CUSTOMER LOYALTY AND QUALITY AUDIT SERVICE: THE CASE OF COMPANIES LISTED IN NAIROBI STOCK EXCHANGE (NSE)

BY

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STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other College, Institution or University other than the United State International University – Africa academic credit.

Signed ______________________ Date ____________

This project paper has been presented for examination with my approval as the appointed supervisor. Dr. Martin Ogutu, Senior Lecturer and MBA Coordinator, Faculty of Commerce, University of Nairobi.

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DEDICATION

To my late mother, Esther Wangui Kamau, who loved me and instilled in me the spirit and essentials to be what I am, to whom am eternally grateful.

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ABSTRACT

The audit firm may be addressing their statutory obligation as required, to provide an audit opinion as to whether the financial statements give a true and fair view, however this may not allow the customer to be equipped for the rapid changes in the environment and be competitive. The audit firms, being widely experienced in auditing companies in various sectors of the economy and carrying out specialized research for their customers, are in a valuable position in contributing towards the growth and development of the companies they audit.

It is important to ascertain whether the customer’s perception of quality service are being met by the service delivered by the audit firm. The customers expectations are geared towards obtaining quality service from the audit firms that enables them compete effectively in their environment.

The objective of the research was therefore to identify whether the customer perceives the current services offered as quality service and whether the perception of quality is related to the level of a customer’s loyalty to a particular auditor.

Sixteen companies, members of the Nairobi Stock Exchange, were selected for the purpose of this research, out of which eleven responded. The sample was stratified in accordance with the sectors of the economy, as grouped by the Nairobi Stock Exchange namely, Agriculture, Commerce and Service, Finance and Investments, and Industrial and Allied.

The companies within the sectors mentioned responded to three variables used in assessing their respective auditors. These variables were Attributes of Qualities, Audit Quality and Customer Loyalty. The variables measured the customer’s perception of the audit firms service and how their perception related to their loyalty to the audit firms.

The results of this research show that, in overall the provision of quality service is perceived by the customer as satisfactory. The results also show that customer loyalty was not as a result of the provision of quality service by the auditor, because in overall the indices depict either an insignificant (weak) positive correlation or a negative correlation. This is an indication that customer loyalty is not directly related to attributes of quality and audit quality service.

The research brought out managerial and policy implications for audit firms and suggestions for future research.
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CHAPTER ONE

INTRODUCTION

1.1 Background

Audit service can be an integral service to a company. In addition to providing an opinion annually on the company’s financial statements, the auditors as a result of their exposure to varied sectors in the economy are able to provide valuable advise with an aim of improving the company’s competitiveness in the environment.

The client may not be satisfied with the services being provided by the auditor but may be forced to being complacent in obtaining an Audit opinion on the financial statements and recommendations on the internal operating systems and controls as opposed to advise on competitive strategies to effectively operate in the external environment.

Despite the lack of receiving advise on the competitive strategies, some companies have remained loyal to one audit firm, such as retaining their services for years, or extending additional business. The reasons for customer loyalty maybe that audit fees charged is reasonable, or the head office restricts the selection of the audit firm. However it is important to determine the reasons of such loyalty and whether it relates to meeting the companies expectation of providing quality audit service.

An audit on the company’s financial statements is a statutory requirement for all companies. The companies have the prerogative to select and change the audit firm to carry out the audit service. The auditor should be adequately qualified to perform the statutory responsibilities and duties assigned.

The company’s expectations and the auditor’s perspective of the service to be provided are outlined in an engagement letter designed by the audit firm. This letter is based on the statutory
requirements and audit-planning meeting held between the auditor and the client prior to the commencement of the audit.

The expectations of companies may change with time. Provision of auditor's service based only on the statutory requirements in a stable environment may be adequate but not in a turbulent environment. Currently, the environment is dynamic and events change rapidly, requiring effective and efficient utilization of the limited resources to make optimal returns and gaining a competitive edge over competitors. In this respect, auditors in their advisory capacity may be very useful to their clients by providing services geared to enhancing performance in both the internal and external environment.

It is, therefore, important to determine whether, after the auditor has accomplished the statutory requirement quality service has been attained from the perspective of the client or whether much more is expected, other than what the engagement letter states. Also to determine whether adhering to the statutory requirement produces the client's loyalty to a specific audit firm.

Companies are required by law (Company Act Cap 486) to have their financial statements to be audited annually by qualified certified public accountants licensed to practice. The audit review process encompasses the following tasks:

a) reviewing the systems and controls that give rise to the transactions and eventually producing the financial statement
b) provide the required standard of technical proficiency
c) analysis and review of the financial statements

After reviewing the financial statements the auditor is required to provide an opinion as to whether the figures presented by the company are true and fair. The auditors' report authenticates the financial statements for various users such as Banks, Income Tax Departments and Shareholders.
Some services the auditor may provide at a fee in addition to carrying out their statutory obligation are:

a) Advice on preparation of budgets, cash flow projection and related forecast
b) Risk management evaluation
c) Fraud investigation
d) Internal control review
e) Tax planning and compliance

A person qualified to act as auditor of a company should be a member of a professional accountancy body such as Institute of Certified Public Accountants of Kenya (ICPAK). The professional accountancy bodies have basic requirements for its members such as having successfully completed the certified or chartered accountancy examinations, for instance in Kenya, the Certified Public Accountancy (CPA) exams.

Although the audit of a company's financial statements is a statutory requirement, companies are not obliged to retain the audit service of a specific audit firm. Companies are free to change audit firms provided the incoming audit firm is allowed to inquire from the outgoing audit firm of any reasons why they should not take up the new audit.

1.2 Research Problem

The audit approach carried out by auditing firms is mainly standard in ascertaining whether the company's financial statements present a true and fair view. Therefore the provision of quality service ideally should be relatively the same from one auditing firm to another.

The audit approach constitutes the basic requirements of providing quality services to the customer. The audit approach may incorporate reviewing the adequacy of operating systems that gives rise to transactions and figures recorded in the financial statement, providing the required
standard of technical proficiency and analyzing and reviewing the financial statements. The auditor’s advice could assist in effective and efficient ways to improve company’s performance in addition to basically providing the traditional method of auditing financial statements.

Auditing firms could recruit qualified accountants and provide continuous training program to enable their staff competently carry out efficient audits. The training programs in areas such as effective review of operating systems, auditing skills, public relations, report writing skills and enhancement of strategies management are quite useful in empowering audit personnel. If adequately empowered, the equipped audit personnel will in turn provide quality service.

The services provided currently by auditing firms may not allow clients to be equipped to respond to the rapid changes in the environment. Therefore, the Problem-question is whether customer loyalty arises from the satisfaction of the audit service given or otherwise.

The company is not obliged to retain a specific auditor, in this respect, provided there is no unethical issue and the incoming auditor accepts the appointment. On the other hand, a company may be committed or loyal to a specific auditor and is not willing to change. This statutory requirement therefore raises the Problem-question as to why a specific company could be committed or loyal to a specific auditor.

The statutory requirements are that, for a company to change auditors the reason should be disclosed and the newly appointed auditor is also free to make further inquires from the outgoing audit firm on the reason for such a change. The incoming audit firm can decline the appointment if the reason for changing auditors is against generally agreed accounting principles or professional ethics. This is the main hindrance for companies to freely change auditors without being transparent and/or staying on with one audit firm as long as they are satisfying regulatory requirements without centering in improved service.

The Problem-question is therefore the center of this research; to determine whether customer loyalty to a specific auditor results from quality audit service or otherwise. For instance,
companies may choose to retain their present auditor, because of no chance of getting an auditing firm that provides the entire quality service package.

1.3 Research Objective

The main objective of this research is to identify whether the customer perceives the current services offered as quality service and whether the perception of quality is related to the level of a customer’s loyalty to a particular auditor.

1.4 Importance of the Study

The study, by determining whether customer loyalty results from quality audit service, will help audit firms to concentrate on their client’s expectations. This study is being done for the good of auditing firms to provide better service and enhance their professionalism so that their valuable advise is relied on to enhance the companies development. This requires and creates keen interest and challenges from the audit firm in applying their audits due to the different organizational environments they deal with.

