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# Managing newness of SME startups for increasing customer satisfaction and loyalty

Husam Salah Sameen Al Rubaye [†]
*Faculty of Management Studies and Research*
*Aligarh Muslim University*
*Aligarh 202002*
*Uttar Pradesh*
*India*

Abdul Saboor Mohammad *
*Department of Commerce*
*Aligarh Muslim University*
*Aligarh 202002*
*Uttar Pradesh*
*India*

Adil Khan [§]
*GITAM School of Business*
*GITAM (Deemed to be University)*
*Visakhapatnam*
*Andhra Pradesh*
*India*

Md. Firoz Alam [‡]
*Department of Commerce*
*Aligarh Muslim University*
*Aligarh 202002*
*Uttar Pradesh*
*India*

[†] *E-mail:* husamsalah8@gmail.com
* *E-mail:* abdul.saboor.mohd@gmail.com (Corresponding Author)
[§] *E-mail:* adil.epost@gmail.com
[‡] *E-mail:* firozamu00@gmail.com

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Mohd Kashif Afzal [@]
*Department of Commerce & Management*
*Banasthali Vidyapith*
*Rajasthan*
*India*

**Abstract**

The purpose of this study is to identify the relationship of assets and liabilities of newness with the variables of consumer behavior, customer satisfaction and loyalty. The evidence has been drawn from the field survey and thus identifies factors of customer's evaluation for a new venture. The survey is done with a sample of 260 customers who have visited restaurants which have been at least for one year in the market and not more than three years. The scale used in the study has been adopted from the study of Nagy's newness scale. The statistical design includes regression to identify the relationship. A positive relationship has been found among the variables suggesting the importance of assets and liabilities in developing customer's criteria of evaluation and thus affects customer satisfaction and loyalty. Manager's insight is necessary to understand the factors of customer's evaluation of any new product or new firm and this study aims to add theoretical as well as practical dimensions to existing theories.

***Subject Classification:*** *90B24, 90B60, 90B70.*

***Keywords:*** *Customer satisfaction, Loyalty, Assets of newness, Liabilities of newness, Retail marketing.*

## 1. Introduction

Startups are often eulogized by their huge success in a short time though neglecting their high failure rates, which is approximately ninety percent in the Indian scenario (IBM Institute for Business Value and Oxford Economics); their survival is based on characteristics such as innovation, flexibility, etc. In a study [7] contextualized that it is contingent or situational based on the fact that the new firms or entrepreneurs should focus on what characteristics. Startup firms carry with them intangible assets of newness (e.g. organizational energy) and liabilities of newness (e.g. legitimacy), which if managed well can help achieve organization, not just survival but also loyal and satisfied consumers.

Contrasting to the success of new firms, many researchers have empirically tested failure and newness of the firm are positively related [8, 42]. It is evident from the literature that failure and success are related

[@] *E-mail:* **thekashifafzal@gmail.com**

to different characteristics. Flexibility and innovation are favoring factors, on the other hand, inadequate resources managerial inexperience lack of organizational legitimacy, etc are a few factors that push the startups towards failure [36, 39]. Some of the factors that are specifically related to the new firms and are successful in exploiting them serve as a potential advantage and in the literature, they are known as assets of newness. Ample research both empirical [9] and as well theoretical [7] supports the advantage of assets of newness such as customer rate of adoption may favor the success of the startup. the efficiency of service convey was determined by well-trained employees[47, 48]

In our study, we aim to explore the dimension that affects the functioning of the firms, some favor the newness is termed as assets while others that are lagging the relationship are liabilities to the entrepreneurial setups and they can be exploited depending upon the situation. For small-scale startups managing newness is not only a challenge but also can emerge as an important advantage.

**2. Customer Loyalty**

Customer loyalty is the consumers' tendency to engage in repetitive purchases. Loyalty may exist for brands as well as for retailers [2]. For example, many consumers may like the retailers or may not like the brands available at their shops or vice versa. A loyal customer base can increase revenue and growth, the ultimate goal that marketers are pursuing. In the long run, the success or failure of marketing depends on how marketers can attract and retain their customers [25]. Specifically for new firms attracting and retaining new customers is a big challenge [24].

In the context of new startups, consumers may be attracted to the new assets of the organization (organizational energy and organizational flexibility). Consumers may be interested to try the products and services of new firms out of curiosity and if everything goes according to their expectations, they may develop loyalty towards the new startups. In this way assets of newness if managed well have the ability to turn first-time consumers into loyal ones.

