An Investigation of the Effects of Customer’s Expectations and Perceived Quality on Customer’s Loyalty with the Mediating Role of the Perceived Value and Customer’s Satisfaction

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Abstract

The purpose of this article is to investigate the effect of customer’s expectations and the perceived quality on customer’s loyalty with the mediating role of the perceived value and customer’s satisfaction. The statistic population of the article includes the customers of the agencies of Iran Khodro Company in Gilan province, the city of Rasht and due to the infinity of statistic population, the sample volume has been considered from the amount of 384, based on the Morgan table. After the collection of questionnaires, data has been analyzed by means of LISREL Software. The analysis of findings indicates that customer’s expectations of the products of Iran Khodro Company affected the perceived quality of the product as well as customer’s satisfaction positively and meaningfully. The research results have also indicated that the perceived quality of the products of Iran Khodro Company also has affected the perceived value of the product and the customer’s satisfaction, which has been representative of customer’s loyalty. In the area of customer’s perceptions of the quality of hardware, managers must pay more attention to beauty and charm of the surroundings and try to provide enough explanation and necessary response to customer’s questions about the selected automobiles. It is suggested to managers that by means of improving one of the dimensions of quality, they also improve customer’s perceptions and requests in other dimensions. Planning is necessary and required in order to improve the local space of agencies, improving the quality, and decreasing components prices. Planning for decreasing final price and supplying components with lower prices will be important.

Keywords: Customer’s perceptions, Perceived quality, Customer’s loyalty, Perceived value, Customer’s satisfaction.

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Introduction

In today’s competing world, customers are in the main center of attention of the companies and their loyalty is the main factor of acquiring the competitive benefit of the organizations. In recent years, various economic institutions, from small newly founded companies to supranational companies, have realized the importance of customer’s loyalty. All of them have recognized pretty well that maintaining the present customers in comparison to new customers have greater profitability, thus marketing units have quit spending time and money in purposeless advertisements and have focused their attention on techniques of maintaining customer. Loyalty, creating commitment in customers in order to make contracts with special organization and purchasing products and services, is repetitively defined.

In recent years, the competition of automobile industry became very powerful. Because of the fact that the scale of Iran’s automobile market, in comparison to other countries has been smaller, but there are many brands of automobiles, and automobile companies are often competing over prices in order to attract customers and maintain their old customers. But competition in this wide circle in order to increase the ability to compete is so that the company must not only engage actively in the development of new products and improve the quality, but it also must search actively for a way to promote the level of customer’s satisfaction and their loyalty (Chiu et al., 2011).

