

American Journal of Finance (AJF)



**Effect of Non-Monetary Programs on Financial
Performance of Selected Firms in the Service Industry
in Kenya.**

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Abstract

Introduction: Non-monetary rewards are non-financial measures that a merchant or a seller realigns with customer values to attract and retain more customers. This involves providing value to customers in other ways than discount and dollars rewards. Depending on the customer's values, and on the industry, customers may find more value in non-monetary or discounted rewards.

Purpose: The overall objective of the study was to investigate the effect of non-monetary programs in the financial performance of selected firms in the service industry in Kenya.

Methodology: The research design adopted for the study was descriptive research design. The study explored major users of non-monetary programs in Kenya including: the telecommunication firms, supermarkets, 18 five-star hotels in Kenya, Kenya airport authority and fueling station in Kenya. The target population was three (3) telecommunication firms (Safaricom, Airtel and Telkom Kenya), 5 large supermarkets and 18 Five Star hotels in Nairobi. Since the population of telecommunication firm is small the study used the census survey method and thus there was no sampling. The researcher used both descriptive and inferential statistics.

Findings: The results show that non-monetary programs have a positive and significant relationship with financial performance. The study concludes that non-monetary programs have a positive and significant effect on financial performance of selected service industries in Kenya.

Recommendation: Communication Authority of Kenya, Tourism Authority of Kenya and the ministry of trade should support the development and usage of monetary loyalty programs among service industries firms in Kenya. This can be done in friendly manner such as avoiding overly broad and strong regulation of the loyalty programs. In this regard, the government and the law makers should ensure that they involve a variety of loyalty 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 loyalty programs businesses, users, miners and advocates when creating and enforcing law.

Key words: *non-monetary program, service industry and financial performance*

1.0 Introduction of the Study

Financial performance is described as the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during a specific period of time (Teimet, Ochieng & Away, 2011). Financial performance also refers to the act of performing financial activity (University of Debrecen, Faculty of Business and Management & Bayarara, 2017, p. 2). In broader sense, the authors noted that, financial performance refers to the degree to which financial objectives are accomplished. It's used to measure firms overall financial health over a given period of time and can also be used to compare similar firms across the same industry.

Financial performance is measured in different methods such as, Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM) (Santalo 2011). ROA is calculated by dividing the net annual income with the value of assets. On the other hand, Return on Equity (ROE) which is the profit contributed by the equity capital of a firm is calculated by dividing net income by the total equity capital. The other common measure as upheld by Hendrikse (2009) is Net Interest Margin (NIM) which is the interest earned out of income from the assets. All these measures tend to explain the extent to which the company performs financially which as well steers up other perspectives of performance. This study used ROA to measure financial performance of the service industry firms. Makori and Jagongo (2013) explain that Return on Assets (ROA) gives the idea as to how efficient management uses assets to generate earnings.

According to (Zakaria *et al.*, 2014), non-monetary programs are implemented by business organizations to induce customer satisfaction and forestall any defections of the customers. Hussain (2016) also argued that due to a competitive business environment and lack of proper mechanisms of establishing dialogue with customers, organizations result to non-monetary programs that would create a continuous experience that is accompanied with benefits to the customers. Salmon, Dey and Amaro (2017) also noted that, non-monetary 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, non-monetary programs are being adopted by the organization to enhance a strong relationship all through the customer's life cycle. More so, by using non-monetary 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).

Therefore in this study, non-monetary rewards are non-financial measures that a merchant or a seller realigns with customer values to attract and retain more customers. This involves providing value to customers in other ways than discount and dollars rewards. Depending on the customer's values, and on the industry, customers may find more value in non-monetary or discounted rewards (Peiguss, 2012). When non-monetary programs are embedded around customer values, more often than not, they affect the business. However, customer values differ from region to region and from customer to customer. It therefore behooves specific merchant or seller to know their external environment well to enable them to design relevant non-monetary programs around their customer values (Costabile & Michele, 2004).

