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Influence of innovation capability and customer experience on reputation and loyalty☆

Pantea Foroudi [a,*], Zhongqi Jin [a], Suraksha Gupta [b], T.C. Melewar [a], Mohammad Mahdi Foroudi [c]

[a] Middlesex University Business School, Hendon, London NW4 4BT, UK
[b] Kent Business School, The University of Kent, Canterbury, Kent CT2 7NZ, UK
[c] 121 Warren House, Warwick Road, London W148TW, UK

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ABSTRACT

This research applies complexity theory to understand the effect of innovation capability and customer experience on reputation and loyalty. This study investigates the contribution of consumer demographics to such relationships. To this end, this article recognizes effective and intellectual experiences as the key elements of customer experience and proposes a conceptual framework with research propositions. To examine the research propositions, this study employs confirmatory factor analysis (CFA) and fuzzy set qualitative comparative analysis (fsQCA), using a sample of 606 consumers of international retail brands. The findings contribute to the literature on innovation, customer, and brand management. In addition, the results also provide guidelines for managers to create customer value in the retail environment through technical innovation capability (new services, service operations, and technology) and non-technical innovation capability (management, sales, and marketing). Furthermore, this article reflects on the link between the consumer shopping experience and firm reputation and loyalty.

1. Introduction

Some studies present innovation and marketing as the two aspects central to the organizations' ability to gain capital in a competitive market (Ngo & O'Cass, 2013; Nguyen, Yu, Melewar, & Gupta, 2016). Incidentally, retailers around the globe, including Europe, are aware of the new possibilities that innovation (e.g., Smart Labels and Unique Identifiers, and NFC payments) can offer in a retail environment. However, the change goes beyond simply introducing or making use of innovation, as this phenomenon creates both challenges and marketing opportunities for corporations. Marketers get favorable reputations to allow stakeholders to form positive perceptions about the corporation and thus, to retain customer loyalty (Chun, 2005). In this sense, the academic literature reports the capability of innovation to drive company reputation and customer loyalty (Gupta & Malhotra, 2013) and reflects on reputation as collective judgments that observers make according to their evaluation of the corporation's ability to be innovative (Foroudi, Melewar, & Gupta, 2014). Balmer, Powell, and Greyser (2011) add that corporate reputation is the result of beliefs, images, facts, and experiences that an individual may encounter over time. Consumers perceive a company as trustworthy and respectful because of their experience with the company, its products and services, and their corporate reputation (Bhattacharya & Sen, 2003). These behaviors can affect the likelihood of customers' identification with different demographic features and with the organization.

Socio-technical system theory classifies the innovation capability of companies into two categories: (1) technical innovation capability (development of new services, service operations, and technology) and (2) non-technical innovation capability (managerial, market, and marketing) (Ngo & O'Cass, 2013). According to Ngo and O'Cass (2013), the literature pays much attention to technical innovation whereas non-technical innovation, such as management, sales, and marketing, has received little attention to date. Few studies focus on the specific experiences that favorably affect consumers' affective and cognitive reactions (Dennis, Brakus, Gupta, & Alamanos, 2014). To fill this gap and using theory of complexity, this study pushes the existing boundaries of the link between innovation capability as a management concept, connecting innovation capability with customer experience, reputation, and loyalty as marketing concepts. The arguments defend that the ability of a company offering a product or a service to create a strong position in a high-potential market depends upon the level to which the company is able to influence the experiences of its consumers, according to their demographic features and with or without using technology.

The theory of complexity provides a clear reflection of non-linearity between the links under investigation in a competitive market and under a situation of uncertainty. In addition, the study also investigates the influence of the consumers' demographics (age, gender, occupation,

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* Corresponding author.
E-mail addresses: P.foroudi@mdx.ac.uk (P. Foroudi), Z.jin@mdx.ac.uk (Z. Jin), S.Gupta@kent.ac.uk (S. Gupta), T.C.Melewar@mdx.ac.uk (T.C. Melewar), Mohammad@Foroudi.com (M.M. Foroudi).

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and education) on the linearity of such links. Therefore, the main aim of this study is to identify configurations that can describe customer experience for retailers operating in retail settings. The key findings enable managers to understand how the deployment of the technical innovation capability (developing new services, service operations, and technology) and the non-technical innovation capability (managerial, market, and marketing) in the retail environment can link consumer's shopping experience with reputation of the firm and customers' loyalty. This research achieves its objective using confirmatory factor analysis (CFA) and fuzzy set qualitative comparative analysis (fsQCA) (Ragin, 2006, 2008). Both analyses provide a deeper and richer perspective on the data when they work together with complexity theory (Mikalef, Pateli, Batenburg, & Wetering, 2015; Ordanini, Parasuraman, & Rubera, 2013; Woodside, 2014; Wu, Yeh & Woodside, 2014).

The following section draws upon research on innovation capability, customer experience, and loyalty to address two main research questions: (1) what configurations of marketing capabilities can modify the consumers' demographic effect on loyalty and reputation, and (2) what configurations of customer experience can modify the consumers' demographic effect on loyalty and reputation. Section 2 also includes a conceptual framework that offers propositions on the key determinants and, through a systematic review of the literature, the article presents their consequences. Sections 3 and 4 describe the research method and present the results of the data analysis. Finally, Sections 5 and 6 discuss the results, their managerial and theoretical significance, the limitations of the study, and indicate paths for future research.

