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# Impact of customer satisfaction on business performance of SME's in Nigeria



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### ABSTRACT

*The article examines the Impact of Customer Satisfaction on the Business Performance of SMEs in Nigeria. The relationship between customer satisfaction and business performance is an important relationship for the development and growth of any nation's economy. The survey design method was applying for the study with its population being drawn from customers and staff in the organization with its outcomes results showing a greater significant relationship between customer satisfaction and business performance but recommended that financial supports to SMEs' will increase customer satisfaction. The survey research design was used as the data used in this research were collected from primary sources i.e. both primary and secondary sources. The primary data were gathered through the use of a structured questionnaire and about one hundred (100) questionnaires were administered to select registered SMEs for responses within. This study concludes that customer satisfaction in business is positively affected by business performance. As profitability is the ability of an organization to earn a return on the resources invested which remains the main key to measure the overall position and performance of the business enterprise.*

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## Introduction

At all levels in Nigeria government from Local to Federal the contribution of small-scale businesses to the development of Nigeria economy and any other economy has been widely recognized because of their capacity in enhancing industrial output and human welfare. Small scale enterprise consists of the driving force of industrial growth and development of the economy by ensuring diversification and growth of industrial production and the achievement of the basic objectives of developments. The SMEs have generated employment opportunities, reducing the irate of unemployment in most countries. The most at time utilizes on-local raw materials in carrying out their production. Judging from this present democratic rule, small scale businesses have contributed to the reduce unemployment in one way or the other (Olatunji and Gbenga, 2017).

Customers are justifications for organization's continuous existence and by extension responsible for achieving profitable performance. To this end, the challenge to retail banking would be to deliver value and satisfaction to the target customers (Kotler & Keller, 2016). Adirika, Ebue and Nnolim (2001) explained that customer satisfaction means solving customers' problems by giving the customers those goods and services or things of value they need at the right price, in the right place, at the right time and in the right combination.

Satisfaction as explained by Kotler and Keller (2016) reflects a person's comparative judgments, resulting from a product's perceived performance (or outcome) in relation to his or her expectations. If the performance falls short of expectations, the customer is dissatisfied and disappointed. If the performance exceeds expectations, the customer is highly satisfied or delighted. Customer

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satisfaction, therefore, refers to the pleasure, rest of mind or re-assurance an individual gets when he or she purchases and/or consumes a product that meets his/her needs. Thus, customer satisfaction becomes an important factor that tends to determine customer retention overtime. Customer satisfaction are usually aimed or sought to be achieved through the following customer service factors such as convenience, customer care, transaction methods and system, pricing, products and service (KPMG, 2018). In other words, customer service factors have direct link with customer satisfaction as intervening variable for organizational performance improvement. Today small and medium scale enterprises in Nigeria are competing by providing as much customer services that would lead to customer satisfaction as is economically possible to enhance organizational performance.

Business performance on the other hand, refers to the actual output or results of any company or firm in comparison with its set goals or objectives. It also refers to the set of financial and non-financial indicators, which offer information on the degree of achievement of objectives and results (Lebans & Euske, 2016). Index of business performance include: low operational costs, increased customer satisfaction, low employee's turnover, increased employee's satisfaction, new customers acquisition, sustainable good relationship with suppliers, reduction in service delivery time and high profitability. Assessing business performance from marketing viewpoint, measures could be made in terms of increase in market share, leadership in market share, increase in sales volume, attracting new customers and retaining old customers, innovation of new products, profitability, cost leadership and branch network expansion. For every organisation's customer's satisfactions is one of the factors that build their growths. Kotler and Keller (2016) said that satisfaction reflects a person's comparative judgments, resulting from a product's perceived outcome concerning their expectations. As performance tends to falls short of expectations, the customer is dissatisfied and disappointed. Most SMEs fail to survive in their first two years, while existing ones are either shutting or operating at sub-optimal levels with the failure rate for start-ups being high. And new ventures in emerging economies face such challenges as uncertain prices and cost, non-existent or unreliable infrastructure, and unpredictable competitive response (Ndubisi, 2018).

