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Performance of Selected Firms in the Service Industry in  
Kenya.**

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## **Influence of Point-Based Program on Financial Performance of Selected Firms in the Service Industry in Kenya.**

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### **Abstract**

**Introduction:** Points based programs are programs offered by service industries to their customers when they make a purchase. In Points based system, frequent customers earn points, which translate into some type of reward: discount, gifts, or special customer treatment, customer purchases toward a certain amount of points to redeem their reward.

**Purpose:** This study sought to establish the influence of point-based program on financial performance of selected firms in the service industry in Kenya.

**Methodology:** The research design adopted descriptive method of the study. The target population was three (3) telecommunication firms (Safaricom, Airtel and Telkom Kenya), 5 supermarkets and 18 Five Star hotels. The study used census survey method for telecommunication firms and all the 18 five-star hotels in Nairobi offering loyalty points and thus there was no sampling. The study used secondary data extracted from financial statements. The researcher used both descriptive and inferential statistics. Descriptive analysis and trend analysis of the dependent and the independent variable were conducted.

**Findings:** The results showed that point-based program has a positive and significant relationship with financial performance of selected supermarkets in Kenya.

**Recommendations:** The study recommended that it's imperative for the policy makers such as Communication Authority of Kenya, Tourism Authority of Kenya and the ministry of trade to support the development and usage of point based programs among supermarkets firms in Kenya. This can be done in friendly manner such as avoiding overly broad and strong regulation of the point based programs. In this regard, the government and the law makers should ensure that they involve a variety of point based programs stakeholders in the regulatory process, so that their vision and needs can be fairly balanced with government interests.

**Key words:** *point based program, service industry, and financial performance*

## 1.0 Introduction of the Study

Points based programs are programs offered by service industries to their customers when they make a purchase (Team, 2014). This is one of the most common kind of loyalty program currently being used to attract and retain customers among the supermarkets firms. Frequent customers earn points, which translate into some type of reward, discount, gifts or special customer treatment. As a result when a customer makes purchases, automatically earns some points by giving out the smart card number at the point of paying which can be redeemed at a later date. Point-based programs are most appropriate for businesses that encourage frequent, short-term purchases (Peiguss, 2012). Normally, a card is issued by a supermarket or chain store to customers where points awarded for money spent in the store are accumulated.

Salmon, Dey and Amaro (2017) noted that, point based programs are adopted by firms to increase sales and revenues. Similarly, they can be used to improve the satisfaction and ensuring retention of the firm's most valuable customers. In addition, point based programs are being adopted by the organization to enhance a strong relationship all through the customer's life cycle. More so, by using point based programs, customers are able to access a bigger portion of customers' wallet. However, this is achieved if the rewards offered are in tune with the wants and needs of the customers who frequent the retail outlets (Reichheld, 2004).

Globally, different service companies have adopted the use of point based programs, For instance, in the United States, telecom companies have point based programs aimed at increasing customer loyalty and address the aggressive rivalry in the industry (Aron, 2012). Point based programs used in the US service industry includes: retail stores, airline companies, telecommunication companies, gas stations, banks, beauty salons, and restaurants among other areas.

However, despite point based programs popularity, they rarely meet the financial expectation of the business firms. For instance, Starbucks recently decided to halt its reward programs due to poor performance of its programs (Steinhoff & Palmatier, 2016). Similarly, from the research conducted by Center for Retail Management of Northwestern University on 12<sup>th</sup> August 2016, only 12% - 15% of customers are loyal to a single retailer. In addition, this small number of loyal customers only generate between 55% - 70% of company sales. Some food retailers find that 65%-95% of their sales go to members of point based programs. 53% of food retailers offer point based programs, 75% of the loyalty programs members using their loyalty cards at least weekly and 85% at least used them once a month. It is estimated by Colloquy (2016) that there are over three billion point based loyalty program memberships in the US with 26% of them being active. By average, US households have a minimum of 29 programs out of which, they only participate actively in 12 programs which is similar to those noted by George (2012).

