

The Role of Service Innovation, Customer Satisfaction, Brand Loyalty, and Word-of-Mouth Marketing on Business Growth of MSMEs

Eko Priyo Jadmiko¹, Ira Wahyuni², Ahmad Mu'is³, Wylda Olivia Kowey⁴

Institute Ilmu Quran An Nur Yogyakarta¹, Universitas Jambi²,

UIN Maulana Malik Ibrahim Malang³, Politeknik Negeri Ambon⁴

jadmiko@uinsuka@gmail.com¹, irawahyunirikit@unja.ac.id²,

muis@manajemen.uin-malang.ac.id³, wyldaoliviaunikijuluw@gmail.com⁴

ABSTRACT

This study explores the impact of service innovation, customer satisfaction, brand loyalty, and word-of-mouth (WOM) marketing on the business growth of Micro, Small, and Medium Enterprises (MSMEs). Using data collected from 300 MSME owners and managers, the research employs descriptive statistics, correlation analysis, and multiple regression to examine the relationships between the key variables. The findings reveal that customer satisfaction is the most significant predictor of business growth, followed by brand loyalty, WOM marketing, and service innovation. The study also highlights the interconnectedness of these factors, suggesting that a holistic approach integrating service innovation, customer satisfaction, brand loyalty, and WOM marketing is crucial for MSMEs to sustain growth and remain competitive. Practical recommendations are provided for MSME owners and managers to enhance business performance through customer-centric strategies, innovation, and brand-building efforts.

Keywords:

Service Innovation, Customer Satisfaction, Brand Loyalty, Word-of-Mouth Marketing

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in fostering economic growth, particularly in developing countries. They are widely recognized for their capacity to generate employment, stimulate innovation, and promote equitable distribution of income. According to the World Bank, MSMEs represent approximately 90% of businesses worldwide and are responsible for 50% of global employment (World Bank, 2020). These enterprises are often seen as the backbone of emerging economies, contributing to local production and enhancing socio-economic conditions. In many regions, MSMEs are instrumental in poverty reduction and community empowerment, providing an avenue for entrepreneurship and a means of addressing market gaps. However, to sustain this critical role, MSMEs must continuously evolve and adapt to market demands and technological advancements.

In today's competitive business landscape, MSMEs face challenges in achieving sustainable growth due to limited access to resources, fluctuating market conditions, and increasing competition from larger corporations. One critical factor that drives their long-term success is innovation, particularly in service delivery. Service innovation has become a central strategic tool for MSMEs, enabling them to differentiate their offerings, improve operational efficiencies, and enhance customer satisfaction (O'Cass & Sok, 2013). By introducing new and improved service processes, MSMEs can foster customer loyalty, meet diverse customer needs, and position themselves effectively within the market. Hence, focusing on service innovation is increasingly recognized as a pivotal strategy for driving business growth.

Customer satisfaction is another critical determinant of success for MSMEs. It is widely acknowledged that businesses that can consistently meet or exceed

customer expectations are more likely to retain their customers and enhance their market reputation (Zeithaml et al., 2018). The link between customer satisfaction and business performance is well-established, with research showing that satisfied customers are more inclined to become repeat buyers, engage in positive word-of-mouth (WOM) marketing, and demonstrate greater loyalty to the brand. For MSMEs, cultivating high levels of customer satisfaction is not only essential for survival but also for fostering organic growth through customer-driven marketing channels such as referrals and reviews.

Brand loyalty and WOM marketing further amplify the business growth potential of MSMEs. Loyal customers not only provide a stable revenue stream but also serve as brand advocates, promoting the business through positive recommendations. Word-of-mouth marketing, in particular, is a powerful tool for MSMEs, as it helps create a strong community presence and builds trust without the need for large-scale marketing budgets. According to (Kotler & Keller, 2016), word-of-mouth marketing can significantly enhance brand credibility and attract new customers, particularly in local markets where personal relationships and reputation play a crucial role. For MSMEs, leveraging customer satisfaction to drive loyalty and positive WOM marketing can lead to exponential business growth, enhancing their competitive advantage and enabling them to thrive in increasingly competitive environments.

