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CUSTOMER CAPITAL AS AN ANTECEDENT OF ORGANIZATION PERFORMANCE: A SURVEY OF SELECTED SMALL AND MEDIUM ENTERPRISES AT ELDORET TOWN, SOGOMO ESTATE

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ABSTRACT

This study sought to determine the effect of Customer Capital on organization performance of Small and Medium Enterprises at Eldoret Town, Sogomo Estate. The specific objective was to determine the effect of Customer Capital on organization performance. The study used positivism research philosophy and a survey research design was used in collection of data. A target population of 150 Small and Medium Enterprises was considered in the study. The study used a sample size of 45 Small and Medium Enterprises. The data was analyzed using inferential statistics; correlation and simple linear regression model. The study found that Customer Capital positively affects organization performance though not statistically significant ($\beta_1 = .039$, $p = 0.416$, $\alpha > 0.05$). The conclusion of the study was that Customer Capital does not significantly affect the performance of Small and Medium Enterprises. Customer Capital explains 0.7 % total variation of the performance of Small and Medium Enterprises. Small and Medium Enterprises should work around the clock to ensure they offer good quality products, quality service delivery that results into customer satisfaction. Small and Medium Enterprises should avoid totally the sale of expired products, overcharge and underweight products.

Key words: Customer Capital, Organization Performance, Small and Medium Enterprises

1. INTRODUCTION

Customer relations are very important in financial soundness of any organization that deals directly with customers. Customer capital is mainly based on the relationship between the organization and its customers (Shaari et al., 2010; Tai- Ning et al., 2011). How an organization relates with its customers has a direct impact on its financial performance. Most Small and Medium Enterprises have been closed down due to failure of the Small and Medium Enterprises to relate well with their clients. Jones (2001) stipulated that the relationship with customers is very important for organizations because customers buy products or services from the Enterprises. Therefore, customers are the main source for revenue generation of Small and Medium Enterprises. The relationship a firm establishes with its customers constitutes Customer Capital.

This includes contracts the Small and Medium Enterprises make with their customers, the relationships they establish with their customers, customer loyalty, customer satisfaction, market share, image, reputation, brands, distribution networks, and channels (Mayo, 2001). All these variables constitute better financial performance of the Small and Medium Enterprises. At the time of the study there was a tenderncy of firms being started today and closed after a short period of time due to lack of customers or customers making their purchases from known business operators.

Prior studies have shown that there is a positive relationship between customer capital and firm performance (Shariari, 2009).This serves as an eye opener that if Small and Medium Enterprises can understand the importance of Customer Capital and work around the clock to draw more customers to themselves through offering good products, services then most of their problems shall be solved. Customer complaints in Small and Medium Enterprises relate to the sale of expired products, overcharge and underweight products among others (Roos et al., 2001) all which are components of Customer Capital.

There are a few studies on Customer Capital on Small and Medium Enterprises in Kenya, therefore this study aimed to address this knowledge gap by studying on the effect of Customer Capital on organization performance of Small and Medium Enterprises at Eldoret Town, Sogomo Estate. The remainder of this article paper is organized as follows. Section 2 covers review of past studies and defines the main hypothesis. Section 3 covers materials and methods. Section 4 covers the results and discussion. Section 5 presents the conclusion and section 6 covers the recommendations.

2. LITERATURE REVIEW

2.1 Organization Performance

According to (Ya-Hui Ling and Ling Hung, 2010) organizational performance cannot be measured adequately just by a single financial performance indicators. In addition, Ya-Hui Ling and Ling Hung (2010) believed organizational performance is the results completed within a specified period by the relevant business, in order to achieve phased or overall goals. Performance is best looked at in two ways namely; end results and a means to achieve the results. Ukko (2009) posits that performance is the ability to distinguish the outcomes of organizational activities. Performance can either be financial and non-financial performance (Ittner, 2008). The non-financial performance can be measured using operational key performance indicators such as market share, innovation rate or customer satisfaction (Hyvonen, 2007).

