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Study the Impact of Customers' Loyalty and Satisfaction on Bank's Financial Performance (A Case Study of Resalat Bank)

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors designed, analyzed, interpreted and prepared the manuscript.

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ABSTRACT

Purpose: This study attempts to provide a holistic approach of the Iran's banking sector and how it's financial operates by focusing on customer's loyalty and satisfaction.

Design/Methodology/Approach: Using standard questionnaires a survey was carried out in the banking sector of Iran in order to collect information regarding customer satisfaction and loyalty, and their impact on financial performance. To test the customer satisfaction and loyalty the questionnaires spread between the customers of Resalat Bank and to test the financial performance it has been spread between staffs, assistants, and managers of the bank. At the end structural equation modelling was used to test the related hypotheses.

Findings: The final findings of the research indicated the positive and significant impact of loyalty and satisfaction of the customer on the financial performance of Resalat Bank.

Originality/Value: There are some few studies that have incorporated customer satisfaction, loyalty and the financial performance of banks, therefore, in this study can contribute in this regard. To take it one step further, some more factors were included to present a more holistic approach of how customer satisfaction and loyalty are enhanced.

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Keywords: Customer satisfaction; loyalty; financial performance; banking.

1. INTRODUCTION

Nowadays, the competition for improving the quality of services is known as a key guideline issue for the organizations working in service section. The organizations achieving a higher level of service quality will have higher levels of customers' satisfaction as an introduction to gain stable competitive advantage [1]. Regarded to the challenges ruling the business environment, not only the organizations are not intended to attract new customers, but also they have taken the strategy of saving current customers and improve their loyalty against the organization. So, the customers' satisfaction is not enough and marketers should provide the context of improvement and elevation of the customers' loyalty more than ever. In such a paradigm, the aim is to make long-term relationships with the beneficiary groups and above all with the customer; so that they can save more customers and lose lesser customers to finally guarantee the market share and profit making of the organization in long-term [2,3]. Challenges like intensified global competition, continuous increase in customers' expectations and consequently their demands in order to increase the quality of productions and services have led to the fact that the companies cannot efficiently meet their needs and demands and this will be followed by the risk of losing unsatisfied customers and they will go toward the competitors and also the final reduction of profit will be followed by bankruptcy. To make loyalty in customers, it is very significant to build an environment which encourages loyalty [4]. The customers' loyalty is the necessity of the companies' survive and the only way of saving customers is to meet their needs, demands, expectations and making them satisfied [5]. The customer's loyalty is important due to its positive impact on sales, obtaining a share from the budget and saving the customer [6]. In recent years, banks have faces many challenges and the most important one of these challenges is the expansion of the competition domain among them and the increase in knowledge and awareness level of the customers. This intense competition among the Iranian banks has been created due to increase in the number of private banks and the privatization of some state banks [7]. The commercial banks play a critical role in allocation of economic resources of the countries. They are the continuous channel of funds from depositors to investors. They can

create the necessary income to cover their operational costs. In other words, banks should be profitable for intermediation performance. Beyond the financial intermediation performance, the banks' performance has important consequences for economic development of countries. Good financial performance is the shareholders' reward for their investments and this in its own turn brings excessive encouragement and economic development. On the other hand, the weak bank financial performance can lead to the bankruptcy and crisis in banking which has negative consequences on economic development [8]. Regarded to the entity of its goods and services, the organizations' financial department relies on saving long-term relationship with its customers; this is while lack of customers is considered concerning. The significance of customer's satisfaction in financial services has been studies widely and marketing activities of many organizations focuses on achieving the customer's loyalty. There are many studies highlighting and identifying the significance of losing the customer regarded to the profit making of an industry. Backgrounds about the customer's loyalty and satisfaction are complicated, developing and dynamic [9]. In this regard, in the current study, the researcher is intended to answer the question that to how extent does the loyalty and satisfaction of the customer effect on the financial performance of Resalat Bank?

This paper proceeds as follow: Next we present a brief literature review on customer's satisfaction in section 2, customer's loyalty and financial performance are followed by research background in section 3 then the conceptual mode, hypothesis and research methodology in section 4. Furthermore, section 4 is focused on data collecting tool and its validity and reliability. While section 5 is about research findings finally, we conclude with a discussion as well as a presentation of recommendation in sections 6 and 7.

2. Theoretical Principals and Research's Background

2.1 Customer's Satisfaction

According to Ryua et al. [10], the customer's satisfaction is the extent of his favorableness due to different characteristics of the product and it is

the profit making resource and a reason to continue the organization's activity. The customer's satisfaction is his feeling or attitude about the goods or services which influences the shopping behavior of the consumer. According to Ndubisi et al. [11] the customer's satisfaction means when he feels that the characteristics of the product or service is compatible with his expectations. Lee et al. [12] express that the satisfaction is a wide feeling which changes by the quality of services and product, price, context and private factors. Also, Yap et al. [13] say that the customer's satisfaction is the pleasant experience of previous purchase of the product or services. In the current study, three aspects of economics, convenience and tangibles have been considered and we will explain them.