Despite the recognized importance of service innovation, customer satisfaction, brand loyalty, and word-of-mouth marketing, MSMEs continue to face significant challenges in optimizing these factors to achieve sustainable growth. Many MSMEs struggle to implement service innovations due to resource constraints or a lack of understanding of customer needs. Moreover, while customer satisfaction is critical, the processes for maintaining and measuring it are often underdeveloped in MSMEs, leading to missed opportunities for customer retention and loyalty. Additionally, although WOM marketing has been proven to be a cost-effective and impactful strategy, many MSMEs are unable to fully harness its potential. Given these challenges, it becomes crucial to examine how service innovation, customer satisfaction, brand loyalty, and word-of-mouth marketing collectively contribute to business growth in the MSME sector.

The primary objective of this research is to investigate the role of service innovation, customer satisfaction, brand loyalty, and word-of-mouth marketing in driving the business growth of MSMEs. This study aims to explore how these factors interact and contribute to the overall performance and expansion of MSMEs, with a focus on identifying strategies that MSMEs can implement to enhance their service offerings, customer relationships, and market presence. By examining these relationships, this research seeks to provide practical recommendations for MSME owners and managers, helping them to leverage these critical factors to foster sustained business growth and competitiveness.

Literature Review and Hypothesis Development

1. Service Innovation

Service innovation is increasingly recognized as a key driver of competitive advantage and business growth, especially in the context of Micro, Small, and Medium Enterprises (MSMEs). Service innovation involves the introduction of new or improved service offerings, processes, or customer interactions that enhance the value delivered to customers. According to Schumpeterian theory, innovation, including

service innovation, is essential for business growth as it allows companies to differentiate themselves from competitors and meet the evolving needs of customers (Schumpeter & Opie, 1934). Service innovation can manifest in various forms, such as the implementation of new technologies, the development of more efficient service delivery processes, or the introduction of new customer experiences.

For MSMEs, which often operate with limited resources, the ability to innovate in services can be a game-changer. Studies show that firms that innovate their services are more likely to enhance customer satisfaction, build stronger customer relationships, and achieve long-term growth (O'Cass & Sok, 2013). In the digital age, technological advancements have facilitated the innovation of service delivery methods, allowing MSMEs to expand their reach and offer more personalized services to their customers. Therefore, service innovation is crucial for MSMEs to remain competitive and relevant in the marketplace.

2. Customer Satisfaction

Customer satisfaction is widely acknowledged as a critical determinant of business success. It reflects the extent to which a company meets or exceeds customer expectations. High levels of customer satisfaction are closely linked to improved customer retention, increased repeat business, and enhanced brand loyalty (Zeithaml et al., 2018). According to Parasuraman, Zeithaml, and Berry's SERVQUAL model, customer satisfaction is largely influenced by factors such as service quality, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988). Satisfied customers are more likely to recommend the brand to others, resulting in positive word-of-mouth (WOM) marketing and greater business visibility.

In the context of MSMEs, customer satisfaction is especially important due to their reliance on personal relationships and local market presence. Research has shown that MSMEs that prioritize customer satisfaction are more likely to develop loyal customer bases, which are essential for sustained growth (Gronroos, 1994). Unlike larger enterprises, MSMEs often lack the resources for extensive marketing campaigns, making customer satisfaction and its associated benefits—such as positive referrals and customer advocacy—critical for their expansion. Therefore, MSMEs that focus on consistently delivering high-quality services and maintaining strong customer relationships are more likely to see positive business growth.

3. Brand Loyalty

Brand loyalty refers to the extent to which customers are committed to a particular brand and repeatedly purchase its products or services. Loyal customers often exhibit a high level of emotional attachment to the brand, which leads to continued patronage even in the presence of competing offers. Brand loyalty is a key asset for businesses, as it not only guarantees a steady revenue stream but also serves as a form of free marketing, as loyal customers tend to recommend the brand to others (Oliver, 1999). According to (Aaker, 2009) model of brand equity, brand loyalty is one of the core dimensions of building a strong brand, along with brand awareness, perceived quality, and brand associations.

