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## **Relationship Marketing: The Mediating Role of Customer Experiences**

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ONLY

## **ABSTRACT**

Relationship marketing has received much attention in the last two decades from both practitioners and researchers as one of the strategies firms can employ to remain competitive. Despite this attention, little empirical research has been performed about relationship-marketing practices among SMEs, especially those in developing countries. However, it is now widely accepted that SMEs play a crucial role in economic development. Consequently, their effectiveness in relating to customers in a sustainable way is considered an important contribution to macro-economic development of industries as well as countries.

This article intends to investigate the relationship-marketing instruments employed by SMEs in Uganda and to suggest practical tools that policy makers in developing countries can use to enhance SME competitiveness. The current study is part of a wider study to investigate the relationship-marketing practices of SMEs in Uganda and to propose a suitable model that can be used to improve their competitiveness.

Data was collected from SME owner-managers, frontline employees, and regular customers to identify (1) the relationship-marketing instruments employed by SMEs and (2) their contribution to SME competitiveness. Findings revealed that the instruments employed vary between different SME sectors and that, in general, those SMEs that were perceived to be more relationship-marketing oriented had higher customer-satisfaction levels compared to those that were not. In particular, the mediating role of customer experiences was confirmed. The findings show that relationship-marketing practices are expected to have a big impact on SME competitiveness in Uganda. The study fills a gap in the existing literature on the relationship-marketing practices of SMEs in developing countries and establishes a foundation for future research in related fields.

**Key Words:** Relationship Marketing, SMEs, Relationship Marketing Instruments, Customer Experiences, Customer Satisfaction

## **1. RELATIONSHIP MARKETING**

Relationship Marketing (RM) is a rather new concept. It includes all those marketing activities a firm may undertake to build successful relationships with its stakeholders (Morgan and Hunt, 1994). Below, we provide our research context, the purpose of the study, our research questions, and the significance of the study.

### **1.1 Research Context**

In the last decades, 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, relationship marketing (RM) has attracted the greatest attention from both academic scholars (Grönroos, 1994; Berry, 1995; Peng and 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).

Despite the benefits that can arise from adopting an RM approach, several researchers (e.g., Hultman and Shaw, 2003; Harwood and Garry, 2006) observe that current research has mainly focused on RM practices in large firms. There is a scarcity of empirical studies about the RM practices of small firms (Simpson et al., 2006). Furthermore, most of the previous debates have been in the context of western culture (Yau et al., 2000). Consequently, RM models developed by the western world may not necessarily apply to Small and Medium Enterprises (SMEs) in different socio-cultural contexts like Uganda. Siu et al. (2003) observe that marketing practices may differ as you move from one environment to another.

We shall further illustrate the above discussion using the following example.

Small restaurants in Uganda face marketing problems such as poor customer care and lack of skilled frontline staff. Similarly, Ugandan travel agencies face marketing problems such as limited market options because of unhealthy competition from unlicensed (briefcase) travel agents. These problems need to be urgently addressed as their presence continues to threaten the survival and development of SMEs in these

sectors. However, because the problems are unique to SMEs, especially to those in the developing world, any marketing policy intervention that aims at successfully addressing them should not be based on marketing models that are large-firm specific, but rather on small-firm marketing models that have been tested in developing countries.

The gap between small-firm marketing and large-firm marketing is an important gap to address as several authors (e.g., Hultman and Shaw, 2003; Walsh and Lipinski, 2009) have noted the crucial role of SMEs in the world economy. In most developing countries, SMEs are means of accelerating economic growth and generating employment. In Uganda, SMEs create 150,000 jobs per year and contribute to approximately 30% of the Gross Domestic Product (GDP) of the country (<http://sme.gatsbyuganda.com/?main/cont/ugsmesector> - website accessed on 4<sup>th</sup> September 2011). 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 {SME} 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 of Relationship Marketing Instruments (RMIs) that can enable SMEs to succeed in developing customer relationships (Boag and Dastmalchian, 1988 as cited in Davis, 1997, p.32).

## **1.2 Purpose of the study**

This study intends to address the gap between current RM practice and the demand for more advanced approaches by investigating the RM instruments (RMIs) employed by SMEs in the service sector in Uganda and proposing suitable actions that can be taken to improve their competitiveness. It is worth noting that though the marketing function is underdeveloped in SMEs compared to large firms (Walsh and Lipinski, 2009), it is essential for the SME growth and survival (Hogarth-Scott et al., 1996; O'Dwyer et al., 2009).

### **1.3 Research Questions**

In this study, we focus on the mediating role of customer experiences. To obtain appropriate insight, we start by investigating the RMIs and how they are employed (RQ1 and RQ2). After answering our main research question (RQ3), we examine the possible differences in applying RMIs by SMEs (RQ4). So, we address the following four research questions.

RQ1: What RMIs are employed by SMEs in the service sector in Uganda?

RQ2: How do the employed RMIs affect customer satisfaction among these SMEs?

RQ3: Do customer experiences play a mediating role between RMIs and customer satisfaction?

RQ4: Are there possible differences in the way SMEs in different service sectors apply RMIs in their operations?

### **1.4 Significance of the Study**

The significance of this study is four fold in that the findings from the study will

- 1) offer practitioners better tools for relating to their customers;
- 2) assist practitioners to implement successfully RMIs in SME operations;
- 3) enable decision makers to incorporate the RM concept into the activities of SME support institutions at the national level;
- 4) contribute to the body of knowledge on RM practices of SMEs in developing countries and thus form a foundation for future research in related fields.

