Examining the Impact of Reciprocity on Customer Loyalty in The Small and Medium Enterprises Sector

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Abstract
Small and Medium-sized Enterprises (SMEs) face tough competition in the market; therefore, they need to create and build their loyal customer base for growth and sustainability. The main objective of this study was to assess reciprocity influence on customer loyalty in SMEs in Tanzania. The study used Reciprocity Theory and Behaviourist Theory to assess the influence of reciprocity on customer loyalty in SMEs in Tanzania. Customers from bars, hair salons, and kiosks participated in the survey because these SMEs contribute significantly to the growth of the Tanzanian economy. 288 customers drawn from bars, hair salons, and kiosks in Dodoma Urban City participated in the survey. Convenience sampling was used to obtain the sample size of 300. Regression analysis was employed to test the study hypotheses. The study found that reciprocity is a significant factor influencing customer loyalty. The study therefore concludes that the application of reciprocity improves customer loyalty in SMEs in Tanzania. The study recommends that SMEs wishing to develop customer loyalty should treat customers nicely.

Keywords: Customer loyalty, Reciprocity, SMEs

1.0   INTRODUCTION

Over the year's businesses have been focusing on improving customer loyalty (Ali, 2020). Having loyal customers represents a significant competitive advantage for any business (Ali, 2020). This is because loyal customers drive sales for a business, and are more likely to make more purchases, and spend more (Mashenene, Msendo, &Msese, 2019). Ngoma and Ntale (2019) asserted that customer loyalty makes it difficult for a competitor to enter the market or increase market share. However, it has been a problem for firms to make their customers remain loyal to their business, particularly in the existing competitive market; as a result, businesses have adopted reciprocity (Fentie, 2020).

Reciprocity is the mutual exchange between two or more participants (Fentie, 2020). It is a social norm in which one person gives something to another and that person gives something back in return (Fentie, 2020). However, there has been a growing body of literature concerning the effect of reciprocity on customer loyalty in countries like; Ethiopia, Kuwait, Kenya, and Indonesia (Fentie, 2020; Khayira, 2022). In addition, various recent studies in these countries on the effect of reciprocity on customer loyalty have been carried out in different business sectors such as banking and telecommunication sectors (Fentie, 2020; Khayira, 2022) leaving r SMEs such as kiosks, bars, and hair salons untouched. Therefore, this study intends to close the existing knowledge gap by extending this study to areas such as kiosks, bars, and hair salons in the context of the local level in Dodoma City, Tanzania.

SMEs have always taken significant roles in the world economy (Hadriana, 2016). SMEs, which are the driving force of economic growth, have an important effect on economic activity (Gherghina, Botezata, Hosszu, & Simionescu, 2020). SMEs are important to almost all economies in the world, but especially to those in developing countries (Hadriana, 2016). There is considerable interest in SMEs in developing countries (Gherghina et al., 2020). There are probably two main reasons for this. According to Gherghina et al., (2020) one is the belief that SME development might prove to be an effective antipoverty programme and the second is the belief that SME development is one of the building blocks of innovation and sustainable growth (Gherghina et al., 2020). These two reasons are of course linked because most of the international evidence says that growth and real poverty reduction go hand in hand (Gherghina et al., 2020). If SME development helps growth, more than likely it helps reduce poverty as well (Gherghina et al., 2020). Furthermore, SMEs contribute to employment, income generation, and export revenues in developing countries (Gherghina et al., 2020).

In Tanzania, the SME sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation as a base for industrial development (Small & Medium Enterprises Development Policy, 2003). The sector is estimated to generate about a third of the GDP, employs about twenty percent of the Tanzanian labour force and has the greatest potential for further employment generation (Small & Medium Enterprises Development Policy, 2003).