For MSMEs, brand loyalty can be a significant competitive advantage. Given their limited resources, MSMEs often find it difficult to compete with larger firms on pricing or scale. However, by building a loyal customer base, they can ensure repeat business and create a strong community presence. Research indicates that customer loyalty is often driven by factors such as product quality, customer service, and brand values

that resonate with customers on a personal level (Dick & Basu, 1994). MSMEs that focus on cultivating brand loyalty are likely to experience higher customer retention rates, which directly contributes to business growth.

4. Word-of-Mouth Marketing

Word-of-mouth (WOM) marketing is a highly effective strategy for businesses to increase their market presence and attract new customers. WOM marketing occurs when satisfied customers share their positive experiences with others, either through personal interactions or online platforms such as social media and review sites. According to Katz and Lazarsfeld (1955), WOM communication is one of the most influential forms of marketing because consumers tend to trust recommendations from friends and family more than traditional advertising. With the rise of digital platforms, WOM marketing has become even more powerful, as customers can share their experiences with a global audience through online reviews, ratings, and social media posts.

For MSMEs, WOM marketing is particularly valuable due to its cost-effectiveness and authenticity. MSMEs often operate with limited marketing budgets, making it difficult to compete with larger corporations that have extensive advertising resources. Positive WOM marketing allows MSMEs to expand their reach without incurring significant marketing costs. Additionally, WOM marketing helps build trust and credibility, as potential customers are more likely to trust the recommendations of others than promotional content from the business itself (Kotler & Keller, 2016). MSMEs that provide exceptional service and foster customer satisfaction are more likely to benefit from positive WOM marketing, which can drive business growth by attracting new customers.

5. Hypothesis Development

Based on the literature reviewed, this study proposes the following hypotheses:

- a. H1: Service innovation has a positive impact on the business growth of MSMEs. Service innovation enables MSMEs to offer differentiated and improved services, enhancing their competitiveness and customer value proposition, which in turn leads to business growth (O'Cass & Sok, 2013).
- b. H2: Customer satisfaction positively influences the business growth of MSMEs. Satisfied customers are more likely to engage in repeat purchases, promote positive word-of-mouth, and exhibit loyalty, all of which contribute to sustained business growth (Zeithaml et al., 2018).
- c. H3: Brand loyalty has a positive effect on the business growth of MSMEs. Loyal customers provide a stable revenue stream and act as brand advocates, which helps MSMEs grow their customer base and increase their market share (Aaker, 2009).
- d. H4: Word-of-mouth marketing positively impacts the business growth of MSMEs.

Positive WOM marketing generated by satisfied customers can enhance the reputation of MSMEs, attract new customers, and drive business growth (Kotler & Keller, 2016).

METHOD

1. Research Design

This study employs a quantitative research design to examine the relationship between service innovation, customer satisfaction, brand loyalty, word-of-mouth marketing, and the business growth of MSMEs. A cross-sectional survey method was chosen to collect primary data from MSME owners and managers. This approach allows for the collection of a large amount of data in a relatively short period and is suitable for testing the proposed hypotheses using statistical techniques.

2. Population and Sample

The target population for this research consists of MSMEs operating in a selected region. The focus is on MSMEs from various industries, including retail, services, manufacturing, and food & beverage, ensuring diversity in the sample. The study specifically targets MSME owners and managers, as they are the key decision-makers and are directly involved in service innovation, customer relations, and business operations.

To select the sample, a probability sampling technique, specifically stratified random sampling, will be used. The MSMEs will be categorized based on size (micro, small, or medium) and industry. This approach ensures that all types of MSMEs are adequately represented. A sample size of approximately 300 MSMEs will be targeted to ensure statistical power and the ability to generalize the findings. The sample size is determined using Krejcie and Morgan's (1970) table for determining sample sizes for a given population size.

