Product Innovation, Service Quality and Customers' Satisfaction

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Abstract

The study investigated how product innovation and quality service promotes customers' satisfaction. It helps to gain a better understanding of service innovation dimensions that affect customer's satisfaction in the service industry. The study adopted descriptive research approach to explore the subject with a view to gaining better understanding of how product innovation and influences customer's satisfaction. The research finding shows that customers were satisfied when their expectations were met or surpassed, and that product innovation is critical to meeting customers' satisfaction given the dynamics in the human environment, taste and quest of customers' and people in general. Against this backdrop, the study recommends that firms should work to promote product innovation and innovation in their service delivery styles, in order to meet up with the changing taste of man, flow with the dynamics of the environment in addressing the needs of man, and by so doing meet up with customers' expectations and possibly surpassed them, and as such remain competitive.

Keywords: Product, Innovation, Quality, Service, Customers, Satisfaction

Introduction

Customer satisfaction has been defined as the level of a person's felt state resulting from comparing a product's perceived performance or outcome in violation to his/her own expectancies:. Hence, customer satisfaction could be considered a comparative behavior between inputs beforehand and post obtainments. In this study the focus is on investigating the effect of product innovation on customer satisfaction in service industry, a study of First Registrars Nigeria Limited a member of Nigeria Stock Exchange – for the purpose of the study being conducted, customer satisfaction is defined as the levels of service up-datedness as against obsoleteness of the service aimed at meeting the client's expectations. Sureshchandar et al. (2002) pointed out that customer satisfaction should be viewed as a multi-dimensional construct and the measurement items should be generated with the same dimension of service quality.

In contemporary times, a customer is not just a person who makes a repeated purchase/patronage of a firm's product but one that also recommends the firm services to others. Customer service organizations must endeavor to build upon a foundation of operational efficiencies to deliver differentiated service experiences in line with customer expectations (Legget 2016, p.1). The two types of customers are external and internal customers.

External customer comprises of those who are not in the direct work force of an organization. Such as follows: account holders/shareholders, one off customer, potential customer and visitors making enquiries

- Account holder/shareholder: This refers to those who are entitled to dividend and possibly bonus share.
- One off customer: This refers to a customer that will make no revisit
- Potential customers: These are customers that needed to be reached
- Visitors making enquires: These are those who want to find out what the company does, why, where, & when
- Those who make contacts on telephone/internet

Internal customer comprises of:

- The boss
- Work colleagues (superior)
- The subordinates
- Subsidiaries
- Functional department personnel
- Line and unit personnel – note: in every organization there is bound to be vertical and horizontal interaction. All participants in such interaction constitute internal customer.

Customer's satisfaction is a critical part of business and even public service delivery. Customer's satisfaction is the results of goods and services offered for responding to customer's needs and the satisfaction or increasing their expectations during the time of consuming the goods or services (Juran, 1991; Kelsey and Bond, 2001).

It is important to treat customer right if customers' satisfaction must be promoted. The reasons for treating the customer right include the following:

a. The customer has a need
b. The customer has a choice
c. The customer has urgency
d. The customer has sensibilities
e. The customer is unique – firms must be adaptive/flexible
f. The customer has high expectation
g. The customer has influence

In addition, it was established that customer interaction occurs through: Personal/direct physical contact – by phone – by call center, ATM and through internet.

The importance of customer satisfaction to organizational sustenance cannot be denied. This study therefore explores the significance of product innovation and service quality in promoting customer satisfaction by organisations and entrepreneurs

Service Quality and Customer Satisfaction

Parasuraman et al (1985) defined service quality as the global evaluation or attitude of overall excellence of services. Hence, service quality is the difference between customers' expectation and perceptions of services delivered by service firms. Nitecki et al. (2000) defined service quality in terms of meeting or exceeding customer expectations of service quality. Research on service innovation appears in several research disciplines, with important contributions in marketing, management, and operations research (Witell et al, 2016).The attention of this study is also on exploring service innovation, and the possibility of applying it to bridge the gap between the quality delivered and the expectation of the service user. In other words innovation and attainment of or delivering the expectations of service user is the prime focus of this study.

Service quality and customer satisfaction according to Bloemer et al. (1998), influence customer loyalty. In their study they found that mental picture indirectly and through service quality influences loyalty. On the other hand service quality influences loyalty both directly and indirectly (through satisfaction), their research showed that the reliability and position in the market are relatively important stimulants affecting loyalty. Caruana (2002) concluded that customer satisfaction plays a mediator role as per the effect of service quality on service loyalty. In fact, service quality affects service loyalty through customer satisfaction. Research shows that service quality is an important gateway to customer satisfaction.

