A Study of Factors Influencing Positive Word of Mouth in the Iranian Banking Industry

[1]Hamidreza Alipour Shirsavar, [2]Shahram Gilaninia and [3]Amin Mohammadi Almani

[1]Department of Management and Economic, Rasht Branch, Islamic Azad University, Rasht, Iran
[2]Department of Industrial Management, Rasht Branch, Islamic Azad University, Rasht, Iran
[3]Young Researchers Club, Rasht Branch, Islamic Azad University, Rasht, Iran

Abstract: Nowadays because of strong competition in the service sector especially in the banking industry, just those organizations are successful that they can use the most innovative and successful ways for advertisement to attract their customers' attention to the products or services that they provide. One of the ways that banks can be distinguished from others and achieve competitive advantage is using positive word of mouth. There is a prerequisite for applying positive word of mouth and it is full understanding of factors influencing it. Therefore this research is contributed to the factors influencing positive word of mouth in the banking industry. To achieve the goals of this research, the data came from a convenience sample of bank customers in Rasht. The respondents provided the data by means of a self-completed questionnaire and for data analysis and testing the 14 hypotheses, structural equation modeling was used. The results of this research revealed that corporate image, relationship marketing, perceived quality, perceived value, customer expectations, satisfaction and loyalty are the factors influencing positive word of mouth.

Key words: Word of mouth · Banking industry · Consumer behavior · Services marketing

INTRODUCTION

In contemporary marketing, the service sector has experienced lots of changes. These changes have influenced both industries and the nature of competition. Therefore it is not surprising that financial organizations and service providers have been forced in this challenging situation to concentrate on their customers instead of their products or services [1]. Banking industry as a part of service sector in all the world is now in a strong competitive situation. Also in Iran because of some changes in banking system for example emerging and developing private banks, competition in this industry is increasing day by day. In this kind of situation maintaining existing customers and attracting new customers need an effective management in all aspects [2]. One of the best ways for banks to be distinguished from others and achieve competitive advantage is using word of mouth [3]. There are two kinds of word of mouth: positive or negative [4], but marketers always try to promote positive word of mouth [5]. Because positive word of mouth communication is a valuable vehicle for promoting a firm's products or services [3] and lots of

marketers consider word of mouth as one of the oldest forms of marketing communication, whether from the sellers, suppliers, experts or from social acquaintances like friends or family [6].

Rasht Branch, Islamic Azad University, Rasht, Iran: In Iran, because there is not a positive attitude towards media and advertisements from people, therefore they rely on information that they receive from others [2]. On the other hand, banks advertisements are the same and very similar to each other, therefore they can not attract customers. So today banks should choose the most successful and innovative ways for advertisement to attract their customers' attention to the products or services that they provide [7]. In fact because of a reduction in consumer trust of both organizations and advertising, as well as a decrease in television advertising, word of mouth offers companies and organizations a way to gain a significant competitive advantage [8]. According to Ennew *et al.*, (2000) personal influence is seven times more effective than magazine or newspaper advertising. As early as 1971, marketing researchers found that word of mouth was nine times more effective than traditional

Corresponding Author: Amin Mohammadi Almani, Young Researchers Club, Rasht Branch, Islamic Azad University, Rasht, Iran

advertising at changing unfavorable or neutral attitudes into positive ones. Also consumers viewed 90% of advertising to be non-credible, but 90% of word of mouth was credible [9]. Also researchers found that word of mouth is very important in the formation of attitudes, in a purchase decision-making context and in the reduction of risk associated with buying decisions. Most scholars have an agreement about that word of mouth is especially critical for the success of service providers [10]; however marketers neglected to manage it actively and consider it out of control [11]. Even with the renewed interest in word of mouth communication, there is little attention towards factors influencing word of mouth. Unfortunately, the limited discussions in the literature of word of mouth shows that most of firms for encouraging their customers to spread positive word of mouth, just concentrated on reward dispensing strategies or assumed that satisfying customers will naturally lead to these behaviors [3]. Because there are limited researches about factors influencing positive word of mouth in the literature, in this research we tried to identify and investigate factors influencing positive word of mouth in the Iranian banking industry.

