Technical innovation and perceived usability outperform NPS in correlation to financial performance in US publicly traded companies

Michele Bennett, PhD – michele.bennett@avanade.com

Anthony Molisani, PhD, MPH

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Abstract

Since its creation, Net Promoter Score (NPS) has become a standard measurement of customer loyalty and business growth. However, independent research results have challenged that status yet without budging corporate beliefs. The blind eye to inconsistent outcomes is due in part NPS' simplicity and uneven but hopeful measures of positive business impact, even as companies are in the dark about the factors that impact their score. Therefore, measuring 1605 US-based customers of US publicly traded companies, this study has found that NPS was positively and significantly correlated with financial performance. However, two other dimensions of customer experience, technical innovation (TI) and perceived usability (PU) outperformed NPS with stronger correlations demonstrating both the value of NPS but also perhaps the need to look beyond. In addition, TI and PU were also strongly correlated with NPS, offering insights into aspects of the customer experience, customer loyalty and business performance that companies can use to impact their NPS score, which they would otherwise not know.

1.0 Introduction

NPS is an indispensable customer experience and loyalty metric in many organizational portfolios (Gill, McCarthy, & Grimmer, 2019) and has been since its creation 17 years ago (Reichheld, 2003).

Researchers have debated the merit of that status for almost as long (Eklof, Podkorytova, & Malova, 2018; Keiningham, Coil, Wallin Andreassen, & Aksoy, 2007; Kristensen, & Eskildsen, 2014). And NPS offers no information into what organizations have done (or have not done) to receive, keep or change their scores (Fisher & Kurdupleski, 2018).

One of the appeals of NPS is its relationship to business performance (Reichheld, 2003), yet there are metrics that offer stronger business performance impact and more obvious insights into how companies can use measures to improve experiences and business growth (Foroudi, Jin, Gupta, Melewar, & Mahdi, 2016; Mbama, 2018). This research offers measurable and meaningful attributes of customer experience, *technical innovation* and *perceived usability*, that companies can use to drive growth and improve customer experience, do not compete with NPS, and can be used to improve NPS scores.

2.0 Literature Review

2.1. Net Promoter Score (NPS)

Fredrick Reichheld (2003) introduced Net Promoter Score (NPS) with the claim that NPS was the most important predictor of customer loyalty and sustainable business performance. NPS has remained an integral part of hundreds of organizations' customer experience metrics and for many, their ultimate yardstick (Gill et al., 2019). However, researchers have struggled since Reichheld (2003) to reproduce

the original study results (Eklof, et al., 2018; Keiningham et al., 2007; Kristensen, & Eskildsen, 2014) and showing the positive relationship between NPS and financial performance (Reichheld, 2003).

Studies have found superior metrics to NPS in correlation to financial performance. For example, the American Customer Satisfaction Index (ASCI) had a stronger correlation to revenue than NPS (Keiningham et al. 2007). The European Performance Satisfaction Index (EPSI) has also been found to be more reliable, trustworthy, and consistent measures of customer satisfaction and financial performance over NPS (Eklof et al., 2018; Kristensen, & Eskildsen, 2014). Yet, NPS remains an apex of customer experience to which many organizations strive even with variable proof (Gill et al., 2019; Eklof et al., 2018; Mbama, 2018).

2.2 Technical Innovation

Technology innovation (TI) is critical to business growth (Kerr, 2015). Innovation requires the technical capacity and strategic capabilities delivered to the right audience (Foroudi et al., 2016). Baba (2012) and Anning-Dorson (2018) have measured indirect relationships of TI to financial performance but there are limited studies measuring a direct relationship (Mbama, 2018), so more insight is needed such as can be gained by this research, and by its larger study (Bennett & Molisani, 2020).

There is also internal and external innovation. As companies grow larger, research suggests that the external innovation required for market relevancy and growth becomes more challenging. So, companies then focus inward on innovation for enhancements and efficiencies (Kerr, 2015). However, changing demographics can negatively impact loyalty and experience expectations (Foroudi et al., 2016), and externally-facing TI provides customer value (Oh & Teo, 2010) that unites complex demographics in perceptions of stronger customer experiences, increased loyalty, and sustained financial performance (Foroudi et al., 2016). Therefore, all companies need to focus on customer-facing TI that Mbama (2018) found correlated with NPS and financial performance. This study seeks to corroborate those results.

