

## CUSTOMER-CENTRIC STRATEGIES AND THEIR IMPACT ON THE FINANCIAL PERFORMANCE OF LEBANESE SMES

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### ABSTRACT

This research investigates the relationship between customer satisfaction and the financial performance of Lebanese small and medium enterprises (SMEs). The study extends beyond North Lebanon to cover SMEs across various regions. Using a quantitative method with a sample size of 260 SME customers, the findings confirm a significant positive impact of customer satisfaction on key performance indicators such as sales growth, operational profitability, and customer retention. By leveraging customer satisfaction, SMEs in Lebanon can achieve a competitive advantage, improve financial metrics, and enhance customer loyalty. The research also discusses the role of customer experience, service quality, and digital tools in fostering SME performance in a challenging economic environment.

**Keywords:** Customer satisfaction, SMEs, financial performance, sales growth, customer retention, Lebanon, operational profitability.

### 1. INTRODUCTION

Small and medium enterprises (SMEs) are the backbone of many economies, particularly in Lebanon, where they account for a significant portion of employment and economic activity. According to the Ministry of Economy and Trade (2020), SMEs constitute over 90% of enterprises in the country, playing a crucial role in supporting local economies, generating employment, and contributing to GDP growth. Despite their importance, Lebanese SMEs face an array of challenges, including political instability, economic crises, limited access to capital, and fierce competition, both from local and international businesses. In this context, customer satisfaction has emerged as a critical factor in maintaining the competitiveness and financial viability of SMEs.

Customer satisfaction can be defined as the degree to which customers perceive that their expectations have been met or exceeded by the products or services offered by a business. For SMEs, achieving and maintaining high levels of customer satisfaction is particularly crucial because they often lack the vast resources and marketing capabilities of larger firms. Satisfied customers are more likely to engage in repeat purchases, provide positive word-of-mouth referrals, and remain loyal to the company, all of which contribute to the long-term financial health of the business. Moreover, in an increasingly competitive environment, customer satisfaction can serve as a key differentiator that helps SMEs stand out in the marketplace.

In Lebanon, the economic environment has been marked by volatility, with SMEs facing constant pressure to innovate and adapt to external shocks such as fluctuating exchange rates, inflation, and political instability. In such an environment, customer satisfaction becomes more than just a strategic goal—it becomes a necessity for survival. SMEs that can successfully align their operations with customer expectations are better positioned to improve financial performance metrics such as sales growth, profitability, and customer retention<sup>[1]</sup>.

#### 1.1. The importance of customer-centric strategies

Customer-centric strategies are business approaches that prioritize the needs, preferences, and experiences of customers at every touchpoint. These strategies involve more than just meeting customer demands—they emphasize a deep understanding of customer expectations, personalized interactions, and a commitment to continuously enhancing the overall customer experience<sup>[2]</sup>. In Lebanon, SMEs that adopt customer-centric strategies are more likely to create lasting relationships with their customers, which translates into higher retention rates and better financial outcomes.

Previous studies, particularly those focused on larger companies, have demonstrated the positive impact of customer satisfaction on financial performance. For example, Heskett et al. (1997) proposed the "service-profit chain," which links employee satisfaction, customer satisfaction, and financial performance. Research has shown that satisfied customers are more likely to remain loyal and engage in repeat purchases, which directly contributes to the growth and profitability of a business. However, there is a gap in the literature concerning the specific dynamics of this relationship in the SME context, particularly in developing economies such as Lebanon<sup>[3]</sup>.

#### 1.2. Problem statement and significance of the study

Lebanese SMEs, while vital to the economy, face numerous internal and external challenges that threaten their financial sustainability<sup>[4]</sup>. In this precarious environment, the role of customer satisfaction as a driver of financial performance

remains underexplored, particularly outside the North Lebanon region. Existing research has largely been geographically focused and limited in scope, failing to account for the broader context in which SMEs across Lebanon operate.

This study seeks to fill this gap by examining the impact of customer-centric strategies on the financial performance of Lebanese SMEs across various regions. By focusing on a larger and more diverse sample of 260 customers, this research aims to provide more comprehensive insights into how SMEs can leverage customer satisfaction to drive sales growth, enhance profitability, and reduce customer churn. Furthermore, the study investigates the role of digital tools, personalized service, and other customer experience-enhancing measures in contributing to the financial success of SMEs<sup>[5]</sup>.

### 1.3. Research objectives

The primary objective of this study is to assess the impact of customer satisfaction on the financial performance of SMEs in Lebanon. Specifically, the research aims to:

Identify the key factors contributing to customer satisfaction in Lebanese SMEs.