In Kenya as noted by Omenye (2013), point based programs are becoming popular among competing mobile service providers. The author observed that, for Safaricom customers, bonga points allow them to redeem their points for free airtime, laptops, mobile phones and data bundles. In addition, Safaricom bonga point scheme gives users one point for every Ksh. 10 used. In regards to Airtel's scheme, zawadi points give customers points on everything they do on their network, SMS, voice calls and data. However, as noted by Kamau (2017), despite the fact that majority of urban households in Kenya have loyalty cards memberships, fewer than half

of these are active. Key reasons being the fact that: loyalty programs are considered by customers as lacking reward relevance, rigid reward structures, and poor-quality customer service. This was also observed by Mulwa (2016) who explained that, more than half of consumers in urban areas admitted that they had abandoned at least one point based program.

According to Ngigi (2012), Safaricom financial statements indicated that, the company was holding about Sh2.45 billion in its books as liabilities that had been accrued from the bonga point's programs. The author further explained that, Safaricom recognizes revenue only after these points are redeemed. Safaricom has raised the number of points to be redeemed to acquire rewards unlike before. Previously, Ngigi (2012) noted that, only 25 points were required to get 3 free minutes but in 2012, 50 points were required to acquire the same minutes. Further, bonga points are used to pay for merchandise at Safaricom outlets.

GeekRaider (2015) observes that, Safaricom had the highest share on point based programs with its bonga points. In the year 2013, their ledgers had Sh3.2 billion unclaimed bonga points which had an 8 % per annum growth. These sentiments were similar to those noted by Ngigi (2012). In support; Farbrot (2014) noted that over time, point based programs have hugely been accepted for loyalty marketing globally. Despite its use, about \$16 billion worth of bonga points were not used in the year 2010. This according to the author has made firms develop a mechanism where points can expire and thus, customers have no option but to redeem them before expiry. Similar sentiments were echoed by Magatef and Tomalieh (2015) who argued that, when customers are free on when to redeem their points, it significantly boosts their purchases before and after redeeming the points. The author further observed that, even when customers are not under pressure, they purchase more often and spend more on purchases periods prior and after redeeming their points. There is therefore need to determine the influence of point-based program on financial performance of selected firms in service industry in Kenya

### **1.1 Statement of the Problem**

In Kenya, financial performance among supermarkets firms is becoming a matter of concern. Retail outlets have seen entrance of multinational supermarkets such as; Carrefour, Game Stores, Choppies and Shoprite Kenya. However, some of these supermarkets such as Shoprite and choppies enterprises in Kenya have been forced to close shops in a period of not more than five-years attributing this to poor financial performance (Kamau, 2017). In 2018, Choppies posted a loss of Ksh 248 million while in 2019 it posted a loss of Ksh 1.6 billion from its struggling Kenyan Unit. As a result, in January 2019, Choppies Kenya reduced its local branches from 15 to 2, and also laid off 583 workers as it struggled to survive with strained cash flows and heightened competition for Kenyan shopping basket (Choppies Annual Report, 2020). Similarly, Shoprite Kenya recorded a loss of Ksh 79 billion in the 2019 leading to closing down of its branches in Kenya in that year and also laying off all its 115 workers (Shoprite Annual Report, 2020).

A close look at the recent trends characterizing Kenya service industry reveals mixed fortunes. Some sectors are reporting high growth rate such as Safaricom among telecommunication firms whose ROA increased from 0.2966 in 2013, to 0.465 in 2018. The improved financial performance was partly attributed to the use of bonga points (Safaricom Report 2019). Barasa (2011) and Bwire, (2016), find that firms that have adopted increased use of point based

programs perform better due to increased customer retention that leads to increased sales and subsequently improved financial performance.

Past studies have presented several research gaps that the current study intends to fill. Mulwa (2016) in a study on the Influence of loyalty programs on brand performance of five-star hotels in Nairobi, Kenya focused on prestige and exclusivity, brand performance, brand loyalty, points and reward redemption flexibility, brand awareness, perceived quality and brand association as loyalty programs. The current study focused on point based loyalty programs only thus presenting a conceptual gap. In addition, there exists a methodological gap since the previous studies such as; Muganda, Otuya and Waiganjo (2011), Kamau (2017), Mulwa (2016) and Soderlund and Colliander (2015) have used Ordinary Least Square (OLS) regression model, whereas the current study uses Multiple regression under the panel data framework. It is in this pretext that this study seeks to interrogate the role of point based system programs on financial performance of selected firm in the service industry.

