



Effects of Customer Feedback Mechanisms on Service Improvement among Selected SMEs in Tanzania: A Case of Iringa Municipal Council

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ABSTRACT

This study examined the effects of social media feedback, complaint handling systems and direct customer interaction on service improvement among selected SMEs in Iringa Municipal Council. A convergent parallel mixed-methods design was adopted. Quantitative data were collected from 104 customer-facing employees drawn from 104 selected SMEs, while qualitative data were obtained through semi-structured interviews with eight SME owners and managers. Quantitative data were analysed using descriptive statistics, Pearson correlation and multiple linear regression in IBM SPSS Statistics Version 26; qualitative data were analysed thematically. The findings show that all three feedback mechanisms were positively and significantly associated with service improvement. Social media feedback correlated significantly with service improvement ($r = .689$, $p < .01$), complaint handling systems showed a significant positive association ($r = .661$, $p < .01$), and direct customer interaction recorded the strongest correlation ($r = .742$, $p < .01$). The regression model was statistically significant, $F(3, 100) = 67.742$, $p < .001$, and explained 67.0% of the variance in service improvement ($R^2 = .670$; adjusted $R^2 = .664$). Direct customer interaction was the strongest predictor ($\beta = .417$), followed by social media feedback ($\beta = .302$) and complaint handling systems ($\beta = .257$). The qualitative evidence reinforced these results by showing that prompt responses, active listening, follow-up communication and systematic use of customer input help SMEs identify service gaps and undertake corrective action. The study concludes that feedback mechanisms are most valuable when they are treated as integrated managerial processes rather than isolated communication channels. SMEs should strengthen digital monitoring, formalise complaint documentation and resolution procedures, and develop employees' listening and communication capabilities.

Keywords: Customer feedback; social media feedback; complaint handling; direct customer interaction; service improvement; SMEs; Tanzania; Iringa Municipal Council

1. Introduction

Small and medium enterprises are central to local economic activity because they provide employment, income opportunities and a wide range of consumer services. Their close proximity to customers creates an important managerial advantage: customer experiences can be observed and communicated relatively quickly. At the same time, this proximity does not automatically ensure that customer information is systematically converted into service improvements. Customer comments, complaints, suggestions and reviews become strategically useful only when enterprises have mechanisms for receiving, interpreting and acting on them.

Customer feedback mechanisms can therefore be understood as organisational processes through which customers communicate their experiences and enterprises obtain information for service adjustment. In the service management literature, feedback is closely connected with the identification of service gaps, responsiveness and customer experience. When feedback is collected systematically and linked to managerial decisions, it can become a continuous improvement resource rather than merely a reaction to service failure (Grönroos, 2015; Zeithaml et al., 2018; Homburg et al., 2021).

Three mechanisms are particularly relevant to contemporary SMEs. First, social media provides customers with accessible channels for comments, reviews, inquiries and complaints. Its value depends not only on the existence of a digital platform but also on the speed and quality of organisational response and the extent to which customer insights are incorporated into decisions. Evidence from Tanzanian SMEs indicates that social media engagement can strengthen customer engagement and business outcomes when enterprises possess the capabilities required to use digital information effectively (Kishimbo et al., 2025; Dongwe & Sedoyeka, 2024; Shauri et al., 2023).

Second, complaint handling systems provide structured pathways for customers to communicate dissatisfaction and for businesses to investigate and resolve service failures. Effective complaint handling requires accessible channels, timely responses, fairness, transparency and appropriate documentation. The value of complaint handling is consequently broader than resolving individual cases; accumulated complaint information can reveal recurring failures and support preventive action. Studies cited in the dissertation similarly indicate that prompt complaint responses can strengthen satisfaction, trust and service quality (Kilindo & Mramba, 2024; Mkoma, 2025; Mwakaje & Lubua, 2022).

