks such as customer scoring that are designed to maximize the profitability of single-period mailing efforts (Bult and Wansbeek 1995), the current research focuses on customers’ response to a range of marketing instruments over an extended period. The model provides the means to support multi-campaign direct marketing in environments in which customers have a dynamic orientation. In terms of substantive findings, the results suggest that the loyalty program under examination is successful in changing customer behavior and in motivating customers to increase purchasing. In addition to a statistically significant estimate for the loyalty reward parameters, formulations that assume that customers are dynamically oriented fit better than do models that do not include a dynamic structure.

There are several theoretical reasons the reward-based loyalty program being studied should positively affect both customer retention and customer share development. First, psychological investigations show that rewards can be highly motivating (Latham and Locke 1991). Research also shows that people possess a strong drive to behave in whatever manner necessary to achieve future rewards (Nicholls 1989). According to Roehm, Pullins, and Roehm (2002, p.203), it is reasonable to assume that during participation in a loyalty program, a customer might be motivated by program incentives to purchase the program sponsor’s brand repeatedly. Secondly, because the program’s reward structure usually depends on prior customer behavior, loyalty programs can provide barriers to customers’ switching to another supplier. For example, when the reward structure depends on the length of the relationship, customers are less likely to switch (because of a time lag before the same level of rewards can be received from another supplier). It is well known that switching costs are an important antecedent of customer loyalty (Dick and Basu 1994; Klemperer 1995). Despite the theoretical arguments in favor of the positive effect of loyalty programs on customer retention and customer share development, several researchers have questioned this effect (e.g., Dowling and Uncles 1997; Sharp and Sharp 1997). In contrast, Bolton, Kannan, and Bramlett (2000) and Rust, Zeithaml, and Lemon (2000) show that loyalty programs have a significant, positive effect on customer retention and/or service usage. This study builds on the theoretical argument in favor of the positive effect that loyalty programs have on customer retention and customer share development.

3. Research Methodology

3.1. Research Philosophy

Research Philosophy refers to the assumptions and beliefs that govern the way we view the world (Saunders et al., 2007); it underpins the general approach and direction that the researcher chooses to take about the whole research. Many authors like saunders et al 2000:2007; Sullivan T.J. (2001); Cooper and Schindler (2006) and Malhotra and Birks (2007) agree that research can be influenced by positivism or phenomenological beliefs. Research philosophy is positivism where “knowledge or the world is thought to exist independent of people’s perceptions of it and that science uses objective techniques to discover what exists in the world” (Sullivan T.J. 2001 p.47). In this study positivism was chosen more than phenomenological perspective because we believe that customer retention as pertaining mobile phone service users can be defined objectively through the use of established theoretical frameworks and structured instruments to assess and analyze it, upon which generalizations can be made from the findings.

3.2. Research Purpose

The research purpose is abroad statement of what the research hopes to achieve. According to purpose, research could be broadly divided into exploratory, descriptive and explanatory (Saunders et al 2000, 2007; Cooper and Schindler 2006). An explanatory research is a study that is conducted to 'find out what is happening, to seek new insights, to ask questions and to assess phenomena in a new light’ (Robson2002:59). It is mainly used when a researcher wants to have a clearer understanding of a situation or a problem, where the area of study is so new or vague, important variable may be
known or defined. It therefore uses such methods as searching documented materials, asking for expert's opinion, and conducting a focus group interviews.

An explanatory research is a study that seeks to establish relationship that exists between variables. In other words, its purpose is to identify how one variable affects the other; it seeks to provide an explanation to the causes and/or effects of one or more variables (Saunders et al 2000, 2007; Cooper and Schindler 2006, Malhotra and Birks, 2007). It is often termed as causal studies. They are also used when the purpose of the study is to answer 'why' in a given context. This study had significant combination of both the two: Descriptive and explanatory purposes.