This study is important because customer loyalty has been shown to play an important role in the long-term success of SMEs (Handriana, 2016; Hoque, Awang & Salam, 2017). Customer loyalty is important for maintaining the

market share (Kyurova & Davidkova, 2020). In addition, loyalty is an important marketing tool that SMEs use to influence their customers (Kyurova & Davidkova, 2020). Furthermore, the task of SMEs is to make their customers loyal to achieve a sustainable competitive advantage (Kyurova & Davidkova, 2020). Thus, the adoption of reciprocity is essential for improving customer loyalty in the SME sector.

Hence, it becomes indispensable to examine the relationship between reciprocity and customer loyalty in SMEs. The findings of this study could show whether reciprocity is the sole significant factor in influencing customer loyalty, or whether customer loyalty is better explained by other factors.

Customer loyalty is defined as a measure of a customers' likeliness to do repeat business with a firm (De Mooiji, 2019). It is the result of customer satisfaction, positive customer experience, and overall value of the goods or services a customer receives from a business (De Mooiji, 2019). Customer loyalty is also defined as the act of choosing one company's products and services consistently over its competitor (Zaid 2020). This study has adopted the definition by De Mooiji (2019) as it is widely accepted by researchers such as Fentie (2020) and Khayira (2022).

In addition, Falk and Fischbacher (2006) defined reciprocity as people rewarding kind actions and punishing unkind ones. Reciprocity is also defined as the giving of benefits to another in return for benefits received (Shamsudin & Mustapha, 2020). This study has adopted the definition by Falk and Fischbacher (2006) as it is widely accepted by researchers such as Derbew (2019) and Fentie (2020).

Furthermore, World Bank 's definition of SMEs is micro scale; less than 50 employees, small scale; 50 employees, medium scale; 50-200 employees (World Bank Group, 2023). A small firm is a business with a capital investment of above five million to two hundred million (World Bank Group, 2023). A medium enterprise is a business with a capital investment of above two hundred million to eight hundred million (World Bank Group, 2023). According to the Small and Medium Enterprises Development Policy (2003), small enterprises consist of 5 to 49 employees or with capital investment from Tsh. 5 million to Tsh. 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tsh. 200 million to Tsh. 800 million. This study has adopted the definition of Small and Medium Enterprises Development Policy (2003).

The reciprocity theory was the main theory guiding this study. Reciprocity theory was developed by Philip Kunz in 1974 (Shamsudin & Mustapha, 2020). The

theory is a social rule that means to evaluate people towards their behaviours and attitudes towards people (Yazid & Zulkifli, 2020). The theory explains about the expectation and real action that people would similarly respond to each other (Yazid & Zulkifli, 2020). Reciprocity theory explains why human behaviour and actions are different among people towards other people (Shamsudin & Mustapha, 2020). Reciprocity is the basic law of social psychology (Shamsudin & Mustapha, 2020). In simple words, reciprocity is a social situation in which people pay back what they receive from other people. The strength of this theory is that reciprocity is a very important variable that can help a business build a relationship between sales and customers (Yazid & Zulkifli, 2020). According to this theory, if the seller becomes kind to the customer, then the customer will repay their kindness by being a good customer, and being loyal to the business (Yazid & Zulkifli, 2020). The weakness of this theory is that reciprocity does not apply to all customers because every customer is different. In other words, not all customers will be nice even though the business does something nice for customers (Yazid & Zulkifli, 2020).

The Behaviourist Theory was developed by John Watson in 1913. This theory focuses on consumer behaviour (Gupta, 2022). In other words, behavioural loyalty is concerned with the observable actions and patterns of consumer behaviour (Gupta, 2022). This type of loyalty is reflected in the consumer's actual engagement with a business through repeated purchases (Gupta, 2022). This theory's strength is that it is tangible and can be quantified. Its weakness is that it does not focus on feelings and perception of consumers.

