

The Effect of Service Quality on Customer Perceived Value and Customer Satisfaction as Factors Influencing Creation of Word of Mouth Communications in Iran

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ABSTRACT

Marketing researchers have found that personal sources play a particularly influential role in affecting product choice, selection of service providers, and in the diffusion of information regarding new products. Personal sources often are rated by consumers as the most important source of information, especially when the information seekers perceive high risk, or when consumers are generally susceptible to interpersonal influence. One of the most widely accepted notions in consumer behavior is that word-of-mouth communication plays an important role in shaping consumers' attitudes and behaviors. Also, Managers are very interested in word of mouth communication because they believe that a new product's success is related to the word of mouth that it generates. Thus, present study aims to investigate the effects of service quality on customer perceived value and customer satisfaction as key factors influencing creation of word of mouth communications of Iranian customers in business context; Totally, 280 questionnaires were distributed to customers of hyper markets in Tehran city, that 250 questionnaires were used for the final analysis, which the results from analysis of them based on structural equation modeling (SEM) show that perceived service encounter quality has a positive influence on perceived service quality and customer satisfaction; perceived service quality has a positive influence on customer perceived value and customer satisfaction; customer perceived value has a positive influence on customer satisfaction and customer's WOM communication; Also, customer satisfaction has a positive influence on customer's WOM communication. Finally, perceived value has high effect on word of mouth communication.

KEYWORDS: Customer Perceived Value, Customer Satisfaction, Service Encounter Quality, Service Quality, Word of Mouth Communication.

1. INTRODUCTION

Today it is clearly known that how to evaluate service quality [1, 2]. The perceived service quality is so important because of having great implications for success of firms [2]. According to Bitner et al. [3] the major part of customer perception is created during service encounter. From customers' viewpoint services have several features that influence their decision on purchase and the service quality perceived by them. This perception is created through comparison of expected service with actual one by customers [2, 4]. Zeithaml et al. [4] proposed a positive relationship between service quality and paying higher prices and loyalty despite increased prices. Services differ from products in various ways including simultaneity of their production and consumption. Thus service employees are vital elements in this type of business. When a service firm provides high quality services, it enhances its profitability and viability. A great deal of studies investigated service quality but less ones were devoted to the behaviors of the service organizations. Service encounters influence customer perception of service firm and the quality of its services [3]. This subject has recently drawn the attention of researchers in marketing.

Hyper markets are main places for goods production especially in developing countries. They have a turbulent history but are progressively become stable and are using modern means and technologies. Present study seeks to examine the relationship between service quality, perceived service quality, customer satisfaction, perceived value and WOM in the grand hypermarket of Tehran.

2. LITERATURE REVIEW

2.1 Service Quality

Service quality in service management is of high importance [5]; and this importance has even more increased along with today developments in service sector [6]. Various definitions have been provided for service quality in related literature. According to Parasuraman et al. [7], service quality is a global judgment or perception of customer about superiority of a service compared to other competitive ones. Bitner and Hubbert [8], defined it as perception of customer about superiority of the service organization and its offerings. From Zeithaml and Bitner [9] perspective, service quality is perceived when received service is better than what is expected. Definition by Gronroos [10], says that service quality is "the outcome of an evaluation process, where the consumer compares his expectations with the service he perceives he has received" (p. 37).

Two theoretical constructs about service quality are more prominent than others. In this respect Gronroos [10] founded the European school of thought in this field and studies on service quality concept consider it as their basis. According to this school of thought customers perceive service quality two perspectives: technical quality and functional quality. Technical quality deals with capability of service to meet customers' expectations. The functional quality addresses the perception of customers about creation and providing of the service. Both of these two quality perspectives are important in attracting

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satisfaction and loyalty of customers [11]. One critique has been proposed about the above said school is that it neglects physical environment of service. Another school of thought in relation to service quality is based on the work of Parasuraman et al. [2, 7, 12] and Parasuraman et al. [13] and some studies on service quality were done based on this school of thought.

