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RESEARCH ARTICLE

IMPACTS OF EFFECTIVE, CREDIBLE AND SUSTAINABLE INTERNAL CONTROL SYSTEMS ON CUSTOMER TRUST, VALUE AND LOYALTY IN PRIVATE BUSINESS CORPORATIONS.

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Abstract

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Effective credible and sustainable internal control system plays an important role in any private business entity; besides ensuring achievement of core objectives achievement of organizations, effective and credible internal control adherence reinforces and improves the confidence of both current and prospective internal and external corporate customers. Therefore, the aim of this paper is to examine, describe and compare in a qualitative way how effective credible and sustainable internal control systems impact on the corporate customer trust, confidence, value and loyalty and to evaluate the effective internal control system's role in institutionalizing management policy in embracing customer value and awareness.

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Introduction:-

Internal control is a process affected by management and designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations; Reliability of financial reporting and Compliance with applicable laws and regulations. Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives. It is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way (International Standard for Auditors – ISA No. 315).

Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations as well as ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted). According to International Standard for Auditors (ISA 400- Internal Control environment), Internal control can provide only reasonable assurance - not absolute assurance regarding the achievement of an organization's objectives. Effective internal control helps an organization achieve its objectives; it does not ensure success. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved: cost/benefit realities, collusion among employees, and external events beyond an organization's control.

In his document "Corporate Customers" Michael Munkumba defines customer as closed and open types. Closed customer is "Any person who is buying goods or services for money" and open system approach defines a customer as "All those utilizing an organization's products and services" (Michael Munkumba, 2010). The first definition has a weakness of looking only at one aspect of customer; the buyer, where as the open system introduces both internal

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and external customers with the following implications: Customers have to be categorized as they certainly have different requirements; customers need different ways of managing them and emphasis has to be made on relationship building for both internal and external customers. Organizations on the other hand evaluate themselves by measuring customer, trust, confidence, loyalty and satisfaction with their products or services. As organizations evolve, the measurement of customer satisfaction and the related parameters across the entire organization becomes imperative. The first step is for an organization to implement effective policies that aligned to its objectives for tracking customer trust, confidence, loyalty and satisfaction {Gangdhar (Ganges) Bhardwaj o., *www. Isigma.com/members/Ganges, October 2016*}.

Up to 1980s, organizations were more important, their focus was internal, highly centralized and products were designed, refined, horned and then offered to the market – all these are done without consultation by and large with customers (Michael Munkumba, 2001). This focus shifted in a paradigm form when Tom Peters/Walterman and Drucker made very loud noise that woke the world up. The reverberations those noises new no bounds, as a result forced the focus to shift from the internal to external, especially to the customers; (Tom Peters – Liberation Management, 1985 and Thriving on Chaos, 1987).

In the new paradigm, service excellence is imperative for business success and the situation became tops-curvy and the business purpose became "create a core customer" and a new slogan was born in the 1980s; *Delight the Customer.* This became a reality because if you are good to your customer, they will keep coming because they like you. If they like you, they will spend more money; if they spend more money you want to treat them better and if you treat them better they will keep coming back.

Customer Value Management was started by Ray Kordupleski in the 1980s and discussed in his book, Mastering Customer Value Management. A customer value proposition is a business or marketing statement that describes why a customer should buy a product or use a service. It is specifically targeted towards potential customers rather than other constituent groups such as employees, partners or suppliers. Similar to the unique selling proposition, it is a clearly defined statement that is designed to convince customers that one particular product or service will add more value or better solve a problem than others in its competitive set.

In the February, 2012 issue of the *TIM Review*, the author described customer value and how it is *delivered* to customers (Shanker, 2012). In this article, the focus is on *creating* customer value, particularly in the context of businesses that generate revenue using open sources assets. From a marketing theory perspective, customer value refers to customers' perceptions of what they receive, in return for what they sacrifice (Zeithaml, 1988). There are two aspects to customer value: desired value and perceived value (Woodruff, 1997). Desired value refers to what a customer desires in a product or service. Perceived value is the benefit a customer believes he or she received from a product after it was purchased. Customer value propositions are formulated by assessing the current market offerings, identifying what customers want, and then developing solutions that meet the market need for a product or service (Anderson et al., 2006).