## **2. LITERATURE REVIEW**

Over the last decades, RM has received significant attention from both academics (e.g., Gummesson, 1987; Grönroos, 1994) and practitioners. Business environments are rapidly changing, customers are more demanding, and developments in IT are taking place at a rapid speed, all of which have made firms practise RM to remain competitive (Berry, 1995; Parvatiyar and Sheth, 1999). Managers are increasingly aware of the

potential benefits that can arise from implementing RM in a company's marketing operations (Reichheld and Sasser, 1990). Thus, implementing RM seems to have become more of a necessity than a choice (Constatin and Simona, n.d.<sup>1</sup>).

Despite the wide publicity received by RM (e.g., Grönroos, 1994; Berry, 1995), it still has no accepted definition (Harwood and Garry, 2006). In Berry (1995, p. 236)'s article, it is defined as "attracting, maintaining and, in multi-service organisations, enhancing customer relationships".

Grönroos (1990) emphasized the profit element of RM. Morgan and Hunt (1994) stretched the concept further by including all those marketing activities a firm undertakes to build successful relationships with its stakeholders. Despite the differences in conceptualization, all definitions suggest that RM involves the building of long-term, mutual relationships between a company and its customers.

Though RM appears to be a new concept, it is in fact the successful continuation of an established concept (Berry, 1995; Harrigan et al., 2011). Hultman and Shaw (2003) observe that SMEs especially those in the service sector have always engaged in long-term relationships with loyal customers. RM is therefore not a new practice in SMEs but rather a concept that has not been widely understood among these firms.

The success of any RM strategy largely depends on the practical design of different RMIs (Wel and Bojei, 2009). Several scholars have proposed various RMIs that can be used to implement RM. Berry and Parasuraman (1991) suggested three levels at which firms could practise RM, namely level one focusing on the financial bond as the major RMI, level two mainly focusing on the social bond, and level three mainly focusing on the structural bond. Wel and Bojei (2009) proposed that RM should be practised at the first two levels to build and enhance customer relationships. Later researchers (e.g., De Wulf and Odekerken-Schröder, 2003; Peng and Wang, 2006) proposed the implementation of different RMIs for RM practice. There is a general consensus, however, that using multiple RMIs can provide a strong foundation for RM.

It is widely assumed that the suitability of which RMI to implement will vary from one industry to another and from one cultural context to another. Osuagwu (2004, p.114)

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<sup>1</sup> n.d. means no date

observes in his study on Nigerian companies that “...marketing practices and strategies are situation specific...”. Therefore, there is a need to consider the broader context within which Ugandan SMEs operate before suggesting desirable RMIs for them. Customer orientation, service quality, interpersonal communication, and tangible rewards are considered to be the most appropriate RMIs for implementation among Ugandan SMEs. Our decision to consider them for further research was supported by insights from various authors (see below).

Customer orientation is one of the key principles of RM (Ravald and Grönroos, 1996; Leverin and Liljander, 2006). Results from a preliminary exploratory interview also indicated that customer care was one of the relational tools customers valued most. Thus, it was investigated in this study.

Service quality plays a major role in customer retention (see, e.g., Zeithaml et al., 1996; Peng and Wang, 2006). Parasuraman et al. (1988) also observe that service quality is important for all firms, regardless of size. It is therefore one of the RMIs considered in this research.

A good interactive process is critical for long-term customer relationships (Grönroos, 1995; Finne and Grönroos, 2009). Hogarth-Scott et al. (1996) observe that interpersonal relations are important in SMEs. So, interpersonal communication was also investigated in this study.

Murray (1994) already argues that small firms can use tangible rewards as competitive marketing tools. Berry (1995) supported this argument. We therefore investigated tangible rewards in this research.

### **3. CONCEPTUAL FRAMEWORK AND DEVELOPMENT OF PROPOSITIONS**

The conceptual framework is based on research contributions from earlier authors (e.g., De Wulf et al., 2001; De Wulf and Odekerken-Schröder, 2003), the researcher’s personal experiences, and on feedback received from a preliminary interview. Below, we discuss the relation between the four RMIs (Subsections 3.1 to 3.4) and customer

experiences and customer satisfaction (Subsection 3.5). A proposed conceptual model is presented in subsection 3.6.

### **3.1 Customer Orientation**

Customer orientation means focusing on meeting the customers' needs. A firm that is customer-oriented has a special focus on its customers and markets (Appiah-Adu and Singh, 1998). As a direct consequence, the top management implements activities that ensure that the customers' needs are quickly responded to (Boles et al., 2001). Customer orientation is essential for customer satisfaction especially in service organizations (Korunka et al., 2007).

Customer orientation among SMEs centers on understanding the customers' needs and ensuring satisfaction with the service (Reijonen, 2010). A major challenge that most Ugandan SMEs face is poor customer orientation (<http://www.enterprise.co.ug/sme.htm> - website accessed on 2/11/2010). We expect SMEs that are customer oriented to create more positive experiences for their customers and to have more satisfied customers. Appiah-Adu and Singh (1998) already discovered that SMEs that were more customer oriented had a higher sales growth compared to their less oriented counterparts and were more likely to achieve customer satisfaction. Therefore, we formulate the following two propositions (to be investigated later).