### 3.3. Time Horizon

According to time horizon, research design can be longitudinal or cross-sectional. Across-sectional study focuses on a particular phenomenon at a specified period of time (Saunders et al 2007). In this case, one sample of a population can be taken and studied at particular time as in a single cross-sectional study or two or more samples of a target population could be studied once as in multiple cross-sectional study (Malhotra and Birks 2007). This study chose a cross-sectional study because data was collected from a cross section of Mobile phone service users once and not for different periods of time.

### 3.4. Research Strategy

Research Strategy is a general plan of how to answer the research questions. It is mainly guided by the research questions and research objectives, among other things. It determines to a large extent the choice of data collection methods. The main research strategies are action research, ethnographic studies, experiments, surveys, case study, grounded theory or archival research (Saunders et al 2000, 2007; Cooper and Schindler 2006; Malhotra and Birks 2007). This study chose basically the survey strategy because it sought the opinion of a population about a specific subject matter and it combined the use of qualitative and quantitative methods.

### 3.5. Target Population

The target population for the study was the users of Mobile Phone services and enjoying the use of Customer Relationship Management practices. Burns and Groove (1997) argues that a target population is the entire aggregation of respondents that meets designated set of criteria. The Target population of the study consisted of staff in public universities’ in Western Kenya Region. The study defined Western Kenya as the region covering North Rift, former Nyanza province and former Western province. The public universities in the Western region included Moi, MasindeMuliro, Maseno, JaramogiOgingaOdinga, University of Eldoret, Kisii University as at June, 2014. The staff in these Universities was characterized by grade, gender, working experience, level of education, and level of mobile phone exposure. The study targeted a population of 15007 which was indicated in official records in the payrolls of respective universities. The following is how the 15007 was arrived as a target population for this study;

| Strata                              | Target Population |
|-------------------------------------|-------------------|
| Moi University                      | 6,900             |
| Maseno University                   | 2,500             |
| Masinde Muliro University of Science and Tech. | 1,400         |
| Jaramogi Oginga Odinga University  | 2,070             |
| Kisii University                    | 837               |
| University of Eldoret               | 1300              |
| **Total**                           | **15007**         |

**Table 1: Target Population**

**Source: Survey Data**

### 3.6. Sampling Technique

In selecting the sample of 250 respondents, a stratified simple random sampling was used. This technique was chosen because the population consisted of mobile phone users in each stratum. Stratified random sampling ensures greater representiveness across the entire population and also results in a smaller sampling error, giving greater precision in estimation (Wegner, 2000).

### 3.7. Sample Size

The sample size of each stratum in stratified random technique will be proportionate to the population size of the stratum when viewed against the entire population. This means that each stratum (each University) has the same sampling fraction (Castillo, 2009). The simple random sampling or probability sampling was used so that each and every one in the target population had an equal chance of inclusion. The sample size of Universities in each stratum and the number of respondents was obtained using coefficient of variation. Nassiuma (2000) asserts that in most surveys or experiments, a coefficient of variation in the range of 21% to 30% and a standard error in the range 2% to 5% is usually acceptable. The Nassiuma's formula does not assume any probability distribution and is a stable measure of variability. Therefore, a coefficient variation of 30% and a standard error of 2% were used in this study. The upper limit for coefficient of variation and standard error will be selected so as to ensure low variability in the sample and minimize the degree or error.

The formula will be;
\[ S = \frac{N (CV)^2}{(CV)^2 + (N-1) e^2} \]
where \( S \) = the sample size
\( N \) = the population size
\( Cv \) = the Coefficient of Variation
\( e \) = standard error

Therefore, the sample size of Universities will be as indicated in the table below;

\[ \frac{15007(0.3^2)}{0.3^2 + 15007 - (0.02)^2} = 250 \]

| Name of University                                | Total Population | Sample Size |
|---------------------------------------------------|------------------|-------------|
| Moi University                                    | 6,900            | 102         |
| Maseno University                                 | 2,500            | 36          |
| MasindeMuliro University of Science and Tech.     | 1,400            | 20          |
| JaramogiOgingaOdinga University                   | 2,070            | 30          |
| Kisii University                                  | 837              | 13          |
| University of Eldoret                             | 1300             | 20          |
| **Total**                                         | **15007**        | **250**     |

Table 2: Sampling Frame of the Public Universities in Western Kenya Region
Source: Survey Data, 2014

3.8. Data Collection Instrument

The questionnaire was used as the data collection instruments to enable achieve the stated objectives. The instrument was appropriate as it helped in collecting the primary data. The questionnaire was designed based on the five-point Likert-type scales. This was so because it was to enable answer specific research questions and help achieve the objectives of the study. Closed ended questions were used as they were deemed to motivate the respondents and save time.

