

# The Influence of Customer Retention Practices on Performance of Micro and Small Agro-processing Enterprises in Tanzania

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## **Abstract**

*Customer retention practices are considered as drivers to accelerate firm performance in highly competitive business environment. However, scanty literature exists on agro-processing MSEs in developing economies. This study was carried out in Dar es Salaam, Arusha and Morogoro regions to examine the relationship between customer retention practices and performance of agro-processing micro and small enterprises (MSEs). The study employed quantitative research approach and a cross-sectional research design. Proportionate stratified sampling was used to select a sample of 302 MSEs. A self-administered questionnaire was used to collect data from these firms. Structural Equation Modelling (SEM) was used to analyse the relationship between customer retention practices and firm performance. Firm performance was found to be positive and significantly influenced by assessment to customers, analysis of competitors, response to customer needs, inter-functional coordination practices and employees behavioural practices. Business-supplier relational practices posited positive relationship with the firm performance. The findings suggest that customer retention practices are influential determinants of the performance. This implies that owner-managers of agro-processing MSEs who wish to improve the performance of their firms should put emphasis on understanding the needs of their customers, analyse the actions and behaviours of competitors, appropriately coordinate internal functions of their firms and manage employees behaviours towards customers to ensure sufficient response to needs of the customers, and they should maintain positive relationship with the suppliers of raw materials. Likewise, practitioners and policy makers should appreciate the role of customer retention practices when designing policies, trainings and support services for MSEs.*

**Key words:** *Customer Retention Practices, Agro-processing, Micro and Small Enterprises (MSEs), Performance.*

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## 1.0 Introduction

Agro-processing MSEs form the largest part agro-processing firms in Tanzania (John, 2020). The agro-processing MSEs transform agricultural outputs into semi-finished and finished goods, ensuring food quality and security (Ekblom, 2016). The agro-processing MSEs integrate the activities of other sectors including agriculture, food services, transporters and reseller sectors (Ekblom, 2016; Mkuna, Nalaila, & Isaga, 2021). This provides an indication that the development of a well performing agro-processing firms would create more jobs and raise income in the society through the interlink with other economic sectors. Notably, agro-processing has been identified as one of the key sub-sectors in accelerating the achievement of national development goals (Ministry of Finance and Planning, 2016a). However, the performance of agro-processing has remained unsatisfactory for quite long (Mazungunye & Punt, 2021). The growth and performance of agro-processing MSEs has highly been affected by the competition they face from large enterprises in their respective countries and imported products from overseas markets (Ekblom, 2016; Mazungunye & Punt, 2021).

Thus, firms which do not respond to competitive pressure through suitable practices are likely to lose customers, and this will consequently negatively affect their overall performance (Rantšo, 2016). Micro and small agro-processing firms are more vulnerable to competitive pressures than large firms due to low capital margin and limited resources for marketing activities to attract customers to their firms (Ekblom, 2016; Nkwabi, Mboya, Nkwabi, & Nkwabi, 2019). Thus, retaining the existing customers is the best option for survival and improved performance in these firms. Customer retention is well captured in customer bonding theory which indicates that firms need to form strong bonds with the customers through customer retention practices (Turnbull & Wilson, 1989).

Principally, customers are the real assets that ensure continuous cash flow of the firm (Ullah, et al., 2019), and it has been established that it is expensive to recruit new customers than to maintain current customers (Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017). It is estimated that about 80% of the business' future profits are driven from 20% of the retained customers (Hawkins and Hoon, 2019). Hence, agro-processing MSEs need to develop business practices for ensuring customer retention and long-term customer relationship with the firm (Ang & Buttle, 2005; Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017).