Examine how customer satisfaction influences sales growth, operational profitability, and customer retention in SMEs.

Explore the role of customer-centric strategies, such as the use of digital tools and personalized customer service, in enhancing SME performance.

Provide practical recommendations for SMEs on how to improve customer satisfaction and, consequently, financial performance.

### 1.4. Research questions

To achieve these objectives, the study will address the following research questions:

What are the primary drivers of customer satisfaction for Lebanese SMEs?

How does customer satisfaction affect the sales growth and profitability of SMEs?

What is the relationship between customer satisfaction and customer retention in Lebanese SMEs?

How can customer-centric strategies, including digital transformation, contribute to improving SME performance?

### 1.5. Hypothesis

Based on the review of existing literature and the specific context of Lebanese SMEs, the following hypotheses are proposed:

H1: Customer satisfaction has a positive effect on the sales growth of Lebanese SMEs.

H2: Customer satisfaction enhances the operational profitability of Lebanese SMEs.

H3: Customer satisfaction reduces customer churn and improves customer retention rates in Lebanese SMEs.

### 1.6. Structure of the study

This paper is structured as follows: the next section reviews the relevant literature on customer satisfaction and its impact on financial performance, followed by the development of hypotheses. The subsequent section outlines the methodology used to collect and analyze data from a sample of 260 SME customers in Lebanon. The results are then presented and discussed, comparing the findings with existing studies. Finally, the paper concludes by summarizing the key insights and providing recommendations for future research and practical implications for Lebanese SMEs.

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Customer satisfaction has long been recognized as a key driver of business success, especially in competitive markets where differentiation through product offerings is challenging<sup>[6]</sup>. For small and medium enterprises (SMEs) in Lebanon, where economic instability, political unrest, and intense competition are daily realities, customer satisfaction is not just a strategic priority—it is a critical survival mechanism. This literature review explores the theoretical frameworks and empirical studies that link customer satisfaction to the financial performance of SMEs, focusing on aspects such as sales growth, operational profitability, and customer retention<sup>[7]</sup>.

### 2.1. The Concept of Customer Satisfaction

Customer satisfaction is commonly defined as the customer's overall evaluation of the purchase experience with a particular product or service, compared to their pre-purchase expectations<sup>[8]</sup>. In simpler terms, satisfaction is the extent to which a business successfully fulfills customer expectations. This concept is pivotal in marketing and business strategy because it directly influences customer loyalty, repeat purchases, and the likelihood of positive word-of-mouth referrals<sup>[9]</sup>.

Research has consistently shown that satisfied customers are more likely to return, spend more, and recommend the business to others. Szymanski and Henard (2001) suggest that businesses that exceed customer expectations can foster strong customer loyalty, while dissatisfied customers are more likely to defect to competitors. This makes customer satisfaction particularly critical for SMEs, which often lack the financial resources to engage in large-scale marketing and customer acquisition efforts. Instead, SMEs must rely on customer satisfaction to drive organic growth through customer retention and referrals<sup>[10]</sup>.

## 2.2. Customer Satisfaction and Financial Performance

Several studies have established a clear link between customer satisfaction and improved financial performance. The service-profit chain model proposed by Heskett et al. (1997) suggests that customer satisfaction drives customer loyalty, which in turn leads to increased profitability. This model highlights that businesses with satisfied customers benefit from lower costs related to customer acquisition, reduced price sensitivity, and stronger brand loyalty, all of which contribute to improved financial outcomes<sup>[11]</sup>.

### Sales Growth and Customer Satisfaction

The relationship between customer satisfaction and sales growth is one of the most well-documented in business literature. Anderson, Fornell, and Mazvancheryl (2004) found that firms with higher customer satisfaction scores experience greater sales growth compared to their competitors. This is particularly true for SMEs, where word-of-mouth marketing plays a crucial role in driving customer acquisition. In Lebanon, where many SMEs rely heavily on local markets and personal relationships, satisfied customers are more likely to spread positive feedback, thus contributing to increased sales<sup>[12]</sup>.

Empirical research further supports this connection. For example, Rust et al. (2002) argue that customer satisfaction enhances customer retention, repeat purchase rates, and customer lifetime value (CLV), all of which contribute to sustained sales growth. The customer lifetime value concept highlights how much revenue an SME can expect from a customer over their entire relationship, illustrating the importance of retaining satisfied customers for long-term financial health.

### Operational Profitability and Customer Satisfaction

In addition to boosting sales, customer satisfaction also positively impacts operational profitability. Morgan and Rego (2006) found that businesses with high levels of customer satisfaction not only experience increased revenues but also enjoy higher operational efficiencies. This occurs because satisfied customers are less costly to serve; they are less likely to return products, require fewer customer service interventions, and are less price-sensitive<sup>[13]</sup>.

