

# Influence of Customer Satisfaction and Customer Loyalty on Firm Performance in Iran

Abozar Toosaei Soltanmoradi<sup>1\*</sup>, Tahmoores Hasangholi Poor<sup>2</sup>, Mohsen Nazari<sup>3</sup>

<sup>1</sup>PhD Candidate in business Management, University of Tehran, Iran

<sup>2,3</sup>Associate Prof, Department of Business Management, University of Tehran, Iran

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## ABSTRACT

The present research looks into the examination of the relationship between customer satisfaction and customer loyalty on the performance of banks in Iran. The research method is survey and descriptive-causal which is collected by student in Iran. In this study, since the society being studied is infinite and investigation of all of its members requires large time and cost, a portion of the society that has similar attributes with those of society, is representative of society, is congruent and homogenous with members of society and is selected with acceptable criteria is studied. Sample volume was calculated to be 196 and since some of the questionnaires are not returned, 240 questionnaires were distributed. The main variables of this research are including customer satisfaction, trust, commitment, customer loyalty, and firm performance. The research result is shown that there is a significant relationship between the customer satisfaction and trust, commitment. There is a positive relationship between the customer loyalty and customer satisfaction and firm performance. And negative relationship between the trust and commitment.

**KEYWORDS:** Customer Satisfaction, Customer Loyalty, Firm Performance, Path Analysis, Iran.

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## 1. INTRODUCTION

In the context of the service sector, relationship marketing has been defined as attracting, maintaining and enhancing customer relationships [1]. To the researcher, attracting customers is considered to be an intermediary step in the relationship building process with the ultimate objective of increasing loyalty of profitable customers. While for the academicians, relationship marketing is a paradigm shift in marketing philosophy emphasizing the importance of long term relationship and retaining existing customers over getting new customers.

Marketing is no longer just about developing selling and delivering products. It is more increasingly concerned with the development and maintenance of mutually satisfying long term relationship with customers [2]. RM is based on the premise that it makes economic sense to satisfy and retain customers as the strength and duration of the relationship is directly proportional to resultant profitability. This contemporary interest in maintaining customers is reforming marketing with an emphasis on the creation of value and building of relationships. This new marketing refocusing has been explored in consumer service marketing [3].

Some of researchers point out that relationship marketing can be a competitive advantage to a firm, a tool to reduce the customer complaints and overcome service failures and an opportunity for marketing additional products and services to a more receptive customer base [4]. Further, some of researchers argue that the present day business environment is characterized by increasingly saturated markets, caused by changes in the nature of competition and an ever-changing environment making it difficult for organizations to achieve a comprehensive appreciation of customer needs [5]. To the researchers, a company that cannot maintain this relationship experiences a lot of difficulties in trying to cope with changes in customer needs and wants particularly in attempting to attract and maintain customers or expand into new markets. This emphasizes the long-term relationship that is mutually beneficial to both customers and the commercial banks.

Today, relationship marketing has attracted attention of most scholars in many parts of the world, including North America, Europe, Australia and Asia and not forgetting the developing countries. Sewell (1990) refers to relationship marketing process as “customers for Life [6].” That is, an organization must become a life-time partner with its customers, anticipating needs and developing a level of trust that commits the customers to staying in the relationship. To Webster (1992), the ability to create a long-lasting relationship with the customer has been singled out as the most important business asset for an organization [7].

The general objective of the study is to establish the influence of the relationship marketing (customer satisfaction and customer loyalty) on performance of banks in Iran.

## 2. LITERATURE REVIEW

Literature on relationship marketing evolved in the 1980s from the transactional marketing of the 1960s and 1970s and also migrated from organizational behavior and industrial marketing where interdependence between

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\*Corresponding Author: Abozar Toosaei Soltanmoradi, PhD Candidate in business Management, University of Tehran, Iran. E-mail:Toosaei@ut.ac.ir, Address: School of Management , Phone: 0098-9123348211

firms was the foundation of successful business operations. Notwithstanding the existence of a large and growing body of literature on the subject, there continues to be ambiguity about the nature of marketing relationships in enhancing business performance. Today, there is a growing body of literature trumpeting a paradigm shift to relationship marketing. Recent research has highlighted the importance of developing relationships for effective marketing with customers [3]. According to Berry (1995), relationship marketing is about transforming indifferent customers into loyal ones. The new focus has been driven by competitive pressures within the business environment [1]. It is today recognized as a concept which basically emphasizes on customer needs and wants. Thus, the real focus of organizations is to create and sustain mutually beneficial relationships especially with carefully selected customers.