The retention of customers in a business is enhanced through the commitment to establish the needs and expectations of the target customers and provide them with

better product or service than the competing firms (Asagba, Coker, & Okwudu, 2020). This entails assessment of the needs of customers, analysing competitors' activities and actions and effective coordination of internal activities to best respond to customer requirements (Awan & Hashmi, 2014). It also involves well managed employees' behaviours and the relationship with different business stakeholders including the suppliers of raw materials (Sisay, 2017; Mahmoud, Hinson, & Adika, 2018). However, scanty literature exists on the relationship between customer retention practices and performance of agro-processing MSEs. Hence, the study was set to provide empirical evidence from Tanzania on the relationship between customer retention practices and the performance of agro- processing MSEs. The present study provides significant contribution to knowledge regarding business practices that can influence performance of firms. This will help owner-managers locate appropriate practices for their firms. On other hand, the study will help the government in facilitating the development of micro and small enterprises.

## **2.0 Literature Review**

### **2.1 Understanding customer retention**

The concept of customer retention was developed as a result of increased customer choices and competition in the market. The concept, which is grounded on customer bonding theory, was developed by Turnbull and Wilson (1989). The theory promotes two types of bonds which attach customers to the business, structural and social bonds. According to the authors, structural bonds are marketing activities and practices of a firm that are focused on fulfilling customer expectations while social bonds are inter-personal relationships between firm employees and customers. Thus, the formation of customer bonds is grounded on the whole marketing process of identifying customer needs and providing for them better than competitors while developing integrated marketing programmes and relationships that are profitable to different stakeholders (Kotler & Keller, 2016).

Besides, the ability to meet the requirements arise from proper understanding of the needs and well-organized internal systems that create customer value through quality products and timely deliveries which in-turn develop customer attachment to the business (Dubihlela & Khosa, 2014). Building on social and structural bonding, Buttle, Ahmad and Aldlaigan (2002) established that, for a firm to be able to retain its customer base and improve performance, it should develop marketing practices and customer relationship behaviours that can not be easily be copied by competitors. Customer bonding theory has been applied in a number of previous studies in determining the influence of customer retention on performance of a firm, including scholarly works by Joseph & Unnikrishnan

(2016); Kuria & Muturi (2018); Balci, Caliskan & Yuen (2019); and Domi, Capelleras & Musabelliu (2020).

## **2.2 Customer retention practices in micro and small business enterprises**

The purpose of customer retention practices is to induce repeat purchase from the retained customers, positive recommendations and purchase of different kind of products and services from the same producer (Bailey & Jeng, 2012; Alshurideh, 2016). All these activities have effect on the performance of a firm. Customer retention in micro and small businesses is of vital importance because these firms have limited resources to invest in aggressive marketing campaign and sales promotion for attracting new customers to buy their products and services (Magembe, 2019; Asagba, Coker, & Okwudu, 2020). On the other hand, customer retention is of crucial importance to both small service oriented and manufacturing firms since the majority of them face alarming customer loss due to stiff competition in market which subsequently affects negatively their performance (Ang & Buttle, 2005). It is noteworthy that firms that attract and maintain their highly competitive business environment are in a better state to make substantial gains (Ayakwah, Sepulveda, & Lyon, 2018). The agro-processing sector has been experiencing considerable changes with high competition from both local produce and imported processed produce (Ekblom, 2016; Ayakwah, Sepulveda, & Lyon, 2018); hence customer retention practices are of vital importance.

Therefore, in the context of small firms, customer retention practices are considered as a means of getting closer to the customers and establishing profitable relationships (Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017). The practices include obtaining information about customers and their needs, response to the needs through differentiated products and services, organization of internal activities and resources and paying attention to the behaviours of employees and other stakeholders who have direct or indirect effect on the firm's operations (Arnold, Fang, & Palmatier, 2011; Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017).

### **2.2.1 Assessment of customer needs**

Needs assessment helps firms minimize market mistakes that may result into customer loss and loss of sales revenues by selling products and services that are not appealing to them (Alhakimi & Mahmoud, 2020). The analysis of customer needs is one of the essential drivers in creating value for customer satisfaction and retention (Abd Majid et al., 2017).

