“Customer satisfaction: a key to survival for SMEs?”

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Customer satisfaction: a key to survival for SMEs?

Abstract

Customers are the lifeblood of any organization and feedback on their satisfaction levels is important not only to big corporations, but also to small businesses. Knowledge of customer satisfaction can help to better identify and satisfy customer needs and can prevent small businesses from spending a considerable amount of money on marketing to acquire new customers. This study investigates the customer satisfaction measuring practices of South African SMEs. The study aims to determine if South African SMEs collect data on customer satisfaction levels as well as how they go about to do this. A survey among South African SME owners found that customer satisfaction was of great importance to them and that the majority believed that their businesses were customer focused and customer friendly. Based on customer feedback, small-business owners believed their customers were satisfied with their businesses. The research also indicated that the majority of small-business owners collected customer satisfaction feedback verbally on a monthly basis. From this study it is clear that SMEs understand that collecting customer satisfaction feedback is important but that they do not necessarily have a formal measurement in place.

Keywords: customer satisfaction, customer feedback, customer loyalty, SMEs, South Africa.

JEL Classification: M31.

Introduction

Small businesses need to realize the importance of developing relationships with their customers if they want to survive over the long term (Tatikonda, 2013). In order to develop these relationships it is essential that SMEs seek to maximize customer satisfaction. Previous research conducted in various industries provides evidence that customer satisfaction leads to increased profits as a result of customer loyalty and repurchase intentions (Mittal & Kamakura, 2001; Okharedia, 2013; Helgesen, 2006; Seiders, Voss, Grewal & Godfrey, 2005; Curtis, Abratt & Rhoades, 2011). It is important to remember that what satisfies customers today, may not satisfy them in a year’s time. If overlooked, customer dissatisfaction can spell the end for a business, especially if the impact of customer dissatisfaction on the organization and its profitability is misjudged time and again (Tatikonda, 2013, p. 38). Feedback on customer satisfaction needs to be collected regularly and if used correctly, this feedback on how satisfied customers are with the business and the product and service offering can be invaluable in building relationships and customer loyalty.

Businesses that do not collect customer satisfaction information do not know whether they are on the right track or where they need to adapt their offering to satisfy their consumers’ needs. For SMEs this is important, as it is expensive to acquire new customers. Small businesses need to do their utmost to keep customers and get into a position where customers distribute positive word-of-mouth about the organization. Although a great deal of research about customer satisfaction has been done, there is not much literature on how customer satisfaction is measured in small businesses and how the results from this feedback are utilized. Therefore this study will aim to establish the customer satisfaction measuring practices of South African SMEs in order to extend the current limited body of knowledge regarding the importance of measuring customer satisfaction in small businesses.

The next section of this article will focus on the benefits of customer satisfaction, on customer retention and acquisition and will end the literature review by looking at the importance of customer feedback.

1. Literature review

1.1. The SME sector. Small and medium enterprises (SMEs) are of great importance in developing countries such as Brazil, Asia and South Africa. SMEs contribute to the economy by creating employment, increasing production and exports and presenting opportunities for innovation and entrepreneurship (National Credit Regulator, 2011, p. 7). A previous study conducted indicated that the South African SME industry account for 91% of formal businesses and that these SMEs contribute up to 57% to the South African GDP (Abor & Quartey, 2010, p. 218). The SME sector is not only a big contributor to the economy in South Africa but also in Europe and the rest of Africa. In Europe SMEs contributed to 57.6% of the gross value added in 2012 (European Commission, 2013, p. 9). In Ghana it is a similar situation with approximately 70% of Ghana’s GDP being contributed to SMEs (Abor & Quartey, 2010, p. 218).

In many countries the increasing rate of unemployment is placing even more pressure on people to start their own business to obtain an income to care for their families. The Absa SME index (Schussler, 2013) indicates that self-employment is at
its highest level since 2009 with 1253 000 self-employed adults in South Africa (10% of all employed adults). It is thus of great importance that SMEs make sure that their customers are satisfied as their livelihood depends on it.

