

**THE EFFECT OF LOYALTY PROGRAMMES ON
FINANCIAL PERFORMANCE OF MOBILE
TELECOMMUNICATION FIRMS IN KENYA**

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DECLARATION

This research project is my own work and has not been presented for an award of a degree in any institution of learning.

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This research project has been submitted for examination with my approval as University Supervisor

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DEDICATION

To my parents, Mr. and Mrs. Bwire, who never got tired to encourage and support me in my quest for education.

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LIST OF ABBREVIATIONS AND ACRONYMS

ARPU	Average Revenue Per User
CA	Communication Authority
CSR	Corporate Social Responsibility
MMS	Multimedia Messages
OLS	Ordinary Least Squares
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investments
ROS	Return on Sales
SMS	Short Message Service

ABSTRACT

Loyalty programs serve a great purpose in most organizations across the world. To achieve constant sales a firm has to maintain and sustain a good relationship with its customers. Loyalty programs are intended to recognize loyal customers and motivate them thereby creating a culture of continuously buying the products and services. The study sought to determine the effect of loyalty programmes on financial performance of mobile telecommunication firms in Kenya. The study employed a descriptive research design to find out the linkage between the variables. The population involved three mobile Telecommunication firms in Kenya namely: Safaricom Limited, Airtel and Telkom Kenya Limited. The study used secondary data that was extracted from annual reports of these firms for a period of five years (2010-2014). Data was analyzed using descriptive statistics and inferential statistics. The study found that corporate loyalty spent, individual loyalty spent, and logarithm of assets and net assets were positively related to financial performance of Telecommunication firms in Kenya. Telecommunication firms should institute a loyalty program to attract more customers and to make them feel valued. The more a customer feels appreciated by a business, the more he or she is likely to support that company and refer it to others. It is recommended that a related research study should be executed on the effect of loyalty programmes on the financial performance of other firms such as commercial banks that face stiff competition. Then, a comparison of findings can be made upon which conclusive results can be drawn.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Owing to globalization and vibrant competitive markets, a big number of organizations are putting a lot of effort in providing additional value to their customers and quality improvement of their products (Sugandhi, 2003). Companies all over the world are presently using loyalty programs more frequently than ever before. These organizations are knowledgeable of the value retaining old customers and opt to employ a system directly aimed at developing customer loyalty. Sundar and Varadarajan (1993) proposes that retail loyalty programs emerged when retailers realized that with no customer identification tool, they were not in position of recognizing individual customer award them for their desired behaviors. Loyalty programs accomplish two functions: to entice new customers to stick around after purchasing the organization goods and service and to ensure that old loyal customers still feel valued by the organization operation. By instituting a loyal program, the organization does not only improve customer appreciation of the organization business, but also increase the chances that the old customers will share this delight with those closely related to them (Sugandhi, 2003).

The more a client feels valued by a business, the more the likelihood of that client to support that company and refer other customer to it. This translates to word-of-mouth advertisement of the business which leads to its growth. The end results of such activities are expansion of market share of the business resulting to increased profitability. Both business establishments and consumers have released the importance of loyalty programs. Stone and Woodcock (2000) demonstrated that only 12%-15% are loyal to a single business. The gross margin of an organization dictates how much fund is available for the organization to invest into loyalty program for

both soft and hard benefits. Stone and Woodcock (2000) concluded that companies make heavy investments in loyalty programs have a high likelihood to attract and motivate more clients as compared to those companies that make less investment in loyalty programs. This increases regular sales and profitability of the company.

1.1.1 Loyalty Programmes

Reichheld (1993) described loyalty program as a rewards program provided by a firm to frequent customer who make purchases. A loyalty program may offer a client, special sales coupons, free merchandise or advanced access to new products; a program built to reduce the turnover among consumers of a product or service by rewarding a client with incentives or other favors for remaining loyal. In essence loyalty programs perform two key functions: they offer a client rewards for being loyal to the brand and provide the issuing firm a bulk of consumer information. Whereas firms can evaluate unidentified purchases, making use of a loyalty program provides further information about the kind of products that may be purchased simultaneously, and whether particular sale coupons are more effectual than others.

Reichheld (2004) argues that loyalty programmes provide a data base on details about customer information; this helps the firm to come up with products that target to satisfy specific needs of the customers. These programmes enable the firm to have consistent sales leading to profitability of the firm. Loyalty programs helps in collection of customer and transactional data, appropriate usage of this data might offer a clearer picture regarding the customer decision which results to higher profit from the beginning. The programs are frequently used as weapons to escalate war in getting new clients and maintaining the old ones as well. This ensures that the firm in increases its sales, profitability and market share.

Reichheld (2004) further proposed that two common determinants of all excellent loyalty programs are quality communication and customer intelligence, and consistent. The more a business establishment knows its customers the more it can tailor made a suitable reward program. This involves making customers to feel important while regularly communicating to them in the right manner to keep them coming back. This enables the firm to achieve consistent sales and also provides a platform to attract more sales.

1.1.2 Financial Performance

Oye (2006) described performance as a feature of a given undertaking measured against stipulated standard of cost, accuracy, speed and completeness. Simply put, refers to the extent to which an achievement is being undertaken or has been achieved. The approved financial analysis measures that determines a firm's performance financially are sub divided into five broad categories; profitability, liquidity, financial efficiency, solvency and repayment capacity.