### **2.2.2 Analysis of competitors**

Competitor analysis provides a comprehensive knowledge of the market in relation to the available needs, products, services and marketing practices (Lamore, Berkowitz, & Farrington, 2013). Thus, keenly studying the competitors provides a firm with an opportunity to develop competitive advantage through benchmarking firm's offers and services with those of key competitors (Kotler & Keller, 2016; Ayakwah, Sepulveda & Lyon, 2018).

### **2.2.3 Inter-functional coordination practices**

Well coordinated firm activities ensure sufficient flow of information and resources to respond to information collected from the market (Hirsch & Schiefer, 2016). Hence, effective coordination practices ensure collection of quality information, though dissemination of the information and response to the needs which act as a barrier to customer movement from one supplier to another one (Sisay, 2017; Hübnerová, Tomášková, & Bednář, 2020).

### **2.2.4 Response to customer needs**

Responding to customer needs involves provision of products and services that meet or exceed customer expectations (Makhitha, 2016). The process involves differentiation from the rest of the market in terms of product quality, product availability, prices, communication and sufficiently solving customer queries (Kim, 2017; Domi, Capelleras, & Musabelliu, 2020). Thus, to be able to maintain current customers and call for new ones, firms should be in a position to provide for both displayed and hidden needs of the customers (Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017).

### **2.2.5 Employees behavioural practices**

Employees' behaviour affects the response and decision of the customers on whether to continue relating with the business or not. This is because the employees play a crucial role in ensuring that customer needs are determined and that products and services are developed and provided in accordance with customers' expectations (Parawansa, 2018). Thus, the behaviours displayed by the employees including commitment, trust, technical knowledge and inter-personal relationships are key to formation of social bonds with the customers (Parasuraman, Zeithaml, & Berry, 1988; Sancho, Martínez-Martínez, Jorge, & Madueño, 2018).

### **2.2.6 Business-supplier relational practices**

Business-suppliers relationship involves mutual collaboration between the two with the focus of improving customer satisfaction (Nkwabi & Fallon, 2020). Basically, the behaviours of raw material supplier has direct effect on the firm's relationship

with the final customers. Thus, increased response to the customer requirements is highly associated with such practices of suppliers including timely delivery, quality material in the required quantities as well as favourable payment terms (He, Zhang, Li, & Piesse, 2017; La Roccaa, Perna, Snehota, & Ciabuschi, 2019; Nkwabi, Mboya, Nkwabi, & Nkwabi, 2019).

### **2.3 Performance measurement in small firms**

Performance in small businesses is measured using different financial and non-financial parameters. These parameters include profits, total sales, gross-profit margin change in number of employees, and customer satisfaction (Sharmeela-Banu, Gengeshwari, & Padmashantini, 2013; Domi, Capelleras, & Musabelliu, 2020). Likewise, performance has been measured using profit margin, net profit margin, survival rate, return on investment, and brand loyalty customer satisfaction (Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017; Michna, 2018; Hawkins & Hoon, 2019). On the other hand, performance in small businesses has been measured based on abilities to minimize costs, return on capital employed, employee satisfaction, market share, innovation, optimization in use of technology and change in number of customers and (Hussain, Shah, & Khan, 2016; Herath & Karunaratne, 2017; Pastor, Gutiérrez, & Agudob, 2019).

From these measures, it can be observed that there is consensus on specific measures of performance in small businesses. Basically, the choice of measures depends on the business goals, context, owner-manager's interest, business practices and strategies in place (Bulak & Turkyilmaz, 2014; Mishra & Mohanty, 2018). The present study measured performance using two dimensions: change in number of customers and sales revenue. The selection of these performance measures was not meant to replicate the mostly used performance measures, but rather the decision based on the problem of the study and the context in which the study was grounded. It is believed that the use of appropriate customer retention practices will result into repurchase behaviour and positive recommendations from the existing customers (Hawkins & Hoon, 2019), the behaviours which are likely to increase the number of customers and sales revenue of a firm. Additionally, with the ability to retain customers, firms are likely not to incur high marketing costs to solicit new customers to try firm's products (Sharmeela-Banu, Gengeshwari, & Padmashantini, 2013).