1.2. Customer satisfaction. All humans need and want certain things; this, in fact, is one of the cornerstones of marketing. After fulfilling these needs customers expect to be satisfied with their purchase. According to Zeithaml, Bitner and Gremel (2006, p. 110) satisfaction is when the customer evaluates whether a product or service has met their needs and expectations. Knowing what customers’ expectations of a product or service are the SME can then tailor their product or service offering accordingly to fulfil these needs and satisfy these wants which in turn can lead to customer satisfaction (Cant, 2013). The measurement of customer satisfaction has been researched in many different countries (Fornell, 1992; Anderson, Fornell & Lehmann, 1994; Fornell, Johnson, Anderson, Cha & Bryant, 1996; Kristensen, Martensen & Gronholdt, 1999; Eklof & Westlund, 2002; Grigoroudis & Siskos, 2004; Tung, 2013; Al-Nassar, Al-Rawwash & Alakhras, 2011; Calleros, Rivera, Serrato, Delgado, Leon, Acevedo & Ramirez, 2012). Of all the customer satisfaction models the American Customer Satisfaction Index (ACSI) is the most widely applied. According to the ACSI (Figure 1 below) customer satisfaction has three determinants namely perceived quality, perceived value and perceived expectations (Tung, 2013).

![Customer satisfaction model](image)

**Fig. 1. The customer satisfaction model (Tung, 2013)**

1.2.1. Perceived quality. Perceived quality is measured through the market’s valuation of a recent experience with a business and mainly consists of two components namely perceived product quality and perceived service quality (Tung, 2013; van Vuuren, Roberts-Lombard & van Tonder, 2012). It is estimated that perceived quality has a positive effect on customer satisfaction (Tung, 2013). Products or services of high quality are appreciated by customers as it displays qualities that satisfy customers’ needs (Wiid, 2014). This is important to SMEs as it will provide them with a competitive advantage.

1.2.2. Customer expectations. Customer expectations are the standards against which a customer measures the performance of a product or service (Machado, 2014). These customer expectations have been classified by Grönroos (2007) as fuzzy expectations, explicit expectations or implicit expectations. Fuzzy expectations exist when the customer requires a business to solve a precise need but the customer does not know how. Explicit expectations exist when customers know exactly what the problem and the solution is but have unrealistic or realistic expectations of the provider. Lastly implicit expectations exist when customers have clear expectations, but take it for granted rather than intentionally considered it. SMEs need to take all of the above expectations in consideration when aiming to satisfy their customers’ needs to ensure that they satisfy the actual need that the customer has and mets or exceeds their expectations.

1.2.3. Perceived value. Perceived value is one of the most difficult concepts for small businesses as the word value is used in many contexts. Zeithaml et al. (2006, p. 527) defines perceived value as “the consumer’s overall assessment of the utility of a service based on perceptions of what is received and what is given.” It is thus a trade-off between the price, the benefits and the quality product or service that they get and what they give. If the small
business cannot quantify their product or service in terms of value it will be very difficult for value to result in customer satisfaction. This means that the SME needs to set a price for their product or service that the customer will be willing to pay which is in line with the perceived value.

The last relationship in the ACSI model (Figure 1) is between customer complaints and customer loyalty. Overall customer satisfaction can lead to either customer complaints or customer loyalty. If expectations that the customers have are met, customers are generally satisfied. If their expectations are exceeded, the customer is likely to express high levels of satisfaction. This in turn leads to customer loyalty. The same applies to customer complaints; if it is handled effectively it can result in customer loyalty.

1.3. Benefits of customer satisfaction. Numerous researches have been conducted in various industries showing that there is an array of benefits that come from having satisfied customers. It has been found that if customers experience satisfaction consistently that it should lead to customer loyalty, the intention to repurchase a product or service, as well as positive word-of-mouth from consumers who in turn pay less attention to competing brands (Boshoff, 2014; Okharedia, 2013; Helgesen, 2006; Seiders, Voss, Grewal & Godfrey, 2005; Curtis, Abratt & Rhoades, 2011; Cant & Van Heerden, 2013).

Markey, Reichheld and Dullweber (2009) argue that organizations should view each purchase by a customer as an occasion to recruit a promoter for the organization. According to Boshoff (2014) when customers are satisfied with the product or service offering and can be retained by the business it can increase profits as:

- acquisition cost decline;
- new customers will be referred by the satisfied repeat customers;
- marketing in the form of word of mouth is free;
- new customers do not buy as much as existing customers;
- loyal customers are less price sensitive than new customers;
- it costs less to serve existing customers.