Nowadays, there are companies with superior performance in various industries, which are moving toward maintaining customers and attracting their loyalty, since most of the markets are in their maturity phase, competition is increasing and the expenses of attracting new customers have also been strongly increasing. Maintaining customer and attracting their loyalty is considered as a vital matter for business’ continuance. Among these, automobile industry is also not an exception (Katro, 2011). Therefore, automobile industry also must search for various managerial strategies in order to improve their customer’s loyalty. Kotler describes the word loyalty as the permanent commitment to family, country or friends and believes that this term first entered the literature of marketing by an emphasis on loyalty to the brand (Kotler, 2003). But Oliver preferred the customer’s loyalty to be defined as having deep commitment to repurchasing and repeated and continuous customer of one product. In terms of definition, customer’s loyalty includes three behavioral, view, and combinatorial dimensions. The behavioral dimension of loyalty emphasizes on customer’s behavior in repeating the purchase. The view dimension means the measure of desirable and favorable tendency toward a service provider. Today, the managers of automobile industry, in order to
prevent customer’s tendency toward the competitors, must be more than ever after the
perception of customer’s requests and needs in order to meet their needs better and have long
term business relations with them (Ranjbaran et al., 2009). The private institutions in Iran also
must gradually perceive the necessity of attention to customer and move toward cognition and
supply of customer section’s satisfaction and be more than ever after making the customers
loyal. In comparison to other indexes of business performance, the index of customer’s
satisfaction is less affected by seasonal procedures, expense changing, price, and auditory
subjects. Therefore, it was mentioned that this is a sensitive index and will cause to have the
necessary desirability, among many experts, organizations, and countries. In this customer-
oriented age, this subject is discussed that how we can recognize customer’s thoughts in order
to find the factors which affect company’s performance and these have great importance.
Many of the apparently satisfied customers will turn toward the competitor company as soon
as there is a window (Jani and Han, 2014). Loyalty is discussed in higher levels of satisfaction
i.e. the loyal customers are necessarily supposed to have passed the satisfaction borders, but
customer’s satisfaction does not necessarily end in his loyalty (Chiu et al., 2011). In
conducted researches by Fredrick Benet, it was indicated that about 65% to 85% of the
customers who claimed to be satisfied or very satisfied, have turned their back on the product.
Since we can clearly see that some times the satisfied customers in order for variety and rising
their motivating levels or due to some other reasons manage to change the brand or the
providing institution of the product (Bennet et al., 2005). Many scientists have defined
satisfaction as an emotional response to a purchase position. Customer’s satisfaction is the
measure of desirability that a customer acquires due to the various characteristics of the
product or service. Therefore, the importance of maintaining the old customers succeeds the
finding of new customers. The purpose of this article is the introducing and creating the
indexes of customer’s satisfaction and this article imparts the automobile companies of Iran
Khodro in order to analyze customer’s satisfaction and loyalty by means of it. Finally,
according to the problem statement, the main question of this article is whether customer’s
expectation and the perceived quality are effective on customer’s loyalty with the mediating
role of perceived value and customer’s satisfaction?
Customer’s expectations are the expectations that he does not need them necessarily, but realization of them makes a pleasant feeling in him which stabilizes the relation. Therefore, it sees that attracting customer’s satisfaction is directly related to providing their expectations (Chiu et al., 2011). Generally, customer’s expectations can be divided into two groups: 1) Related expectations to product and services. Since the customers of an organization include classes and groups by different cultures, in confrontation to these groups, paying attention to all their beliefs is an inviolable fact. Actions like compliance with prohibitions, such as religious slaughter in fields of cattle and poultry, manufacturing and supplying of tools and equipment, which in some religions are considered as forbidden and many sensitivities which in different cultures causes those people or groups to react or feel disrespected. Such events will definitely confront the ban of manufacturing and servicing or defensive behaviors. 2) Related expectations to organizational communications. In this division, compliance with customer’s respect about their presence and absence is a necessary matter, although customers show more expectations in their visits to organizations and in their face to face communications with staff. The expectations to which customers pay more attention and in case of being non-realized, their future visits will be strongly affected (Hong and Chio, 2011). Providing a sense of respect which people seek in a variety of communication issues is worthy of attention. As mentioned, many people, in order to gain respect, pay the price and in the process of meeting the needs of life, valuate maintaining their dignity as superior. So, one of the most important ways to achieve success and customer’s satisfaction is paying attention to the key point that failing in it puts irreparable damages to the supplying system of products and services (Hong and Chio, 2011). Also, people’s adornment is a sign of individual faith and from the organizational perspective it represents the organizational discipline, system, and precision to all things, including cleanliness. It is natural that this level of monitoring also includes products. Customers in facing staffs, who have a nice appearance, feel more peace and security for the use of products and services. An honest customer is like a member of organization that pays a part of its expenses and in this approach, honest behavior to protect the interests of both of the parties is considered as a reasonable condition, which in case of non-compliance customer’s communication with organization is damaged and expecting their loyalty is unreasonable. Relationship with customer is important, since in an effective communication process, it can lead to his satisfaction and retention. When organizations
communicate with their customers, it is after some benefit which comes from this relationship. When customers interact with organizations, they certainly are after benefits for themselves (Chiu et al., 2011). According to studies, this has been hypothesized:

Hypothesis (1): Customer’s expectations influence the perceived quality.
Hypothesis (2): Customer’s expectations influence the perceived value.
Hypothesis (3): Customer’s expectations influence the customer’s satisfaction.