### **2.4 Customer retention practices and business performance**

Generally, the empirical literature suggests that customer retention practices are associated with firm performance. Several studies have been set to test the relationship; however, they were conducted in different settings and context from

agro-processing MSEs. For example, Sharmeela-Banu, Gengeshwari and Padmashantini, (2013) conducted a study on retail stores; Arnold, Fang, & Palmatier (2011) conducted a study on financial services and retail stores; and Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe and Ajayi, (2017) conducted a study on service and industrial firms. Other scholars who have studied related issues are Abd Majid et al., (2017) who studied retail stores, Hawkins and Hoon, (2019) who studied janitor service, and Domi, Capelleras and Musabelliu (2019) and Asagba, Coker, & Okwudu (2020) who studied retail chain stores. All these studies found positive relationship between customer retention practices and firm performance, though the results cannot be generalized to agro-processing MSEs because of differences in context and operational characteristics in terms of competition, employees' links to customers, price differences due to seasonality of raw materials, working sections, and different types of customers.

Basically, appropriate use of customer retention practices results into re-purchase, cross-buying and attraction of new customers, all of which increase firm performance (Sharmeela-Banu, Gengeshwari, & Padmashantini, 2013; Hawkins & Hoon, 2019). Besides, increase of customers through referrals helps the firm to serve expenses associated with attracting new customers and thus improving the sales and profits (Asagba, Coker, & Okwudu, 2020). However, different from the present study that employed market-based customer retention practices, their studies defined customer retention practices using relationship management, brand loyalty, pricing practices and quality services, the variables which were tested in relation to the firm performance. Besides, customer retention practices of employees' behaviour, structuring of the organization and relationship management were found to have positive effect on the sales revenues, taking on board that existing customers are regarded to be less price sensitive than in-coming customers (Ciunova-Shuleska, Palamidovska-Sterjadovska, Osakwe, & Ajayi, 2017).

Despite the positive association established between customer retention practices and firm performance, the majority of these studies were conducted in service-based sectors which have different characteristics from agro-processing firms. Unarguably, the research work needs to be very specific in terms of context of the study, industry, theories, methods and techniques, and finally the results (Bertelsen, Bødke, Eriksson, Hoggan, & Vermeulen, 2019). Nevertheless, studies such as those conducted by Sharmeela-Banu, Gengeshwari, & Padmashantini (2013), and Asagba, Coker, & Okwudu (2020) used customers, employees, and different units of inquiry. Mostly, the information of MSEs is possessed by owner-managers and most of the firms' decisions are made by the owner-managers (Alshurideh, 2016).

Different from the above cited studies, the present study used owner-managers as the unit of inquiry.

Subsequently, a study by Neneh (2018) established positive relationship between customer orientation involving the understanding and providing for customers needs and the sales revenue of a firm. Different from their study, the present study measured sales revenue objectively whereby actual sales data were collected with the intention to capture the real state of sales revenue for of the studied firms (Dar & Mishra, 2020). On the same note, O'Dwyer and Gilmore (2019) established that firms that can analyse the market and understand competitors activities more likely raise their performance through improved products and services. Firms's internal coordination, response to the customer needs through quality products and services and proper employees and suppliers' behaviour are associated with firms' positive performance (Hirsch & Schiefer, 2016; Yu, Yen, Barnes, & Huang, 2017; Babu, 2018; Um & Kim, 2018). Deriving from the forgoing literature review, the current study hypothesizes that: H: Customer retention practices positively influence the performance of agro-processing MSEs.