For SMEs, which often operate with limited resources and narrow margins, achieving operational efficiency is critical. Customers who are satisfied with their experience are less likely to engage in costly behaviors such as making returns, filing complaints, or switching to competitors. Furthermore, they are more likely to be loyal, reducing the need for aggressive and costly marketing campaigns aimed at customer acquisition.

Empirical studies have shown that companies with higher levels of customer satisfaction tend to have lower churn rates, higher employee satisfaction (since staff deal with fewer complaints), and stronger overall operational performance. In the context of Lebanese SMEs, which face a challenging business environment due to economic and political instability, enhancing customer satisfaction could help stabilize profitability and reduce operational costs.

### Customer Retention and Churn Reduction

Customer retention is a critical outcome of customer satisfaction. Studies have shown that acquiring a new customer can cost five times more than retaining an existing one<sup>[14]</sup>. Therefore, customer satisfaction plays a pivotal role in reducing customer churn, which refers to the rate at which customers stop doing business with a company. For SMEs, where customer bases are smaller and resources are more constrained, losing even a few customers can have a significant negative impact on financial performance. Gupta and Zeithaml (2006) found that satisfied customers are more likely to remain loyal to a business, even in the face of competitive pressures or minor price increases. Moreover, loyal customers often engage in positive word-of-mouth, attracting new customers at little to no marketing cost for the SME. In the Lebanese context, where many SMEs rely heavily on personal relationships and community support, maintaining high levels of customer satisfaction is crucial for reducing churn and ensuring long-term business success.

## 2.3. The Role of Customer-Centric Strategies in SMEs

Customer-centric strategies are business approaches that place the customer's needs, preferences, and experiences at the heart of decision-making processes. In recent years, these strategies have become increasingly important for SMEs, particularly in highly competitive and uncertain markets like Lebanon. By focusing on customer satisfaction, SMEs can create value, build loyalty, and differentiate themselves from competitors<sup>[15]</sup>.

### Personalization and Customer Engagement

One key component of customer-centric strategies is personalization, which refers to tailoring products, services, and communication to meet the specific needs of individual customers. Research shows that personalization can significantly improve customer satisfaction because it demonstrates that the business understands and values the customer's unique preferences. For SMEs, which often have closer relationships with their customers compared to larger firms, personalization can serve as a competitive advantage.

Additionally, customer engagement through digital tools and platforms has become a crucial element of customer-centric strategies. In Lebanon, SMEs increasingly leverage social media, customer relationship management (CRM) systems, and digital communication tools to interact with customers, gather feedback, and address concerns in real-time. These tools allow SMEs to enhance the customer experience, fostering greater satisfaction and loyalty.

### Service Quality and Responsiveness

Service quality is another critical component of customer-centric strategies. The SERVQUAL model identifies five dimensions of service quality: tangibility, reliability, responsiveness, assurance, and empathy. Responsiveness, in particular, is vital for SMEs, as customers expect quick and efficient resolutions to their concerns. High responsiveness, coupled with reliability in delivering products and services, enhances customer satisfaction and loyalty<sup>[16]</sup>.

Lebanese SMEs, given their smaller size and often more personalized approach to service delivery, are uniquely positioned to excel in responsiveness and empathy. By focusing on these dimensions of service quality, SMEs can create stronger relationships with customers, driving both retention and financial performance.

### 2.4. Theoretical Framework: The Service-Profit Chain Model

The Service-Profit Chain Model developed by Heskett et al. (1997) provides a useful theoretical framework for understanding how customer satisfaction impacts financial performance. The model suggests that internal service quality (i.e., the way businesses support their employees and internal processes) leads to higher employee satisfaction, which in turn leads to better service quality delivered to customers. When customers are satisfied, they are more likely to remain loyal, increasing customer retention rates. This loyalty translates into higher sales, reduced churn, and improved profitability for the business<sup>[17]</sup>.

In the context of Lebanese SMEs, the Service-Profit Chain is particularly relevant. Given the economic challenges and resource limitations many SMEs face, focusing on service quality and customer satisfaction can provide a clear path to financial success.

### 2.5. Hypothesis Development

Based on the literature reviewed and the theoretical frameworks discussed, the following hypotheses are proposed:

H1: Customer satisfaction has a positive effect on sales growth of Lebanese SMEs.

Numerous studies have established a strong link between customer satisfaction and sales growth, particularly in SMEs that rely heavily on repeat business and customer referrals (Anderson et al., 2004). This hypothesis suggests that Lebanese SMEs with higher customer satisfaction levels will experience increased sales due to customer loyalty and positive word-of-mouth.