3.9. Measures of Reliability and Validity

Saunders et al 2000; cooper and Schindler 2006; and Malhotra N. K and Birks D. F. 2007 agree that in any research, it is expedient as a matter of reliability and validity check that the questionnaire should be pre-tested before final administration. The measurement scale in the questionnaire were deemed to have content and construct validity because they reflect the key components of CRM practices, Customer satisfaction and customer retention described in the literature.

3.10. Reliability of Study Measures

Reliability refers to whether a measurement instrument is able to yield consistent results each time it is applied. In order to test for reliability, Cronbach alpha coefficient was used since was the common method used for assessing reliability for a measurement scale with multi-point items. The reliability of the study measures was assessed by Cronbach’s Alpha coefficient, which was used to assess the internal consistency or homogeneity among the research instrument items (Sekaran, 1992). The coefficient reflects homogeneity among a set of items varies from 0 to 1. A good reliability should produce at least a coefficient value of 0.70 (Hair et al., 1995) but coefficients up to 0.62 are acceptable in social research studies (Kritsonis and Hurton, 2008). For this research the reliability coefficients met the criteria since all the reliability coefficients of the study variables were above 0.7. The concepts of validity and reliability require the researcher to ensure data is gathered and treated in a manner that will not include change to interpretation. This means there is need to record the problem of the study as closely as possible (Creswell, 2003). However, there is no absolute reliability in undertaking a research. The use of questionnaires is one source of bias because of literacy problems which may be present in the target respondents.

3.10.1. Validity

Validity refers to whether the statistical instrument measure what it is intended to measure, i.e., accuracy of measurement (Sullivan T.J. 2001; Saunders et al., 2000; 2007). Validity is concerned with whether the findings are really what they appear to be about. This study will address the four approaches to establishing validity; face validity, content validity, criterion validity and construct validity (Zikmund et al., 2010). Face validity was established by inspecting the contents being studied for their appropriateness to logically appear to reflect what was to be measured further, face validity involves assessing whether a logical relationship exist between the variables and the proposed measure.

To establish content validity this research was validated by determining the variables which have been defined and used in literature previously. Additionally, opinions from experts were sought to provide relevant inputs adding to what had been identified from the literature. Piloting a questionnaire was crucial and had highlighted ambiguities and other potential pitfalls (Somekh and Lewin, 2005). The pilot study was carried out in Egerton University. Feedback from the pilot study enabled the researcher to make changes where necessary to the questionnaire. In addition, the respondents may have experienced boredom because the questions may seem monotonous and towards the end of the questionnaire, the respondent may not pay keen attention to details of the question. Yet another bias that may be experienced in the course of this research is acquiescence. This issue may arise when the respondent tends to agree with an issue whenever
they are not sure or undecided. To overcome this possible bias, the study was to provide a short questionnaire. Reliability test was performed on the questionnaire items using Cronbach alpha. However, the threshold that is acceptable in closely related researches is 0.7 and this is what will be the guide to this study (Eisenmerger et al, 1986).

### 3.11. Data Analysis and Presentation

To establish the main characteristics of the study variables, descriptive statistics, factor analysis using principal component method with varimax rotation and Pearson correlations analysis was done and relevant tests conducted. To establish the statistical significance of the respective hypotheses, ANOVA of F-tests as well as multiple linear regression analysis was conducted, appropriate at 95 percent confidence level ($\alpha=0.05$). The questionnaire returned from the field was coded, edited and keyed into the computer to facilitate statistical analysis. Statistical package for social sciences (SPSS) version 17 was used to assist in analysis. Analyzed data was interpreted and presented in tables.

