

THE IMPACT OF PRODUCT INNOVATION ON CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

Forooz Pishgar^{1*}
Samira Dezhkam²
Farzaneh Ghanbarpoor³
Nazanin Shabani⁴
Mahboobeh Ashoori⁵

^{1*}Islamic Azad University, Fouman and Shaft branches, Fouman, Iran

E-mail:fpishgar@yahoo.com (Corresponding author)

^{2,3,4,5} M.A Student. Department of Management.Rasht.Iran

Abstract

Achieving a high level of customer orientation is an important organizational goal. Past research indicates that customer orientation is related to positive outcomes for the firm. Customer orientation has typically been measured by self-reports from service employees. Customer orientation has been shown to have a positive impact on performance. Improving customer satisfaction has been identified as one of the major challenges in the whole construction industry in the recent decade. Customer satisfaction has gained very much attention in the last few decades in all areas of production. Innovation management and customer orientation have been widely recognized as key factors in enhancing the business performance.

Keywords: Customer orientation, customer Satisfaction, customer loyalty, innovation

1. Introduction

Customers are often seen as the basis of a company's profitability (21,22,44). This has led to a customer-centric view in marketing theory as well as in practice. The efficient allocation of limited resources to maximize value requires focusing on relationship-oriented customers and strong, long-lasting customer retention (48). According to Gronroos (1990), customer-perceived service quality has two dimensions: the functional dimension (process), which denotes "how" in the customer-seller interaction and the technical dimension (outcome), which relates to "what" in the actual service provision. Evidence supports the notion that service management is concerned with not only the technical but also the functional quality (20,28,45). Kang and James (2004) found that the technical and functional dimensions of service quality are both important predictors of customer satisfaction. Lassar et al. (2000) reported that both dimensions influence overall satisfaction, although they found stronger evidence for the effect of functional quality. Improving customer satisfaction has been identified as one of the major challenges in the whole construction industry in the recent decade. A number of reports have highlighted the need for a change, greater efficiency and stronger client focus in the construction industry (13). It is stated that improved contractor

performance leads to increased customer satisfaction and improvement in the reputation of contractors and, hence, their competitiveness in the market (56). Pinto and Rouhiainen (2001) define a shift in customer focus from striving to maximize the company's profits in a project by optimizing the utilisation of the company's resources in order to attain a goal of superior service to the customer towards maximizing the value of the customer's project by meeting the goals mutually agreed upon.

Customer orientation has been shown to have a positive impact on performance at both the company (37) and salesperson (51) levels. Such findings support the fundamental tenet of the marketing concept. Marketing research suggests that acquiring a new customer is more expensive than retaining an existing one (1) and focusing on current customers is the right strategy, especially on those that provide a positive lifetime profitability relationship (36,40). However, some simple lifetime-profitability relationships can be doubted (10) and a different treatment of customers with adjusted marketing tools is advisable (18). As markets become more competitive many companies recognise the importance of retaining current customers and some have initiated a variety of activities to improve customer loyalty. Indeed, the benefits associated with customer loyalty are widely recognised within business. These include lower costs associated with retaining existing customers, rather than constantly recruiting new ones especially within mature, competitive markets (12).

2. The relationship between interaction orientation and customer satisfaction

The idea of interaction orientation was first developed by Kumar and Ramani (2006), who stated that it reflects a firm's ability to interact with its individual customers and to take advantage of the information obtained from them through successive interactions in order to achieve profitable customer relationships (30). Interaction orientation in this study represents restaurants' ability to interact with individual diners and obtain information from them to maintain profitable and long-term relationships. It is composed of four main elements, as follows: (1) The concept of the customer, (2) Interaction response capacity, (3) Customer empowerment, and (4) Customer value management.

Meanwhile, customer satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment (39). Consumer satisfaction is an attitude change resulting from the consumption experience (35). Satisfaction in this study is thus conceived as a fulfillment response employed to understand and evaluate the consumer dining experience. Kumar and Ramani (2006) proposed that interaction orientation leads to high levels of customer satisfaction. For instance, studies have shown that empowering individual customers to develop their own unique experience enhances their satisfaction (42,53). Ramani and Kumar (2008), in a survey of 211 samples in 107 firms, found that a superior interaction orientation is likely to result in greater customer satisfaction.