To enhance the growth and development of the audited companies and national economy, the audit firms need to adapt and constantly review the Quality Control procedures on the services they deliver. In effect, if the audited companies adapt the valuable recommendations resulting from quality service provided by audit firms, this will have a ripple effect in improving the National economy.

Positive change may be seen in the following areas such as improved rate of return, increased employment level, improved income level, higher purchasing power, improved standard of living, improved accountability and transparency, healthier competition and improved quality of
goods and service provided. This will entail a more thorough review by the audit firm, knowing that their responsibility is not only centered to their customers but to the National economy.
CHAPTER TWO

LITERATURE REVIEW

The literature review aims at defining and reviewing general quality, audit quality, auditing, the role of an auditor, the audit firm, the audit standards, perception of quality and customer loyalty.

2.1 General Quality

Philip B. Crosby states quality conformity to requirement and maintains that it is the senior management's responsibility. The measurement for quality is where there are zero defects and that the cost of quality is of non-conformance. (As quoted by Oakland, 1995)

W Edward Deming reports that senior management takes ninety four percent responsibility of non-conformance to quality. Quality is a predictable degree of uniformity and dependability at low cost and suited for the market. The variability is reduced by the continuous improvement and lack of it is the cost of quality. (As quoted by Oakland, 1995)

Joseph M. Juran observes that quality is based on the customers' expectations. For instance, quality as fitness for use. Twenty percent of quality problems are attributed to workers. Quality is not free, and is the optimum goal. Quality relates to the total composite of product and service characteristics in meeting the customer expectation (As quoted by Oakland, 1995).

The argument of quality equals customer expectations by defining quality as meeting the customers' requirement. Quality is consistent, reliable in providing satisfaction in ownership and delighting the customers. (As quoted by Oakland, 1995)
Quality is the totality of feature and characteristics of a product or service that bears on its ability to satisfy stated or implied needs.

Consistency of service and meeting customer expectations is important in attainment of quality. One description of quality is the absence of variation, that is a good or service should consistently deliver what it was designed for, without variation from one experience to another. Therefore, the real indication of quality is how well a product meets the expectation of a customer. Quality, therefore, cannot be delegated from one department to another it's the responsibility of every employee. Anywhere where standard for performance can set and variation measured, there is an opportunity to apply quality management technique (Stanton, Etzel and Walker 1994)

The quality of the service is critical to a firm’s success although it is difficult to define, measure, control and communicate. The customer defines the service quality not by the producer/seller but by the expectation, otherwise it amounts to poor quality. (Stanton, Etzel and Walker 1994)

The evaluation of Total Quality Management (TQM) explained its basic concept such as, fitness to standard, fitness to use, fitness of cost, fitness to latent requirement, fitness of corporate environment. TQM necessitates focus on customer, seeks continuous improvements, and seeks total participation of staff. This seems to summarize most of the views mentioned above on quality. (Gitonga, 1997)

Quality is first everything else is secondary. As Ford Motor Company put it Quality is Job number One. In other words, improving quality enables an organization to achieve all other performance goals and objectives such high profits, bigger market share, long term survival, growth and development. For a TQM organization, the pursuit of higher and higher quality in every aspect of the organization is the priority number one. The decision or action that advances total quality most will be the one taken. Quality maximizes value adding, simplicity and waste reduction. (Gitonga, 1997)
The attributes of quality are durability, long-lasting or sustainable; reliability, dependability failure free; effectiveness, performance power; efficiency, economical; safety, harmless, protective or non-dangerous; user-friendliness, ease of use; beauty/aesthetics, attractive; affordability, suitable of price; hardiness, toughness; serviceability, ease of repair; availability, ease of procurement; versatility, multi-functionality; timeliness, promptness of response; disposability, ease of sale and purity, and free of contamination. These are the most commonly cited criteria, variables or attributes of measuring and defining quality. Total quality means the 100% score on all these variables with respect to all the process, products and services of an organization. Each organization, if evaluated, will have its own score ranging anywhere from zero percent for a disastrously run organization to may be fifty percent for world’s best -in-class leading performance. (Gitonga, 1997)

The customer is king. The customer should be treated as the most important person in the organization. The customer should be given maximum care, maximum focus and maximum respect. The customer is the organization’s “raison d’être”, its propose for existence, without the customer, no survival for the organization. Emphasizing customer satisfaction results in a myriad of benefits for the organization. (Gitonga, 1997)

Everything can be improved. Nothing is perfect, at least not on this earth. This means among other things, that the business of improving processes, products and services is endless. In order to discover continuously new and better ways of doing things, this principle is operationalised or applied through a policy of maximizing research, creative imagination and experimentation. (Gitonga, 1997)

2.2 Audit Quality

In provision of audit services, conformance to statutory requirement and the ultimate responsibilities rests in the engagement partners of audit firms. This, therefore, seem to achieve the aspects of quality that are in conformance with the senior management's responsibilities of
ensuring quality. Further, auditing firms carry out quality reviews periodically to ensure that the standard requirements are adhered to and facilitate continuous improvements. To ensure that the audits carried out are cost effective, to the benefit of both the auditing firm and the client, the auditing firm strictly adheres to time and cost budgets. The auditing firms also ensure that quality of service is consistent and reliable through review of the outputs of each audits. (as quoted in the ACCA Auditing Text book 1997)

In providing quality auditing services an auditor or auditing firms will be careful to adopt an approach in their review that will ensure conformance to the standard requirements, meet clients expectations, continuously improve to service provided and be cost effective.

To understand the aspect of audit quality in the audit environment, the research explain Auditing, the Role of an Auditor, Auditing firms and Auditing standards.

2.3 Definition of Auditing

The definition of auditing as contained in the Auditing Standards and Guidelines of Combined Council of Accountancy Bodies (CCAB) is as follows: “An audit is the independent examination of and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation” (as quoted by Howard, 1982).

Auditing is a function whose objective is to enable auditors to express an opinion as to whether the financial statements give a true and fair view of the entity's affairs at the period and of its profit and loss and/or income and expenditure for the period stated, and that the Audit reports have been properly prepared in accordance with the applicable reporting framework. For instance, that the report is in accordance with legislation, accounting standards, or other specific requirements prescribing the term, “whether the financial statements are fairly stated”. (as quoted in the ACCA Auditing Text book 1997)
In undertaking an audit of financial statements Auditors should: - (as quoted in the ACCA Auditing Text book 1997)

a) Carry out procedures designed to obtain sufficient and appropriate audit evidence. In accordance with Auditing standards, determine with reasonable confidence whether the financial statements are free of material misstatement.

b) Evaluate the overall presentation of the financial statement, in order to ascertain whether they have been prepared in accordance with the relevant legislation and accounting standards

c) Issue a report containing a clear expression of their opinion on the financial statements.

However, the auditors' opinion is not a guarantee of the future viability of the entity or an assurance of the management's effectiveness and efficiency. The auditors, are simply expressing an opinion, not certifying whether a set of accounts is completely correct or not. Certification is not possible because of the limitations of audit, which restricts the extent of audit risk, that the auditors giving an inappropriate opinion on the financial statement can be reduced. The limitations result from the following: - (as quoted in the ACCA Auditing Text book 1997)

a) the impracticality of examining all items within an account balance or class of transactions
b) the inherent limitations of any accounting and control system
c) the possibility of collusion or misrepresentation for fraudulent purposes and
d) most audit evidence being persuasive rather than conclusive

In reviewing the audit process every audit project is unique in itself, however the audit process is similar for most engagements and normally consists of four stages: Preliminary Review, Fieldwork, Audit Report, and Follow-up Review.
The responsible officials in the company are generally notified by the audit firm on the pending audit. A planning meeting is scheduled to discuss the objectives of the audit, physical facilities and access to personnel needed. Thereafter, an engagement letter issued to the company by the auditor summarizes audit issues discussed agreed in the planning meeting. The fieldwork is then carried out, here the auditor reviews the general flow of information and job responsibilities for the area under review, and performs a preliminary evaluation of internal controls. Data is collected, and tests performed. The work performed is documented, and conclusions are stated.