**P1a:** Customer orientation is positively related to customer experiences among SMEs in Uganda.

**P1b:** Customer orientation is positively related to customer satisfaction among SMEs in Uganda.

### **3.2 Service Quality**

Service quality has been defined by different authors (see, e.g., Parasuraman et al., 1988; Peng and Wang, 2006). In this study, we regard it as quality in the eyes of the "beholder" or customer. Service quality favourably influences behaviour which leads to customer retention (Zeithaml et al., 1996; Peng and Wang, 2006). According to

Parasuraman et al. (1988), service quality consists of five dimensions, namely tangibles, reliability, responsiveness, assurance, and empathy.

Since the Ugandan SMEs offer similar products on the market, the service quality is critical for creating positive customer experiences and customer satisfaction. Schmitt (2003) argued that positive experiences make consumers naturally satisfied with the service. However, previous studies (e.g., Yu et al., 2006) also reported a positive link between service quality and customer satisfaction. So, we formulate the following two propositions (to be investigated later).

**P2a:** Service quality is positively related to customer experiences among SMEs in Uganda.

**P2b:** Service quality is positively related to customer satisfaction among SMEs in Uganda.

### **3.3 Interpersonal Communication**

De Wulf et al. (2003, p.250) defined interpersonal communication as “a consumer’s perception of the extent to which a retailer interacts with its regular customers in a warm and personal way”. Two-way communications build trust in the service provided (Berry, 1995; Zeffane et al. 2011) and increase customer loyalty (Guttek et al., 2002). Interpersonal communication is important for the success of SMEs. De Wulf et al. (2001, p.47) observe that “the survival of small, independent stores is often dependent on personal service and knowledge of consumer preferences”. Horgath-Scott (1996) point out that SMEs have a greater advantage in developing interpersonal relations than their large counterparts because they are closer to their customers. O’Dwyer et al. (2009) also add to this voice by stating that closeness to customers gives SMEs their competitive advantage. Moreover, Harrigan et al. (2011) observe that SMEs regard face-to-face contacts as essential for building customer relationships.

In Uganda, people value social interactions because of the cultural background that promotes extended families. An average customer is likely to associate positive experiences with two-way interactions and to be satisfied with an SME that promotes this kind of interaction. So, we formulate the following two propositions (to be investigated later).

**P3a:** Interpersonal communication is positively related to customer experiences among SMEs in Uganda.

**P3b:** Interpersonal communication is positively related to customer satisfaction among SMEs in Uganda.

### **3.4 Tangible Rewards**

De Wulf et al. (2001, p.36) define tangible rewards as “a consumer’s perception of the extent to which a retailer offers tangible benefits such as pricing or gift incentives to its regular customers in return for their loyalty”. Various scholars (e.g., Ganesan, 1994; De Wulf and Odekerken-Schröder, 2003) have illustrated the role of tangible rewards in a firm’s marketing strategy.

Most Ugandan SMEs cannot afford to offer their customers the tangible rewards that big firms offer, e.g., loyalty cards. However, they can offer, e.g., small price discounts to their regular customers. Because of the generally low-income<sup>2</sup> levels in the country, we expect customers to associate tangible rewards with positive experiences and to be more satisfied with SMEs that offer them tangible rewards. Therefore, we formulate the following two propositions (to be investigated later).

**P4a:** Tangible rewards are positively related to customer experiences among SMEs in Uganda.

**P4b:** Tangible rewards are positively related to customer satisfaction among SMEs in Uganda.

### **3.5 Customer Experiences and Customer Satisfaction**

Today’s consumers are looking for service providers who can consistently provide them with unique and valuable experiences (Smith, 2010). Schmitt (1999, p.60) defined experiences as “private events that occur in response to some stimulation”. Pine and Gilmore (1999) defined them as events that engage customers in a personal way. Haeckel et al. (2003) observed that consumers often form experiences of the critical

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<sup>2</sup> In 2009, the poverty headcount ratio at national poverty line (in % of population) was 24.5% (<http://data.worldbank.org/country/uganda> - accessed on 26/4/2011).

events during service delivery. Customer experiences can produce emotional responses which influence customer satisfaction (Seybold, 2005; Barnes, 2006).

So, we formulate the following proposition (to be investigated later).