Athanasoglou et al.(2008), argued that it is imperative to keep in mind that present and past financial information are not the only determining factor of the firm's performance, but what is more important is measuring group performance as opposed to centering on only one or two measures while excluding the other. The two key indicators of financial performance are: return on investment (ROI) and return on asset (ROA). Athanasoglou and Brissimis (2008) propose that distinguished measures of the financial performance including customer satisfaction, new products development and product quality are important indicators of performance.

1.1.3 The Effect of Loyalty Programmes on Financial Performance

Customer loyalty programs are excellent approach to increase sales and revenues. But they can be more important in cases of improving the satisfaction and ensuring retention of the firm's most valuable customers. According to Forrester Research, loyalty programs currently are accomplishing much more than increasing purchases and expanding profits. In the latest study of loyalty program marketers, they concluded that loyalty programs are being adopted by the organization to enhance a strong relationship all through the customer life cycle. Actually, 70% of them reported the main purpose was customer retention while 64% cited that they use them to encourage engagement (Sundar and Varadarajan, 1993).

Dobie, Grant and Ready (2001) hypothesize that marketers and Business owners benefit from the loyalty programs owing to their ability to improve customers' retention within a certain operation. Clients welcome loyalty programs since they often present added enticements for a purchase, with the rewards increasing with the increase of purchase, or based on the scope or size of product or service purchased.

This enables the organization to achieve increased sales leading to profitability. Cross (1992) argues that using loyalty programs as a marketing strategy helps in accessing a bigger portion of customers' wallet. This is achieved if the rewards offered are in tune with the wants and needs of the customers who frequent your business.

Loyalty reward programs are not the same, and it is only those which are executed proficiently will bring out the desired effects. It highly depends on the manner in which it is implemented. Successful loyalty programs act as catalyst for increased sales and profitability. This is achieved through provision of quality services and improved levels of customer satisfaction (Dobie et al., 2001).

1.1.4 Mobile Telecommunication Firms in Kenya

The Kenya Gazette Supplement (1998) indicates that until 1977, all services of telecommunication type were manned as a whole by the East African community. This ceased to be the case when Kenya Posts and Telecommunications Corporation was introduced bringing about a challenge of moving from the monopolized structure to more liberal structured market of communication. Later in 1999, KP&TC was disbanded and the telecommunication sector reforms undertaken by the government allowing for competition in the sector. According to Communication Authority of Kenya (CA) (2015), there are three (3) mobile telecommunication firms licensed to operate in Kenya: Safaricom, Airtel Kenya and Orange (owned by Telcom Kenya).

According to Toili (2010) the liberalization of mobile telecommunication sector has attracted more interest and scrutiny by the public and Communication Authority of Kenya (CA) with the later rooting for performance and progress being made in the sector. Although the sector has so far indicated positive progression, it is not entirely satisfactory considering the vision of liberalization therein and the statute and policy statement. Esselaar, Gillwald and Stork, (2007) note that even though the policy statement does not give the timeframe for which the changes are expected to occur, it does give the promise of increase progression towards privatization of the sector. So far the country has experienced major expansion of the sector with players such as Safaricom, Airtel Kenya and Orange, though the winding up of a fourth player in Essar/Yu Mobile stands out as a negative development.

Bonga points form one of such loyalty programs for Safaricom PostPay and PrePay subscribers. Through it, a Bonga Point is given for every KSh10 used on Data, voice calls or SMS. The more a customer spends on Safaricom services, the more bonga

points he is awarded. Bonga points are redeemable for rewards like Talk-time (Minutes), SMS Data and the MMS bundles. They are redeemable from any Safaricom Retail Centre countrywide in case of a merchandise reward (Toili, 2010).

1.2 Research Problem

Loyalty programs serve a great purpose in most organizations across the world. To achieve constant sales a firm has to maintain and sustain a good relationship with its customers. Loyalty programs are intended to recognize loyal customers and motivate them thereby creating a culture of continuously buying the products and services. Bitner (2002) notes that loyalty programs are used as a tool to motivate customers to buy goods and services to achieve constant sales and boost profitability. These programs do follow up to ascertain that clients are contented with the services and goods offered and therefore increase chances of repeated business by those customers, and this enhance sales and profitability of the firm (Tanui, 2007).

To survive in mobile telecommunication in Kenya, market players have invested in loyalty programs to maintain and sustain their customers. Morawczynski (2009) argues that loyalty programmes act as a tool for retaining existing customers and attracting new ones. Mobile Telecommunication firms utilize loyalty programs to realize customer retention and attract prospective customers.

Dobie et al. (2001) examined the link between loyalty programs and sales turnover of Banks in Geneva, Switzerland. The results showed that there existed a positive correlation between loyalty programs and sales turnover. Cross (1992) examined the impact of loyalty programmes of Service firms in Europe. It was concluded that loyalty programs contributed to customer retention which led to consistent sales leading to profitability of firms. Day (1997) explored the influence of loyalty

programs on profitability of manufacturing firms in New York. The study concluded that loyalty programs led to increased profitability of manufacturing firms.