H2: Customer satisfaction enhances the operational profitability of Lebanese SMEs.

Research indicates that satisfied customers are less costly to serve, less likely to switch to competitors, and more willing to engage in repeat purchases, leading to improved profitability (Morgan & Rego, 2006). This hypothesis posits that Lebanese SMEs that invest in customer satisfaction will achieve better operational efficiency and higher profit margins.

H3: Customer satisfaction reduces customer churn for Lebanese SMEs.

Gupta and Zeithaml (2006) emphasize the importance of customer satisfaction in reducing churn rates. Given the competitive and unstable business environment in Lebanon, this hypothesis suggests that satisfied customers are less likely to switch to competitors, thereby enhancing customer retention and providing a more stable revenue stream for SMEs.

### Conclusion

The literature clearly demonstrates that customer satisfaction plays a vital role in driving financial performance in SMEs, particularly in challenging markets like Lebanon. By adopting customer-centric strategies that prioritize personalization, service quality, and responsiveness, SMEs can significantly improve their sales growth, profitability, and customer retention. The hypotheses developed in this section will be tested empirically in the subsequent sections of the research, providing valuable insights into how Lebanese SMEs can leverage customer satisfaction for financial success.



### 3. METHODOLOGY

This section outlines the research design, sample selection, data collection process, and analysis techniques used to examine the impact of customer satisfaction on the financial performance of small and medium enterprises (SMEs) across Lebanon. The study adopts a quantitative approach to provide empirical evidence on the relationship between customer satisfaction and key financial metrics such as sales growth, profitability, and customer retention. The following subsections detail each step of the research process, ensuring rigor and reliability in the findings<sup>[18]</sup>.

#### 3.1. Research Design

This study employs a descriptive and correlational research design to assess the impact of customer satisfaction on the financial performance of Lebanese SMEs. The descriptive aspect provides a comprehensive overview of the customer satisfaction levels and financial performance indicators within the SME sector, while the correlational approach explores the relationships between these variables. The focus is on identifying how customer satisfaction drives financial outcomes such as sales growth, operational profitability, and customer retention<sup>[19]</sup>.

A quantitative method was chosen because it allows for the collection of measurable data that can be analyzed statistically. This approach is particularly suitable for examining customer satisfaction levels and their influence on financial performance. It also provides the basis for generalizable insights, enabling the study to offer practical recommendations to Lebanese SMEs.

#### 3.2. Population and Sampling

The study targets the customers of SMEs across Lebanon, ensuring a diverse and representative sample from various regions and sectors. While the original thesis focused on SMEs in North Lebanon, this study expands its scope to cover SMEs nationwide, including major commercial hubs like Beirut, Mount Lebanon, Bekaa, and South Lebanon. This broader geographical focus allows for a more comprehensive understanding of the customer satisfaction landscape across the cuntry.

#### 3.3. Target Population

The target population consists of individuals who have engaged with SMEs in Lebanon over the past year. SMEs in Lebanon are characterized by their small workforce (fewer than 250 employees) and limited annual turnover (below \$10 million), in line with local economic classifications (Ministry of Economy and Trade, 2020). These enterprises operate in a range of sectors, including retail, hospitality, services, and manufacturing.

#### 3.4. Sampling Method

A stratified random sampling method was employed to ensure that the sample is representative of the population. Stratification was based on several criteria, including geographic location, SME sector, and customer demographics (age, gender, and education level). This approach ensures that the sample reflects the diversity of customers engaging with Lebanese SMEs.

The sample size was expanded to 260 customers to improve the statistical power of the study. This is a substantial increase from the original thesis, which had a sample size of 100. A larger sample size reduces sampling bias and increases the reliability of the results. The Yamane formula (Yamane, 1967) was used to calculate the optimal sample size, based on a confidence level of 95% and a margin of error of 5%.

#### 3.5. Inclusion and Exclusion Criteria

The inclusion criteria for participants are as follows:

- Must be 18 years of age or older.
- Must have purchased products or services from an SME in Lebanon within the last 12 months.
- Must be able to provide feedback on customer satisfaction.

The exclusion criteria were:

- Individuals under the age of 18.
- Employees or owners of the SMEs being evaluated to avoid potential bias in responses.

#### 3.6. Data Collection Methods

Data collection for this study involved the use of a structured questionnaire administered to 260 customers of SMEs in Lebanon. The questionnaire was designed to capture both the independent variable (customer satisfaction) and the dependent variables (sales growth, operational profitability, and customer retention).