The Perceived Quality

In previous studies, the positive effect of the service quality on perceived value has been confirmed. The perceived value by the customer influences the main idea of the quality of service delivery process and its outcomes. According to researchers before this article, in Iran, there has not been any article that was conducted in this area. In studies that were conducted outside of Iran, the effect of the quality of services on perceived value has been confirmed by the consumers of products of Iran Khodro. This should always be considered that this is the only way to meet the needs, desires, and expectations of customers and in a word make them satisfied. Researches also have shown that the quality of service and customer’s satisfaction and loyalty is essential for the survival of insurers. Especially the quality of after-sales services can lead to very positive results in terms of customer’s loyalty and attitudinal loyalty and repeated sales. However, many insurers seem to be reluctant to take the necessary steps to improve their image (Tsoukatos, et al, 2006). Given the above, this has been hypothesized:

Hypothesis (4): The perceived quality influences the perceived value.
Hypothesis (5): The perceived quality influences the customer’s satisfaction.

The Perceived Values

The importance of perceived value in numerous publications in recent years has been taken into consideration. Providing the best possible value to customers is undoubtedly an important issue for available enterprises’ services in the current competitive market. Companies which are capable of providing valuable service products for customers will gain a significant competitive advantage. Thus, both managers and researchers must focus on how the customers assess and care about on a provided service (Kashefi et al., 2014).

The perceived value should be at the center of marketing efforts in understanding the consumer’s behavior. Accordingly, empirical studies which have been conducted show that
the concept of perceived value can be effective on clearing the consumer’s behavioral decisions, since this concept is a part of consumer’s behavior (Kashefi et al., 2014). Marketing activities have been established mainly based on customer’s value (Ranjbaran et al., 2012). Value is a very abstract term and has a multi-definition nature. Monroe (1991) defines the perceived value as the relation of perceived benefits over the lost benefits. Zydamel (1988) defines the perceived value as “the perceived value of the customer’s overall evaluation of the usefulness of the product based on what is gained and what is lost. This definition is almost equal to Monroe’s definition (1991), but Zydamel noted that the perceived value is subjective and personal, so among similar consumers it is different. Woodruff (1997) defines the customer’s value as customer’s perceived preference and product evaluation, product performance and characteristics and consequences of its use based on customer’s goals and objectives (Khani, Haghighi, and Torkzade, 2014). The perceived level of performance is higher, lower or equal to the expected level of performance (Osanloo and Khodami, 2013). The perceived values that are widely recognized by sellers influence the overall assessment of the product and tendency of customer’s purchase and are positive force for deciding the future purchase (Ranjbaran, et al., 2014), satisfaction, loyalty (Hong and Chio, 2011), recommendations to others and word of mouth advertisements. Therefore, customer’s processes must be supported in their daily activities in a way that creates value for the customers. Thus, competitive advantage can be achieved. One way to affect the perceived value is changing customer’s emotions. According to conducted studies, this has been hypothesized:

Hypothesis (6): The perceived value influences customer’s satisfaction.

Customer’s Satisfaction and Loyalty

Cardoso (1965) was one of the first experts who discussed the idea of customer’s satisfaction. He felt that if there is a higher level of customer’s satisfaction, the customer do more repeated purchases and buy more repetitive and frequent goods and other products. The concept of customer’s satisfaction represents a new approach to the quality of economic institutions, organizations, and also creating a customer-oriented management and culture. Customer’s satisfaction is one of the most important consequences that are related to varied business organizations, which has been confirmed by means of customer-oriented philosophy and main concepts of continuous improvement. Satisfaction is an effective response and is subsequently achieved after an unexpected and non-consolidated experience, which includes a process of
observation. Satisfaction is actually a positive feeling that is created in an individual after the use of the received products or service, the expected feeling is established from the confrontation of customer’s expectations and supplier’s performance. If the received products and services from the customer are also evaluated as level of expectations, there created a sense of satisfaction in him. If the level of service and product is higher than level of customer’s expectations, it leads to distaste and the lower level of service and product, in comparison to expectations, leads to customer’s dissatisfaction (Hong and Chio, 2011).