Yongyui (2003) identified five-fold dimension of service quality with direct effect on service firm. His findings revealed that service firm reputation play an important role in determination of purchase, repeated purchase and customer loyalty. In an exception study Chakravarty (2003) found that there is a meaningful negative relation among service quality dimensions.

If service quality is to become the cornerstone of marketing strategy, one must have the means to measure it (Legcevic, 2008: 123). For the past two decades, great attention has been focused on service quality research and the body of literature concerning quality of service (Amin & Isa, 2008). Measuring service quality is not simple since, in contrast to goods quality which can be objectively assessed, service quality is no concrete and intangible (Karatepe, Yavas, &Babakus, 2005). Nevertheless, the different methods of measuring it in different industries, and the findings pertaining to its relationships with different consumer attitudes, have been constructed gradually.

Service quality literature is dominated by two schools of thought: the North American school of thought and the Nordic school of thought (Karatepe, 2011). The former is 105 based on the five-dimensional SERVQUAL model of Parasuraman et al. (1988) which will be described in details

Ruyter et al. (1997) modified the SERVQUAL scale and empirically tested the healthcare service of chiropractic care, attempting to determine the relationship between service quality and customer satisfaction. The results suggest that service quality should be treated as an antecedent of customer satisfaction. Brady et al (2005) employed a LISREL analysis to study customer of fast food restaurant in America and Latin America. The results indicated that there was a certain relationship between service quality and customer satisfaction based on different cultural background. In addition, service quality had significantly impacts on customer satisfaction. Sureschandar et al (2002) found that service quality and customer satisfaction were highly related.

Measures of Service Quality

Parasuraman et al. (1985) studies from different types of services, including banking industry, credit card companies, motor repair shops and long distance telecommunication companies.

The result showed that service quality had dimensions such as:

- Reliability
- Responsiveness
- Competence
- Access
- Courtesy
- Communication
- Credibility
- Security
- Understanding or knowing the customer and
- Tangibility

Later in 1988 these ten dimensions were cut down to five namely:

- Tangibility

Physical facilities, equipment and appearance of personnel

- Reliability

Ability to perform the promised services dependably and accurately

- Responsiveness

Willingness to help customers and provide prompt services

- Assurance

This include such things as competence, courtesy, credibility, and security

- Empathy

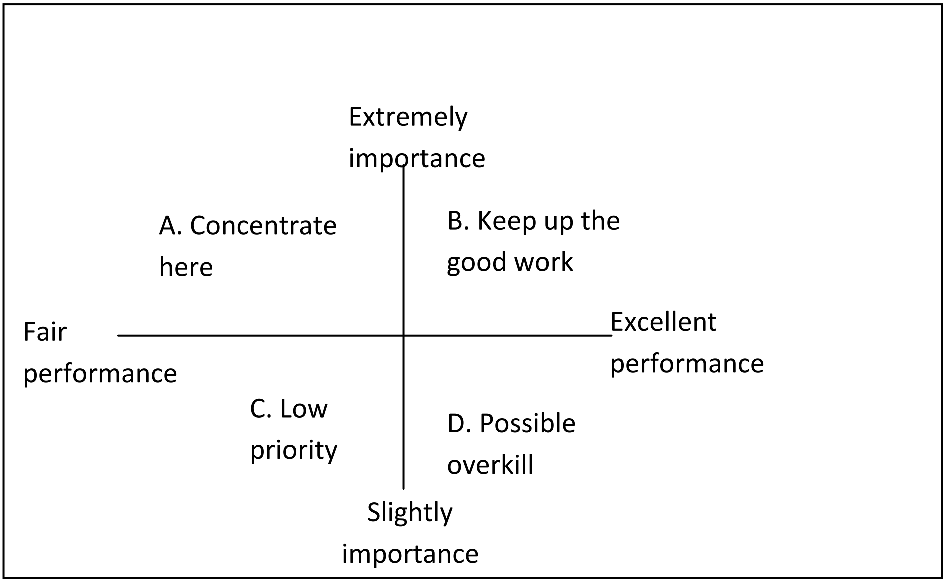
This includes such things as access, communication and understanding the customer. In other words this has to do with caring and individualized attention that the produces to her client.

Sureschandar et al. (2002) identified five factors of service quality, which are:

a. Core service or service product
b. Human element of service delivery
c. Systematization of service delivery
d. Tangibles of service and
e. Social responsibility

Parasuraman et al. (1985; 1988) proposed the SERVQUAL scale for measuring service quality. Cronin et al (1992) indicated four different measurement models, including SERVQUAL, SERVPERF, weighted SERVQUAL and weighted SERVPERF among which SERVPERF was considered the best. The importance of performance analysis, has been brought to bear as a technique for measuring service quality. The importance-performance grid as seen below, was used to determine which items needed urgent improvement or which resources were allocated improperly.