Findings are discussed with the affected personnel and the auditor’s report of findings and recommendations is compiled and issued to management for responses. The management will incorporate their comments on the findings and recommendations in the auditor’s report before returning the same to the auditor. The management will adopt the auditors’ recommendations as appropriate.

2.4 The Role of an Auditor

To provide an independent examination of the accounts to allow the owners of the business to assess how well management have discharged their stewardship. The responsibly of preparing the financial statement rests on the directors of the company. (as quoted in the ACCA Auditing Text book 1997)

The duties of an auditor are regulated by: - (as quoted in the ACCA Auditing Text book 1997)

- the statutes, the Company Act, (for instance in Kenya Cap 486 of the Company Act), such as reporting on :-

- compliance with regulations
- truth and fairness of accounts
- proper records and returns
professional pronouncements which include professional conduct issued by professional bodies which provide ethical guidelines such as:-

- integrity,
- objectivity,
- independence,
- professional competence and due care,
- professional behavior and
- confidentiality.

2.5 Audit Firms

The accountancy firms also external auditors provide other services in addition to auditing service. The external auditor is from outside the organization while an internal auditor is part of the organization's staff.

The following are the steps in carrying out an audit: - (as quoted in the ACCA Auditing Text book 1997)

a) Ascertain the systems and internal controls

The audit actions are

- determine an audit approach to accomplish a comprehensive plan ascertain relevant systems and controls to determine accounting systems and controls
- document relevant systems and controls to provide a record, assist in the evaluation of systems and controls, and to confirm the recorded systems and controls
b) Assess the systems and internal controls

The audit action is

- evaluate operation of systems and controls to make critical review of effectiveness of systems and controls and reliance to be placed thereon

c) Test the systems, internal controls and financial statements:

The audit actions are

- For effective systems tests of controls are selected and performed to test whether controls have been functioning effectively.

- For the ineffective system substantive procedures are carried, to achieve audit evidence required regarding records underlying account balances in order to support audit opinion.

d) Review the financial statements and audit conclusions

The audit action is a final review is carried out, to undertake critical assessment of financial statements and audit thereof.

e) Express an opinion on the financial statements

The following audit actions are taken to express an opinion on the financial statements and present findings and recommendations in the management letter on the systems review

- Report to the members in the financial statements
Submit a final management letter

2.6 Audit Standards

These are principles and essential procedures which auditors are required to comply with in the review of any financial statements and systems. The auditors who do not comply make themselves liable to disciplinary actions such as withdrawal of practicing licenses and hence not legible to perform audits. (as quoted in the ACCA Auditing Text book 1997)

The auditing standards are: - (as quoted in the ACCA Auditing Text book 1997)

a) Responsibilities
   The auditor should ensure objective, highlights fraud and errors, consider the laws and regulations, obtain an engagement letter and review subsequent events to the date of the financial statements.

b) Planning, controlling and recording
   The auditor should adequately plan, control and record his work

c) Accounting systems
   The auditor should ascertain the organizations system of recording and processing transactions and assess its adequacy as basis for the preparation of financial statements.

d) Audit evidence
   The auditor should obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions therefrom.
e) Internal controls
If the auditor wishes to place reliance on any internal control, he should ascertain and evaluate those controls and perform compliance tests on their operation.

f) Review of Financial statements
The auditor should carry out such a review of the financial statements as is sufficient, in conjunction with the conclusions drawn from the other audit evidence obtained, to give reasonable basis for the Auditors opinion on the financial statements.

2.7 Perception of Quality

Garvin identified quality in five perspectives as stated below: - (as quoted by Lovelock, 1996)

1. The transcendent view of quality is synonymous with innate excellence, mark of uncompromising standards and high achievements. This viewpoint is often applied to the performing and visual arts. In this view quality is perfection.

2. The product-based approach sees quality as a precise and measurable variable. Difference in quality, the approach argues, reflects difference in the amount of ingredient or attribute possessed by the product. Because this view is totally objective, the approach fails to account for difference in taste, needs and preference of individual customer.

3. User-based definitions start with the premise that quality lies in the eyes of the beholder; these definitions equate quality with maximum satisfaction. The subjective, demand-oriented perspective recognizes that different customers have different wants and needs. Thus quality is based on the customers expectations.

4. The manufacturing-based approach, in contrast, is supply based, and is primarily concerned with engineering and manufacturing practices. It focuses on conformance to
internally developed specification, which are often driven by productivity and cost containment goals. Here quality is conformity.

5. Value-based approach defines quality in terms of value and price. By considering the trade-off between performance (and conformance) and price, quality comes to be defined as affordable excellence. In this view quality should be cost effective.

2.8 Customer Loyalty

Frederick F. Reichheld observed that customer loyalty is earned by consistently delivering superior value, which result to economic benefits for the company. Retention rate or share of purchase or both, best quantifies customer loyalty. (As quoted in Harvard Business Review, March -April 1993)

He further states that customer loyalty has the effect of:

- revenue grow due to repeat purchases and referrals,
- cost decline due to lower acquisition expenses and from the efficiencies of experienced customers, and
- employee retention increases because job pride and satisfaction increases, in turn creating a loop that reinforces customer loyalty.

Loyalty is effort: Some interpret loyalty as putting long hours and obvious effort to prove concern for the company. For instance, employees working during weekends to show loyalty. It is further stated that loyalty like success entails successful completion of assignment and failure to meet the deadlines or goals is thus disloyal. (Sterns, 1987)

Loyalty is the highest form of friendship and commitment; it is unyielding, relenting and true to the end. It is with this understanding that customer service is centered (Gitomer 1998)
In defining the process of creating customer loyalty, it is important to: (Gitomer 1998)

- start out as the happiest, friendliest person in the world
- set the right tone from the start
- serve them so they remember it and tell others
- keep up your communication with them after transaction
- continue to offer value without expectation of return and
- win and do it for the most important person in the world, yourself.

The auditor create loyalty from their clients by adhering to the standard requirements as defined by the statutes, working long hours to meet tight reporting deadlines, being consistent in providing thorough recommendations on the clients controls and systems and by keeping close checks on the client through out the period and addressing the needs of the customer.

Customers lack the forum to effectively analyze the audit process with a view to ascertain quality service in audit. The customer’s interest is centered on the end results, that is the findings and recommendation as reported by the audit firm from their review and how the same improve their performance. Therefore, loyalty may not be related to the customer’s evaluation of the existence of quality in the audit process but rather on the end results of the audit review.

The level of customer loyalty depicting their perception of the audit reviews could be measured by the audit firm’s length of service, frequency of changing audit firms, and additional business to the current audit firm.
CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the research design for the study as well as the target population and sample used. The instruments used for data collection were also described including their reliability and validity test results. The chapter also contains a description of the data collection and data analysis procedures.

3.1 Target Population

The target population was public companies registered in Nairobi, Kenya and quoted in the Nairobi Stock Exchange (NSE). The main function of the stock exchange is to allow existing shares to be bought and sold at any time. (Abbott and Pendlebury, 1992) The Stock exchange facilitate the buying and selling of new and existing shares in public companies.

All public companies are required by Law to be registered in the NSE. A public company is a limited company with a share capital, which has a memorandum stating that it is a public company, and which is registered as or reregistered as such. (Morse, Marshall and Morris, 1983)

The purpose of a public company is to raise capital from the public to run the enterprise. The ability to offer shares to the public is an advantage of a public company. The private company is a limited company and not registered as a public company. The purpose of a private company is to confer separate legal personality on the business of a sole trader or partnership. (Morse, Marshall and Morris, 1983)
The Registrar of Companies maintains a list of all companies registered since 1940. The list incorporates both active and inactive or dormant companies without separating the two. It is not a requirement for dormant companies to be audited.

The Registrar of Companies does not maintain statistics on the number of registered companies or even those that submit annual returns, which could be a source of selecting an appropriate population of audited companies. There is no law in Kenya that requires Registrar of Companies to do so. The situation is that not all companies submit their annual returns and the law only requires that private companies having at least one of their two directors in a public company to submit annual returns while all public companies are required to submit. Therefore, to adequately select a sample of companies from the Registrar of companies was impracticable.