Researchers felt that customer’s satisfaction is a way to assess the difference between customer’s expectations and actual understanding of the specific product and these indicators include product price, products efficiency, service attitude, the company’s overall performance, good level of familiarity with the company. Sasser (1995) used tile of customers for more purchases and used his main behavior (elapsed time and past time since the last purchase) and the resulting behavior as a way to measure customer’s satisfaction. In fact, many companies have realized the importance of customer’s satisfaction, but lack of effective evaluating index for measurement made them try to understand the expectations and needs of their customers and this can be effective in improving the quality of products and services.

Oliver considers loyalty as a strong commitment to repurchase a superior product or service in the future, so that the same product and service is purchased despite the effects and efforts of potential marketing of the competitors. Loyalty also includes psychological processes that evaluate different options based on various criterions. In general, customer’s loyalty is the reaction that a customer must have toward a product or service. It is a rigorous and thorough commitment to repurchase or encouraging the excessive purchase of future product or services. Therefore, this would lead to the repetition of the same or similar products and with an increase in work and effective marketing; they have enough effect and power on behaviors. Oliver says that generally customer’s loyalty is the result of superior production, employee’s behavior and warranty of the product. His comments state the evaluation of loyalty through the realization of repurchase. In the past, the article and evaluation of loyalty would have been determined through repurchase and customer’s loyalty has been considered mostly by means of simple shopping behavior, in which these two items can be recounted as uncertainties of the assessment method of loyalty through repurchase (Bamni Moghaddam et al., 2014).

According to conducted studies, this has been hypothesized:

Hypothesis (7): Customer’s satisfaction influences customer’s loyalty.
Research Model

As described above, each of the variables and their relation with other variables have been investigated and studied in previous research. Thus, according to the provided descriptions, the analysis of the conceptual model is as figure (1):

![Figure (1): The conceptual Model of Research](image)

Research Method

This research, in terms of research directions, is a functional research, in terms of research purpose, is descriptive and in terms of methods of the collecting data, is through questionnaire. In the present article, according to its objectives and procedures, the statistical population includes customers of Iran Khodro Companies in the city of Rasht in Gilan province. From the under-study statistical population, a random sampling was conducted and the required data was collected to measure variables through questionnaires. In this questionnaire, five-item Likert scale from "strongly agree" to "strongly disagree" was used and at the end, a number of 384 questionnaires were gathered, which according to Jersey and Morgan table, are desirable for conducting the research on unlimited population. The basic validity of the questionnaire was provided by the opinions of experts and professors of universities and the basic reliability through Cronbach's alpha was investigated. According to the results of Cronbach’s Alpha amount, all variables are higher than 7/0, which shows the optimal level of reliability.
Findings Analysis

The demographics of the respondents are provided in Table (1).

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Abundance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Man</td>
<td>326</td>
</tr>
<tr>
<td></td>
<td>Woman</td>
<td>58</td>
</tr>
<tr>
<td>Education</td>
<td>High school and Diploma</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Associate Degree</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>Bachelor</td>
<td>195</td>
</tr>
<tr>
<td></td>
<td>Master and Higher</td>
<td>132</td>
</tr>
<tr>
<td>Age</td>
<td>25 ≥</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>26-35</td>
<td>147</td>
</tr>
<tr>
<td></td>
<td>36-45</td>
<td>144</td>
</tr>
<tr>
<td></td>
<td>46-55</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>≥ 55</td>
<td>16</td>
</tr>
</tbody>
</table>

Also according to demographic statistics, in the section of customers, the obtained results have shown that most of the customers are men who have age rates of 26 to 35 years and they had bachelor degrees.