Financial performance is a subjective measure of how well an organization can use its assets from its primary role of conduction of business and its subsequent generation of revenues. This term is also used as a general measure of an organization's overall financial status over a given period of time and can be used to compare similar organizations across the same industry or to compare industries or sectors in totality. There are two measurement techniques used in evaluation of the organization’s financial performance. The two measurement techniques are market measurement technique and accounting measurement technique. The two measurement techniques represent different perspectives on how to evaluate an organization’s financial performance and subsequently have different theoretical implications (Ramaswamy, 2001).

The financial performance is specifically measured using accounting key performance indicators such as return on assets, return on sales, or sales growth, net profit margin (Crabtree & DeBusk, 2008).The advantage of these measurements is their general availability, since every profit oriented organization produces these figures for the yearly financial reporting (Chenhall et al., 2007). This study assessed conclusively whether customer capital had increased or reduced cash inflows of the Small and Medium Enterprises, therefore the study was interested much with qualitative organization performance measures such as customer retention, customer acquisition, post-sale service, and innovation rate to evaluate organization performance of Small and Medium Enterprises in Eldoret Town, Sogomo Estate.

2.2 Customer Capital and Organization Performance

Customer Capital is defined as organizations communications and interactions with Customers and organization's understanding from Customers (Chen, 2008). Customer Capital makes company communicate with own Customers and this way be able to compete with competitors. (Louis & Chyan, 2004). Customer Capital is mainly based on the relationship between the organization and its Customers (Shaari et al., 2010; Tai- Ning et al., 2011). Bontis et al. (2000) describe that Customer Capital is based on the knowledge that embedded in the marketing channels and with Customer relationships that an organization can develop through the course of conducting business. A study by Khalique et al. (2011) illustrated that Customer Capital comprises Customer satisfaction, loyalty and network.

Regarding the importance of Customer Capital, Roos et al. (2001) and Hill and Jones (2001) stipulated that the relationship with customers is very important for organizations because customers buy products or services from the Enterprises. Therefore, customers are the main source for revenue generation of organization. The relationship an organization establishes with its customers constitutes Customer Capital. This includes customer contracts, relationships, loyalty, satisfaction, market share, image, reputation, brands, distribution networks, and channels (Mayo, 2001).

Shariari (2009) investigated the effect of Innovation Capital components on organizational performance in Tehran branches of Saderat Bank. The results revealed a significant effect on organizational performance. Pelham and Wilson (1996) have shown a positive association between Customer Capital and organization performance, Appiah and Adu (1998) have presented that Customer Capital has a positive effect on Small and Medium Enterprises' performance, Verhees and Meulenberg (2004) have suggested that Customer market intelligence positively affects performance, while Kara et al. (2005) indicate that Customer Capital has a significant positive effect on small-sized service retailer performance. Moreover, Chen et al. (2005) indicated that Customer Capital has a positive non significant impact on market value and organization performance.

The study variables were conceptualized as follows;

Independent Variable: Customer Capital **Dependent variable**

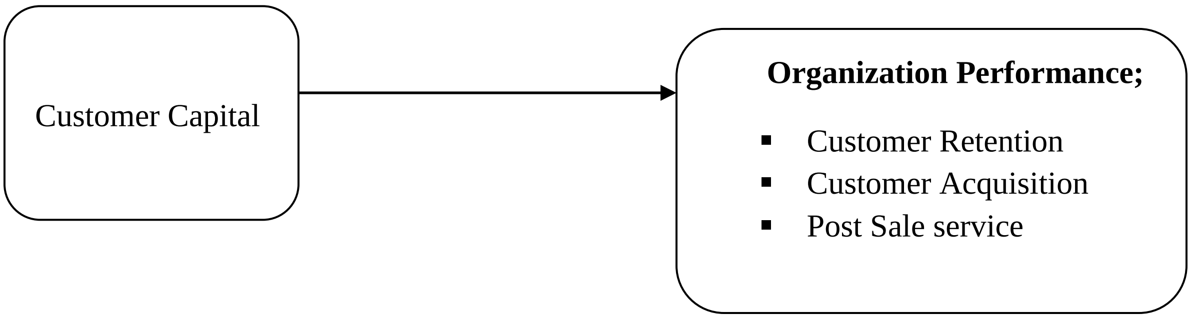

Fig 2.1: Conceptual Frame work for Customer Capital and Organization Performance (Customer Retention, Customer Acquisition, Post Sale Service).