3. Customer orientation

An internal customer orientation should be part of an organisational culture, and guide the attitudes and behaviors of organisation members to deliver quality to other employees (33). By embracing an internal customer orientation into the organisational culture, newcomers to the organisation will learn consistent standards and objectives in this regard (33). Customer orientation can be defined as "the set of beliefs that puts the customer's interest first, while

not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise” (5). As mentioned earlier, Brown et al. (in press) described customer orientation as a personality variable that reflects the service worker’s disposition to meet customer needs. Schneider and Bowen (1995) propose that “nearly everyone seems to believe that employees must have a ‘certain kind of personality’ to be good at service work.” Recent research indicates that it is imperative to hire service employees predisposed to a service, or customer orientation. According to Kotler, Brown, and Makens (1996), “If you want friendly, courteous service, you must hire friendly, courteous people . . . It is possible to provide employees with the technical skills needed for the job, but difficult to train them to be friendly and caring.” Additionally, Fromm and Schlesinger (1993) point out that “personality is probably the most important factor . . . in making a hiring decision for almost any service job.” (17)

4. Customer satisfaction

Most researchers agree that customer satisfaction refers to an attitude or evaluation formed by a customer comparing pre-purchase expectations of what they would receive from the product or service to their subjective perceptions of the performance they actually did receive. Measures of overall customer satisfaction typically capture consumer expectations towards the service provided, as well as how far the provided service is from their ideal (50). Customer satisfaction is a fundamental determinant of long-term consumer behavior (3). In order to control customer defection, most companies focus on managing customer satisfaction (3). Customer satisfaction has gained very much attention in the last few decades in all areas of production (8). In an increasingly competitive and dynamic environment, greater attention is continuously paid to customer relationships and satisfied customers (14). For companies, customer satisfaction is an effective way to differentiate themselves from competitors and gain competitive advantage (55) but it is also one of the key issues in their efforts towards improving quality (16). Satisfaction is often used as a predictor of future consumer purchases (29). Satisfied customers have a higher likelihood of repeating purchases in time (49), of recommending that others try the source of satisfaction (43,41), and of becoming less receptive to the competitor’s offerings (32).

Customer-preferred dimensions identified by Manrai and Manrai (2007) were, in order of importance (34):

- (1) personnel-related considerations (attitudes and behaviour of tellers and other staff, procedures for handling complaints, appearance of staff);
- (2) financial considerations (interest earnings, interest payments);
- (3) branch environment-related considerations (atmospherics); and
- (4) convenience-related considerations (ATMs, opening hours).

5. Customer loyalty

Loyal customers are indeed crucial to business survival (46). For that reason many companies use defensive marketing strategies to increase their market share and profitability by maximizing customer retention (52). Much research in the last two decades has investigated the various definitions of loyalty (24). They argue that there must be a strong “attitudinal commitment” to a brand for true loyalty to exist (25). This is seen as taking the form of a consistently favorable set of stated beliefs toward the brand purchased. If the consumer believes that a brand has desirable attributes, s/he will have a more favorable attitude toward it. These attitudes then may be measured by asking people how much they like the brand, feel committed to it, will recommend it to others, and have positive beliefs and feelings

about it (9). It has also been found that attitudinal loyal customers are much less susceptible to negative information about the brand than non-loyal customers (9). The most widely accepted definition of loyalty is by Jacoby and Kyner (1973), who describe loyalty as the biased (i.e. non-random), behavioural response (i.e. purchase), expressed over time, by some decision making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (i.e. decision making, evaluation) processes. However, Oliver (1999) criticises this and similar definitions (6), based on the collective failure to provide a unitary definition and the reliance on three phases; cognition, affect and behavioural intention. These three phases lead to a deeply held commitment, predicting that consumers develop loyalty in a linear fashion. Oliver (1999) places greater emphasis on situational influences adding a fourth phase, action characterized by commitment, preference and consistency while recognising the dynamic nature of the marketing environment.