2. Theoretical background and conceptual model

Practitioners consider innovation as a tool to improve the avenues of growth available to their company, and use branding to survive the competition they face in the marketplace (Gupta & Malhotra, 2013). Innovation as a process goes through various stages, starting with the discovery of an idea, the creation of its blueprint, and the production of beta versions for its application, and concluding with the implementation of the idea (Kyffin & Gardien, 2009). The academic literature explains innovation as an approach to creating an appropriate, simple, and flexible business model, which can serve the interests of managers or consumers in a competitive market (Abernathy & Utterback, 1978; Darroch & McNaughton, 2002; Han, Kim, & Srivastava, 1998). Previous marketing studies reflect on the confidence that branding can provide to consumers in the innovation, and highlight collaborations as an innovative route that managers use to access the market (Gupta & Malhotra, 2013). The scope and size of the innovation value in each consumer segment or manager depends upon the use of technology as the base of innovation (Gupta & Malhotra, 2013). The success of an innovative product depends on the managers' ability to match the value that consumers seek from the service with the incentives that the company receives from offering an innovation (Lengnick-Hall, 1992). The non-availability of consumer or market-related information to managers and of brand-related information to consumers makes companies commit and invest in resources (Hunt, 1999). Simultaneously, the returns of such investments depend upon the freedom that the company gives customers to use the technology, or the customers' experience according to their demographic features (Dennis et al., 2014).

Technology plays an important role in facilitating the commercialization of innovations, which have the potential of transforming underdeveloped markets into high-potential business markets (Gupta & Malhotra, 2013). When technology is the driver of both internal and external innovation, brand-based marketing leads the way to the commercialization of innovation (Gupta & Malhotra, 2013). This phenomenon can appear in the introduction of technology-based innovative services—like Google's search engines or Facebook's social networking—into global markets (Adner & Kapoor, 2010). Brands offering innovative services are able to take up activities like the identification of the target market, thus matching customers' needs with the product, facilitating the creation of product knowledge in the consumer segment, and connecting with the larger set of stakeholders to address their social issues (Gupta & Malhotra, 2013). Technology enhances the capability of a firm to gain insights into the experiences of its consumers, and supports the efficient fulfillment of stakeholders' expectations (Gupta & Malhotra, 2013). A fresh approach to the incorporation of technology-based changes in the communication processes can lead managers to design services that are innovative for consumers and simultaneously appropriate for a brand. These communications tools, such as mobile telephones, the Internet, and social media, can be useful for managers, contributing to the creation of unique marketing plans and innovatively combining consumers' tastes, cultural values, and societal pressures.

Customers' experiences in the current market scenario depend upon the company's capability to use technology (Foroudi et al., 2014). Simultaneously, customer experience has the capability to affect the reputation of the company (Frow & Payne, 2007). Foroudi et al. (2014) explain the connection between reputation—the collective judgments of observers—and the holistic evaluation of a corporation over time. In turn, Chun (2005) discusses the positive effect of reputation on customer's loyalty and stakeholder's perceptions.

This research underpins the social and technical aspects of socio-technical system theory: (1) technical innovation capability (developing new services, service operations, and technology), and (2) non-technical innovation capability (managerial, market, and marketing) (Ngo & O'Cass, 2013). This article aims to recognize the value these capabilities can create for different features of customer's demographics, like the paying capacity of customers to buy branded products. This recognition is necessary because the literature does not often consider branding from the viewpoint of the customer who is less well off but still wants to buy branded products or services. Researchers find that brand managers serve this segment with similar quality but with lower quantity and different packaging (Gupta & Malhotra, 2013). However, the literature does not examine the use of innovative business ideas and marketing practices to address the influence on the company's reputation and customer loyalty of the demographically complex customer segments, like those with high or low education, and according to their age, gender, or occupation. Fig. 1 shows the conceptual framework of this research.

2.1. Research propositions

Various customer segments with different demographic configurations rely on corporate reputation when making investment decisions and product choices (Dowling, 2001). The demographic configurations of customers that lead to high customer loyalty derive from the customers' experience, classifiable as: (1) effective experience and (2) intellectual experience. Reputation is a perceptual, symmetrical illustration of a company's past actions in the form of trust, admiration, respect, and confidence. Accordingly, a company's future prospects also derive from the complexity of consumer demographics, thus describing the overall appeal of the company (Dowling, 2001; Fombrun & Shanley, 1990). Complexity theory suggests the occurrence of causal asymmetry (Leischnig & Kasper-Brauer, 2015; Woodside, 2014), which implies the presence and absence of causal condition between constructs. For instance, a high level of customer experience might be the source of loyalty and reputation. Prior studies like Adner and Kapoor (2010) reveal how demographic features, like habits, social ties, and economic features, affect customer loyalty in contractual service settings. Dennis et al. (2014) similar research reviews the effect of age as a moderator of customer-based corporate reputation and customer loyalty, using data from the retail setting and fast food restaurants in France, The United Kingdom, and The United States of America, and basing their research in cultural differences between countries. Dennis et al. (2014) study investigates the influence of factors like consumers' gender and age on the customers' experiences in service encounters. Nguyen et al.