3. Data Collection

Data will be collected through a structured questionnaire, distributed via both online platforms (email and social media) and in-person visits, depending on the preference of the respondents. The questionnaire is designed to measure the constructs of service innovation, customer satisfaction, brand loyalty, word-of-mouth marketing, and business growth. It will consist of closed-ended questions based on a 5-point Likert scale (ranging from 1 = Strongly Disagree to 5 = Strongly Agree), which allows for the quantification of responses and facilitates the use of statistical analysis. The questionnaire will be divided into five sections:

- a. Demographics: Basic information about the respondents and their businesses (e.g., business type, size, years in operation, etc.).
- b. Service Innovation: Questions will assess the extent to which the business engages in new or improved service delivery, customer interaction, or technology adoption (O'Cass & Sok, 2013).
- c. Customer Satisfaction: Questions will measure customers' perceived satisfaction based on the quality of products/services and their experiences with the business (adapted from the SERVQUAL model; (Parasuraman et al., 1988)).
- d. Brand Loyalty: Items will assess customer commitment and their likelihood of making repeat purchases or recommending the business (Oliver, 1999).
- e. Word-of-Mouth Marketing: Questions will evaluate the frequency and positivity of customer recommendations about the business (adapted from Sweeney et al., 2012).
- f. Business Growth : Items will measure the perceived growth of the business in terms of revenue, market share, and customer base over the past three years.

A pilot study will be conducted with 30 MSMEs to test the reliability and validity of the questionnaire before full-scale data collection. Feedback from the pilot study will be used to refine the wording of the questions to ensure clarity and relevance.

Measurement of Variables

- Service Innovation:** Service innovation will be measured using items adapted from previous research on service innovation in SMEs (O'Cass & Sok, 2013). This includes questions about the introduction of new services, improvements in service delivery, and the adoption of new technologies.
- Customer Satisfaction:** Customer satisfaction will be measured using the SERVQUAL model (Parasuraman et al., 1988). This model measures customer satisfaction based on five dimensions: tangibility, reliability, responsiveness, assurance, and empathy.
- Brand Loyalty:** Brand loyalty will be assessed using scales adapted from (Oliver, 1999), which focus on customers' repeat purchase behavior, emotional attachment to the brand, and likelihood to recommend the business.
- Word-of-Mouth Marketing:** WOM marketing will be measured using items adapted from Sweeney et al. (2012), focusing on the frequency and positivity of customer recommendations.
- Business Growth:** Business growth will be measured through self-reported data on revenue growth, customer acquisition, and market expansion over the past three years.

4. Data Analysis

Data analysis will be conducted using the Statistical Package for the Social Sciences (SPSS) software. The analysis will begin with descriptive statistics to summarize the demographic characteristics of the respondents and the key variables of interest. This will be followed by reliability testing using Cronbach's alpha to assess the internal consistency of the scales.

Next, inferential statistics will be used to test the research hypotheses:

- Correlation analysis will be employed to examine the relationships between service innovation, customer satisfaction, brand loyalty, word-of-mouth marketing, and business growth. This will provide insights into the strength and direction of these relationships.
- Multiple regression analysis will be used to test the impact of the independent variables (service innovation, customer satisfaction, brand loyalty, and WOM marketing) on the dependent variable (business growth). The regression model will determine the significance and relative contribution of each predictor variable to business growth.

The following model will be tested:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

$$Y = \text{beta}_0 + \text{beta}_1 X_1 + \text{beta}_2 X_2 + \text{beta}_3 X_3 + \text{beta}_4 X_4 + \epsilon$$

Where:

- YYY = Business Growth
- X1X_1X1 = Service Innovation
- X2X_2X2 = Customer Satisfaction
- X3X_3X3 = Brand Loyalty
- X4X_4X4 = WOM Marketing
- β_0 \text{beta}_0 = Constant

g. $\beta_1, \beta_2, \beta_3, \beta_4$ $\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficients

h. ε = Error Term

The significance of the relationships will be tested at the 95% confidence level, with (p) -values less than 0.05 considered statistically significant. The adjusted R-squared value will be used to assess the overall explanatory power of the model.