Literature Review: Today there is an increasingly interest towards word of mouth from marketers and they recognized it as an important form of promotion, especially about professional services. In fact, when intangibility and complexity makes the pre-purchase trial of services impossible word of mouth plays an important role in consumers' choices. Since most of consumers consider word of mouth as a highly credible information source because the sender is usually independent of the organization providing the service and is not seen to gain directly from advocating the service, it reduces the high risk of services. Thus, word of mouth is more important for high credence qualities, such as professional and financial services [8].

According to Derbaix and Vanhamme (2003) ''Word-of-mouth is the most important informal means of communication between consumers. It is defined as the informal communication directed at other consumers about ownership, or characteristics of particular goods and services and/or their sellers. '' There are some reasons for power of word of mouth. First, word of mouth is more reliable and trustworthy than commercial sources of information controlled by companies (e.g. advertising, sponsorship), because in daily life most of our discussions are indeed with friends, family, i.e. people we trust and whose goal is not the promotion of a specific company. Second, in word of mouth the message flow

tends to be two-way. Therefore word of mouth is a perfect kind of communication. Third, word of mouth provides information about products and services for potential consumers thus it is considered to be a risk reliever. Word of mouth is in two forms: positive or negative. ''Positive word of mouth occurs when good news testimonials and endorsements desired by the company are uttered and negative word of mouth is the mirror image. Negative word of mouth is also considered to be one of the forms of customer complaining behavior'' [12].

Therefore, word of mouth is the transfer of information about a brand or a company among potential consumers. In fact, based on the levels of satisfaction with a brand or company, people use word of mouth as a personal communication. Word of mouth is the oldest form of media that spreads information about firm's products or services among individuals and it is outside of the controllable marketing mix. Today, many firms try to use new ways to create a ''buzz'' for their brands without appearing manipulative. It is due to low trust in the advertising industry, increased difficulty in targeting markets because of fragmented audiences and technological threats to television advertising [9]. Positive word of mouth as an information source plays a critical role in decision making process of consumers. Everyday consumers are exposed to many kinds of marketer-generated communications, which are designed to gain attention and alter behavior and influence on their choices; in this situation word of mouth can be a highly trusted information source. Examples may be saying positive comments about a service provider or particular service aspects and encouraging friends and family to purchase from a particular provider. Firms by using and managing positive word-of-mouth can attract new customers which is important for their long term economic success. Also positive word-of-mouth reduces cognitive dissonance of existing customers. Many of consumers experience cognitive dissonance because they think that they have made a wrong decision, therefore they spread word of mouth to convince themselves of the purchase decision they made. So, one of the strategies used by customers to reduce their post-decision dissonance is word of mouth. Also word-of-mouth is important for service providers whose offerings are largely intangible and experience or credence based. In these kinds of services, customers rely more on the recommendations and suggestions from others who have experienced the service. Moreover, consumers mostly trust each other more than communications from firms and this shows the importance of word of mouth [13].
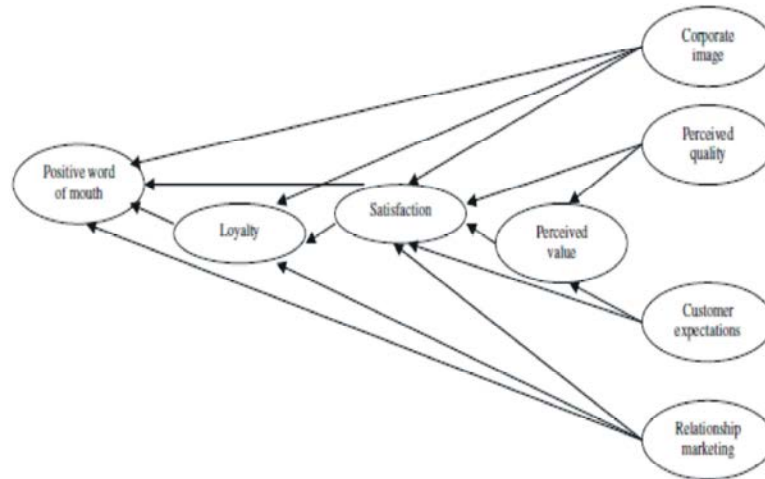
Source: (Abdolvand and Ghafari Ashtayani, 2009)
Fig, 1: Conceptual model

Conceptual Model and Research Hypotheses: The conceptual model depicted in Figure 1 is based on the model presented in previous studies done by Abdolvand and Ghafari Ashtayani in 2009. It highlights the factors influencing positive word of mouth in the banking industry.