Barasa (2011) did a study about brand loyalty schemes and competitiveness for five-star hotels existing in Nairobi. This revealed that those hotels that adopt brand loyalty schemes have a better performance than those without the programs. Tanui (2007) surveyed customer loyalty programs applied by petrol stations in Nairobi and established that the loyalty programs led to increased sales and profitability. Naftali (2006) carried out a study on the influences of consumer loyalty cards on store loyalty: the case of Uchumi and Nakumatt Supermarkets in Nairobi. It was concluded that customers were motivated by the quality of merchandise as their top factors for developing store loyalty.

Studies seemed to limit themselves on customer retention, loyalty and also quality services as none has so far investigated on a relationship between the loyalty programs and the financial performance for mobile telecommunication companies in Kenya. This study therefore attempted to find an answer to the question: What is the effect of loyalty programmes on financial performance of telecommunication firms in Kenya?

1.3 Research Objective

To determine the effect of loyalty programmes on financial performance of mobile telecommunication firms in Kenya.

1.4 Value of the Study

The findings of this study are beneficial to firms in mobile telecommunication industry. The findings of this study will serve as an eye opener on the benefits of

customer relationship management. The firms will learn the importance of customer loyalty and its impact on profitability of the firm.

Policy makers like Communication Authority of Kenya (CA) and other regulatory bodies might find this piece of work relevant as findings of this study may inform policy setting especially in promoting loyalty programmes for improved sales and profitability.

The findings of this study may contribute theoretically. Finance students will learn on the theories that support this study, their relevance, application and coherence with the empirical studies. The findings will provide more insights for further research to researchers interested in this area or related disciplines.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter entails the theoretical structure, the financial performance determinants, the empirical evaluation and the literature review summary.

2.2 Theoretical Framework

This section provides the theories that support the study variables: loyalty programmes and financial performance. The theories discussed in this study are: commitment trust theory, customer loyalty theory and contingency theory.

2.2.1 Commitment Trust Theory

This theory recommends that for a successful relationship to be achieved two essential factors; commitment and trust must exist. (Cook, Karen and Richard, 1978). Day (1970) cited that relationship marketing entails creating bonds with clients by honoring commitments and meeting their needs. Instead of pursuing short terms profits, businesses committed to the principles of relationship establish long lasting relationships with their customers. The results to customers gaining trust of these businesses, and the mutual loyalty enables both the businesses and customers fulfill their needs (Meyer and Natalie, 1984).

Trust is an assurance between parties in a relationship. In most occurrences, businesses build trust by developing confidence in their customers. Commitment involves a long-term urge to sustain an appreciated partnership. That kind of urge enables the business to constantly invest in developing and sustaining a bond with its customers. For example a business might make a follow up of their customers to ensure they are satisfied with her or his experience. Through a sequence of bond building, the business portrays its level of commitment to its customer (Hunt, 1990).

Moorman, Rohit and Gerald (1993) posit that loyalty programs are based on trust between customers and the firm. A loyal customer easily interacts with the organization through direct communication. To achieve constant sales, the organization should establish a relationship with its customers based on trust and commitment to make them constant customers. The firm should treat its customers in a manner that makes them feel valued so that they can retain existing customers and attract prospective customers. This helps in increasing sales and financial performance of the firm.

2.2.2 Customer Loyalty Theory

Russell and Julie (1986) claimed that customer loyalty marketing programs can be manifested in various forms, with shoppers reward cards being the commonly used by businesses. Customers that opt for loyalty programs are mostly motivated by the need save while shopping and the unique recognition provided by these programs. Loyalty marketing programs utilize gifts, special offers, rewards, cash back or points to persuade consumers to purchase goods and services and eventually become unique customers (Carman, 1990). Other can be more sophisticated, with branded swipe card that track purchases or with identification number of customers. In other instances, the marketer give deals limited to members only, an approach which encourages customers to register for the programs.

Chiou (2004) proposes that loyalty programs can enable businesses develop targeted marketing efforts through gathering more on trends of customer shopping. The data gathered through these programs informs the business on what the most popular product line and what pricing structure work best. In addition it shows repeat

customers buying trends, which help businesses, identify which new customer can be transformed to repeat customer.

The assumption for this particular theory is that whenever customers are contented with certain services and goods, they seem to develop confidence and trust concerning the product (Corbitt, Thanasankit & Yi, 2003). This makes the customers to purchase the product repeatedly to serve a specific need. Eventually the customer becomes loyal to the organization due to confidence about the products and services offered. This helps to build a corporate image and increase sales which in turn results in increased profitability.

Proponents of theory Cronin and Taylor (1992) and Cronin, Brandy and Hult (2000) claim that loyalty marketing is a long term approach developed to keep customer attached to the business. Some marketers create brand images for products that enable customers relate feelings of innovation the product. Other instances, a product is marketed on bases of its utility and features. In these instances, the customer makes decision based on value of the product as opposed to price savings and knowledge of loyalty program.

Coulter and Coulter (2003) did a study on the influence of loyalty program on profitability of the firm whose findings revealed that those firms that implemented loyalty programs recorded higher sales than firms that did not use loyalty program. This was as a result of increased sales especially from consistent customers which led to improved profitability. It was concluded that customer loyalty has a positive correlation with profitability of the firm.

2.2.3 Contingency Theory

Hersey and Blanchard (1973) proposes that contingency theory is a method for studying organization behavior in which description is given on how contingent factors such as external environment, technology and culture affects the organization design and function. Therefore organization effectiveness is not automatically influenced by a fit or match between, the size of the organization, technology, information system, environmental volatility and features of the structure.