Third, direct customer interaction remains particularly important in SMEs where owners, managers and frontline employees frequently interact with customers. Face-to-face communication permits immediate clarification of expectations, observation of customer reactions and rapid responses to emerging problems. It also creates opportunities for active listening and follow-up, which can strengthen customer relationships. Research reviewed in the study indicates that interactive communication can support customer satisfaction, loyalty and service improvement (Msangi et al., 2020; Kaunda et al., 2023).

Despite these developments, an empirical gap remains. Much of the available evidence focuses on general SME performance, social media adoption, customer loyalty or digital engagement rather than examining the combined effects of specific customer feedback mechanisms on service improvement. In addition, evidence from municipal SME settings outside Tanzania's major commercial centres remains limited. The present study addresses this contextual and empirical gap by examining selected SMEs in Iringa Municipal Council and by considering social media feedback, complaint handling systems and direct customer interaction within one analytical framework.

The study was guided by Service Quality Theory, particularly the SERVQUAL logic that service quality is assessed through customers' expectations and perceptions, and Customer Satisfaction Theory, which explains satisfaction in relation to perceived service performance and expectations (Parasuraman et al., 1988; Oliver, 1980). Together, these perspectives support the proposition that customer feedback provides information through which SMEs can detect discrepancies between expected and delivered service and initiate corrective action.

The general objective was to examine the effects of customer feedback mechanisms on service improvement among selected SMEs in Iringa Municipal Council. Specifically, the study examined: (i) the effects of social media feedback on service improvement; (ii) the effects of complaint handling systems on service improvement; and (iii) the effects of direct customer interaction on service improvement.

2. Literature Review

2.1 Theoretical foundation

Service Quality Theory provides a useful explanation of why feedback can contribute to service improvement. The SERVQUAL framework identifies reliability, responsiveness, assurance, empathy and tangibles as important dimensions through which service quality is evaluated (Parasuraman et al., 1988). From this perspective, feedback is an information mechanism that helps an enterprise identify where actual service performance falls short of customer expectations. For SMEs, responsiveness is particularly relevant because the ability to respond quickly to complaints, inquiries and suggestions can influence perceived service quality and trust.

Customer Satisfaction Theory further explains the role of feedback by linking satisfaction to the evaluation of service performance against expectations (Oliver, 1980). Feedback gives SMEs evidence about customers' evaluations after service encounters. If customers report dissatisfaction, the information can guide service recovery; if they report satisfaction while identifying additional needs, the information can guide incremental service enhancement. Feedback therefore creates an information loop connecting service encounters, customer evaluation, managerial response and subsequent service performance.

2.2 Empirical evidence

Evidence from Tanzania suggests that social media can provide SMEs with timely customer information. Kishimbo et al. (2025) found that social media marketing significantly improved business performance among small and medium fashion enterprises and highlighted the role of continuous customer interaction in understanding preferences and improving service quality. Dongwe and Sedoyeka (2024), studying SMEs in Arusha City Council, reported that Instagram facilitated customer engagement and provided feedback that helped enterprises improve responsiveness and relationships. Shauri et al. (2023) similarly associated social media use with customer satisfaction, innovation and SME performance in Dodoma City.

Complaint handling evidence also points to the importance of responsiveness and resolution quality. Kilindo and Mramba (2024) reported that effective responses to customer complaints were associated with satisfaction, trust and confidence in mobile banking services in Dodoma. Mkoma (2025) reported that delayed responses, poor communication and weak complaint structures were associated with customer dissatisfaction, whereas prompt and effective resolution was associated with higher satisfaction. The evidence suggests that complaint handling becomes an improvement mechanism when information from individual cases is used to identify and correct service failures.

Direct customer interaction is similarly important. Hirji et al. (2024), as reported in the dissertation literature review, linked effective communication with customer loyalty among SMEs in Dodoma Urban. Msangi et al. (2020) highlighted the importance of communication for organisational performance, while Kaunda et al. (2023) found that interactive communication positively influenced marketing performance among micro and small enterprises in Kenya. Collectively, these studies indicate that direct communication can provide immediate and context-rich information about customer needs.