## **1.2 Objectives of the Study**

To establish the influence of point-based program on financial performance of Selected Firms in the Service Industry in Kenya

## **2.0 Literature Review**

### **2.1 Theoretical Framework**

#### **2.1.1 Transaction Cost Theory**

Transaction cost theory was fully developed by Williamson (1987). The theory argues that the optimum organizational structure is one that achieves economic efficiency by minimizing the costs of exchange. The theory suggests that each type of transaction produces coordination costs of monitoring, controlling, and managing transactions. With most firms, Williamson (1987) argued that there are transaction cost efficiencies that an internal capital market yields than the external capital market. For instance, internal audits are less costly and easier to implement than external audits. The value-destroying behavior on the part of divisional managers is less expensive to ascertain by an internal capital market than the external capital market.

Williamson (1987) theorizes that internal capital market competition can lead to more effective allocation of firm resources to profitable uses than the external capital market. While the external capital market has access to limited knowledge regarding a large number of investment opportunities, the internal capital market has access to extensive knowledge regarding a small number of investment opportunities. The theory argues that internalization of business activities should be the outcome of analysis of the relative difference between the transaction costs of market governance and the bureaucratic costs of internal governance. In addition, the theory observed that a change in the two set of costs could lead to either a decision to diversify further or refocus. A decrease in the transaction costs of market governance or an increase in the bureaucratic costs of internal governance could lead to cutting down on corporate diversification (Coase, 1937; Winger, 1994). In this regard, an introduction of point-based programs in the service industry is assumed to minimize the cost of exchange in these firms.

## 2.2 Empirical Review

Tani (2014) focused on using a point-based system for selecting immigrants. The study was based on past literature and thus adopted a desktop research design. The study argued that a point system using measurable criteria selects economically desirable immigration applicants and results in the orderly management of population growth. As a result, it reassures the native population that immigration is being properly managed. In this regards, a point based system acts as an effective binding constraint on applicants. Basically, individual applicants are selected according to the objectives set by the country of destination. In this regards, comprehensive and regular data collection is needed for policy evaluation and fine-tuning. Applicants are selected solely from observable characteristics, not from unobservable like innate ability or attitude. This study adopted a desktop research design thus presenting a methodological gap. The recent study adopted a cross-sectional research design.

Anderson (2017) did a study on the impact of a point-based immigration system on agriculture and other business sectors. The study used a descriptive research design. The findings indicated that reducing legal immigration and eliminating family and other immigration categories will not increase wages for U.S. workers. The data showed that, the skill level of recent immigrants has been rising and is far much higher than what many policymakers perceive. The educational achievements of the children of immigrants provide further proof that today's immigrants and their families are assimilating as did prior generations. The findings also indicates that America's separation of executive and legislative powers makes it unlikely that a point system could operate effectively or in a manner similar to those in Canada or Australia, which have parliamentary systems of government and agencies with the authority to make rapid and unilateral changes to a point system when problems arise. The study used a descriptive research design thus presenting a methodological gap. The recent study adopted a descriptive research design.

Mulwa (2016) conducted a study on the influence of loyalty programs on brand performance of five-star hotels in Nairobi, Kenya. The variable's that were under study were: prestige and exclusivity, brand performance, brand loyalty, points and reward redemption flexibility, brand awareness, perceived quality and brand association. The study used primary data and a sample of ten five-star hotels; data was collected through questionnaires. The study used multi regression analysis and from the findings. It was established that: brand association influences the brand performance at a high rate of 0.983, brand loyalty at 0.821, point and reward redemption flexibility at 0.983, perceived quality at 0.454, data mining at 0.379, brand awareness of 0.357 and prestige and exclusivity at 0.298. Overall prestige and exclusivity were the least favored by customers and is not a major concern for customer loyalty programs. The member guest reaction on the loyalty programs where extremely satisfied, or satisfied, others indicated that the program need improvements and other did not indicate their reaction on the programs. The study concludes that brand level depends on the age of the customer, customer value, preference and customer loyalty which are premium, regular programs. Brand performance metrics-brand loyalty established that brand loyalty helps in reducing marketing costs and brand awareness, depending on strength brings about familiarity and likeness of the brand by customers. The study recommends that hotels should not rely on loyalty managers and marketing managers in loyalty programs. The study recommends that all members of the staff should be included in programs to