New startups have the burden of legitimizing their existence. They need to develop some new products or new methods of manufacturing or delivering. Consumers expect that new firms may offer innovative products and services. Otherwise, they have no motivation to switch from old firms to new firms. This obligation creates a sense of liabilities in new firms, known as liabilities of newness. If Startups can manage these

liabilities then new firms are more likely to win consumers' hearts and ultimately their loyalty.

### 3. Customer satisfaction

Customers' fulfillment response [32] or the net achieved gain over expectation [11] is the key success of any business. And in the case of the startups, early-stage growth can only be gained by achieving satisfied customers [4, 31, 32, 40]. There are many guiding points that leverage satisfaction in the mind of the customer; some affect positively while some may have a negative impact too. While defining customer satisfaction, it is the resultant feeling- cognitive or benevolent- either experience while using a product or a service or related to a new business or a startup or also when compared with other comparative products in the category [26]. It is important to note that customer perceived value becomes a responsibility of the business house [18] to achieve a long foothold in the market and develop customer relationships [20,50] which prove to be an asset to the company. Startups should focus on the factors (assets or the liabilities of newness) that instigate higher customer satisfaction to create value both for the firms and the customers.

### 4. Assets of newness

***Organizational flexibility:*** It has been long thought that the more dynamic an organization or company is more are the more chances of survival. Now the stakeholder's demands may vary, hence this aspect proves to be important for the success of the startup [12, 29]. A startup may develop competencies and competitive advantage over other firms as they become old but at advent, their flexibility counts [19, 28, 34].

***Organizational energy:*** Another asset of newness is the organizational energy, it is the perception of the cognitive evaluation of the employees working enthusiastically, tirelessly, and vigorously which develop due to passionate feelings in the employees toward the defined goals and as compared to older firms, it is higher in newer startups [35] this asset is so useful that multiplies the weight of all other assets when compared to other firms [21]. Organizational energy, in contrast, is not a one-way phenomenon, but it is the personal touch that in turn, an organization offers to those employees, and they are often thus attracted to passionately work for the startup due to attaches personal values and emotions [30].

*Liabilities of newness*

This term was coined by Stinchcombe [37] to those intangible characteristics associated with any firm that may be negative but can be leveraged to gear positive impact in terms of the functioning of the firm or the startup.

***Legitimacy:*** Legitimacy refers to the worth that a customer places in mind for that business, it may be counted in many forms and can be attained by myriad means [3, 38]. DiMaggio and Powell [10] suggested that for a firm or a business setup, legitimacy is achieved by conforming to societal, industrial, or regulatory norms. Startup legitimacy needs some or the other previously followed norms to be adopted [33] or otherwise sometimes competency of the founder as defined as technical legitimacy is also another aspect.

***Organizational age:*** The basic definition of a startup is the newness in the setup, and they usually have hindered the functioning of the firm and many researchers have supported this daunting relationship [8, 42]. The stakeholder attached to the startup may give less weight to the legitimacy it could have owned being an older and experienced firm. Bruderl and Schussler [5] term organizational age as the chronological time that form has been set up while Katz and Gartner [23] suggested counting the time when the first sale was done. Inexperience may be one of the major reasons that act as the critical reason behind the relationship of newness [36] and associated people may perceive immature facility [13]. Thus, organizational age is an important liability to the new startup.

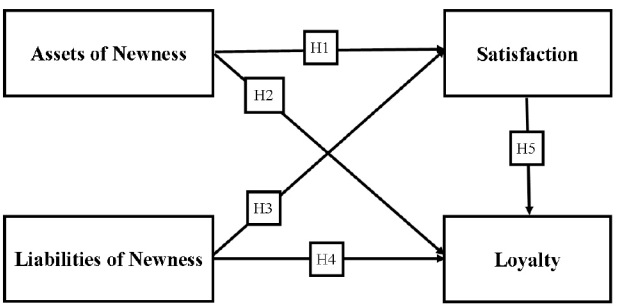
***Organization's Reliability:*** Choi and Shepherd [9] stated another liability to the new firm is reliability which is defined as the capability to produce a consistent and similar outcome or product or service every time it functions [16]. And incase consistency is dropped; it affects the stakeholder's perceptions of the performance of the new firm. This liability is in priority of evaluation in eyeing of the stakeholders compare to other assets such as innovation which owes its importance [14, 15].

***Organization's Accountability:*** Whenever there is any transaction between any firm and a stakeholder, trust acts as a guiding principle. Trust is the sense of responsibility that the firm undertakes. In the case of new firms, accountability or responsibility henceforth is an important factor that demonstrates the success of the startup. It may be the guarantee of the output [16], or other conforming criteria such as ISO, quality, etc [13] that may develop accountability in the startup.