Research’s Results and Findings

In this study, in order to evaluate and test the conceptual model which is provided by the researcher, structural equation method and LISREL software are used. Structural equation modeling help researchers generally test and investigate the theoretical model that consists of different and varied components. By the correlation test, between latent variables of the suggested model, the provided results are obtained in Table 3, according to which the highest correlation amount is between the two variables. Furthermore, in order to check the model of the study, before approving structural relations, we must ensure the suitability and good fitness of the model (Esfidani and Mohsenin, 2013). In other words, to reject or accept the fact that the developed model by the researchers based on the theoretical framework and its theoretical background, to what extent it is in compliance with reality and the collected data, some criterions are considered as indices of the model fitness (Ghasemi, 2009). The developed model in this study has been evaluated based on the most important fitness indices (Moemeni et al., 2013) which the results of it have been reported in Table 2.
Table 2: Evaluation of the indices of the fitness of the research model

<table>
<thead>
<tr>
<th>Amounts in This Study</th>
<th>Excellent Amounts</th>
<th>Good Amounts</th>
<th>Indices of Fitness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Fitness</td>
<td>≤ 3</td>
<td>≤ 4</td>
<td>$X^2 / df$</td>
</tr>
<tr>
<td>Excellent Fitness</td>
<td>≤ 0.08</td>
<td>≤ 0.1</td>
<td>Root Mean Squared Error of Approximation (RMSEA)</td>
</tr>
<tr>
<td>Good Fitness</td>
<td>≥ 0.9</td>
<td>≥ 0.8</td>
<td>Normed Fit Index (NFI)</td>
</tr>
<tr>
<td>Excellent Fitness</td>
<td>≥ 0.9</td>
<td>≥ 0.8</td>
<td>Non-Normed Fit Index (NNFI)</td>
</tr>
<tr>
<td>Good Fitness</td>
<td>≥ 0.9</td>
<td>≥ 0.8</td>
<td>Comparative Fit Index (CFI)</td>
</tr>
<tr>
<td>Excellent Fitness</td>
<td>≥ 0.9</td>
<td>≥ 0.8</td>
<td>Incremental Fit Index (IFI)</td>
</tr>
<tr>
<td>Good Fitness</td>
<td>≥ 0.9</td>
<td>≥ 0.8</td>
<td>Goodness of Fit Index (GFI)</td>
</tr>
</tbody>
</table>

According to the table of results, goodness of fitness index (GFI) equals to 0.9, normalized fitness index (NFI) equals to 0.91, comparative fitness index (CFI) equals to 0.93. Fitting increase (IFI) is obtained equal to 0.93. Given that the indices must be above 90 percent, we can ensure the compliance of experimental data with the theoretical models (Abareshi and Husseini, 2012). This research model was tested. It shows the conceptual model with estimated standardized coefficient. According to the obtained amounts in the table (2), the present study demonstrated and confirmed a total proper and approved fitness.

![Diagram](image)

Chart 1: measuring the overall model and the results of relation in standard mode

According to the obtained path coefficients and significant numbers (in parentheses), the research hypotheses were tested, which the results are provided in Chart (1) and Chart (2).
Chart 2: measuring the overall model and results of relations in the mood

Structural equation modeling was done using LISREL software, which has been used to examine the hypothesis. The correlation coefficient of the model indicates that the proposed model has been implemented well and the goodness of its fitness was also good. The analysis of paths and results are shown in Table 3.

As is clear in Table 3, the effect coefficient of customer’s expectations on perceived quality is 0.32, since its significant number of it (4.76) is greater than (1.96), the first hypothesis about the effect of Iran Khodro customer’s expectations on customer’s perceived quality is confirmed. The coefficient of customer’s expectations on perceived value is 0.55 and also its significant number (7.06) is smaller than (1.96) which indicates the acceptability of the second hypothesis of the research based on the effect of customer’s expectations on the perceived value of Iran Khodro customers. Also, the effect of customer’s expectations on customer’s satisfaction is 0.16 in which this amount of effect with a significant number of 2.01 is significant at the confidence level of 95%; therefore, the third hypothesis is also confirmed.