Data analysis was undertaken using multiple regressions to examine the way a number of independent variables relate to one dependent variable. Multiple regression was used as a technique to analyze continuous variable (Steel and Ovalle, 1984). Baron and Kenny (1986, 2003) four steps were also used to test mediation; the SOBEL Test was also used to test the magnitude of confidence among the variables. The dependent variable is assumed to be a linear function as;

**Model: effects of CRM Practices on Customer Satisfaction**

$$CS= \beta_0 + \beta_1LP + e,$$

Where;

- $CS$ = Customer Satisfaction
- $\beta_0$ = a constant
- $\beta_1$ = beta values
- CRM Practices (LP – Loyalty programs)
- $e$ = Error term

#### 3.11.1. Linearity

Standard multiple regression can only accurately estimate the relationship between dependent and independent variables if the relationships are linear in nature. As there are many instances in the social sciences where non-linear relationships occur (e.g., anxiety), it is essential to examine analyses for non-linearity. If the relationship between independent variables and the dependent variable is not linear, the results of the regression analysis will under-estimate the true relationship. This under-estimation carries two risks: increased chance of a Type II error for that independent variables, and in the case of multiple regression, an increased risk of Type I errors (over-estimation) for other independent variables that share variance with that independent variable.

Authors such as Pedhazur (1997), Cohen and Cohen (1983), and Berry and Feldman (1985) suggest three primary ways to detect non-linearity. The first method is the use of theory or previous research to inform current analyses. However, as many prior researchers have probably overlooked the possibility of non-linear relationships, this method is not foolproof. A preferable method of detection is examination of residual plots (plots of the standardized residuals as a function of standardized predicted values, readily available in most statistical software).

The third method of detecting curvilinearity is to routinely run regression analyses that incorporate curvilinear components or utilizing the nonlinear regression option available in many statistical packages. It is important that the nonlinear aspects of the relationship be accounted for in order to best assess the relationship between variables.

### 4. Data Analysis, Presentation and Interpretation

#### 4.1. Response Rate

The study intended to collect data from 250 respondents, but data was successfully collected from 222 respondents. This represents a response rate of 88.8 percent of the target population, which falls within the confines of a large sample size (Anderson, Sweeney and Williams, 2003)

#### 4.2. Profile of the Respondents

The respondents’ profiles of interest in this study were; Gender, Age of respondent, highest level of education, mobile phone service provider, and service provider used most and lengthy of time of usage of the services. The total sample for the survey consists of 222 respondents. The gender distribution of the survey respondents is 65.3 per cent males and 34.7 per cent females. The results also indicated that the samples have age predominantly of 45 years and above, which is 46.4 per cent. More than 50 per cent of the respondents use Safaricom mobile phone service provider. Majority of the respondents have college or higher education level where 10.4 per cent are professional qualification, 13.5 per cent are diploma or advanced diploma holder, 16.2 per cent have degrees and 53.2 per cent have postgraduate level of education. Only 6.8 per cent of respondents have attained high-school level. The results are presented in Table 3
### Table 3: Demographic Profile of Respondents

| Variables                      | Frequency | Percentage |
|-------------------------------|-----------|------------|
| Gender                        |           |            |
| Male                          | 145       | 65.3       |
| Female                        | 77        | 34.7       |
| Age                           |           |            |
| 18-24                         | 20        | 9.0        |
| 25-34                         | 18        | 8.1        |
| 35-44                         | 81        | 36.5       |
| 45 and above                  | 103       | 46.4       |
| Level of Education            |           |            |
| O-Level                       | 15        | 6.8        |
| Certificate                   | 23        | 10.4       |
| Diploma                       | 30        | 13.5       |
| Bachelor's Degree             | 36        | 16.2       |
| Post Graduate Degree          | 118       | 53.2       |
| Mobile Service Provider       |           |            |
| Safaricom                     | 111       | 50         |
| Airtel                        | 80        | 36         |
| Orange                        | 28        | 12.6       |
| Yu-mobile                     | 3         | 1.4        |
| Mobile Service Provider used often |            |            |
| Safaricom                     | 104       | 46.8       |
| Airtel                        | 68        | 30.6       |
| Orange                        | 37        | 16.7       |
| Yu-mobile                     | 13        | 5.9        |
| Period of Usage               |           |            |
| 1-3 years                     | 18        | 8.1        |
| 4-7 years                     | 91        | 41.0       |
| 8-10 years                    | 82        | 36.9       |
| Over 11 years                 | 31        | 14.0       |

