

## **Paradigm Shift of Small and Medium-Sized Enterprises Competitive Advantage to Management of Customer Satisfaction**

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*As more and more small and medium-sized enterprises (SME's) are now struggling to survive due to immense pressure created by both globalization of world economy and competition from giant multinational firms, it is important to discern the competitive edge of small entities in alternative ways. So, since there is a lot of avenue for future investigation of competitive advantage in the environment of small and medium enterprises, this study paper aims to put emphasis on small and medium business sector and its elements that could be incorporated in order to attain the competitive advantage. The object of this particular study is the competitive advantage of small and medium enterprise sector. The main objective of the research is to analyze the paradigm shift of small and medium-sized enterprises competitive advantage via contemporary conceptual models. Additionally, the methods, that have been incorporated in this study, are logical and comparative analysis of literature, synthesis and deduction and graphical methods.*

*The existing literature has shed the light on scarce elaboration of the competitive advantage concept and its augmentation in the context of small and medium enterprises, therefore, a further examination is needed. Monitoring of contemporary methods such as management of customer satisfaction and applying it in the activities in SME's in order to reach competitive advantage is particularly new. Therefore, it could be assumed that this study paper is dedicated to opening the ways in the future practical and academic investigations.*

**Keywords:** *competitive advantage, competitiveness, small and medium-sized enterprises, customer satisfaction, methodology.*

### **Introduction**

Even though in the mid-19th political economist John Stuart Mill (1806–1873) was deemed to announce a bad fortune for small and medium-sized enterprises (SME's) due to increasing hegemony of large companies (Braunerhjelm, 2000), today it is clear that SME's are on the center stage of country's development. There are a lot of empirical studies and working papers, which stress on the pivotal role of SME's.

As this sector serves strategically as a tool to generate the economic welfare of a country, and, according to (Faraci & Schillaci, 2002), also benefit to country and regional economic systems, it is worthwhile to mention that Schumpeter is one of the first who notes the importance of entrepreneurs and SME's as the driving force, which leads the economy for a change. In addition to this, (Reynolds, 1998) suggests that if small and medium enterprise sector expands in a quite slow manner, it results in a higher national economic growth. Therefore, SME's have to center their attention on sophisticated means of competitive advantage in order to attract the customers, survive in such unclear surroundings, regain the confidence in potential investors and contribute to wealth creation. What is interesting, investigations of prior published academic works regarding the paradigm shift of

the pioneering ways for competitive advantage attainment via management of customer satisfaction have revealed that this field is highly unexplored in the environment of Lithuanian small and medium enterprises.

In addition to this, the presented examples and visualizations are selected from different sectors and countries. A management of customer satisfaction is an important construct, so the wide spectrum of examples was chosen due to the profound perception and conclusion attainment.

And it is inquiry bears on industry sector, type of the venture. In addition to this, a broader overview gives useful and practical examples. The initiatives taken from different fields and countries can be implemented in SME's and drive to greater result. And since changes do not come overnight, therefore, this process should be considered as the development process.

*The novelty of the study:* this study shows that the gap between the concept of managing customer satisfaction and competitive advantage has to be closed. Customer satisfaction highly effects competitiveness, so it is recommended to incorporate the idea of management of customer satisfaction in SME's activities. Regarding these implications it could be concluded that there is a noticeable paradigm shift in SME's competitive advantage.

*The object of this study is:* the competitive advantage of small and medium-sized enterprise sector.

*The problem of the study is:* How to enhance the management of competitive advantage in small and medium enterprises?

*The aim of the study is:* to emphasize small and medium business sector and its' elements that could be incorporated in order to attain the competitive advantage.

*The objectives of the study are:*

1) To analyze the SME's and competitive advantage through the point of managing satisfaction of customers.

2) To investigate the elements of SME's competitive advantage influencing the management of customer satisfaction.

3) To analyze the paradigm shift of small and medium-sized enterprises competitive advantage via contemporary conceptual models.

*The methods of the study are:*

- Logical and comparative analysis of literature;
- Synthesis and deduction;
- Graphical methods.