## **2.1 Customer Satisfaction**

Most researchers would agree that consent, the subjective assessment of performance results is evident that basis is based on predetermined expectations. When customers are satisfied the expectations of the value of goods the amount is more than desired. Contrary to this expectation as the distance between the surface and it is compatible with levels of customer satisfaction is higher. Hanan and Karp say customer satisfaction is the ultimate goal any business and job satisfaction, and this just in Products, sales and services not included in the relevant business to satisfy customer needs is [8]. Philip Kotler satisfaction: pleasant or unpleasant feelings or to compare the performance of commodities compared to the expectations of the consumer. Tracy: the degree to which customers feel more valuable than the price paid for goods and services received by them [9].

LingenFeld, customer satisfaction, psychological, emotional, knows that the comparison between the profile download and request a custom product needs and social expectations of the product is obtained. Rapp, based on customer satisfaction as defined above for an individual customer perspective defines. The constant comparisons made between the actual performance and expected performance of the customer. Topfer, in defining the concept of customer satisfaction to an interesting article noted that "the type of work satisfaction. A business organization or position does not depend on the market, Customer satisfaction but also to the organization's ability to meet customer expectations on quality". Juran, customer satisfaction is defined as: "Customer satisfaction is a condition that the customer feels characteristics of products that are consistent with his expectations.

## **2.2 Trust**

The definition of the concept of trust Anderson and Narvs in 1984 have confidence that the other side perform the actions that will have positive results include and so unexpected actions that have negative consequences for not doing. Tend to rely on trust and confidence to the audience, and believe that my audience to perform duties in a reliable and committed relationship, defined as [10].

## **2.3 Commitment**

Morgan and Hunt's commitment to the vision, the belief that an exchange for an ongoing relationship with the maximum efforts to maintain its relationship to other uses. This means that contracting parties believed that communication is a valuable link which will ensure that the relationship for Unlimited continues. The commitment, the willingness to make short term sacrifices in order to achieve refers to long-term benefits [11].

Commitment in a relationship means that one side feels partly to do the other side is excited. Commitment to the continued desire to maintain a valued relationship is defined. Recently proven that the customer is committed to providing reliable and it shows. The supplier is able to provide solutions that create value for the customer support process. Commitment to our relationship, our relationship marketing is central to the vague definition [12].

## **2.4 Customer Loyalty**

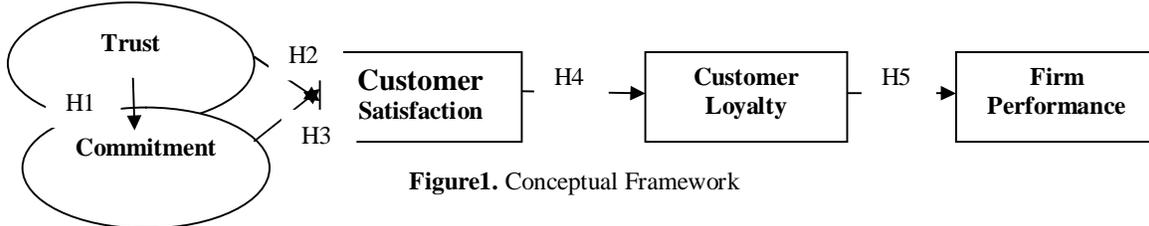
Customer loyalty is a factor directly relating to consumption experience and induces belonging feeling in the customer and continuous shopping of product or service, such that the customer shows resistance towards buying other products or similar services and this issue indicates favorable reaction of customer relative to the organization. Customer loyalty is defined in the form of behavioral, attitudinal, and selective viewpoints so that the behavioral viewpoint is based on the shopping amount of a specific product or service and attitudinal viewpoint links tastes and what is a priority for the customer and selective viewpoint is focused on effective factors on selection [13].

Customer loyalty could be mentioned as the profound commitment to perpetual shopping of a desired product or service in the future, regardless of the marketing activities for changing the customer's behavior [14]. This definition points the behavioral aspect of loyalty and from a different perspective, loyalty means favorable attitude towards a product, or service and continuing its purchase through time [15]. A loyal customer to a product or service less tries to find information while making a decision and the habit that has been institutionalized in customer due to satisfaction from a product or a service, can act as a basis for decisions in a purchase. Basically, loyal customers of an organization are advantageous in cost reduction and progress of the business [16].

**2.5 Firm Performance**

Firm performance was measured in terms of the non-financial variable like, Satisfied with the bank services, quick response to my complaints , faster service provision, overall the bank has a good reputation, Provision of quality services, Reliability of bank services, Effective communication with customers, Provision of highly innovative services, Provision of services, Located at the right place at the right time. Responses for all satisfaction questions were made on 1-5 Likert-type scales labeled “very satisfied” (5) and “very dissatisfied” (1) at each extreme.

**4. Conceptual Framework**



**Figure1.** Conceptual Framework

**5. MATERIALS AND METHODS**

In this research, statistical description and descriptive subject were used. Statistical population– according to many researchers– including all real or presumptive members that we are interested in extent their research findings [17]; collection of individuals is called Society which they have one or more traits in common and this trait or traits is researchers favorite.