According to Parasuraman et al. [2, 7] considered service quality as a total judgment on the difference between perceived and expected service. In their famous study, they discovered ten general dimensions of service quality using focus group methodology. These dimensions are access, tangibles, responsiveness, communication, credibility, competence, courtesy, security, understanding the customer and reliability. Subsequently after a service analysis they were reduced to five dimensions i.e. tangibles, responsibility, reliability, empathy and assurance [7] and in the following they are defined:

1. Tangibles: Physical facilities, equipment, and personnel appearance.
2. Reliability: Ability to meet the promise related to providing a service in a dependable and accurate way.
3. Responsiveness: Willingness to help customers and provide quick service.
4. Assurance: employees' knowledge and courtesy ability to inspire trust and confidence.
5. Empathy: Caring, individualized attention from the firm towards its customers [14].

Zeithaml et al. [15] in confirming the validity of SERVQUAL model for service quality argue that "service quality is a focused evaluation that reflects customers' perception of reliability, assurance, responsiveness, empathy, and tangibles" (p. 106-107).

2.2 Quality of Service Encounter

Most studies on service encounters are focused on the consumer sector [16]. However there are similarities between consumer services and business-to-business sector in this respect except for their operationalizations [17, 18].

Service encounters are variously defined in related literature. One instance is definition provided by Shostack's [19] which incorporates additional aspects such as physical environment. Contrary to this there are some definitions only focusing on interpersonal aspect the service encounters. One of such definitions was provided by Surprenant & Solomon [20] considering it as an interaction between customer and service provider and suggesting it as a case of role performance [21]. In service encounter customer creates perceptions about service quality mostly based on emotional and intangible aspects [22, 23]. Service encounters have usually been considered as the events with high face-to-face contact without considerable use of technology [24]. Similarly Paulin et al. [16] state that interpersonal interactions are more significant than technological aspects in business-to-business services. Also it has been suggested that personal contacts play significant roles in high-tech service organizations [25]. According to the above said in present research definition by Surprenant & Solomon's [20] is adopted for service encounters.

Service encounters have a number of distinct features [26]. They are purposeful and seeking a distinctive goal. They have a limited scope depending upon characteristics of the service being provided. Another feature of service encounters is the fact that customer and service provider usually play specific roles known by both of them. Service encounters are influenced by behavior and interaction quality of each party [3, 27, 28]. Zeithaml & Bitner [9] use term of 'services triangle' to describe the framework of the service interaction and explain that three sides of this triangle (i.e., customers, company and company employees) collaborate in developing and offering services.

Some studies on service encounters embarked in description of dimensions of this construct [29, 30, 31]. Chandon et al. [32] evaluated service encounters based on various characteristics shown by service staff e.g. competence, listening behaviors, commitment, and efficacy. Measure proposed by Winsted [31] for service encounter consisted of three constructs i.e. concern, civility and congeniality. Also a measure proposed by Raajpoot [30] which consisted of seven aspects (tangibility, reliability, assurance, sincerity, personalization, formality, and responsiveness). Finally, Keillor et al. [29] studied service encounters in the context of various countries and their evaluation was based on dimensions of physical product quality, service quality, service scope, and behavioral intentions.

From the above review it is clear that most studies on service encounters are done in B2C context and also a few of them [2, 30,31] sought opinions of staff and customers about their definition of a high quality service encounter.

2.3 Customer Perceived Value

Customer perceived value has recently attracted the attention of research community [33, 34, 35, 36, 37]. Overall, firms who want to have a strong and stable relationship with their customers should provide high value products to customer [34]. Also they should provide this value in a distinctive way to create a competitive advantage and in turn enhance their viability [38].

Value perceived by customer is formed by a judgment about what is given and what is obtained in a certain transaction [28]. According to Roig et al. [38] perceived value consists of two elements i.e. benefits and sacrifices associated with a certain transaction. Value is a consumer perception about final worth of a service or product with respect to its benefits and costs [39].

