Impact of Innovation on Customer Satisfaction and Brand Loyalty: A Case Study of Professionals

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Abstract
This study examines the impact of innovation on customer satisfaction and brand loyalty in cellular industry of Pakistan. All companies keep on introducing new features in their products, they can bring innovation in design, they can also change their procedures and even sometimes they can reduce their prices because they try their best to keep their customers satisfied and to get an edge over their competitors. The aim and purpose behind conducting this particular study is to find out the relationship between innovation and customer satisfaction and also to find the impact of innovation on brand loyalty. Further it shows the relationship of one variable with other variable. The hypotheses were formulated on the basis of literature review and data was collected through questionnaire from 80 professionals (government employees, private employees and self employed) of Rawalpindi and Islamabad who are using mobile phones. Data was analyzed through simple linear regression and correlation techniques. It was concluded that innovation has positive and significant impact on customer satisfaction and innovation also has positive relation with brand loyalty.

Key Words: Innovation, Customer Satisfaction, Brand Loyalty

1. Introduction
Customer satisfaction plays a vital role in every business. It’s not only leads to customer loyalty and increase in profitability but it also helps in attracting new customers in the competitive business environments. Customer satisfaction is important for business owners because it provides a system that they can use to improve and manages their businesses. Every company seeks to satisfy its customers and retain them. So they try their best to provide best products and services to their customers in order to increase their revenues, to increase their market share and also to get competitive advantage against their competitors. They also want to be the market leaders so they try to continuously introducing new products in the market by using new and creative ideas so that customers can be satisfied and they can become loyal customers of their new products and services.

Innovation refers to introducing new things in the market and converting new knowledge in new products and services in order to satisfy existing customers and to attract new customers. If the companies will be creative and innovative then they will be able to differentiate themselves from their competitors. According to Schumpeter (2006) innovation is combining new product, new process, opening of new market, new way of organizing the business, and new sources of supply in an entrepreneur. Torun & Cicekci (2007) argued that innovation is the key driver of growth. It is a major engine for economic expansion so it can also improve the living standards of people. He explained innovation as a discipline of creativity that attracts the best people and an instrument to promote leadership. It also helps organizations to lead the world.

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Customer satisfaction is the degree to which customers feel happy about the products or services of any company. It is used as a benchmark for the firm’s performance. If the customers are satisfied from the products or services of any company, then they will show loyal behavior for the products or services of that company. Satisfied customers will repurchase those products and they will willingly create positive words of mouth about that specific firm (Bennett & Rundle-Thiele, 2004). Kasper (1988) argued that satisfaction is often used as a predictor of future consumer purchases.

Brand loyalty is one of the main important concept in marketing. Fornell (1992) stated that customer satisfaction leads to customer loyalty. Saisfaction is the originator of loyalty. Only a satisfied customer can be a loyal customer. According to Aaker (1996) before placing value to any product brand loyalty should be considered. Because it is considered as a key to increase sales or profits of the company. Any product has value if it has loyal customers otherwise it is vulnerable. All businesses have to maximize their share for customers so brand loyalty should be considered as a business strategy not just a marketing program (Duffy, 1998).

Brand loyalty can be defined as the repurchase behavior of the customer (Basrawi, 2009). They will buy the same product again and again if the product fulfill their demands. There are several advantages to all those companies which has loyal customers. Such companies put less costs on advertisement because customers know their products. Once they get the surity that customers will never switch to other brands they can charge premium prices for their products. As a result their profitability will go up and costs will go down (Rundle-Thiele & Bennett, 2001).

**Problem Statement**

This research will be focusing on answering the following questions:

- What is the impact of innovation on customer satisfaction?
- How innovation is related to brand loyalty?

These questions will help the companies to find out that to what extent innovation is necessary for the customers. How innovation can attract new customers and how it is related to customer satisfaction and brand loyalty.