##### 3.6.1. Questionnaire Design

The questionnaire was developed using a five-point Likert scale, ranging from "Strongly Disagree" to "Strongly Agree." It consisted of three key sections:

- Demographic Information: Questions on age, gender, education level, and employment status.
- Customer Satisfaction: Questions measuring satisfaction with product/service quality, responsiveness of the SME, and overall customer experience.
- Financial Performance Indicators: Questions that assess the impact of customer satisfaction on sales growth, profitability, and customer retention.

The customer satisfaction section drew from established models such as the SERVQUAL model, which focuses on five dimensions of service quality: tangibility, reliability, responsiveness, assurance, and empathy<sup>[20]</sup>.

### 3.6.2. Pre-testing the Questionnaire

Before the full-scale data collection, the questionnaire was pre-tested with a smaller sample of 20 respondents to identify potential issues in question clarity, structure, or bias. The feedback from the pre-test was used to revise the questionnaire, ensuring that all questions were easy to understand and relevant to the Lebanese SME context.

### 3.6.3. Data Collection Procedure

Data collection was conducted over a period of three months, from June to August 2024. The questionnaire was distributed online using Google Forms, and respondents were recruited via email invitations, social media, and partnerships with SMEs across Lebanon. The online distribution method was chosen due to its efficiency, cost-effectiveness, and the ongoing economic and logistical challenges in Lebanon, such as the frequent power outages and limitations in face-to-face interactions.

To ensure a robust response rate, a reminder campaign was implemented, encouraging participants to complete the survey. SME partners also helped promote the survey among their customer base. This partnership ensured that the sample covered a wide range of customer experiences across different industries.

## 3.7. Data Analysis Methods

Once the data were collected, they were coded and entered into Statistical Package for the Social Sciences (SPSS) software for analysis. The analysis followed several key steps, as outlined below:

### 3.7.1. Data Cleaning and Preparation

The first step in data analysis involved cleaning the data to ensure accuracy. Incomplete or inconsistent responses were removed, and any missing values were addressed using imputation techniques where possible. The Likert scale responses were coded numerically (1 = Strongly Disagree, 5 = Strongly Agree) to facilitate statistical analysis.

### 3.7.2. Descriptive Statistics

Descriptive statistics were used to summarize the demographic characteristics of the respondents and provide an overview of their levels of satisfaction with SMEs. This involved calculating frequencies, means, and standard deviations for each item on the questionnaire.

### 3.7.3. Reliability Testing

To assess the internal consistency of the questionnaire, Cronbach's alpha was used. A Cronbach's alpha value above 0.70 was considered acceptable, indicating that the survey items measuring customer satisfaction and financial performance were reliable and internally consistent.

### 3.7.4. Hypothesis Testing

The core of the analysis involved testing the research hypotheses using:

- Correlation analysis: To measure the strength and direction of the relationship between customer satisfaction and financial performance indicators.
- Multiple regression analysis: To assess the impact of customer satisfaction on sales growth, profitability, and customer retention while controlling for demographic factors.

The regression model evaluated the relative contribution of various customer satisfaction factors (product/service quality, responsiveness, etc.) to the financial performance of Lebanese SMEs. Significance levels ( $p < 0.05$ ) were used to determine whether the relationships observed were statistically significant.

## 2.6.1. Validation of Hypotheses

The following hypotheses were tested:

- H1: Customer satisfaction has a positive effect on sales growth.  
H2: Customer satisfaction enhances operational profitability.  
H3: Customer satisfaction reduces customer churn.

The results from the correlation and regression analyses were used to validate or reject these hypotheses. Visualizations such as scatter plots and regression lines were employed to illustrate the relationships between variables, making the findings accessible and interpretable.

### 3.7. Ethical Considerations

This study adhered to strict ethical guidelines to protect the rights and privacy of participants. Before participating, all respondents were provided with an informed consent form, outlining the purpose of the study, their right to withdraw at any time, and assurances regarding the confidentiality of their responses. No personal identifiers were collected, and all data were anonymized to prevent the identification of individual participants.

Additionally, the study was conducted in compliance with the ethical standards of the Lebanese University's research guidelines, ensuring that all procedures met the necessary ethical standards.

The methodology of this study was designed to provide a comprehensive and reliable assessment of the impact of customer satisfaction on the financial performance of Lebanese SMEs. By adopting a rigorous sampling method, employing a validated questionnaire, and using robust statistical techniques, the study aims to produce insights that can inform SME managers on how to enhance their customer-centric strategies to improve financial outcomes.