2.3 Knowledge gap

The reviewed literature establishes the relevance of individual feedback channels, but three gaps remain. First, studies frequently use broad outcomes such as business performance, marketing performance or loyalty rather than service improvement as the central dependent construct. Second, relatively few studies analyse social media feedback, complaint handling and direct interaction simultaneously, limiting understanding of their relative contribution

when they operate together. Third, there is limited empirical evidence from SMEs in Iringa Municipal Council. This study addresses these gaps through a mixed-methods assessment of the three mechanisms and their relationship with service improvement.

3. Methodology

The study was conducted in Iringa Municipal Council, Iringa Region, Tanzania. The municipality is an urban administrative and commercial centre with SMEs operating in retail, hospitality, transport and personal services. The study adopted a mixed-methods approach using a convergent parallel design. Quantitative and qualitative data were collected and analysed separately and then integrated during interpretation. This design was selected because statistical analysis could establish the magnitude and significance of relationships, while interviews could provide contextual explanations of how feedback was used in day-to-day service management.

The study population comprised approximately 4,826 SMEs identified from the National Bureau of Statistics 2024 Statistical Business Register dataset, with the dataset reported in the dissertation as modified on 30 September 2025. The population comprised 4,169 small enterprises and 657 medium enterprises. In accordance with the Tanzanian SME classification used in the dissertation, small enterprises employed 5–49 people and medium enterprises employed 50–99 people. Micro and large enterprises were excluded.

The quantitative sample was determined using Yamane's formula, $n = N/[1 + N(e^2)]$, with $N = 4,826$ and $e = 0.097$. The calculation produces approximately 104 respondents. Proportionate allocation resulted in 90 selected small enterprises and 14 selected medium enterprises. One customer-facing employee was selected from each selected SME, resulting in 104 quantitative respondents. The SME was the sampling unit, while the customer-facing employee was the unit of observation. For the qualitative strand, eight participants comprising four SME owners and four managers were purposively selected because of their direct involvement in decisions concerning customer feedback and service improvement.

Quantitative data were collected using a structured questionnaire containing four items for each construct and measured on a five-point Likert scale from 1 = strongly disagree to 5 = strongly agree. Qualitative data were collected through semi-structured interviews with owners and managers. Secondary information was drawn from relevant documents and published literature. Quantitative data were analysed using frequencies, percentages, Pearson correlation and multiple linear regression in IBM SPSS Statistics Version 26. Qualitative data were analysed using thematic analysis following the logic of coding, categorisation and theme development (Braun & Clarke, 2006).

Instrument adequacy was assessed using the Kaiser-Meyer-Olkin measure and Bartlett's test. The KMO value was .784 and Bartlett's test was statistically significant, $\chi^2 = 684.517$, $p < .001$, indicating that the item correlation structure was suitable for further analysis. Reliability was satisfactory across all constructs: social media feedback $\alpha = .821$, complaint handling systems $\alpha = .846$, direct customer interaction $\alpha = .801$, and service improvement $\alpha = .874$; overall $\alpha = .836$.

Ethical procedures included institutional permission, informed consent, voluntary participation, confidentiality and anonymity. Respondents were informed of the study purpose and their right to withdraw. Interview and questionnaire information was used for academic purposes and reported without personal identifiers.

4. Results

4.1 Demographic Information

The study involved 104 customer-facing employees who completed and returned the structured questionnaires, representing a 100% response rate. In addition, eight SME owners and managers participated in semi-structured interviews. The demographic characteristics of the questionnaire respondents are presented in this section to provide an understanding of their background and to contextualise the findings of the study. The characteristics considered include sex, age, educational level, work experience, and other relevant demographic attributes captured during data collection. These characteristics are important because they provide a basis for understanding the composition of the respondents and the extent to which their backgrounds may relate to the study variables.