### **Theoretical Perception of Small and Medium Enterprises and Competitive Advantage**

According to (Bannock, 2005), the majority of SME's does not compete directly with larger firms at all but operates in niche markets. They are too small to be of interest of mass-producers. A small firm may be able to charge a premium price for product or services and there is the reason why small corner shops survive in competition with supermarkets. Small and medium-sized enterprises have a great variety of features in comparison with large companies. (Wynarczyk *et al.*, 1993) discussed such key aspects as an uncertainty, an innovation and an evolution, which differentiate small and large firms. There are more general features associated with SME's reviewed by (Bharati & Chaudhury, 2008). They stressed on these common denominators of SME's as a low risk propensity, the centralization, a low level of formalism, the diseconomies of scale and the limited autonomy, the cultural insularity and the identity-based trust relationships. Also, as small and medium-sized enterprises' buying and selling quantities are enjoying low levels, usually they do not have any power in price. Small firms are likely to operate in a single market or in a limited range of markets (Burns, 2009). Since traditionally SME's operate in local markets, they suffer from limited geographic reach and a small market share (Nwankwo & Gbadamosi, 2011), and also from a small customer base.

There are a number of limitations that can place SME sector at the outsider position with competitive disadvantage. This notwithstanding to a great variety of unique priorities that derive from this sector. A part of the problems within the SME's lies in their low level of competitiveness, which stem from limited resources. Small and medium ventures have to integrate sophisticated perspectives to strengthen their position in the hard market. (Scully & Stanley, 1994) have argued that in order to survive in the competitive environment SME's must devote their attention for delivering and sustaining competitive advantage. (Li *et al.*, 2008) conclude that competitiveness of

small business depends on their ability to engage and be responsive to their customers.

Competitiveness as a term originated from the Latin word "competer", which means involvement in a business rivalry for markets and this term has been expounded by a number of scholars' works. (D'Cruz & Rugman, 1992) consider competitiveness in the terms of price and non-price qualities and also define it as an ability to provide and sell products in a higher level than other firms in the market. While (Singh, 2012) elaborates the definition by saying that competitive advantage does not only mean the outperforming competitors by better financial performance, but also the generating a superior value for the customer and in the same time attaining the dominant position.

The competitive advantage is the multifaceted concept. It is a cornerstone of each company's strategy and also related to industry sector.

### **Competitive Advantages of SME's**

(Metzler, 2006) states that "small firms do not have to change what they're doing or try to be more like large firms. They simply have to recognize all the good they have going for them and reinforce it, both inside and outside the practice" (p. 62). According to (Zonooz *et al.*, 2011), researches with an emphasis on competitive advantage of SME's have increased in the past years.

(Slevin & Covin, 1995) introduced a 12-factor measurement framework to assess the "total competitiveness" of SME's. The framework includes such elements like the firm's structure, culture, human resources, product/service development and others. Considering to this model it can be assumed again that competitiveness is a multidimensional concept. Many researchers relate competitiveness as a synonymous with a word "success" and that means an achievement of firm's objectives. In associating competitiveness with success (Storey, 1994; Peterson, 1989) found that SME success could be attributed to the managerial skills of the entrepreneur or owner-manager.

As previously alluded, it is a key role for SME's to enhance their competitive levels in order to survive in more demanding and changing markets (Ploss, 1991). The review of features that stem from different business context of SME's serves as a help to realize internal and external elements that provide unique initiatives for this particular field. SME's are usually more flexible and controllable, and able to react faster and to take advantage of niche markets (Corbit & Nabeel, 2004), especially due to the fact that small businesses are closer to the market (Grigore & Grigore, 2011). (Grant *et al.*, 2010) expressed the positive attitude to small ventures sector by noting that entrepreneurial attributes such as creativity, flexibility and dynamism are associated with SME's sector. (Burgess, 2002) also stated that small businesses' (especially innovative ones) advantage is that they are flexible. (Grigore & Grigore, 2011) highlighted the features of small entities such as having a great capacity to adjust, a high degree of competition and great resistance during crisis periods. (Metzler, 2006) summarized that "advantage stems from the

flexibility, collegial atmosphere, opportunities to be hands on and its grass roots ingenuity” (p. 62).