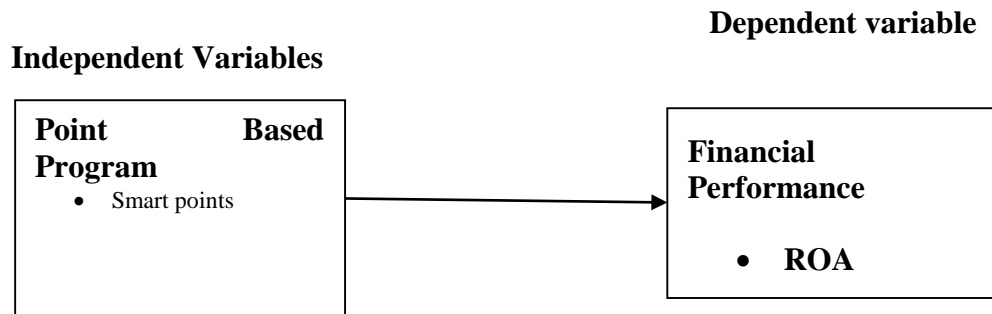
improve its effectiveness in the brand performance. Also, the customers who create business for the hotels are in a better position to market the brand and therefore reducing marketing costs. The hotel brands should be unique in their product offering and could be well kept by having chains which in turn provides a broad selection and motivate their customers by touching on those areas to improve on growth and customer loyalty. The study scope was five-star hotels only thus presenting a scope gap. The recent study focused on five-star hotels, big supermarkets and telecommunication firms.

Kim, Kim and Leong (2003) did a study on the impact of guest reward programs on the firms' performance. This study investigates the commonly important variables that characterizes the reward programs of airline and hotel firms and measures the impact of reward programs on the firms' overall performance. This study focuses on examining the reward programs of two service industries, namely, airlines and hotels. The study was cross sectional in nature. T-test was employed to examine significant differences between the two ROE means for each of the ten variables. The findings of this study are as follows; First, ten significant variables of the reward programs that differentiate their own program from the other and ultimately make consumers choose a particular program among various programs are derived and evaluated. The variables that were significant were elite level qualification, affinity credit card, and award threshold which were significant at the 0.01, 0.05, and 0.10 level, respectively. Secondly, the impacts of those influential variables on the firms' performance were measured. The three variables, purchasing miles or point, enrollment bonus, and award threshold were statistically significant at the 0.05 level. Purchase miles or points and enrollment bonus contributed significantly to the firms' return on equity (ROE), while the award threshold seemingly reduced the firms' earned ROE. The study concluded that, both the airline and hotel firms should be sensitive when establishing reasonable and attainable threshold levels for their customers. Customers generally turn away from high barriers and are more likely to select a program with less restrictions and conditions. The study researched on guest reward programs and firms' performance thus presenting a contextual gap. The current study focused on point based programs and financial performance.

Kamau (2017) conducted a study on the effect of loyalty programs on Customer retention: A case of Nakumatt supermarkets in Kenya. The study used four variables which included: point system, smart cards, gift vouchers and discounts on customer retention in Nakumatt supermarket. The study adopted descriptive survey research design. Using the design, both quantitative and qualitative data was collected. The study concludes that there is a positive significant relationship between Loyalty point systems and customer retention. The findings also conclude that there is a positive significant relationship between smart cards and customer retention. Further the study concludes that there is a positive significant relationship between gift vouchers and customer retention. Finally, the study concludes that there is a positive significant relationship between gift vouchers and customer retention. The study focused on Nakumatt supermarkets only thus presenting a scope gap. The recent study focused on five big supermarkets.