1.1 Problem Statement

In Kenya, some firms in the service Industries provide signals of financial difficulties resulting from poor financial performance that have led to their closure for instance, Nakumatt and Uchumi have closed shop. In 2016 Uchumi had 37 stores but it had closed down 31 stores by the end of the year 2019. Only 6 stores were in operation. In addition, 253 employees were retrenched due to poor performance of the supermarket. Similarly, Uchumi supermarket also ceased operation in Tanzania and Uganda in October 2015 leaving behind over \$10 million debt (Government of Kenya, 2019). In 2017, Nakumatt had 60 branches which dropped to 6 in the year 2018. In January 2020, Nakumatt closed down all its remaining branches with an accumulation of Ksh 38 billion debt (Nakumatt Report, 2020). In addition, Airtel has been lagging behind in terms of performance as compared to Safaricom Limited which has been attributed to limited use of non-monetary programs amongst the Airtel Subscribers (Airtel Annual report, 2020).

Tuskys supermarket is also facing serious financial challenges that are almost bringing it to its knees. In April 2020, Tuskys closed down 3 of its main branches in Nairobi over rent arrears. In July 2020, Cytton stated that Tuskys required 2 billion to stay afloat (Bosibori, 2017). In spite of this, all these firms have embraced non-monetary programs as a way of maintaining a good relationship with their customers, with the sole purpose of enhancing sales and thus boosting their financial performance (Kamau, 2017). Magatef and Tomalieh (2015), Kamau (2017), Mulwa (2016) and Steinhoff and Palmatier, (2016) find that, despite the fact that many customers are registered for non-monetary programs, only a few members are active begging the question whether non-monetary programs impact on financial performance of firms.

Related studies by: Mulwa (2016); Bwire (2016) and Chanya (2017) do not explicitly interrogate the role of non-monetary programs on financial performance of selected firms in service industry covered in this study; that is telecommunication, supermarkets, and hotels; the research gap in this study intends to fill. For instance, Bwire (2016) conducted a study on the effect of loyalty programs on financial performance of Mobile Tele Communication Firms in Kenya. The study only focuses on telecommunication firms, hence need to widen the scope as covered by this study by examining hotels and supermarkets. Chanya (2017) in a study on effect of customer loyalty programs on performance of Nakumatt supermarket in Western region. However, this study focused on role of non-monetary loyalty programs on financial performance of selected firms in the service industry in Kenya.

1.2 Research Objectives

The overall objective of the study was to investigate the effect of non-monetary programs on financial performance of selected firms in the service industry in Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Efficiency Structural Cost Theory

The efficiency theory was formulated by Demsetz (1973). According to this theory, better management and scale efficiency results to higher concentration thus greater and higher financial performance. Accordingly, the theory posits that management efficiency not only increases

profits, but also results to larger market share gains and improved market concentration (Athanasoglou, Brissimis & Delis, 2005).

The efficiency theory also states that a positive concentration on profitability relation may be a sign of a positive connection relating to efficiency and size. The theory postulates that positive association between the concentration and profit arise from a lower cost which is mainly achieved through production efficient practices and increased managerial process. The efficiency theory supports that the most favorable production can be attained through economies of scale. Thus, maximum operational efficiency in the short run is achieved at a level of output where all economies of scale available are being employed in an efficient manner (Odunga, Nyangweso, Carter & Mwarumba, 2013).

Additionally, the efficiency theory explains that attaining higher profit margins arises from efficiency which allows firms to obtain both good financial performance and market shares (Mirzaei, Schaback & Dehghan, 2012). According to Fisseha (2015), the efficiency theory presupposes that profitability and high concentration results from efficient cost reduction practices and better management strategies across the organization. Thus, efficient firms in the market lead to an increase in their market share and the size of their firm because of aggressive production and management techniques (Sikder, Eanes, Asmelash, Kar & Koetter, 2016).