2.3 Perceived Usability

Perceived usability (PU) concerns the ease, efficiency, and effectiveness of which products and services allow customers to reach their goals and has a profound impact on overall experiences (Klaus, 2013). Interactions perceived as highly usable inspire confidence to engage deeper (Klaus, 2013), and usability requirements extend to innovative (Mbama 2018) as well as everyday experiences (Klaus, 2013). Usability is one of the key attributes in the uptake of new experiences (Mbama, 2018) and consistent usability across repeat interactions translates into higher perceived value and quality of experiences (Hassenzahl & Sandweg, 2004).

Perceived usability has been shown to be correlated with financial performance and NPS (Mbama, 2018), and further support would help companies understand the value of the dimension as part of customer experience and business growth.

3.0 Research Methodology

3.1 Conceptual Model for Research

NPS has had an inconsistent relationship with financial performance (Eklof, et al., 2018; Keiningham et al., 2007), yet studies have found a correlation to financial outcomes (Gronholdt, 2019). TI and PU have been shown to be correlated with business performance metrics (Mbama, 2018). This study seeks

additional knowledge both for NPS and financial performance, but also for consistency in measurement for TI and PU with financial outcomes.

An online questionnaire was used to collect data from 1605 US-based customers of US publicly traded companies in February 2019. The questionnaire asked participants about their perceptions and beliefs about the companies with which they do business or from which they purchase. The questions for this study were aligned with the attributes positioned in Figure 1 below.

Figure 1: *Conceptual Model for Research*

3.2 Hypothesis Development

H1: There is a significant correlation between NPS and MC

H2: There is a significant correlation between TI and MC

H3: There is a significant correlation between PU and MC

H4: There is a significant correlation between TI and NPS

H5: There is a significant correlation between PU and NPS

4.0 Research Findings

Table 1: *Correlation Results*

NPS was positively and significantly correlated with financial performance (MC) ($r = .086, p = .001$), which confirmed the findings of Gronholdt (2019), and the study accepted H1 as shown in Table 1.

TI is also positively and significantly correlated with MC ($r = .241, p = .000$) and 98.4% more strongly correlated than NPS and MC, which confirmed the findings of Mbama (2018). PU is positively and significantly correlated with MC ($r = .134, p = .000$) and 43.6% more strongly correlated than NPS and MC. Mbama (2018) found the two correlation results to be about equal. The study accepted H2 and H3.

TI and NPS are also strongly correlated ($r = .622, p = .000$) as was PU and NPS ($r = .681, p = .000$) and the research accepted H4 and H5, aligning with Mbama (2018).

Table 1: *Correlation Results*

Hypothesis	Pearson Correlation	Outcome
H1: There is a significant correlation between NPS and MC	$r = .086, p = .001^{**}$	Accept
H2: There is a significant correlation between TI and MC	$r = .241, p = .000^{**}$	Accept
H3: There is a significant correlation between PU and MC	$r = .134, p = .000^{**}$	Accept
H4: There is a significant correlation between TI and NPS	$r = .622, p = .000^{**}$	Accept
H5: There is a significant correlation between PU and NPS	$r = .681, p = .000^{**}$	Accept

*significant at $p \leq .05$; ** significant at $p \leq .01$

5.0 Discussions and Implications

NPS is scored on the results of answers to one question, and some of the appeal is based on its simplicity and its ability to deliver a fast and decisive imprint on decision-making (Fisher & Kurdupleski, 2018; Reichheld; 2003). However, NPS measures loyalty, does not help gain new customers, and does not provide insights into how organization change (Fisher & Kurdupleski, 2018), so organizations are likely wasting time and energy blindly trying to determine how to impact their score, rather than improve experiences.

TI and PU are more strongly and directly correlated with financial performance than NPS, and strongly correlated with NPS. NPS does not offer directional areas of customer experience that can be improved (Fisher & Kurdupleski, 2018). By focusing on TI and PU, company will know that they will be improving NPS as well as boosting their business performance and creating more value for customers (Hassenzahl & Sandweg, 2004).

6.0 Conclusion

NPS has challengers to its rank as top customer loyalty, business outcomes, and customer experience metric (Reichheld, 2003). Customer-facing technical innovation and perceived usability outperform NPS in correlation to business performance and provide the directional insight into customer desires and needs that NPS cannot not and does not. Therefore, investments in TI and PU are likely to generate a strong ROI as well as contribute positively to NPS in a measurable way. While NPS may still be a meaningful metric, it seems unlikely that it is the only metric that companies need to manage.

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