### **3.0 Methodology**

#### **3.1 Study area**

The study was carried in Morogoro, Dar es Salaam, and Arusha. The regions were purposively selected due to prevalence of the problem. The three regions present high competition of agro-processing firms in Tanzania, ranging from micro to large scale enterprises (National Bureau of Statistics (NBS) & Ministry of Industry, Trade and Investment (MITI), 2018). High competition results into loss of customers by MSEs, compared to large firms resulting into poor performance of MSEs (Ekblom, 2016; Mamo, 2022). Notably, the data were collected in urban parts of the regions with a consideration that most of these firms are found in urban areas since urban areas of Tanzania have better infrastructure to support agro-processing activities than rural areas (Kamuzora, 2013).

#### **3.2 Research approach, design and sampling procedures**

The study employed a quantitative research approach. Quantitative approach was found to be relevant because the study intended to explain the relationship between variables whereas prior established measurement items were used to test the hypothesized relationship (Saunders, Lewis, & Thornhill, 2016). The cross-sectional design research design was employed whereby data from many different individuals were collected at one point in time (Creswell, 2014). Cross-sectional design is effective in controlling the influence of factors that may affect the data, given a wide range of time (Saunders, Lewis, & Thornhill, 2016). The study



focused on micro and small agro-processing enterprises using owner-managers as the units of inquiry. The study focused on firms that had been in operation for at least 3 years with understanding that three years' time is sufficient time for an enterprise to define its direction and outcomes (Kiwia, Bengesi, & Ndyetabula, 2019). Moreover, to maintain consistence, the study was focused on MSEs with 1 to 20 employees and capital investment between 3.5 to 50 million. A total of 1690 firms were identified as a sampling population for this study in the three regions: Dar es Salaam (800), Morogoro (468) and Arusha (422). Lists of firms were developed from SIDO and Municipal Councils of the respective regions, and Yamane (1967)'s formula was used to calculate the sample size as follows:

$$n = \frac{N}{1+Ne^2}$$

Whereas  $N$  = population size,  $n$  = sample size, and  $e$  = level of precision (margin of error limit). The study assumed a confidence level of 95% and a precision level of 0.05.

$$\text{It follows that, } n = \frac{1690}{1+1690 \times (0.05)^2} = 323.445 \approx 323$$

A proportionate number of agro-processing firms were picked from respective regions, followed by proportionate selection of agro-processing activities which were placed under distinct strata of cereal milling, fruits processing, honey, milk processors, bakeries and peanut butter processing firms. Proportionate sampling is considered more accurate and easier to carry out than other simple random sampling techniques (Blumberg, Cooper, & Schindler, 2014). A total of 323 questionnaire copies were distributed, but 302 of them were received duly filled out and processed.

### **3.3 Measurement of key variables**

#### **3.3.1 Performance measurement**

Performance in this study was measured using total sales and change in number of customers as financial and non-financial measures respectively. Regarding the total sales, the respondents were asked to indicate the average total sales on the previous day, week or month. The average total sales per month were established for the studied firms. On the other side, change in number of customers was captured by asking the respondents to identify increase or decrease in number of customers in the business for previous three years from the time of data collection, and then the average values were calculated. Notably, variables which have been associated with firm performance in MSEs in previous studies; including size of capital investment,

type of business activity, education level and the age of an enterprise (Bengesi & Le Roux, 2014; John, Mwakalobo, & Bengesi, 2019); were controlled for in the analysis.

### **3.3.2 Customer Retention practices**

Customer retention practices of assessment to customer needs, competitor analysis, inter-functional coordination and responsiveness to customer needs were measured using MKTOR scale was developed by Narver and Slater (1990). Employees' behavioural practices and business-supplier relational practices scales were adopted from the works of Santos-Vijande, Sanzo-Pérez, Álvarez-González and Vaázquez-Casielles (2005) and Sisay (2017) respectively. The responses were categorized under agree-disagree continuum on a Likert scale of 5 points.