The theory informs financial performance variable which is the dependent variable in the study. The theory explains that service industries which operate efficiently in comparison to their competitors increase their profits due to their low operating costs. The efficiency hypothesis prevails when a positive significant correlation between profitability and the market share is signaled (Mensi & Zouari, 2010).

2.2 Empirical Literature

Okwudili (2015) did a study on effects of non-monetary rewards on productivity of employees among selected government parastatals in Abia State, Nigeria. A total of 78 civil servants were selected across the parastatal in Abia state using simple random sampling technique from which data and information were elicited from the questionnaire. Analytically, the study employed descriptive statistics, multiple regressions and the Pearson's correlation coefficient. The analysis of factors affecting productivity of employees in Government parastatals in the study area using the multiple regression analysis indicated that Sex of the respondents, Age of respondents, monthly income, days of work in a month, type of non-monetary reward received and responses of respondents with respect to their judgment on effect of non-monetary reward on their productivity all revealed a negative significant contribution to the productivity of the sampled Government parastatal in the study area respectively. The study concludes that higher productivity and efficiency of employees in government parastatals is possible with the effective exploitation of human resources through non-monetary rewards and recommends amongst others that Government should motivate their staff more by involving them in self developmental programs with good remuneration payment, incentive packages etc. that will signify that the organization needs their personal outputs

Zaharie and Seeber (2018) did a study on non-monetary rewards effective in attracting peer reviewers. The study tested the efficacy of three different reward settings identified in the literature: engagement contingent, task-completion contingent, and performance contingent,

through a natural experiment involving 1865 scientists in faculties of business and economics of Romanian universities. The study adopted a descriptive research design. The results show that the performance contingency strongly reduces the number of respondents willing to become reviewers, particularly males and research productive scientists. Scientists affiliated with private universities are strongly discouraged by the reward. In sum, the results suggest that non-monetary rewards are not necessarily effective, as in some cases they may actually discourage the most intrinsically motivated and competent reviewers

Shujaat and Alam (2013) did a study on impact of non-monetary rewards on employee's motivation: a study of commercial banks in Karachi. The study variables included; training, recognition for performance, opportunities for career advancement, effective communication channels and job security to identify their impact over employees' job related motivation. A standardized and well-structured questionnaire was used to gauge the responses on a five-level scale. Questionnaire contents were adopted from Paul E. Spector employee recognition program handbook. Questionnaire was sent to 550 respondents through e-mail and in printed form. The descriptive statistics utilized was based on chi-square tests and graphical illustrations were used to provide information on key demographic variables in this study. The study confirmed existence of positive significant relationship between three of the five non-monetary rewards.

Cheema, Shujaat and Alam (2013) did a study on impact of Non-monetary Rewards on Employees Motivation in Commercial Banks in Karachi. Therefore, the prime purpose of this study was to explore and identify core competencies of managers in order to enhance employee engagement in the workplace. The study involved use of questionnaires filled by 100 respondents (with age ranging from 21 to 60) of Rajby industries. Respondents comprised non-managerial staff only. Random sampling technique was used to carry out this research. To analyze the data, Regression and ANOVA tests were applied. The analysis of results clearly suggested that there was significant impact of competent management on employee engagement. It shows that in order to enhance employee engagement, it is important for managers to display competent behaviors such as giving feedback on proper time, praise and recognition.

Waqas and Saleem (2014) did a study on the effect of monetary and non-monetary rewards on employee engagement and firm performance. This research explores the concept of employee engagement and how employee engagement can be strengthened by offering monetary and non-monetary rewards to employees. For testing hypothesis data were collected through questionnaires from 250 respondents. Hierarchical linear regression was used to estimate the effect of rewards on firm performance mediated through employee engagement. Results disclosed the fact that monetary and non-monetary rewards can increase the level of employee engagement and high level of employee engagement is an important cause for high firm performance.

