The Effect of Customer Satisfaction on Word of Mouth Communication

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Abstract: Today, customer satisfaction is an important issue for organizations. Being a winner or loser is based on the percentage of customers that they have retained. This is why many scholars and researchers have continually stressed the importance of customer satisfaction. On the other hand, customer is one of the most important stakeholders in any organization because, without the customer, the organization probably will not succeed. So a customer behavioral intentions and responses, is one of the main concepts in the marketing literature has been studied. The objective of the study was to investigate the effect of customer satisfaction on word of mouth communication. Data were collected with questionnaire instruments. Model was developed and tested with structural equation model using data collected from the 412 Iranian bank customers. The results show that employee competence has a negative effect on word of mouth communication. Reliability has a positive effect on word of mouth communication and physical evidence has positive effect on word of mouth communication.

Keywords: Behavioral responses, customer satisfaction, word of mouth communication

INTRODUCTION

Customer satisfaction is one of the most important results in the marketing literature. This Concept is used to make relationship between buying and consumption process and results of post purchase such as change of opinion, repurchase and brand loyalty (Siddiqi, 2011).

Zahorik and Rust believed that the study of behavioral responses to service-related programs can help managers estimate the financial results of customer satisfaction. According to these researchers, the relationship between customer satisfaction and profits is very complex and involves a lot of mediating relationship. One of these relationships is the relationship between customer satisfaction and behavioral responses (Athanassopoulos et al., 2001).

Previous research on satisfaction and service quality has shown that customers’ past experience with a firm can influence their affective and behavioral responses to the present encounter. For example, many researchers have shown that past satisfaction has a significant influence on current satisfaction. Similarly, Bolton and Drew found that prior attitudes (i.e., prior overall quality) have a direct impact on current customer attitudes (i.e., overall quality) (Nikbin et al., 2011).

Some researchers agreed that favorable behavioral intentions frequently represent a customer’s cognitive loyalty and believed loyalty is an important goal in the consumer marketing community and the key component for a company’s long-term viability or sustainability, because loyal customers are more likely to make recommendations. If an organization is able to identify and strategize what will generate positive behavioral intentions then this will be an important component to sustainability and growth (Richins, 2011).

The present study examines the effect of customer satisfaction on word of mouth communication. And aims to help managers and researchers to better understand the behavioral response of customers is customer satisfaction perspective. The rest of the paper is organized as follows: First, we review the relevant literature and theoretical framework. We then develop several hypotheses to be tested and describe the empirical approach and the data collection. The last section outlines the implications of our findings and discusses avenues for further research.

LITERATURE REVIEW

Customer satisfaction: Cardozo first did the experimental study of customer satisfaction in 1965. From then on, researchers have done many studies on customer satisfaction. Howard and Sheth defined satisfaction as “the buyer’s cognitive state of being adequately or inadequately rewarded for their sacrifices”. Oliver and Gerald suggested that the most...
epistemologically efficient explanation derives from Howard and Helson’s adaptation level theory, which suggests that judgments of newly perceived stimuli are affected by prior experience with the general class of objects and the discrepancy perceived between the new stimulus and previously determined stimulus levels (Yang and Zhu, 2006).

Hunt suggested that satisfaction is “an evaluation rendered that the experience was at least as good as it was supposed to be.” Engel and Blackwell conceived satisfaction as “an evaluation that the chosen alternative is consistent with prior beliefs with respect to that alternative.” Tse and Wilton suggested that satisfaction is a general psychological phenomenon, describing the emotional state resulting from an evaluation of the perceived discrepancy between prior expectations and the actual performance of the product (Ibid, 668).

Customer satisfaction significantly influences an organization’s current and future performance. Prior research suggests that customer satisfaction is an important source of competitive advantage often leading to customer loyalty and repeat purchase. The benefits of customer satisfaction include increases in revenues, decreases in customer-related transaction costs and reductions in price elasticity among repeat buyers (Lewin, 2009).

When a customer is satisfied with the services or products of a given company, the tendency to be loyal to that company is usually high because of positive reinforcement and other potential customers are encouraged to do business with the company. Thus, word-of-mouth communication is a primary indicator of a company’s future success. Purchase intention, heavily influenced by customer satisfaction, refers to a willingness to purchase more in the future. Hence, service quality leads to higher customer satisfaction and higher current and future sales revenues (Kim and Lee, 2011).