## **3.4 Data Analysis**

The influence of customer retention practices on performance of agro-processing MSEs was tested using Structural Equation Modelling (SEM). SEM is a powerful multivariate analysis technique which analyses complex relationship with many endogenous and exogenous variables (Hair Jr, Babin, & Krey, 2017). SEM starts with factor analysis was followed by structural modelling of hypothesized relationship. Thus, confirmatory factor analysis (CFA) was performed with the aim of validating the constructs of customer retention practices; the results were followed with testing their interrelationship with performance variables. The CFA established composite reliability, convergent validity and construct validity for customer retention practices as shown under section 3.5.

## **3.5 Model evaluation**

The fit indices for customer retention practices were established whereby the ratio of chi-square to degrees of freedom ( $\chi^2/df$ ) was found to be 1.684, a value which lies within the acceptable range of  $< 5$ . GFI (0.906) and CFI (0.95) were good, below the acceptable minimum limit  $>0.90$ , and RMSEA was 0.042 which is less than the maximum value of 0.05. Thus, the calculated fit indices confirmed the validity of the model (Crede and Harms, 2019).

On the other hand, further confirmatory test established discriminant and convergent and validity and composite reliability of the dimensions of customer retention practices. Average Extracted Values (AVE) were found to range between 0.626 and 0.694 which are greater than 0.5 (Creswell, 2014), and the values of Maximum Shared squared Variance (MSV) were found to be less; they ranged from 0.182 to 0.248—values which are less than AVE values and thus confirming validity of the model (Saunders, Lewis, & Thornhill, 2016). Additionally, the

following composite reliability values were obtained: Assessment of Customer Needs (CR = 0.704), Response to Customer Needs (CR = 0.769), Analysis of Competitors (CR = 0.739), Employees Behavioural Practices (CR=0.855), Inter-functional Coordination Practices (CR = 0.709) and Business-Supplier relational practices (CR = 0.853). All the constructs were identified to present high internal consistency with composite reliability values of at least 0.7 (Creswell, 2014; Saunders, Lewis , & Thornhill, 2016; Ronkko & Cho, 2022).

**4.0 Results and Discussion**

The main purpose of the study was to determine the influence of customer retention practices on performance of agro-processing MSEs in Tanzania. The inferential analysis was conducted to test the hypothesized relationship. Customer retention practices were regressed against change in number of customers and total sales revenue of the enterprises. According to Creswell (2014) the regression results with  $p < 0.05$  present a significant relationship between the tested variables.

**4.1 Customer retention practices and change in number of customers**

Regression analysis of customer retention practices on change in number was done. Significant positive relationship was established between customer retention practices and change in number of customers. The results presented positive significant relationships with assessment of customer needs (ACN) ( $\beta = 0.307$  and  $p = 0.030$ ), competitor analysis (AC) ( $\beta = 0.048$  and  $p = 0.027$ ), response to customer needs (RCN) ( $\beta = 0.116$  and  $p < 0.001$ ), inter-functional coordination practices (ICP) ( $\beta = 0.337$  and  $p = 0.034$ ), employee behavioural practices (EBP) ( $\beta = 0.045$  and  $p = 0.022$ ), and business-supplier relational practices (BSRP) ( $\beta = 0.209$  and  $p = 0.1373$ ).

**Table 1: Regression weights of customer retention practices and change in number of customers in agro-processing MSEs**

Endogenous		Exogenous	Estimate	S.E	CR	P-value
Change in number of customers (CNC)	<---	ACN	0.307	0.142	2.17	0.03
	<---	AC	0.048	0.123	2.568	0.027
	<---	BSR	0.209	0.237	1.134	0.1373
	<---	RCN	0.116	0.228	3.696	<0.001
	<---	EBP	0.045	0.109	2.434	0.022
	<---	ICP	0.337	0.159	2.121	0.034

Source: Data analysis (2022)

The results imply that, where a firm is able to establish customer needs there are high chances of aligning the products with the customer requirements resulting into satisfaction, loyalty and positive recommendations which attract more customers to the firm's products. Likewise, competitor analysis may help to reveal some information that could not be captured from the customer analysis activities, hence, improving firm's decisions related to creation of customer value and satisfaction which finally results into more positive recommendations and increased customer flows into the business. Basically, appropriate response to customer needs accelerates the rate of new customers joining the firm and its product (Hussain, Shah, & Akhtar, 2016). This is because satisfied customers tend to voluntarily tell other individuals in their social circles who, in the due time, start using and purchasing products from the firm.