Table 1: Demographic Characteristics of Respondents

Variable	Category	n	%
Gender	Male	58	55.8
	Female	46	44.2
Age	Below 30	29	27.9
	31–40	42	40.4
	41–50	21	20.2
	Above 50	12	11.5
Education	Certificate	31	29.8
	Diploma	38	36.5
	Degree	27	26.0
	Above degree	8	7.7
Sector	Retail	28	26.9
	Hospitality	36	34.6
	Transport	23	22.1
	Personal services	17	16.3
Years of operation	Below 1 year	20	19.2
	1–3 years	31	29.8
	4–6 years	37	35.6
	Above 6 years	16	15.4

4.2 Social media feedback and service improvement

The descriptive findings indicate that social media was an important feedback channel among the selected SMEs. Seventy-five per cent of respondents agreed or strongly agreed that their businesses regularly received customer feedback through social media. A further 69.2% agreed or strongly agreed that businesses responded to customer feedback or inquiries received through social media. Customer opinions obtained from social media were reported to influence managerial decisions by 73.1% of respondents, while 82.7% agreed or strongly agreed that effective follow-up communication improves customer satisfaction and trust.

These findings suggest that the value of social media lies not simply in customer access to a digital channel, but in the organisation's ability to monitor, respond and convert customer information into decisions. The result is consistent with the evidence reviewed from Tanzanian SMEs, where social media interaction was associated with stronger customer engagement and improved service responsiveness (Kishimbo et al., 2025; Dongwe & Sedoyeka, 2024).

4.3 Complaint handling systems and service improvement

Complaint handling results show a generally positive but less consistent pattern. Multiple complaint channels were reported by 69.3% of respondents, while 64.5% agreed or strongly agreed that complaints were handled within a reasonable time. Fairness and transparency received positive responses from 69.2%. The weakest area was complaint documentation: only 49.1% agreed or strongly agreed that customer complaints were properly recorded and documented, while 29.8% disagreed or strongly disagreed and 21.2% were neutral.

The evidence therefore points to an important management issue. Many SMEs appear capable of receiving and resolving individual complaints, but fewer have developed systematic information-management practices that preserve complaint data for trend analysis. This distinction matters because a complaint handling system can support service improvement only when information from individual cases is converted into organisational learning. The finding is consistent with literature emphasising timely resolution, fairness and the need for formal complaint structures (Kilindo & Mramba, 2024; Mkoma, 2025).

4.4 Direct customer interaction and service improvement

Direct customer interaction recorded the strongest descriptive and inferential results among the three mechanisms. The ability of customers to express opinions freely during face-to-face interactions received positive responses from 83.7% of respondents. Active employee listening was supported by 79.8%, prompt assistance by 76.0%, and follow-up communication for identifying unresolved concerns by 76.9%.

The results indicate that direct interaction remains a particularly valuable feedback mechanism in the SME context because the service encounter itself provides an opportunity to identify customer expectations, clarify problems and respond immediately. Unlike some formal feedback methods that require customers to provide information through a separate process, direct interaction embeds feedback within the service encounter. This interpretation is consistent with the service encounter perspective and the empirical evidence reviewed in the dissertation (Bitner et al., 1990; Msangi et al., 2020; Kaunda et al., 2023).

4.5 Service improvement

Service improvement was assessed through customer satisfaction, timely delivery, reduction in complaints and customer retention. Positive responses were highest for repeat customer visits, followed by customer satisfaction, timely service delivery and reduction in complaints. Specifically, 81.7% of respondents agreed or strongly agreed that customers frequently return to use the services, 78.9% reported customer satisfaction, 74.0% supported timely delivery, and 65.4% reported a reduction in complaints.

The relatively lower result for complaint reduction suggests that some recurring service problems remain unresolved even where overall satisfaction and retention are relatively favourable. This pattern reinforces the importance of using complaints not merely as cases to close, but as data that can reveal persistent operational weaknesses.