2.1.1 Economics

Economics are defined in the form of the received cost for the rendered services, time consumed and the interest rates which can be influential in customers' satisfaction.

2.1.2 Convenience

It includes items such as bank's branches, bank's situation, office hours, distance from the bank to parking and ATMs.

2.1.3 Tangible

Tangible includes physical appearance of the bank like physical equipment and accessories, personnel appearance, appearance of the bank and its interior design [9].

2.2 Customer's Loyalty

From the viewpoint of Mc. Mullan and Gilmore [14], the customer's loyalty is his bias to brand and behavioral response during the time that a person prefers a special brand over the other brands and decides about it in form of a psychological commitment. According to Segoro [15], the customer's loyalty is explained in three cases: first, the loyalty shown through the customer's behavior with repetitive purchasing; second, the loyalty shown through the customer's attitude about the company (this factor includes preference and commitment to the brand and advising it to the others) and third, a composition of the customer's behavior and his attitude about the company. In other words, along with the repetitive purchase, the customers

have a positive evaluation of the company's brand and share it with the others [15]. In the current study, three aspects of bank's image, bank's value and bank's credit have been considered and we will explain them.

2.2.1 The image of bank

The image of an organization is defined in the form of perceptions of all external shareholders especially the customers and it indicates their attitudes and beliefs about the company. The image aspect is widely defined as the how customers understand the company's goods and services, its reputation and desire to make value for the customer [9].

2.2.2 Bank's value

In a widespread definition, value includes the customer's perceptions of the product or service and it is not within the product or service and it is not something that organization can provide it. The value may cause competitive advantage, satisfaction and loyalty of the customers [9].

2.2.3 Bank's credit

Bank's credit is the indicator of the belief based on the ability and tendency of bank regarded to do its promises including two main aspects of reliability and expertise. Reliability means that the organization tends to do its promises and expertise is defined as to believe in the fact that the organization has the ability and capacity to do its promises [9,16].

2.3 Financial Performance

Performance is the result and consequence or the extent of the work. Also performance can be considered as the measurable result of decisions and action of the organization which indicate the organization's successfulness and the whole achievements obtained. The financial perspective investigates how the company achieves its financial purposes; thus, it indicates that how does the company want to be seen in the viewpoint of its shareholders? Fundamental criteria of the financial viewpoint include operational income, investment return, asset turnover and return [17]. The financial performance is the degree or extent that the company reaches to the financial purposes of shareholders regarded to increase their wealth; the operational purposes followed by the company's manager regarded to achieve the

main purpose, i.e. increasing the shareholders' wealth include some indicators and criteria based on them the financial performance of a commercial company can be measured [18].

3. RESEARCH'S BACKGROUND

The study of research's literature indicates that numerous researches have been so far done on the customer's loyalty and satisfaction and financial performance. Fazl Zadeh et al. [19] in a study stated that the customer's satisfaction and employee's satisfaction positively influence the financial performance; also the results of research of Fathollah Zadeh et al. [20] indicated that the customer's satisfaction and loyalty have a significant impact on the financial performance and they can lead to the superior financial performance. Mohammadi et al. [21] also expressed that the customer's satisfaction had a significant influence on banking of participation in profits and losses. Also in a study Qasemi and Khosravi [22] investigated the relationship between customers' satisfaction and trust and the financial performance and got to the result that the customers' satisfaction and trust significantly influences the financial performance. The previous studies also indicate the positive and significant relationship between the customer's satisfaction and financial performance [23-28]. Also Lombart, and Louis [29] in a study got to the result that increase in customers' satisfaction leads to increase in their loyalty and this helps the company to achieve a high level of financial performance. Some of the previous studies indicated the lack of a positive and significant relationship between the customer's loyalty and satisfaction with the financial performance [30,31,9].

4. THE CONCEPTUAL MODEL

The current study theoretically investigates the extent of the impact of customers' loyalty and satisfaction on the financial performance of Resalat bank. In the analytical model of the current research the variables of customer's satisfaction include the aspects of: (economics, convenience, tangibles) and the customer's loyalty variable includes aspects of: (bank image, bank value and bank credit), are considered as the independent variables and financial performance including aspects of (profitability and risk) is considered as the dependent variable. According to the Diagram 1, the research's model includes measuring the impact

extent of the aspects of independent variables on the dependent variable.

4.1 Research's Hypotheses

The main hypothesis of this research are as follow:

H₁: Satisfaction has a significant and positive impact on the financial performance.

H₂: Loyalty has a significant and positive impact on the financial performance.

