

**SERVICE QUALITY AS A CATALYST FOR CUSTOMER SATISFACTION OF  
SMALL AND MEDIUM SIZED ENTERPRISES (SMES) IN KITALE  
MUNICIPALITY, KENYA**

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**ABSTRACT:** *Service quality and customer satisfaction is an important ingredient in addressing global challenges, such as customer satisfaction and service quality. Service quality influences customer satisfaction because with an excellent service provided to the customers, their needs and expectations are met and as a result it improves customer satisfaction and helps create a good image of the company and bring positive reactions to potential customers mind. Despite this attention, little empirical research has been performed about relationship-marketing practices among SMEs, especially those in developing countries. This study is intended to investigate the effects of service quality on customer satisfaction in Kitale town. Stratified sampling was used to divide the Central Business District in terms of streets. Systematic random sampling was used to select SMEs from each street to obtain a sample size of 146 SMEs where customers was interviewed from each SME making a total of 146 customers involved in this research work. Findings reveals that service quality highly affect customer satisfaction positively ( $\beta_2=0.396$ ,  $P<0.05$ ). All the beta values were significant at 0.05 level of significance. Hence it is recommended that managers should focus on developing appropriate competencies in service quality since it has a positive impact on customer satisfaction.*

**KEYWORDS:** Service Quality, Customer Satisfaction, SMES.

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## **INTRODUCTION**

Despite the benefits that can arise from ensuring customer satisfaction, several researchers (Harwood and Garry, 2006) observe that current research has mainly focused on customer relationship in large firms. There is a scarcity of empirical studies about the customer satisfaction in small and medium sized enterprises (Simpson et al., 2006). Furthermore, most of the previous debates have been in the context of western culture (Yau et al., 2000). Consequently, customer satisfaction models developed by the western world may not necessarily apply to Small and Medium Enterprises (SMEs) in different socio-cultural contexts like Kenya.

In most developing countries, SMEs are means of accelerating economic growth and generating employment. In Kenya, SMEs create 250,000 jobs per year and contribute to approximately 30% of the Gross Domestic Product (GDP) of the country. They are the main providers of new jobs in the country and they make a major contribution to income generation, especially among the poor (Small and Medium Enterprises), Business Guide, 2008). SMEs should be effectively managed if they are to contribute to the growth of national economies. It is therefore vital for researchers and policy makers to understand the marketing operations of SMEs in great detail. This will foster the design management to enhance customer satisfaction to enable SMEs succeed in developing good customer relationships (Boag and Dastmalchian, 1988 as cited in Davis, 1997, p.32).

In spite of the fact that SMEs have been regarded as the bulwark for employment generation and technological development in Kenya, the sector nevertheless has had its own fair share of neglect with concomitant unsavoury impacts on the economy. In a seminar titled “Career Crisis and Financial Distress- The Way Out”, the General Manager of Enterprise and Financial Support Company Limited, Mr. Oluseyi Oluboba, identified in his paper the following as the main problems of SMEs, which are however not insurmountable: low level of entrepreneurial skills, poor management practices, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortages of skilled manpower, multiplicity of regulatory agencies and overbearing operating environment, societal and attitudinal problems, integrity and transparency problems, restricted market access, lack of skills in international trade; bureaucracy, lack of access to information given that it is costly, time consuming and complicated at times. Despite these efforts, there is only scarce knowledge of how service quality contributes to customer satisfaction in SMES thus need for this study to find out Service quality as a catalyst for customer satisfaction in SMEs With better understanding of the relationship between the two for better tailor stimulation programs to target SME competence needs (Storey, 1997).