Further, no complete list was maintained for all private companies in Kenya, for instance in the NSE, Registrar of Companies or elsewhere except with auditing firms. The audit firms maintain a list of all the companies they audit including the private companies. A complete list of private companies could have to be compiled from all auditing firms in Kenya, which was impracticable, before incorporating into the population of public companies and thereafter sampling. As a result, the sampling was restricted to a population of public companies quoted in the Nairobi Stock Exchange as depicted in their latest NSE annual report and the Daily newspapers.

3.2 Sample and Sampling Procedures

The sample was stratified in accordance with sectors of the economy as indicated in the NSE which were agricultural, commercial and service, finance and investment and industrial and allied. Thereafter, the selection from each sector was proportionate to its size in the population. The actual selection of the companies in each sector was at random. The sampling was carried out from the NSE list extracted from the latest NSE annual report. This list was comparable to the Nairobi Stock list in the Daily Nation under the Business and Finance section.
The sample selected represented thirty percent of the entire list. The number of companies selected were sixteen in the following sectors Agricultural Sector three, Commercial and Service Sector four, Finance and Investments Sectors four and Industrial and Allied five. The sampling per sector was proportionate to the population.

Out of the sixteen companies contacted eleven responded as indicated in the following sectors Agricultural Sector two, Commercial and Service Sector three, Finance and Investments Sectors three and Industrial and Allied three. The sampling per sector was proportionate to the population.

3.3 Data Sources and Collection Procedure

Primary data was collected. A questionnaire was administered to respondents in the finance departments of the sampled companies, specifically the finance managers. The finance departments was selected as opposed to other departments in the organization because, it is here the auditors mainly operate in a company. Although Finance Mangers have limited power in the selection of the auditing firm to carry out the audit, they take an advisory role to the organization’s decision-makers, the Board of Directors.

In the Collection of data, the researcher personally contacted all selected companies at the convenience of the companies to establish good rapport with respondents, issue questionnaires to them and fixed dates for their collection.

3.4 Measures

There were three variables in the study namely attributes of quality, audit quality and customer loyalty. The variables were to measure whether the customer perceives the current services offered by the audit firm as quality service and whether this perception of quality is related to the
level of a customer’s loyalty to this particular audit firm. The measure was carried out on a five-point scale on seventeen items of attributes of quality variable, eighteen items of audit quality variable and three items for customer loyalty variables. In the five-point scale, the higher score (score five is outstanding) measures more positive perception of quality and higher level of loyalty while the lowest score (score one is not satisfactory) measures negative perception of quality and lower level of loyalty.

The attributes of quality score depict the general aspects of quality service while audit quality specifies qualities of superior audit service. The customer loyalty measures the commitment of a customer to a specific audit firm.
CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

The objective of the study was to establish whether the customer perceives the current services offered by their auditors as quality service and whether this perception of quality is related to the level of a customer's loyalty to a particular auditor.

A scale of five points score was assumed to facilitate analysis and interpretation. Not satisfactory was scored lowest, one mark, while outstanding was scored five marks. The data was analyzed using Statistical Package for Social Science (SPSS) program.

The data analysis was carried out in two stages:

a) obtained the mean score for each question answered by the eleven companies for each variable. (Appendix 1)

b) carried out correlation analysis between the variables of quality that attributes of quality and audit quality against customer loyalty (Appendix 2)

4.1 Perception of quality service and customer loyalty

This section enables us to review the overall perception of quality service and loyalty as per the responses from the companies.
4.1.1 Attributes of quality

Examination of the overall means (3.3 mean) shows that for attributes of quality, the companies measured satisfaction and tending towards exceeding expectations.

The highest mean score is 3.7 while the lowest is 2.5 for the items in attributes of quality (Appendix 1).

The auditors’ performance is tending towards exceeding expectations in the following qualities:

- in being approachable and ease of contact; (3.7 mean)
- competence, courtesy, credibility, and security conscious; (3.7 mean)
- ability to perform promised services dependably and accurately; (3.6 mean)
- ability to listen and keep the organization's management informed in understandable language; (3.5 mean)
- appearances of physical facilities, equipment, personnel, and communication material used; (3.5 mean)
- willingness to help customers and provide prompt services; (3.5 mean)
- possess skills and knowledge required to perform the audit services (3.5 mean)

However, in the quality of the audit firm’s price being affordable requires improvement (2.5 mean). The auditors should review their prices in accordance with the services being provided and to the satisfaction derived by their customer. Also improvement is required in the practicability and implementation of the audit firm's recommendations (2.7 mean) to facilitate effectiveness and efficiency of the customer.

It is important to note that, in assessing credibility, an essential quality, the score was 3.3 and not 5.0 (outstanding) as expected from audit firms who should be credible in their profession by being trustworthy, believable, and honest. Also the audit firm’s ability to respond promptly and ensure proper conduct and commitment of the audit team during audit reviews (3.2 mean) should
also be outstanding. The auditor’s timeliness in providing quality service is vital for prompt corrective action by the customer. These are part of the core values that an audit firm should possess.

4.1.2 Audit quality

Examination of the overall means (3.3 mean) shows that for audit quality, the companies scored satisfaction and tending towards exceeding expectations.

The highest mean score is 3.8 while the lowest is 2.3 for the items in audit quality (Appendix 1).

The auditors' performance is tending towards exceeding expectations in the following qualities:

- comply with regulations; (3.8 mean)
- confidentiality for the auditors; (3.8 mean)
- independence; (3.6 mean)
- an independent examination of the accounts; (3.5 mean)
- professional conduct; (3.5 mean)
- the ability of the audit firm to provide truthful and fair accounts; (3.4 mean)
- the objectivity of the auditors; (3.4 mean)
- audit firm's ability to meet the set targets and deadlines; (3.4 mean)

However in the provision of the quality service in the areas below improvement is needed:

- provide appropriate recommendations that improve the organization's competitiveness in the market; (2.7 mean)
- monitor and evaluate the organization's performance by making periodical reviews during the year (2.5 mean)
- to retain the same audit team with different audit reviews (2.3 mean)
• timely advise the organization on changes in the internal and external environment for competitive advantage. (2.5 mean)
• economic benefits derived and improved performance by the organization resulting from the audit firm’s. (2.4 mean)

This depicts that the auditor does not provide proactive service in providing appropriate recommendation on the internal and external environment in which the customer operates and also in monitoring and evaluating the customers' performance during the period of review. The proactive service would provide the customer with competitive advantage over other companies operating in the same market.

The auditor has a wide exposure through having a global perspective acquired from their experience in audit, management consulting service, human resource, restructuring and privatization, tax, corporate advisory service, business and personal service, operating systems and control, organization structures, economic aspects, social and cultural aspects, and other extensive researches carried out within their profession. It is, therefore, noted that the audit firm’s ability to disseminate knowledge on the customer’s internal and external environment and to provide practical and implement recommendation will enable economic benefits and improved performance derived from their review.

The auditor’s experience enables the acquiring of valuable knowledge that if disseminated appropriately to the customers without compromising independence and confidentiality would assist in enhancing the effectiveness and efficiency of the customer.

The customer feels that the frequency of changing the composition of their audit team (2.3 mean) due to high turnover of the audit firm personnel needs improvement.

It is important to highlight areas that are satisfactory (3.0 mean) and thus at the margin, that should be outstanding (5.0 mean) from the basic qualities of an auditor:
• to assess the accuracy of financial records and returns; (3.2 mean)
• integrity of the auditors; (3.3 mean)
• professional competence and due care of the audit firm; (3.3 mean)
• ability to assess the financial operating systems and controls of the organization; (3.1 mean)
• ability of the audit firm to continuously provide superior service; (3.0 mean)

The above areas require improvement from audit firms in order to provide outstanding quality service.

4.1.3 Customer Loyalty

Examination of the mean clearly shows that in most of the attributes, the companies scored satisfaction tending towards exceeding expectations. The highest mean score is 3.9 while the lowest is 1.9. The questions measuring loyalty of the customer to an auditor shows customer loyalty is not as a result of the quality service provided.