*Source: Research Data (2014)*

### 4.3. Descriptive Statistics

For clear determination of the responses made to the research items, the mean, standard deviation, skewness and kurtosis of the study variables were determined as highlighted in Table 4.

| Variables | Mean  | Std dev | Skewness | Kurtosis |
|-----------|-------|---------|----------|----------|
| LP        | 3.2955| 0.65043 | -0.744   | 1.967    |
| CS        | 3.4234| 0.79292 | -0.583   | -0.248   |

*LP=Loyalty Programs, CS=Customer Satisfaction*

*Table 4: Descriptive Statistical Analysis of the Study Variables*

*Source: Research Data (2014)*

From Table 4 Loyalty Programs have a mean score of 3.2955 and a standard deviation of 0.65043, with skewness of -0.744 and a kurtosis of 1.967. Customer satisfaction is the mediator which has a mean of 3.4234 and a standard deviation of 0.79292, its skewedness is -0.583 and its peakedness of -0.248.

### 4.4. Scale Reliability of Study Variables

The reliability of an instrument is defined as its ability to consistently measure the phenomenon it is designed to measure. The reliability of the questionnaire was therefore tested using Cronbach alpha measurements. From the Table 5

| Variables | Number of Items | Cronbach Alpha Coefficient |
|-----------|-----------------|---------------------------|
| LP        | 5               | 0.749                     |
| CS        | 4               | 0.722                     |

*LP=Loyalty Programs, CS=Customer Satisfaction*

*Table 5: Cronbach’s Alpha Reliability*

*Source: Research Data (2014)*

The reliability coefficients (a) of each variable are as follows: Loyalty Programs (0.749); Customer satisfaction (0.722) the reliability coefficients of most of the variables are above 0.70, which concurs with the suggestion made by Nunnally (1978). The internal consistency was considered to be sufficient and adequate. As indicated in the above table Cronbach’s alpha was computed separately for the study variables to enable assess the internal consistent among the study variable.

### 4.4.1. Factor Analysis

Factor analysis was conducted to create variable composites from the original attributes and to identify a smaller set of factors that explain most of the variances between attributes. Factor analysis was done on Loyalty Programs, Customer Satisfaction...
4.4.2 Factor Analysis Results of Loyalty Programs

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Barlett’s Test of Sphericity were used. The KMO measure of sampling adequacy indicated a value of (KMO=0.549) indicating that the sample size was adequate for the variables entered into analysis. The Barlett’s Test of Sphericity was significant $X^2=477.317$, df=10, p=0.000, implying that the factor analysis was appropriate for the study and there was relationship among variables for the Relational Experience. The results in Table 6 show that the 5 items of Loyalty Program are sorted into two components. The results of the principal component analysis indicate that, there are two factors whose Eigenvalues exceed 1. The Eigenvalue of a factor represents the amount of total variance explained by that factor. For Loyalty Program, the first factor has Eigenvalue of 2.385 and the second factor has Eigenvalue of 1.448. The two factors explain 76.669% of the total variance. The first factor explains 47.709% of this variance, while the second variable explained 28.961% of this variance. Varimax rotation tries to maximize the variance of each of the factor, so the total amount of variance accounted for the redistribution over the extracted factor. Principal component analysis with varimax rotation is widely adopted as a reliable method of factor analysis (Sinkkonnen et al, Malhotra and Galleta, 1999).