**P5a:** Customer experiences are positively related to customer satisfaction among SMEs in Uganda.

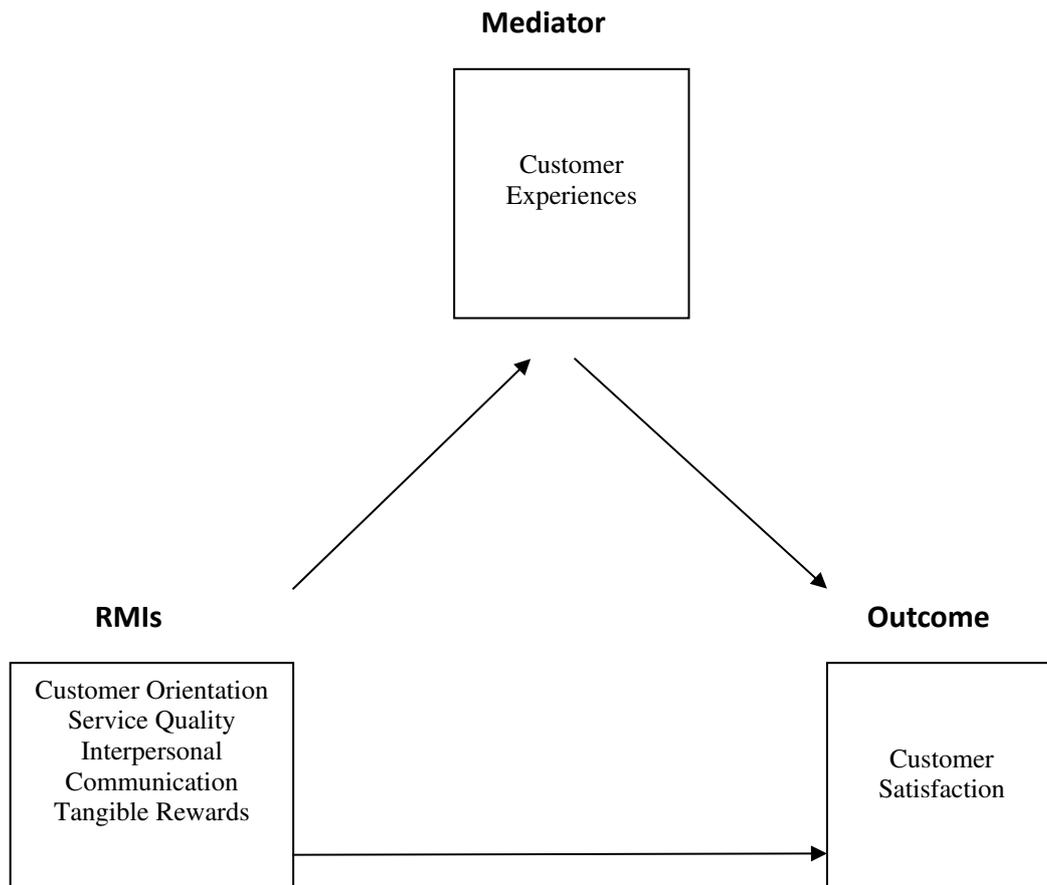
Schmitt (2003) argues that experiences are different from satisfaction and that satisfaction will occur naturally if managers invest in customer experiences. We therefore expect customer experiences to mediate the relationship between RMIs and customer satisfaction. So, we formulate the following proposition (to be investigated later).

**P5b:** Customer experiences facilitate the relationship between RMIs and customer satisfaction.

Customer satisfaction has been defined by several authors (see, e.g., De Wulf et al., 2003; Kotler, 2003). The concept measures how well each service transaction meets a customer's expectations (Bowen and Shoemaker, 2003). The extent of customer satisfaction is therefore linked to a consumer's experiences in each service encounter (Schmitt, 2003). SMEs need to create satisfaction for their services in order to develop long-term customer relationships.

### **3.6 The Conceptual Model**

The proposed conceptual model consists of three elements, viz. (1) the four RMIs, namely customer orientation, service quality, interpersonal communication, and tangible rewards, (2) the outcome which is customer satisfaction, and (3) the mediator which is customer experiences. The proposed relationships between these elements are shown in Figure 1.



**Figure 1:** Proposed Conceptual Model for RMI Implementation among SMEs in Uganda

#### 4. METHODOLOGY

In our research, we adopted a mixed strategy to be able to triangulate the outcomes for their validity (Saunders et al., 2009). Siu and Kirby (1999) and Hill (2001) also recommend this approach for marketing research in SMEs.

The case-study data was collected with the aim to gain a deeper understanding about SME activities and also to enable triangulation (Yin, 2009). Data was collected using (1) semi-structured interviews, (2) observations, and (3) a few deep preliminary interviews with SMEs within the service sector. Here, we remark that the service firms are ideal for implementing RM strategies (cf. Grönroos, 1995; Palmatier et al., 2006). In total, data was collected from 5 restaurants and 2 travel agencies, all located in Kampala<sup>3</sup>.

<sup>3</sup> Kampala is the capital city of Uganda.

The key informants were the SME owner-managers, frontline employees, and regular customers. In total, we received 414 questionnaires, conducted about 25 interviews, and made several observations on the selected SMEs throughout the data collection period.

Survey data was collected using a structured questionnaire that employed the four-point Likert scale (scaling 1, 2, 3, and 4). The questionnaire was divided into four sections. The first section focused on the RMIs employed by SMEs in Uganda. The second section focused on Customer Experiences which were subdivided into Importance of Customer Experiences, Level of Satisfaction with Customer Experiences, and Intensity of Customer Experiences. The third section focused on customer satisfaction. The final section focused on respondents' bio-data. The option of "undecided" was omitted in all the scales to eliminate social desirability from the responses (Saunders et al., 2009).

The questionnaire was designed after conducting a preliminary interview with a small group of SME owner-managers in the service sector in Uganda. Thereafter, it was presented to four marketing lecturers to check its validity. Before the final study, the revised questionnaire was pre-tested on a small group of respondents from one restaurant and one travel agency to enhance its validity. All participants were selected using purposive sampling to ensure that we obtained responses to our research questions (Saunders et al., 2009). Out of the 500 questionnaires that were distributed to restaurants, 312 were returned, giving a response rate of 62.4%. Out of the 133 questionnaires that were distributed to travel agencies, 102 were returned, giving a response rate of 76.7%.

