

CHAPTER I

INTRODUCTION

A. Research Background

In this era, technology has become an integral part of human life. Technology has become a primary supporter of various activities in modern society, altering how we work, communicate, and interact. Technology has streamlined everything that was once difficult to access or accomplish, and now it has become an essential requirement for daily life. The Internet influences people through features like communication, entertainment, social interactions, and product choices (Garcia et al., 2020).

The progression of communication tools has also undergone an evolution in response to human needs. An array of communication tools is at our disposal, greatly facilitating interactions and even enabling cross-border communication. (Puspitaweni et al., 2021). Communication technology has an impact beyond interpersonal interactions; it also helps facilitate trade and local government. Geographical barriers have been successfully removed, facilitating connections that were previously limited by distance, creating a ripple effect that touches various domains, and transforming how we interact, conduct business, and engage with entertainment (Grant & Meadows , 2020).

Among the rapid advancements in technology and communication in Indonesia, the telecommunications industry has emerged as one of the sectors experiencing significant growth. According to a survey by *Asosiasi Penyelenggara Jasa Internet Indonesia (2023)* Internet penetration in Indonesia reached 78.19% in 2023, involving over 215 million people out of a total population of 275 million.

Currently, the three largest cellular operators dominate the market in Indonesia, especially in the 4G network, including Telkomsel, Indosat, and XL. (Puspitaweni et al., 2021). All compete to be the best cellular operator in Indonesia. Among the three cellular operators, Telkomsel has the most users in Indonesia. (Survei Asosiasi Penyelenggara Jasa Internet Indonesia, 2023). Telkomsel, a leading telecommunications company in Indonesia, has led this landscape.

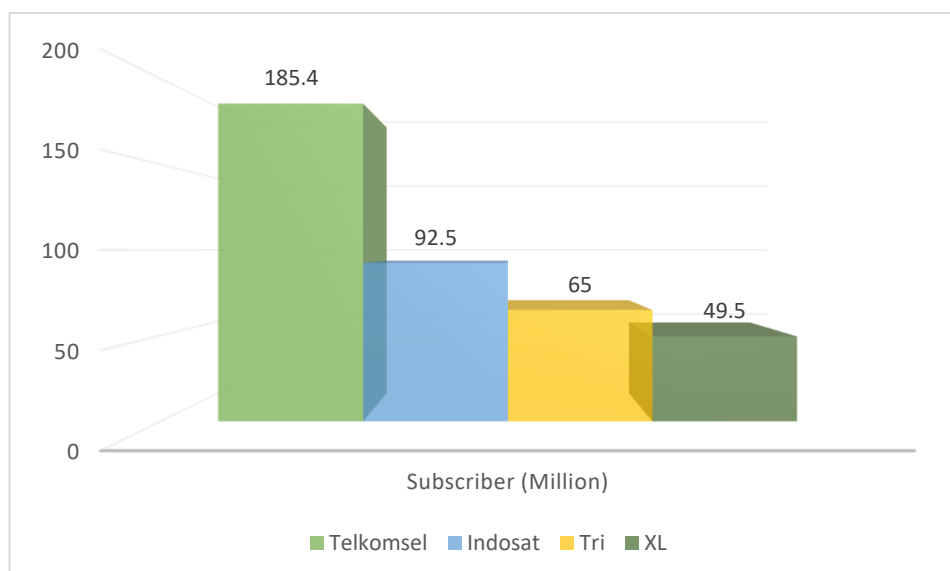


Figure 1.1 Indonesian Cellular Industry

Telkomsel, one of the biggest telecommunications companies, is an essential link for those relying on its services to communicate seamlessly in everyday routines. To maintain this position, Telkomsel must build loyalty so that the business can compete and survive in the market. One key to building customer loyalty is consistent customer satisfaction, which refers to an individual's emotions of contentment or dissatisfaction from evaluating how well a product or outcome aligns with their expectations. Once contentment is achieved through the offerings of a product or service provider, the subsequent factor influencing loyalty is the caliber of the product (Kotler & Keller, 2017). Companies can guarantee the ongoing high quality of their digital innovation, products, and services to maintain customer satisfaction. Quality can shape brand perception, offering a foundation for solid differentiation in competitive markets (Armstrong & Kotler, 2017).

In today's competitive digital economy, businesses are expected to deliver digital-first experiences to consumers. As a result, digital innovation has become increasingly significant; it is a process that emphasizes the use of digital technologies to enhance consumer satisfaction. Digital innovation can help an organization stay ahead of the competition and meet customer expectations through personalized customer service and integrated systems that improve the customer experience (Ashleigh, 2022). Every business will have to deal with competition. To compete, businesses will use their internal and external resources to improve performance. But digital innovation continues to change how businesses work. Business competition only happens in the real world. It

also happens online, which is very wild and fast. Therefore, when a company wants to stay caught up and later regret it, it has to find ways to use its resources to take advantage of the progress of digital technology (Diandra & Syahputra, 2021). In this situation, giving people excellent service experience is very important. Companies can meet customers' standards and build long-term loyalty by offering personalized experiences and integrated systems. This helps the company's success over a long time (Rita et al., 2019).

Ensuring the quality of products and services is essential for achieving long-term consumer satisfaction. Conducting customer satisfaction surveys is an effective way to understand customers' needs and desires and to improve products and services in line with their expectations (Linton, 2023). Research shows that product and service attributes influence repurchase intentions and foster customer satisfaction. The business landscape is witnessing a higher emphasis on brand building, resulting in growth and significant influence on the global market. The correlation between product quality and service quality and digital innovation can be leveraged to enhance product development and automate service processes, leading to improved product quality and service quality. The conclusions drawn from this study suggest that the present offers an opportunity for marketers to understand the importance of product, service, and digital innovation attributes.

Telkomsel has the most comprehensive network coverage in Indonesia and has won several awards for its consistent and core quality and 4G coverage experience. However, customers have complained about the quality of the

network, including sudden disconnections and intermittent voice reception. This affects how easily customers communicate (Puspitaweni et al., 2021). Research results show that poor service and product quality issues can significantly impact customer satisfaction; this poor quality can eventually lead to customer loss, hurting the business in the long run.

Based upon the contextual overview, the researcher is inclined to pursue an analytical study titled "The Influence of Digital Innovation, Product Quality and Service Quality on Customer Satisfaction." The author aims to examine the intricate relationship between digital innovation, product quality, service quality, and customer satisfaction within Telkomsel. The study seeks to shed light on the significant influence that digital innovation, product quality, and service quality exert on the overall satisfaction of Telkomsel's customer base.

B. Research Problem Formulation

Based on the background of the problem above, the researcher of this study formulates the issue as follows:

1. Does digital innovation affect customer satisfaction?
2. Does product quality affect customer satisfaction?
3. Does service quality affect customer satisfaction?

C. Research Objectives

Based on the formulation of the problem above, the researcher of this study formulates the issue as follows:

1. To determine the effect of digital innovation on customer satisfaction.
2. To determine the effect of product quality on customer satisfaction.

3. To determine the effect of service quality on customer satisfaction.

D. Research Benefits

- 1) Theoretical Benefits

Theoretically, the benefit of this research is that it can contribute to the field of operations management studies, especially regarding the phenomenon of customer satisfaction that can be influenced by digital innovation, product quality, and service quality.

- 2) Practical Benefits

The study can yield practical advantages for two parties, specifically:

- a. For Academics

Able to contribute and offer perspective on managerial knowledge, especially in the influence of digital innovation, product and service quality, and customer satisfaction.

- b. For Company

This research helps boost Telkomsel customer satisfaction by improving product quality, service, and digital innovation.