2.4 Customer Satisfaction

Customer satisfaction is attitude of a customer towards a single or a series of purchase(s) [40, 41]. Service quality is related to perceptions about general providing of services by firms while satisfaction is associated with a single service encounter [42]. Voss et al. [43] argued that "service quality is a distinct construct from customer satisfaction". In the same line service encounter quality differs from customer satisfaction. Service encounters quality is a perception created by customers in relation to behavior shown by service provider [31] but customer satisfaction is an assessment of service based on emotions induced after consumption [44].

It is suggested that service encounters are associated with customer satisfaction. According to Winsted [31] dimensions of service encounter (concern, civility, and congeniality) have a positive relationship with satisfaction. Also Chumpitaz &

Paparoïdamis [45] argued that the relationships between business-to-business service quality and satisfaction should be studied in empirical contexts.

2.5 Word of Mouth Communication

Word-of-mouth communication was investigated in the wake of World War II [46, 47] and mostly was considered with respect to its antecedents on negative side [48, 49]. Present study will focus on both negative and positive.

Generally, word-of-mouth communication is an interpersonal communication in which one side receives non-commercial information regarding a brand, product or service [47]. It can be defined as a group phenomenon or exchange of ideas among individuals [50]. Word-of-mouth has effects on some dimensions of purchase context, such as awareness, expectations, perceptions, attitudes, behavioral intentions and behaviours [51]. Herr et al. [52] found that face-to-face word-of-mouth was more influential than printed advertising. Word of mouth is especially significant in context of household goods and food products [46]. Consumers are not able to cope with all accessible information thus they seek to rely on simple guides and recommendations from others and in this way the volume of information should be processed by consumers is reduced [53].

According to Sundram et al. [54] reasons for engaging in word-of-mouth communications for altruistic, product involvement and self-enhancement reasons. A person may say positive or negative things about the product based on his/her satisfaction or dissatisfaction with it. According to Gatignon and Robertson [55] motivating factors for word-of-mouth communications were decision support, decision justification, social status and social power. Customers need information and a guide for their decision making so that their anxiety removes. Mangold et al. [49] main motivators of word-of-mouth communications factors were perceived need on receiver side, simultaneous communication between and receiver in relation to a broader subject and communicator' strong satisfaction or dissatisfaction with the product. Present study tries to examine positive and negative word-of-mouth communication on both side of receiver and communicator. Situation of word-of-mouth communications influences frequency and intensity of it. Another factors have effects on this phenomenon are products and markets, social relationships, personality, culture and existence of a physical infrastructure.

3. RESEARCH HYPOTHESIS

3.1 Perceived Service Encounter Quality and Perceived Service Quality

There are several studies which confirm that perceptions formed by customer about service quality are influenced by the interaction between him/her and service provider [23, 56-57]. According to Farrell et al. [58], "service quality represents a customer's assessment of the overall level of service offered by an organization, and this assessment is often based upon perceptions formulated during service encounters". Czepl [26] argues that service encounter plays a pivotal role in formation of stable perceptions of service quality by customers. According to this it seems that when those formed perceptions are positive perceptions then the overall service is perceived as positive from quality perspective. Service quality is a result of an overall evaluation of quality as perceived by customer and service encounters play a significant role in the process of this evaluation. Thus, the following hypothesis is proposed:

H1: The perceived service encounter quality has a positive influence on perceived service quality in Iran.

3.2 Perceived Service Encounter Quality and Customer Satisfaction

By looking at customer satisfaction as an emotional judgment being made about a specific service encounter by customer after buying a product [44] it may be concluded that customer satisfaction mediates the relationship between service encounter quality and holistic service quality being perceived by customer over time. Thus satisfaction has a prominent social aspect [41] and it can be influenced by interpersonal communication. Thus, the following hypothesis is proposed:

H2: The perceived service encounter quality has a positive influence on customer satisfaction in Iran.