**Significance of Study**

A study was conducted by Naveed, Akhtar and Cheema (2013) to investigate relationship of innovation with customer satisfaction and brand loyalty within a specific segment of the students of Govt. College University (GCU) Faisalabad, Pakistan. They concluded the significant relationship between the innovation, customer satisfaction and brand loyalty while this study is conducted on the behavior of mobile users (professionals) towards impact of innovation on customer satisfaction and brand loyalty.

**Research Objectives**

Every company wants to be at the top. So they keep on introducing new things by using new ideas. This new idea can be implemented in the form of new product, new service, and new technology. The objectives of this research are to find out:

- The importance of innovation and its effect on the cellular industry.
- Professional’s preferences to buy the innovative products (mobile phones).
- Relationship between innovation and customer satisfaction.
- The impact of innovative products or services on brand loyalty.
- Professional’s behavior towards brand loyalty.
2. Literature Review

Innovation

Innovation is important at different levels and it is also important because of different reasons. Innovation is an important decision by different companies to get the competitive advantage over other companies. Some companies can also go for innovation because customer wants some changes according to their ease so these new changes can also be the result of customer demands. An innovation can be big or small. There might be some small changes in the product and totally new product can also be introduced in the market by the companies. These changes are brought in a product for the satisfaction of existing customers and its purpose might be to attract new customers.

Innovation can be defined as a continuous process of discovery, learning and application of new technologies and techniques from many sources (Rao et al., 2001). Innovation is considered as the most important strategy for the competition. If any firm wants to compete with the competitors it must have to be innovative. If it does not introduce new product or services or it does not modify its products it will not be able to compete with the competitors. There are different types of innovation. It can be product based or process based. The firms which have high technology, they focus more on product innovation. They try to develop new products in the market to attract more customers. While lower technology firms are more active in process innovation and cost reduction. They try to find out new ways to improve their processes so that their cost can be minimized (Hassink, 1996).

One of the most important reasons for innovation is that it leads to economic growth and improvements. From individual side innovation is done constantly. It can be in form of process innovation or by training different individuals to gain the competitive advantage. As it is linked to economic development and growth, so it introduces new jobs, make changes in the old jobs and also modify old jobs. This type of modification leads to improvements in the whole organization (Mobbs, 2010).

According to Laursen & Salter (2006) initially innovation was not considered as a factor of importance. But today organizations spend a lot of money and other resources to find out new ideas for introducing new products or services. These new ideas can also be used to modify the existing products. A lot of time is being spent to bring innovations. Too much investments and knowledge enable a firm to create something new, different and unique. All those firms who spend a lot of money in searching new ideas and opportunities are more innovative. He further argued that now most of the firms are working on the concept of open innovation model. According to this model they spend little amount on internal R&D. They successfully innovate through knowledge and expertise forms a wide range of external sources. If new products or services are provided to the customers, it will give solution to the problems of customer and if their problems get solved with those innovative products they will be satisfied (Leelakulthanit & Hongcharu, 2011).

Customer Satisfaction

Customer satisfaction is an important factor because it has a direct relation with the organization’s profitability. If the customer will feel satisfaction from the brands of any organization, he or she will purchase from that organization and ultimately that organization will make profits (Singh, 2006). Customer satisfaction is multidimensional. If a firm delivers mean values to its customers, then it is actually trying to satisfy its customers. Leelakulthanit & Hongcharu (2011) in their research used an example of cellular company which introduces new products and differentiate their products from their competitors in order to satisfy their customers. For this purpose they use new ideas and best technology. They also analyzed that to satisfy customers firms must utilize new technology, new service and innovative ideas. And new technology, ideas and service must surpass the outdated services. Because improvement in existing ideas will attract new customer and they will purchase that innovative product. It will also help the firm to increase its sales and customers will also be satisfied from that firm. If the product is according to the requirements of customers they might become loyal customer for that specific product.

