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# **Who is King: Customer or Employee? Effect of Customer vs. Employee Focus Strategies on Customer Retention by Selected Small Enterprises in Nakuru Central Business District, Kenya**

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## ***Abstract***

*Customer and employee focus strategies are critical impetus in attracting and retaining loyal customers to guarantee continuous and stable revenue flow. This study sought to establish the influence on customer retention when customer and employee focus strategies are compared. Competing Values model of organizational effectiveness is used as the main theoretical anchor to the study. Cross-Sectional survey (i.e. correlational research design) was adopted since it enables a researcher to study a phenomenon at one point in time and to establish the nature of relationships amongst study variables. The study population comprised of 189 SMEs. Stratified random sampling taking 30% in each stratum was used resulting in 57 SMEs within Nakuru Central Business District. Primary data was collected using structured questionnaires. Correlation and regression analyses were carried out to analyze data and to test hypotheses. Customer Retention Rate (CRR) was used as dependent variable. Findings reveal that although both employee and customer focus strategies significantly predict CRR, employee focus strategies are comparatively greater predictors of CRR than customer focus strategies. However, the combined effect of employee and customer focus strategies manifested greatest effect on CRR. The significance of employee focus in customer retention cannot, however, be overlooked. It is recommended that organizations should deliberately consider strategies that focus on employee empowerment and not over-emphasize “the customer is king” mantra. Consequently, a non-skewed and fair balance between customer and employee focus strategies is critical for customer retention.*

**Keywords:** Customer Focus, Customer Retention, Employee Focus, SMEs.

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## **INTRODUCTION**

Every business strives to attract and retain customers. The difference lies in the strategic focus or approaches employed by businesses to acquire and retain customer loyalty. Decision makers must strike a delicate balance in choosing whom, between employee and customer, to focus on more. Subramanian (2018) asserts that a happy

employee tends to exhibit enthusiasm when interacting with a customer and that how the employee is treated by the organisation dictates the employee's attitude and motivation to refer (or not) more customers. Conversely, customer experience when interacting with employees in an organization turns into a decision which aids the choice to return and buy product or service from the

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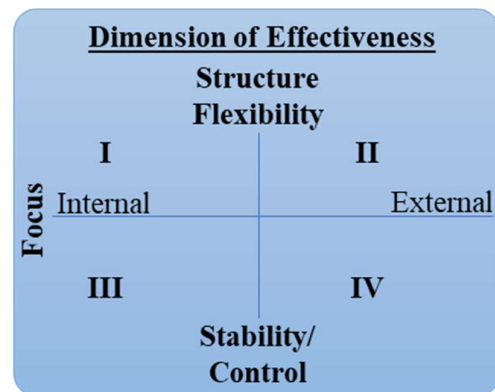
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organization or switch to a competitor. Allen and Grisaffe (2001) observed that one reason for continued low ratings in customer retention is that many organizations rely heavily on their policies and processes to deliver superior customer experiences while forgetting and neglecting focus on their employees, who are the very people who actually determine the success or failure of continued interaction and eventual retention of customers. If employees lack sufficient motivation and fail to put their hearts and concerted energy into their work, service to customers will eventually suffer. Repressed innovativeness can easily kill a chance for company product to evolve and satisfy the customer's growing and dynamic needs. Any change must first come from the inside for employee's morale to climb. Productivity decreases when an employee is stressed.

**Research problem:** Globally, Small and Medium Enterprises (SMEs) are pivotal in economic growth of any region. SMEs create jobs and help economies to develop. This is because SMEs are key areas for innovation, entrepreneurship, and inventions, thus acting as a reservoir for job creation (Sharmeela-Banu, Gengesarwari and Padmashantini, 2013). Nevertheless, SMEs encounter several challenges which deter their progress and subsequently inhibit their survival in a competitive industry. Customer retention is hence a vital weapon for SMEs to sustain competitive advantage and improve performance. Paying attention and focusing on motivating employees is directly correlated to how delighted customers would be about their experience with such employees hence return to you or go to a competitor (Van Doorn, 2011). According to Subramanian (2018), most organizations invest heavily to ensure the customer feels appreciated and highly valued and that countless time and energy is directed in making customers always delighted giving birth to the worldwide phrase that customer is king. This study therefore sought to determine the effect of customer focus and employee focus strategies on customer retention.