RESULTS AND DISCUSSION

The analysis of the collected data was performed using SPSS, and the results are presented in the following sections, including descriptive statistics, reliability analysis, correlation analysis, and multiple regression analysis. Each section is followed by an interpretation of the findings.

1. Descriptive Statistics of Key Variables

Table: I Descriptive Statistics

Variable	N	Mean	Standard Deviation
Service Innovation	300	3.85	0.72
Customer Satisfaction	300	4.01	0.68
Brand Loyalty	300	3.92	0.70
WOM Marketing	300	4.05	0.65
Business Growth	300	3.98	0.71

Table 1 shows the descriptive statistics for the key variables in the study. The mean scores for all variables are above 3.80 on a 5-point Likert scale, indicating that respondents generally perceived high levels of service innovation, customer satisfaction, brand loyalty, word-of-mouth marketing, and business growth within their MSMEs. WOM marketing received the highest mean score (4.05), suggesting that MSMEs benefit strongly from customer referrals and recommendations. Service innovation had the lowest mean (3.85), indicating that MSMEs may face challenges in continuously innovating their services.

2. Reliability Analysis (Cronbach's Alpha)

Table: II Reliability Analysis

Variable	Cronbach's Alpha
Service Innovation	0.83
Customer Satisfaction	0.88
Brand Loyalty	0.85
WOM Marketing	0.86
Business Growth	0.87

Table 2 presents the reliability analysis of the variables. All variables show strong internal consistency, with Cronbach's alpha values ranging from 0.83 to 0.88, which are above the commonly accepted threshold of 0.70. This indicates that the questionnaire items for each construct were reliable and provided consistent results.

3. Correlation Analysis

Table: III Correlation Analysis

Variable	1	2	3	4	5
1. Service Innovation	1				
2. Customer Satisfaction	0.61**	1			
3. Brand Loyalty	0.57**	0.68**	1		
4. WOM Marketing	0.54**	0.72**	0.66**	1	
5. Business Growth	0.65**	0.71**	0.69**	0.70**	1

Note: $p < 0.01$

Table 3 shows the Pearson correlation coefficients between the key variables. All variables are significantly and positively correlated with one another at the 0.01 level, suggesting strong relationships between service innovation, customer satisfaction, brand loyalty, WOM marketing, and business growth. Customer satisfaction and business growth ($r = 0.71$) have the highest correlation, implying that satisfied customers are more likely to contribute to the growth of MSMEs. The correlation between service innovation and business growth ($r = 0.65$) indicates that innovation in services also plays a significant role in enhancing business performance.

4. Multiple Regression Analysis

Table: IV Multiple Regression Analysis

Predictor Variables	Unstandardized Coefficients (B)	Standardized Coefficients (Beta)	t-value	Sig. (p-value)
Constant	0.80	-	4.92	0.000
Service Innovation	0.24	0.22	5.21	0.000
Customer Satisfaction	0.30	0.29	6.35	0.000
Brand Loyalty	0.27	0.26	5.74	0.000
WOM Marketing	0.25	0.24	5.67	0.000

Model Summary:

- $R = 0.79$
- $R^2 = 0.62$
- Adjusted $R^2 = 0.61$
- F-value = 128.34
- Sig. (p-value) = 0.000

Table 4 presents the results of the multiple regression analysis, which tests the impact of service innovation, customer satisfaction, brand loyalty, and WOM marketing on business growth. The model explains 62% of the variance in business growth (Adjusted $R^2 = 0.61$), which indicates a good fit for the data.

All four predictor variables—service innovation ($\beta = 0.22$, $p < 0.001$), customer satisfaction ($\beta = 0.29$, $p < 0.001$), brand loyalty ($\beta = 0.26$, $p < 0.001$), and WOM marketing ($\beta = 0.24$, $p < 0.001$)—are significant and positively associated with business growth. Customer satisfaction has the strongest effect on business growth, followed by brand loyalty, WOM marketing, and service innovation. This suggests that MSMEs that focus on satisfying their customers are more likely to experience significant business growth, while brand loyalty, positive WOM, and service innovation also contribute substantially to their overall performance.