Data from the questionnaires was analysed using descriptive statistics, e.g., frequencies, and inferential statistics, e.g., correlations, regressions, T-tests, and ANOVA tests. Data from the interviews and observation was analysed using pattern matching and the use of matrix charts.

To increase reliability, qualitative data was stored in a case study database using a qualitative data software program called NVivo. Quantitative data was tested for reliability using Cronbach's coefficient alpha (Sekaran, 1992).

## **5. RESULTS FROM RESTAURANTS**

Below, we analyse the results of our 312 questionnaires returned from the 500 sent out. We calculate the effect of the RMIs and investigate the validity of the propositions. Finally, we focus on the role of customer experiences as mediators for the measured effects.

### **5.1 Respondent Profile**

The respondent profile is as follows: 62.8% of the respondents were male while 37.2% were female. 41.3% of respondents were in the 20-30 age group, while 38.8% were in the 31-40 age group. 66% of respondents had obtained a degree and 71.5% were employed in an organisation. 44.6% of respondents had a monthly income of over 1,000,000 Uganda Shillings<sup>4</sup>.

### **5.2 RMIs Employed by the Restaurants**

The descriptive statistics show that service quality (mean value = 2.68) and interpersonal communication (mean value = 2.34) were the most employed RMIs in the restaurants that were studied. Customer orientation (mean value = 2.34) and tangible rewards (mean value = 1.41) were the least employed ones (See Table 1). In the case of service quality, the variable "The restaurant is neat" had the highest mean of 3.12 and in the case of interpersonal communication, the variable "Employees listen carefully when I am placing my order" had the highest mean of 2.84. In the case of customer orientation, the variable "Employees frequently ask me to provide feedback about the quality of the service" had the lowest mean of 1.44 while in the case of tangible rewards, the variable "This restaurant offers me small gifts like calendars, key rings and diaries" had a rather low mean of 1.16. Most customers who were interviewed said that they had never received any gifts from the restaurants.

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<sup>4</sup> As at 6<sup>th</sup> September 2011, 1 Euro = 4,025 Uganda Shillings.

**Table 1: RMIs Employed by the Restaurants (N = 312)**

RMI	Mean	Standard Deviation	Strongly Disagree	Disagree	Agree	Strongly Agree
Customer Orientation*	2.34	0.59	77 (24.7%)	176 (56.4%)	52 (16.7%)	3 (1%)
Service Quality**	2.68	0.50	24 (7.7%)	191 (61.3%)	72 (23%)	1 (0.3%)
Interpersonal Communication***	2.52	0.62	53 (17.1%)	170 (54.6%)	80 (25.7%)	6 (1.9%)
Tangible Rewards	1.41	0.54	250 (80%)	56 (18%)	3 (1%)	2 (1%)

\* Missing four responses

\*\* Missing twenty four responses

\*\*\* Missing three responses

### 5.3 The Effect of RMIs on Customer Experiences

With respect to the effect of the RMIs on customer experiences, we use a correlation matrix (See Table 2). From the table, we see that all the RMIs are significantly related to customer experiences. Moreover, the correlations show that **P1a**, **P2a**, and **P3a** are all strongly supported. **P4a** is weakly supported. So, we disregarded tangible rewards as a candidate predictor of customer experiences (See Table 3).

**Table 2: Correlation Matrix between the variables for the Restaurants; N = 312**

Variable	Mean	Standard Deviation	1	2	3	4	5	6
<b>1 Customer Orientation</b>	2.34	0.59	<b>(0.804)</b>					
<b>2 Service Quality</b>	2.68	0.50	0.670**	<b>(0.819)</b>				
<b>3 Interpersonal Communication</b>	2.52	0.62	0.681**	0.769**	<b>(0.806)</b>			
<b>4 Tangible Rewards</b>	1.41	0.54	0.255**	0.239**	0.210**	<b>(0.366)*</b>		
<b>5 Customer Experiences</b>	2.84	0.34	0.563**	0.633**	0.616**	0.195**	<b>(0.918)</b>	
<b>6 Customer Satisfaction</b>	2.68	0.38	0.572**	0.650**	0.607**	0.271**	0.573**	<b>(0.885)</b>

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### **Note**

N stands for the number of regular customers who filled in our questionnaires.

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

The reliability coefficient (Cronbach's alpha) for each variable is shown along the diagonal in brackets and **bold** print.

\*Because tangible rewards had a low Cronbach's alpha, the results were supplemented with data from interviews and observations.

All the RMIs except tangible rewards were significant predictors of customer experiences (See Table 3). Service quality explained the highest variation in customer experiences while customer orientation explained the least variation.

**Table 3: The Effect of RMIs on Customer Experiences**

<b>Variable</b>	<b>Beta</b>	<b>t Value</b>	<b>P Value</b>
Customer Orientation	0.155	2.258	0.025*
Service Quality	0.348	4.512	0.000***
Interpersonal Communication	0.253	3.120	0.002**

\*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001

### **5.4 The Effect of Customer Experiences on Customer Satisfaction**

From Table 2, we see that customer experiences were significantly related to customer satisfaction among the restaurants. Thus, **P5a** is strongly supported. Furthermore, customer experiences significantly predicted customer satisfaction among the restaurants (See Table 4). The level of satisfaction with customer experiences and the intensity of customer experiences are the components under customer experiences that significantly predicted customer satisfaction (See Table 5), with the intensity of customer experiences having a higher variation. Yet, the importance of customer experiences was not a significant predictor.