3.3 Perceived Service Quality and Customer Perceived Value

Customer perceived value describe the purpose of customer for buying a product or service. As confirmed by several studies [59-64], motivators of customers in decision making on buying a product are quality and benefits provided by the product [65-66]. Thus, the following hypothesis is proposed:

H3: The perceived service quality has a positive influence on customer perceived value in Iran.

3.4 Perceived Service Quality and Customer Satisfaction

According to Yi [40] one factor having a strong influence on customer satisfaction is service quality. It is suggested that the relationship between service quality and satisfaction is a linear one i.e. increase in service quality leads to higher levels of satisfaction [67]. This proposition is also confirmed by several empirical studies [59-61, 68-75]. Shin and Kim [76] consider service quality as perception of customer about service provider efficiency and suggest a significant relationship between service quality and customer satisfaction. Thus, the following hypothesis is proposed:

H4: The perceived service quality has a positive influence on customer satisfaction in Iran.

3.5 Customer Perceived Value and Customer Satisfaction

Perceived quality and perceived value are suggested as two main factors influencing customer satisfaction [70]. According to Woodruff [77] perceived value is a perception created by customers about their interaction with service providers. They describe satisfaction as a feeling resulting from perceived value. According to Roig et al. [38] perceived value influence loyalty through satisfaction. A positive relationship was proposed between perceived value and satisfaction which is confirmed by empirical evidence [38, 61, 63-64, 68, 78-81]. Thus, the following hypothesis is proposed:

H5: The customer perceived value has a positive influence on customer satisfaction in Iran.

3.6 Customer Perceived Value, Customer Satisfaction and Word of Mouth Communication

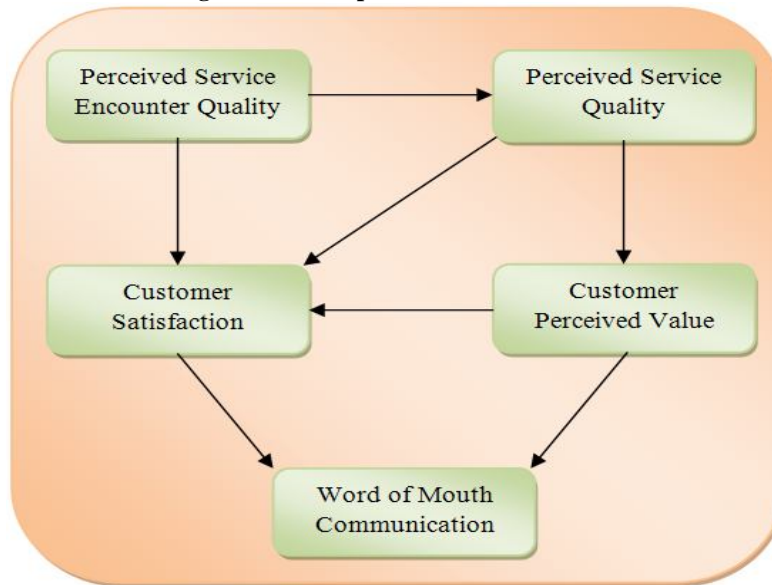
A definition proposed for word-of-mouth says that this phenomenon is an informal communications directed at other consumers about the ownership, usage, or characteristics of particular goods and services and/or their sellers [82]. It is considered a useful means for enhancing status of company products. It has been suggested that word-of-mouth strongly influence decision making on purchase especially in service context [83-84] and this communication is more effective than editorial recommendations or advertisements [85-86]. In present study, potential of perceived value and customer satisfaction to exert a significant influence on positive WOM communication was hypothesized and tested empirically. Thus, the following hypothesis is proposed:

H6: The customer perceived value has a positive influence on customer's WOM communication in Iran.

H7: The customer satisfaction has a positive influence on customer's WOM communication in Iran.

Therefore, based on the hypothesis, figure 1 is a conceptual model to this study.

Fig. 1: The conceptual model for research



4. METHODOLOGY

4.1 Questionnaire Design

Perceived Service Quality: To measure the perceived service quality, we used a 4-item of 9-item scale adapted from Kettinger and Lee [87], Kettinger et al. [88] and Parasuraman et al. [7].

