

THE ROLE OF CUSTOMER EXPERIENCE IN SHAPING SME PERFORMANCE: A MULTIDIMENSIONAL ANALYSIS OF SATISFACTION, LOYALTY, AND WORD-OF-MOUTH BEHAVIOR

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Abstract

This research looks into how performance of SMEs in North Kerala is facilitated by customer experience through satisfaction, loyalty, and word of mouth (WOM) behaviour. This study has the goal to offer a multidimensional interpretation of how these customer driven factors affect success of SMEs in an all-around way beyond the traditional financial metrics. This study employs a quantitative mix of analyses based on a sample size of 411 respondents to test relationships between customer satisfaction, loyalty programs, and performance outcomes. The theoretical and practical implications of these findings will be useful to SME managers to implement customer centric strategies that will guide the business towards sustainable performance.

Keywords: SME Performance – Repeat Business – Financial Stability – Customer Base – Financial Growth

1. INTRODUCTION

Small and medium enterprises (SME) are some of the main engines of economic growth and job generation in emerging markets such as India. In fact, they enjoy a leading position in contributing to foster entrepreneurial activities and drive local economies which account for almost 30% of the country's GDP. Though important, most SME performance research has neglected external factors, e.g., supply chains and client relations that, taken together, provide a much more complete picture of key aspects that govern SME performance. While these factors are very important, they tend to miss out the external, customer induced ones that can greatly contribute to the SME's performance. With today's intense competitive market environment and limited marketing resources, customer satisfaction, loyalty and word of mouth behaviour (WOM) have gained significant influence to business outcomes, and are especially relevant for SMEs, which lack the resources to adopt a conventional marketing approach.

The aim of this study is to fill in the gap in the existing literature by focusing specifically how customer experience satisfaction, loyalty, and WOM directly influence SMEs performance. Although considerable groundwork has been undertaken on customer centric strategies in the larger organizations, however, it has very little focus on understanding its potency in the SME territory, especially in regions like North Kerala. Given its blend of traditional practices and growing entrepreneurial ventures this is an important region to study the role of customer

experience in business success. Since customer expectations vary from digital platforms and SMEs in North Kerala need to meet these expectations, customer engagement plays a critical role in the SMEs operations. The research focuses on this area to provide a wider understanding over how SMEs can utilize customer driven strategies for improving performance as well as sustainable growth.

2. REVIEW OF LITERATURE

In Recent years have seen increased interest being paid towards the relationship between customer satisfaction, loyalty programs, and the overall performance of small and medium enterprises (SMEs). It is proved that customer satisfaction has been consistently linked to financial as well as operational success in SMEs, where the higher level of customer satisfaction improves the customer retention, repeat purchases and profitability (Khan et al., 2020). Prior studies (Lee et al., 2022) have found that SME's having higher customer satisfaction not only enjoy customer loyalty but also get profit from the reduction of the cost of acquiring customers directly improving the operational efficiency. As far as the SME context is concerned, extensive efforts have been made to understand customer loyalty programs. Nguyen and Khoa (2021) suggest that SMEs using loyalty programs generally perform better than those without by creating a loyal customer base, offering repeat business, and generating recurring revenue (Nguyen & Khoa, 2021). Lately, loyalty programs are being looked at as a strategic tool aimed at building meaningful customer lifetime value and financial growth (Gurau & Ranchhod, 2020).

Also, positive word of mouth (WOM) has previously been recognised as a key driver of customer acquisition and market expansion. WOM is important because it affects SMEs in which resource constraints sometimes prevent standard marketing efforts. WOM positively accelerates a company's growth of customer base and significantly makes outstanding contribution for the market share increase through bringing new customers through trustworthy recommendations (Kawaf & Istanbuluoglu, 2021). This amplification takes place in the digital space where SMEs (Sivertzen et al., 2023)' Readings depend heavily on online reviews and social media to influence perceptions about SMEs.

Additionally, SMEs that successfully harness the power of WOM often experience a dual benefit: First this will increase the customer acquisition and improve the customer loyalty, which contribute to fiscal and operational stability (Kumar & Kashyap, 2023). # Previous work has also argued that WOM has a stronger impact on market growth with high customer satisfaction and well designed loyalty programmes resulting in a synergistic effect that sustains customer retention and acquisition (Santos & Gonçalves, 2022) In summary, customer satisfaction, loyalty programs and positive WOM have been found to be the critical triad in the long run success of SMEs in different sectors (Zou & Liu, 2023).

3. STATEMENT OF THE PROBLEM

Despite Customer experience is vital to business success, and it is especially critical for resource constrained small medium business (SME) since we are still lacking in understanding the impact of customer satisfaction, loyalty and word of mouth (WOM) behavior on SME performance. Traditionally, the research on SMEs has been mainly guided by internal factors, including

operational efficiency and financial outcomes, and paid very little attention to external, customer driven aspects, that can simultaneously lead to long term sustainability and growth. For example, while SMEs in areas where the market is evolving fast and traditional business practices still serve, there are neither comprehensive models of delivering customer centric strategies in combination with performance metrics. Using a regional context, this study aims to fill a gap in the literature by understanding how each of these key drivers of customer experience relates to the performance and competitive advantage of SMEs in the region, and using these insights to inform future academic research and in practical business applications.