An effective control environment must incorporate the following principles: 1) Integrity and ethical values, 2) Commitment and competence, 3) Attention and oversight provided by Board of Directors or audit committee, 4) Management philosophy and operating style, 5) Organizational structure, 6) Manner of assigning authority and responsibility, and 7) Human Resources policies and procedures (ISA 400, Internal Control Environment).

According to International Standard for Auditors No. 400, an effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following an organization's policies and procedures and its ethical and behavioral standards. The control environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control. The central theme of internal control is (1) to identify risks to the achievement of an organization's objectives and (2) to do what is necessary to manage those risks. Another way of saying this is that Risk Assessment is the process of setting objectives; prioritizing and linking those objectives; and identifying, analyzing, and managing risks relevant to achieving those objectives (ISA 315 & 400).

Goal setting is the first component of effective customer confidence. Or trust management. The individuals and team customer service goals should be aligned with the organization's customer service goals that are established through carefully crafted organization's procedures and belief. Setting appropriate individual and team standard goals is extremely important for effective customer confidence and trust management. Research has revealed that if goals are too low or too high, the motivation and commitment level of employees become low. (Conellan and Zenke, 1993). Also the research has revealed that; specific hard goals result in higher performance than vague or easy goals, or no goals at all. It further explains that specific hard goals that are accepted by employees result in higher performance than easy goals (Locke and Latham, 1984).

It has been confirmed through relevant research, that feedback regarding individuals past performance does not lead to improved further performance, unless the feedback leads to or is accompanied by a goal for improved performance. In their research on performance session, Locke and Lathan found out that people who are given feedback perform no better than those who receive no feedback. However, when goal setting takes place as a result of the feedback, performance improves.

Locke and Latham, 2012 noted that goals direct individual's thought by means of three major factors: Goals direct a person's thoughts and actions; Goals guarantee energy expenditure, and Hard goals that are accepted by employees increase that employee's performance in achieving the desired goal (Locke and Latham, 2012) When employees or individuals are involved in setting of goals, the chances of accepting the set goals by them increase, even though employees involvement alone does not improve performance. (Locke and Latham, 2012). Customers are found both outside and inside the organization. The employees are internal customers where as those who buy or will buy from the organization are external customers. Providing high quality internal customers (employees) service can improve the ability of an organization to satisfy the external customers. Internal customer service is needed to meet the expectations and requirements for success of those people inside the company so that they can delight customers in the market place; (Azzolini and Sheiiaber, 2000). Organizations with excellent external and poor internal customer services are lucky and often performing on the edge of acceptability.

Asking customers what they want is the most important part of goal setting for customer service standards, both at management level and individual/group level (Connellan and Zemke, 1993). Society is always taken by surprise at any new examples of common sense, (Ralph Waldo Emerson, 2002). The good news is "You have no choice", no organization big or small is secure, (Peters, 2000)

There is a new Platinum Rule outside there: "Do to the customers what they want you do to them and not what you would like to be done to you because wants of customers are never the same", the competition is absolutely cut-throat and it is all time; at the global level, national level, and industrial level. The fight is for the heart and mind of the customer. There is an epidemic disease: quality customer service, any organization that does not catch it will not survive. In the light of this paradigm common sense demand that every organization should put the customer at the centre of all it does, to spend as it were, a day in the life of a customer. (Michael Munkumba. 2002).

Using the Servqual survey mechanism and the resulting matrix, it is possible to evaluate and rate the impact of effective internal control on customer satisfaction and loyalty in private business corporations. **Satisfaction rating: How effective internal control affects customers' satisfaction/confidence –** This was aggregated by question or dimension. Table 2 shows a satisfaction rating gathered within a single question;

Figure 1: Table 3 shows a satisfaction rating aggregated from responses to all questions within a single dimension.

Table 2:- Sample Satisfaction Rating at the Survey Question Level

Please Rate How Well the Product Met Your Requirements					
Response options (1 = Poor, 5 = Excellent)	1	2	3	4	5
Number of responses	5	0	8	23	22
Percent of responses	8.6	0	13.8	39.7	37.9

Table 3:- Sample Satisfaction Rating at the Dimension Level.