It is widely known that if customers are satisfied, they will refer potential customers to the organization. A satisfied customer will tell less people about his or her good experience than a dissatisfied customer, which can cause considerable damage to any organization. Goodman (2006) conducted research on customer complaint behavior during the 1980s, and the study was repeated in various countries and industries with the same results. From these findings Goodman developed the tip-of-the-iceberg phenomenon which is illustrated in Figure 2 below.

![Fig. 2. Tip-of-the-iceberg phenomenon](image-url)

Source: Adapted from Goodman (2006, p. 27).

It is evident from the figure above that half (50%) of customers with problems do not complain; this is the part of the iceberg which is below the surface. Customers who complain are, however, more likely to do business with the organization again, even if their problems were not solved (Goodman, 1999). Without the necessary feedback from customers, an organization never truly knows if the customer is satisfied and it will not have an opportunity to correct its mistakes.

1.4. The importance of measuring customer satisfaction. It is evident from the above discussion that measuring customer satisfaction is of the utmost importance to businesses. In order to establish and to improve on current customer relations small businesses should collect and analyze data about the customer. This should be done in order to truly understand the data gathered and get new data from the customer on a regular basis by means of communication (Berndt & Tait, 2014). Data that
should be collected include those whose primary target is market, what they perceive as providing them value, how they can be brought closer and how the business can serve them better (Wiid, 2014).

Grigoroudis and Siskos (2010) identified some of the reasons why businesses should be measuring customer satisfaction, namely:

- to get reliable insight into the market and its own competitive position;
- to be aware of dissatisfaction amongst customers as customers do not like to share dissatisfaction;
- to reveal potential market opportunities;
- to develop a customer satisfaction measurement process that is tailored for the specific business;
- to expose differences in quality service perceptions between management and the customers.

Organizations can achieve a considerable competitive advantage if they know exactly what their customers need and if they can meet their customers’ expectations. By collecting customer feedback, organizations are able to hear directly from their customers what they are doing right and what they are doing wrong (Kumar & Bhagwat, 2010). Collecting feedback should be an easy process. Feedback from customers about their satisfaction with the organization’s product or service should be “…natural, interactive and effortless…” (Kumar & Bhagwat, 2010).

Customer satisfaction can be measured in various ways, either directly from customers or indirectly through monitoring and tracking (Machado, 2014, p. 148). Complaints and comments from customers can be collected from comment cards, websites, social media sites, telephone calls and frontline personnel. In addition, the organization can conduct more structured research by using self-administered or telephone surveys to get customer satisfaction feedback on specific issues. It is important to note that customer satisfaction feedback should not be collected if an organization does not intend to act on it, especially on the negative feedback. Therefore organizations need to determine what they want to do with the customer satisfaction feedback before they start collecting it (Temkin, 2014). Customer satisfaction feedback should be measured on a regular basis to make sure that all concerns are addressed to avoid any damage (Cant & Van Heerden, 2013).

2. Research objectives and methodology

The main aim of this study is to establish the customer satisfaction measuring practices of South African SMEs. More specifically, the following objectives are set:

- the extent to which small businesses in South Africa focus on customer satisfaction;
- the extent to which small businesses in South Africa measure customer satisfaction levels.

In an effort to determine whether SMEs focus on customer services in their businesses, a sample of small business owners who have registered their businesses at an official state institution for SMEs, they were asked to indicate the extent to which they agree that a list of statements regarding customer service and how they measure customer satisfaction of their customers and how often they measure customer satisfaction.

A self-administered online questionnaire was designed which consists of quantitative questions allowing small business owners to indicate their perception on their business customers satisfaction orientation and frequency of their efforts to measure satisfaction levels of customers. The questionnaire was administered randomly to SME owners in the provinces of Gauteng and KwaZulu-Natal in South Africa. The combined contribution of these provinces to the national GDP is 50% (Gauteng 33.9%; KwaZulu-Natal 16.1%) and can therefore be regarded as representative of SMEs in South Africa (Anon, 2015). A sufficient number of questionnaires were sent out at a confidence level of 95% and a confidence interval of 10. A total of 105 usable responses were received giving a 95% confidence level of and a 9.26 confidence interval at 50%.

3. Results

The demographic profile of the respondent group is presented in Table 1 below. More than half (56.9%) of SME owners are older than 40 years. The gender split for the respondent group is female dominated (58.62%). Almost half (46.1%) of the respondents own the business and a third (34.2%) are owner-managers, which implies that the owner is directly involved in the day-to-day running of the SME. Almost two thirds (63.1%) of the respondents hold a post-matric qualification. A large proportion (60.8%) of the respondents’ businesses have existed for less than five years. The largest proportion (41.8%) of the respondents report an annual turnover of less than R100 000.