Small and medium entrepreneurship in Nigeria is facing a lot of problems ranging from government policies, These problems no doubt adversely affect the customer satisfaction on business performance of SMEs. The SMEs in Nigeria at present is undergoing a hard time due Covid- i19 pandemic with inadequate finance, lack of technical and managerial manpower to manage them. These problems have curbs competitiveness along with structural imbalances facing this sector. Strategies, approaches and strategic leadership are also another significant reason for the failures of small-scale business enterprises in Nigeria. This study appraises contributions of SMEs towards customer satisfaction and business performance in Nigerian. The main Research Objectives of this study are to: Determine the impact of service quality on the performance of SMEs in Nigeria, Examine the impact of perceived value on the performance of SMEs in Nigeria and Determine the impact of loyalty measure on the performance of SMEs in Nigeria. Following the development of the objectives this research attempts to address the following tentative research questions: What significant effect does service quality have on performance of SMEs in Nigeria? What significant effect does perceived value have on performance of SMEs in Nigeria? and how significant is the effect of loyalty measure on performance of SMEs in Nigeria? Some of the formulated null hypothesis that would help to provide answer to the research question are: H0<sub>1</sub>: Service quality does not have significant effect on performance of SMEs in Nigeria, H0<sub>2</sub>: Perceived value has no significant effect on performance of SMEs in Nigeria, H0<sub>3</sub>: Loyalty measure has no significant effect on performance of SMEs in Nigeria.

## **Literature Review**

### **Theoretical and Conceptual Background**

The literature review will provide existing information on the research topic and reviewing other scholar's works. Conceptual concepts will be discusses concepts of SMEs, customer satisfaction, business performance and other related subject matter.

### **The Concept of Small and Medium Scale (SMEs)**

The success of a small business predominantly decided by the entrepreneurial skills of the operators but unfortunately, most operators/owners of these businesses lack the relevant skills to manage them and this accounts for numerous business failures within their first few years of establishment. Virtually all the authors agreed that if relevant skills are applied by small business operators to the management of their businesses, the incidence of business failure will be minimal and thus will lead to youths and out of school graduates being gainfully employed thereby reducing the unemployment rate and the attendants of social complication of armed robbery and white-collar crimes. Ugiagbe (2017) describes a small-scale enterprise as one whose total assets in capital equipment, plant and working capital are less than N25, 000 and employing 50 people who are full-time workers. Entrepreneurship could be a household craft or a factory industry. The survival of business activities is the ability of a firm to continuously be in operation despite various challenges i.e. the managerial process of directing the affairs of a firm regularly on a going concern basis and meets the needs of all stakeholders (Ogbechi, 2018).

### **Concepts of Customer Satisfaction**

Customer satisfaction and loyalty outcomes a large body of research has found a strong, positive relationship between customer satisfaction and repurchase intentions (Mittal and Kamakura, i2018). In the same regard, researchers have found that when examining the direct effects between satisfaction and loyalty intentions, the two constructs do not always correlate positively with financial performance.

### **Concepts of Business Performance**

Business Performance is achieved when a company is generating a high level of profitability regarding financial, capital as well as other resources (Neely, 2016). However, Richard et al. (2019) stated that business performance includes three specific sectors: product market performance such as sales and market share; financial performance such as profitability, return on investments and return on assets; and shareholder return such as economic value-added and total shareholder returns. Customer satisfaction has a significant influence on different matrices of business performance such as total sales, market share, gross margin, stakeholder value and total revenues. A higher level of customer satisfaction influences customer retention, purchase intention and positive word of mouth. Similarly, a strong predictor of further business performance such as yearly sales growth, net operating cash flows and market share is customer satisfaction (Wiele et al., 2017).

Most of the SMEs businesses in Nigeria are sole proprietorships with their businesses becoming labour-intensive in the production processing and centralized management, but their small structure and somewhat short history influence their behaviour and performance. The lack of separation between the company's funds from proprietors' funds affects the small business capacity to manage funds efficiently and to secure loans easily from financial institutions. In most cases, partnerships do not work out, therefore, individuals usually influence, owns and manages the business at the expense of the business. This inability to secure funds and manage the business affects their potential for survival and growth (Nwachukwu, 2016). Some of challenging features in the present SMEs business in Nigeria is their over-independence on imported raw materials and spare parts, which contributes to their low mortality rate.