### **Problem formulation**

Undoubtedly the capability to innovate and to bring innovation successfully to the market will be a crucial determinant of the global competitiveness of nations over the coming decade. There is growing awareness among policymakers that innovative activity is the main driver of economic progress and well-being as well as a potential factor in meeting global challenges in domains such as business and academic sectors. Even countries that have generally refrained from active industrial policy in recent years now seek new ways to improve the environment for innovation in order to boost productivity and growth. The United States, for example, came forward with the “Innovate America “strategy .In addition to the rapid advances in scientific discovery and in general-purpose the accelerating pace of innovation is being driven by customer satisfaction. This is therefore the reason for this study. Companies have faced increased competition and continuous price pressures. Globally, companies have been searching for new ways of surviving and increasing their profitability amidst this competition. To cope with these changes, a range of marketing approaches have been developed over the past decade. Of these, attaining customer satisfaction has attracted the greatest attention from both academic scholars (Wang, 2006) and practitioners. Since the business environment is more dynamic now and customers are more

demanding, firms have turned their attention towards RM in order to remain competitive (Boyd et al., 2002).

## LITERATURE REVIEW

Customer satisfaction is seen as an indicator of the future financial success of the company (Kotler 2000 ;). Actual manifestation of the state of satisfaction will vary from person to person, product to product and service to service. The state of satisfaction depends on a number of factors which consolidate as psychological, economic and physical factors. The quality of service is one of the major determinants of the customer satisfaction ( Parasuraman, and Malhotra, 2000; Schefter and Reichheld, 2000). Companies use customer satisfaction more and more as a criterion when assessing the quality of products and services. In addition, it is commonly used as a part of personnel bonus systems. Customer satisfaction also affects the future cash flows, enhances profitability and increases profits, thus also having strategic implications. Customer satisfaction has gained a vast amount of interest particularly in consumer marketing, and its scientific foundation is rather well documented, although there are varying opinions on, e.g. the role of expectations in customer satisfaction. Literature discussing service quality and customer satisfaction emphasizes the significance of customer encounters and interaction when the customer assesses the service quality experienced. Interaction between the personnel and the customer takes place during service encounters, which refers to the time period when the customer and the company are interacting on a personal level, face to face, on the phone or using some other media (e.g. Normann, 1991).

### **Service Quality and customer satisfaction**

To maintain customer relationships, employees must ensure prompt service and quick problem resolution (Harrell and Frazie, 2001). As stated earlier in this chapter, responsiveness is one of the five dimensions customers use to determine the quality level of the service provided (Churchill and Peter 1997; Johnson 200). For managers to enhance service quality, they must understand how service affects customers' perceptions. From this understanding, they will be able to improve customer satisfaction (Rust and Oliver,1999). McCarthy and Kotler championed the perspective of "consumer-oriented" marketing in the early 1960s. The essence of this perspective is based on determining what a target group of customers want. It is then the manager's responsibility to maximize satisfaction with the product or service based on customer wants (cited in Vavra ,2002). Therefore, satisfaction is in the very definition of service and marketing.

*Hypothesis: Provision of quality services has no significant effect on customer satisfaction*

## RESEARCH METHODOLOGY

The study adopted explanatory research design. Explanatory research design attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon. The study targeted customers of the 489 licensed SMEs established in Eldoret town in Central

Business District (CBD) (Municipal records, 2012). The respondents were customers of these SMEs who were targeted with the objective of assessing the perceived level of customer satisfaction in relation to managerial competencies under study. From the target population of 489 SMEs, Taro Yamane (1973) sample size formula was used to select a sample size of 146 SME. Survey questionnaires administered to all the respondents. Reliability was determined by administering Cronbach alpha test to evaluate the alpha value which is 0.881 for all the variables under study. Statistical values of alpha above 0.7 were regarded significant in terms of internal consistency of the variables under study. Descriptive statistics involving frequencies, percentages, means and modes will be used to analyze data. Inferential statistics such as person correlation used to detect simple linear relationship and because it also act as building block for multiple regression model (Anglim, 2007), while multiple regression model was used to test hypothesis.

### **Response Rate**

As mentioned earlier, the questionnaire was distributed to 288 respondents in paper form. 247 answers were gotten in total, which gives a response rate of approximately 85.76 percent. This response rate can be considered extremely good since the general response rates have fallen over time. The response rate to this survey can be compared to the average survey response rates that are at 32.52 %. (Hamilton 2009). Even though the percentage rate of response was good, the number of distributed questionnaires may have implications on the validity of the statistical analysis. The writer did however decide to continue with the analysis due to the fact that the theoretical part of the thesis was already done.