The effect coefficient of perceived quality on the perceived value is (14/0), which indicates the effect of the perceived quality on the perceived value, in addition to a significant number of it that is larger than 1.99 which is larger than (1.96), the fourth hypothesis of this study is confirmed. The effect coefficient of the perceived quality on customer’s satisfaction is (0.53) and a significant number of it is (8.27) which this indicates the acceptability of the fifth research hypothesis. In addition, the effect coefficient of the perceived value on customer’s satisfaction is (-0.03) and the significant number is (-0.39), which indicates the rejection of the sixth hypothesis of the research. Finally, the effect coefficient of the customer’s satisfaction on the customer’s loyalty is (0.15) and the significant number is (2.71) which
indicate the acceptability of the seventh hypothesis of this research. In following, the presented subjects (about the significance and the effect of variables) are fully shown in table 3.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Paths of Hypotheses</th>
<th>Path Coefficient</th>
<th>Significance</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Customer's expectations influence the perceived quality.</td>
<td>0.32</td>
<td>4.76</td>
<td>Confirmed</td>
</tr>
<tr>
<td>H2</td>
<td>Customer's expectations influence the perceived value.</td>
<td>0.55</td>
<td>7.06</td>
<td>Confirmed</td>
</tr>
<tr>
<td>H3</td>
<td>Customer's expectations influence customer's satisfaction.</td>
<td>0.16</td>
<td>2.01</td>
<td>Confirmed</td>
</tr>
<tr>
<td>H4</td>
<td>Perceived quality influences the perceived value.</td>
<td>0.14</td>
<td>1.99</td>
<td>Confirmed</td>
</tr>
<tr>
<td>H5</td>
<td>Perceived quality influences the customer's expectation.</td>
<td>0.53</td>
<td>8.27</td>
<td>Confirmed</td>
</tr>
<tr>
<td>H6</td>
<td>Perceived value influences the customer's satisfaction.</td>
<td>-0.03</td>
<td>-0.39</td>
<td>Rejected</td>
</tr>
<tr>
<td>H7</td>
<td>Customer's expectations influence customer's loyalty.</td>
<td>0.15</td>
<td>2.71</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

**Research’s Offers and Limitations**

In the area of customers' perceptions of hardware qualities, managers should pay more attention to the beauty and charm of their surroundings, amenities, and staff’s adornment. They also must consider in their agenda how to deal with and respect their employees as well as customer-oriented behavior. Also, they must consider determining the hidden needs of their customers and providing comprehensive services in order to cover the needs and try to provide enough explanation and necessary response to their customer’s questions about selected automobiles and prevent appointing beginners and less experienced staff in sensitive areas of contacting with the customers. About customer’s perceptions, managers must pay attention to customer’s complaints about the created difficulties in regard to providing after-sales service and do the necessary actions to reduce the waiting time for customers to get service. Also, they must pay special attention to justify and guide customers and try to empower their customers by providing more information about the new automobiles. In the area of demands, customer’s needs in the discussion of quality of service are offered to managers, which by improving one of the dimensions of quality, customer’s perceptions and demands is improved as well in other dimensions. They must also consider modifying their
business processes and procedures in order to deliver services more quickly. Planning for improving of local space of agencies, improving the quality and reducing the prices of components is necessary and required. Planning for decreasing cost price and supplying components with lower prices will be important. Factors such as answering phones and enough skills of agencies are very important and the training human resources and improving telephone services are required. This will increase customer’s satisfaction. Also in order for keeping customers, there should be special attention to fundamental factors such as “persistently pursuing customer’s problems by the staff, trying to solve customer’s problems, fairness of repairing costs and adopting proper repairing to automobile’s problems”. The conducted measurements will create perceived value to customer's thoughts and perceptions and eventually, this will lead to customer’s satisfaction and finally customer’s loyalty. The present study has confronted limitations that some of the most important of them are: the study has been merely conducted on the behalf of the customers of Iran Khodro’s active agencies in the city of Rasht. Therefore, the results are only applicable to the province of Guilan.

• In holding meetings of club groups and due to the lack of cooperation of experts, the researcher has been also facing some problems.
• Also, the lack of cooperation of managers and employees of Iran Khodro agencies to conduct interviews and questioning of customers at the agencies made it difficult to collect data.
• Conservativeness of some of the customers in response to some questions

It is recommended to future researchers in the areas of B2G and B2B to have their similar research. We also suggested that in other service areas, such as insurance, hospitality, public services, banks, etc. similar studies to be done. The focus of this research was more on customers who go in person to agencies.

References