**Word of mouth communication**: There are several definitions of WOM. Early scholars defined it as an oral, person to person communication between a receiver and a communicator whom the receiver perceives as non-commercial, concerning a brand, a product or a service. Westbrook described WOM as all informal communications directed at other consumers about the ownership, usage, or characteristics of particular goods and services or their sellers. Harrison-Walker defined it as an informal, person-to-person communication between a perceived noncommercial communicator and a receiver regarding a brand, a product, an organization, or a service (Chan and Ngai, 2011).

Word-of-mouth is defined as consumer to consumer communication about goods and services. It is a powerful persuasive force, particularly in the diffusion of information about new products (Dean and Lang, 2008).

Word-of-mouth is especially important for service providers whose offerings are largely intangible and experience or credence based. In these services customers rely heavily on the advice and suggestions from others who have experienced the service. Furthermore, consumers often trust each other more than they trust communication from firms, thus highlighting the importance of WOM (Ng et al., 2011).

Katz and Lazarsfeld (1955) found positive WOM seven times more effective than newspaper and magazine advertising, four times more effective than personal selling and twice as effective as radio advertising in influencing consumers to switch brands. In fact, WOM has been shown to be more powerful than printed information. Primarily, because WOM information is considered to be more credible. Another reason for the power WOM marketing is that WOM is always relevant and timely, it is driven by customer needs and it grows exponentially, for example, one tells a story to five people, they each tell it to five more, who tell it to five more after that (Cengiz and Yayla, 2007).

WOM can be described in terms of direction, valence and volume. Its direction can be input into the decision making process, or output of the purchase process. Its valence can be positive or negative. Its volume relates to the number of people to which the message is relayed (Stokes and Lomax, 2002). Yi suggested that customer satisfaction is an important determinant of positive word-of-mouth (Liang and Wang, 2007). WOM exerts a strong influence on consumer choice, so that companies have a good opportunity to increase their market share by developing positive WOM among customers (Casalo et al., 2008).

Hypotheses development: High-staff turnover or losing key members of staff could result in customer defection if the bond to those staff is stronger than the ties to the company itself (Gee et al., 2008). Smith and Barclay (1997) described competence as the perception of each party about the suitability of the skills, abilities and knowledge needed by the other side, for effective performance. Hunt et al. (2006) argue that since all the possible relationships between firms and customers, is not useful, therefore, Firm should be able to manage all relationships with their customers well. Features such as politeness and courtesy of employees are features that affect customer satisfaction (Al-Eisa and Alhemoud, 2009). A study by Rucci and Kim discovered that a 5% rise in employee attitude scores resulted in a 1.3% increase in customer satisfaction and a 0.5% increase in revenues (Gee et al., 2008). Thus the following hypotheses can be proposed:
H1: Employee competence has a positive effect on word of mouth communication. Recent research has shown that product reliability is positively correlated with customer confidence and profit margins. Global customer surveys carried out by the parent company and the recent introduction of customer satisfaction surveys by the UK firm are showing that reliability is perceived as a significant factor both in customer satisfaction and in the decision to purchase another machine tool in the next capital investment planned by the customers (Ahmed, 1996). Sin et al. (2002) defined trust as belief of one side of the relationship about statements and commitments of the other side. They also believed that higher levels of trust between buyer and seller relationship will increase the likelihood of continuation. Thus the following hypothesis can be proposed:

H2: Reliability has a positive effect on word of mouth communication. Innovation may be defined as the adoption of an internally generated or purchased device, system, policy, program, process, product, or service that is new to the adopting organization (Baba, 2012). Mittal et al. (1998) observed that a change of service or product would affect customer intentions toward the manufacturer or service provider over time (Kimita et al., 2009). Ishtiaq (2011) showed that product innovation has a positive impact on behavioral responses such as word of mouth communication and intention to switch. Thus the following hypothesis can be raised:

H3: Product innovation has a positive effect on word of mouth communication. Price is an attribute that must be given up or sacrificed to obtain certain kinds of products or services. Customers are normally price conscious in their purchasing behavior. Price is also an important factor in choice situations as a consumer’s choice typically relies heavily on the price of alternatives. Varki and Colgate identify that the role of price, as an attribute of performance, may have a direct effect on customers’ satisfaction and behavioral intentions (Clemes et al., 2010). Therefore, the following hypothesis is proposed:

H4: Price has a positive effect on word of mouth communication. Dabholkar et al. (1996) reported that the tangible aspects of department stores do influence customers’ perceptions of service quality (Jamal and Naser, 2002). Service quality has been found to be a multidimensional construct that is composed of two sets of attributes: structure and process. “Structure” refers to the physical environment and physical facilities in which the service occurs. “Process” refers to the interaction with service personnel within that environment during the service performance. Structure involves where the customer actually receives the service whereas process involves the way the service is delivered to the consumer. The literature indicates that structure and process both influence satisfaction, which, in turn, influences behavioral intentions (Lyon and Powers, 2004). Grossbart et al. (1990) report that attractive layouts increase the time consumers spent within the store resulting in sales increase. For the services sector, Booms and Bitner developed the concept of servicescape as the environment in which the interaction between the seller and customer takes place, emphasizing the impact of the physical environment (e.g., layout), in which a service process takes place, on consumer behavior. Greenland and McGoldrick (2005) note that “effective retail environments are crucial for customer acquisition and retention”. They empirically examined the impact of retail banking environment on consumer behavior and found that modern branch styles are statistically more likely to induce favorable customer reaction (Vrechopoulos and Atherions, 2009). Therefore the following hypotheses are formulated:

H5: Physical evidence has a positive effect on word of mouth communication. Researchers have found that there is a positive association between consumer satisfaction and behavioral intentions, including loyalty and repurchase intentions, although the link between intentions and behavior has not always been supported in past research. However, research also suggests that satisfaction influences consumers’ preferences and positive recommendations to others. Therefore, building convenience into the service delivery process will not only increase consumers’ level of service satisfaction, but will also increase the likelihood that consumers will behave positively in the future (e.g., form intentions to repurchase and spread positive word-of-mouth) (Chang and Polonsky, 2012). Customer switching behavior may arise due to the inconvenience of a service provider’s location (Wei, 2011). Therefore, the following hypothesis is proposed:

H6: Convenience has a positive effect on word of mouth communication.

METHODOLOGY
Measurement instrument: To measure the effects of customer satisfaction on word of mouth communication, in the research was used the 32-items questionnaire developed by Athanassopoulos et al. (2001) that shown in Table 1. Consequently, Twenty-eight items scale was taken into account for employee competence (5-items), reliability (5-items), product innovation (3-items), price (3-items), physical evidence...
were statistically significant except items 13 (0.23) and 28 (-0.19) are lower than the acceptable threshold (0.3) and therefore are removed that shown Table 1.