## 4. RESULTS AND DISCUSSION

This section presents the findings of the study, focusing on the relationship between customer satisfaction and the financial performance of Lebanese SMEs. The results are discussed in the context of the research hypotheses, followed by an interpretation of their significance in relation to the existing literature. The discussion highlights key trends, practical implications for SMEs, and comparisons with previous studies.

### 4.1. Results

The analysis was conducted on data collected from a sample of 260 customers of Lebanese SMEs across various sectors and regions. The results were obtained through descriptive statistics, correlation analysis, and multiple regression analysis using SPSS. The following subsections detail the outcomes related to customer satisfaction and its impact on sales growth, profitability, and customer retention.

#### 4.1.1. Descriptive Statistics

The demographic characteristics of the sample showed a balanced representation of different age groups, educational levels, and employment statuses. Among the respondents:

Age distribution: 45% of respondents were aged 26-35, 30% were aged 36-45, and the remaining were evenly split between younger and older age groups.

Gender: The sample was 52% male and 48% female, reflecting a balanced gender representation.

Education level: 55% of respondents had a university degree, 30% had completed high school, and 15% had postgraduate qualifications.

The customer satisfaction variables were measured across four dimensions: product quality, service quality, responsiveness, and overall customer experience. These variables were scored using a five-point Likert scale, with higher scores indicating greater satisfaction. The average customer satisfaction score was 3.8 out of 5, indicating a relatively high level of satisfaction among Lebanese SME customers.

#### 4.1.2. Correlation Analysis

The correlation analysis revealed significant positive relationships between customer satisfaction and the three key financial performance indicators: sales growth, operational profitability, and customer retention. The Pearson correlation coefficients for each relationship are as follows:

Customer satisfaction and sales growth:  $r = 0.72$ ,  $p < 0.01$

Customer satisfaction and operational profitability:  $r = 0.68$ ,  $p < 0.01$

Customer satisfaction and customer retention (churn reduction):  $r = 0.74$ ,  $p < 0.01$

These results suggest a strong positive association between higher customer satisfaction and improved financial performance metrics for Lebanese SMEs.

#### 4.1.3. Multiple Regression Analysis

To further investigate the impact of customer satisfaction on financial performance, a multiple regression analysis was conducted with sales growth, operational profitability, and customer retention as dependent variables, and customer satisfaction dimensions (product quality, service quality, responsiveness, and overall experience) as independent variables.

#### Impact on Sales Growth

R-squared = 0.65, indicating that 65% of the variance in sales growth can be explained by customer satisfaction.

Product quality ( $\beta = 0.34$ ,  $p < 0.01$ ) and service quality ( $\beta = 0.31$ ,  $p < 0.01$ ) had the strongest positive influence on sales growth, followed by responsiveness ( $\beta = 0.22$ ,  $p < 0.05$ ).

#### Impact on Operational Profitability

The regression analysis for profitability produced the following results:

R-squared = 0.60, indicating that customer satisfaction explains 60% of the variation in operational profitability.

Service quality ( $\beta = 0.40$ ,  $p < 0.01$ ) and responsiveness ( $\beta = 0.28$ ,  $p < 0.01$ ) were the strongest predictors of improved profitability.

#### Impact on Customer Retention

The regression analysis for customer retention showed:

R-squared = 0.69, suggesting that 69% of the variation in customer retention can be attributed to customer satisfaction factors.

Responsiveness ( $\beta = 0.38$ ,  $p < 0.01$ ) and overall customer experience ( $\beta = 0.30$ ,  $p < 0.01$ ) were the most significant predictors of reduced customer churn.

### 4.2. Discussion

The results confirm that customer satisfaction has a significant positive impact on the financial performance of Lebanese SMEs. This section discusses the implications of these findings in relation to the research hypotheses and the broader literature on customer satisfaction and business performance.

#### 4.2.1. Customer Satisfaction and Sales Growth

The analysis supports Hypothesis 1, which posited that customer satisfaction positively affects sales growth. The strong positive correlation between customer satisfaction and sales growth ( $r = 0.72$ ) aligns with previous studies, such as Anderson et al. (2004), which demonstrated that satisfied customers are more likely to engage in repeat purchases and recommend the business to others.

The results highlight that product quality and service quality were the most significant drivers of sales growth. This suggests that Lebanese SMEs that prioritize delivering high-quality products and services can expect to see stronger sales performance. Given the challenging economic environment in Lebanon, where SMEs face stiff competition and limited resources, customer satisfaction can serve as a cost-effective means to boost revenue through repeat purchases and positive word-of-mouth.

Furthermore, the significance of responsiveness in driving sales growth points to the importance of timely and effective communication with customers. SMEs that respond quickly to customer inquiries, complaints, or requests are more likely to retain their customers and foster long-term relationships. In a competitive market like Lebanon, where customer loyalty is vital for survival, responsiveness can be a key differentiator.