According to (Zairi, 2000) all organizations depends on customers. They try to focus on the needs of customers and then introduce different products in the market according to their requirements. Further he
argued that do not consider customers as a problem because they are the one who can become source of profit of the organization. For effective marketing programs customer satisfaction is considered as an important factor because satisfaction is a better predictor of customer loyalty. Without this element no one can show loyalty towards any brand (Yang & Peterson, 2004).

Koskela (2002) in his research discussed that the difference between customer’s perception and customer’s expectations defines the customer satisfaction. Chilamantula (2009) discussed different methods that are used by the companies to measure customer satisfaction. These methods are: Complaints and suggestion system, Customer satisfaction surveys, Lost Customer Analysis, Consumer Behavior Vs Consumption Behavior.

**Brand Loyalty**

According to Basrawi (2009) brand loyalty can be determined by the repurchase behavior of the customer. It is the behavior of purchasing and then repurchasing one brand again and again. Using the brand again and again makes the consumers loyal to it. Mao (2010) argued that brand loyalty is the preference of a consumer to buy a specific product or service. Consumers show faithful behavior towards purchasing that product or service and they repurchase it and they Will be motivated towards paying even high amount for that product and service. They will also consider that their choice is better than others and they will value that specific product or service. Customers can be loyal to any brand if they feel that they are satisfied from that specific brand after using it.

According to Reichheld (1996) if you attract new customers it will cost five times higher than retaining the existing customers. To attract new customers is expensive because it requires advertisement, promotion, sales cost and different types of other expenses such as operating expenses. Another research explains that loyal customer is very important for the firm for several reasons. First of all, to maintain a loyal customer is cheaper as compare to attract a new customer. Secondly loyal customer can be easily maintained and the feedback from loyal customer is always positive about the firm (Martisiute et al., 2010).

Dachyar & Fatkhurrohman (2011) argued that customer loyalty comes from the commitment and trust / confidence of customers, which is formed as a result of a feeling satisfied with the purchase or consumption of goods. Loyalty is faithful behavior of customer to repurchase any brand. If the customers are loyal towards a specific brand then they will buy the products of that specific company they will also be satisfied customers. If a company wants to build long term relationship with the customer then they must satisfy their customers as for long term relationship customer satisfaction is an important factor (Mobbs, 2010). If a person is loyal towards a brand he or she might have a positive attitude towards that specific brand, they will purchase that brand in preference to others within the market and they will also show loyalty towards that brand over long periods of time (Wood, 2006).

Satisfaction has been widely studied as a predictor of customer loyalty. If the customers are satisfied then they will use the product of that specific company and they will be loyal towards that company as well. In addition, loyalty, corporate image, and expectations have a high impact on satisfaction (Leelakulthanit & Hongcharu, 2011).

Another study was conducted by Rowley (2005) and he argued that there are four types of customers brand loyalty and he named them as captive, convenience-seekers, contented and committed. Captive customers are those customers who prefer to purchase the same product, service or brand repeatedly because they have lack of opportunities to buy an alternative brand. Convenience-seekers do not bother about the brand but they purchase that brand which is easily accessible. They just look at their convenience. Contented consumers are those consumers who have positive attitude towards a brand but they will not go for extra consumption. Committed consumers are those consumers who are active in both attitude and behavior. They are considered as the best and perfect customers. So, customer loyalty is considered as a major source for the growth, profit and strong asset of that firm (Anderson & Mittal, 2000). Loyal customers are not price sensitive. They are ready to pay more prices in order to get a good product or better quality service. As
Krishnamurthi & Raj (1991) argued that a brand loyal customer will be willing to pay any prices even prices are high.

It is concluded from the literature review that innovation (independent variable) has positive relationship with customer satisfaction and brand loyalty (dependent variables). Customers have positive attitude towards innovation and if they are satisfied then they will also be loyal to the specific product and service.

The following hypotheses are developed on the basis of literature review.

H1: Innovation has positive relationship with customer satisfaction.
H2: Innovation has a positive relationship with brand loyalty.