According to the research model we proposed 14 hypotheses as follows:

H1: Corporate image has a direct positive effect on customer satisfaction.

H2: Corporate image has a direct positive effect on customer loyalty.

H3: Corporate image has a direct positive effect on positive word of mouth.

H4: Perceived quality has a direct positive effect on perceived value.

H5: Perceived quality has a direct positive effect on customer satisfaction.

H6: Customer expectations have a direct positive effect on perceived value.

H7: Customer expectations have a direct positive effect on customer satisfaction.

H8: Perceived value has a direct positive effect on customer satisfaction.

H9: Relationship marketing has a direct positive effect on customer satisfaction.

H10: Relationship marketing has a direct positive effect on customer loyalty.

H11: Relationship marketing has a direct positive effect on positive word of mouth.

H12: Customer satisfaction has a direct positive effect on customer loyalty.

H13: Customer satisfaction has a direct positive effect on positive word of mouth.

H14: Customer loyalty has a direct positive effect on positive word of mouth.

Method: The target population of this study was bank customers in Rasht (located in north of Iran). Customers of both public and private banks in Rasht were selected for this study. To achieve the goals of this research, the data came from a convenience sample of bank customers in Rasht. The respondents provided the data by means of a self-completed questionnaire containing 48 items. To calculate sample size the following formula was used and according to it, 480 bank customers were selected.

$$5q \leq n \leq 15q$$

q = number of observed variables (questionnaire items).
n = Sample size.

Table 1: Sources used for questionnaire items and Cronbach's alpha

Sources	Variable	Cronbach's alpha	Number of items in the questionnaire
(Yeo &Youssef, 2010), (Kim & Hyun, 2010) (Walsh *et al.*, 2006)	Corporate image	811/0	7
(Kim & Hyun, 2010), (Kang & James, 2004), (Hsu *et al.*, 2006)	Perceived quality	894/0	7
(Ehigie, 2006)	Customer expectations	843/0	5
(Palmatier *et al.*, 2007), (Ndubisi & Wah, 2005), (Tsai, 2011)	Relationship marketing	797/0	10
(Hsu et al 2006), (Roig *et al.*, 2006)	Perceived value	801/0	4
(Palmatier et al, 2007), (Hsu et al, 2006), (Tsai, 2011)	Satisfaction	917/0	7
(Tsai, 2011), (Dimitriades, 2006), (Ehigie, 2006)	Loyalty	886/0	5
(Babin *et al.*, 2005)	Positive word of mouth	898/0	3

Table 2: Respondents' demographic profile

No	Profile	Description	Responses	Percentage
1	Age	20-30 years	98	31/2
		30-40 years	114	36/3
		40- 50 years	63	20/1
		50 years or above	39	12/4
2	Gender	Male	193	61/5
		Female	121	38/5
3	Highest level of education	Under 12 years	67	21/3
		High school degree	80	25/5
		1-2 years of college	42	13/4
		3-4 years of college	102	32/5
		Postgraduate and PhD	23	7/3

By considering the mean account of 10 for every item, sample size was 480. From a total of 480 questionnaires that were distributed, 314 usable answers could be collected. In the questionnaire completed by customers, items were adapted from previous studies as shown in Table 1.

All items were measured by responses on a five-point Likert scale of agreement with statements, ranging from 1 = strongly disagree to 5 = strongly agree. Structural equation modeling was used for data analysis.