### **2.3 Conceptual Framework**

Conceptual framework is a composition of concepts placed in a sequential and logical design. It links the variables of the study (Nalzar, 2012).



**Figure 1.1: Conceptual Framework**

**3.0 Research Methodology**

The research design adopted for the study was descriptive research design, which described the state of affairs of the research as they were. A descriptive research design was applied in the study as it was not restricted to fact-findings only, but used in formulation of important principles of knowledge and solutions of significant problems (Daniel, 1996). The target population was three (3) telecommunication firms (Safaricom, Airtel and Telkom Kenya), 5 supermarkets and 18 Five Star hotels. The study used census survey method for telecommunication firms and all the 18 five-star hotels in Nairobi offering loyalty points and thus there was no sampling. The study used secondary data extracted from financial statements. Data for a period of seven years (2013-2018) was collected for establishing the relationship between the variables.

The researcher used both descriptive and inferential statistics. Descriptive analysis and trend analysis of the dependent and the independent variable were conducted. As such, central tendency, mean, maximum, deviation and standard deviation are calculated. Inferential statistics are the techniques used to generalize the results obtained through hypothesis testing to the whole population. The inferential included the correlation and multi- regression of panel data. The researcher used spearman correlation. The simple regression was used to test the hypothesis. The panel data model used in the study is as given in the following equation.

$$Y_{it} = \beta_0 + \beta_1 X_{lit} + \varepsilon \dots \dots \dots 3.1$$

Where

$$Y_{it} = \text{ROA}$$

$$X_{lit} = \text{Point Based Program}$$

Prior to conduction of the regression analysis diagnostic tests were carried out. This include; the normality and multicollinearity.

**4.0 Results and Discussion**

**4.1 Descriptive Statistics**

This section provides descriptive results for the variables. Descriptive statistics employed are mean, minimum, maximum and standard deviation. The results are presented in Table 1.



**Table 1: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Dev
ROA	182	-0.40	0.56	0.14	0.14
Point Based Program	182	1.4	976857	28336	122.602

*Point based program is in thousands. ROA represent the return on Asset. Std.dev represents standard deviation.*

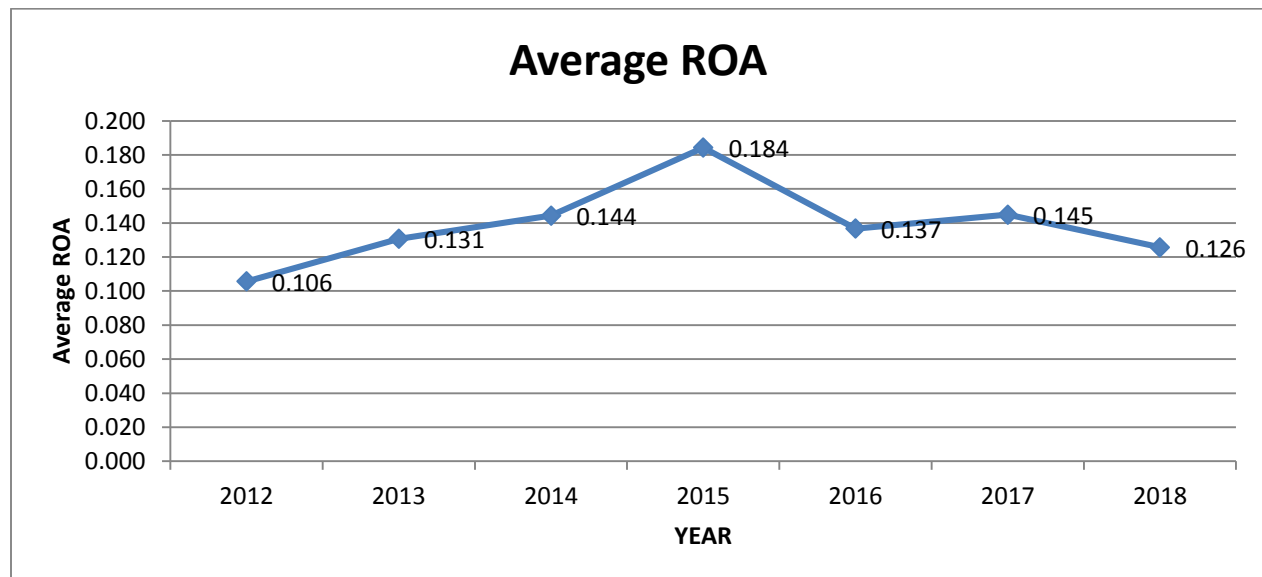
Results above shows that the mean of ROA for the selected service industry firms for the period between 2013 to 2018 is 0.14. The minimum ROA is -0.40 while the maximum ROA is 0.56. Its standard deviation is 0.14 which indicates that ROA is narrowly spread from the mean.