Contingency theory however assumes that no particular type of organizational structure can be evenly applicable at all times to all organizing. Rather, organizational effectiveness is determined by match or match between the size of the organization, type of technology, information system, environmental volatility and features of the structure (Vroom and Jago, 1988). This theory assumes that no single structure is equally applicable to all organizations. This might not hold because most organizations today adopt flexible organizational structures to cope with external environment's changes.

The application of this particular theory is that most organizations use loyalty programmes to attract and retain customers. This creates a good relationship with the customers as a result of trust, loyalty and confidence (Buttle, 1996). When the relationship persists, the customer becomes committed to purchase and consume certain goods and services leading to increased sales and profitability.

2.3 Determinants of Financial Performance

This study discusses several determinants of financial performance namely: size of the company, age of the company, loyalty programmes, management competence and firm growth.

2.3.1 Size of the Company

Hardwick (1997) observed existence of a positive linkage between performance and size of organization. Cost efficiency is achieved by increasing while economizing on unit costs. In addition large size of organization makes it possible for insurer to successfully broaden the risk assumed and react to evolving changes in the market. Lumpkin and Des (1999) who are industrial organization economists claims that large companies enjoys monopoly power which permit them to set prices which exceed the economic cost incurred in the production of products leading to exorbitant for the large companies.

Regarding investment performance, Adams (1996) suppose that large firms have capabilities of diversification of their investment portfolios and could result in reduction of their business risk. Klumpes and McCrae (1999) claim that the large companies outshine the smaller ones as they are capable of making use of the economies of scale. They possess sufficient resources to not only acquire but retain a managerial talent. Consequently, performance was found to be positively related to size of their firm. The total assets positively affect the firm's financial performance. The company size is determined by the total assets (current assets added to current assets).

2.3.2 Age of the Company

In a number of previous studies, Lumpkin and Dess (1999) claimed that age of the firm influences the firm's performance. Majumdar (1997) proposes that old firm organizational inertia makes them inflexible and incapable of embracing changes in environment. This results to smaller and newer firms acquiring market share despite drawbacks such as lack of capital, corporate reputation and brand names (Lee, 2008).

Considering the firm's age, the older firms have efficient performance as a result of the underlying factors like more experience, enjoying the benefits of learning and/or are never affected by newness liabilities. Older firms might also achieve from the effects of their reputation, and this enables them to achieve a higher sales' margin. Similarly, the older firms might be affected by bureaucratic and inertia organizations, factors related to age; they may have prearranged routines that can never be manipulated through the changes within the market environment, which course a negative connection between age and profitability is well observed (Liargovas and Skandalis, 2008).

2.3.3 Loyalty Programmes

Dobie et al. (2001) reveals a loyalty program as one that gives clients an opportunity to mount up free rewards each time they make their purchases in a certain firm. That program does not look to benefit a single purchasing consumer but it intends to persuade the customer's loyalty of their time. So, promotions like the instant scratch cards do not really qualify to be loyalty programs. This ruling out is justifiable as the one-time business promotions encourage most customers to purchase repeatedly a given kind of.

Oliver (1999) is of the opinion that customers' loyalty is a sincere promise to repurchase their preferred service or product continuously in future. Most people see Loyalty Programs as the value-sharing tools which can improve the consumers' perception of whatever a company is offering. Improved value discernment is critical in achieving success of loyalty programme. The program can minimize lack of dedication and hence minimize cases of client defection by raising the switching costs. Knowing that loyalty programs compensate clients for their repeated support, clients have a higher possibility to exploit their purchase in just one program in order to maximize on the benefits they get.

Day (1997) proposes that apart from enhancing customer commitment loyalty programs also portrays commitment of the firm. Starting and sustaining a loyalty program is most of the time costly for a firm. It demands for extensive work of managing point records and issuing of rewards. After such a program is rolled out, it is typically difficult to end it without the risk of losing customers.

2.3.4 Management Competence

This idea is multidimensional with various appropriately documented literatures which have made an effort to at least define it. Specifically, the acknowledgment of the word competence is associated with Knobena (2006). He described the word competence as the fundamental characteristics by an individual; be it a skill, social role, motive or aspect of someone's self-image, a body or trait of knowledge he uses.

Klumpes and McCrae (1999) argued that, the definition remains open to a number of interpretations and claims that the word competence might be applied to mean a combination of knowledge, understanding, behaviors and skills that are vital in the effectual performance of any duty. Lee (2008) said that competence is described as

work related abilities, knowledge and skills. Liargovas and Skandalis (2008) describe competence from the perspective of skills and innovation which propel the company to accrue more benefits to customers. Competent staff can exploit their skills and knowledge in making relevant contributions in innovation and ideas and technical skills, this improves efficiency while saving the firm huge costs.

2.3.5 Firm Growth

Growth of a firm can be associated with expansion of the business and improved performance which is profitable. This growth is achieved through economies of scale from dealing with bulky businesses. Such firms enjoy discounts and hence minimize their costs of operations. Large firms diversify their investment segments to minimize risks which may expose them to financial losses (Kakani, Sahan and Reddy, 2001).