H_{1a}: Economics have a significant and positive impact on the financial performance.

H_{1b}: Convenience has a significant and positive impact on the financial performance

H_{1c}: Tangibles have a significant and positive impact on the financial performance

H_{2a}: Image has a significant and positive impact on the financial performance

H_{2b}: Value has a significant and positive impact on the financial performance.

H_{2c}: Credit has a significant and positive impact on the financial performance.

4.2 Research's Methodology

The current research is descriptive in terms of subject and it is applicable in terms of purpose. The statistical population of the current study is Resalat bank in Kermanshah city in Iran and it has been investigate in 2015. The statistical society of this research includes two parts: the first part includes 131 staffs, assistants, and managers of Resalat bank in Kermanshah city and the second part includes the whole customers of Resalat bank in Kermanshah city. Based on Morgan table, the statistical sample volume of staffs, assistants and managers of Resalat bank has been estimated equal to 98 and based on Cochran's formula, the statistical sample volume of customers of Resalat bank has been estimated equal to 386. Regarded to the sample volume and in order to collect the required data for analyzing the research's claims and eliminating the effects of lost and incomplete questionnaires on the study's results, 10% of the statistical sample was added to the study's sample. Finally, the statistical sample volume of staffs, assistants, and managers of Resalat bank was increased to 108 which after distribution of questionnaire, ultimately 98 questionnaires were collected to be analyzed and the statistical sample volume of customers was increased to 425 people and after distribution of questionnaires, ultimately 386 questionnaires were collected to be analyzed.

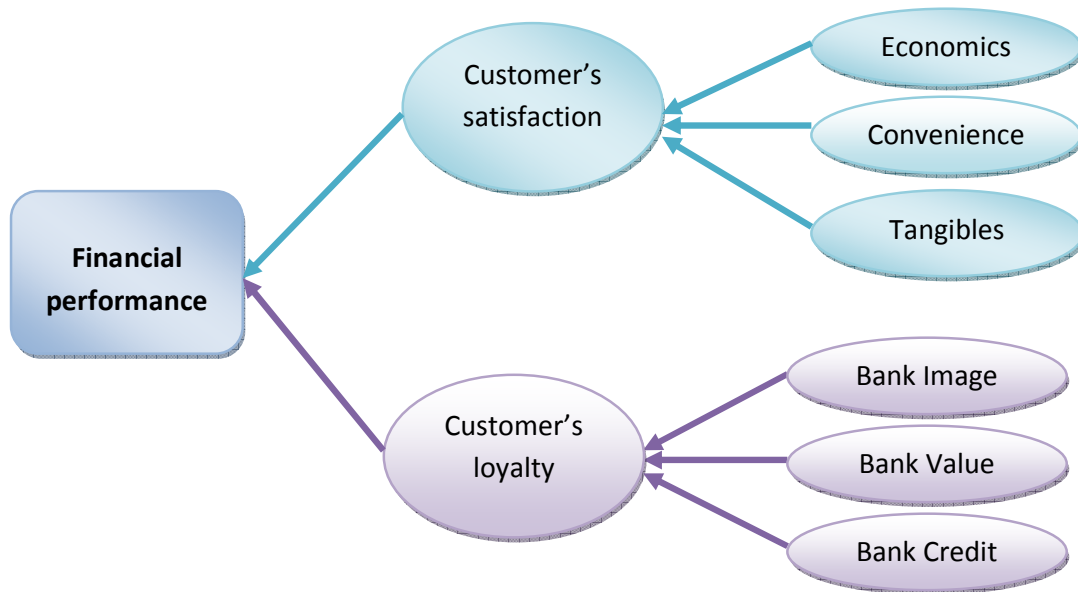


Diagram 1. Conceptual Model (based on Keisidou et al. [9])

4.3 Data Collecting Tool and Its Validity and Reliability

In the current study, the main measuring tool is questionnaire. The questionnaire presented to the customers of Resalat bank includes three parts; the first one includes demographic questions (gender, age, education); the second one includes customer's satisfaction questions. Standard questionnaires [32,16,33] have been used in order to measure customer's satisfaction. This questionnaire has 3 aspects and 12 questions. The second part includes the customer's loyalty questions. Standard questionnaire [32,16,33], have been used in order to measure the customer's loyalty. This questionnaire has 3 aspects and 12 questions. The questionnaire presented to the managers of Resalat bank includes two parts, the first part includes demographic questions (gender, age, education); the second one includes financial performance questions. The researcher made questionnaire has been used to evaluate the financial performance. This questionnaire has 3 aspects and 19 questions. The five-point Likert scale (1=strongly disagree; 5=strongly agree) was used to answer it (Table 1).