Surephong et al. (2020) did a study on the effect of non-monetary rewards on employee performance in massive open online courses. Ninety volunteer employees from a food manufacturing company in Chiang Mai, Thailand participated in this research. The experiment was divided into two sections. The first section aimed to measure the motivation of employees which based on different non-monetary rewards. The questionnaire for measuring Valence, Instrumentality, and Expectancy variables (VIE theory) was deployed to test employee

motivation in 3 different groups; Tangible Non-Monetary Re-wards, Social Non-Monetary Rewards and Job Related Non-Monetary Re-wards.

The second experiment aimed to reveal which type of non-monetary reward is the most suitable for motivating employees in participating and completing the course in MOOCs. Participants in different groups were assigned to learn via MOOCs on their mobile device within a period of 30 days. Different types of non-monetary rewards were provided only for participants who had completed certain conditions in MOOCs. The overall results showed that the group of tangible non-monetary rewards reached the significant highest score on the VIE questionnaire and over 60% of participants exposed to tangible non-monetary rewards completed the course's conditions in MOOCs.

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 (Nalzarro, 2012).

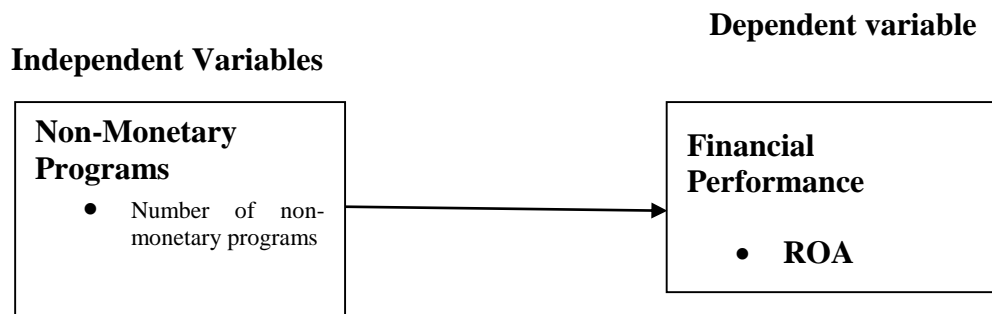


Figure 1.1: Conceptual Framework

3.0 Research Methodology

The research design adopted for the study was descriptive research design. The study explored major users of Loyalty programs in Kenya including: the telecommunication firms, supermarkets, 18 five-star hotels in Kenya, Kenya airport authority and fueling station in Kenya. The target population was three (3) telecommunication firms (Safaricom, Airtel and Telkom Kenya), 5 large supermarkets and 18 Five Star hotels in Nairobi. Since the population of telecommunication firm is small the study used the census survey method and thus there was no sampling. This was supported by Fowler (2013) who argued that it is not necessary to carry out sampling when the population is small. The study used secondary data extracted from financial statements. The researcher used both descriptive and inferential statistics.

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \varepsilon \dots \dots \dots 3.1$$

Where

Y_{it} = ROA

X_{1it} = Non-Monetary Programs

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
Non-Monetary Programs	182	5.00	50	13	7.80

ROA, non-monetary programs are not yet transformed. 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.

Results further shows that the mean of number of non-monetary programs for the selected service industry firms for the period between 2013 to 2018 is 0.14. The minimum number of non-monetary programs is five while the maximum number of non-monetary programs is 50. Its standard deviation is 7.80 which indicate that the number of non-monetary programs is 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.