Figure 1: Importance-Performance Grid



Determinants of service quality

Martensen and Gronholdt (2003) asserted that determinant for service quality include: electronic resources, collections of printed publications, technical facilities, environment and human side of user service. Hernon et al. (1999) conducted a series of factor analysis on over 100 variables and found that the dimensions of service quality included: guidance, waiting time, electronic services, staff (including obtainment courtesy, accessibility of services and friendliness). Majid et al. (2001) applied a questionnaire survey to investigate all possible factors that had great impact on service performances. The result showed that collections, equipment and physical facilities were viewed as most important issues. In addition Wang and Shieh (2006) conducted an exploratory study on the perception of service quality, focusing on key users including faculty and students from 21 universities in Taiwan. They employed a questionnaire survey and series of factor analyses. The result indicated a number of factors including:

a. Competence
b. Moderation
c. Convenience
d. Tangibles
e. Communications and
f. Sufficiency of staff as major determinant of service quality.

Product Innovation

Innovation has been widely studied and seems to be characterized with a number of phases and stages appeared to be well described in the literature on continuously innovative firms (Dougherty and Hardy, 1996). Brand innovation sweeps aside established practices and disrupts the status quo, resulting in the transformation of markets (Nguyen et al 2016). Innovation can be encouraged by a design that fosters competition between multiple teams all attempting to develop the best idea or model; this has been called the exploration phase and is characterized by numerous experiments, some successful, others not, as an individual or team attempt to move from idea to a prototype that can be tested in production (Majekodunmi& Irene, 2017).

At some point choice favors one or several of these experiments and diverts all resources towards exploiting the possibility of these ideas in the form of new products or processes. As the product or process moves into production or exploitation phase, the prototype is further modified and the organization gains experience at production, becoming more efficient until the product or process can be replicated with maximum efficiency and hence profitability. Its fate then rests with the market. If demand increases then more of the product is produced. Eventually, however, demand will decrease due to dynamics of the larger market, the competitive context, or changing social and economic conditions. The firm with only one product will therefore go out of business. To be resilient over long periods of time, the firm must be able to generate new products or variations of old products in response to this shifting demand context.

In a recent survey of the literature, Danneeds (2004) examined the theory behind disruptive technological innovation and identified a number of issues that require further and deeper exploration. One of these issues is the actual definition of disruptive innovation. It appears that despite the widespread use of the term by both managers and academics, there is still a rather unclear understanding of what constitutes disruptive innovation.

In its original formulation, Christensen (1997) focused primarily on technological innovation and explored how new technologies came to surpass seemingly superior technologies in a market. Over time, Christensen widened the application of the term to include not only technologies but also products and business models. For example, Christensen and Raynor (2003) list as disruptive innovations such desperate things as discount department stores; low-price, point-to-point airlines, cheap, mass-market products such as power tools, copiers, and motorcycles and online business such as book selling, education, brokerage, and travel agents.

Although I agree that all of these innovations are disruptive to incumbents, treating them all as one and the same has actually confused matters considerably. A disruptive technological innovation is a fundamentally different phenomenon from a disruptive business-model innovation as well as a disruptive product innovation. These innovations arise in different ways, have different competitive effects, and require different responses from incumbents.

To appreciate this point, this article summarizes what the academic literature has to say about two specific types of disruptive innovations – namely, business-model innovations and radical product innovations – and then demonstrates that even though both are disruptive innovations; they nevertheless pose radically different challenges for established firms and have radically different implications for managers.

Business-Model Innovation

One type of innovation that tends to be disruptive to established competitions is business-model innovation. Markides (1997, 1998) called this type of innovation strategic innovation. Business-model innovation captures the essence of this type of innovation without ambiguity. Business-model innovation is the discovery of a fundamentally different business model in an existing business. For example, Amazon and Barnes & Noble complete in the book retail business in fundamentally different ways. Similarly, Charles Schwab, easy Jet, and Dell compete in their respective industries in substantially different ways from their competitors such as Merrill Lynch, British Airways & (HP/IBM).

To qualify as an innovation, the new business model must enlarge the existing economic pie, either by encouraging existing customers to consume more. The requirement to enlarge the market implies that a business model innovation is much more than the discovery of a radical new strategy on the part of a firm. Thus, IBM's change of strategy in the early 1990s, radical as it may have been, is not what we call business-model innovation. On the other hand, companies such as Amazon. Schwab, dell, swatch, and Southwest are considered business-model innovators because they introduced new business models in their respective markets that attracted new consumers and so enlarged their markets (Pearce & Robinson 2009).