## LITERATURE REVIEW

The Model of Competing Values by Quinn and Rohrbaugh (1981) was used to anchor this study. It is a theory that was developed initially from research conducted on the major indicators of effective organizations. Organizational performance and goals are defined by top and middle management. By comparing the diverse effectiveness indicators used by managers and researchers, they investigated underlying similarities and found underlying dimensions of effectiveness criteria that reflect competing management values in organizations. The first dimension was established as focus which refers to whether dominant values concern issues that are *internal* or *external* to the organization. While internal focus reflects management concern for well-being and efficiency of employees, external focus reflects an emphasis on the well-being of the organization itself and its fit with its customers and other stakeholders. The second model was established as structure, which refers to whether *stability* versus *flexibility* is the dominant structural consideration in an organization. While stability reflects a management value for efficiency and top down control, flexibility represents a management value for learning and change.



**Figure 1:** Model of Competing Values  
(Quinn and Rohrbaugh (1981))

Four types of competing value models of organizational effectiveness were determined by Quinn and Rohrbaugh (1981). Human relations model reflected in Figure 1 as

Quadrant I deals with internal focus and flexible structure. Management concern is on the development of human resources. Employees are given opportunities for autonomy and development. Management works toward sub-goals of cohesion, morale, and training opportunities. Organizations using this are more concerned with employees than the external customers or stakeholders. Open systems model in Quadrant II is a combination of external focus and flexible structure. Management's goals are primarily growth and resource acquisition. Sub-goals are flexibility, readiness, and positive evaluation by the external environment. Dominant value is establishing good relationship with the external environment to grow and acquire resources. Similar to the Systems Resource Model. Internal process model in Quadrant III reflects the values of structural control and internal focus. It seeks a stable organizational setting, which maintains itself in an orderly way. An organization which is well established in environment and just wish to keep their current position. The sub goals in this case include mechanisms for efficient communication, information management and decision-making process. Finally, rational goal model in Quadrant IV reflects management values of external focus and structural control. Primary goals here include productivity, profit and efficiency. Typically, organization wants to achieve output goals in a controlled way. The sub goals include goal setting and internal planning which are the rational management tools. This is like the goal approach. Quinn and Rohrbaugh (1981) concluded that four different opposing value sets, within the organization may exist simultaneously and the right balance for the organization is normally subject to managerial discretion. Emphasis may change over time, especially as the organization evolves through its life cycle. This model was used to determine the most effective inclination in management strategy between internal and external focus.

Adeel, Muhammad, Hafiz, and Wahab (2012) conducted a study on the impact of employee satisfaction on customer satisfaction and focused on the banking sector in Pakistan. They established a positive significant correlation between customer satisfaction and employee satisfaction. However, their study did not link satisfaction levels to customer retention. They did not also expressly determine the priority focus by management when it comes to employee and customer. This study bridged the highlighted gaps by establishing the relative strength in comparative influences. Ibojo (2015) also conducted a case study of a reputable bank in Oyo, Nigeria on impact of customer satisfaction on customer retention and concluded that effective satisfaction of customers will give room for customer retention. And that there is a significant relationship between customer satisfaction and customer retention. This study changed the context and also linked customer focus to employee focus. Inamullah (2012) carried out a study on relationship between customer satisfaction and customer retention on customer loyalty in telecom industry of Pakistan. His findings indicate that customer satisfaction has significant while customer retention has insignificant impact on customer loyalty. The current study has considered employee focus as additional variable although customer loyalty was not part of the study.

According to Monireh, Asadollah and Reza (2014), customer retention refers to the obligation by customer to continue doing business or buying products and deal with a specific company or organisation for a period without churning. They assert that customer retention refers to a certain point in the customer lifecycle. It is normally measured either monthly, quarterly, or annually depending on operations of a particular business. According to Sharmeela-Banu, Gengeswari and Padmashantini, (2013), customer retention rate reflects the percentage of customers a business retains relative to the initial number at the start of the

cycle upon which the retention rate is being calculated and that it excludes new customers. Mathematical approach to computing customer retention rate is given as Customer Retention Rate is  $(E-N)/S * 100\%$ , where E= number of customers at the end of a period, N= number of new customers acquired during that period and S= number of customers at the start of that period. A sustainable and scalable business requires that a company deliberately fix strategies that prevent customer churn, which is the rate at which customers discard a company's products and services. Customer Retention Rate (CRR) further gives an indication of how loyal customers are and appropriateness of services. Ideally, a business 100% CRCC is most preferable. This implies that no single customer has been lost within a specified period.