Different studies have been conducted to determine the link between reciprocity and customer loyalty. Derbew (2019) carried out research titled "Effects of Relationship Marketing on Customer Loyalty in the Banking Sector of Ethiopia". The study applied Reciprocity Theory and Behaviourist Theory. The study aimed to examine how marketing strategies impact on customer loyalty in the Ethiopian banking sector. One of the variables examined was reciprocity. The sample size was 400 customers, and data was collected using a survey questionnaire. The findings of this study revealed that there was a positive and significant correlation between reciprocity and customer loyalty. The limitation of the study was that it was carried out in the Ethiopian context and banking sector. Therefore, further studies in other countries and other sectors are needed to find the influence of reciprocity on customer loyalty in SMEs and Tanzania in particular to understand the theoretical and empirical factors that can influence customer loyalty in different environmental settings.

Likewise, Khayira (2020) carried out a study on the effect of relationship marketing orientation on customer loyalty in the Kenyan telecommunication

sector. The study applied Reciprocity Theory and Behaviourist Theory. The purpose was to determine how marketing strategies impact customer loyalty in the Kenyan telecommunication sector. One of the variables examined was reciprocity. The sample size was 100 customers, and data was collected using a survey questionnaire. Data was analyzed using multiple regression analysis. Results indicated that reciprocity had a significant effect on customer loyalty. The limitation of the study was that it was carried out in the Kenyan context and telecommunication sector. Therefore, further studies in other countries and other sectors are needed to find the influence of reciprocity on customer loyalty in SMEs and Tanzania in particular to understand the theoretical and empirical factors that can influence customer loyalty in different environmental settings.

Similarly, Pranckeuiciute and Kiyak (2018) undertook a study on the influence of relationship marketing dimensions on customer loyalty in the Lithuania health care sector. The study applied Reciprocity Theory and Behaviourist Theory. The purpose of the study was to identify how marketing strategies impact on customer loyalty in the Lithuania health sector. One of the variables examined was reciprocity. The sample size was 200 customers. Data was analyzed using multiple regression analysis. Results revealed that reciprocity had an insignificant influence on customer loyalty. The study was carried out in Lithuania context and health sector. Therefore, further studies in other countries and other sectors are needed to find the influence of reciprocity on customer loyalty in SMEs and Tanzania in order to understand the theoretical and empirical factors that can influence customer loyalty in different environmental settings.

In addition, Fentie (2020) carried out a study on the effect of relationship marketing on customer loyalty in the Ethiopian banking sector. Reciprocity Theory and Behaviourist Theory were used to guide this study. The aim was to determine how marketing strategies impact on customer loyalty in the Ethiopian banking sector. One of the variables examined was reciprocity. The sample size was 384 customers, and data were collected using a survey questionnaire. Data was analyzed using multiple regression analysis. Results indicated that reciprocity had a positive and significant impact on customer loyalty. The limitation of the study was that it was carried out in the Ethiopian context and banking sector.

Therefore, further studies in other countries and other sectors are needed to find the influence of reciprocity on customer loyalty in SMEs and Tanzania in particular to understand the theoretical and empirical factors that can influence customer loyalty in different environmental settings. Therefore, this study intends to close the existing knowledge gap by extending this study to SME

businesses in the context of Tanzania. Therefore, the following hypothesis was formulated:

H_1: *Reciprocity has a positive and significant influence on SME customers' loyalty in Tanzania.*

2.0 METHODOLOGY

This study adopted the deductive approach as the study used reciprocity theory and behaviourist theory to test the hypothesis to understand the influence of reciprocity on customer loyalty in SMEs in Tanzania. This study also employed explanatory research design because the objective was to establish the cause-effect relationship of reciprocity and customer loyalty (Bhattacheree, 2012). The units of analysis were SME customers from bars, hair salons, and kiosks who were residents of the urban part of Dodoma City. This study was conducted in the urban part of Dodoma City. This study focused on bars, hair salons, and kiosks because according to scholars such as Palmatier et al. (2006), service firms make a suitable candidate for implementing reciprocity strategy. Also, these SMEs have an important contribution to the growth of Tanzania's economy (TRA, 2020). Dodoma City was chosen as the location of the study because it has many SMEs, which are bars, hair salons, and kiosks compared to other cities in Tanzania (TRA, 2020). The target populations for this study were SME customers from bars, hair salons, and kiosks who were residents of urban Dodoma City and who regularly visited these SMEs. The total targeted population consisted of 1240 customers (TCCIA, 2019). The questionnaires were issued to 300 customers using a convenience sampling method among which 288 were collected The sample size was obtained using the formula provided by Yamane (1967), which was as follows:

$n = N \div 1 + N(e)^2$

Where n= required sample size, N = Population size of 1240, e = level of precision which is 0.05 for a confidence level of 95%. Thus, the total numbers of SMEs were 15. Then from each SME, the sample size of respondents should be as follows: Bars: 5/15x300= 100 respondents; Kiosks: 5/15x300= 100 respondents; Hair salon: 5/15x300= 100 respondents. Therefore, 100 respondents were selected from each entity: bars,hair salons, and kiosks.

Furthermore, internal consistency was measured using Cronbach alpha. Content validity was ensured when the survey was taken to the marketing experts. A survey was modified before it was used in the actual data collection tools. The construct validity was tested using the Exploratory Factor Analysis (EFA) and this was performed with the assistance of the Statistical Package for Social

Science software (SPSS) version 26. The study instruments were assessed on their criterion validity and found the value of the correlations with the outcomes of the study by ensuring that the study had used the relevant literature with the studied phenomenon. Thus, the questionnaire had a certain degree of criterion validity. Multiple regression was used to test the hypotheses of this study.

3.0   RESULTS AND DISCUSSION

The study was to find out the influence of reciprocity on customer loyalty in SMEs in Tanzania. Thus, the study described some of the demographic characteristics of the respondents. The study used descriptive statistics, that is, frequencies and percentages to analyse the demographic characteristics of the respondents. This is important because previous studies on the marketing field conducted by Husnain and Akhtar, (2015), Andleeb (2017), Zaid (2020), and Gupta (2022) had shown that demographic characteristics of the respondents influence marketing strategies; therefore, this study described the characteristics of the respondents under the study. The sample comprised 288 customers who visited bars, hair salons, and kiosks. Table 1 presents the demographic structure of the sample.

Table 1: Demographic Profile

Particulars	Criteria	No of respondents	Percentage
Gender	Male	186	64.58
	Female	102	35.42
Age	18-29	44	15.28
	30-39	126	43.75
	40-49	104	36.11
	50 and above	14	4.86
Education	Secondary level	48	16.67
	Diploma	115	39.3
	Undergraduate	74	25.69
	Master's degree	51	17.11
Visited SME	Bars	96	33.33
	Hair saloon	94	32.64
	Kiosk	98	34.03

Source: Field Work (2023)

There were more male respondents in the sample (64.58%) than female respondents. The largest number of respondents (43.75%) belongs to the 30-39 age group, followed by number of respondents in the 40-49 age group (36.11%). The 18-29 age group accounts for the least number of respondents (15.28%). As to educational background, respondents with diplomas dominate the sample (39.3%), followed by respondents with undergraduate degrees (25.69%), and

followed by respondents with secondary school qualifications (16.67%) and respondents with Master's degrees 17.11%. The finding from Table 1 represents the distribution of research respondents by SMEs visited. It shows that respondents who visited kiosks were 98 (34.03%), those who visited bars were 96 (33.33%), and hair salons were 94 (32.64%). The findings suggested that majority of the respondents were from kiosks.

In addition, Cronbach's alpha is the most common measure of internal consistency (reliability). It is most commonly used when the researcher used Likert questions in a questionnaire. Cronbach's alpha was carried out in SPSS statistics version 26 using a reliability analysis procedure. The Cronbach's alpha values range from 0 to 1 and the values above 0.7 represent an acceptable level of internal reliability (Kothari & Garg, 2014). The Cronbach's alpha value for reciprocity was 0.787. This indicated that there was a high level of internal consistency for the scale.