Reliability/Satisfaction					
Response options (1 = Poor, 5 = Excellent)	1	2	3	4	5
Number of responses	12	7	11	25	45
Percent of responses	20.7	12.1	19	43.1	77.6

Source: Analyzing the VOC Matrix Research, https:www.isixsigma.com/members/ganges, Oct. 16 2016

Trust has been a widely studied concept both by itself but, most importantly, as a component of the quality of relationships. In psychology and interpersonal communication, trust has been one of several dimensions identified in relationships. It also has been studied extensively in business management and organizational communication sometimes as a single concept but, again, most often as a component of relationships (Katie Delahaye Paine Copyright, 2003). Kate, 2003 contends that in psychology and communication, the emphasis has been on interpersonal relationships among spouses, friends, relatives, and the like. In business management and organizational communication, emphasis has been on relationships among managers and between managers and other employees. Only recently have public relations researchers began to use similar concepts to study organization-public relationships. The International Association of Business Council, (IABC) document 2010, Measuring Organizational Trust, and the Institute for Public Relations Guidelines for Measuring Relationships both contain extensive bibliographies that will be useful to any organization seeking to implement a trust measurement program; (Katie Delahaye Paine Copyright, 2003).

In his document; Guidelines for Measuring Trust in Organizations, Katie Delahaye Paine, gives a wide perspective of the definition of Trust/confidence. He states that it is universally agreed that trust is a multi-dimensional concept. It is: *Multi-level;* trust results from interactions that span co-worker, team, organizational and inter-organizational alliances*; Culturally-rooted,* trust is closely tied to the norms, values and beliefs of the organizational culture, *Communication-based*, trust is the outcome of communications behaviors, such as providing accurate information, giving explanations for decisions and demonstrating sincere and appropriate openness; *dynamic*, trust is constantly changing as it cycles through phases of building, destabilization and dissolving*; Multi dimensional*, trust consists of multiple factors at the cognitive, emotional and behavioral levels, all of which affect an individual’s perceptions of trust/ or confidence. Trust and confidence has been one of several dimensions frequently included in measurement of relationships. Since its measurement is intrinsic to measurement of relationships, it may be concluded that trust dimensions include: *Competence*, the belief that an organization has the ability to do what it says it will do. It includes the extent to which the customers see an organization as being *effective*; that it can compete and survive in the marketplace, i*ntegrity***-**The belief that an organization is fair and just. *Dependability/Reliability;* the belief that an organization will do what it says it will do; that it acts consistently and dependably

Katie Delahaye Paine explains that, trust measurement and evaluation involves assessing the success or failure of much broader efforts an organization makes to improve and enhance the relationships that organizations maintain with key constituents and customers. More specifically, trust Measurement is a way of giving a result a precise dimension, generally by comparison to some standard or baseline and usually is done in a quantifiable or numerical manner. It seeks to answer questions such as: Have the behaviors, programs and activities we implemented changed what people know, what they think and feel about the organization, and how they actually act (as exhibited by protests, votes and purchases); Have the actions or behaviors of my organization had an impact on the trust that our constituencies feel towards our organization?; Have those public relations and communications efforts that we initiated to build trust had an impact—that is, "moved the needle" in the right direction and, if so, how can we support and document that with research? (Katie Delahaye Paine, 2003).

Customer loyalty is both an attitudinal and behavioral tendency to favor one brand over all others, whether due to satisfaction with the product or service, its convenience or performance, or simply familiarity and comfort with the brand. Customer loyalty encourages consumers to shop more consistently, spend a greater share of wallet, and feel positive about a shopping experience, helping attract consumers to familiar brands in the face of a competitive environment. (PR Loyalty Solutions, 2011) To understand customer loyalty one must recognize that there are different types and degrees of loyalty. There is monogamous loyalty and there is polygamous. There are also behavioral and attitudinal aspects. In a world where your competitors are only a click away, customer loyalty really is the new marketing**.** Today’s customers have access to an endless amount of information about your business including how credible an organization is run, and research shows that customers are ready and willing to stop dating around and stick with companies who go above and beyond to create a fantastic customer experience through effective basic policies and controls. When customers feel taken care of and feel comfortable relating with your company because the company has a name and can be vetted for credibility, they are more inclined to buy from you again. Since studies have shown that it costs 6 to 7 times more to acquire a new customer than keep an old one, outpacing your competition depends upon having a loyal tribe of happy customers. (PR Loyalty Solutions, 2011).
We live in a world of polygamous, not monogamous loyalty. For example, a person might shop at Nakumatt, Uchumi Super Market and Naivas Ltd and unfailingly shop at all three. The person is then loyal to them, but not to

others, and yet 100% loyal to none. In their book *Loyalty Myths*, Keiningham et al. (2005) suggest that "loyalty can in part be thought of as the probability a customer will purchase a brand on any particular purchase occasion. The objective of businesses, and therefore loyalty programs, should be to make the organization's share of customer loyalty as high as possible. According to Dowling and Uncles (2000) from Australia, "'polygamous loyalty' is a better description of actual consumer behavior than either brand switching (a conscious once-and-for-all change of allegiance to another brand) or promiscuity (the butterfly tendency to flit from brand to brand without any fixed allegiance)."