Table 2: Service Improvement Indicators

Service improvement indicator	Agree + Strongly Agree
Customer satisfaction	78.9%
Timely service delivery	74.0%
Reduction in complaints	65.4%
Customer retention/repeat usage	81.7%

4.6 Correlation analysis

Pearson correlation analysis established positive and statistically significant relationships between each feedback mechanism and service improvement. Social media feedback was significantly associated with service improvement ($r = .689, p < .01$). Complaint handling systems were also significantly associated with service improvement ($r = .661, p < .01$). Direct customer interaction produced the strongest relationship with service improvement ($r = .742, p < .01$).

Table 3: Pearson Correlation Matrix

Variables	SMF	CHS	DCI	SI
Social Media Feedback	1.000	.618**	.592**	.689**
Complaint Handling Systems	.618**	1.000	.647**	.661**
Direct Customer Interaction	.592**	.647**	1.000	.742**
Service Improvement	.689**	.661**	.742**	1.000

Note: ** Correlation is significant at the 0.01 level (2-tailed); N = 104.

4.7 Multiple regression analysis

The multiple regression model was statistically significant, $F(3, 100) = 67.742, p < .001$. The model produced $R = .821, R^2 = .670$ and adjusted $R^2 = .664$, indicating that the three feedback mechanisms jointly explained 67.0% of the observed variance in service improvement in the sample. The remaining 33.0% may be associated with factors outside the model.

Table 4: Regression Analysis

Predictor	B	SE	Beta	t	p
Constant	1.214	0.291	—	4.173	<.001
Social Media Feedback	0.298	0.069	0.302	4.319	<.001
Complaint Handling Systems	0.243	0.066	0.257	3.682	<.001
Direct Customer Interaction	0.381	0.061	0.417	6.241	<.001

The estimated regression equation was: Service Improvement = 1.214 + 0.298(Social Media Feedback) + 0.243(Complaint Handling Systems) + 0.381(Direct Customer Interaction).

All three predictors were statistically significant and positive. Direct customer interaction had the largest standardised coefficient ($\beta = .417$), indicating the strongest unique contribution within the model. Social media feedback followed ($\beta = .302$), while complaint handling systems recorded $\beta = .257$. These results support the proposition that service improvement is associated with a combination of digital, formal and interpersonal feedback mechanisms.

The regression result should be interpreted as evidence of statistically significant predictive relationships within the study sample rather than proof of causal effects in an experimental sense. The study's mixed-methods evidence, however, provides a plausible service-management explanation: customer feedback identifies service gaps, organisational responses address those gaps, and subsequent customer experiences provide further feedback on whether improvement has occurred.

5. Discussion

The findings show that social media feedback is positively associated with service improvement among SMEs in Iringa Municipal Council. The results indicate that 75.0% of respondents regularly received customer feedback through social media, 69.2% reported responding to such feedback, 73.1% indicated that customer opinions influenced managerial decisions, and 82.7% recognised the importance of follow-up communication. The correlation result confirmed a significant relationship between social media feedback and service improvement ($r = .689$, $p < .01$), while regression analysis showed a significant positive contribution ($\beta = .302$, $p < .001$). This finding agrees with Kishimbo et al. (2025), Dongwe and Sedoyeka (2024), and Shauri et al. (2023), suggesting that social media is most effective when customer feedback is translated into managerial action.

Complaint handling systems were also positively associated with service improvement. The findings show that 69.3% of respondents reported multiple complaint channels, 64.5% reported timely complaint handling, and 69.2% reported fairness and transparency. However, complaint documentation was weaker, with only 49.1% reporting proper documentation. The correlation analysis showed a significant relationship between complaint handling and service improvement ($r = .661$, $p < .01$), while regression confirmed a significant positive contribution ($\beta = .257$, $p < .001$). This finding is consistent with Kilindo and Mramba (2024) and Mkoma (2025), highlighting the importance of timely, fair, and properly documented complaint handling for organisational learning and service improvement.

Direct customer interaction emerged as the strongest feedback mechanism. The results show positive responses for customers expressing opinions freely (83.7%), active employee listening (79.8%), prompt assistance (76.0%), and follow-up communication (76.9%). Direct customer interaction had the strongest correlation with service improvement ($r = .742$, $p < .01$) and the strongest regression coefficient ($\beta = .417$, $p < .001$). This finding is consistent with Bitner et al. (1990), Msangi et al. (2020), and Kaunda et al. (2023), suggesting that direct interaction enables SMEs to understand customer expectations and respond immediately.