Klumpes and McCrae (1999) note that firms that have a high rate of growth are efficient and this saves them huge costs from their operations. Such firms use modern technologies and a competent staff to effectively execute their functions. This enables these firms to offer value adding products and services to their customers. Customers seeking value for products and services easily get attracted to such firms. This enhances sales growth and expansion of the firm. Growth of the firm is evaluated using absolute change in assets which is total assets deduct liabilities.

2.4 Empirical Review

This section constitutes both local and global empirical studies in relation to loyalty programmes and financial performance as follows:

2.4.1 International Studies

Woodcock and Machtynger (2000) investigated on the effect of loyalty programmes on sales of Banks in Netherlands. Both Primary (collected using a structured

questionnaire) and secondary data were used. A cross-sectional review was done and its analysis done using the regression model and the descriptive statistics. The result found that sales turnover was positively related to loyalty programmes.

Hunt (2008) studied the relation between the loyalty programs and the firms' performance in service industry. This study utilized panel data since a period of about a decade was taken. Data was applied using an Ordinary Least Squares (OLS) and the regression model. The results note that financial performance and loyalty programmes were significant.

Scott (2009) analyzed the relationship between loyalty programmes and customer retention in telecommunications industry in German service firms. The study used a cross-sectional study to establish the relationship between variables. Data was collected using structured questionnaires. The study used a sample of 50 respondents and data was analyzed with the help of a regression equation. It was found that customer retention was positively related to loyalty programmes.

Robert (2011) took a study concerning the effect of the loyalty schemes on performance in the retail supermarkets. The exploratory study was used to evaluate the relation between those variables. A five year's secondary data was used (2009-2013). Regression was implemented and results showed that performance was positively linked to loyalty programmes.

Harvey (2011) tested the influence of loyalty programmes on financial performance among manufacturing firms in Europe. A sample of 75 manufacturing firms was

done. A cross sectional research design was implemented. Documented data sources were utilized for a period of ten years. The outcome depicted a positive nexus between financial performance and the loyalty programmes.

2.4.2 Local Studies

Wambua (2009) investigated the nexus between brand equity and financial performance of commercial banks. A descriptive survey was implemented. Primary sources of data were gathered from 350 respondents who were account holders of the 10 large banks using semi-structured questionnaires. Data analysis was executed with the help of descriptive statistics and inferential statistics. The results pointed out that consumer based brand equity realized significant improvement in financial performance of service brands which impacted positively to the shareholders.

Naftali (2010) investigated influences of consumer loyalty cards on store loyalty: the case of Uchumi and Nakumatt Supermarkets in Nairobi. The research targeted a sample of 200 of which 2000 responses were received. This represented a 100% response survey rate. Raw data was collected using questionnaires while data analysis was executed with the help of descriptive statistics. It was observed that customer loyalty enhanced sales.

Baraza (2013) did an investigation on the different brand loyalty schedules and competitiveness of the five-star hotels existing in Nairobi. He did a cross-sectional and he identified the programmes from those hotels in the city. Primary data was collected by use of questionnaires. Data was collected and collated in a suitable manner for ease of statistical analysis. It was found that hotels that maintained their brand loyalty recorded better sales.

Momanyi (2013) conducted a study concerning the correlation between the branding strategies and the clients' loyalty among Commercial Banks in Kenya. A census of the Commercial Banks was performed. Raw data was collected using questionnaires in 35 commercial banks. Loyalty programmes were found to improve bank performance.

Njiru (2014) studied on effect of the corporate social responsibility to customer loyalty. A descriptive survey was used including primary and secondary data sources. Data was analyzed using a regression model and descriptive statistics. The results showed that the CSR practices were aligned to the strategic intent and hence CSR programmes met employees' expectations.

2.5 Summary of the Literature Review

The reviewed literature depicted a positive relationship between loyalty programmes on the financial performance. Loyalty programmes enable the firm to put customer value first, this enables the firm to achieve customer retention leading to repeat business and hence improved sales turnover. This was in harmony with both local and global studies that confirmed that there existed a positive relationship between loyalty programmes and financial performance as follows: Robert (2011), Harvey (2011) and Barasa (2012) and Scott (2009) among others. This conforms to the study theories (commitment trust theory and customer loyalty theory) that show the relevance of customer retention in increasing sales. These results agree with the hypothesis of this study that anticipated a significant connection between loyalty programmes and financial performance of mobile telecommunication firms in Kenya. Most studies done in relation to loyalty programmes and financial performance are limited to the service industry, little effort has been made on mobile telecommunication sector. This

study therefore sought to fill this gap by examining the effect of loyalty programmes on financial performance of mobile telecommunication firms in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology for research which was used in order to achieve the goals of this study. Also, the chapter contains the processes and procedures utilized to gather data and analyze it as well.

3.2 Research Design

The study applied descriptive researching design to describe the correlation between the loyalty programs and the financial performance for the mobile telecommunication companies in Kenya. As put forward by Burns and Groove (2009) a research design basically is a process of data collection. It is the blue print utilized in carrying out a study having maximum control of the factors that might interfere with validity of that study's findings.

3.3 Population

According to Communications Authority of Kenya (2015) there are three (3) mobile telecommunications firms in Kenya namely: Safaricom Limited, Airtel and Telkom Kenya Limited. Miller and Salkind (2002) define a population as a set of people, services and events that are being investigated. The study used a census survey since the study population was small and hence economical and efficient to use.