In addition, results also shows that the mean of points from point-based program for the selected service industry firms for the period between 2013 to 2018 are 28336 thousand. The minimum points from point-based program are 1.4 thousands while the maximum points from point-based program are 976857 thousands. Its standard deviation is 122.602 which indicate that points from point-based program widely spread from the mean.

## 4.2 Trend Analysis

### 4.2.1 Return on Assets

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage.



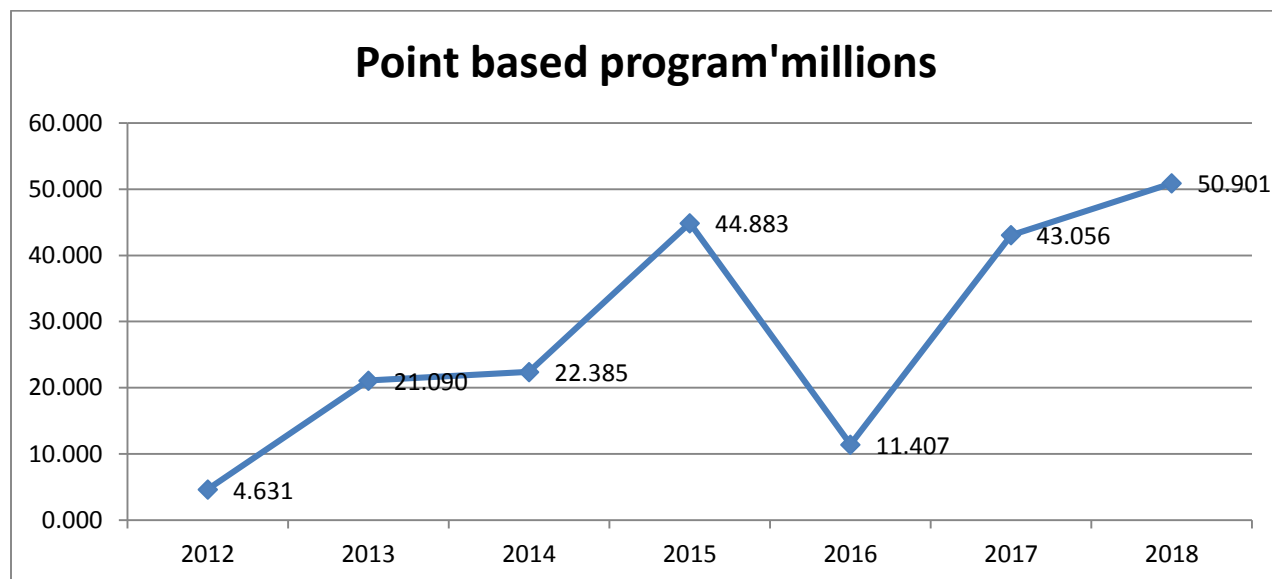
**Figure 1: Trend Analysis for ROA for the Period 2012 - 2018**

The results show that the average ROA was 0.106 in the year 2012. The average ROA increased to 0.131 in the year 2013 and further increased to 0.144 in the year 2014. The average ROA further increased to 0.184 in the year 2015 but declined to 0.137 in the year in the year 2016. The

average ROA increased to 0.145 but decreased to 0.126 in the year 2018. This shows that the ROA of selected supermarkets firms have been fluctuating. This means that most of the service industries had an inconsistent return on asset.