#### 4.2.2. Customer Satisfaction and Operational Profitability

Hypothesis 2, which proposed that customer satisfaction enhances operational profitability, was also supported by the results. The regression analysis revealed that 60% of the variance in profitability could be explained by customer satisfaction, with service quality and responsiveness being the strongest predictors.

This finding is consistent with the service-profit chain model, which emphasizes that businesses with satisfied customers are more likely to achieve higher operational efficiency. Satisfied customers are less likely to return products, file complaints, or switch to competitors, reducing the costs associated with customer service and product returns. In the context of Lebanese SMEs, which often operate with tight margins, reducing these costs through customer satisfaction can significantly improve profitability.

The importance of service quality in driving profitability further highlights the need for SMEs to invest in employee training and process improvements to ensure consistent and reliable service delivery. For SMEs that may lack the financial resources for large-scale marketing campaigns, focusing on service quality can yield significant returns by fostering customer loyalty and reducing operational inefficiencies.

#### 4.2.3. Customer Satisfaction and Customer Retention

The analysis strongly supports Hypothesis 3, which suggested that customer satisfaction reduces customer churn and improves retention. The correlation between customer satisfaction and customer retention ( $r = 0.74$ ) was the strongest of the three relationships examined. This finding is consistent with studies by Gupta and Zeithaml (2006), which demonstrated that satisfied customers are more likely to remain loyal and less likely to defect to competitors.



The significance of responsiveness as a predictor of customer retention underscores the need for SMEs to prioritize customer interactions and provide timely, effective responses to customer needs. In the Lebanese SME sector, where businesses often rely on local networks and personal relationships, being responsive to customer concerns can make the difference between retaining or losing a customer.

Moreover, the importance of the overall customer experience in reducing churn suggests that SMEs must focus on creating a positive, seamless experience for customers, from the initial interaction to post-purchase support. This holistic approach to customer satisfaction is crucial for building long-term relationships and maintaining a stable customer base.

#### 4.2.4. Comparison with Previous Studies

The findings of this study are consistent with previous research in other contexts, such as the work of Fornell et al. (2016), which established a clear link between customer satisfaction and financial performance. However, this study extends the literature by focusing specifically on Lebanese SMEs, a sector that faces unique challenges related to political instability, economic uncertainty, and limited resources. The results suggest that despite these challenges, Lebanese SMEs can achieve financial success by prioritizing customer satisfaction.

Furthermore, the findings highlight the critical role of responsiveness in driving both profitability and customer retention—an insight that may be particularly relevant for SMEs in developing economies like Lebanon, where customer service quality is often a key competitive differentiator.

#### 4.3. Implications for Lebanese SMEs

The results of this study have several practical implications for Lebanese SMEs. First, investing in product and service quality should be a top priority, as these factors significantly impact both sales growth and profitability. SMEs can achieve this by training employees, improving internal processes, and ensuring consistency in product offerings.

Second, responsiveness emerged as a key driver of financial performance across all three indicators—sales growth, profitability, and customer retention. SMEs should invest in customer relationship management (CRM) systems and digital communication tools to ensure timely and effective interactions with customers.

Finally, SMEs should focus on enhancing the overall customer experience, not just individual components like product quality or service delivery. A holistic approach that considers the entire customer journey—from the first point of contact to post-purchase support—will help SMEs build long-term customer relationships and reduce churn.

The results of this study confirm that customer satisfaction plays a critical role in driving the financial performance of Lebanese SMEs. By focusing on customer satisfaction, particularly in areas such as product quality, service responsiveness, and the overall customer experience, SMEs can significantly improve their sales growth, profitability, and customer retention. These findings provide valuable insights for SME managers in Lebanon, highlighting the importance of adopting customer-centric strategies to navigate the challenges of a competitive and uncertain economic environment.

### 5. CONCLUSION

The research sought to examine the influence of customer-centric strategies on the financial performance of Lebanese small and medium enterprises (SMEs). With a focus on customer satisfaction and its impact on sales growth, operational profitability, and customer retention, the study employed a quantitative approach, gathering data from a sample of 260 customers across various sectors in Lebanon. Through detailed statistical analysis, including correlation and regression, the study demonstrated a clear and significant relationship between customer satisfaction and enhanced financial performance in SMEs.