The following **objectives** were formulated for study:

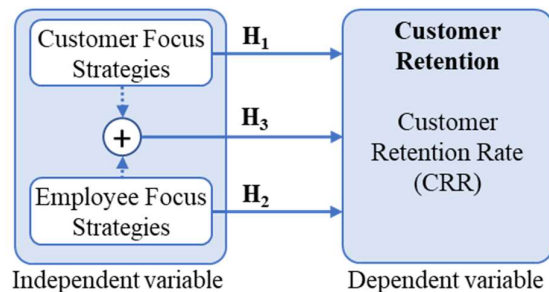
- i) To determine the effect of customer focus strategies on customer retention by SMEs in Nakuru, Kenya.
- ii) To determine the effect of employee focus strategies on customer retention by SMEs in Nakuru, Kenya.
- iii) To determine if the combined effect of customer focus strategies and employee focus strategies on employee retention by SMEs in Nakuru, Kenya are significantly different from their separate effects.

### Hypotheses of the Study

The following hypotheses were formulated after critical review of literature:

- H<sub>1</sub>:** There is no significant effect of customer focus strategies on customer retention by SMEs in Nakuru, Kenya in Kenya.
- H<sub>2</sub>:** There is no significant effect of employee focus strategies on customer retention by SMEs in Nakuru, Kenya
- H<sub>3</sub>:** The combined effect of customer focus strategies and employee focus strategies on customer retention by SMEs in Nakuru, Kenya is not significantly different from their separate effects.

**Conceptual framework:** An integrated framework to respond to the knowledge gaps identified in the literature review in this study has been designed with three components. Customer focus and employee focus strategies constitute independent variables while customer retention constitutes dependent variable. The study determined the direct relationship between independent and dependent variables (Figure 2).



**Figure 2:** Conceptual Model

### METHODOLOGY

**Research design:** The study adopted cross-sectional survey because it enabled the generalization of conclusions to a greater population by collecting data at a specific point in time. Specifically, correlational design was used since the study objectives were to establish relationships between study variables.

**Target population:** The target population is the population of interest, that is, the group of people or items that will help address the research question (Mugenda and Mugenda, 2003). The study target population was 189 business owners or persons in charge of small selected enterprises within Nakuru Central Business District. The study concentrated on 5 most common type of businesses. Table 1 indicate the number of businesses in each category.

**Sample and sampling technique:** According to Mugenda and Mugenda (2003), a sample size of least 30% of the total homogenous population is adequate for a study. In this case, the researcher used 30% of the total population giving a sample size of 57 out of 189. The study adopted stratified random sampling so that each member of the

strata gets equal probability of being included in the study as presented in Table 2.

**Table 1:** Target Population

| Businesses               | Number of Businesses | (%)          |
|--------------------------|----------------------|--------------|
| Boutiques                | 25                   | 13.2         |
| Saloons                  | 42                   | 22.2         |
| Mobile phone accessories | 32                   | 16.9         |
| M-pesa businesses        | 53                   | 28.0         |
| Cyber cafés              | 37                   | 19.5         |
| <b>Total</b>             | <b>189</b>           | <b>100.0</b> |

**Table 2:** Sampling Frame

| Businesses               | Number of businesses | Sample size (n) |
|--------------------------|----------------------|-----------------|
| Boutiques                | 25                   | 8               |
| Saloons                  | 42                   | 12              |
| Mobile phone accessories | 32                   | 10              |
| M-pesa businesses        | 53                   | 16              |
| Cyber café               | 37                   | 11              |
| Total                    | 189                  | 57              |

**Instruments:** The researcher used questionnaire as an instrument of primary data collection. The questionnaire included structured questions to collect views and opinions from the respondents. A five-point Likert type scale was employed, using a list of response categories ranging from very great extent to strongly very low extent where 5=Very Strong Extent, 4=Great extent, 3=Moderate Extent, 2=Low Extent and 1=Very Low Extent. The respondents comprised of managers/owners of the sampled SMEs.