**Sample:** In this research, the samples include bank customers of Bank Melli Iran-Mazandaran province-margin of Caspian Sea in Iran. From 430 questionnaires that had been distributed, 18 of them (4.18%) weren’t completed and 412 of them were completed that were ready for analyzing a rate equal with 95.81% that is a good rate. The samples of 412 respondents were 66.5% male (n = 274) and 33.5% female (n = 138) and 58.7% were less than 30 year of age and 39.8% were between 31 to 50 year of age and 1.5% were above 51.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Measurement items</th>
<th>Factor loading</th>
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<tbody>
<tr>
<td>Employee competence</td>
<td>The bank's employees know very well the bank's products</td>
<td>0.64</td>
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<tr>
<td></td>
<td>You receive prompt service from the bank's employees</td>
<td>0.77</td>
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<td></td>
<td>Bank employees have the necessary knowledge to serve you promptly</td>
<td>0.68</td>
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<tr>
<td></td>
<td>Bank employees do not hesitate to find the time to serve you better</td>
<td>0.57</td>
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<tr>
<td></td>
<td>Bank employees know what your needs are and how the bank's products can satisfy them</td>
<td>0.61</td>
</tr>
<tr>
<td>Reliability</td>
<td>It informs me without errors of my transactions</td>
<td>0.48</td>
</tr>
<tr>
<td></td>
<td>If there is a problem, the bank is willing to discuss it with me</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>You do not have to visit your bank many times to solve a particular problem</td>
<td>0.31</td>
</tr>
<tr>
<td></td>
<td>It is a bank that is worth trusting</td>
<td>0.69</td>
</tr>
<tr>
<td></td>
<td>The bank offers a wide product variety</td>
<td>0.61</td>
</tr>
<tr>
<td></td>
<td>The bank offers flexible products that meet my needs</td>
<td>0.70</td>
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<tr>
<td></td>
<td>The new products that my bank offers meet my needs</td>
<td>0.67</td>
</tr>
<tr>
<td></td>
<td>The bank offers telephone services</td>
<td>0.23</td>
</tr>
<tr>
<td>Product innovation</td>
<td>There is a warm friendly atmosphere inside the bank</td>
<td>0.61</td>
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<tr>
<td></td>
<td>Employees of the bank are well dressed and appear neat</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td>The atmosphere inside the bank gives you a positive impression for the services it offers</td>
<td>0.80</td>
</tr>
<tr>
<td></td>
<td>The interior design of the premises facilitates the transactions</td>
<td>0.62</td>
</tr>
<tr>
<td></td>
<td>The climate among the bank's employees contributes to receiving better service</td>
<td>0.69</td>
</tr>
<tr>
<td></td>
<td>Employees of the bank have a friendly behavior</td>
<td>0.73</td>
</tr>
<tr>
<td>Price</td>
<td>The bank offers a wide product variety</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td>The bank offers flexible products that meet my needs</td>
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</tr>
<tr>
<td></td>
<td>The bank offers telephone services</td>
<td>0.23</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>There is a warm friendly atmosphere inside the bank</td>
<td>0.61</td>
</tr>
<tr>
<td></td>
<td>Employees of the bank are well dressed and appear neat</td>
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<tr>
<td></td>
<td>Employees of the bank have a friendly behavior</td>
<td>0.73</td>
</tr>
<tr>
<td>Convenience</td>
<td>The bank's branch is near your workplace</td>
<td>0.53</td>
</tr>
<tr>
<td></td>
<td>The bank's branch is near other state buildings and other banks</td>
<td>0.76</td>
</tr>
<tr>
<td></td>
<td>The bank's branch is near shopping centers I usually visit</td>
<td>0.57</td>
</tr>
<tr>
<td>Word of mouth communication</td>
<td>I have recommended the bank to friends and acquaintances</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td>I have encouraged friends and acquaintances to do business with the bank</td>
<td>0.91</td>
</tr>
<tr>
<td></td>
<td>I have informed other customers of the bank about complaints I have about the services offered by the bank</td>
<td>-0.19</td>
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</table>

(6-items), convenience (3-items), word of mouth communication (3 items) construct with a five point scale ranging from 1 (strongly disagree) to 5 (strongly agree). For internal reliability, Cronbach’s alpha coefficients were calculated for all items of each construct. Results indicated that all the scales were considered to be reliable (Cronbach’s alphas).

According to the hypotheses development the conceptual model of the study can be shown as follows:

For determining reliability the questionnaire in this research, used Cronbach’s alpha and Construct reliability. Cronbach’s alpha for constructs are: employee competence: 0.786, reliability: 0.690, product innovation: 0.633, price: 0.673, physical evidence: 0.854, convenience: 0.626, word of mouth communication: 0.613. Construct reliability for constructs are: employee competence: 0.79, reliability: 0.68, product innovation: 0.55, price: 0.57, physical evidence: 0.85, convenience: 0.65, word of mouth communication: 0.64 so the questionnaire reliability is acceptable.

For determining validity, convergent validity was assessed for all constructs and indicators. Convergent validity was assessed by examining the factor loading for statistical significance. Measures (employee competence, reliability, product innovation, price, physical evidence, convenience, word of mouth communication) were subjected to a Confirmatory Factor Analysis (CFA).

All factor loadings ranged from 0.31 to 0.91 and were statistically significant except items 13 (0.23) and
RESULTS

The proposed hypotheses were tested using Structural Equation Modeling (SEM) via LISREL. To determine whether the hypotheses were supported, each structural path coefficient was examined with fit indices of the proposed model. The fit indices of model shown in Table 2. Model displayed reasonably good fit to the data.