### **Theoretical framework**

The Theory of McClelland will be adopted for this work. The theory stated that entrepreneurial behavior is motivated by the psychological need for achievement. In his famous treatise termed need for achievement, he argued that apart from the need for achievement, the need for power and the need for affiliation can inspire an individual into entrepreneurship. In his statement, that some societies tend to produce a larger percentage of people with high "need achievement" than others and this explains the disparity among nations in economic development. Webber (2017), notes that entrepreneurial development and economic changes reflect ethical rationalization necessitated by cultural (religious) settings. Entrepreneurial success is a function of prudence and conservatism in Lifestyle.

### **Empirical Review**

Anga (2016) investigate the Determinants of Small and Medium Size Enterprises (SMEs) in Nigeria. Survey questionnaire was used to collect data from two hundred and thirty sample of SMEs under study, and the data collected was analyzed by SPSS and also logistic regression Analysis was employed to measure the determinants of SMEs whereby internal and external factors which involve risk taking, communication business skills, ability to Make decision, management skills, finance, government policies, corruption, marketing information communication technology, and infrastructure all influence performance of SMEs. The result shows that risk taking, communication business skills, ability to decide has no significant effect on the performance of SMEs. Finance, government policy, market of the product shows an adverse impact on the performance of SMEs. While corruption, information Communication technology (ICT) shows a positive relationship with the performance of SMEs, and the last result indicate that infrastructure affect the performance of SMEs in Nigeria Using the descriptive research method.

Adoyi & Agbo (2017) employed both primary and secondary data to determine the extent to which small business firms have developed Benue state of Nigeria, and found that 86.3 percent of the small business firms pay their taxes regularly. These taxes increase the revenue base of the state which is used for development purposes. Akingunola (2011) assessed the specific financing options available to SMEs in Nigeria and their contribution to economic growth performance. The Spearman's Rho correlation was employed to determine the relationship between SMEs financing and investment level. At 10 percent level of Significance, the Rho value of 0.643 indicated a significant and positive relationship between SMEs financing and economic growth in Nigeria.

### **Research and Methodology**

The research method used for the study is organized under the following sub-sections; design of the study, area of the study, the population of the study, sample and sampling techniques, method of data collection, method of data analysis and limitation of the study.

The survey research design was used as the data used in this research were collected from primary sources i.e. both primary and secondary sources. The primary data were gathered through the use of a structured questionnaire. The instrument consisted of two sections which are biodata and research questions relating to. While the biodata section required the respondent to tick any of the boxes provided, the second section required the respondents to make their choices.

### **Population of the Study**

The population of this study consists of one hundred (100) selected registered SMEs for responds. Example the finite white house hotel, Basic Aluminum, Freedom Motors, Food Planet and Chelco Blanket limited respectively in the local government areas. SMEs

employ more than half of the labour force in the private sector. They account for over 99 % of all enterprises, 91 % of these enterprises are micro-firms with less than 10 workers (Nigerian Association of Small-Scale Industrialists (NASSI)).

#### Data Analysis and Hypotheses Testing

About one hundred (100) questionnaires were administered to select registered SMEs for responses within. One hundred (100) of this number were received and computed for this research work while five (5) questionnaires were not returned. This implies that over 93% of the questionnaires were collected which is a good number to draw inferences and conclusions from the findings. The breakdown of these numbers is as summarized in the table below:

**Table 1:** Questionnaires Administered to Some Registered SMEs

Variables	Frequency	Percentage %
Questionnaire administered	100	100
Questionnaire returned	95	95
Questionnaire not returned	05	05
<b>Total</b>	<b>100</b>	<b>100%</b>

Source: Field survey, 2021

**Table 2:** Analysis based on Nature of Business

Respondents	Frequency	Percentage%
Chemical	20	21.05
Rubber and Plastics	10	10.53
Metal Product	15	15.79
Leather and garments	7	7.37
Wood and Furniture	20	21.05
Food and Beverages	12	12.63
Animal Products	8	8.42
Others	3	3.16
<b>TOTAL</b>	<b>95</b>	<b>100</b>

Source: Field Survey, 2021

From the Table above analysis is based on nature of business above shows that different respondents are into various businesses from chemical production, rubber and plastics manufacturer, metal products, leather wood and furniture, food and beverages suppliers and animal product management but more respondents are into chemical and Wood and Furniture business with the highest percentage of 21.05% following by metal product food and beverages suppliers in this are due to the nature of importance of the business.