Validity and Reliability: This study adopted Cronbach's alpha value as a tool for reliability examination. Based on the suggestion proposed by Guielford [14], the higher the Cronbach's alpha value, the higher the internal consistency is. If a value was higher than 0.70, then it showed that the reliability of measurement was high. The examination result of this study showed that Cronbach's alpha value in each variable was higher than 0.7, as shown in Table 1, which indicates high reliability.

The content validity of the questionnaire items was verified by 3 academic with expertise in the field and some bank specialists, after which a few bank customers were served the form to get their opinion on the clarity of question wording and meaning. Their feedback was incorporated into the final version of the instrument.

Analysis and Results: Table 2 shows the demographic characteristics of the respondents. As it is shown 61/5 percent were male and 38/5 percent were female. Information on the respondents' education level shows that about 53 percent of respondents had a college degree. Also age distribution shows that 32/5 percent were over 40.

The results of analyzed model by LISREL software indicated that model fit was adequate. A summary of the goodness-of-fit results is presented in Table 3.

Hypotheses were tested by examining the structural model shown in Figure 2. The results of the structural equation modeling summarized in Table 4 show that 11 hypotheses are accepted while H1, H4, H8 are not accepted at 5 percent significance level (statistically significant at $P < 0.05$).

The results revealed that corporate image, relationship marketing, perceived quality, perceived value, customer expectations, satisfaction and loyalty are the factors influencing positive word of mouth.

Limitations and Future Research: The relationships investigated in this study deserve further research. Because this research focuses on banking services in one country, therefore further research in other sectors may be necessary before generalization can be made on the entire

Table 3: Goodness of Fit Index

Goodness-of-Fit Statistics	Values	Desired Range of Values for Good Fit
Chi-Square	1437/93	p > 0/05
Degrees of freedom	396	≥ 0
Root Mean Square Error of Approximation (RMSEA)	0/048	< 0/08
Goodness of Fit Index (GFI)	0/92	> 0/90
Adjusted Goodness of Fit Index (AGFI)	0/90	> 0/90
Normed Fit Index (NFI)	0/92	> 0/90
Non-Normed Fit Index (NNFI)	0/94	> 0/90
Comparative Fit Index (CFI)	0/95	> 0/90