In the past, many scholars defined loyalty in behavioral terms. If a person made most purchases in a given product category from one supplier, regardless of the reason, the person was defined as loyal. As Kumar and Shah from the University of Connecticut's School of Business (2004) point out, "a majority of existing loyalty programs follow these measures to reward behavioral loyalty. That is, the more you spend with the company, the more rewards you earn". This is exhibited by main Super Markets in Kenya, when you buy you earn points or with Safaricom Ltd, you earn "Bonga" points. A second element of loyalty is attitudinal loyalty. Like behavioral loyalty, attitudinal definitions have existed for a long time. This second element of loyalty focuses on how strong the psychological commitment or attachment is to the brand. By itself, it too has limitations. For example, how loyal are people who rave about a product and promote it to their friends, but then for whatever reason fail to buy it regularly themselves? In the opinion of many scholars, as a minimum, an adequate definition of customer loyalty includes the history of actions plus feelings and intentions toward the brand or commercial relationship. Loyalty action and talk (i.e., promotion to others) are both valuable to businesses, but in different ways.

Why does customer loyalty matter? The answer to this important question is as simple as "rewards of great service". A variety of research shows that today's customers place a priority on receiving great service. A 2011 report (*http://about.americanexpress.com/news/pr/2011/csbar.aspx, Oct.16, 2016*) published by American express revealed that 3 out of 5 customers were willing to give up a former favorite brand in order to have a better service experience. Even more telling are the results of the 2010 'Right Now Customer Experience Impact report', which revealed that 9 in 10 Americans are willing to spend more with companies they believe provide excellent customer service (*http://www.slideshare.net/RightNow/2010-customer-experience-impact-Oct. 18, 2016*). There is usually high cost of bad service, 'News of bad customer service reaches more than twice as many years as praise for a good service experience'. (*White House Office of Consumer Affairs, 2010).* Bad service really scare customers away from your business. Consumer Reports surveys have shown that nearly 91 percent of customers will not do business with you a second time if you botch the first encounter.

White House Office of Consumer Affairs, 2010 research uncovered that two-thirds of customers have walked out of a store/ or Super Market when they felt the service was subpar and that the amount of customers willing to immediately abandon a business reached nearly 70 percent when it came to poor service on the phone, conclusively showing that customers are willing to shut you out if you do not provide the quality of service they expect.

The worst part is that one may not know how much of an impact your poor quality of service is having before it is too late. For every one customer who bothers to complain, nearly 26 others remain silent and just vote by foot – just walk away probably to your competitors.

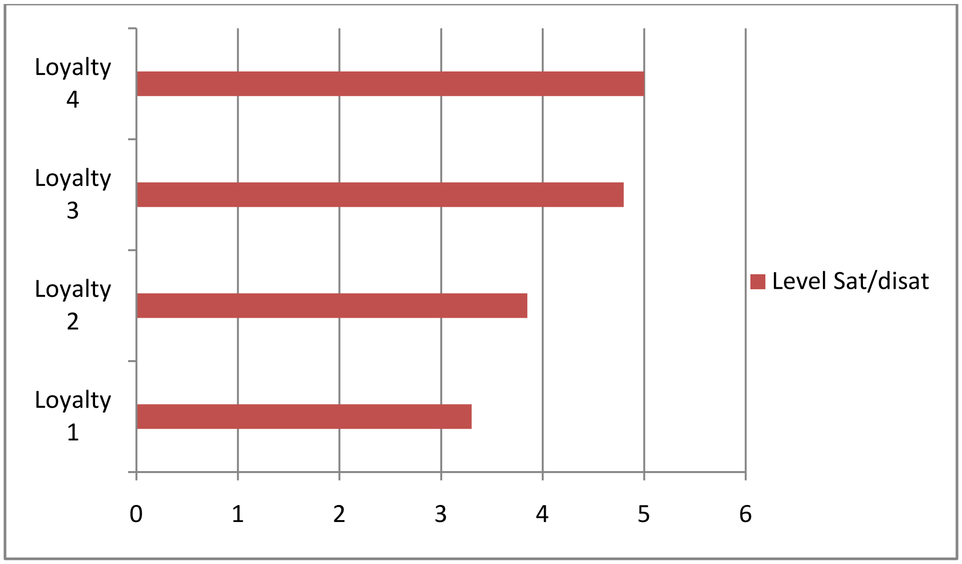

Figure 2:- Impact of quality service and internal control on customer loyalty and confidence