It is important to note that business model innovators do not discover new products or services, they simply redefine what an existing product or service is and how it is provided to the customer. For instance, Amazon did not discover bookselling; it redefined what the service is all about, what the customer gets out of it, and how the service is provided to the customer. Similarly, Swatch did not discover the watch; it redefined what this product is and why the customer should buy it. For example, whereas traditional brokers sell their services on the basis of their research and advice to customers, online brokers sell by promoting a different value proposition, namely, price and speed of execution. Similarly, whereas traditional airline companies sell their product on the basis of frequency, range of destinations, and quality of service on board, low-cost, point-to-point operators emphasize price. Whereas traditional business schools sell their product on the basis of quality and career placement, online schools like the Open University in the United Kingdom and University of Phoenix in the United States sell their education on the basis of flexibility and price.

Since innovators emphasize different dimensions of a product or service, their products or services, their products or services inevitably become attractive (at least originals) to a different customer from the one desiring what the traditional competitors offer. As a result, the markets created around the new competitors tend to be composed of different customers and have different key success factors than the established markets.

Since the new markets have different key success factors, they also require a different combination of tailored activities on the part of the firm. For example, the value chain, internal processes, structures, and the culture that Amazon needs in place to compete successfully in the online distribution of books is demonstratively different from the one Borders or Barnes & Noble needs to compete in the same industry their business model.

For example, by selling its tickets on the Internet just like its low-cost competitors, British Airways risks alienating its existing distributors, the travel agents. In the same way, if Unilever moves aggressively into private label, it risks damaging its existing brands and diluting the organization's strong culture for innovation and differentiation. The existence of such trade-offs and conflicts means that a company trying to compete in both position simultaneously risks paying a huge straddling cost and degrading the value of its existing activities (Porter, 1996). The task is obviously not impossible, but it is certainly difficult.

Given that new business models attract different customers from those that established companies focus on; and require different and conflicting value-chains from the ones established companies currently have, it should come as no surprise that incumbent firms will, initially, have little incentive to adopt them or to respond to them. However, over time, the new business models improve to such an extent that they are able to deliver performance that is sufficient in the old attributes established competitors emphasize and superior in the new attributes. At this point, even established customers begin to find the new way interesting and begin to switch. Inevitably, the growth of the disruptive innovation attracts the attention of established players. As more customers – both existing and new ones – embrace the new business model, the new business receives increasing attention from both the media and the established players. At a certain point, established players cannot afford to ignore this new way of doing business anymore, and they therefore begin to consider ways to respond to it.

Herein lays the dilemma for established firms: these new ways of competing conflict with existing ways. It is extremely difficult to make the two coexist in the same organization – hence the reason why these innovations are considered disruptive to the established firm.

Business-Model: Innovations are Different from Technological Innovations

It should be obvious from the discussion so far that business-model innovations – and in particular the process by which they energy and grow – share many similarities between the two have led some researchers to treat the two types of innovation as one and the same – this is a mistake.

Over the past 10 years, several researchers have explored business-model innovation in depth (Charitou, 2001; Gilbert and Bower, 2002, Hamel, 2000). As a result we now know a lot about this kind of innovation, most of which seems to contradict the accepted wisdom on disruptive innovation.

One of the key findings of Christensen's work is that disruptive technological innovations eventually grow to dominate the market. Christensen and Raynor(2003; p. 69) make this point forcefully by arguing that"… disruption is a process and not an event… it might take decades for the forces to work their way through an industry but (they) are always at work. Similarly, Danneels (2004, p. 247) summarized the existing theory on disruptive innovation by pointing out that "… disruptive technologies tend to be associated with the replacement of incumbents by entrants". If correct, such a fact carries a serious implication for incumbent firm: The only way to respond to the disruption is to accept it and then find ways to exploit it. Christensen and Raynor (2003) suggested that established companies could exploit a disruption only be creating a separate unit.

The available literature on business-model innovation does not support such an extreme position. What often happens in the case of a business-model innovation is that the new ways of competing in the business grows – usually quickly – to a certain percent of the market but fails to completely overtake the traditional way of competing. For example, Internet banking and Internet brokerage have grown rapidly in the last five years but have captured only 10-20% of the market. Similarly, budget, no-frills flying as a way of business has grown phenomenally since 1995 but has captured not more than 20% of the total market. In market after market, new ways of competing grow to a respectable size but never really replace the old ways. Nor are these innovations expected to grow in the future in 100% of their markets.