4. RESEARCH GAP

However, there have been numerous studies on the effect of operational and financial factors on performance of SMEs, yet few have investigated the multiplicity of customer experience in it. While much prior research has been conducted on large corporations, little has explored how SMEs – with limited resources – can leverage customer experience to boost performance. In particular, there are sparse empirical data on outcomes in emerging markets like North Kerala, on SMEs, on how customer satisfaction (CS) and loyalty programs (LP) and WOM affect SME outcomes.

5. RESEARCH QUESTIONS

1. How does customer satisfaction influence the overall performance of SMEs in North Kerala?
2. What is the role of loyalty programs in enhancing customer retention and SME performance?
3. How does word-of-mouth behavior influence customer acquisition and long-term sustainability of SMEs?

6. OBJECTIVES

1. To examine the direct impact of customer satisfaction on the financial and operational success of SMEs.
2. To determine whether SMEs with customer loyalty programs outperform those without such programs in terms of repeat business and financial stability.
3. To explore the effect of positive WOM on customer acquisition and SME market growth.

7. RESEARCH HYPOTHESIS

H01: Customer satisfaction has not a significant positive effect on SME performance.

H02: There is no significant difference in repeat business and financial stability between SMEs that have implemented customer loyalty programs and those that have not.

H03: Positive WOM will not significantly enhances SME customer base and financial growth

8. RESEARCH METHODOLOGY

Empirically, the study will adopt a quantitative research design to study the role of customer experience in shaping SME performance in North Kerala. 411 SME customers selected through stratified random sampling on the basis of diversity across industries of retail, hospitality and services, will be administered with a survey. Likert scale items to measure customer satisfaction, loyalty, WOM and perceived SME performance will be included in the questionnaire. Online platforms and face to face interviews will be used to collect data as much as possible to overcome response rates. North Kerala, the location of this study, represents a rich context with respect to

the traditional and modern business environment, allowing us to draw conclusions that are relevant for similar emerging markets.

9. DATA ANALYSIS

Then the data analysis will be done using different statistical techniques to evaluate the impact of the customer experience on SMEs performance. The first is descriptive statistics that will problematize survey respondents' demographical profiles and attitude towards SME. In hypothesis testing, an independent sample t test will be performed to see if the performance of SMEs is different between high versus low customer satisfaction. Such test would use to assess the importance of customer satisfaction for performance driver.

A subsequent Univariate analysis of variance will be used to examine whether SMEs conducting customer loyalty programs differ in performance compared to other SMEs that do not. The findings from this test will show whether loyalty initiatives improve business performance. Finally, the data set will be subjected to multiple regression analysis to predict SME growth using the word of mouth (WOM) as one of the predictor variables, other variables such as the industry type and business size accounted for. In this regression, we will quantify how much positive WOM acts as an influence on SMEs growth trajectories and overall market performance. Combined, these statistical methods will give an overall understanding of the customer experience related factors which contribute towards direct SME success.

Table 1. Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
SME Performance	Equal variances assumed	1.351	.246	-2.429	409	.016	-.269	.111	-.486	-.051
	Equal variances not assumed			-2.368	77.221	.020	-.269	.113	-.495	-.043

Interpretation

Results of the independent samples t-test reveal that the trading volume (as a measure of SME performance) is significantly different between the SMEs with satisfied customers and those with unsatisfied customers. At $p = 0.016$ it is less than our commonly accepted level of significance

$p = 0.05$. It means we deny the null hypothesis, which suggested that the customer satisfaction has nothing to do with the SME performance. It follows therefore, that customer satisfaction does matter to SME performance.

The direction of the difference is an interesting surprise. Mean difference results further indicate that trading volume for SMEs that were satisfied with customers was smaller on average (i.e average trading volume is 0.269 units less) than the trading volume for SMEs who were not satisfied with customers. This difference is statistically significant, and the 95% confidence interval for this difference is from -0.486 to -0.051, so any true difference is probably within this range and not beyond some boundary. The results here suggest that while there is an association between SME performance and customer satisfaction, such association does not always lead to increased trading volumes, a finding that certainly questions the nature of this relationship as well as potential factors driving this relationship that deserve further exploration.

Table 2. Tests of Between-Subjects Effects					
Dependent Variable: Repeat Business					
Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	13.232 ^a	1	13.232	17.492	.000
Intercept	4811.529	1	4811.529	6360.808	.000
Loyalty_Program_Status	13.232	1	13.232	17.492	.000
Error	309.381	409	.756		
Total	8578.000	411			
Corrected Total	322.613	410			
a. R Squared = .041 (Adjusted R Squared = .039)					
Dependent Variable: Financial Stability					
Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	17.895 ^a	1	17.895	24.344	.000
Intercept	4533.165	1	4533.165	6166.856	.000
Loyalty_Program_Status	17.895	1	17.895	24.344	.000
Error	300.650	409	.735		
Total	8193.000	411			
Corrected Total	318.545	410			
a. R Squared = .056 (Adjusted R Squared = .054)					