The population is the main society being studied. Indeed the society is all the real or hypothetical members that we are interested in extending the results of research to them [18]. Based on another definition, population is a collection of people or things that have common and measureable properties [19]. In this study, since the society being studied is infinite and investigation of all of its members requires large time and cost, a portion of the society that has similar attributes with those of society, is representative of society, is congruent and homogenous with members of society and is selected with acceptable criteria is studied. It should be mentioned that the sampling method in this random study is classification, and due to the unknown number of members in the population, Cochran formula for determining sample volume in infinite society is used:

$$\text{var}(\theta) = pq \quad n_o = \frac{Z_{\alpha/2}^2 \text{var}(\theta)}{d^2}$$

n: sample volume

N: number of members of population which is unknown in this research.

P: Percent of attribute distribution in the population

q: Percent of without the attribute in the population

(It should be mentioned that since p and q are unknown, both were considered 0.05 which yields maximum n.)

d: is the error which is considered 0.07 in this research like other researches in social sciences.

z: is confidence level which is 1.96 in this research.

$$(1.96) (1.96) (0.5) (0.5) / (0.07) (0.07) \approx 196$$

Sample volume was calculated to be 196 and since some of the questionnaires are not returned, 240 questionnaires were distributed.

**5.1 Validity**

In this study face validity by the test subjects were studied in and after the reform, the face validity of the tool was confirmed.

**5.2 Reliability**

One way to measure reliability internal consistency, Cronbach's alpha is used. Between individual items in the tool or test the correlation with the total score is used. In the study of this method is used to calculate the internal consistency reliability. The minimum acceptable reliability for research surveys 0/6 is. The results show that the variables for each of the variables in this study, internal consistency are required. The Cronbach's alpha results in Table 1 are described.

**Table1.** Cronbach's Alpha Calculate

Number	Variables	Questions	Cronbach's alpha
1	Customer Satisfaction	5	0/77
2	Trust	4	0/85
3	Commitment	4	0/82
4	Customer Loyalty	5	0/85
5	Firm Performance	4	0/66

## 6. Findings

### 6.1 Check the Status of Normalize

In this phase of research is necessary to the normal distribution model can be specified as variables. To show that these variables are studied in terms of normal distribution of the test Skewness and Kurtosis that Curran test is known, using the results of a normal distribution. The test is based on the normal distribution is zero. If the significance level of less than 0/05 of the variables studied is not normal.

**Table2.** Test of Normal Distribution of Research Variables with Curran Test

Variables	Skewness and Kurtosis	Significance Level
Customer Satisfaction	3/720	0/065
Trust	3/577	0/170
Commitment	4/622	0/068
Customer Loyalty	0/656	0/726
Firm Performance	3/172	0/212

Note that all levels significantly above the 0/05 are assumed to be zero based on the normal distribution is accepted. The variables studied in normal conditions to estimate the unknown parameters are reliable.

### 6.2 Research Structural Model (Path Analysis Model)

Note that the square root of variance estimation error of approximation RMSEA for the structural study of 0/1 is reported for the accurate estimation of path coefficients for hypothesis testing; there is the need for reform. As in structural equation modeling methodology is proposed to be achieved by using Chi-square statistic significant difference between the model and further steps to improve its action. In this regard, the D2 test, chi-square and significant reduction of the amount it would have been judged. Detection limits and adding additional parameters to correct the real solution is LISREL models.

Approach to identify the limitations, if the model is not specific, some specific limitations that need to be imposed on the model. The main strategy used in this connection in the humanities, restriction - zero. However, the modified model LISREL study approach is used to add additional parameters. This indicates that existing between the model and the output of the error covariance LISREL among some of them free from the control values recovered. To check whether the reform has made significant changes in the model if the chi-square test is used.

**Table3.** Chi-Square value's differences, in determination of effectiveness of the structural model.

Fitness Model	$\chi^2$	$\chi^2\Delta$	df	RMSEA	$\chi^2$ Decrease Meaningful
First Model	578/78	----	268	0/114	0/000
Second Model	571/06	2/75 up	264	0/059	0/000
Third Model	560/78	2/75 up	263	0/049	0/000
Fourth Model	550/40	2/75 up	262	0/043	0/000
Fifth Model	550/17	2/75 down	261	0/042	Not Meaningful

The square root of the variance error of approximation RMSEA, in the eighth as much good has come and so the correction is finished and the parameters estimated in the model to statistically hundred percent reliable, he said, and then to test the hypothesis used. The theoretical model to investigate the effects of causal relationship was analyzed.