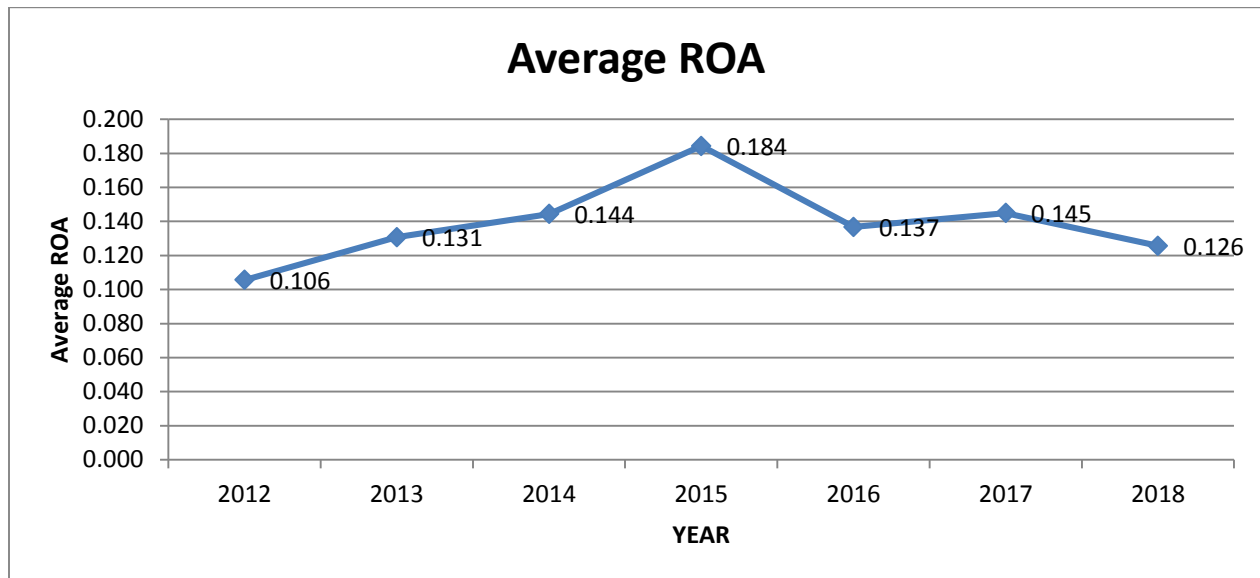


Figure 1: Trend Analysis for ROA for the Period 2012 - 2018

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 firms have been fluctuating. This means that most of the firms have had an inconsistent return on asset.

4.2.2 Non-Monetary Programs

None monetary rewards are non-financial measures that a merchant or a seller realigns with customer values to attract and retain more customers. Figure 2 presents results of trend analysis for Non-monetary Program.