Theoretical Frame Work

To study the objectives of this research and to find the perception of target market (professional) towards the relationship between independent variable (innovation) and dependent variables (customer satisfaction and brand loyalty) the following theoretical model is developed on the basis of existing literature and identified variables:

![Figure 1: Impact of Innovation on Customer Satisfaction and Brand Loyalty](image)

3. Research Methodology

The purpose behind conducting this study is to determine the impact of innovation on customer satisfaction and brand loyalty. Main objective of this research is to determine that how innovation can change the satisfaction level of customers and how it can turn a normal customer to a loyal customer. In order to find out the results of these questions sample of professionals (government employees, private employees and self employed) has been taken to collect primary data. Questionnaire is the tool that is selected for data collection.

Population and Sample

Target population of this research was professionals (government employees, private employees and self employed) of Rawalpindi and Islamabad. Sample size was 80 professionals who were using mobiles and had an idea about different brands in cellular industry.

Research Instrument

The questionnaire was used as the data collection instrument for this research. This questionnaire was adopted from a study of Nemati, Khan and Iftekhar (2010). Validity and reliability was already checked. Likert scale was used for the measurement of variable. There were total 100 Questionnaires that were distributed. Total 80 questionnaires were received. The response rate was 80%.

Statistical Analysis

The data was analyzed through correlation and regression techniques by using SPSS software. Correlation analysis showed the relationship between the variables innovation, customer satisfaction and brand loyalty while regression analysis showed the strength of relationship between these variables.
Innovation is treated as independent variable while customer satisfaction and brand loyalty as dependent variable.

### Table 1: Characteristics of Sample

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>44</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>36</td>
<td>40%</td>
</tr>
<tr>
<td>Marital Status</td>
<td>Married</td>
<td>56</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td>Unmarried</td>
<td>24</td>
<td>30%</td>
</tr>
<tr>
<td>Professionals</td>
<td>Government Employee</td>
<td>25</td>
<td>31.25%</td>
</tr>
<tr>
<td></td>
<td>Private Employee</td>
<td>32</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Self Employed</td>
<td>23</td>
<td>28.75%</td>
</tr>
<tr>
<td>Qualification</td>
<td>Matriculate</td>
<td>3</td>
<td>3.75%</td>
</tr>
<tr>
<td></td>
<td>Intermediate</td>
<td>5</td>
<td>6.25%</td>
</tr>
<tr>
<td></td>
<td>Bachelors</td>
<td>28</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Masters</td>
<td>32</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>MS/PHD</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>Age</td>
<td>15-25</td>
<td>9</td>
<td>11.25%</td>
</tr>
<tr>
<td></td>
<td>25-35</td>
<td>21</td>
<td>26.25%</td>
</tr>
<tr>
<td></td>
<td>35-45</td>
<td>23</td>
<td>28.75%</td>
</tr>
<tr>
<td></td>
<td>45-55</td>
<td>17</td>
<td>21.25%</td>
</tr>
<tr>
<td></td>
<td>55 and above</td>
<td>10</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

4. Results

**Correlation Analysis**

### Table 2: Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Customer Satisfaction</th>
<th>Brand Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>.745(**)</td>
<td>.697(**)</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td></td>
<td>.713(**)</td>
</tr>
</tbody>
</table>

n=80 **correlation is significant at 0.01 level

The correlation analysis shows that the value of correlation between innovation and customer satisfaction is 0.745 which shows the positive and significant relationship between innovation and customer satisfaction. Correlation value between innovation and brand loyalty is 0.697 which means that innovation also has positive and significant relation with brand loyalty. Moreover, the correlation between customer satisfaction and brand loyalty is 0.713 which shows that the relationship between customer satisfaction and brand loyalty is also positive and significant.
Regression Analysis

Table: 3 Summary 1

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.786(a)</td>
<td>.603</td>
<td>.592</td>
<td>.2631</td>
</tr>
</tbody>
</table>

Independent variable: Innovation
Dependent variable: Customer Satisfaction

The value of R² in the above table indicates that 60.3% variation in dependent variable (customer satisfaction) is due to independent variable (Innovation) and while 39.7% variation is because of other factors.