**Table 3:** Analysis based On Nature of Enterprises

Respondents	Frequency	Percentage %
Limited Liability Company	40	42.11
Private Limited Company	17	17.89
Registered Venture	30	31.58
Unregistered Venture	8	8.42
<b>Total</b>	<b>95</b>	<b>100</b>

Source: Field Survey, 2021

analysis was based on Nature of Enterprises of each respondents and it shows that respondents on Limited Liability Company with 42.11%, respondents on Private Limited Company are 17.89%, respondents with Registered Ventures are 31.58%.while respondents on Unregistered Ventures are 8.42%. This implies that there is more limited liability company

**Table 4:** Test of Research Hypotheses

O	E	O – E	(O – E) <sup>2</sup>	(O – E) <sup>2</sup> /E
110	7.242	102.758	10559.206	1458.051
148	7.242	140.758	19812.814	2735.821
24	7.242	16.758	280.831	38.778
30	7.242	22.758	517.923	71.517
13	7.242	5.758	33.155	4.578
210	7.242	202.758	41110.806	5676.720
88	7.242	80.758	65218.855	900.560
39	7.242	31.758	1008.571	139.270
16	7.242	8.758	76.703	10.595
10	7.242	2.758	7.607	1.050
<b>Total 688</b>				<b>11036.94</b>

$$E = 688/95 = 7.242$$

$$X^2 = \sum (O - E)^2 / E$$

$$X^2 = 11036.94$$

$$X = 105.06$$

Therefore the critical rule is  $\chi^2 = 11036.94n$ . Degree of freedom formula stated as

$$(df) = (r-1) (c-1)$$

$$(df) = (12-1) (2-1)$$

$$(df) = (11)(1)$$

$$df = 11 \times 1$$

$$df = 11$$

Accept **H<sub>01</sub>** and reject **H<sub>02</sub>** if computed value is less than critical value and accept **H<sub>02</sub>** if computed value is greater than critical value. Using the 5% significance figure to obtain degree of freedom = 0.05 = 21.03 therefore  $X^2 = 11036.94n > 21.0$

## Discussion

Having successfully collected the administered questionnaire and analyzed the data from the respondents, the research then summarized the finding of the research project.

- That customer satisfaction has a great the impact on business performance of SMEs in Nigeria.
- Most of the SMEs Business existing in the metropolis enjoy service quality on the performance of SMEs in Nigeria, with support from the government.
- The perceived value on the performance of SMEs in Nigeria has a great significant impact on the performance of small and medium scale alongside the initiator's belief in the kind of business engages in.
- SMEs that operations within the state have low loyalty measure on the performance of SMEs in Nigeria due to their educational background, therefore, lack the skill with which they can operate effectively. I

From the data presented and analyzed it was found out that there is a great impact of service quality on the performance of SMEs in Nigeria, impacting positively on the perceived value on the performance of SMEs in Nigeria with low level of loyalty measure on the performance of SMEs in Nigeria with Nigerian Governments having a greater role to play in ensuring that small scale industries help in improving customer satisfaction in Nigeria.

## Conclusions

From the literature reviewed on the articles it was found out that customer satisfaction in business is positively being affected organizational performance. As profitability is the ability of an organization to earn a return on the resources invested which remain the main keys to measure the overall position and performance of the business enterprise. In answering, one of the research hypotheses that show that there is a positive significant relationship between customer's feelings of SME's services meeting their expectations and SME's financial services acceptability in Nigeria. It will be concluded that SMEs in Nigeria should be improve for their quality and reliability with financial services and customer service, and Nigeria Government should engage professionally in the formulation of their policies in regards to SMEs that will stand the test of time and develop a lasting solution to the Policies initiated by the government should be funded efficiently.

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