6. Innovation

Literature conceptualizes innovation in a variety of ways in the literature, as a process, and outcome of both (38,47,58). However, most of the definitions of innovation share the idea that innovation implies the adoption of a new idea or behavior. Literature also distinguishes different types of innovation. The classification most extended and accepted is the one Damanpour (1991) proposes (4). He distinguishes between technical and administrative innovations. Whereas technical innovations include a new process and new products or services, administrative innovations refer to new procedures, policies and organizational forms (15). Innovation transfer is of continuous interest in the study of multinational corporations. It is generally assumed that innovation development and the subsequent intra-corporate transfer will positively affect the business activities of recipient units located elsewhere (2). However, whilst this assumption has rendered extensive research on the efficiency and effectiveness of the transfer process (23), less research has considered the impact on the recipient unit's business performance. Innovation can occur in three broad domains; products, processes, and organizations, and is "an idea, product or process, system or device that is perceived to be new to an individual, a group of people or firms, an industrial sector, or a society as a whole" (47). According to Damanpour (1991), organizational innovation combines the development and implementation of new ideas, systems, products, or technologies.

7. Conclusions

The contribution of this study is to further extend the previous findings on customer orientation in two major ways (26). We know that customer orientation positively impacts global, functional, and technical service performances as measured by supervisors (7). Additionally, firms benefit from customer-oriented employees by gaining satisfied and committed employees (7). Previous research contended that the front-line employee plays a crucial role in the effectiveness of empowerment in the hospitality industry (31). Employee's customer orientation is an important antecedent of their perceived empowerment. In other words, the more employees describe themselves as customer oriented, the more they felt confident about their job performance and meaningfulness of their jobs. Customer orientation influences both innovativeness and innovation behavior. Innovation behavior enhances financial performance and customer retention. Achieving a high level of customer orientation is an important organizational goal. Past research indicates that customer orientation is related to positive outcomes for the firm. Customer orientation has typically been measured by self-reports from service employees. Future research should replicate the

Dunlap et al. (1988) study by comparing customer orientation as reported by employees to customer-oriented behaviors as witnessed by customers (11). While this was not the purpose of our study, this comparison across service industries would have important managerial implications (27).

Reference

- 1-Bitran, G. and Mondschein, S. (1997), "A comparative analysis of decision making procedures in the catalog sales industry", *European Management Journal*, Vol. 15 No. 2, pp. 105-16.
- 2-Cantwell, J. (1991). A survey of theories of international production. In C. Pitelis & R. Sudgen (Eds.), *The nature of the transnational firm* (pp. 16–63). London: Routledge.
- 3-Cooil, B., Keiningham, T.L., Aksoy, L. and Hsu, M. (2007), "A longitudinal analysis of customer satisfaction and share of wallet: investigating the moderating effect of customer characteristics", *Journal of Marketing*, Vol. 71, January, pp. 67-83.
- 4-Damanpour, F. (1991). Organizational innovation: A meta-analysis of effects of determinants and moderators. *Academy of Management Journal*, 34(3), 555–590.
- 5-Deshpandé, R., Farley, J., Webster, F., (1993). Corporate culture, customer orientation, and innovativeness in Japanese companies: a quadrat analysis. *Journal of Marketing* 57 (1), 23–37.
- 6-Dick, A.S. and Basu, K. (1994), "Customer loyalty: toward an integrated conceptual framework", *Journal of the Academy of Marketing Science*, Vol. 22, pp. 99-113.
- 7-Donavan, D. T., Brown, T. J., & Mowen, J. C. (2001). The consequences of service worker customer orientation: job satisfaction, commitment, and performance. Working paper, Kansas State University.
- 8-Donavan, D.T., Brown, T.J. and Mowen, J.C. (2004), "Internal benefits of service-worker customer orientation: job satisfaction, commitment, and organizational citizenship behaviors", *Journal of Marketing*, Vol. 68, pp. 128-46.
- 9-Donio, J., Massari, P. and Passiante Dabho, G. (2006), "Customer satisfaction and loyalty in a digital environment: an empirical test", *Journal of Consumer Marketing*, Vol. 23 No. 7, pp. 445-57.
- 10-Dowling, G.R. and Uncles, M. (1997), "Do customer loyalty programs really work?", *Sloan Management Review*, Vol. 38 No. 4, pp. 71-82.