3.4 Data Collection

The study used secondary data since was quantitative. This kind of data was considered appropriate for purposes of making comparison. Data for a period of five years (2010-2014) was collected for establishing the relationship between the

variables. This data was obtained from financial statements and reports of all the three mobile telecommunication firms in Kenya.

3.5 Data Analysis

The results to the data analyzing involved some descriptive statistics which show the summary of the mean and that of the standard deviation. Pearson Product Moment Correlation Coefficient that showed the strength and relation between all the variables and regression analysis was implemented to establish the link between loyalty programmes and financial performance. Regression model implemented in this study was borrowed from the previous works of Forrester Research (2007) who used a multiple regression model to establish the relationship between loyalty programs and profitability of Service firms in San Francisco.

3.5.1 Analytical Model

A regression equation was used to determine the effect of loyalty programmes on financial performance of mobile telecommunication firms in Kenya as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

α = Y -intercept

$\beta_1, \beta_2, \beta_3$ and β_4 are regression coefficients or parameters

Y = financial performance was measured using (ROA) which was computed using net income divided by total assets.

X_1 = is an independent variable which determined corporate customers. This was measured using corporate loyalty expense divided by total corporate revenue.

X_2 = is an independent variable which determined individual customers. It was measured using individual customers loyalty spent divided by total individual customer revenue.

X_3 = firm size (control variable) was measured using natural logarithm of total asset (fixed assets plus current assets).

X_4 = firm growth (control variable) was measured by deducting current liabilities from total assets.

β_i = Slope of the regression, it measured the unit change in Y associated with a unit change in X_i

ε =is the error term

3.5.2 Tests of Significance

Determination's coefficient (R^2) measured the exact extent with which all the observed results were presented by this model, as a proportion of the total variation of the outcomes is explained by that model. Correlation coefficient (R) was ranging from -1 to +1. Where -1 showed a perfect negative connection, and +1 showed a perfect positive relation. These tests were carried out at 95% degree confidentiality level.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter entails the findings and also the discussion which have been reached in as per the objectives for this study, and this was to identify the effect of the loyalty programs on the performance of the Telecommunications firms.

4.2 Descriptive Statistics

Descriptive statistics output outlines mean, standard deviation, minimum and maximum values to explain the trend of study variables. The variables include corporate loyalty spent, individual loyalty spent, return on assets and firm size in the study period. The outcome is in Table 4.1.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Corporate Customers Loyalty spent	15	.00	.02	.0077	.00796
Individual customers loyalty spent	15	.00	.02	.0108	.00759
Financial performance	15	-.49	.17	-.1277	.21194
Firm size	15	10.32	11.13	10.7173	.29149
Net Assets	15	9.97	10.96	10.3120	.41458
Valid N (listwise)	15				

Source: Research Findings

Outcome in Table 4.1 showed that the minimum proportion of financial performance was -.49 while the maximum proportion is 0.17. The industry mean of financial performance of Telecommunication firms attained a mean value of -.1277. Telkom

Kenya and Aitel Kenya recorded poor performances while Safaricom limited attained the best performance.

Corporate loyalty spent had a minimum of value of .00 while its maximum value was .02. The mean value for corporate loyalty spent was .0072 which was an indication that corporate loyalty spent increased steadily over the study period. This was an indication that most Telecommunication firms spent a lot on their corporate loyalty customers.

Individual loyalty spent had a minimum value of .00 while its maximum value was .02. The mean value for individual loyalty spent was .0108 which was an indication that it increased steadily over the study period. This was an indication that most Telecommunication firms spent a lot on their individual loyalty customers.

Logarithm of assets was found to be having 10.32 as the minimum value and a 11.32 as the maximum value and these implied that the firm's assets grew in a gradual manner within the study period. The mean value of logarithm of assets was 10.7173 which implied that most Telecommunication firms were stable in terms of their asset base. Net assets had a minimum value of 9.97 and a maximum value of 10.96 This implied that there was a rapid growth of net assets in the study period.

4.3 Inferential Statistics

Inferential statistics enables the researcher to test reliability of findings and to make inference from the data for more general conditions through statistical interpretation.

4.3.1 Pearson's Product Moment Correlation Coefficient

Correlation Coefficient was implemented to evaluate the strength of the link between financial performance and loyalty programmes. Below are the results the Table 4.2 below:

Table 4.2 Pearson's Correlation Coefficient

	ROA	Corporate Loyalty Spent	I Individual Loyalty Spent	Log of Assets	Net Assets
ROA	1				
Corporate Loyalty Spent	.285	1			
Individual Loyalty Spent	-.905**	.240	1		
Firm size	-.900**	.111	.888**	1	
Net Assets	.914**	.302	.933**	.917**	1

Source: Research Findings

The results in Table 4.2, showed no relation between the corporate loyalty spent and the financial performance of the Kenyan Telecommunication firms. Correlation value was .166. Contrary to this, there was a perfect correlation between individual loyalty spent, firm size and net assets with financial performance of Telecommunication firms in Kenya. The correlation values consisted of the following: .905, .900 and .914.