| Scale Item                         | Factor Loadings |
|------------------------------------|-----------------|
| 1                                  | 2               |
| Accumulation of reward points      | .829            |
| Discounts offered to customers     | .821            |
| Enjoy Low charges during off peak   | .930            |
| My service provider offers gifts   | .905            |
| Regularly updated on service changes | .095          |

Notes: Eigenvalues

| Percentage of Variance                | KMO Measure of sampling adequacy |
|---------------------------------------|----------------------------------|
| 55.768%                               | .549                             |
| Approx. Chi-Square 477.317, Df 10, Sig. .000 |

Extraction Method: Principal component Analysis
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 3 iterations

Table 6: Loyalty Programs Rotated Component Matrix
Source: Research Data (2014)

4.4.3 Factor Analysis Results of Customer Satisfaction

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Barlett’s Test of Sphericity were used. The KMO measure of sampling adequacy indicated a value of (KMO=0.594) indicating that the sample size was adequate for the variables entered into analysis. The Barlett’s Test of Sphericity was significant $X^2=307.448$, df=6, p=0.000, implying that the factor analysis was appropriate for the study and there was relationship among variables. The results of the principal component analysis indicate that, there are two factors whose Eigenvalues exceed 1. The Eigenvalue of a factor represents the amount of total variance explained by that factor. For Customer satisfaction, the first factor has Eigenvalue of 2.231 and explain 55.768% of the total variance and the second factor has Eigenvalue of 1.148 and explain 28.697, the two factors explain 84.464% of the total variance. The first factor explains 55.768% of this variance, while the second variable explained 28.697% of this variance. Varimax rotation tries to maximize the variance of each of the factor, so the total amount of variance accounted for the redistribution over the extracted factor. Principal component analysis with varimax rotation is widely adopted as a reliable method of factor analysis (Sinkkonnen, Malhotra and Galleta, 1999).

| Scale Item                                         | Factor Loadings |
|----------------------------------------------------|-----------------|
| 1                                                  | 2               |
| Satisfied with this service provider’s services    | .909            |
| Service provider is successful                      | .707            |
| Service provider meets my expectations              | .870            |
| Overall, service provider has met my expectations   | .952            |

Notes: Eigenvalues

| Percentage of Variance                | KMO Measure of sampling adequacy |
|---------------------------------------|----------------------------------|
| 55.768%                               | 2.231                            |
| Approx. Chi-Square 307.448, Df 6, Sig. .000 |

Extraction Method: Principal component Analysis
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 3 iterations

Table 7: Customer Satisfaction Rotated Component Matrix
Source: Research Data (2014)

4.5 Correlation Analysis

The correlation shown in the table below presents bivariate correlations between variables. Since a single construct in the questionnaire was measured by multiple items, the average score of the multi-items for a construct was
computed and used in further analysis such as correlation analysis and multiple regression analysis (Wang and Benbasat, 2007).

From the table attached, When the correlation coefficient value (r) ranges from 0.10-0.29, is considered to be weak, 0.30-0.49, medium, 0.5-1.0 is considered strong, Wong & Hiew (2005). According to Field (2005), correlation coefficient should not go beyond 0.8 to avoid Multicollinearity. In this research, the highest correlation coefficient is 0.69, thereby implying that there was no multicollinearity problem in this research, since the value is less than 0.8. The NQ is positively and statistically significant (r=0.501, p<0.00), PV is positively and statistically significant (r=0.541, p<0.00 (2 tailed at 1% level of significance), CRE is positively and statistically significant (r=0.707, p<0.00(2 tailed at 1% level of significance), CS is positively and statistically significant, (r=0.434, p<0.00(2 tailed at 1% level of significance), CR is positively and statistically significant. ALL the NQ, PV, CRE and LP were correlated to customer retention and were positively and statistically significant.

|        | NQ   | PV    | CRE   | LP    | CS    | CR    | Sig. (2 tailed) |
|--------|------|-------|-------|-------|-------|-------|----------------|
| NQ     | 1    |       |       |       |       |       |                |
| PV     | .516 | 1     |       |       |       |       |                |
| CRE    | .707 | .790  | 1     |       |       |       |                |
| LP     | .723 | .542  | .673  | 1     |       |       |                |
| CS     | .434 | .214  | .524  | .518  | 1     |       |                |
| CR     | .501 | .461  | .512  | .587  | .646  | 1     |                |