<table>
<thead>
<tr>
<th>Table 1. Demographic profile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td><strong>Age</strong></td>
</tr>
<tr>
<td>18-24</td>
</tr>
<tr>
<td>25-29</td>
</tr>
<tr>
<td>30-34</td>
</tr>
<tr>
<td>35-39</td>
</tr>
<tr>
<td>Older than 40</td>
</tr>
</tbody>
</table>
### Table 1 (cont.). Demographic profile

<table>
<thead>
<tr>
<th>Qualification</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No matric</td>
<td>7.9%</td>
</tr>
<tr>
<td>Matric</td>
<td>28.9%</td>
</tr>
<tr>
<td>Certificate/diploma</td>
<td>31.6%</td>
</tr>
<tr>
<td>Degree</td>
<td>19.7%</td>
</tr>
<tr>
<td>Post-graduate degree</td>
<td>11.8%</td>
</tr>
<tr>
<td>Owner</td>
<td>46.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Position in organization</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>46.1%</td>
</tr>
<tr>
<td>Manager</td>
<td>19.7%</td>
</tr>
<tr>
<td>Both</td>
<td>34.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For how long has the business been running?</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>60.8%</td>
</tr>
<tr>
<td>6–10 years</td>
<td>25.7%</td>
</tr>
<tr>
<td>11–25 years</td>
<td>9.5%</td>
</tr>
<tr>
<td>Over 25 years</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

### Table 2. Perceived customer orientation

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our way of doing business is customer friendly</td>
<td>99</td>
<td>0.0%</td>
<td>5.1%</td>
<td>46.5%</td>
<td>48.5%</td>
<td>3.43</td>
<td>.592</td>
</tr>
<tr>
<td>Our procedures are customer friendly</td>
<td>98</td>
<td>0.0%</td>
<td>6.1%</td>
<td>45.9%</td>
<td>48.0%</td>
<td>3.42</td>
<td>.608</td>
</tr>
<tr>
<td>We ask for feedback and comments from customers</td>
<td>95</td>
<td>2.1%</td>
<td>11.6%</td>
<td>49.5%</td>
<td>36.8%</td>
<td>3.21</td>
<td>.728</td>
</tr>
<tr>
<td>We analyze feedback and comments from customers</td>
<td>94</td>
<td>3.2%</td>
<td>10.6%</td>
<td>46.8%</td>
<td>39.4%</td>
<td>3.22</td>
<td>.764</td>
</tr>
<tr>
<td>We respond to feedback and comments from customers</td>
<td>91</td>
<td>2.2%</td>
<td>11.0%</td>
<td>47.3%</td>
<td>39.6%</td>
<td>3.24</td>
<td>.735</td>
</tr>
<tr>
<td>Our customers are satisfied with our business</td>
<td>99</td>
<td>3.0%</td>
<td>3.0%</td>
<td>52.5%</td>
<td>41.4%</td>
<td>3.32</td>
<td>.803</td>
</tr>
<tr>
<td>We measure customer satisfaction</td>
<td>90</td>
<td>2.2%</td>
<td>22.2%</td>
<td>36.7%</td>
<td>39.8%</td>
<td>3.12</td>
<td>.832</td>
</tr>
<tr>
<td>We find out why customers leave</td>
<td>84</td>
<td>3.6%</td>
<td>23.8%</td>
<td>41.7%</td>
<td>31.0%</td>
<td>3.00</td>
<td>.836</td>
</tr>
<tr>
<td>We use feedback on why customers leave to improve our service</td>
<td>86</td>
<td>3.5%</td>
<td>18.6%</td>
<td>46.5%</td>
<td>31.4%</td>
<td>3.06</td>
<td>.802</td>
</tr>
<tr>
<td>Low/good prices will keep customers</td>
<td>92</td>
<td>7.6%</td>
<td>33.7%</td>
<td>35.9%</td>
<td>22.8%</td>
<td>2.74</td>
<td>.900</td>
</tr>
<tr>
<td>Customers are used to average service</td>
<td>93</td>
<td>19.4%</td>
<td>31.2%</td>
<td>37.6%</td>
<td>11.8%</td>
<td>2.42</td>
<td>.936</td>
</tr>
</tbody>
</table>