On the other hand, a unit increase in inter-functional coordination practices of agro-processing MSEs was found to significantly and positively affect change in number of customers. This implies that proper coordination of functional units allows efficient processes and operations resulting into customer satisfaction and positive word mouth. That is to say, well-coordinated internal activities, functions and processes affect what is delivered to the external customers and hence influencing customer behaviours and decisions. Moreover, the findings established positive significant relationship between employees' behavioural practices and change in number of customers in agro-processing enterprises. This is because the actions and behaviours of the employees towards customers determine the future decisions of customers to transact with the firm or not. These results are in line with results of a research by Allen and Shanock (2013) which provided some evidence that employees' behaviours affect bonds that customers have with the business, resulting into either positive recommendations or null says about the business and its products. Similarly, a well-built social interaction between firm's employees and customers helps to identify hidden customer needs and unspoken complaints which might affect customer-business relationships. Finally, the regression results of business-supplier relational practices on change in number of customers established positive but insignificant relationship. The findings are different from those of Um and Kim (2018) which established positive significant influence of supplier relationship management on firm's performance. The result differences in these studies can be explained by differences of firms size, competition and seasonality of production and price fluctuations. However, the positive relationship provides some evidence that owner-managers need to keep basic relationships with raw material suppliers.

## 4.2 Customer retention practices and total sales

Overall regression results showed positive association between customer retention practices and total sales of agro-processing MSEs. More specifically, five (5) out of six (6) constructs of customers retention practices had positive and significant relationship with the total sales of the agro-processing MSEs with the assessment of customer needs (ACN) ( $\beta = 0.251$ ,  $p < 0.001$ ), analysis of competitor (AC) ( $\beta = 0.223$ ,  $p < 0.001$ ), inter-functional coordination practices (ICP) ( $\beta = 1.323$ ,  $p < 0.001$ ), response to customer needs (RCN) ( $\beta = 0.979$ ,  $p < 0.001$ ) and employees behavioural practices to customers (EBP) ( $\beta = 0.326$ ,  $p < 0.001$ ). Business-supplier relational practices (BSRP) were found to positively affect total sales though the established relationship was found to be insignificant ( $\beta = 0.017$ ,  $p = 0.782$ ).

**Table 2: Regression weights of customer retention practices and total sales of agro-processing MSEs**

Endogenous		Exogenous	Estimate	S. E	CR	P-Value
TSales	<---	ACN	0.251	0.071	3.558	< 0.001
	<---	AC	0.223	0.041	5.501	< 0.001
	<---	RCN	0.979	0.129	7.608	< 0.001
	<---	ICP	1.323	0.311	4.251	< 0.001
	<---	EBP	0.326	0.052	6.226	< 0.001
	<---	BSR	0.017	0.062	0.277	0.782

**Source:** Data analysis (2022)

The results provide an indication that customer retention practices determine the sales level of the firm. The results provide an indication that increase in assessment of customer requirements, for example, through regular discussions about customer expectations, product and service feedbacks and learning of customer's purchase behaviour affects firm's sales to the target market. On the same note, competitor analysis established positive significant relationship with the total sales of the studied firms. This implies that a close follow-up of competitors helps to reveal some pertinent information which could not be captured through customer analysis facilitating the benchmarking of firms' activities with those of competitors. This is in agreement with Maurya, Mishra, Anand and Kumar (2015) who posit that firms which pay a wide-open eye on customers and competitors can easily capture market intelligent information and thus are able to create customer value through suitable products and services.