A close personal relationship in SME’s was singled out by (Hillebrand, 2009). The scholar has noted that due to the flat organizational structures of small enterprises relationship is often comparatively close and marked by a high degree of mutual trust and loyalty. So, this proximity between management and employees, and also among the firm and its suppliers, customers and even competitors, enables further to gain the augmentation of personal contacts, which ideally result in greater trust between firm and stakeholders. (Julien, 1993) stated that small ventures are able to preserve labor relationships and to bring a personal touch to operations, to serve niche markets, and they have small capital requirements. (Zonooz *et al.*, 2011) developed a model describing the competitive advantage of SME’s via knowledge perspective. The scholars distinguished three main groups that impact the competitiveness of SME’s. These groups are internal firm factors, external environment and the influence of entrepreneur. An absorptive capacity and a combinative capability are in the centre stage in the suggested construct. The outer element highlights the ability of firm’s members to perceive the information. While the former one is closely linked with accumulated information of organization’ members and their ability of technical knowledge, the next is related to traditionally accepted socializing style and organizational mutual comprehension of targets. The described example influenced the authors to visualize their perception regarding information shift and rivalry (Figure 1).

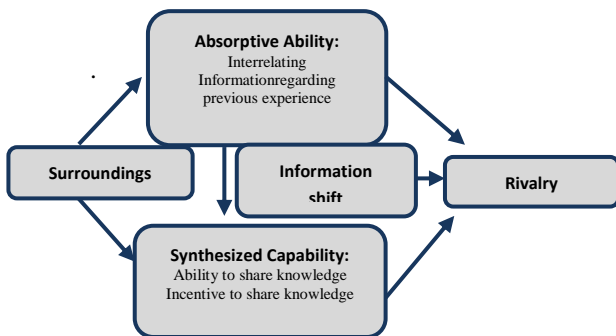


Figure 1. The relationship between information shift and rivalry

Moreover (Reeves & Hoy, 1993) highlighted that “the active involvement of the owner and employees in small firms allows them to tailor the firms’ offerings to the specific needs of their customers without going through the bureaucratic layers typical in large companies” (p. 53). For instance (O’Donnell *et al.*, 2002) concluded that owner/managers deliver customer value via personal contacts.

In fact, SME’s closeness to customers is often constituted as their unique competitive advantage (Zontanos and Anderson, 2004). Winch and McDonald (1999) accented that shorter internal lines of communication, speedy responsiveness and effective problem-solving stem from less formalized communication systems within the micro environment. These features lead to incorporation of customer focus strategy in SME’s and,

according to Reijonen and Laukkanen (2010), it is a central element of prediction for SME’s. This approach gives an opportunity for small entities to satisfy clients’ needs in a profitable manner (Narver *et al.*, 2004).

### Management of Customer Satisfaction Incorporation as Competitive Advantage of SME’s

There are also empirical researches, which describe management of customer satisfaction as competitive advantage. (Singh *et al.*, 2010) added that organizations strive to achieve competitiveness through satisfying customers, a quick response, a cooperation and etc. Four primary competitive advantage constructs, which include inventory management, customer satisfaction, profitability, customer base identification, have been conceptualized and identified in their research. (Rahimic & Ustovic, 2012) have examined managing customer satisfaction as a fundamental determinant for creating and assuring competitive advantages and also displayed the application of model of Customer-Oriented Sales. A customer satisfaction was referred as an inseparable variable in sales process. (Rahimic & Ustovic, 2012) came to a conclusion that international companies consider customer satisfaction as the most important aspect in the process of differentiation much more than native. The relationship among management of customer satisfaction, service performance and destination competitiveness in the tourism sector was explored and based upon empirical investigation in the study by (Chena *et al.*, 2011).