Furthermore, Kaiser Mayer Olkin (KMO) and Bartlett's test of sphericity are two commonly used statistical tests in the context of Factor Analysis. In other words, KMO assesses the overall sampling adequacy of data for Factor Analysis, while Bartlett's test checks whether the variables in the data set are correlated enough to proceed with factor analysis. KMO ranges from 0 and 1. A KMO value should be close to 0.5 and above for satisfactory analysis to continue. In Bartlett's test of sphericity, it is argued that values should be below 0.05 of the significant level, to indicate that Factor Analysis is suitable for the data. The KMO measure was 0.715. This was above the cut-off value of 0.5 and met the criteria. This value indicated that enough items are predicated by each factor. In addition, Bartlett's test was significant at the 0.01 level, meaning that was correlated highly enough to provide a reasonable basis for factor analysis. Thus, the collected data was adequate for performing factor analysis and for determining the factor structure of the marketing construct.

Factor analysis in this study was carried out using SPSS version 26 to see the value of the loading factor resulting from any indicators of the variables. All indicators were above the threshold value of 0.7 as shown in Table 2.

Table 2: Factor Analysis

Construct	Indicators	Loadings
Reciprocity	The SME helps me solve difficulties, so I am responsible to repay their kindness	0.999
	The SME keeps its promises	0.962
	The SME handles my complaints positively	0.961
	The SME and you are interdependent	0.899
Customer loyalty	This SME comes first to my mind when making a purchase decision	0.834
	I'm likely to continue visiting this SME only	0.844
	I will recommend this SME to my friends and family	0.966
	I intend not to switch to other SMEs	0.914

Source: Field Work (2023)

The basic characteristic of the studied construct was described using descriptive statistics indicators. The average score for reciprocity is shown in Table 3.

Table 3: Mean and Standard Deviation for Reciprocity

Questionnaire Statement	N	Mean	Std Dev.
The SME helps me solve difficulties, so I am responsible to repay their kindness	288	3.62	1.35
The SME keeps its promises	288	3.61	1.38
The SME handles my complaints positively	288	3.56	1.35
The SME and you are interdependent		3.52	1.41
Average	**288**	**3.64**	**1.26**

Source: Field Work (2023)

Table 3 above shows the variable reciprocity was measured using four items. From the results it was observed that the item with the highest mean was 'SME helps me solve difficulties, so I am responsible to repay their kindness with a mean score 3.62 and a standard deviation of 1.35 while the lowest score observed from 'SME and you are interdependent' with mean of 3.52 and a standard deviation of 1.41. Reciprocity had an average mean score of 3.64 and a standard deviation of 1.41. Most of the observed items are positively perceived by the respondents suggesting that the respondents consider reciprocity as an important factor.

To determine whether the study variables meet the assumptions of the multiple regression model, several diagnostic tests were undertaken for the multiple regression model. Among them were the normality test, linearity test, multicollinearity test, and homoscedasticity of variance test.

First normality test was observed by using the P-P plots, to determine if the data showed a fairly straight relationship. The assumption holds valid if the dots lie or

are very close to the diagonal line which infers that the residual was normally distributed. In other words, variables are considered to be normally distributed if residuals deviate from the diagonal or 45-degree line from the origin. Normality was tested using normal P-P plots. From the normal P-P plots represented in diagram 1, the variable was normally distributed.
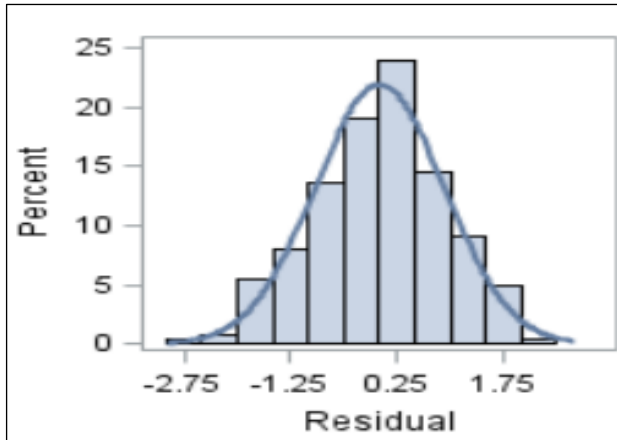