#### 4.2.2 Point Based Program

Points based programs are programs offered by firms to their customers when they make a purchase. Figure 2 presents results of trend analysis for Point Based Program



*Point based program figures are in millions*

**Figure 2: Trend Analysis for Average Point-Based Program for the Period 2012 - 2018**

Results shows that the average points from point-based program was 4.631 million in the year 2012. The points increased to 21.090 million in the year 2013 and further increased to 22.385 million in the year 2014 and further increased to 44.883 million in the year 2015. However, average points from point-based program declined to 11.407 million in the year 2016 but further increased to 43.056 million in the year 2017 and further increased to 50.901 million in the year 2018. This shows that point-based programs have really been gaining popularity among the service provides customers.

#### 4.3 Correlation Results

Correlation was done between the independent variable (point-based program) and the dependent variable (financial performance). Results in Table 2 below show the correlation results.

**Table 2: Correlation Results**

		ROA	Point based program
ROA	Pearson Correlation	1	
Point based program	Pearson Correlation	0.3056	1
	Sig. (2-tailed)	0	

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

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

ROA represent the return on asset which is the measure of the independent variable (Performance). Independent variable is point-based program

The results show that point-based programs have a weak positive correlation with financial performance ( $r=0.3056$ ). This implies that increase in point-based programs will lead to a slight increase in financial performance.

#### 4.4 Diagnostic Test

The diagnostic tests are basically on the response variable distribution and that of the residuals distribution of residuals. These assumptions are varied based on the study. The current study tested the following diagnostic; normality test, multicollinearity test and hausman test.

##### 4.4.1 Normality Test

The test for normality for the dependent variable (ROA) is examined using the graphical method approach. The results indicate that the residuals are normally distributed.

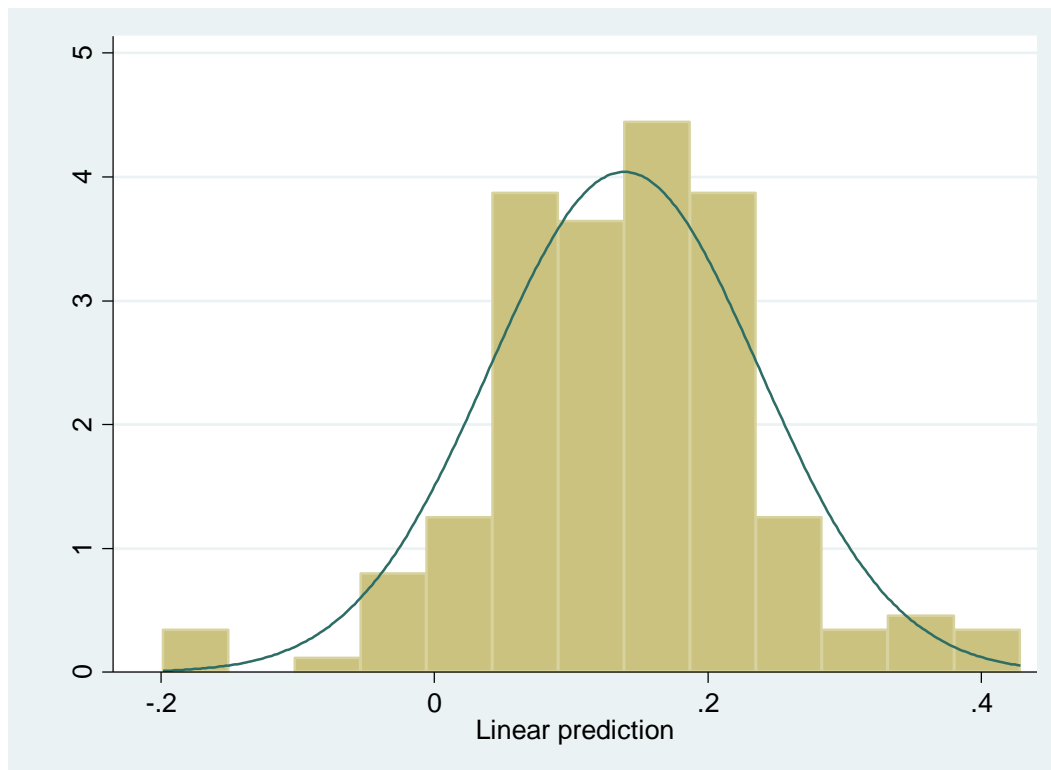


Figure 3: Normality Test

##### 4.4.2 Multicollinearity Test

The results in Table 3 present variance inflation factors results and were established to be 1.44 which is less than 10 which according to Field (2009), it indicates that there is no multicollinearity.