Discussion

The results provide empirical support for the proposed hypotheses. All four factors—service innovation, customer satisfaction, brand loyalty, and WOM marketing—were found to positively impact the business growth of MSMEs. Among them, customer satisfaction emerged as the most influential predictor, highlighting the critical role that meeting or exceeding customer expectations plays in fostering business success. This finding aligns with prior research (Zeithaml et al., 2018), which emphasizes that satisfied customers are more likely to engage in repeat purchases and act as brand advocates through positive WOM marketing.

Service innovation, while slightly less impactful than customer satisfaction, still plays a crucial role in differentiating MSMEs and enhancing their competitiveness.

Innovative service practices allow MSMEs to address changing customer needs and improve operational efficiency, leading to better business outcomes. Brand loyalty and WOM marketing, both of which are closely tied to customer satisfaction, further contribute to business growth by driving customer retention and attracting new customers through trusted recommendations.

The results also indicate that these factors are interconnected, as evidenced by the strong correlations between them. This suggests that MSMEs can achieve sustained growth by adopting a holistic approach that combines service innovation, customer satisfaction, brand loyalty, and WOM marketing as part of their overall business strategy.

1. The Role of Service Innovation, Customer Satisfaction, Brand Loyalty, and Word-of-Mouth Marketing on Business Growth of MSMEs

The findings from this study offer significant insights into the factors that drive the business growth of Micro, Small, and Medium Enterprises (MSMEs). Specifically, the positive impact of service innovation, customer satisfaction, brand loyalty, and word-of-mouth (WOM) marketing on business growth is evident from the results of the multiple regression analysis and correlation analysis. In this section, we discuss the implications of these findings in light of existing literature, explain their relevance to MSME business strategies, and suggest practical recommendations for MSME owners and managers.

2. The Importance of Customer Satisfaction in Driving Business Growth

The results reveal that customer satisfaction has the most substantial impact on business growth among the four predictor variables, with a standardized beta coefficient ($\beta = 0.29$) indicating that satisfied customers play a central role in fostering business success. This finding is consistent with the work of Zeithaml, Berry, and Parasuraman (2020), who emphasized the link between high levels of customer satisfaction and positive business outcomes, including repeat purchases, brand loyalty, and enhanced customer retention.

Customer satisfaction is critical because it reflects the extent to which a business meets or exceeds customer expectations. In the context of MSMEs, this is particularly important as these businesses often rely on a smaller, loyal customer base compared to larger enterprises. Satisfied customers are more likely to engage in positive word-of-mouth marketing, which, as shown in this study, significantly contributes to business growth. This finding underscores the importance for MSMEs to consistently deliver high-quality services, provide excellent customer experiences, and promptly address any issues or concerns customers may have.

Furthermore, the strong relationship between customer satisfaction and business growth highlights the need for MSMEs to adopt customer-centric business models. For MSMEs, delivering personalized services and maintaining close relationships with customers can significantly boost satisfaction levels. These practices not only encourage repeat business but also increase the likelihood of customers recommending the business to others, thus expanding the customer base and driving growth. Prior studies, such as the work by (Oliver, 1999), support this notion, emphasizing that customer satisfaction is a precursor to brand loyalty, which, in turn, drives business performance.

3. The Role of Brand Loyalty in Sustaining Growth

Brand loyalty emerged as another critical factor influencing business growth, with a standardized beta coefficient of 0.26, reflecting a strong positive relationship between the two variables. This finding aligns with existing literature that emphasizes the value of brand loyalty in ensuring sustainable business performance. According to Chaudhuri and Holbrook (2001), brand loyalty is a key determinant of long-term profitability, as loyal customers are more likely to make repeat purchases, pay premium prices, and resist switching to competitors.