11-Dunlap, B. J., Dotson, M. J., & Chambers, T. M. (1988). Perceptions of real-estate brokers and buyers: a salesorientation, customer-orientation approach. *Journal of Business Research*, 17, 175–187.

12-Ehrenberg, A.S.C. and Goodhardt, G.J. (2000), “New brands: near instant loyalty”, *Journal of Marketing Management*, Vol. 16, pp. 607-17.

13-Egan, J. (1998), *Rethinking Construction*, Department of the Environment, Transport and Regions, London.

14-Eriksson, K. and Vaghukt, A.F. (2000), “Customer retention, purchasing behavior and relationship substance in professional services”, *Industrial Marketing Management*, Vol. 29, pp. 363-72.

15-Evan W. (1996), *the organization set: towards a theory of interorganizational relations*. In: Thompson J, editor. *Approaches in organization design*. Pittsburg, PA: Pittsburg University Press; 1966, pp. 173–91.

16-Fornell, C., Johnson, M.D., Anderson, E.W., Cha, J. and Bryant, B.E. (1996), “The American customer satisfaction index: nature, purpose, and findings”, *Journal of Marketing*, Vol. 60, pp. 7-18.

17-Fromm, B., & Schlesinger, L. (1993). *The real heroes of business and not a CEO among them*. New York: Currency/Doubleday.

18-Garbarino, E. and Johnson, M.S. (1999), “The different roles of satisfaction, trust, and commitment in customer relations”, *Journal of Marketing*, Vol. 63 No. 2, pp. 70-8.

19-Gro'nroos, C. (1990), *Service Management and Marketing*, Lexington Books, Lexington, MA.

20-Gro'nroos, C. (1998), “Marketing services: the case of a missing product”, *Journal of Business & Industrial Marketing*, Vol. 13 No. 4/5, pp. 322-38.

21-Gupta, S., Lehmann, D. and Stuart, J. (2004), “Valuing customers”, *Journal of Marketing Research*, Vol. 41 No. 11, pp. 7-18.

22-Hogan, J., Lehmann, D., Merino, M., Srivastava, R., Thomas, J. and Verhoef, P. (2002), “Linking customer assets to financial performance”, *Journal of Service Research*, Vol. 5 No. 1, pp. 26-38.

23-Hong, J. F. L., Snell, R. B., &Easterby-Smith, M. (2009).Knowledge flow and boundary crossing at the periphery of a MNC.*International Business Review*, 18(6), 539 –554.

24-Jacoby, J. and Kyner, D.B. (1973), “Brand loyalty versus repeat purchasing behaviour”, *Journal of Marketing Research*, Vol. 10, pp. 1-9.

25-Jacoby, J. and Chestnut, R.W. (1978), *Brand Loyalty: Measurement and Management*, John Wiley, New York, NY.

26-Jha, S.S., Nair, S.K., (2008). Influence of locus of control, job characteristics and superior-subordinate relationship on psychological empowerment. A study in five star hotels. *Journal of Management Research* 8 (3), 147-161.

27-Kang, G.D. and James, J. (2004), "Service quality dimensions: an examination of Gro'nroos's service quality model", *Managing Service Quality*, Vol. 14 No. 4, pp. 266-77.

28-Kang, G.D. (2006), "The hierarchical structure of service quality: integration of technical and functional quality", *Managing Service Quality*, Vol. 16 No. 1, pp. 37-50.

29-Kotler, P., Bowen, J., & Makens, J. (1996). *Marketing for hospitality and tourism*. Upper Saddle River, New Jersey: Prentice-Hall.

30-Kumar, V. and Ramani, G. (2006), *Interaction Orientation: The New Measure of Marketing Capabilities*, paper presented at AMA Winter Educators' Conference, St. Petersburg, FL

31-Lashley, C., (1999). Employee empowerment in services: a framework for analysis. *Personnel Review* 28 (3), 169-191.

32-Lassar, W.M., Manolis, C. and Winsor, R.D. (2000), "Service quality perspectives and satisfaction in private banking", *Journal of Services Marketing*, Vol. 14 No. 3, pp. 244-71.