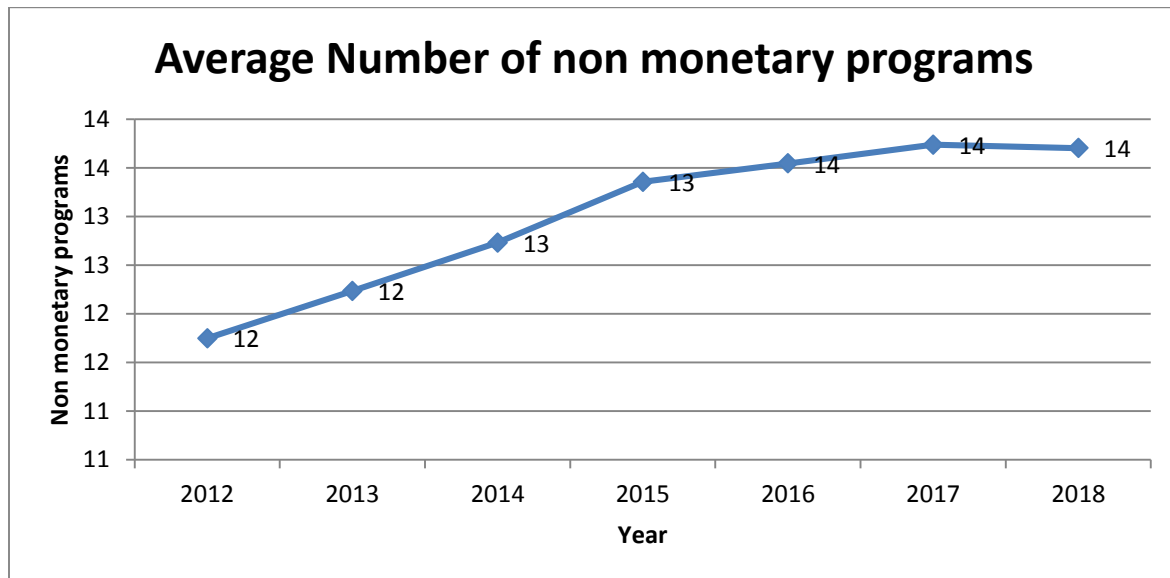


Figure 2: Trend Analysis for Number of Non-Monetary Programs for the Period 2012 - 2018

Results shows that the average number of non-monetary programs was 12 in the year 2012. The number of non- monetary programs remained constant in the year 2013 and further increased to 13 in the year 2014 and further remained constant in the year 2015. The average number of non-monetary programs further increased to 14 in the year 2016 and further remained constant in the year 2017 and further remained constant in the year 2018. This shows that number of non-monetary programs have really been gaining popularity slowly among the service providers customers.

4.3 Correlation Results

Correlation was done between the independent variables (non-monetary programs) and the dependent variable (financial performance). Results in Table 2 below show the correlation results.

Table 2: Correlation Results

		ROA	Non-Monetary program
ROA	Pearson Correlation	1	
Non-Monetary program	Pearson Correlation	0.1864	1
	Sig. (2-tailed)	0.0118	

** 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 include non-monetary programs.

In relation to non-monetary programs, the findings indicate a weak positive correlation with financial performance ($r=0.1864$). This implies that increase in non-monetary 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 as shown in the Figure 3. The results indicate that the residuals are normally distributed.