**Reliability and validity tests:** The data collection instrument was tested using expert judgment to confirm whether the theoretical dimensions emerged as conceptualized. Reliability test for equivalence was undertaken through questionnaire pretesting by a pilot study of 5 randomly selected SMEs. The feedback obtained assisted to revise the scales, address the structure of the questions and the overall design of the instrument. As a result, some questions

which were ambiguous were reconstructed and duplicated ones were deleted from the original questionnaire before administering the final one to all study respondents. Reliability test for internal consistency of the instrument was measured through Cronbach's alpha coefficient of 0.7 or more considered reliable. Cronbach's alpha coefficient was computed from the composite indices of all the independent, and dependent variables used in the study. The alpha scores for each variable were within the valid ranges.

### Data Analysis

Data was analyzed using inferential statistics to provide simple summaries about the observations that were made. Inferential statistics used include correlation and linear regression analyses to test the nature and directions of any existing relationships between independent and dependent variables, establish mathematical models relating variables and also test the formulated hypotheses.

The mathematical model formulated to establish regression equations relating independent and dependent variables was:

$$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + e;$$

Where:  $X_1$  is Customer focus strategies;  $X_2$  is Employee focus strategies,  $Y$  is Customer retention,  $\alpha$  represents the level of performance when the effect of  $X_1$  and  $X_2$  is zero.  $B_1$  and  $B_2$  are regression Beta coefficients and  $e$  is the error term.

## RESULTS

### Correlation Analysis of Study Variables

Correlation analysis was conducted in order to establish the nature and direction of relationships between study variables. Correlation analysis was undertaken after aggregating the variables as composite indices. As shown in Table 3, Pearson's product moment correlation coefficient ( $r$ ) indicate that the correlation between employee focus strategies and customer retention rate is slightly stronger ( $r = 0.889$ ,  $p$  value  $(0.000) < 0.001$ ) that the correlation between customer focus strategies and

customer retention rate ( $r = 0.856$ ,  $p$  value  $(0.000) < 0.05$ ). However, both correlations are positive and significant.

### Regression Analysis & Test of Hypotheses

Regression analysis was used to establish a mathematical model connecting the study variables and also test the hypotheses. Table 4 shows that R square is 0.798 implying that 79.8% change in customer retention rate is

explained by customer focus strategies and employee focus strategies.

The Analysis of Variant (ANOVA) statistics shown in Table 5 demonstrates a valid and significant regression model connecting dependent and independent variables with  $F(2,54) = 106.620$ ,  $p$  value  $(0.000) < 0.05$ , greater than critical  $f$  ratio from  $F$  test table,  $F(2,54) = 3.17$ .

**Table 3:** Correlation Analysis Results

| Variable                  | Analysis            | Customer Retention Rate (CRR) |
|---------------------------|---------------------|-------------------------------|
| Employee Focus Strategies | Pearson Correlation | .889**                        |
|                           | Sig. (2-tailed)     | .000                          |
|                           | N                   | 57                            |
| Customer Focus Strategies | Pearson Correlation | .856**                        |
|                           | Sig. (2-tailed)     | .000                          |
|                           | N                   | 57                            |

**Table 4:** Model Summary

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1     | .893 <sup>a</sup> | .798     | .790              | 2.85580                    | 1.837         |

a. Predictors: (Constant), Customer Focus Strategies, Employee Focus Strategies

b. Dependent Variable: Customer Retention Rate

**Table 5:** ANOVA

| Model |            | Sum of Squares | df | Mean Square | F       | Sig.              |
|-------|------------|----------------|----|-------------|---------|-------------------|
| 1     | Regression | 1739.107       | 2  | 869.553     | 106.620 | .000 <sup>b</sup> |
|       | Residual   | 440.402        | 54 | 8.156       |         |                   |
|       | Total      | 2179.509       | 56 |             |         |                   |