Source: Report published by American express, 2011; 2010 'Right Now Customer Experience Impact report'; White House Office of Consumer Affairs, 2010

KEY: Loyalty 4: Customers (91%) who would not do business 2nd time if 1st was poor and poor control

Loyalty 3**:** Customers (90%) who would spend more with corporations believed to have excellent services and effective internal control

Loyalty 2: Customers (70%) willing to abandon on-going business on learning that the corporation have poor services and poor internal controls

Loyalty 1: Customers (60%) willing to abandon former favorite brand corporation on learning that the corporation have poor services and poor internal controls

Effective internal control will emphasize on a policy that will be based on credible research and development on the customer service; confidence and loyalty. The advent of social media has created the belief that you must constantly engage customers or risk losing the sale, but the data says that it is not true, because how do you connect with customers that want limited engagement? Many marketing campaigns are designed entirely around moving products. What if instead using credible organization research policy changes the perception so that the campaign is designed around moving people? A Corporate executive Board (CeB) study published by the Harvard Business Review, which included 7,000 consumers across the United States, United Kingdom and Australia, showed that loyalty to brands is almost impossible to achieve without one key element: shared value, "Of those consumers who said that they had a strong brand relationship, 64% cited shared values as the primary reason". (*http://hrb.org/2012/05/to-keep-your-customer-keep-it-simple/ar/1*)

Shared values are by far the largest driver of brand loyalty. According to the CeB, who researched the topic of brand loyalty for more than a year, consumers everywhere stated that they were loyal "not to companies, but to beliefs." Most customers are not particularly loyal to any one business, but they are loyal to what the business stands for, as reflected in its management as shown through effective internal control. "We saw that emotional attachments to brands certainly do exist, but that connection typically starts with a 'shared value' those consumers believe they hold in common with the brand."(Aaron Lottonn, CEB.*)* (http://www.executiveboard.com/marketing-blog/author/alotton). Connecting with your customers on a personal level as an organization is crucial as that will retain customer loyalty. Since research has shown that a majority of customers do not care about having a close relationship with a brand, it makes sense that those who do care more deeply about the things organization stand for than how often organization engages with them. The only thing that is going to enhance this type of relationship is the knowledge that your business is on the same team as them. These customers will want to see that you share their beliefs and that you incorporate those beliefs into how you conduct business, hence importance of effective and credible internal control system.

Customer value can be summarized in one central question that all organizations must align to their internal control philosophy and ask frequently: “What do customers really want and how do we meet their demands?” or in other words, “What do customers really value?” Professor Art Weinstein, in his customer value theory, or what he terms “superior customer value”, says that: Customers would want businesses to overwhelm and surprise them by going above and beyond the ordinary to meet their needs and wants (Weinstein, 2012). This means delivering above and beyond on every value-point of the customer value spectrum in terms of four components: service, quality, image, and price. Weinstein (2012) calls these the “The Essence of Customer Value” (p. 6).

Weinstein (2012) regards customer value as best defined from customers’ perspectives as tradeoffs between benefits received from offers versus the sacrifices including money, stress, and time to obtain products and services or these offers. Describing the SQIP (S-Q-I-P) approach, Weinstein (2012) states that value is expressed in many ways as a combination of service (S), product quality (Q), image (I) and price (P). Customer value encompasses the total experience of the customer regarding the organization credibility, its products and services, purchase and post-purchase services and customer support, as well as the overall impact of the interaction between consumer and product, the benefits conferred and how these affect well-being and are perceived by influential others (Duncan, 2005; Kerin, Hartley and Rudelius, 2009).