The grading satisfactory were as follows:

• Number of years by the organization with the current audit firms; (3.9 mean)
• Additional business provided by organization to current audit firm; (3.1 mean)

The number of years by the customer with the current audit firms was slightly below exceeding expectation. This shows that on average the customer has retained the same auditor for thirteen years (each scale represents three years, thus Mean 3.9 multiplied by 3 interval will be thirteen years on average). This is a high length of service yet the retention of an auditor by the customer needs to be representative of quality service. This was depicted from the overall mean derived from attributes (mean 3.3) and audit quality (mean 3.1).
Further, under customer loyalty changing to different audit firms within the last five years engaged by the organization (1.9 mean), which was not satisfactory, depicts that it is not directly related to the quality of service given.

4.2  The individual company's perception of service quality and loyalty.

In the research, the following sectors of the economy were examined as sampled and companies grouped as follows: Agricultural Sector Company A and B, Commercial and Service Sector Company C, D and E, Finance and Investments Sector Company F, G, and H and Industrial and Allied Sector Company I, J, and K.

The overall mean score for attributes of quality is noted to be 3.3 depicting that many companies are performing above satisfactory and falling below exceeded expectations. This means that audit firms are still required to adjust their attributes of quality to meet customer satisfaction. It is noted that audit firms are not performing fairly in the practicability and implementation of their recommendations (2.7 mean), their prices are unaffordable (2.5 mean) and are marginally making it to know and understand their customer's needs (3.0 mean).

On the other hand, audit firms are quite accessible (3.7 mean), provide assurance (3.7 mean) and are reliable (3.6 mean). Gauging from the results audit firms are tending towards pleasing their customers rather than offering quality service.

The overall mean score for audit quality is noted to be 3.1 indicating that many companies are deriving marginal quality service from the audit profession. It is noted high personnel turnover (2.3 mean) in audit firms, companies continuously meet new audit teams and thus there is lack of continuity in the audit service delivered. Companies are also deriving marginal economical benefits from audit firms recommendations in order to improve competitiveness in the market. Audit firms are also found to be lacking ability to monitor and evaluate the organization's performance through periodical reviews within the year.
On the other hand audit firms are found to be complying with regulations (3.8 mean), very confidential (3.8 mean) and independent (3.6 mean).

In this respect the audit firm are not being proactive in their profession and simply adhering to satisfy statutory obligation.

The overall mean for customer loyalty to audit firms is 3.0. Customers are found to be staying longer with appointed audit firm (3.9 mean) and marginally purchasing additional business from the existing audit firm (3.1 mean). This could be an indication that the customer is not aware of the extra benefits that they may derive from other products that audit firms may offer apart from fulfilling the statutory requirement or due to marginal service being derived from audit firm, customer’s may not be interested in the additional service that may be offered.

**Company A in the Agricultural Sector**

The overall mean score for this company operating within the agriculture sector is 3.0 under attributes of quality and also 3.0 audit quality.

This company finds the audit firm exceeding expectation in accessibility, reliability, competence, versatile, assurance and adherence to regulations, independence and ability to meet set targets and deadlines.

On the other hand, the audit firm lacks ability to evaluate and monitor organization performance, needs improvement in efficiency, affordability, conduct and commitment of the audit team, accuracy in assessment of financial operating systems and controls and in providing appropriate recommendations to improve competitiveness, controlling audit personnel turnover, timely advise on changes in the internal and external environment for competitive advantage and economic benefits derived from the auditor's recommendations and provision of continuous superior service.
The company has been with this audit firm for fifteen years and loyalty is rather high with marginal repeated purchase.

Company A is indicating a need that the audit firm should be proactive with a global perception rather than being conservative in their practice and complying with the norm.

The audit firm exceeds expectations in attributes of personality and ethics, and adherence to statutory regulations but fails to assess the organization’s environment with an aim to providing recommendations that derive economic benefits and facilitates competitiveness. This could be attributed to failure of internal management by the audit firm to improve the conduct and commitment of their audit team and control of high personnel turnover.

**Company B in the Agricultural Sector**

The overall mean score for this company operating within the agriculture sector is 3.0 under attributes of quality and also 4.0 audit quality.

This company finds the audit firm as outstanding in confidentiality, while exceeding expectations in assurance, empathy, responsiveness, versatile, timeliness, independent examination of accounts, compliance with regulations, accuracy in assessment of financial records and returns, professional conduct, objectivity, independence and professional competence, in timely advising on changes in the internal and external environment for competitive advantage, and economic benefits were derived from recommendations made.

The company has been with this audit firm for nine years and loyalty is satisfactory with marginal repeated purchase.

This company perceives their auditor’s to be professional in attributes of personality and adherence to standard requirements.
This audit firm is tending towards expected reality as it is noted that they exceed expectations in promptly advising and providing recommendations on environmental changes for economic benefits and competitive advantage.

However, the audit firm needs to improve its marginal ability in their internal operation standards. This entails improvement in periodical reviews, practicability of recommendations, assessment of organization systems and controls, and controlling their personnel turnover.

Company C in the Commercial and Service Sector

The overall mean score for this company operating within the commercial and service sector is 3.0 under attributes of quality and also 3.0 audit quality.

This company finds the audit firm as outstanding in assurance while exceeded expectation in reliability, competence, audit teams conduct and commitments, provision of truthful and fair accounts, professional conduct, integrity, and confidentiality.

On the other hand, the audit firm lacks ability to provide an affordable price and control the audit personnel turnover, needs improvement in the auditor's communication, timely advise in changes in internal and external environment for competitive advantage, practicability and implementation of recommendations, economic benefits derived from recommendations and in communication, and monitoring and evaluation by periodical reviews. These are essential qualities that the audit firm needs to address in order to provide quality service.

The company has been with this audit firm for nine years and loyalty is satisfactory with improvement required for repeated purchase.

The audit firm is exceeding expectations in the attributes of personality and ethics. The audit firm needs to improve from its marginal ability in fulfilling statutory obligations such as being independent, complying with regulations, accurately assessing financial records, professional conduct, and objectivity.
In order to enable this company to derive economic benefits from their recommendations and compete effectively within their market environment, the audit firm requires improvement in their communication skills, prompt advise on environmental changes, control their personnel turnover and review their prices in accordance with service rendered.

**Company D in the Commercial and Service Sector**

The overall mean score for this company operating within the commercial and service sector is 3.0 under attributes of quality and also 3.0 audit quality.

This company finds the audit firm exceeding expectation in credibility, accessibility, appearance, reliability, courtesy, efficiency, professional conduct, auditor's independence, and meeting of set targets and deadlines.

On the other hand, the audit firm lacks ability in controlling audit personnel turnover, needs improvement in understanding the customer's needs, affordability, versatile, assessment of financial operating systems and controls, provision of appropriate recommendations for improved competitiveness, monitoring and evaluating performance by periodical reviews, and the timely advise of changes in internal and external environment for competitive advantage, and economic benefits derived from recommendations.

The company has been with this audit firm for fifteen years and loyalty is rather high with exceeding expectation in repeated purchase.

Although the audit firm exceeds expectations in attributes that define character and/or personality, in addition to controlling their personne turnover and adapting periodical reviews, they need to improve their knowledge of the customer’s needs and operational environment. This may enable the audit firm to provide practical and appropriate recommendations that derives economic benefits and a competitive edge.
Company E in the Commercial and Service Sector
The overall mean score for this company operating within the commercial and service sector is 4.0 under attributes of quality and also 4.0 audit quality.

This company finds the audit firm as outstanding in communication, reliability, appearance, compliance with regulation, provision of truthful and fair accounts, while exceeding expectation in credibility, accessibility, responsiveness, competence, courtesy, assurance, empathy, versatile, timeliness, conduct and commitment of audit team, and practicability and implementation of the audit firm's recommendations, independence in examination of accounts, professional conduct, integrity, objectivity, auditor's independence, professional competence and due care, confidentiality, and monitoring evaluating through periodical reviews.