**Table 3: Multicollinearity Results Using VIF**

Variable	VIF	1/VIF
Point based system	1.82	0.550

#### 4.4.3 Hausman Test

In order to determine whether the fixed or random effects model is appropriate, Hausman test is used. The rule of the thumb is that if  $p$  value  $< 0.05$ , reject the null hypothesis and vice versa. Table 4 presents the results for Hausman test. A resultant  $p$ -value of 0.0046 was smaller than the conventional  $p$  value of 0.05 and thus we reject the null hypothesis that the random effect is appropriate and thus the fixed effects model was more appropriate.

**Table 4: Hausman Results**

	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag (V_b-V_B)) S.E.
Point based program	0.05514	0.022992	0.008122	0.05514

Chi2(1)=8.01  
 $p=0.0046$

#### 4.5 Regression Analysis

Regression analysis for panel data is also performed to establish the relationship between point-based programs on Financial Performance. The results are presented in Table 5 below.

**Table 5: Point based Program and Financial Performance**

	Coef	Std.Err	t	p	{95% Conf.Interval}
Point based program	0.078	0.013	6.01	0.000	0.052 0.1039
_cons	-0.282	0.070	-4.01	0.000	-0.421 -0.143

$F(1,155)=36.13$   
 $R$  squared= 18.90  
 $P=0.000$

*Coef is the coefficient of the independent variable, std.err is the standard error, t are the calculated t values, Conf. Interval is the confidence interval.*

*log of smart points has been used as the measure for point-based program. Point based program is the independent variable while financial performance is the dependent variable*

Thus, the specific regression model is modeled as:

$$\text{Financial performance} = -0.282 + 0.078 X_1$$

The results show that point-based program have a positive and significant relationship with financial performance ( $\beta = 0.078$ ,  $p = 0.000$ ). This implies that an increase in point-based program by one unit will lead to improvement in financial performance by 0.078 units at 95% confidence level. In addition, results show that the  $R$  squared is 18.90 implying that point based program explains 18.90% of the variation in performance of selected service industry firms. The

findings agree Chanya (2017) who found that point-based system had a significant effect on performance of Nakumatt supermarket in Western region in Kenya.

#### **4.6 Hypothesis Testing for Point Based Program**

The hypothesis is tested by using simple linear regression (table 5, above). The null hypothesis is that there is no significant relationship between point-based programs on Financial Performance of supermarkets in Kenya. When the F calculated is greater than the F critical, the null hypothesis is rejected. The results revealed that the  $F_{cal} (36.13) > F_{critical} (3.94)$ . This indicates that the null hypothesis is rejected hence there is a significant relationship between point-based programs on Financial Performance of supermarkets in Kenya. These findings agree with that of Chanya (2017) who found that point-based system had a significant effect on performance of Nakumatt supermarket in Western region in Kenya.

### **5.0 Conclusions and Recommendations**

#### **5.1 Conclusions**

The study concluded that point-based program had a positive and significant effect on financial performance of selected supermarkets in Kenya.

#### **5.2 Recommendations**

The findings of the study clearly show that point based programs significantly improve the financial performance of the supermarkets in Kenya. In this regard, it's imperative for the policy makers such as Communication Authority of Kenya, Tourism Authority of Kenya and the ministry of trade to support the development and usage of points based programs among supermarkets firms in Kenya. This can be done in friendly manner such as avoiding overly broad and strong regulation of the point based programs. In this regard, the government and the law makers should ensure that they involve a variety of point programs stakeholders in the regulatory process, so that their vision and needs can be fairly balanced with government interests. The government should work closely with point based program businesses, users, miners and advocates when creating and enforcing law.

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