NQ=Network Quality, PV=Perceived Value, CRE=Customer Relational Experience, LP=Loyalty Programs, CS=Customer Satisfaction and CR=Customer Retention

Table 8: Pearson Correlation Coefficient of Study Variable
Source: Research Data (2014)

6. Summary of Findings, Conclusions and Recommendations

6.1. Summary of Findings

6.1.1. Effects of Loyalty Programs on Customer Satisfaction

Hypothesis H0 posited that there is no association between Loyalty programs and customer satisfaction. From the findings, was indicated that Beta coefficients (Loyalty Programs), β=0.488, t=4.224, p=0.000. The Null hypothesis was therefore rejected since its p-value is <0.05 and an alternative hypothesis were accepted, meaning that loyalty programs have an effect on customer satisfaction. From the prior research by (Latham and Locke 1991) supports the findings by asserting that, there are several theoretical reasons the reward-based loyalty program being studied should positively affect both customer retention and customer share development. First, psychological investigations show that rewards can be highly motivating. Previous studies from the literature review also showed that people possess a strong drive to behave in whatever manner necessary to achieve future rewards (Nicholls 1989). According to Roehm, Pullins, and Roehm (2002, p.203), it is reasonable to assume that during participation in a loyalty program, a customer might be motivated by program incentives to purchase the program sponsor’s brand repeatedly. Second, because the program’s reward structure usually depends on prior customer behavior, loyalty programs can provide barriers to customers’ switching to another supplier.

6.2. Conclusions

This study identified the number of customers, or percentage of total customers whose experience with their telecommunication service provider’s products or services meets or exceeds their expectations. In a competitive market place where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. According to the study, Customer satisfaction is about how products and services meets consumer’s needs. It is the impression of customers about services provided. Therefore, from the findings, customer relationship management practices have become an alternative means for organizations to build strong, ongoing associations with their customers.

Again, from the research, as part of marketing strategy, customer relationship management practices seek to acquire and retain customers by providing good quality customer services, and therefore has become one of the keys to success in acquiring strong competitiveness in the present markets, because of its implications for access to markets, generation of repeat purchase, creation of exit barriers, and the view that it benefits all parties (Andaleeb, 1996). It is concluded that Customer Relationship management Practices is concerned about building customer satisfaction by providing value to all the parties involved in the relational exchanges (Peng and Wang, 2006), as customer retention is the final goal of relationship marketing.

In conclusion, customer relationship management practices in today’s business, it makes sense to understand how the relationship are executed in practice and how this type of marketing take effect, e.g., influencing long-term relationship building and customer loyalty. As more and more enterprises realize the importance of becoming customer centric in today’s competitive economy, they embrace Customer Relationship Management (CRM) as core business strategy (Wu, 2008). Where CRM is a way of ‘developing a comprehensive picture of customers’ needs, expectation and behaviors and managing those factors to affect business performance’ (Hoots 2005). Or it is ‘about managing customer knowledge to better understanding and serving them’ (Rahimi 2008).
In conclusion, the findings of this study have important implications for both academic marketing literature and practice. The managers will also find some useful implications that are relevant and can be applied in designing an appropriate CRM Practices for their customers. The recommendations will act as eye opener to both the academicians and practitioners in marketing and help in filling the gap in the context of the mediation effect of Customer satisfaction on the relationship between CRM practices (Network quality, Perceived Value, Customer relational Experience and Loyalty Programs) and Customer retention. The study also recommends that an organization reciprocates to its customers as it is also likely to retain them. Finally, the study recommends that firms should ensure customer satisfaction as it is a good predictor of future purchase behaviour, an indication of customer retention. Satisfied customers generate profits because they are responsible for a large percentage of sales and are less costly to develop than new customers. Rapid improvements in information technology allow mobile phone providers and their frontline staff to track customer characteristics more easily and respond with appropriate marketing offers.

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