33-Lukas B, Maignan I. (1996). *Striving for quality: the key role of internal and external customers*. *J Mark Focused Manage*; 1:175±87.

34-Manrai, L.A. and Manrai, A.K. (2007), "A field study of customers' switching behaviour for bank services", *Journal of Retailing and Consumer Services*, Vol. 14, pp. 208-15.

35-McCollough, M.A., Berry, L.L. and Yadav, M.S. (2000), *An Empirical Investigation of Customer Satisfaction after Service Failure and Recovery*, *Journal of Service Research*, 3 (2), pp.121-137.

36-Morgan, R.M. and Hunt, S.D. (1994), "The commitment-trust theory of relationship marketing", *Journal of Marketing*, Vol. 58 No. 3, pp. 20-38.

37-Narver, J.C. and Slater, S.F. (1990), "The effect of market orientation on business profitability", *Journal of Marketing*, Vol. 54, pp. 20-35.

38-North D, Smallbone D, Vickers I. (2001), *Public sector support for innovating SMEs*. *Small Bus Econ* ;16:303-17.

39-Oliver, R.L. (1999), "Whence consumer loyalty?", *Journal of Marketing*, Vol. 63, pp. 33-44.

40-Palmer, A. (1995), "Measuring and managing buyer-seller relationship life cycles", *Management Research News*, Vol. 18 No. 12, pp. 25-31.

41-Pinto, J.K. and Rouhiainen, P.J. (2001), *Building Customer-based Project Organisation*, Wiley, London.

- 42-Prahalad, C.K. and Ramaswamy, V. (2004), *The Future of Competition: Co-creating Unique Value with Customers*, Boston: Harvard Business School Press.
- 43-Ramani, G. and Kumar, V. (2008), Interaction Orientation and Firm Performance, *Journal of Marketing*, 72 (1), pp.27-45.
- 44-Rappaport, A. (1998), *Creating Shareholder Value: A Guide for Managers and Investors*, Free Press, New York, NY.
- 45-Reichel, A., Lowengart, O. and Milman, A. (2000), "Rural tourism in Israel: service quality and orientation", *Tourism Management*, Vol. 21 No. 5, pp. 451-9.
- 46-Reichheld, F.F. and Schefer, P. (2000), "E-loyalty: your secret weapon on the web", *Harvard Business Review*, Vol. 78 No. 4, pp. 105-13.
- 47-Rogers, E. M. (1995). *Diffusion of innovations* (4th edition). New York: The Free Press.
- 48-Rust, R.T., Lemon, K. and Narayandads, D. (2005), *Customer Equity Management*, Prentice Hall, Englewood Cliffs, NJ.
- 49-Schneider, B., & Bowen, D. E. (1995). *Winning the service game*. Boston: Harvard Business School Press.
- 50-Soderlund, M. (2006), "Measuring customer loyalty with multi-item scales: a case for caution", *International Journal of Service Industry Management*, Vol. 17 No. 1, pp. 76-98.
- 51-Sujan, H., Weitz, B.A. and Kumar, N. (1994), "Learning orientation, working smart, and effective selling", *Journal of Marketing*, Vol. 58, pp. 39-52.
- 52-Tsoukatos, E. and Rand, G.K. (2006), "Path analysis of perceived service quality, satisfaction and loyalty in Greek insurance", *Managing Service Quality*, Vol. 16 No. 5, pp. 501-19.
- 53-Urban, G.L. (2004), The Emerging Era of Customer Advocacy, *MIT Sloan Management Review*, 45 (2), pp.77 82.
- 54-Wolfe RA. (1994), Organizational innovation: review, critique and suggested research directions. *J Manage Stud*; 31(3):405-31
- 55-Woodruff, R.B. (1997), "Customer value: the next source for competitive advantage", *Journal of the Academy of Marketing Sciences*, Vol. 25 No. 2, pp. 139-53.
- 56-Xiao, H. and Proverbs, D. (2003), "Factors influencing contractor's performance: an international investigation", *Engineering, Construction and Architectural Management*, Vol. 10 No. 5, pp. 322-32.