Source: (Author, 2018)

The literature reviewed above led to the following hypothesis statement:

***H_O1:** Customer capital does not significantly affect organizational performance*

3. MATERIALS AND METHODS

Research philosophy can simply be defined as a belief about the way in which data about a phenomenon should be gathered, analyzed and used. For this study, a positivism research philosophy was adopted. The choice for the positivism research philosophy is supported by the principle underlying this philosophy. According to the principles of positivism, the philosophy depends on quantifiable observations that lead themselves to statistical analysis. It is noted that positivism is in accordance with the empiricist view that knowledge stems from human experience. This principle conforms to the nature of the study in that it deals with the quantifiable observations. With regard to the progression of this study, it was guided by the hypotheses in attempt to show the association between independent variable and dependent variable. All these attributes of the study apply for the positivism research philosophy hence its choice as the ideal research philosophy.

The study employed a survey research design. A survey research design sought to collect data from different targeted organizations in an attempt to get the respondents' effects of customer capital on organization performance (Paton, 2002). The target population comprised of the customers of the various Sme's. The study targeted owners of the 150 small and medium enterprises within sogomo estate bringing up a total of 150 respondents. Out of the 150 respondents a sample size of 45 respondents was used in this study computed based on Mugenda & Mugenda (2003) 10 – 30% rule. The questionnaires were used to seek for responses from respondents based on the research objectives. Most of the items adopted a Likert scale (such as 1-strongly disagree, 2-disagree, 3-Neutral, 4-agree, 5-strongly agree). The study used descriptive and inferential analysis techniques to analyze data. The descriptive statistics used were mean and the standard deviations which indicated the average performance of a group or a measure of some variables. The study used simple linear regression and Pearson product moment correlation inferential statistic techniques in data analysis. In this study the results presented is purely inferential statistics only. The linear regression model assumes that there was a linear relationship between the dependent variable and each predictor. This relationship was described in the following formula.

$$\mathbf{Y = \beta_o + \beta_1 x_1 + e}$$

The assumptions of simple linear regression model was: The model assumes Linearity and additivity of the relationship between dependent and independent variables: The expected value of dependent variable is a straight line function of each independent variable, holding the others fixed; The slope of that line does not depend on the values of the other variables; the effects of different independent variables on the expected value of the dependent variable are additive. The model also assumes statistical independence of the errors in particular, no correlation between consecutive errors in the case of time series data; finally, the model assumes homoscedasticity or constant variance of the errors; versus time in the case of time series data, versus the predictions, versus any independent variable and normality of the error distribution.

Where;
X_1 = Customer Capital of the Small and Medium Enterprise
Y is the dependent variable, e = error term; β_0 = the intercept; β_1 = coefficient of X_1. A confidence level of 95% was considered that is a 5% level of significance. R square was used to assess whether the constructs of the independent variable had an effect on the dependent variable. All ethical issues of research were upheld. According to Mugenda & Mugenda (2003) Respondents were informed the purpose of the study and their consent sought prior to their participation. Adequate measures were taken to protect the confidentiality of respondents. The identities of the respondents were protected by using numbers. In addition, authority was sought and obtained in advance from the respective Small and Medium Enterprises which were included in the study in order to authorize for undertaking of data collection.