Customer value has become a mandate for business leaders and managers as companies lose other core and distinctive competencies in the current rapidly changing and highly competitive global economy. Customer value creation is no longer an activity or process relegated to marketing and sales departments and specialists; it is an organizational-wide philosophy like Total Quality Management (TQM) that requires each member of the organization to play an active role in adding value to the customer experience. The organization must essentially take a marketing orientation approach backed by value driven management (VDM) philosophy and attitude (Pohlman and Gardiner, 2000). The strategic and overall importance of customer value can be summarized in ten (10) salient points made by Professor Art Weinstein in his book, Superior Customer Value: Strategies for Winning and Retaining Customers (Third Edition, 2012):

(1)Designing and providing superior customer value are the keys to successful business strategy in the 21st century. (2)Value reigns supreme in today’s marketplace and market space. (3) Customers will not pay more than a product is worth and will reward excellence. (4)A customer-centric culture provides focus and direction for the organization, ensuring that exceptional value will be offered to customers. (5)Designing and delivering superior customer value propels organizations to market leadership positions in today’s highly competitive global markets – absolute advantage. (6)Providing outstanding customer value has become a mandate for management. (7)In choice-filled arenas, the balance of power has shifted from companies to value-seeking customers. (8) Managing customer value is even more critical to organizations in the new service and information-based economy. (9)Firms not providing adequate value to customers will struggle or disappear – customer value is a key ingredient in building competitive advantage. (10) Today’s customers are quite smart and sophisticated and are looking for companies that (1) create maximum value for them based on their needs and wants, and (2) demonstrate that they value their business (Weinstein, 2012). Designing and delivering superior customer value will help organizations develop winning and retention strategies in an environment where competition has eroded other bases for differentiation and market leadership.

Riding on the famous quote: "*If you cannot measure it, you cannot improve it." - Lord William Thomson Kelvin (1824-1907*). As one of the measurements of the performance of the Quality Management System, the organizations shall monitor information relating to customer perception as to whether the organization has met customer requirements. There is obviously a strong link between customer satisfaction resulting from confidence, trust and loyalty and customer retention. Customer's perception of Service and Quality of product will determine the success of the product or service in the market.

Conclusion:-

The review established that it is fair to assume that entities that are not dormant have some controls in place however rudimentary. These controls need not be formal or formally documented; they just need to be appropriate for the entity concerned. Auditors (financial) are required to perform some work to evaluate the design and implementation of controls in order to assess control risk. However, auditors cannot allow an expectation that controls are operating effectively to have any effect on the nature, timing and extent of substantive procedures unless the operational effectiveness of the controls is tested. (***https://www.frc.org.uk/Our-***

Work/Publications/IFIAR/IFIAR-2014-Survey-of-Inspection-Findings.pdf.- October 20, 2016). Customers are more than just avid and hard-to-please individuals patronizing your business. Businesses must come to understand that customers are their most valuable long-term strategic partners (Dr. McFarlane Winter 2013). Organizations must understand that customer value is not simply a tactic or short-term oriented endeavor; it is a way of doing business, and understanding the dynamics of business value drivers and how they interact to create profitability and success overtime.

The key to retention is customer satisfaction and high customer satisfaction comes from delivering superior customer value Weinstein (2012). Highly satisfied customers stay loyal longer, talk favorably about the organization, pay less attention to the competition, are less price sensitive, offer service ideas to the organization, and cost less to serve than new customers (Weinstein, 2012). This should also remind organizations of the 80-20 rule; essentially that 80% of sales comes from 20% of customers, and that this 20% of customers represents repeat customers who are loyal because of the exceptional customer value they perceive in your business. Organizations must now measure themselves by their ability to please customers, meet their expectations, and retain them. (*Guidelines for Measuring Trust in Organizations: By Katie Delahaye Paine, 2003*)

The evaluation for controls of information systems is largely based on the flow of information for significant transaction classes and processes that relate to key financial reporting areas which take place at the control activities level. Organizations evaluate themselves by measuring customer satisfaction with their products or services. As organizations evolve, the measurement of customer satisfaction across the entire organization becomes imperative. The first step is for an organization to implement a metric for tracking customer satisfaction. To develop a metric, an organization should explore these questions: Who are its customers? What type of survey should be administered to them? How will satisfaction be measured across the organization? This paper brings in to reality, the fact that businesses only exist because of customers alongside the fact that current business world is complicated and technical such that total loyalty is impossible to achieve. The only tool available is provision of quality and exemplary customer service.

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