On the other hand, the audit needs improvement in provision of appropriate recommendations that improve competitiveness and in deriving economic benefits and improved performance from recommendations.

The company has been with this audit firm for six years and loyalty requires improvement with marginal repeated purchase.

The audit firm is performing very well in adhering to their standards in both personality and professional characteristics. However, they need to improve on the recommendations that they give this company to enable it have a competitive advantage and derive economic benefits within its market environment. In addition to this, the audit firm needs to review their performance in assessing the financial operating systems and controls and looking at strategies of retaining their staff.

Company F in the Finance and Investments Sector
The overall mean score for this company operating within the finance and investment sector is 3.0 under attributes of quality and also 4.0 audit quality.
This company finds the audit firm outstanding in accessibility, efficiency, independence in examination of accounts, compliance with regulations, auditor's independence, confidentiality, assessment of financial operating systems and controls, appropriate recommendations for improved competitiveness, timely advising of changes in the internal and external environment for competitive advantage while exceeding expectations in communication, understanding, responsiveness, assurance, provision of truthful and fair accounts, professional conduct and, objectivity.

On the other hand, the audit firm lacks ability in controlling audit personnel turnover, practicability and implementation of recommendations, and economic benefits derived from recommendations, needs improvement in monitoring and evaluating performance through periodical reviews and on continuously providing superior service and, the conduct and commitment of the audit team during audit reviews.

The company has been with this audit firm for nine years and loyalty is satisfactory with marginal repeated purchase.

The audit firm for company F is quite outstanding as they are able to perfect their personality and professional characteristics and at the same time exceeding expectation in terms of advising their customers to have competitive advantage within their market environment.

However, in addition to retaining their staff and enhancing team spirit, they need to improve in giving practical recommendations that make their customers derive economic benefits through periodical review.

**Company G in the Finance and Investments Sector**
The overall mean score for this company operating within the finance and investment sector is 3.0 under attributes of quality and also 3.0 audit quality.
This company finds the audit firm exceeding expectation in accessibility, presentation, reliability, versatility, provision of independent examination of accounts, compliance with regulations, provision of truthful and fair accounts and auditors independence.

On the other hand, the audit firm needs improvement in timely advising on changes in internal and external environment for competitive advantage.

The company has been with this audit firm for twelve years and loyalty is rather high with exceeding expectation in repeated purchase.

The audit firm is not adequately advising company G on their competitive position and how they could derive good economic benefits within their operating environment. Their ability to assess financial operating systems and controls, and conducting periodical review after the audit of company G requires improvement. If this is coupled with good team spirit and controlled staff turnover the audit firm will be able to provide superior service.

**Company H in the Finance and Investments Sector**

The overall mean score for this company operating within the finance and investment sector is 3.0 under attributes of quality and also 3.0 audit quality.

This company finds the audit firm as satisfactory (3.0 mean) in most qualities.

The audit firm, however, lacks ability to timely advise on changes in internal and external environment for competitive advantage, needs improvement in reliability, affordability, practicability and implementation of recommendations, appropriate recommendations that improve competitiveness, and monitoring and evaluating performance through periodical reviews.

The company has been with this audit firm for nine years and loyalty is satisfactory with improvement needed in repeated purchase.
Despite the fact that this audit firm has been auditing Company H for nine years, they are not satisfactory in promptly advising the company on changes that enable them compete effectively within their environment. The audit firm therefore requires improvement in providing appropriate and practical recommendations that make this company derive economic benefits through conducting periodical reviews.

This audit firm needs to improve from their marginal ability in their personality and professional characteristics.

Company I in the Industrial and Allied Sector

The overall mean score for this company operating within the industrial and allied sector is 4.0 under attributes of quality and also 4.0 audit quality.

This company finds the audit firm outstanding in communication, compliance with regulations, confidentiality, assessment of financial operating systems and controls, meeting set targets and deadlines, while exceeded expectation in accessibility, tangibility, reliability, responsiveness, competence, courtesy, assurance, empathy, versatility, timeliness, conduct and commitment of audit team, assess accuracy of financial records and returns, professional conduct, professional competence, and monitoring and evaluating performance by periodical reviews.

On the other hand, the audit firm lacks ability to control the audit personnel turnover, and needs improvement in provision of appropriate recommendations that improve competitiveness in the market.

The company has been with this audit firm for fifteen years and loyalty is rather high with marginal repeated purchase.

This audit firm is a good performer in terms of their personality and professional characteristics. However, although the team spirit is high, the audit firm needs to control their personnel turnover.
Company I also has expressed a need for the audit firm to provide practical and appropriate recommendations that could enable them to have a competitive advantage and derive economic benefits from their environment.

Company J in the Industrial and Allied Sector

The overall mean score for this company operating within the industrial and allied sector is 3.0 under attributes of quality and also 3.0 audit quality.

This company finds the audit firm outstanding in continuously providing superior service.

On the other hand, the audit firm lacks ability in timely advising on changes in internal and external environment for competitive advantage, and economic benefits derived from and improved performance from recommendations, needs improvement in competence, provision of truthful and fair account, assessment of financial records and returns, professional competence and due care, assessment of financial operating systems and controls, monitoring and evaluating performance through periodical review and in the control of audit personnel turnover.

The company has been with this audit firm for fifteen years and loyalty is rather high with outstanding repeated purchase.

Despite the number of years the audit firm has been working with company J, 15 years, this audit firm requires improvement in their personality, professional characteristics and advisory role. This will enable the audit firm to continuously provide superior service implied with score five under audit quality.

They also need to design and implement strategies that could enable this company to operate effectively within their competitive environment and economic benefits.
Company K in the Industrial and Allied Sector

The overall mean score for this company operating within the industrial and allied sector is 3.0 under attributes of quality and also 3.0 audit quality.

This company finds the audit firm outstanding in minimizing the audit personnel turnover, while exceeding expectation in credibility, accessibility, communication, reliability, responsiveness, competence, courtesy, accuracy in assessment of financial records and returns, professional conduct, integrity, objectivity, professional competence and due care of the audit firm, conduct and commitment of audit team, and confidentiality.

On the other hand, the audit firm needs improvement in timeliness, and ability to continuously provide superior service.

The company has been with this audit firm for fifteen years and loyalty is rather high with improvement needed in repeated purchase.

Company K perceives the audit firm to be good in their personality and professional characteristics, but they need to improve their timeliness in responding to issues so as to continuously provide superior service.

In view of the outstanding control of personnel turnover and good team spirit, this audit firm could do mileage if they improve their marginal ability in providing practical and appropriate recommendation. This could enable company K to derive economic benefits and provide them with competitive advantage within its environment though periodic reviews.

4.3 The relationship of Customer Loyalty verse Attributes of quality and Audit quality

The correlation matrix (Appendix 2) defines the variance between quality (attributes of quality and audit quality), and customer loyalty. This enables us determine whether the perception of
quality is related to the level of customer’s loyalty. As may be noted in Appendix 2 this correlation relates the specific items within attributes of quality, audit quality and customer loyalty.

In overall the indices depicts either a insignificant (weak) positive correlation or a negative correlation. This is an indication that customer loyalty is not directly related to attributes of quality and audit quality.

However, it is important to note that they are significant positive correlation in the following areas:

- that customers are providing repeated purchase where audit firms offer superior quality service (0.711, P< 0.01)
- that the frequency of change and/or appointment of new auditors is dependent on the audit firm’s credibility (0.566, P< 0.01)
- that the length of service a customer has with the audit firm is dependent upon their ability to meet set targets and deadlines (0.513, P< 0.01)
CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The objective of the study was to establish whether the customer perceives the current services offered by their auditors as quality service and whether this perception of quality is related to the level of a customer's loyalty to a particular auditor.

The results of this study show that, in overall the customer perceives as satisfactory the provision of quality service. (Appendix 1) However, customer loyalty was not as a result of the provision of quality service by the auditor, because in overall the indices depict either an insignificant (weak) positive correlation or a negative correlation. (Appendix 2) Thus an indication that customer loyalty is not directly related to attributes of quality and audit quality. To enable significant positive relationship between customer loyalty and quality service offered by audit firms, the audit firms may need to perfect their personality, professional characteristic and advisory role.