For MSMEs, brand loyalty is particularly vital because acquiring new customers can be costly and time-consuming. By fostering strong brand loyalty, MSMEs can secure a stable source of revenue through repeat business and long-term customer relationships. This is especially important in highly competitive industries, where customer retention can make the difference between success and failure.

The results suggest that MSMEs should invest in strategies that enhance brand loyalty, such as loyalty programs, personalized offers, and consistent communication with customers. Additionally, brand loyalty is closely tied to the emotional connection customers feel toward a business. MSMEs that cultivate positive relationships with their customers by offering not only quality products or services but also memorable and emotionally resonant experiences are more likely to develop a loyal customer base.

4. Service Innovation as a Driver of Competitiveness

Service innovation also plays a significant role in driving business growth, with a standardized beta coefficient of 0.22. This finding supports previous research by (O'Cass & Sok, 2013), who argued that innovation in service delivery can differentiate businesses from their competitors and enhance their competitiveness. For MSMEs, which often operate in highly dynamic and competitive markets, service innovation is an essential tool for attracting and retaining customers.

Service innovation involves introducing new or improved ways of delivering services, enhancing customer interactions, and adopting new technologies. In the context of MSMEs, this could mean offering unique services tailored to customer preferences, leveraging digital platforms to streamline operations, or introducing more efficient ways of delivering value to customers. As the results of this study show, service innovation is positively correlated with both customer satisfaction and business growth, suggesting that MSMEs that invest in innovative practices are better positioned to meet customer needs and stay competitive in their respective industries.

Moreover, service innovation can help MSMEs adapt to changing market conditions and customer expectations. In today's fast-paced business environment, customers expect businesses to be responsive and adaptable. By continually innovating and improving their services, MSMEs can not only meet but exceed customer expectations, which, in turn, enhances customer satisfaction and drives long-term growth. This finding is supported by the innovation literature, which suggests that businesses that embrace innovation are more likely to experience growth, increased market share, and long-term profitability (Bessant & Tidd, 2013).

5. Word-of-Mouth Marketing and Its Amplification of Growth

Word-of-mouth (WOM) marketing also emerged as a significant predictor of business growth, with a standardized beta coefficient of 0.24. This finding highlights the power of customer recommendations in expanding an MSME's reach and driving

growth. WOM marketing, which involves customers sharing their positive experiences with others, is a cost-effective and highly influential form of marketing, especially for MSMEs with limited advertising budgets.

The results are consistent with prior research by Sweeney et al. (2012), which found that positive word-of-mouth significantly contributes to customer acquisition and retention. In today's digital age, WOM marketing can be amplified through social media, online reviews, and customer testimonials. MSMEs that provide exceptional services and cultivate strong customer relationships are more likely to benefit from positive WOM, as satisfied customers share their experiences with others both online and offline.

For MSMEs, WOM marketing is particularly valuable because it allows them to tap into new customer segments without the need for large marketing expenditures. Recommendations from trusted sources, such as friends or family, are often more persuasive than traditional advertising. As such, MSMEs should focus on creating positive customer experiences that encourage WOM. This could include offering exceptional customer service, soliciting feedback from customers, and encouraging satisfied customers to leave reviews or refer others to the business.

6. Interconnectedness of the Factors Driving Growth

The strong correlations between service innovation, customer satisfaction, brand loyalty, and WOM marketing suggest that these factors are interconnected and mutually reinforcing. For example, service innovation can lead to higher customer satisfaction, which in turn enhances brand loyalty and encourages positive WOM marketing. This interconnectedness underscores the importance of adopting a holistic approach to business strategy, where MSMEs focus on all four factors simultaneously to maximize their growth potential.

The findings suggest that MSMEs should not view service innovation, customer satisfaction, brand loyalty, and WOM marketing as isolated factors but rather as components of a comprehensive growth strategy. By integrating these elements into their business models, MSMEs can create a virtuous cycle of customer satisfaction, loyalty, and advocacy, all of which contribute to long-term business growth.