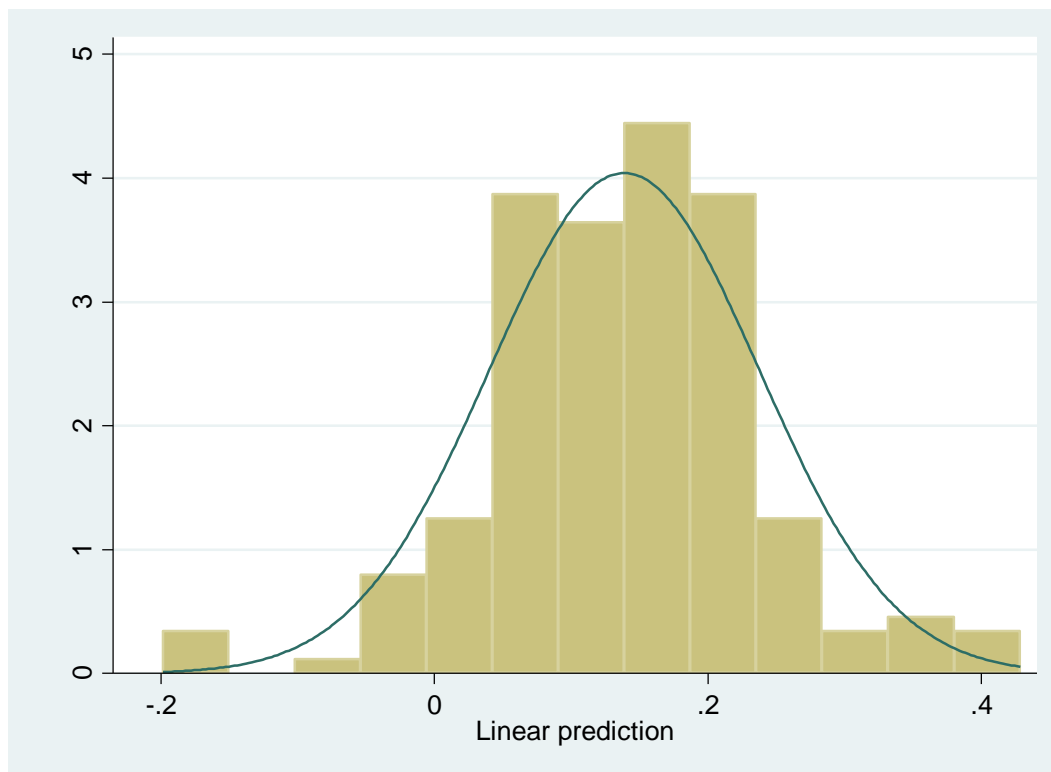


Figure 3: Normality Test

4.4.2 Multicollinearity Test

The results in Table 3 present variance inflation factors results and were established to be 1.16 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
non-monetary program	1.16	0.860

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 $p \text{ value} < 0.05$, reject the null hypothesis and vice versa. Table 4 presents the results for Hausman test. A resultant p -value of 0.000 was smaller than the conventional p value of 0.05 and thus rejecting 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.
non-monetary program	0.021839	0.010696	0.011143	0.002104

Chi2(1)=28.05
 p=0.000

4.5 Regression Results

Regression analysis for panel data to establish the relationship between non-monetary programs on Financial Performance is presented in Table 5 below.

Table 5: Non-Monetary Programs and Financial Performance

	Coef	Std.Err	T	p	{95% Conf.Interval}	
Non-monetary program	0.022	0.003	7.280	0.000	0.016	0.028
_cons	-0.145	0.040	-3.660	0.000	-0.223	-0.067

F(1,155)=52.96
 R squared= 25.47
 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.

Non-monetary program is the independent variable while financial performance is the dependent variable

Thus, the specific regression model is modeled as:

$$\text{Financial performance} = -0.145 + 0.022 X_1$$

The results show that non-monetary programs have a positive and significant relationship with financial performance ($\beta = 0.022$, $p = 0.000$) at 95% confidence level. This implies that an increase in non-monetary programs by one unit will lead to an improvement in financial

performance by 0.022 units. In addition, the findings show that the R squared is 25.47 implying that non-monetary programs explains 25.47% of the variation in performance of selected service industry firms. These findings agreed with that of Chanya (2017) who found that non-monetary programs had a significant effect on performance of Nakumatt supermarket in Western region in Kenya

4.6 Hypothesis Testing for Non-Monetary Program

The hypothesis is tested by using simple linear regression (table 5, above). The null hypothesis is that there is no significant relationship between non-monetary programs on Financial Performance of service industry in Kenya. When the F calculated is greater than the F critical, the null hypothesis is rejected. The results reveal that the $F_{cal} (52.96) > F_{critical} (3.94)$. This indicates that the null hypothesis is rejected hence there is a significant relationship between non-monetary programs on Financial Performance of service industry in Kenya. These findings agree with that of Okwudili (2015) who found that non-monetary rewards had a positive and significant effect on productivity of employees among selected government parastatals in Abia State, Nigeria. However, the findings disagree with the study of Zaharie and Seeber (2018) who found that non-monetary rewards are not necessarily effective, as in some cases they may actually discourage the most intrinsically motivated and competent reviewers.

5.0 Conclusion and Recommendations of the Study

5.1 Conclusions

The study concludes that non-monetary programs are useful and important for improving Financial Performance of the Selected Firms in Service Industry in Kenya. The study also concludes that non-monetary programs have a positive and significant effect on financial performance of selected service industries in Kenya.

5.2 Recommendations of the Study

The findings of the study clearly show that non-monetary loyalty programs significantly improve the financial performance of the service industry 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 monetary loyalty programs among service industries firms in Kenya. This can be done in friendly manner such as avoiding overly broad and strong regulation of the loyalty programs. In this regard, the government and the law makers should ensure that they involve a variety of loyalty 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 loyalty programs businesses, users, miners and advocates when creating and enforcing law.

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