The hypotheses formulated at the outset of the research have been thoroughly tested. The first hypothesis, which proposed that customer satisfaction has a positive effect on sales growth, was strongly supported by the data. Higher levels of customer satisfaction, driven by product quality, service responsiveness, and overall customer experience, resulted in more frequent repeat purchases and positive word-of-mouth, leading to sales growth. The second hypothesis, that customer satisfaction enhances operational profitability, was also confirmed. This was primarily because satisfied customers are less likely to switch to competitors or return products, reducing the operational costs associated with customer retention and service. The third hypothesis, which suggested that customer satisfaction reduces customer churn and improves retention, proved to be the most robust, demonstrating that SMEs with responsive and customer-focused strategies were able to retain their customer base effectively, even in Lebanon's volatile economic environment.

What makes this research unique is its contribution to the growing body of literature on customer satisfaction and SME performance, particularly in the context of developing economies like Lebanon. While previous studies have confirmed the general link between customer satisfaction and business success, this research adds a localized perspective by exploring how these dynamics play out within the Lebanese market, where SMEs face compounded challenges such as

political instability, currency fluctuations, and limited access to financing. The results suggest that, despite these challenges, customer satisfaction can be leveraged as a cost-effective strategy to drive financial performance. This is particularly valuable for SMEs with limited marketing budgets, as satisfied customers become advocates for the business, driving organic growth through recommendations and loyalty.

The research also highlights specific aspects of customer satisfaction that are particularly influential in the Lebanese context. For example, responsiveness emerged as a critical factor influencing both profitability and customer retention. Lebanese SMEs, often embedded in close-knit communities, must be quick and effective in addressing customer concerns to maintain their competitive edge. This finding underscores the importance of personalized, timely customer service, which is a core strength of many SMEs and can serve as a differentiator from larger competitors with more standardized operations.

Despite the robustness of these findings, the research is not without limitations. One of the main limitations stems from the reliance on self-reported data, which, while providing valuable insights, may introduce biases such as social desirability bias or recall errors. Respondents may have overestimated or underestimated their satisfaction levels or purchasing behavior. Future research could enhance the validity of results by integrating objective financial data from SMEs, such as actual sales and customer retention rates, to complement the perceptions reported by customers.

Another limitation relates to the cross-sectional nature of the study. Data were collected at a single point in time, which limits the ability to establish causality or track changes in customer satisfaction and financial performance over time. A longitudinal study that follows SMEs and their customers over several years would provide deeper insights into how sustained customer satisfaction efforts influence long-term financial performance. This approach would also account for the impact of external shocks, such as economic downturns or political events, on customer satisfaction and SME performance.

Furthermore, the sectoral and geographic scope of the study presents another limitation. Although the sample included a diverse range of customers from various regions and sectors in Lebanon, certain industries, such as manufacturing and hospitality, were underrepresented. Future research could focus on sector-specific studies to determine if the relationship between customer satisfaction and financial performance varies across industries. For instance, the dynamics of customer satisfaction in the technology or healthcare sectors may differ from those in retail or hospitality.

Looking ahead, this research opens several avenues for future inquiry. One area worth exploring is the role of digital transformation in enhancing customer satisfaction and financial performance.

As more SMEs in Lebanon adopt digital tools such as customer relationship management (CRM) systems, e-commerce platforms, and social media marketing, it would be valuable to assess how these technologies influence customer engagement and satisfaction. Additionally, as the global and Lebanese economies increasingly shift toward digitalization, understanding how digital interactions shape customer expectations and experiences will be critical for SMEs aiming to remain competitive.

The institutional and systemic implications of this research are also significant. At the policy level, these findings could inform economic development strategies that prioritize supporting SMEs in building customer-centric business models. Government agencies, financial institutions, and SME support organizations should consider developing programs that focus on service quality training, digital tools for customer engagement, and access to affordable technology to help SMEs enhance their customer satisfaction efforts.

Furthermore, the findings suggest that economic policy reforms that stabilize the business environment, such as improving access to financing or addressing political instability, would indirectly support the ability of SMEs to invest in customer satisfaction initiatives. Ensuring that SMEs have the necessary resources to compete based on service quality, responsiveness, and customer experience will help them sustain financial growth even in uncertain times.

This study underscores the critical importance of customer satisfaction as a strategic tool for improving the financial performance of Lebanese SMEs.

While the challenges faced by these enterprises are significant, particularly in an economy as volatile as Lebanon's, this research demonstrates that prioritizing customer satisfaction—through service quality, responsiveness, and personalized customer experiences—can yield substantial financial benefits.

Lebanese SMEs can thus leverage customer-centric strategies not only as a means of survival but as a pathway to sustainable growth in the face of ongoing economic and political challenges. As the business landscape evolves, particularly with the rise of digital technologies, SMEs that remain focused on the customer experience will be best positioned to navigate the uncertainties ahead and achieve long-term success.

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