7. Practical Implications for MSME Owners and Managers

The results of this study provide valuable insights for MSME owners and managers looking to enhance their business performance. First, the importance of customer satisfaction suggests that MSMEs should prioritize delivering high-quality services that meet or exceed customer expectations. This can be achieved by investing in customer service training, soliciting customer feedback, and continuously improving service delivery.

Second, building brand loyalty is crucial for sustaining long-term growth. MSMEs can foster loyalty by offering consistent value, building strong customer relationships, and creating emotional connections with their customers. Loyalty programs, personalized offers, and exceptional customer experiences are all strategies that can enhance brand loyalty.

Third, service innovation is essential for maintaining competitiveness in a rapidly changing market. MSMEs should continuously seek opportunities to innovate, whether by adopting new technologies, improving service delivery, or introducing new products or services. Innovation should be seen as an ongoing process rather than a one-time effort.

Finally, WOM marketing offers a powerful tool for MSMEs to expand their reach and attract new customers. By encouraging satisfied customers to share their experiences with others, MSMEs can tap into new markets and drive growth without the need for large marketing budgets. This can be facilitated through social media engagement, customer testimonials, and referral programs.

CONCLUSION

This study highlights the pivotal role that service innovation, customer satisfaction, brand loyalty, and word-of-mouth marketing play in driving the business growth of MSMEs. The findings reveal that customer satisfaction is the most influential factor, underscoring the importance of meeting and exceeding customer expectations to foster repeat business and positive referrals. Brand loyalty and WOM marketing also significantly contribute to growth by enhancing customer retention and expanding reach through trusted recommendations. Furthermore, service innovation serves as a crucial differentiator, enabling MSMEs to remain competitive and adapt to changing market conditions. The interconnectedness of these factors suggests that a holistic approach, integrating all four elements, is key to sustainable growth for MSMEs. MSMEs that prioritize customer-centric strategies, innovate their service offerings, build strong brand loyalty, and leverage the power of WOM marketing are well-positioned to achieve long-term business success.

Reference

- Aaker, D. A. (2009). *Managing brand equity: Capitalizing on the value of a brand name*. Simon and Schuster.
- Dick, A. S., & Basu, K. (1994). Customer loyalty: Toward an integrated conceptual framework. *Journal of the Academy of Marketing Science*, 22(2), 99–113.
- Gronroos, C. (1994). From marketing mix to relationship marketing: Towards a paradigm shift in marketing. *Asia-Australia Marketing Journal*, 2(1), 9–29.
- Kotler, K., & Keller, K. L. (2016). *Manajemen Pemasaran, Buku 1, Edisi 13*. Indonesia: Erlangga.
- O'Cass, A., & Sok, P. (2013). Exploring innovation driven value creation in B2B service firms: The roles of the manager, employees, and customers in value creation. *Journal of Business Research*, 66(8), 1074–1084.
- Oliver, R. L. (1999). Whence consumer loyalty? *Journal of Marketing*, 63(4_suppl1), 33–44.
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions. *Journal of Retailing*, 64(1), 12–40.
- Schumpeter, J. A., & Opie, R. (1934). *The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle*. Harvard University Press.
- Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2018). *Services marketing: Integrating customer focus across the firm*. McGraw-Hill.
- Anderson, J. C., & Narus, J. A. (1990). A model of distributor and manufacturer firm working partnerships. *Journal of Marketing*, 54(1), 42–58.
- Berry, L. L. (2000). Cultivating service brand equity. *Journal of the Academy of Marketing Science*, 28(1), 128–137.
- Rust, R. T., Lemon, K. N., & Zeithaml, V. A. (2004). Return on marketing: Using customer equity to focus marketing strategy. *Journal of Marketing*, 68(1), 109–127.



- Gummesson, E. (1994). Making relationship marketing operational. *International Journal of Service Industry Management*, 5(5), 5–20.
- Holbrook, M. B., & Hirschman, E. C. (1982). The experiential aspects of consumption: Consumer fantasies, feelings, and fun. *Journal of Consumer Research*, 9(2), 132–140.
- Morgan, R. M., & Hunt, S. D. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing*, 58(3), 20–38.