The results depict a gap between level of customer's loyalty and the provision of current audit service vis a vis audit quality service expected by the customer. For instance, the customer retains an audit firm, for say fifteen years, yet the highest quality of audit service is assessed as still lacking. On the other hand, the customer could be complacent with the kind of service they receive and thus being satisfied with the audit firm adhering only to the statutory obligations and not requiring them to further provide the service that will enhance competitiveness and in turn optimizing their returns. It is, therefore, important to determine the reasons for customer loyalty if not the provision of quality service.
The audit firms need to review the services they provide and determine whether this is the service that their customers gauge as quality service and if not, the auditor needs to seek ways to bridge the gap between the current service provided and what the customer expect as quality service. However, in carrying out their services and meeting the demands of the customer audit firms should ensure they are not compromising their professionalism.

To provide superior service, the audit firms should not only operate within the statutory obligation but also be proactive with a global perspective in providing practical and appropriate recommendations that enable companies derive economic benefits and compete effectively within their environment through periodical reviews.

The audit firms in order to operate efficiently they need to review their internal management by controlling their personnel turnover and boosting team spirit, as these are key in the provision of superior quality service.

Both parties, the audit firm and customer, have a dual responsibility. The audit firm needs to provide quality service, on the other hand the customer needs to adopt the recommendations and inform the audit firms where quality service is lacking.

The performance of these responsibilities may have an impact in the growth and development of the customer and in turn the national economy.

5.2 Limitations

The study was constrained mainly by financial and time factors in addition to the following factors:
• The Registrar of Companies does not maintain statistics on the number of registered companies or even those that submit annual returns, which could have assisted in selecting an appropriate population of audited companies.

• No complete list was maintained for all private companies in Kenya, for instance in the NSE, Registrar of Companies or elsewhere except with auditing firms. The audit firms maintain a list of all the companies they audit including the private companies. A complete list of private companies could have to be compiled from all auditing firms in Kenya, which was impracticable, before incorporating into the population of public companies and thereafter sampling. As a result, the sampling was restricted to a population of public companies quoted in the Nairobi Stock Exchange as depicted in their latest NSE annual report and the Daily newspapers.

• There was no full co-operation from all the respondents targeted. This was manifested by the fact that out of sixteen only eleven companies responded.

5.3 Suggestions for future research

The following are the suggestions the researcher makes for future research:

• One data point was used in each company, in this case the Finance Manager. In future research more data points may need to be contacted in various departments in each sampled company to increase the objectivity.

• The cause for loyalty to a specific audit firm needs to be determined. There could be varied reasons of loyalty to an audit firm from the customer’s perspective, which need to be explored especially considering some have high length of service.
• The size of the sample needs to be increase to widen the scope and clarify the perception and customer loyalty.

• The scale used for customer loyalty had only three items, which may not give an accurate picture of the customer loyalty. Future researchers may try and use more large number of items to measure customer loyalty.

5.4 Managerial and policy implications for audit firms

Although the audit firms may argue that they are required to adhere to only the statutory regulations, there is need for a sense of responsibility for all to assist in the growth of the national economy.

To be competitive and provide quality service gained from their wide exposure and knowledge auditing firms need to assist their customer to succeed in their respective markets and be fully satisfied with the service offered by the audit firms which should commensurate with the price charged. The sustenance of the companies through practical and appropriate recommendations will in turn sustain the audit firms’ continuity.

Thus apart from satisfying the statutory regulations the audit firms should plays an active role in the national growth by directly assisting the individual companies in competitiveness and optimizing their returns.

In order to retain their customer’s audit firms’ review the customers’ needs in a dynamic environment to provide superior services and the service that will result to optimum returns and competitiveness for their customers. The audit firms, considering exposure from their experience, needs to assess the service provided and whether to only adhere to statutory requirements is sufficient for the customers’ growth and development in a dynamic and changing internal and external environment.
The audit firm requires to assess the value of service they provide to the customer, by offering a wide range of quality products to improve the growth and development of the companies and eventually the National economy.

The provision of quality product also helps increase the audit firm's income base. Thus the products should be attractive and competitive. The audit firms needs to be competitive and should carry out research on their products and create a niche in the markets they operate. The service offered by the audit firm determines whether they are competitive and provide superior service compared to other audit firms.

The audit firm should be professional and avoid being routine, avoid crisis management and be proactive, understand the customer's requirements and systems, and decrease audit personnel turnover to create continuity and consistency in the service derived. The audit firm should recruit quality personnel and improve staff morale by having incentive packages, that in the long run will benefit the firm's quality of products and service offered.

The audit firms should review their resources such as organization, human resource, capital, and management. The audit firm is a people based service and therefore should review their skills and professional standards.

The audit firm should have a strategic approach to the services offered based on the environment in addition to adherence to the statutory obligations. This will in turn provided added value service.


5. ACCA Auditing Text book (1997) - BPP publishers


May 12, 2000

TO WHOM IT MAY CONCERN;

Dear Sir/Madam,

LETTER OF INTRODUCTION: HELEN WANJIKU KAMAU

HELEN WANJIKU KAMAU is a student of USIU, completing an MIBA degree in our MBA program. We would highly appreciate if you can assist in providing the required information for her research on Customer Loyalty and Quality Audit service, by completing the attached questionnaires.

Thank you.

Yours faithfully,

MARTIN OGUTU, Ph.D
PROJECT SUPERVISOR

Attachment
### INDIVIDUAL COMPANY SCORE AND OVERALL MEAN PER QUESTION

<table>
<thead>
<tr>
<th>A. ATTRIBUTES OF QUALITY</th>
<th>COMPANY</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
<th>J</th>
<th>K</th>
<th>Overall Mean</th>
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</thead>
<tbody>
<tr>
<td>1. Trustworthiness, belief ability, and honesty of the audit firm (credibility)</td>
<td>CR</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
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<td>3</td>
<td>3</td>
<td>4</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>2. Is the auditor approachable and easy of contact (accessibility)</td>
<td>AG</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
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<td>3.3</td>
<td></td>
</tr>
<tr>
<td>3. Does the audit firm listen and keep the organization’s management informed in understandable language (communication)</td>
<td>CO</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
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</tr>
<tr>
<td>4. Does the audit firm make an effort to know the customer and their needs (understanding)</td>
<td>UN</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>5. Gauge the appearance of physical facilities, equipment, personnel, and communication material of the audit firm (tangibles)</td>
<td>TA</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. The audit firm has the ability to perform the promised service dependably and accurately (reliability)</td>
<td>RE</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>7. Is the audit firm willing to help customers and provide prompt service (responsiveness)</td>
<td>SP</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>8. Do the auditors possess the skills and knowledge required to perform the audit service (competence)</td>
<td>PE</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>9. Gauge the performance, respect, consideration and friendliness of the auditors (courtesy)</td>
<td>TE</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>10. Is the audit firm competitive, courteous, credibility and security conscious (assurance)</td>
<td>AS</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>11. Are there errors, good communication and customers' understanding with the auditors (receptivity)</td>
<td>EM</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>12. Is the audit firm economical (efficiency)</td>
<td>EE</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>13. Is the audit firm's price suitable (affordability)</td>
<td>AF</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>14. Does the audit firm perform the audit service for various purposes (productivity - scope of audit service for various purposes)</td>
<td>VE</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>15. Does the audit firm respond promptly (timeliness)</td>
<td>TI</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>16. Gauge the commitment and attitude of the audit team during audit reviews in the organization (quality)</td>
<td>CC</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>17. Gauge the practicability and implementability of the audit firm's recommendations (satisfaction)</td>
<td>PI</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Mean per company</td>
<td>2.7</td>
<td>3.4</td>
<td>3.1</td>
<td>4.0</td>
<td>3.7</td>
<td>3.2</td>
<td>3.3</td>
<td>3.4</td>
<td>3.3</td>
<td>3.4</td>
<td>3.7</td>
<td>3.3</td>
<td></td>
</tr>
</tbody>
</table>