Tourists’ pre-visit perceptions, post-visit satisfaction toward destination attractions and resources, willingness to recommend and revisit, and competitiveness with foreign destinations were tested. The interrelation of the service, management customer satisfaction and competitiveness was discussed by (Angelova & Zekiri, 2011). They noted that “service quality and managing customer satisfaction are very important concepts that companies must understand if they want to remain competitive and grow” (p.232). (Sheth, 2001) had a concern in the idea of managing customer satisfaction as competitive advantage option. He provided a conceptual model visualizing six key competitive advantages that stems from management of customer satisfaction. These competitive advantages, according (Sheth, 2001), are repeat buying, higher prices, word of mouth, new product innovation, loyalty in crises, one stop shopping. The authors of the article present the transformed version of four competitive advantages.

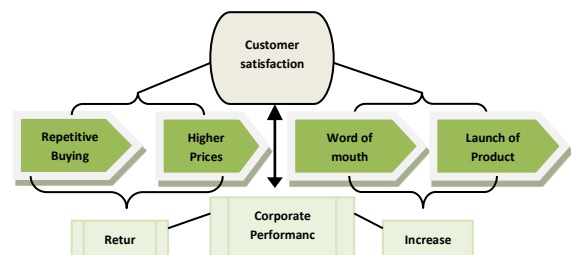


Figure 2. Four competitive advantages through customer satisfaction

While (Sunder, 2009) offered a framework named “Customer satisfaction leading to long-term sustainable competitive advantage”, which proved that management of customer satisfaction is a background of sustainable competitive advantage. This model could be constituted as a continuous approach of the aforementioned perception of (Sheth, 2001).



**Figure 3.** Management of customer satisfaction leading to long-term sustainable competitive advantage

So, both these frameworks prove that paradigm shift of competitive advantage, especially in SME’s could be applicable in real life cases. (Bressler, 2012) mentioned that “rarely can small business owners effectively compete with larger business prices. Entrepreneurs should consider other competitive approaches” (p. 2). These alternatives could be related, for instance, with the incorporation of customer satisfaction. Regarding to that idea, (Li *et al.*, 2008) stated that small ventures leveraged their competitiveness from the speed with which they possessed the ability to respond to customers’ wants and needs. Small businesses also overcome resource constraints through generating competitive advantage via attaining customer satisfaction. The supportive approach of this opinion derived from (Voss *et al.*, 1998) studies. They summarized that SMEs’ competitive advantage is fulfilled through speed, responsiveness and closeness to customers. While these features are closely related to the customer value perception of service quality (Mentzer, 2004) posited that delivering customer value in dimensions important to customers better than the competition delivers customer satisfaction and competitive advantage. (Singh, 2012) claimed that one of the bases of competitive organization

provision which leads to differentiating edge is serving customers better and this is also regarded as a newer method by which a company can turn more profitable.

There is a large portion of research, which suggests that competitive advantage is a multidimensional concept including a great variety of elements. There is no general consensus on this particular subject. This concept should not be considered as a non-durable company’s characteristics. It should be implemented in every single activity due to its wide network of interrelationships among the organization’s activity. And it is highly recommended to apply it via customer satisfaction. So, distinguishing management of customer satisfaction as a competitive advantage serves as a potential tool for SME’s to translate their benefits in the understandable and suitable fashion in order to attain the differentiating edge.

### Conclusions

1. The aforementioned examination of SME’s characteristics revealed that these business entities are characterized as not holding a leading position in the market and are highly constrained with a number of limitations such as size, shortage of budget, narrow customer base, low profit margin, myopic strategic focus, low bargaining power and etc. On the other hand, the authors distinguished features like collegial atmosphere, flexibility, dynamism, creativity, controllability, quick reaction to customers’ needs, ability to express personal touch as the drivers that are considered as benefits.

2. Despite the traditional competitive advantages that are closely related with SME’s, such as the firm’s structure, culture, human resources, product/service development, a new type of management of customer satisfaction should be developed. The management of customer satisfaction has been regarded as the cornerstone of many companies’ competitive strategy.

3. The separated management of customer satisfaction as a potential tool to enhance competitive advantage is presented as beneficial step. The analysis of contemporary models in this study has provided the necessity of the paradigm shift of the SME’s competitive advantage to the management of customer satisfaction.

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