**Table 4: The Effect of Customer Experiences on Customer Satisfaction**

<b>Variable</b>	<b>Beta</b>	<b>t Value</b>	<b>P Value</b>
Customer Experiences	0.573	11.073	0.000***

\*\*\*p < 0.001

**Table 5: The Effect of the different Components of Customer Experiences on Customer Satisfaction**

<b>Component</b>	<b>Beta</b>	<b>t Value</b>	<b>P Value</b>
Importance of Customer Experiences	0.048	0.937	0.350
Level of Satisfaction with Customer Experiences	0.225	2.853	0.005**
Intensity of Customer Experiences	0.433	5.490	0.000***

\*\*p < 0.01; \*\*\*p < 0.001

### 5.5 The Effect of RMIs on Customer Satisfaction

From Table 2, we see that all the RMIs were significantly related to customer satisfaction among the restaurants. Thus, the results strongly support **P1b**, **P2b**, and **P3b** and lend weak support to **P4b**. All the RMIs, with the exception of tangible rewards, significantly predicted customer satisfaction (See Table 6).

**Table 6: The Effect of RMIs on Customer Satisfaction**

<b>Variable</b>	<b>Beta</b>	<b>t Value</b>	<b>P Value</b>
Customer Orientation	0.210	3.209	0.001**
Service Quality	0.384	5.181	0.000***
Interpersonal Communication	0.170	2.238	0.026*
Tangible Rewards	0.090	1.955	0.052

\*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001

### 5.6 Mediating Effects

To test for mediating effects, we used Baron and Kenny's (1986) three-step regression analysis procedure (See Table 7). The results indicate that customer experiences partially mediated the relationship between (a) all the RMIs and (b) customer satisfaction among the restaurants. Thus, **P5b** is partly supported.

**Table 7: Results of Mediated Effects of Customer Satisfaction on RMIs among the Restaurants**

<b>Step 1: Independent Variables and Mediator Regression</b>			
<b>Independent Variable (RMI)</b>	<b>Customer Experiences</b>		
	<b>B</b>	<b>t value</b>	<b>P value</b>
Customer Orientation	0.32	10.96	0.000***
Service Quality	0.43	12.94	0.000***
Interpersonal Communication	0.33	12.55	0.000***
Tangible Rewards	0.12	3.22	0.001**
<b>Step 2: Independent Variables and Dependent Variables Regression</b>			
<b>Independent Variable (RMI)</b>	<b>Customer Satisfaction</b>		
	<b>B</b>	<b>t value</b>	<b>P value</b>
Customer Orientation	0.36	11.75	0.000***
Service Quality	0.49	13.99	0.000***
Interpersonal Communication	0.37	12.89	0.000***
Tangible Rewards	0.19	4.76	0.000***
<b>Step 3: Independent Variables, Mediator and Dependent Variables Regression</b>			
<b>Mediator in parentheses</b>	<b>Customer Satisfaction</b>		
	<b>B</b>	<b>t value</b>	<b>P value</b>
Customer Orientation	0.22	5.86	0.000***
(Customer Experiences)	(0.42)	(6.32)	(0.000)***
Service Quality	0.38	8.17	0.000***
(Customer Experiences)	(0.30)	(4.36)	(0.000)***
Interpersonal Communication	0.27	7.58	0.000***
(Customer Experiences)	(0.34)	(5.04)	(0.000)***
Tangible Rewards	0.10	2.67	0.008**
(Customer Experiences)	(0.61)	(10.46)	(0.000)***
*p < 0.05, **p < 0.01, ***p < 0.001			

## **5.7 Differences among the Restaurants Studied**

A remaining question to be answered was to what extent the restaurants in Uganda differed in the application of RMIs in their operations. ANOVA tests show that there were significant differences in the way the restaurants applied RMIs in their operations ( $p < 0.001$ ) except in the case of tangible rewards ( $p = 0.086$ ). Furthermore, we observe that those restaurants that were perceived to have employed more RMIs in their operations had higher customer satisfaction levels compared to those that were not perceived as such.

## **6. RESULTS FROM TRAVEL AGENCIES**

Analogously to the research among the restaurants, we performed our investigations on the travel agencies (Please, note that we have only two but the number of respondents is acceptable). Again, we calculate the effect of the RMIs, investigate the validity of the propositions, and focus on the role of customer experiences a mediator for the measured effects.

### **6.1 Respondent Profile**

The respondent profile is as follows: 44.1% of the respondents were male while 55.9% were female. 48% of respondents were in the 41-50 age group while 38.2% were in the 31-40 age group. 42.2% of respondents had obtained a degree and another 42.2% a Diploma. 53.9% were self employed. 40.2% of respondents had a monthly income of over 2,000,000 Shillings<sup>5</sup>.

### **6.2 RMIs Employed by the Travel Agencies**

The descriptive statistics show that customer orientation (mean value = 3.05) and interpersonal communication (mean value = 3.03) were the most employed RMIs in Ugandan travel agencies. Service quality (mean value = 2.47) and tangible rewards (mean value = 2.02) were the least employed RMIs (See Table 8). In the case of customer orientation, the variable "Employees know how to handle my complaints" had the highest mean of 3.08 and in the case of interpersonal communication, the

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<sup>5</sup> As at 6<sup>th</sup> September 2011, 1 Euro = 4,025 Uganda Shillings.

variable “Employees listen carefully when I am making the booking” had the highest mean of 3.17. In the case of service quality, the variable “Employees have name tags” had the lowest mean of 1.11 while in the case of tangible rewards, the variable “This agency offers me small gifts like calendars, key rings and diaries” had the lowest mean of 1.21.