**Table4.** Path coefficients and significant structures depend on the model structure

Hypothesis	Path	Standard Parameter	T	Result
H1	Trust $\rightarrow$ Commitment	0/03	0/10	Rejected
H2	Trust $\rightarrow$ Customer Satisfaction	0/55	2/12	supported
H3	Commitment $\rightarrow$ Customer Satisfaction	0/47	4/42	supported
H4	Customer Satisfaction $\rightarrow$ Customer Loyalty	0/44	4/09	supported
H5	Customer Loyalty $\rightarrow$ Firm Preference	0/75	9/62	supported

## 7. RESULT

First hypothesis: the increase of Trust, Commitment also increased. According to Table 4, the coefficient of the variable of trust and commitment equivalent to 0/03 is estimated. T value for this parameter (as a percentage of error in the rule base is zero for values above 1/96 for each parameter in the model), under 1/96 is calculated ( $t = 0/10$ ) is zero, so there is no sufficient reason for rejection and the effect of trust on commitment is not large enough to be statistically significant this work shows an increased trust of the commitment variables are significant changes in response to does not show. The research findings show that to achieve commitment, focusing on trust, commitment has no direct role in the formation. We investigate this hypothesis can be rejected.

Second hypothesis: the Trust, Customer Satisfaction also increased. According to Table 4, the coefficients of the variables trust with increased customer satisfaction are the equivalent of 0/55 is estimated. T value for this parameter (as a percentage of error in the rule base is zero for values above 1/96 in each model parameter), the 1/96 is calculated ( $t = 2/12$ ) is zero, so that it can be stated with 99 percent confidence, and dismisses the significance of this coefficient can be trust with increased use of customer satisfaction will have a significant effect.

Third hypothesis: increased Commitment, Customer Satisfaction also increased. According to Table 4, the coefficient of the variable increase commitment and customer satisfaction equivalent to 0/47 is estimated. Customer satisfaction is a significant effect on the transition. T value for this parameter (as a percentage of error in the rule base is zero for values above 1/96 in each model parameter), the 1/96 is calculated ( $t = 4/42$ ) is zero, so that it can be stated with 99 percent confidence, and dismisses the significance of this coefficient can be associated with increased use of customer satisfaction will have a significant effect. The research hypothesis is accepted.

The fourth hypothesis: the increase in Customer Satisfaction, Customer Loyalty also increased. According to Table 4, the coefficient of the variable of customer satisfaction on customer loyalty equivalent to 0/44 is estimated. T value for this parameter, the 1/96 is calculated ( $t = 4/09$ ) is zero, so that it can be stated with 99 percent confidence, and dismisses the significance of this coefficient can be expressed in customer satisfaction significant effect on customer loyalty offers. The research hypothesis is accepted

The fifth hypothesis: increasing Customer Loyalty, Firm Performance also increased. According to Table 4, the coefficient of the variable value are particularly preferred are the equivalent to 0/75 is estimated. T value for this parameter, the 1/96 is calculated ( $t = 9/62$ ) is zero, so that it can be stated with 99 percent confidence and the significance of this coefficient can be expressed increased use of customer loyalty will enjoy significant effect. The research hypothesis is accepted

## 8. Conclusions and Recommendations

Thriving and development of communication tools and increment of knowledge and awareness level of customers have made new challenges in the strategic business process of different organizations and has had a considerable effect on their competitive structure and requires strategic programming and optimizing communications with of enterprise value chain to create a continual communication with customers for informing them and affecting their attitude and behavior. Banks are not excepted from this rule and multiplicity of private banks and conversion of some public banks to private ones has caused several challenges for them. Nowadays, the art of business of banks is creation of long relations with beneficiary groups specifically customers, such that in relation based marketing a customer is viewed as a property and although it is not considered in balance sheet of a bank, it is indeed more important than other items and has its own specific value. For maintaining profitable customers, the skill of establishing a correct relationship with them is necessary and recognition of customers' needs and what they are satisfied of it can lead to success of various banks for facilitating their relations with customers for creating a behavioral incentive which is indicative of further refer and is in fact similar to intensive loyalty. Loyalty is an element in which relation based marketing especially in today's industrial market emphasizes it considerably, which the best consequence of causing it, is making conformity in relations of customer and the bank and creating satisfaction by causing what customer values which increases the transportation costs of the bank for the customer. In fact, forming a codified approach for recognizing and perception of customers and better meeting the requirements can increase the loyalty level of the customer and can be a factor for preventing the propensity of customers to other banks and causes a basis for improvement of the performance of the banks.

Thus the application of relationship marketing in the banking industry enables banks to create customer satisfaction and customer loyalty thereby improving their performance. Therefore, relationship marketing is one of the most important strategies for competitive advantage for business survival today. According to Payne and Frow (2005), relationship marketing is recognized as fundamentally reshaping the marketing field and evolving as a part of modern marketing [20]. That is, for successful operation in the banking sector, banks must be able to understand their customers so well as to respond appropriately to their needs. The study recommends that banks must be able to build a long lasting relationship with their customers.

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