Customer Perceived Value: Customer perceived value was measured by a 4-item scale adapted from Eggert and Ulaga [33].

Customer Satisfaction: The six point scale for customer satisfaction was adapted from Lam et al. [80] and Oliver [89].

Perceived Service Encounter Quality and Word of Mouth Communication: Questionnaire items for the perceived service encounter quality scale and word of mouth communication scale were derived from both the literature and the qualitative study.

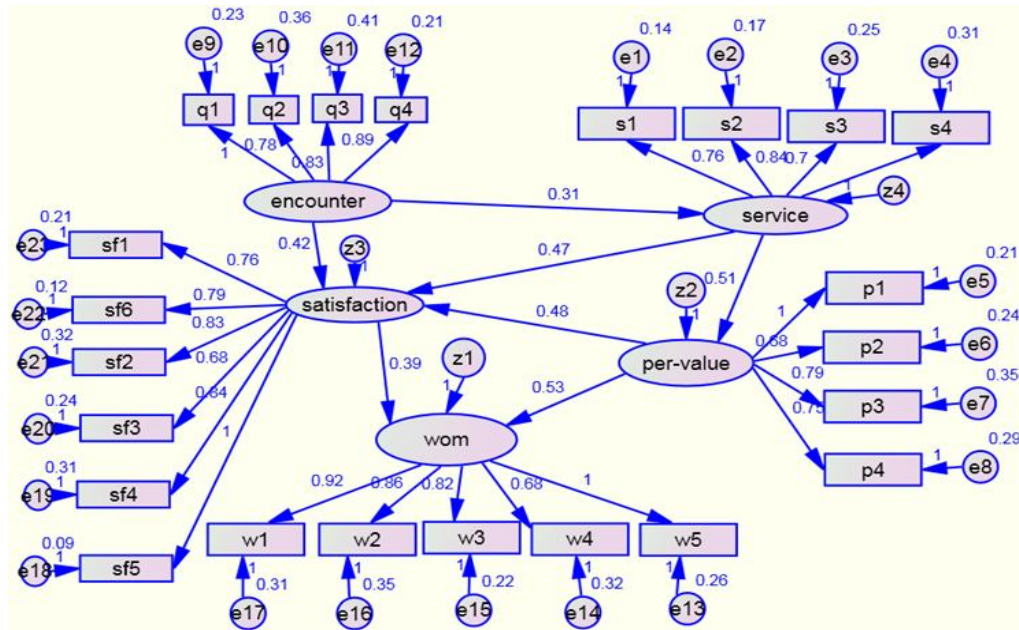
4.2 Research Sample

This research is descriptive research and population consisted of customers of hyper markets in Tehran city that have been purchase from hyper at least one time. The study is used random sampling. The participants showed their agreement with a set of statements, using a Five-point Likert scale. The questionnaire were distributed among people who purchase from hyper market. Out of 280 questionnaires, 250 were return with completed answers and were used in statistical analyses.

4.3 Data Analysis

Structural equation modeling (SEM) with Lisrel software was used for the data analysis. SEM is a comprehensive statistical approach for testing hypotheses about relations between observed and latent variables. It combines features of factor analysis and multiple regressions for studying both the measurement and the structural properties of theoretical models. SEM is formally defined by two sets of linear equations called the inner model and the outer model. The inner model specifies the relationships between unobserved or latent variables, and the outer model specifies the relationships between latent variables and their associated observed or manifest variables [90]. SEM methodology can account for independent variable errors and model multiple relationships simultaneously, which results in more powerful tests of mean differences [91]. The results obtained for model showed excellent fit (RMSEA = 0.06; GFI = 0.999; TLI = 0.997; AGFI = 0.88; CFI = 0.92; RMR = 0.036; CMIN/DF = 6.04). After validations a SEM with analysis of the paths was run. Figure 2 depicts the results.