Given such an outcome, then some of the accepted wisdoms on disruptive innovation need to be modified. First, new business models are not necessarily superior to the ones established companies employ, a fact implying that it is not necessarily an optimal strategy for an established company to abandon its existing business model in favor of something new or to grow the new model alongside its existing business model. The decision should be based on a careful cost benefit analysis and would depend on the specific circumstances of the firm as well as the nature of the innovation.

In other words, if a firm choose not to imitate the disruption or chooses to destroy it, then it must be doing so to survive rather than to maximize shareholder value. This is an interesting point, but no theoretical reason or empirical evidence exists to suggest that any action other than imitation is value destroying. In fact, Charitou and Markkides (2003) demonstrated that in deciding how to respond to disruptive business model innovations, incumbent firms have several options at their disposed. Most of these, including the “disruptive-the-disruptor” strategy that companies like Swatch have adopted, are indeed value enhancing.

The truth of the matter is that established companies would simply find most of these innovations unattractive – and not for the reason articulated in Christensen (1997), though they undoubtedly play a role. Rather, most of these business-model innovations simply do not make economic sense for established companies. In its efforts to grow, the established firm has many other alternatives to consider, including investing its limited resources in adjacent markets or taking its existing business model internationally. Given its other growth options – and given its limited resources – the decision to invest in the disruption may rank low on its priority list.

The academic literature suggests three exceptions to this generalization. Specifically, established firms would, on average, find it advantageous to create disruptive business-model innovations in the following circumstances:

(1) When they enter a new market where entrenched competitors have first-mover advantages (e.g. Canon entering the copier market). In such a case, the new entrant must attack by breaking the rules (Markides, 1997)

(2) When their current strategy or business model is clearly inappropriate and the firm is facing a crisis (e.g. Kresge introducing the discount retail concept in the 1960s and remaining itself K. Mart).

(3) When they are attempting to scale up a new-to-the-world product to make it attractive to the mass market (Geroski and Markides, 2005).

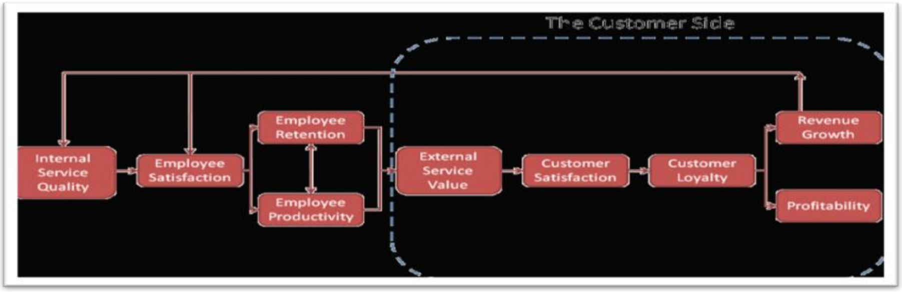
A second sacred cow regarding disruptive innovations is that the best way for an established company to adopt and to exploit such innovations is through a separate unit. Presumably, this is the best way to overcome the inherent conflicts between the established business and the innovation. Yet, as argued elsewhere (Markides and Charitou, 2004), established companies could exploit disruptive strategic innovations in a number of ways, and they do not necessarily have to use a separate unit to do so.

Finally, even if the disruptive innovation is not superior to the established business model, incumbents need to find a way to respond to it. However, response does not necessarily mean that they have to adopt it. They could respond to the innovation not by adopting it but by investing in their existing business to make the traditional way of competing even more competitive relative to the new way of competing. Incumbents even have the option of counterattacking the innovators by trying to disrupt the disruptions. The different response options available to established firms were explored in Charitous and Markides (2003).

Radical product innovations

A second type of innovation that tends to be disruptive to the established competitions is radical innovation, which creates new-to-the-world products (e.g. the car, television, personal computers, VCRs, mobile phones). Radical innovations are disruptive to consumers because they introduce products and value prepositions that disturb prevailing consumer habits and behaviors in a major way. They are disruptive to producers because the markets they create undermine the competences and complementary assets on which existing competitors have built their success. Because they are disruptive to both consumers and producers, these innovations are rarely driven to demand. Instead, they result from a supply push process originating from those responsible for developing new technologies (Geroski and Markides, 2005).

Model for the Study: The Service Profit Chain



Source: Heskett et al., 1994, p.120

Conclusion

Having looked into various issues relating to service quality and satisfaction in the service sector in broad sense, the knowledge derived from numerous literatures will be instrumental to this study. However, in this study effort will be made to maintain focus on the objectives of study as stated in chapter one. Like in many research, constraints are bound to be faced and surmounted accordingly.

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