## **EMPIRICAL FINDINGS**

### **Demographic Information**

Sixty three percent (63%) of the customers in this study were female, while thirty seven percent were male. Forty seven percent of the customers are within the age bracket of 21- 30 whilst thirty percent of them are in the 41-50 age bracket. Twenty percent (20%) of the customers are in the 50 and above age bracket. Only four percent (4%) of them are below 20 years. Thirty percent (30%) of the SMEs are involved in food processing. Twenty seven percent (27%) are involved in textile whilst twenty two percent (22%) are in clothing manufacturing. Other products manufactured include plastic, thirteen percent (13%) and metal fabrication, eight percent (8%). The predominance of SMEs in the food processing industry can be attributed to the relatively low capital requirement since most food processors tend to be, primarily, involved in light rather than heavy manufacturing such as bread making. Forty eight percent (48%) of the SMEs have been in operation for between 1 and 5 years, twenty percent (20%) have been in operation for 6-10 years, twenty six percent (26%) have been in operation for 11-15 years, and six percent (6%) in operation for more than 15 years.

### **Service Quality**

Study of analysis has revealed that SMEs do not appear to be too busy in responding to customer request (mean of 4.39), the customers also strongly agreed that SMEs management make sure that service is well – equipped with up-to-date facilities ( mean of 4.5). SME management is able

to provide physical layout of equipment and furniture that are comfortable for customer interaction with staff (mean = 4.56). Results from table 4.1 reveal that when the SMEs management promises to do something by certain time, service are delivered as promised (mean of 4.64). The study results indicated that respondents agreed that “when customers face problems, the management is sympathetic and reassuring (mean = 4.45), this was supported by customers who scored a mean of 4.56 rating the strongly agree.

**Table 4.1 Provision of Quality Services**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>
SME provides prompt service to the customer.	4.06	1.07	0.85
SME does not appear to be too busy in responding customer requests.	4.18	1.327	0.674
SME make sure that service counter is well-equipped with up-to-date facilities.	4.02	0.8	1.433
SME is able to provide Physical layout of equipment and furniture that are comfortable for customer interaction with staff.	4.34	1.369	-0.174
SME creates trust with customers.	4.4	1.468	0.048
SME makes customer feel safe when conducting business with us.	3.98	0.717	1.043
SME gives customer individual attention.	4.38	1.203	0.678
Due to services provided by the management customer have interest in the services	3.67	0.885	1.211
When the management promises to do something by a certain time, services are delivered as promised.	4.62	1.268	0.649
When customer face problems, the management are sympathetic and reassuring	4.56	1.344	-1.091
<b>Mean service quality</b>	<b>4.03</b>	<b>0.255</b>	<b>0.131</b>

*Survey data (author, 2012)*

### **Customer Satisfaction**

In table 4.9 customers were generally delighted by services offered by the SMEs (mean 3.91) contrary to customers who were neutral on being delighted by SMEs services offered (mean of 3.27). Interestingly, customers strongly agreed that they prefer their service provider (SMEs) because of services offered to them (mean of 4.59). Customers further agreed that they are generally happy and contented by services provided to them (mean of 4.01). After performing chi-square test, the study indicated that there was no statistical mean among the means of the statement on customer satisfaction for both the employees and the customers. This indicates that the findings in the above table were generally the same for both employees and customers of the SMEs.

**Table 4.9 Customer Satisfaction**

	Mean	Std. Deviation	Skewness
Customers are generally delighted by SMEs services offered	3.27	1.053	1.025
Customers are generally happy by our SMEs services	4.01	1.227	0.069
Customers are generally contented by our SMEs' services	3.71	1.069	0.996
Customers are satisfied with quality of services offered by our staff	4.17	0.987	0.871
Customers prefer my SMES because of services offered to them	4.59	0.876	0.927
<b>Customer Satisfaction</b>	<b>3.7</b>	<b>0.157</b>	<b>0.394</b>