Service improvement was generally favourable, with customer retention/repeat usage recording 81.7%, customer satisfaction 78.9%, timely service delivery 74.0%, and reduction in complaints 65.4%. The lower result for complaint reduction suggests that some recurring service problems remain unresolved despite relatively favourable satisfaction and retention levels. This finding highlights the importance of using customer complaints as information for identifying and addressing persistent service weaknesses.

Overall, the correlation results confirm significant positive relationships between social media feedback ($r = .689$), complaint handling systems ($r = .661$), direct customer interaction ($r = .742$), and service improvement ($p < .01$). The regression model was statistically significant, $F(3,100) = 67.742$, $p < .001$, and explained 67.0% of the variation in service improvement. All three predictors were significant, with direct customer interaction making the strongest contribution ($\beta = .417$), followed by social media feedback ($\beta = .302$) and complaint handling systems ($\beta = .257$). These findings support Service Quality Theory and Customer Satisfaction Theory by demonstrating that service improvement is strengthened when SMEs collect, interpret, and respond to customer feedback through digital, formal, and interpersonal mechanisms.

6. Conclusions and Implications of the Study

6.1 Conclusions

The study concludes that social media feedback, complaint handling systems, and direct customer interaction are positively and significantly associated with service improvement among selected SMEs in Iringa Municipal Council. The findings further establish that the three mechanisms jointly provide a strong statistical explanation of variations in service improvement, with direct customer interaction emerging as the strongest individual predictor. The study concludes that social media feedback contributes to service improvement when SMEs actively monitor customer comments, respond promptly, incorporate customer suggestions into managerial decisions, and maintain follow-up communication. Similarly, effective complaint handling requires accessible channels, timely responses, fair resolution, and systematic documentation of complaints. Direct customer interaction is also important because effective listening, prompt assistance, understanding customer needs, and follow-up enable SMEs to respond more effectively to customer expectations. Overall, the study concludes that SMEs can improve service delivery by systematically collecting, analysing, and responding to customer feedback through multiple complementary mechanisms.

6.2 Implications of the Study

The findings imply that SMEs in Iringa Municipal Council should adopt an integrated customer feedback system that combines social media feedback, formal complaint handling, and direct customer interaction rather than relying on a single feedback mechanism. SMEs should strengthen employees' skills in customer communication, active listening, complaint resolution, digital communication, and service recovery, while also improving the documentation and analysis of customer complaints and feedback. The findings further imply that municipal authorities and SME-support institutions should provide practical training and capacity-building programmes on customer feedback management, complaint documentation, digital communication, and service improvement. Theoretically, the study extends the application of service quality and customer satisfaction perspectives to the SME context in Tanzania, while empirically it contributes evidence from Iringa Municipal Council, a setting that is less represented in the reviewed literature. Methodologically, the integration of quantitative and qualitative evidence demonstrates the value of combining statistical findings with participants' experiences to obtain a more comprehensive understanding of how customer feedback contributes to service improvement.

7. Limitations and Directions for Future Research

The study relied substantially on self-reported questionnaire and interview data, which may be affected by respondent perceptions and social desirability. Methodological triangulation was used to reduce this limitation. The data were also collected within a relatively limited period, restricting the ability to observe service improvement longitudinally. In addition, some participants were difficult to reach because of work commitments.

Future studies should consider longitudinal designs to examine whether feedback mechanisms produce sustained service improvements over time. Researchers should also incorporate customer-level data, organisational records, direct observation and objective service-performance indicators. Replication across other municipalities and regions in Tanzania would help establish whether the relationships observed in Iringa are consistent across different institutional and market contexts. Further studies could also examine whether digital capability, employee skills, leadership commitment or enterprise size moderate the relationship between feedback mechanisms and service improvement.

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