Table 4: Results of research hypotheses testing

| Hypothesis	Path	Standard estimate	T value	Result
1	Corporate → image satisfaction	0/09	1/07	Rejected
2	Corporate → image loyalty	0/12	2/34	Accepted
3	Corporate → image PWOM	0/27	3/06	Accepted
4	Perceived → quality perceived value	0/03	0/48	Rejected
5	Perceived → quality satisfaction	0/72	10/94	Accepted
6	Customer → expectations perceived value	0/18	2/94	Accepted
7	Customer → expectations satisfaction	0/16	2/77	Accepted
8	Perceived → value satisfaction	0/05	0/44	Rejected
9	Relationship → marketing satisfaction	0/32	4/63	Accepted
10	Relationship → marketing loyalty	0/37	3/79	Accepted
11	Relationship → marketing PWOM	0/21	3/61	Accepted
12	Satisfaction → loyalty	0/61	6/99	Accepted
13	Satisfaction → PWOM	0/67	9/38	Accepted
14	Loyalty → PWOM	0/75	11/23	Accepted
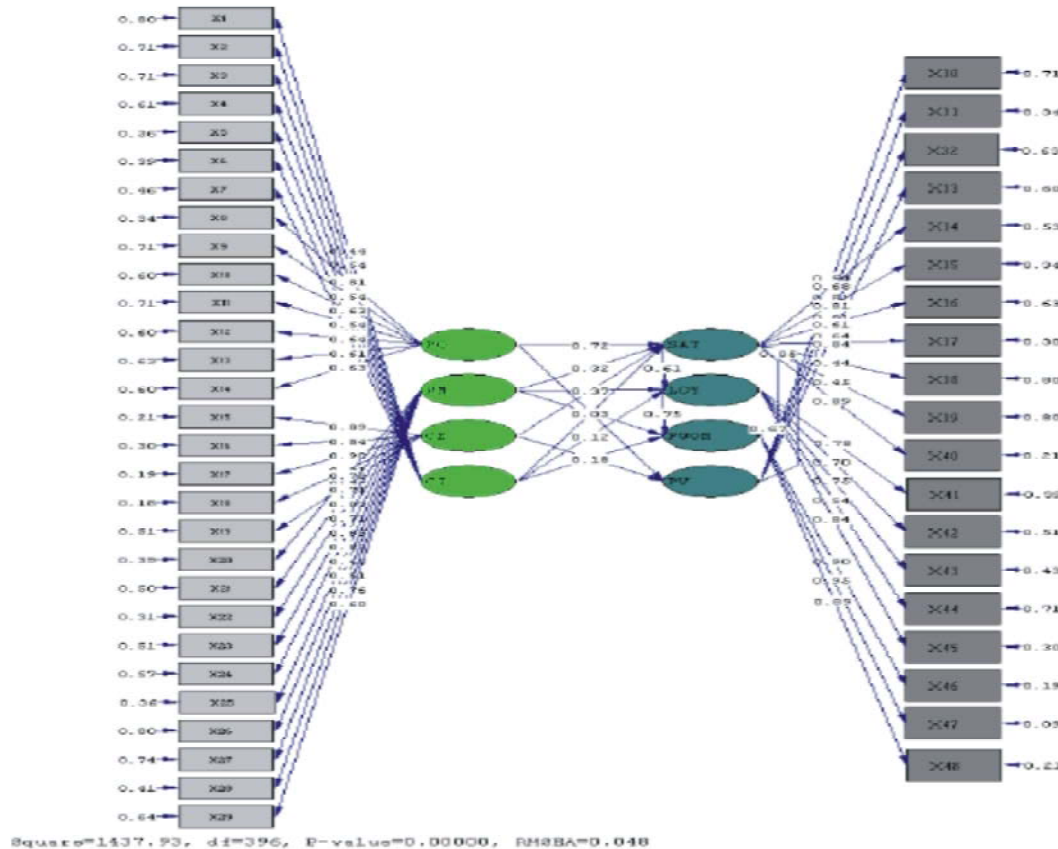
Fig. 2: Analyzed model by LISREL

service industry. Researchers by employing these constructs and replicating this study in other industries, would be able to unveil the factors influencing positive word of mouth and also produce more generic results. Also the impact of positive word of mouth can be investigated on other dependent variables such as market share, profitability, firm performance and purchase intention. Although the factors identified were really verified in this industry, it would be helpful to replicate this study in other industries. The outcome of the future studies will determine the extent of generalization to be made. An important future research direction in word of mouth research may include other less widely acknowledged factors, for example, perceived risk, source characteristics, the role of opinion leaders, product/service involvement and likewise the impact of moderating variables such as demographic characteristics can be considered. These were excluded from this banking sector research. By using a more comprehensive list, a richer outcome may emerge. These future studies should use a hold out sample to confirm the model.

DISCUSSION AND CONCLUSIONS

The objective of this research was to investigate factors influencing positive word of mouth in the banking industry. We tested a model of factors influencing positive word of mouth that included corporate image, relationship marketing, perceived quality, perceived value, customer expectations, satisfaction and loyalty. The results of our study show that all these factors exert significant influences on positive word of mouth and the results of this study is in accordance with previous researches [6, 11, 15, 16]. Satisfaction and loyalty are the most important factors and after that corporate image and relationship marketing are another two factors that have a direct impact on positive word of mouth. There are three factors that have an indirect impact on positive word of mouth namely perceived quality, perceived value and customer expectations. According to the results of this study, banks must develop loyal customers by being trustworthy and they should communicate timely and accurately and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers. It has been suggested that loyal customers are valuable communicators of favorable word-of-mouth about organizations or products to which they feel loyal. As evangelists, they can attract new customers for the organization and may even increase their own consumption collectively to the benefit of its sales, revenue and profit. By providing quality services,