**Table 8: RMIs Employed by the Travel Agencies (N = 102)**

RMI	Mean	Standard Deviation	Strongly Disagree	Disagree	Agree	Strongly Agree
Customer Orientation*	3.05	0.30	-	16 (15.7%)	80 (78.4%)	4 (3.9%)
Service Quality**	2.47	0.34	4 (4%)	77 (75.4%)	9 (8.9%)	-
Interpersonal Communication***	3.03	0.29	-	16 (15.8%)	77 (75.5%)	3 (2.9%)
Tangible Rewards****	2.02	0.42	26 (25.5%)	66 (64.8%)	5 (4.9%)	-

\* Missing two responses

\*\* Missing twelve responses

\*\*\* Missing six responses

\*\*\*\* Missing five responses

### 6.3 The Effect of RMIs on Customer Experiences

With respect to the effect of the RMIs on customer experiences, we use a correlation matrix (See Table 9). From the table, we see that service quality and interpersonal communication are both significantly related to customer experiences. Moreover, the correlations show that **P2a** and **P3a** are both supported. Customer orientation and tangible rewards were not significantly related to customer experiences. Thus, **P1a** and **P4a** are not supported at all. So we disregarded them as candidate predictors of customer experiences (See Table 10). Interpersonal communication was the only RMI that significantly predicted customer experiences. Service quality was not a significant predictor.

**Table 9: Correlation Matrix between the Variables for the Travel Agencies; N = 102**

Variable	Mean	Standard Deviation	1	2	3	4	5	6
<b>1 Customer Orientation</b>	3.05	0.30	<b>(0.806)</b>					
<b>2 Service Quality</b>	2.47	0.34	0.530**	<b>(0.807)</b>				
<b>3 Interpersonal Communication</b>	3.03	0.28	0.448**	0.442**	<b>(0.775)</b>			
<b>4 Tangible Rewards</b>	2.02	0.42	0.181	0.099	0.368**	<b>(0.260)*</b>		
<b>5 Customer Experiences</b>	2.91	0.16	0.179	0.275**	0.526**	0.084	<b>(0.779)</b>	
<b>6 Customer Satisfaction</b>	3.01	0.25	0.435**	0.298**	0.661**	0.498**	0.473**	<b>(0.861)</b>

**Note:**

N represents the number of regular customers who filled in our questionnaires

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

The reliability coefficient (Cronbach's alpha) for each variable is shown along the diagonal in brackets and **bold** print.

\*Because tangible rewards had a low Cronbach's alpha, the results were supplemented with data from interviews and observations.

**Table 10: The Effect of RMIs on Customer Experiences**

Variable	Beta	t Value	P Value
Service Quality	0.110	0.886	0.379
Interpersonal Communication	0.391	3.660	0.000***

\*\*\*p < 0.001

#### 6.4 The Effect of Customer Experiences on Customer Satisfaction

From Table 9, we see that customer experiences are significantly related to customer satisfaction. We may state that **P5a** is moderately supported. We further observe that customer experiences significantly predict customer satisfaction (See Table 11). Moreover, the level of satisfaction with customer experiences is the only component under customer experiences that is a significant predictor of customer satisfaction (See Table 12). Yet, the other two components, viz. the importance of customer experiences and the intensity of customer experiences were both not significant predictors.

**Table 11: The Effect of Customer Experiences on Customer Satisfaction**

Variable	Beta	t Value	P Value
Customer Experiences	0.473	4.738	0.000***

\*\*\* $p < 0.001$

**Table 12: The Effect of the Components of Customer Experiences on Customer Satisfaction**

Component	Beta	t Value	P Value
Importance of Customer Experiences	0.141	1.498	0.138
Level of Satisfaction with Customer Experiences	0.552	5.845	0.000***
Intensity of Customer Experiences	0.061	0.419	0.676

\*\*\* $p < 0.001$

## 6.5 The Effect of RMIs on Customer Satisfaction

From Table 9, we see that each RMI has a significant relationship with customer satisfaction. Thus **P1b**, **P2b**, **P3b**, and **P4b** are all supported. Furthermore, we observe that all the RMIs with the exception of service quality significantly predicted customer satisfaction among the travel agencies (See Table 13). Interpersonal communication had the greatest variation.

**Table 13: The Effect of the RMIs on Customer Satisfaction**

Variable	Beta	t Value	P Value
Customer Orientation	0.245	2.759	0.007**
Service Quality	-0.066	-0.636	0.527
Interpersonal Communication	0.430	4.595	0.000***
Tangible Rewards	0.247	2.849	0.006**

\*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001

## 6.6 Mediating Effects

To test for mediating effects, we used the same method in Section 5.6. Here, customer experiences partially mediated the relationship between service quality and customer satisfaction among travel agencies in Uganda (See Table 14). There was no support for mediation between the rest of the RMIs and customer satisfaction. Thus **P5b** is only partly supported.