Figure 1: Normality test

Second was the linearity test. There must be a linear relationship between the dependent variable and independent variables (Kothari & Garg, 2014). When the model is not linear, the data under regression analysis would not be able to reflect the mathematical representation of the studied data, thus the resulted model would not reflect the relationship between the outcome variable and the predictor variables (Kothari & Garg, 2014). This would be tested using scatter plots, by plotting the dependent variables on the y-axis and the independent variable on the x-axis. Linearity would exist when the graph has a linear distribution of observations. The linearity test was conducted using scatter plots with individual predicted values as shown in diagram 2. The results show that the independent variable had a linear relationship with the dependent variable.
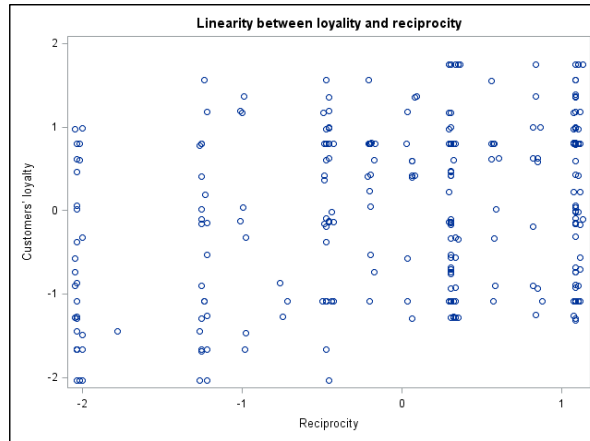
Figure 2: Linearity test

Third was the multicollinearity test. This is the situation in which the independent variables are not correlated. When they are correlated, it makes it difficult for the independent variables to be the real predictor of the dependent variable (Kothari & Garg, 2014). VIF values higher than 10 indicate that multicollinearity is a problem. The problem of multicollinearity was tested using VIF and the level of tolerance. The absence of multicollinearity was when the value of VIF less than 5 was considered to be more accurate. There was an absence of multicollinearity as both the VIF and the level of tolerance had values below 5 and above 0.2 respectively for the independent variable as shown in Table 4.

Table 4: Multicollinearity Test

Assumptions of linear regression		
Variable	Tolerance	VIF
Reciprocity	0.971	1.030

Source: Field Work (2023)

Finally, homoscedasticity of variance test. When there is no constant of residual/error terms in the model, it results in the heteroscedasticity problem (Kothari & Garg, 2014). This could affect the results of the confidence interval, thus influence the poor performance of the regression model (Kothari & Garg, 2014). This was observed by using the plots of standardized values predicted by the model against the standardized residuals observed. The assumption would be met if the plot had a random array of plots i.e. (absence of funnel shape). Homoscedasticity of variance was supported as the plots of standardized values predicted by the model against the standardized residuals observed had a random array of plots, and did not have a funnel shape as shown in diagram 3.
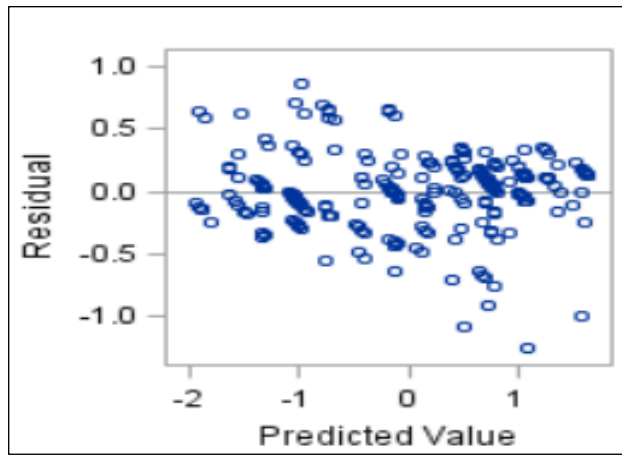
Figure 3: Homoscedasticity of Variance Test

Multiple regression analysis was used to examine the relationship between reciprocity and customer loyalty. Table 5 and Table 6 show the results. To predict the goodness of fit of the regression equation, the multiple correlation coefficient (R), coefficient of determination (R^2), were examined.