### B. AUDIT QUALITY

| 1. Does the audit firm provide an independent examination of the accounts | CR | 3 | 3 | 3 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 3.3 |
| 2. Does the audit firm comply with regulations | AG | 4 | 4 | 4 | 3 | 4 | 3 | 4 | 3 | 4 | 3.6 |
| 3. Gauge the ability of the audit firm to provide truthful and fair accounts | TT | 3 | 3 | 2 | 3 | 2 | 4 | 3 | 4 | 4 | 3.4 |
| 4. Gauge the ability of the audit firm to assess the accuracy of financial records and returns | RR | 3 | 4 | 3 | 3 | 3 | 3 | 3 | 4 | 2 | 3 | 3.2 |
| 5. Gauge the audit firm's professional conduct | PC | 3 | 3 | 3 | 4 | 4 | 3 | 3 | 3 | 4 | 4 | 3.5 |
| 6. Gauge the integrity of the auditors | IT | 3 | 4 | 3 | 3 | 4 | 3 | 3 | 3 | 4 | 3.5 |
| 7. Gauge the objectivity of the auditors | OB | 3 | 4 | 3 | 3 | 4 | 3 | 3 | 3 | 4 | 3.5 |
| 8. Are the auditors independent | ID | 4 | 4 | 3 | 4 | 4 | 4 | 3 | 4 | 3 | 4 | 3.6 |
| 9. Gauge the professionals' competence and due care of the audit firm | PF | 3 | 3 | 3 | 4 | 4 | 3 | 3 | 3 | 4 | 3.5 |
| 10. Gauge the co-operation of the auditors | IT | 3 | 4 | 3 | 3 | 4 | 4 | 3 | 4 | 4 | 3.6 |
| 11. Gauge the ability of the audit firm to assess the financial operating systems and controls of the organization | PO | 2 | 3 | 3 | 2 | 3 | 5 | 3 | 4 | 2 | 3 | 3.1 |
| 12. Gauge the ability of the audit firm to provide appropriate recommendations that improve the organization's competitiveness in the market | BC | 2 | 3 | 3 | 2 | 3 | 5 | 3 | 4 | 2 | 3 | 3.1 |
| 13. Gauge the audit firm's ability to measure and evaluate the organization's performance by making periodic reviews during the year | ME | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2.7 |
| 14. Gauge the audit firm's ability to meet the set targets to deadlines | TD | 4 | 4 | 3 | 4 | 3 | 2 | 3 | 3 | 4 | 3.5 |
| 15. Gauge the ability of the audit firm to continuously provide superior service | BS | 3 | 3 | 3 | 3 | 4 | 2 | 3 | 3 | 3 | 3 | 3.0 |
| 16. The ability of the audit firm to retain the same audit team with different audit reviews (auditor personnel turnover) | ET | 2 | 3 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2.3 |
| 17. Does the audit firm have the ability to timely advise the organization on changes in the internal and external environment for competitive advantage | CA | 2 | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2.3 |
| 18. Gauge the economic benefits derived and improved performance by the organization resulting from the audit firm's recommendations | EI | 2 | 4 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 4 | 3.2 |
| Mean per company | 3.1 | 4 | 3 | 4 | 3 | 4 | 3 | 3 | 3 | 4 | 3.1 |

### C. CUSTOMER LOYALTY

| 1. Number of years by the organization with the current audit firm (length of service) | LS | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5.0 |
| 2. Gauge frequency of changing to different audit firms within the last five years engaged by the organization | ND | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1.0 |
| 3. Additional business provided by organization to current audit firm (repeated purchases) | RP | 3 | 3 | 2 | 4 | 3 | 4 | 3 | 4 | 2 | 3 | 3.0 |
| Mean per company | 3.2 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5.0 |
### OVERALL PEARSON CORRELATION MATRIX

(Correlation using the overall mean score from the mean score of the eleven companies)

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Customer Loyalty</th>
<th>LS</th>
<th>ND</th>
<th>RF</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attractiveness of Quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. How trustworthy, believable, and honest is the audit firm? (credibility)</td>
<td>CR</td>
<td>0.402</td>
<td>0.268</td>
<td>0.532</td>
</tr>
<tr>
<td>2. How honest are its employees? (trustworthiness)</td>
<td>AC</td>
<td>0.165</td>
<td>0.206</td>
<td>0.035</td>
</tr>
<tr>
<td>3. How knowledgeable are its employees? (knowledge)</td>
<td>CO</td>
<td>0.209</td>
<td>-0.078</td>
<td>0.092</td>
</tr>
<tr>
<td>4. How informative is the audit firm's report? (information)</td>
<td>VA</td>
<td>-0.415</td>
<td>-0.310</td>
<td>0.227</td>
</tr>
<tr>
<td>5. How effective is the audit firm's report's writing? (effectiveness)</td>
<td>TA</td>
<td>-0.147</td>
<td>-0.222</td>
<td>0.238</td>
</tr>
<tr>
<td>6. How accurate is the audit firm's report? (accuracy)</td>
<td>RE</td>
<td>0.051</td>
<td>-0.224</td>
<td>0.048</td>
</tr>
<tr>
<td>7. How effective is the audit firm's report in helping customers improve their understanding of their firm? (effectiveness)</td>
<td>RP</td>
<td>0.329</td>
<td>-0.070</td>
<td>0.416</td>
</tr>
<tr>
<td>8. How informative is the audit firm's report? (information)</td>
<td>PE</td>
<td>-0.282</td>
<td>-0.223</td>
<td>0.088</td>
</tr>
<tr>
<td>9. How knowledgeable are the audit firm's employees? (knowledge)</td>
<td>TE</td>
<td>0.317</td>
<td>-0.360</td>
<td>0.067</td>
</tr>
<tr>
<td>10. How knowledgeable are the audit firm's employees? (knowledge)</td>
<td>AS</td>
<td>0.767</td>
<td>-0.221</td>
<td>0.111</td>
</tr>
<tr>
<td>11. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>EM</td>
<td>0.289</td>
<td>-0.064</td>
<td>0.332</td>
</tr>
<tr>
<td>12. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>FE</td>
<td>0.079</td>
<td>-0.015</td>
<td>0.225</td>
</tr>
<tr>
<td>13. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>AE</td>
<td>0.147</td>
<td>-0.069</td>
<td>0.379</td>
</tr>
<tr>
<td>14. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>VE</td>
<td>-0.313</td>
<td>-0.077</td>
<td>0.079</td>
</tr>
<tr>
<td>15. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>TE</td>
<td>0.181</td>
<td>0.021</td>
<td>0.049</td>
</tr>
<tr>
<td>16. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>CC</td>
<td>-0.017</td>
<td>0.002</td>
<td>0.080</td>
</tr>
<tr>
<td>17. How well do the audit firm's employees understand the audit? (understanding)</td>
<td>PI</td>
<td>0.171</td>
<td>0.002</td>
<td>0.080</td>
</tr>
</tbody>
</table>

### Audit Quality

1. Does the audit firm provide an independent examination of the accounts?
2. Does the audit firm provide an independent examination of the accounts?
3. Does the audit firm provide an independent examination of the accounts?
4. Does the audit firm provide an independent examination of the accounts?
5. Does the audit firm provide an independent examination of the accounts?
6. How well do the audit firm's employees understand the audit? (understanding)
7. How well do the audit firm's employees understand the audit? (understanding)
8. How well do the audit firm's employees understand the audit? (understanding)
9. How well do the audit firm's employees understand the audit? (understanding)
10. How well do the audit firm's employees understand the audit? (understanding)
11. How well do the audit firm's employees understand the audit? (understanding)
12. How well do the audit firm's employees understand the audit? (understanding)
13. How well do the audit firm's employees understand the audit? (understanding)
14. How well do the audit firm's employees understand the audit? (understanding)
15. How well do the audit firm's employees understand the audit? (understanding)
16. How well do the audit firm's employees understand the audit? (understanding)
17. How well do the audit firm's employees understand the audit? (understanding)
18. How well do the audit firm's employees understand the audit? (understanding)
19. How well do the audit firm's employees understand the audit? (understanding)
20. How well do the audit firm's employees understand the audit? (understanding)