**Table 14:** Results of Mediated Effects of Customer Satisfaction on RMIs among the Travel Agencies

<b>Step 1: Independent Variables and Mediator Regression</b>			
<b>Independent Variable (RMI)</b>	Customer Experiences		
	<b>B</b>	<b>t Value</b>	<b>P Value</b>
Customer Orientation	0.11	1.64	0.116
Service Quality	0.12	2.45	0.015*
Interpersonal Communication	0.31	5.50	0.000***
Tangible Rewards	0.03	0.75	0.456
<b>Step 2: Independent Variables and Dependent Variables Regression</b>			
<b>Independent Variable (RMI)</b>	Customer Satisfaction		
	<b>B</b>	<b>t Value</b>	<b>P Value</b>
Customer Orientation	0.37	4.66	0.000***
Service Quality	0.20	2.89	0.005**
Interpersonal Communication	0.60	8.41	0.000***
Tangible Rewards	0.30	5.45	0.000***
<b>Step 3: Independent Variables, Mediator and Dependent Variables Regression</b>			
<b>Mediator in parentheses</b>	Customer Satisfaction		
	<b>B</b>	<b>t Value</b>	<b>P Value</b>
Customer Orientation	0.19	2.35	0.022*
(Customer Experiences)	(0.59)	(4.57)	(0.000)***
Service Quality	0.17	2.69	0.009**
(Customer Experiences)	(0.46)	(3.18)	(0.002)**
Interpersonal Communication	0.43	5.79	0.000***
(Customer Experiences)	(0.25)	(1.98)	(0.052)
Tangible Rewards	0.20	4.27	0.000***
(Customer Experiences)	(0.52)	(4.23)	(0.000)***
*p < 0.05, **p < 0.01, ***p < 0.001			

### **6.7 Differences between the Travel Agencies Studied**

In order to determine if SMEs differed in the way they applied RMIs in their operations, we performed T-tests. Indeed, the results show that there were significant differences in terms of customer orientation ( $p = 0.018$ ) between the two travel agencies. There were, however, no significant differences in the way the two travel agencies applied the rest of the RMIs. Furthermore, there was no evidence to suggest that the travel agency that was perceived to have employed more RMIs had more satisfied customers compared to its counterpart. A possible explanation for the results could be that most SMEs in this sector offer similar services compared to those of their competitors because of the prevailing stiff competition. As a result, customers may not perceive any real differences between the RM strategies employed by competing SMEs.

## **7. DISCUSSION OF THE FINDINGS**

This study illustrates that the use of RMIs varies across different SME sectors in Uganda. The study also illustrates that even within the same sector, there are differences in the way SMEs implement RMIs in their operations. Odekerken-Schröder et al. (2004) empirically arrived at the conclusion that RM practices are context-specific. With that conclusion, they lend support to our findings.

The study also shows the influence that RMIs can have on both customer experiences and customer satisfaction and draws attention to those RMIs that can have a significant impact on SME competitiveness. In the restaurant sector, service quality had the highest impact on SMEs. Our findings are supported by earlier researchers such as Zeithaml et al. (1996), and Peng and Wang (2006), more recently. Tangible rewards did not have a significant impact, probably because competitors can easily imitate them. This was already concluded by Berry (1995) and De Wulf et al. (2001). In the travel-agency sector, interpersonal communication had the highest impact on SMEs. Recently, Wel and Bojei (2009) note the importance customers attach to personal communication, e.g., by being given regular updates. Service quality failed to predict customer satisfaction probably because it is best evaluated when one physically

interacts with the service provider. In our study, however, we observed that most clients dealt with the travel agencies on the phone.

The study further reveals the role of customer experiences in influencing customer satisfaction among Ugandan SMEs. Our findings obtain support from Schmitt (2003) and Barnes (2006). In both sectors, importance of customer experiences did not have a significant impact on SMEs probably because customers tend to keep only a mental record of their experiences rather than how important a particular experience is. According to Amato-McCoy (2008), customers tend to remember not the service but how it was delivered.

The study also illustrates that customer experiences partially mediate the relationship between RMIs and customer satisfaction in both SME sectors. Our findings are to some extent supported by Schmitt (2003) and Seybold (2005).

## **8. CONCLUSIONS**

We distinguish between two types of conclusions, which we call theoretical implications and managerial implications.

The study has the following theoretical implications.

- (1) It has contributed to bridging the gap between available theory and the RM practices of SMEs in the developing world.
- (2) The study has also contributed to the debate on the suitability of using western models to plan for the RM practices of SMEs in the developing world.

The study has the following managerial implications.

- (1) Ugandan SME policy makers should recognize the differences in RM practices across different sectors while planning for policy interventions to boost SME competitiveness.
- (2) SME owner-managers should concentrate on those RMIs that are likely to foster customer satisfaction and relationship development. This will enable

SMEs not only to become more competitive but also to remain competitive. Tangible rewards should be used cautiously as they cannot guarantee SME competitiveness in the long-run. Successful implementation of the chosen RMIs will require SME owner-managers to undertake certain activities, e.g., training service staff in solving customer problems and rewarding employees who excel in pleasing the customer.

- (3) SME owner-managers should match the chosen RMIs with appropriate experiences in order to win customer satisfaction. This calls for improving the appearance of SME premises, training frontline staff to enable them to create memorable experiences for customers and involving all employees in the process of delivering quality service to the customer.

This study was restricted to SMEs operating in two sectors only. Therefore, the results from the study may not be easily generalized to SMEs in other sectors. We envisage future research to examine more sectors that are SME dominated to validate the RMIs in these sectors.

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