showing respect for customers, fulfilling obligations to customers and striving always to enhance customers' confidence, banks can earn customers' satisfaction. Other critical factors in spreading positive word of mouth are corporate image and relationship marketing. Therefore banks should try to create, maintain and enhance strong relationships with customers and it will be achieved by fulfillment of promises and bank employees must try to establish long-term relationships with customers and work in a close cooperation and be in touch with customers constantly. Paying attention to shared values and the same feelings and opinions is really important. For improving image, banks should try to be a moral company, have flexible staff and managers and also have a clean reputation in general for example by being committed to the service ethic. Banks should develop the quality of their services by increasing speed and accuracy of services, employee knowledge about the service provided and also by improving the safety and reliability of automatic facilities. To make value for customers, banks should try to decrease their expenses in order to decrease the price of their services. At last, banks should pay attention to customers' expectations. It means that they must understand customer's needs, provide physical safety to customer and pay attention to the confidentiality of transactions. Generally bank managers and marketers must pay a close attention to positive word of mouth and they should try to manage it actively by designing proper plans and strategies.

REFERENCES

1. Amirshahi, M.A. and M. Sofyanian, 2007. Identifying limits and barriers in applying relationship marketing in Iranian's insurance companies. J. Marketing Management (In Persian), 2(2): 1-16.

2. Mohammadian, M. and R. Shafiha, 2008. an investigation of factors influencing brand equity from consumer's perspective, J. Marketing Management (In Persian), 3(4): 41-60.

3. Gremler, D.D., K.P. Gwinner and S.W. Brown, 2001. Generating Positive Word-of-Mouth Communication Trough Customer-Employee Relationships. International J. Service Industry Management, 12(1): 44-59.

4. Meiners, N.H., U. Schwarting and B. Seeberger, 2010. The Renaissance of Word-of-Mouth Marketing: A 'New' Standard in Twenty-First Century Marketing Management?!. International J. Economic Sci. and Applied Res., 3(2): 79-97.

5. Brown, T.J., T.E. Barry, P.A. Dacin and R.F. Gunst, 2005. Spreading the Word: Investigating Antecedents of Consumers' Positive Word-of-Mouth Intensions and Behaviors References of the presentation in a Retailing Context. J. the Academy of Marketing Sci., 33(2): 123-138.

6. Ennew, C.T., A.K. Banerjee and D. Li, 2000. Managing word of mouth communication: empirical evidence from India. International J. Bank Marketing, 18(2): 75-83.

7. Najmi, D., 2009. Word of mouth marketing. Management Art (In Persian), 8: 35-43.

8. Sweeney, J.C., G.N. Soutar and T. Mazzarol, 2008. Factors influencing word of mouth effectiveness: receiver perspectives. European J. Marketing, 42(3/4): 344-364.

9. Thomas, M.L., L.G. Mullen and J. Fraedrich, 2011. Increased word-of-mouth via strategic cause-related marketing. International J. Nonprofit and Voluntary Sector Marketing, 16: 36-49.

10. Wagenheim, F.V. and T. Bayón, 2004. The effect of word of mouth on services switching. European J. Marketing, 38(9/10): 1173-1185.

11. Abdolvand, M.A. and P. Ghafari Ashtayani, 2009. A framework for measuring factors influencing positive word of mouth in the service sector (case study: banks in Arak). J. Management Researches, (in Persian), 81: 35-51.

12. Derbaix, C. and J. Vanhamme, 2003. Inducing word-of-mouth by eliciting surprise -a pilot investigation. J. Economic Psychol., 24: 99-116.

13. Ng, S., M.E. David and T.S. Dagger, 2011. Generating positive word-of-mouth in the service experience. Managing Service Quality, 21(2): 133-151.

14. Guielford, J.P., 1965. Fundamental Statistics in Psychology and Education, McGraw-Hill, New York, NY.

15. Arasli, H., S.S. Mehtap and K.S. Turan, 2005. Customer service quality in the Greek Cypriot banking industry. Managing Service Quality, 15(1): 41-56.

16. So¨derlund, M., 1998. Customer satisfaction and its consequences on customer behavior revisited: The impact of different levels of satisfaction on word-of-mouth, feedback to the supplier and loyalty. International J. Service Industry Management, 9(2): 169-188.