Fig. 3. Mean level of SME customer orientation

It is clear from Table 2 that the aspects the respondents feel most strongly about involve customer friendliness. Respondents tend, on average, to strongly agree (mean agreement scores above the third value of the response scale (3)) that in their case, their procedures (M=3.42, SD=.608)
and way of doing business (M=3.43, SD=.592) are conducive to creating a customer-friendly experience for their customers. They also feel that their customers are satisfied with their business (M=3.32, SD=.683). The standard deviations for these aspects are the lowest, indicating that there is the least variation among the agreement levels of respondents regarding these aspects. As a result, it is not surprising that the next highest average agreement score indicates that the respondents tend to respond to feedback and comments from their customers (3.24), followed by the fact that they also analyze feedback from their customers (3.22) and specifically ask for feedback and comments from their customers (3.21).

All the aspects on the list, except for the last two, are worded in such a way that higher values on the agreement scale bode well for their businesses. With all the agreement scores being three or above, it can be deduced that, in general, the respondents do make an effort to maintain good relationships with their customers. The wording of the last two aspects is such that lower average agreement scores could have a positive reflection on their businesses since it will indicate that they do not underestimate the quality and service needs of their customers. With these two aspects having an average agreement level around the middle value of the response scale (Low or good prices will keep customers (2.74) and Customers are used to average service (2.42)), it can be assumed that the respondents are on average divided in terms of underestimating the quality and service needs of their customers and this is reflected by the standard deviations that are the highest on the list.

3.2. Obtaining customer satisfaction feedback from customers. The small-business owners were presented with a list of six ways to measure customer satisfaction feedback and asked to indicate which of these methods they use to measure their customers’ satisfaction levels. Allowances were made for multiple selections from the list of options.

It is clear from Figure 4 that over sixty percent of the respondents measure customer satisfaction feedback verbally (61.62%, n=61), whereas twenty percent do so by using a questionnaire (20.20%, n=20). A small portion (15.15%; n=15) doesn’t ask for satisfaction feedback from customers. However, although only three respondents selected the “Other” category, these respondents indicated that they measure satisfaction feedback by making use of suggestion boxes, emails, SMSs or social media.

3.3. Frequency of testing customer satisfaction levels. The small business owners were asked to indicate on a list of frequency indicators how often they measure customer satisfaction levels.

Approximately twenty percent (19.6%, n = 19) of the respondents test the satisfaction levels of their customers on a daily basis, whereas altogether 32% (n = 12) of the customers do so at least weekly. Of the
10.3% (n = 10) of respondents who selected the ‘Other’ option, most indicated that they test satisfaction levels after a contract or project for a customer is completed. Almost one fifth (19.6%) of the respondents indicated that they never test the satisfaction levels of their customers.

Conclusions and recommendations

Customers are important seeing that they are the resource on which the success of the organization depends. It is therefore important that organizations focus on serving their customers. A customer focus contributes to the success of the organization and ensures that all aspects of the organization put customer satisfaction first. This study aimed to determine the extent to which SMEs focus on customer satisfaction. The research revealed that the majority (60.9%) of SMEs conducted customer satisfaction testing on a daily (19.6%); weekly (12.4%) or monthly (28.9%) basis. Verbal communication was the method used by the majority (61.26%) to determine customer satisfaction. Communication with customers is an important building block for establishing long-term customer relations. The study found that SMEs saw themselves as customer focused; they were customer friendly; sought customer satisfaction feedback; analyzed and responded to customer satisfaction feedback; their customers were satisfied; if customers left, they wanted to know why; and they used customer feedback to improve their service.

The study also revealed that the respondents were divided on whether or not the use of a low-price strategy would retain customers. Almost half (41.3%) of the respondents disagreed or strongly disagreed with the statement Low/good prices will keep customers, whereas just more than half (58.7%) agreed or strongly agreed with the statement. Furthermore, respondents were not in agreement about the statement Customers are used to average service: half (50.6%) disagreed or strongly disagreed, whereas half (49.4%) agreed or strongly agreed with the statement. It can be inferred that good prices and good customer service contribute to the success of a business. It is recommended that training programs that focus on SME customer satisfaction measurement be developed and implemented. These programs should cover topics such as why customer satisfaction should be measured and how customer satisfaction can be measured.

References