In Model, the employee competence-word of mouth communication path is negative and statistically significant but not supporting H1.

Reliability significantly and positively affects word of mouth communication (H2). The effect of product innovation on word of mouth communication and is not statistically significant (H3). Similarly, the effect of price on word of mouth communication is not statistically significant (H4). There is a significant and positive effect of physical evidence on word of mouth communication (H5). Finally, the effect of convenience on word of mouth communication is not statistically significant (H6). Therefore, H2, H5 were supported in the predicted direction and other hypotheses were not supported (Table 3).

Overall, based on these findings, the model (Fig. 1) can be shown as follows (Fig. 2).

DISCUSSION

The objective of this study was to examine the effect of customer satisfaction on word of mouth communication. The proposed hypotheses were tested using SEM. path coefficients of H1, H2, H5 were statistically significant in the predicted direction.

Athanassopoulos et al. (2001) in their research indicated that employee competence has a positive effect on word of mouth communication. Also, Yavas et al. (2004) concluded that employee competence has a positive effect on word of mouth communication that was in contrast with the results of our study (H1). There are some possible explanations for these results. Employee competence in this research is probably component of Herzberg's hygiene factors. That is, there is sufficient employee competence in studied sample
and thus doesn't cause satisfaction in customers but as soon as the low, dissatisfaction among customers will increase. So, due to its negative relationship with word of mouth communication, thus leading to lower word of mouth among customers.

Product or service attributes that add utility beyond that which is expected and are unexpectedly and surprisingly pleasant are often called excitement factors, satisfiers, or value-enhancing attributes. A high level of novelty and exceptional entertainment in a ski resort or exceptionally good service in a restaurant can be such excitement attributes. They differ from product or service attributes that customers consider a "must" and which are not able to elicit satisfaction but merely prevent dissatisfaction. The cleanliness of a room or the freshness of the food in a restaurant can be examples of such basic requirements. Finally, some product or service features increase overall satisfaction linearly when performance improves. Such features have been labeled performance factors, hybrids or bivalent factors. Hygiene factors are minimum requirements that cause dissatisfaction if not fulfilled but do not lead to customer satisfaction if fulfilled or exceeded. The fulfillment of these factors is a necessity, but an insufficient condition for satisfaction. Hygiene factors are entirely expected. The customer regards them as prerequisites (Fuller and Matzler, 2008).

Hence, it is important to identify which product or service attributes increase satisfaction or lead to delight when their performance is improved and which attributes can only dissatisfy through their absence as their presence is expected by the customer (Ibid, 117).

Malik and Naeem (2011) and Athanassopoulos et al. (2001) indicated that reliability has a positive effect on word of mouth communication. These researches support Hypothesis H2.

Ishtiaq (2011) and Athanassopoulos et al. (2001) indicated that product innovation has a positive effect on word of mouth communication that didn’t support our study (H3). Athanassopoulos et al. (2001) suggested that price has a positive effect on word of mouth communication. These researches didn’t support Hypothesis H2.

Ishtiaq (2011), Athanassopoulos et al. (2001), Malik and Naeem (2011) and Greenland and McGoldrick (2005) suggested that physical evidence has a positive effect on word of mouth communication that supports our study (H5).

Ishtiaq (2011) and Athanassopoulos et al. (2001) indicated that convenience has a positive effect on word of mouth communication. These researches didn’t support Hypothesis H6.

Some limitations to this study should be noted and efforts to resolve them would serve as avenues for future research in this field. First, the findings of the study may have limited generalizability. The sample, which seemed appropriate for this particular study, was customers from Mazandaran province in Caspian Sea margin, Iran. It would be more meaningful if the same findings hold consistent in different types of customers from other cities across the country.

Second, in the present study we examined the effect of customer satisfaction on word of mouth communication that future research could investigate among customers of other service sections and even Non-service sections to compare the results. Another important area of future investigation is identifying the motivational and hygiene factors of service organizations. Future research needs to examine other behavioral responses such as repurchase intention, complain, inertia, loyalty, willingness to pay more intention to switch and etc.

REFERENCES