*Survey data (author, 2012)*

### Correlation Analysis

The researcher found it necessary to investigate the relationship among the independent variables (Provision of quality Service and the dependent variable (customer satisfaction). Pearson's r is a useful descriptor of the degree of linear association between the dependent variable and the independent variable, where it had two key properties of magnitude and direction. When it is near zero, there is no correlation, but as it approaches -1 or +1 there is a strong negative or positive relationship between the variables (respectively). Pearson's Correlation is a measurement of the strength of a linear or straight line relationship between two variables. The Correlation Coefficients indicate both the direction of the relationship and its magnitude. This relationship was determined by using the Pearson's Correlation in standard statistical software "Statistical Package for Social Sciences" (SPSS). Provision of quality Services was positively correlated to customer satisfaction (Pearson correlation = 0.040) this relationship was significant at 0.05 level of significance as reported by p value = 0.000 < 0.05. This implied that provision of quality services influences level of customer satisfaction.

### Hypotheses Testing

Hypothesis ( $H_{01}$ ) stipulated that provision of quality services has no significant effect on customers' satisfaction. The slope of provision of quality services (0.396 significant at  $\alpha=0.05$  with a t value of 5.405) shows that customer satisfaction on average is increased by 0.396 when service quality increases by 1, thus, hypothesis 2 is rejected. The results coincide with Samsudin (1993) who reported that to express or exchange messages through personal interaction is an important procedure within service counter communications. This means that, the ability to improve the level of meaning exchange could help to identify the level of effectiveness of service counter communication and customer satisfaction in the intended interaction atmosphere. This relates with Harrell and Frazie (2001) who asserted that to maintain customer relationships, employees must ensure prompt service and quick problem resolution. Johnson (2000) on the other hand revealed that responsiveness is one of the five dimensions customers use to determine



the quality level of the service provided, Food should be delivered within expected industry standards and an experienced customer's expectations. According to Rust and Oliver (1999), for managers to enhance service quality, they must understand how service affects customers' perceptions. From this understanding, they will be able to improve customer satisfaction. These study findings are consistent with Kano's satisfaction theory as explained by Lowenstein (1995) that many key product and service attributes have a curvilinear relationship to satisfaction.

**Table 4.2 Correlation Statistics**

		Customer satisfaction	Service quality
Customer satisfaction	Pearson Correlation	1	
Service quality	Pearson Correlation	0.401**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

*Survey data (2014)*

**Table 4.10: Coefficients of Estimates**

	Unstandardized Coefficients	Standardized Coefficients		Collinearity Statistics			
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	0.669	0.817		-0.819	0.414		
Service Quality (SQ)	0.519	0.096	0.396	5.405	0.000	0.778	1.286

a. Dependent Variable: customer satisfaction

*Survey data (2014)*

## CONCLUSION AND RECOMMENDATION

This study shows that the provision of quality services is significantly related to customer satisfaction in SMEs in kitale, organizations would only need to increase and maintain the variable discussed in the previous section provision of quality services to achieve the positive effect on the employee's workplace commitment. In terms of the stated research hypotheses the following specific empirical findings emerged from the investigation: provision of quality services had positive significant relationship to customer's satisfaction. In other words, increasing customer satisfaction, we highly depended on the provision of quality services.

The results of the study should be interpreted with caution due to the limitations of the study. In addition, although the response rate for the current study is adequate, the composition of the sample could have introduced elements of bias in the research findings. Most notably, it is possible that disparities in terms of biographical data of respondents could have distorted the results obtained from the investigation.

Findings showed that providing customers with quality services will make them happy, delighted and contented thus retaining and attracting more customers. Hence, it is necessary for the SMEs to emphasize on fulfilling management promises made to customers as soon as possible. The management should also sympathize and reassure customers on handling complaints made to them. SME should make customers feel safe when conducting business with them, give them individual attention and create trust.

### **Suggestion for Further Studies**

In summary, the primary contribution of this research was the examination of the unique variance contributed by service quality in determining customer satisfaction. The results of this study indicated that the relationship between service quality and customer satisfaction is interrelated and in need of further examination. Future research should examine the dimensionality of task independence, employee satisfaction with supervisors and employees' workplace with the complexities of the relationship of managerial competencies. More study is also needed to establish the effect of the same variable on customer satisfaction in other fields rather than SMEs.

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