Interpretation

The results of the tests reveal those SMEs that offer customer loyalty programs look very different from those that do not; with the former businesses receiving more repeat custom and being more financially sound than their counterparts. To ironically echo previous blogs, the findings do show a significant difference for the usage of loyalty programs ($F(1, 409) = 17.492$; $p < 0.001$), which suggest that SMEs with loyalty programs being used would attract more repeat business as opposed to those without loyalty programs. Likewise, for money security, there is also a substantial

difference ($F(1, 409) = 24.344$, $F \text{ Prob.} < 0.001$) which indicates that the firms with the loyalty programs enjoy greater money security than without the programs? The resulting R-squared of 0.041 for repeat business and 0.056 for financial stability tell that apart from loyalty programs there are other factors that influence these effects. Hence, the findings negate the specifications of the second null hypothesis (H02) because there exists variations in repeat business and financial stability according to participation in the loyalty program.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429	.184	.182	.897
2	.535	.286	.284	.771

a. Predictors: (Constant), Positive word of mouth

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	74.390	1	74.390	92.483	.000 ^b
	Residual	328.987	409	.804		
	Total	403.377	410			
2	Regression	97.353	1	97.353	163.974	.000
	Residual	242.827	409	.594		
	Total	340.180	410			

a. Dependent Variable: Customer Base, Financial Growth
b. Predictors: (Constant), Positive word of mouth

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.918	.251		7.640	.000
	Positive word of mouth	.525	.055	.429	9.617	.000
2	(Constant)	1.702	.216		7.893	.000
	Positive word of mouth	.600	.047	.535	12.805	.000

a. Dependent Variable: Customer Base

Interpretation

The regression results indicate that Positive Word of Mouth (WOM) plays a significant role to the SMEs' customer base growth and its financial growth. R-squared of 0.184 for customer base means that 18.4% of the variance in customer base is explained by Positive WOM indicating that this relationship is significant ($F(1, 409) = 92.483$, $p < .001$). Also, the R2 value of 0.286 indicates that 28.6 % of financial growth's variance is explained by Positive WOM ($F(1, 409) = 163.974$; $p < .001$), with a highly significant relationship. Positive WOM increases have positive effects on

both outcomes (.429 customer base and .535 financial growth) with the Beta coefficients suggesting this is substantial. Hence we reject H03 and we conclude that Positive WOM has a significant impact on the financial growth and customer base of SMEs.

10. FINDINGS

The analyses show that SME performance depends significantly on customer satisfaction and by positive word-of-mouth (WOM), but in different ways. The independent samples t test for trading volume of SMEs with satisfied and unsatisfied customers is proved to have significant difference. Interestingly, satisfied having customers actually led to lower trading volumes, the reverse of what you might expect, and implies that while customer satisfaction is important, it might not be a direct path to increased sales for all SMEs. However, the regression analysis indicates that positive WOM has a strong positive effect on both the customer's base and financial growth. Specifically, positive WOM accounts for 18.4% of the variance on customer base and 28.6% on financial growth, indicating that SMEs with strong customer advocacy experience higher customer base and financial growth. On the other hand, both repeat business improvement and financial stability in SMEs increase when engaging with loyalty programs, although the R-squared values (repeat business 0.041; financial stability 0.056) are relatively low, implying that the programs do not fully explain the SMEs performance, as other market strategies or competitive advantages also contribute.

11. SUGGESTIONS

For companies, strategies that go beyond just offering excellent customer experiences are encouraged to be prioritized in order to promote positive WOM, since such strategies significantly enhance SME performance. The surprising finding that satisfied customers are correlated with lower trading volumes might lead SMEs to consider how they measure and promote satisfactory customer experience to bring about subsequent financial results such as higher revenues. The more detailed understanding of the customer journey beyond the mere satisfaction, could help us understand what the satisfied customers are not spending more. Additionally, loyalty programs should be optimized for bringing back repeat buyers and establish financial security for SMEs, however, other operational or strategic factors need to be considered for overall performance.

12. SCOPE FOR FUTURE RESEARCH

There is future research that could better understand the unexpected relationship of customer satisfaction and trading volume, and whether other factors like customer demographics, market competition, or other business models have any effect on this outcome. This extends to the study of the long term impacts of loyalty programs, in terms of the sustainability of the impact they have on financial stability and repeat business. Another topic of interest may be to examine how mediating and moderating role of factors such as quality of product, service speed and pricing strategies affects this relationship between positive WOM and SME performance to gain better understanding of drivers of customer base expansion and financial growth.

13. CONCLUSION

In Therefore in conclusion it appears that positive WOM and loyalty program play a critical role in the success of SME by influencing their performance in a number of ways; such as the extent

to which SMEs are expanding their customer base, growing in terms of financial performance, developing repeat business and financial stability. Nevertheless, surprisingly, the lower participation of SMEs with satisfied customers in trading does not imply that customer satisfaction leads directly to an increase in sales, which indicates the intricate character of the customer satisfaction – performance relationship. Both the satisfaction as well as positive WOM and loyalty programs are investigated and focused on by SMEs due to which they can refine their strategies to improve performance in multiple dimensions.

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