***Organization's Availability:*** One of the important factors or the responsibility of the startup is making available the concerned subject to the stakeholder. Marketers term this as one of the four important principles of marketing as "place" or making the product available to the consumer [27]. There may be many factors that may hinder the availability characteristics of any firm such as budget, incompetency, or supply of the raw materials, etc [1]. Thus, availability is another liability [9] to the new firms that may favor or act as a constraint if overlooked.

## 5. Conceptual model

The conceptual model is presented in the figure given below. Based on previous works and existing literature, this study proposes that assets of newness and liabilities of newness both shall influence consumer's satisfaction (H1 and H3) and consumer loyalty (H2 and H4). We have further tested the relationships between satisfaction and loyalty (H5).




## 6. Material and Methods

*Data and instrument*

Data has been collected from 260 individuals who have experience visiting a newly opened restaurant in the last 1 to 3 years. A structured questionnaire shall be used in the study. Scales of Assets and liabilities of newness have been borrowed and suitably modified to match the context of the study. For measuring, assets and liabilities of newness 18 items have been adapted. Satisfaction was measured using 3 items from [41]. Loyalty was measured using 4 items. For measuring the reliability of the constructs Cronbach's Alpha has been used. All constructs exhibited sufficient reliability i.e. above 0.70, as recommended by researchers [22].

*Regression analysis*

We have conducted a regression analysis to test the hypothesis proposed in the conceptual model. The first hypothesis (H1) investigated the relationship between assets of newness customer satisfaction and the second hypothesis (H2) examined the impact of assets of newness on customers' loyalty. Assets of newness was able to predict both satisfaction (beta= 0.349, $p<0.05$) and loyalty (beta=0.271, $p<0.05$). The result was significant, which means that assets of newness all together influence the consumers' satisfaction and loyalty positively. The third and fourth hypotheses predicted that liabilities of newness will positively influence satisfaction (beta=0.331, $p<0.05$) and loyalty (beta=0.429, $p<0.05$). Both the hypotheses were significant. These results are in line with previous studies [9]. Finally, the relationship between satisfaction and loyalty intentions was also significant.

## 7. Conclusion, implication, and limitations

Assets and liabilities of newness have been considered as essential factors in determining new startups' survival and success [6, 9]. This is also true in the case of SME startups. Most of the studies conducted in this specific stream of research have focused more on studying the liability side and using secondary data. They also validated some dimensions of assets and liabilities of the then-new scale in the context of retail customers' satisfaction. In the present context, SME Entrepreneurship is predominantly important in India where the employment rate is falling steadily [17, 49].

The present study utilized the existing developed scales to investigate the importance of assets and liabilities in gaining customer loyalty and satisfaction. The hypothesized relationship was accepted and the study suggests that there exists a positive relationship between customer satisfaction and loyalty with the assets and liabilities of a new firm. The liquidity ratios even after having the lower than the standard value showing satisfactory result [43,44, 45] Organizational energy and flexibility favor the functioning of new restaurants which may be due to a list of reasons, such as customers' perception of a new variety of cuisine being regularly added in the cuisine, or regularly changing interiors, and thus newness sense develops among customers. Moreover, energetic staff and concerned waiters are an important subject while customer's evaluations of any restaurants or food outlet and thus this may have

positively affected the relationship. On the other hand, the study advocates a supportive relationship between liabilities and the marketing variables. As the company is new, newness is 'within', and age factor is an important factor of evaluation and thus this may affect the relationship. Similarly, legitimacy is achieved with age and hence these factors have cumulatively affected customer satisfaction and loyalty. Firms should manage this by turning liabilities into favor. The study concludes that both assets and liabilities of newness are important variables in the SME startup context.

This study is one of its conducted in India in an SME Startup context. Theoretically, this study advances the previous literature by providing empirical evidence in support of the scale and its predictive validity. SME entrepreneurs may benefit from this research by understanding the role and importance of both assets and the liabilities of newness. Further, understanding the different components may also guide budding entrepreneurs towards success in their startups. Understanding the role of Financial inclusion can help to improve the SME startup and it is said that it can be the prince of globe[46].

Apart from the contribution of this research to academics and entrepreneurs, the study also suffers from some limitations. The sample size is relatively small and consists of mainly young male respondents from tier 2 cities Aligarh. Further, the context of the study was also limited to restaurants. Thus, the generalizability of the sample is limited. This study might be seen as a pilot study in India, inviting researchers for investigations. Nevertheless, future researchers may utilize a more representative sample exploring a variety of contexts and other outcomes (like trust, consumer engagement, etc.)

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