Table 5: Determine Coefficient

R	R^2	Adjusted R^2	Standard Error
0.697	0.485	0.466	1.34

Source: Field Work (2023)

The regression model achieved a satisfactory level of goodness of fit in predicting the variance of the level of customer loyalty in relation to reciprocity. From the findings it is evident that reciprocity was important in explaining customer loyalty. In other words, Table 5 clearly indicates the model is good given that R^2 value was found to be 0.485 which not only indicates that the model is good, but also explains that the explanatory variable contributes 48% in the variability of the variable to be explained.

Table 6: Regression Analysis

Variable	Unadjusted estimates		Adjusted estimates	
	Coefficient (95%CL)	T (p-value)	Coefficient (95%CL)	T (p-value)
Reciprocity	0.299(0.189,0.410)	5.31(<.0001)	0.230(0.130,0.331)	4.51(<.0001)

Source: Field Work (2023)

Table 6 shows multiple regression analysis revealed that reciprocity had positive association with customers' loyalty though statistically insignificant (β=0.299,

p<0.0001). That means every unit increase in reciprocity resulted in an average increase of 0.299 for customers' loyalty. However, for adjusted analysis, though statistically insignificant, reciprocity remained a positive explanatory. The variable coefficient slightly decreased (β=0.230, p=0.0001) meaning that every unit increase in reciprocity resulted in an average increase of 0.230 for customers' loyalty. In other words, according to Table 6, reciprocity does influence customer loyalty. This indicates that customer reciprocity of the SMEs is likely to increase customer loyalty. Thus the hypothesis is accepted.

The demographic profile of the respondents revealed that 64.58 percent of the respondents were male, and 35.42 percent were female. In addition, the majority (43.75%) of the respondents were aged between 30-39 years. Furthermore, the majority (39.3%) of the respondents had diplomas. The findings also suggested that majority of the respondents were from kiosks. The results of descriptive statistics showed that reciprocity had an average mean score of 3.64 and a standard deviation of 1.26. Most of the observed items are positively perceived by the respondents suggesting that the respondents consider reciprocity as an important factor. In addition, the results of the regression analysis (β=0.299, p<0.0001) showed that there was a significant relationship between reciprocity and customer loyalty. Therefore, the hypothesis was accepted. The findings did relate to previous studies conducted by other scholars such as; Derbew (2019), Fentie (2020), and Khayira (2022). The findings conformed to reciprocity theory which insisted that reciprocity had influence on customer loyalty. Therefore, it was fair to conclude that SMEs customers tend to be loyal if SMEs treat their customers nicely.

4.0 CONCLUSION AND RECOMMENDATION
Keeping customers is a very hard task in the present competitive market. Businesses need to develop different kinds of marketing strategies to retain their customers. The current study focused on examining the impact of reciprocity on customer loyalty in SMEs in Tanzania. The findings revealed that there is a significant relationship between customer reciprocity and customer loyalty. Therefore, SME customers did consider reciprocity as an important factor. Considering the findings of this study policies intended to promote customer loyalty among SMEs should focus on reciprocity. In addition, this study shows that SMEs in Dodoma City should focus their loyalty strategies on reciprocity as a driver of loyalty. Furthermore, SME owners should treat their customers nicely.

The current study recommends several areas where future research can be conducted. This research has not looked into possible influence of social-demographic factors on the relationship between reciprocity and customer

loyalty. Studies have suggested that women tend to be more loyal than men, and older people more loyal than younger ones. Furthermore, it would be useful to examine the construct proposed in the research model from a longitudinal perspective to determine its influence on customer loyalty at different points in time. This would lead to further insights into the way SMEs in the service sector in Tanzania build and enhance customer relationships. Empirically, the study implies the importance of conducting a region-specific study because it was able to highlight the dynamics of customer loyalty in different geographical contexts.

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