Besides, the results revealed that total sales were positively and significantly influenced by responses to customer needs. This signifies that the practices of an enterprise to fulfill customers' expectations through innovative and differentiated

products, market-based pricing, efficient distribution channels and effective communications help accelerate the total sales of a firm. Basically, appropriate response to the expectations of customers triggers repeat purchases and positive recommendation of the firm and its products. Likewise, these results bring an implication that response to customer needs through providing feedback to customers on such matters as service setbacks and late deliveries, the information that increases customer trust and reduces unnecessary complaints while strengthening customer bonding to business. Nevertheless, the regression results indicated that total sales were significantly influenced by inter-functional activities of a firm including the internal processes, formal and informal sharing of information and knowledge and through coordinated ways of responding to customer requirements. This implies that, through proper coordination of functional units, employees get necessary information about customer requirements facilitating appropriate processing of customer orders. Thus, an effective organization of internal activities is of paramount importance in enhancing the performance of a firm.

Equally important is the relationship between employees' behaviour and sales revenues of agro-processing firms. The statistical results established significant positive association between employees' behavioural practices and sales revenue. In the present study employees' behavioural practices were defined by proactiveness, responsiveness, commitment, trust, knowledgeability and interpersonal skills. Essentially, employees' behaviour constitute the social part of a customer-business bond which is reflected on improved sales to existing and new customers.

Lastly, regression analysis of business-supplier relational practices with sales revenue was carried out. The statistical evidence showed positive but not significant relationship. The possible explanation for the insignificant relationship observed may be due to the fact that owner-managers of agro-processing SMEs do not solely depend on a single source of raw material supplier; the actions of the latter may not adversely affect the activities of the former. This is because the smallness and flexible nature of micro and small agro-processing enterprises allow easy building of relationship with different raw material suppliers compared to large firms which are less flexible. Thus, these results are different from results of a study by Lii and Kuo (2016) which indicated significant positive relationship between business-supplier relationship management and the performance.

## **5. Conclusion and recommendations**

This study was designed with the purpose of determining the influence of customer retention practices on performance of agro-processing MSEs. Change in number of

customers and total sales were used as the indicators of firm performance. The findings of the study affirmed that assessment of customer needs, competitor analysis, response to customer needs, inter-functional coordination, and employees' behavioural practices are influential determinants of change in number of customers and total sales in micro and small agro-processing enterprises. The results demonstrate that firms which engage in findings out the needs of the customers and appropriately provide for them are in a better position to improve the number of customers and sales than other firms. On the same note, the findings provide implications that, effective integration and coordination of functional activities in a firm and suitable employees' behaviours are significant determinants of sales and number of customers of the enterprises. Regarding the effect of business-suppliers on performance, the findings suggest that relational practices between a firm and the supplier do not significantly determine change in numbers of customers and total sales in micro and small agro-processing enterprises although the relationship was found to be positive.

From the results, it was established that while a number of factors determine the performance of MSEs, owner-managers should seek to fully employ customer retention practices especially in a highly competitive business environment for the survival and improved performance of their enterprises. On the other hand, it can be advanced from the customer bonding theory that different firms need different customer retention practices for improved performance. Notably, the improved performance of agro-processing MSEs has positive implications on other economic sectors which work closely with the agro-processors. Besides, for informed policies and designing of support services and trainings for MSEs, the business practices that result into improved performance should be fully studied and understood. Therefore, practitioners and policy makers should appreciate and take into account the role of specific customer retention practices in determining the performance of micro and small agro-processing enterprises. For the improved performance of MSEs, future studies can consider testing customer retention practices in other industries and sub-sectors different from agro-processing. Likewise, similar studies using longitudinal design can be carried out to ascertain whether the results can be influenced by differences in time frame during data collection.

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