Figure 2 - Structural Model



5. RESULT

5.1 Hypothesis Testing

Hypothesis 1: Findings from structural equation modeling (SEM) in relation to hypothesis 1 (t-value = 3.088; estimate = 0.31) show that perceived service encounter quality influences positively on perceived service quality; thus hypothesis 1 is supported.

Hypothesis 2: Findings from structural equation modeling (SEM) in relation to hypothesis 2 (t-value = 4.376; estimate = 0.42) show that perceived service encounter quality influences positively on customer satisfaction; thus hypothesis 2 is supported.

Hypothesis 3: Findings from structural equation modeling (SEM) in relation to hypothesis 3 (t-value = 5.194; estimate = 0.51) show that perceived service quality influences positively on customer perceived value; thus hypothesis 3 is supported.

Hypothesis 4: Findings from structural equation modeling (SEM) in relation to hypothesis 4 (t-value = 4.578; estimate = 0.47) show that perceived service quality influences positively on customer satisfaction; thus hypothesis 4 is supported.

Hypothesis 5: Findings from structural equation modeling (SEM) in relation to hypothesis 5 (t-value = 4.947; estimate = 0.48) show that customer perceived value influences positively on customer satisfaction; thus hypothesis 5 is supported.

Hypothesis 6: Findings from structural equation modeling (SEM) in relation to hypothesis 6 (t-value = 5.762; estimate = 0.53) show that customer perceived value influences positively on customer's WOM communication; thus hypothesis 6 is supported.

Hypothesis 7: Findings from structural equation modeling (SEM) in relation to hypothesis 7 (t-value = 3.865; estimate = 0.39) show that customer satisfaction influences positively on customer's WOM communication; thus hypothesis 7 is supported.

5.2 Conclusion

Customer may form their overall perceptions of firm relying on their Service encounters and the latter can influence success of firm with respect to this fact [3]. Marketing researchers have found that personal sources play a particularly influential role in affecting product choice, selection of service providers, and in the diffusion of information regarding new products. Personal sources often are rated by consumers as the most important source of information, especially when the information seekers perceive high risk, or when consumers are generally susceptible to interpersonal influence. One of the most widely accepted notions in consumer behavior is that word-of-mouth communication plays an important role in shaping consumers' attitudes and behaviors. Also, Managers are very interested in word of mouth communication because they believe that a new product's success is related to the word of mouth that it generates. Thus, present study aims to investigate the effects of service quality on customer perceived value and customer satisfaction as key factors influencing creation of word of mouth communications of Iranian customers in business context.

Based on all investigations conducted in present study it can be concluded that perceived value has influence on customer satisfaction. Based on the conducted analysis we can conclude that a favorable service encounter and delivery of a high quality service can lead to customer satisfaction. With respect to the results it can be argued that a positive service quality contributes in creating a group of satisfied customers and promotes overall satisfaction with the organization. Customers are motivated to recommend the studied hypermarket to others. This study shows that service quality can affect overall customer satisfaction. So service quality differentiate a firm from the others and creates a competitive advantage. Service quality can influence customer satisfaction. Overall, the authors concluded that high service attracts the customer, and services which do not meet customer expectations may lead to switching behavior. If firm wants to have completely satisfied customers it should promote

its service quality. The obtained results in this research are in line with other research findings. They confirmed the relationship between service quality and customer perceived value highlighted in the previous research [59-64], Relationship between service quality and customer satisfaction [38, 60-61, 63-64, 68, 78-81] and relationship between customer perceived value and customer satisfaction [60-61, 63-64, 68, 78-81]. Specifically, service encounter quality is positively associated with both service quality and customer satisfaction, confirming the importance of personal customer-employee interactions in developing positive emotive judgments and longer-term perceptions towards the firm. Customer satisfaction was found to be positively related to service quality and loyalty to the employee. Thus, the emotive aspect of post-purchase evaluation plays a part in enhancing long-term perceptions of the overall organization as well as the commitment to purchasing regularly to the individual with whom the original interaction occurred.

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