4. EMPIRICAL RESULTS

Correlations among the study variables are reported in Table 4.1. The levels of correlations among the variables are relatively modest, with most variables exhibiting significant correlations. Since a number of independent variables were relatively correlated, a multi collinearity analysis was conducted using variance inflation factor (VIF). The results indicated that multi collinearity was not a problem since all the variables were within the recommended threshold of 10 (Hair et al., 2006). Pearson Correlations results in Table 4.1 showed that customer capital was positively and significantly associated with organization performance as shown by ($r = .124$, $\rho<0.05$) implying that Customer Capital had 12.4% positive relationship with organization performance.

Table 4.1: Correlations Statistics

		Performance	Capital
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	45	
Capital	Pearson Correlation	.124	1
	Sig. (2-tailed)	.016	
	N	45	45

Source: (Survey data, 2018)

Regression
A simple linear regression model was used to predict organization performance in the study. The prediction was carried out basing on the effect of Customer Capital and organization performance. From Table 4.2, the findings indicated that the model coefficient of determination (adjusted R2) was .007 which indicated that 0.7% total variation of organization performance is explained by Customer Capital.

Table 4.2 Regression Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.124[a]	.015	.007	1.91402	2.717

a. Predictors: (Constant), Capital

b. Dependent Variable: Performance

Source: (Survey data, 2018)
The F-ratio was .675 at 1 degree of freedom which is the variable factor. This represented the effect size of the regression model and was insignificant with a p-value of 0.416 as shown in Table 4.3. The Durbin-Watson's d tests the null hypothesis that the residuals are not linearly auto-correlated. The value of Durbin-Watson was at 2.717 which indicate no autocorrelation among the variables.

Table 4.3: ANOVA STATISTICS

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.471	1	2.471	.675	.416[a]
	Residual	157.529	43	3.663		
	Total	160.000	44			

a. Predictors: (Constant), Capital

b. Dependent Variable: Performance

Source: (Survey data, 2018)

The research findings agrees with Appiah and Adu (1998), Verhees and Meulenberg (2004) that customer capital has a positive effect on Small and Medium Enterprises performance. According to hypothesis statement that, Customer Capital does not significantly affect organizational performance, however, research findings concurs with the hypothesis since customer capital recorded coefficient estimates of $\beta_1 = .039$ (p-value = 0.416 which is more than $\alpha = 0.05$) as shown in Table 4.4, hence the null hypothesis is accepted. The study further agrees with the findings of Chen et al. (2005) that Customer Capital has a positive impact on market value and organization performance although not statistically significant.

Table 4.4: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			95% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	10.347	1.664		6.216	.000	6.990	13.703		
	Capital	.039	.048	.124	.821	.416	-.136	.057	1.000	1.000

a. Dependent Variable: Performance

Source: (Survey data, 2018)

5. CONCLUSIONS

The study concludes that Customer Capital positively affects the performance of Smes at Sogomo Estate. The nature of the effect is linear in that the more Small and Medium Enterprises improves their Customer Capital the more they record better organization performance. Further, Customer Capital explains 0.7% total variation of organization performance of Small and Medium Enterprises. More than 90% of the Smes' used in this study enters into contracts with its Customers. Customer repeat purchase has increased progressively and Customer complaints have reduced progressively across the Sme's at Sogomo Estate. The study also concluded that Customer Capital affects the market share of any Small and Medium Enterprise.

6. RECOMMENDATIONS

Small and Medium Enterprises should work around the clock to ensure they offer good quality products, quality service delivery that results into Customer satisfaction. The management of the Enterprises should generate effective top level, middle and operational level strategies that if implemented builds Customer loyalty. They should invest in networking to reach more Customers at Sogomo Estate and around cities in Kenya. Investment of many resources in Customer Capital should be enhanced as it positively influences organization performance. Business workshops should be organized in order to assist in the sharpening of the management skills of the Entrepreneurs. Small and Medium Enterprises should avoid totally the sale of expired products, overcharge and underweight products. Finally, a further research should be conducted on Structural Capital and how it affects the performance of Smes at Eldoret Central Business District Area.

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