4.3.2 Regression Analysis and Model Summary

A model for regression was implemented to test the reliability of the regression model as shown in Table 4.3

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.934 ^a	.872	.821	.08958

a. Predictors: (Constant), Net Assets, Corporate Loyalty Spent, Log Assets, Individual Loyalty Spent

Source: Research Findings

Coefficient of determination had a value of 0.872, meaning that loyalty programmes explained 87.2 percent of the variability of financial performance.

Table 4.4 Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-3.543	2.329		-1.521	.159
1 Corporate Loyalty Spent	1.997	3.271	.075	.610	.555
Individual Loyalty Spent	10.802	9.024	.387	1.197	.259
Log of Assets	.303	.223	.417	1.361	.203
Net Assets	.133	.188	.265	.376	.715

a. Dependent Variable: ROA

Source: Research Findings

Obtained below is the regression model:

$$ROA = -3.543X_1 + 1.997X_2 + 10.802X_3 + .303X_4 + 133X_5 + \varepsilon$$

Corporate loyalty spent, individual loyalty spent, logarithm of assets and net assets were positively related to financial performance of Telecommunication firms. These results conform with the study hypothesis that predicted a positive link between loyalty programmes and financial performance of Telecommunication firms.

Corporate loyalty spent, individual loyalty spent, logarithm of assets and net assets were statistically insignificant since their p-values were above 5 percent as follows: .555, .259, .203 and .715 respectively.

4.3.3 Analysis of Variance

Analysis of the Variance done to rule out if that regression equation which was implemented for the study was really significant as indicated in Table 4.5.

Table 4.5 Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.549	4	.137	17.091	.000 ^b
Residual	.080	10	.008		
Total	.629	14			

a. Dependent Variable: ROA

b. Predictors: (Constant), Net Assets, Corporate Loyalty Spent, Log Assets, Individual Loyalty Spent

Source: Research Findings

The model was statistically significant since the probability value $0.00 < 5$ percent this insinuated that the model was significant.

4.4 Interpretation of the Findings

A perfect correlation between individual loyalty spent, logarithm of assets and net assets with financial performance was found to be present. The correlation values included: .905, .900 and .906 respectively. The findings are in line with a similar study done by Robert (2011) and concluded that there existed a strong and positive relation between the loyalty programs and the financial performances of the retail supermarkets.

Additionally, it revealed that there was no relation between the corporate loyalty and the financial performance. The correlation score was .166. This finding is inconsistent to a study by Scott (2009) who found a strong correlation between loyalty programmes and financial performance.

The regression results note that the coefficient of determination found that loyalty programmes explained 87.2 percent of the variability in financial performance which implied that the model was significant and the regression model was statistically significant. These findings are similar to a study by Wambua (2009) who concluded that the regression model was statistically significant.

Analysis of variance found that the model was statistically significant since the probability value 0.00, was less than 5 percent, this meant that the model was significant. This is consistent with a study by Scott (2009) which found that the model was statistically significant.

Corporate loyalty spent, individual loyalty spent, and logarithm of assets and net assets were all positively correlated to the financial performance of the Telecommunication companies in Kenya. These findings are consistent with Harvey

(2011) who found that loyalty programmes was positively related to financial performance.

Corporate loyalty spent, individual loyalty spent, logarithm of assets and net assets were found to be statistically insignificant in explaining the effect of loyalty programmes on the financial performance of Telecommunication firms in Kenya. This is because their p-values were above 5 percent as follows: .555, .259, .203 and .715 respectively. These findings contradict the findings by Hunt (2008) found that a significant association between loyalty programmes and performance of services firms.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter shows major findings from chapter four. The findings have been conformed to the study objective including recommendations, limitations and suggestions that future researcher might want to investigate.

5.2 Summary

Telkom Kenya and Aitel Kenya performed made losses in the study period while Safaricom Limited recorded better performances. Both corporate and individual loyalty spent increased gradually in the study period which was a sign of increased customer numbers. Further, it was revealed that Telecommunication firms had a stable asset base that grew steadily and contributed positively to an increase in net assets.

Pearson correlation coefficient showed a strong association between loyalty programmes and the financial performance of the Kenyan Telecommunication firms. Loyalty programs were found to depict 87.2 percent of their variability in their financial performance and this meant that that model was indeed significant.

Corporate loyalty spent, individual loyalty spent, logarithm of assets and net assets were positively related to financial performance of Telecommunication firms in Kenya. Equally, these variables were found to be statistically insignificant in showing the effects of the loyalty programs on the Kenyan Telecommunication firms' financial performance. This is because their p-values were above 5 percent as follows: .555, .259, .203 and .715 respectively.

5.3 Conclusion

The study concludes that Telecommunication firms implemented loyalty programmes which enhances sales turnover. Safaricom Limited invested largely on this programmes. Loyalty programmes positively correlated to financial performance of Telecoms firms. Regression model implemented in the study was found to be significant. Further, corporate loyalty spent, individual loyalty spent, firm size and net assets were found to be significant in explaining the effect of loyalty programmes on financial performance of Telecoms firms

5.4 Recommendations for Policy and Practice

Mobile Telecommunication firms should sponsor loyalty program; to increase customer appreciation, this will attractive new customers and boost sales. If a client feels cherished by the business he is more likely to refer other potential customers and this results to sales growth.

Mobile Telecommunication firms should therefore implement the loyalty programs as an effective marketing tool to retain customers, ensure growth and improve the reputation of their brand. The firms should incorporate loyalty programmes in their marketing programmes to create a better platform for increased awareness and customer confidence so as to attract new potential customers and also retain the existing ones.