a. Dependent Variable: Customer Retention Rate

b. Predictors: (Constant), Customer Focus Strategies, Employee Focus Strategies

**Table 6:** Regression Coefficients

| Model                     | Unstandardized Coefficients |       | Standardized Coefficients |        | Collinearity Statistics |           |       |
|---------------------------|-----------------------------|-------|---------------------------|--------|-------------------------|-----------|-------|
|                           | B                           | S. E. | Beta                      | t      | Sig.                    | Tolerance | VIF   |
| 1 (Constant)              | 64.059                      | 2.272 |                           | 28.200 | .000                    |           |       |
| Employee Focus Strategies | 5.337                       | 1.280 | .673                      | 4.170  | .000                    | .144      | 6.962 |
| Customer Focus Strategies | 3.977                       | 1.299 | .533                      | 3.062  | .004                    | .144      | 6.962 |

a. Dependent Variable: Customer Retention Rate

**Table 7:** Regression Coefficients of the Combined Effect

| Model           | Unstandardized Coefficients |       | Standardized Coefficients |        | Sig. |
|-----------------|-----------------------------|-------|---------------------------|--------|------|
|                 | B                           | S. E. | Beta                      | t      |      |
| 1 (Constant)    | 63.583                      | 2.255 |                           | 28.194 | .000 |
| Combined effect | 7.431                       | .514  | .890                      | 14.457 | .000 |

In order to test Hypothesis 3, customer focus strategies were combined with employee focus strategies to create a third variable referred to as the combined effect. When combined variable was regressed with customer retention rate (DV), the results indicate in Table 6 that the beta coefficient increased to 0.89 (Table 7) as compared to separate beta values (0.673 and 0.533). The model depicted a significant relationship with  $p$  value = 0.000 much less than 0.05, and  $F(1,55) = 209.019 > F$  critical table value at degree of freedom  $(1,55) = 4.02$ . Consequently, the researcher failed to accept null Hypothesis 3 and concluded that the combined effect of customer focus strategies and employee focus strategies on customer retention by SMEs in Nakuru, Kenya is significantly different from their separate effects.

## DISCUSSION

Although many researchers and industry practitioners have emphasized that customer is king, findings of this study reaffirm assertions by Van Doorn (2011) who established that paying attention and focusing on motivating employees is directly correlated to how delighted customers would be about their experience with such employees hence return to you or go to a competitor. Although the findings of this study show that customer focus is equally significant in predicting customer retention rate, the unconcluded debate is whether organizations should incline their focus towards customer at the expense of employees. The phrase “customer is king” has become a global buzz word in every single organization. Over emphasizing this aspect may unfairly skew strategic focus

towards customers and cause simultaneous neglect of employees who are critical impetus in the whole equation of customer retention. This argument is in line with Allen and Grisaffe (2001) who observed that one reason for continued low ratings in customer retention is that many organizations rely heavily on their policies and processes to deliver superior customer experiences while forgetting and neglecting focus on their employees, who are the very people who actually determine the success or failure of continued interaction and eventual retention of customers. Further, Subramanian (2018) asserted that a happy employee tends to exhibit enthusiasm when interacting with a customer and that how the employee is treated by the organisation dictates the employee’s attitude and motivation to refer more customers or decline to do so. This assertion implies that a happy employee leads to a happy customer and vice versa. My conclusions and arguments do not imply that organisations should focus more on employees than customers. The third hypothesis established that the combined effect of customer focus strategies and employee focus strategies on customer retention by SMEs in Nakuru, Kenya is significantly different from their separate effects. This finding is in consonance with the model of competing values where Quinn and Rohrbaugh (1981) noted that in the four different opposing value sets, within the organization may exist simultaneously and the right balance for the organization is normally subject to managerial discretion. Consequently, there is need for a strategic organization to strike a balance between employee and customer focus.

## RECOMMENDATIONS

The study findings have theoretical, practical and policy implications for future researchers, SMEs and all stakeholders. The model of competing values in organizational effectiveness as the main theory anchoring the study provides a favorable means of analyzing the appropriate focus strategies that can enhance customer retention by SMEs. The regression model linking employee and customer focus strategies to customer retention demonstrates that although both customer focus and employee focus are significant predictors of customer retention rate, employee focus is greater comparatively. However, when the strategies are combined, the greatest retention is realized. This is critical for organizations as practitioners to strike a non-skewed and fair balance between customer and employee focus. On policy, the study has established that effective customer retention demands for concentrated focus, first on employee then on customer. This conclusion strikes a balance and attempts to neutralize over emphasis on customer focus at the expense of employee. In other words, employee is king first then customer king second.

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