Coefficients (a)

<table>
<thead>
<tr>
<th>Model</th>
<th>Un standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.812</td>
<td>.127</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>.784</td>
<td>.053</td>
<td>.517</td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Customer Satisfaction

The above table shows that one unit increase in innovation will increase customer satisfaction by .784 unit and coefficient of innovation is statistically significant at 1 % level of significance and t value is also significant.

Table: 4 Summary 2

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.716(a)</td>
<td>.524</td>
<td>.519</td>
<td>.2657</td>
</tr>
</tbody>
</table>

Independent variable: Innovation
Dependent variable: Brand Loyalty

The value of R² in the above table indicates that 52.4% variation in dependent variable (brand loyalty) is due to independent variable (Innovation) and while 47.6% variation is because of other factors.

Coefficients (a)

<table>
<thead>
<tr>
<th>Model</th>
<th>Un standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.936</td>
<td>.124</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>.731</td>
<td>.051</td>
<td>.514</td>
<td></td>
</tr>
</tbody>
</table>

Dependent variable: Brand Loyalty
The above table shows that one unit increase in innovation will increase brand loyalty by .731 unit and coefficient of innovation is statistically significant at 1 % level of significance and t value is also significant.

5. Discussion

This study explores the behavior of mobile users (professionals) towards impact of innovation on customer satisfaction and brand loyalty. Data was collected by the professionals through convenience sampling technique with the help of adopted questionnaire.

All above results regarding behavior of mobile users (professionals) support the hypotheses H1 and H2 and indicates that there is positive significant relationship of innovation with customer satisfaction and brand loyalty. Mobile phones are categorized in high involvement product and they are not purchased on daily basis. Customers purchase such products by considering different factors in mind such as product’s design, product’s price, and its quality. So if the company do not bring changes in such factors it may lose its customer and may lose their position in the market.

The first hypothesis explored posititive behaviour of the professionals towards adoption of new technology in the mobile industry which is satisfying their needs and demands and attract the target market (professionals) to purchase the specific mobile. The acceptance of second hypothesis showed that innovation also has significant relationship with brand loyalty. The loyal customers are the best source of profitability as literature support this statement that cost of attracting of new customers is more than the retaining of existing customers. The customers loyalty depends on customer satisfaction which is proved by this study that the professionals mostly repurchase the brands that satisfy their need and they do not take risk to switch to another brand.

So if companies want to lead in the market they must keep on introducing value added products which can increase customer satisfaction and customer satisfaction leads to brand loyalty. The chain starts from innovation and ends on customer loyalty which is the indicator of profitability.

6. Conclusion

This study is an attempt to explore the relationship of new products produced by mobile industry of Pakistan and how this innovation is effecting satisfaction and brand loyalty. This study indicates positive attitude of mobile users (professionals) towards innovation. Innovation has positive impact on customer satisfaction and brand loyalty. There is significant relationship between independent variable (innovation) and dependent variables (customer satisfaction and brand loyalty). Results shows that innovation plays a vital role in satisfying a customer and customer satisfaction leads to brand loyalty. This study also shows that customer satisfaction has positive and significant relation with brand loyalty. Therefore, if the companies want to increase their market share and they want to satisfy their customers or want to lead in the market they must bring innovation in their products or services.

Limitations

1. Time was too short for collecting the data so sample size was very small.
2. Limited areas of Rawalpindi and Islamabad were selected for collecting data.
3. Sample group was only professionals.

Recommendation

Keeping in view the above study the further researches may be carried out to determine the impact of innovation on some other variables or mediation and moderator effect can also be included in the existing study. Further studies may be carried out in some other regions of Pakistan.
References