The management who have a greater understanding about loyalty programme and how it impacts on financial performance might consider aligning these programmes to the overall business strategy to improve the overall performance

Local Telecoms firm should borrow of the best practices used by global firms such as Huawei in order to add value to their respective services and products. This will

attract more customers and retain the present ones while contributing significantly to customer satisfaction and sales growth.

5.5 Limitations of the Study

Data from financial statements is built on fundamental assumptions and concepts and might not have reflected the researcher's needs. This might have impacted negatively on the consistent of findings and the conclusion arrived.

The study was limited to four variables that involved: corporate loyalty, individual loyalty, firm size, growth and financial performance. Other factors such as efficiency affect the firm's financial performance. However, they have not been discussed in this study. Researchers can consider incorporating other essential determinants that affect financial performance.

Orange Telecom Kenya and Airtel Kenya do not publish their financial statements; this made it tedious and difficult for the researcher to collect this information from individual companies. The researcher has to make a formal request from the supervisor to direct the finance manager to avail the data to the researcher, this was not easy to achieve.

The study was conducted with a limited period of time which limited the period of study between 2010-2014. This duration was inadequate hence the results and the conclusion drawn from this study is not exhaustive and thus might not give an exact picture of the how the variables relate in the short-term and long-run.

5.6 Suggestions for Further Research

Researchers should investigate the effect of loyalty programmes on the financial performance of Telecommunications firms in the East African Region. Then, comparative findings can be obtained after which conclusive results may be drawn based on solid facts.

The current study was done in the Telecommunication firms. Future studies can therefore be done in either banking or insurance industry given that loyalty programmes are used in service sector where firms face stiff competition use these programmes as a strategy to retain existing customers and attract new ones. This can compare some of the loyalty programmes if any used by commercial banks and their contribution to financial performance.

These study findings are based on data collected over five years. Most mobile Telecommunication firms started loyalty programmes five years ago and therefore the findings obtained in this study might not be conclusive and adequate to effectively arrive at a more conclusive and reliable conclusion. Future research is hereby recommended to conduct a similar study after five years and find out whether the same results will hold.

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APPENDIX I: DATA COLLECTION SCHEDULE

Company	Safaricom Limited				
	Year				
Parameters	2010	2011	2012	2013	2014
Corporate Loyalty (Measured using corporate loyalty expense divided with total corporate revenue.)					
Individual Customer Loyalty (Measure using individual customers loyalty spent divided by total individual customer revenue.)					
Firm Size (measured using natural logarithm of total assets)					
Liquidity (Measured using current assets divided by current liabilities)					
Financial performance (return on assets=net income/total assets).					

Company	Airtel Kenya				
	Year				
Parameters	2010	2011	2012	2013	2014
Corporate Loyalty (measured using corporate loyalty expense divided with total corporate revenue.)					
Individual Customer Loyalty (Measure using individual customers loyalty spent divided by total individual customer revenue.)					
Firm Size (measured using natural logarithm of total assets)					
Liquidity (measured using current assets divided by current liabilities)					
Financial performance (return on assets=net income/total assets).					

Company	Orange Telecom Kenya				
	Year				
Parameters	2010	2011	2012	2013	2014
Corporate Customers Loyalty Spent (Measured using corporate loyalty expense divided with total corporate revenue.)					
Individual Customer Loyalty Spent (measure using individual customers loyalty spent divided by total individual customer revenue.)					
Firm Size (measured using natural logarithm of total assets)					
Liquidity (Measured using current assets divided by current liabilities)					
Financial performance (return on assets=net income/total assets).					

APPENDIX II: LIST OF MOBILE TELECOMMUNICATIONS

FIRMS IN KENYA

- i. Safaricom Limited
- ii. Airtel Kenya
- iii. Orange Telecom

**APPENDIX III: SECONDARY DATA EXTRACTED FROM
FINANCIAL STATEMENTS OF MOBILE
TELECOMMUNICATION FIRMS (2010-2014)**

Safaricom Ltd	Corporate Customers Loyalty Spent (by Telecommunication firm) in Ratios	Individual Customers Loyalty Spent (by Telecommunication firm) in Ratios	ROA	Log of Assets	Net Assets
2010		0.0207	0.15	11	10.79445
2011	0.003086	0.021736	0.12	11.1	10.82901
2012	0.009803	0.021509	0.104	11.1	10.85783
2013	0.011482	0.015623	0.14	11.11	10.90453
2014	0.015637	0.023524	0.17	11.13	10.96017
Aitel Kenya					
2010	0	0.008	-0.19	10.41	9.98087
2011	0	0.003	-0.49	10.32	9.991552
2012	0.015	0.01	-0.23	10.49	10.05118
2013	0.015	0.0031	-0.25	10.45	10.17796
2014	0.018	0.0067	-0.22	10.42	10.18685
Orange Telecom Kenya					
2010	0	0.005	-0.21	10.63	10.01258
2011	0	0.0045	-0.19	10.69	10.00004
2012	0	0.006	-0.42	10.65	9.965813
2013	0	0.005667	-0.18	10.64	9.990605
2014	0.02	0.00625	-0.22	10.62	9.975937

Source: Research Findings