4.4 Questionnaire's Validity and Reliability

Cronbach's alpha coefficient has been used by SPSS software in order to determine

the reliability and validity of the questionnaire. Reliability coefficient of the questionnaire of customer's satisfaction was (0.962), the reliability coefficient of the questionnaire of customer's loyalty was (0.822) and the reliability coefficient of the questionnaire of financial performance was (0.938). Since the Cronbach's alpha coefficient value for each of the aspects of customer's satisfaction, customer's loyalty and financial performance is higher than 0.7, this indicates the high reliability of the questionnaires. Also the content validity method was used in order to test the validity of questionnaires. The opinions of experts and scholars of Resalat bank on Kermanshah city and the experts in economy and management field were used to ensure the content validity of the questionnaire. The necessary amendments were done in questions by obtaining the opinions from mentioned people thus we ensured that the questionnaires measure the same research's desired attributes.

5. RESEARCH'S DATA ANALYSIS

To analyze the statistical data, the descriptive statistics methods like calculating mean and standard deviation were used and in illative statistics section the correlation methods among the research's variables and regression analysis were used. The SPSS 17 software was used to analyze data.

5.1 Research's Findings

According to the descriptive results of the study, from the whole number of 98 people studied in the statistical society of staffs, assistants and managers, men with the frequency of 75.5%, age group of 25 to 35 with the frequency of 57.1%, B.A. educational degree with the frequency of 51.1% and work background of 6 to 10 years with the frequency of 47% formed the majority of participants. Table 2 indicates the descriptive indices of the statistical society of staffs, assistants, and managers of Resalat bank and Table 3 indicates the descriptive indices of the statistical society of customers of Resalat bank.

Table 4 indicates the customer's satisfaction, customer's loyalty and financial performance and their aspects from the viewpoint of customers of Resalat bank which is the indicator of each aspect's mean and their deviation from the mean. As it can be seen in Table 4, among the aspects forming customer's satisfaction, the convenience aspect has the least mean and

economics have the most mean. According to Table 4, among the aspects forming customer's loyalty, the aspect of bank's image has the least mean and the bank's value has the most mean. As it can be seen in Table 4, among the aspects forming financial performance, the risk aspect has the least mean and profitability has the most mean.

5.2 Illative Statistics

The main and fundamental stage in data analysis is using the illative statistics. To test the research's hypotheses using the collected data and expand the obtained results, the illative statistics method must be used to analyze data. The correlation analysis was done to investigate the way of relationship between customer's satisfaction and customer's loyalty and their aspects with financial performance. Results in Table 5 indicates that there is a significant and direct relationship between the customer's satisfaction, customer's loyalty and their aspects with the financial performance.

Table 1. Factors measurements

Questions	Aspects	Sources	Number of questions	Independent variables
Customer's satisfaction	Economics	Stephen et al. [32]	3	1 to 3
	Convenience	Sweeney and Swait [16]	5	4 to 8
	Tangibles	Jay and Jaramillo [33]	4	9 to 12
Customer's loyalty	Bank's image	Stephen et al. [32]	5	13 to 17
	Bank's credit	Sweeney and Swait [16]	4	18 to 21
	Bank's value	Jay and Jaramillo [33]	3	22 to 24
Financial performance	Profitability	Bank's financial performance index	12	1 to 12
	Risk		7	13 to 19

Source: research's data

Table 2. Respondents' profile

Descriptive indices	Data	Frequency	Frequency percentage
Gender	Men	74	75.5%
	Women	26	24.5%
Age	Under 25 years old	23	23.5%
	Between 25 and 35 years old	56	57.1%
	Between 36 and 45 years old	19	19.4%
Education	Diploma	8	8.1%
	Associate Degree	24	24.5%
	B.A.	50	51.1%
	M.A.	16	16.3%
Work background	Under 5 years	31	31.6%
	Between 6 and 10 years	46	47%
	Between 11 and 15 years	16	16.3%
	Between 16 and 20 years	5	5.1%

Source: research's data

Regression analysis has been used to test the research's hypotheses. Table 6 shows the share of each of the variables of customer's loyalty and customer's satisfaction in predicting the financial performance. According to beta value, the customer's satisfaction is more than the customer's loyalty. Their beta value indicates the fact that the customer's satisfaction has more share and role in influencing the financial performance compared to the customer's loyalty; and according to the obtained beta, for every one unit deviation of customer's satisfaction, 0.46% change is occurred in financial performance and for every one unit deviation of customer's loyalty, 0.28% change in financial performance is occurred.

Table 3. Descriptive indices of the statistical society of customers of Resalat Bank

Descriptive indices	Data	Frequency	Frequency percentage
Gender	Men	271	70.2%
	Women	115	29.8%
Age	Under 25 years old	40	10.4%
	Between 25 and 35 years old	243	63%
	Between 36 and 45 years old	79	20.5%
	Between 46 and 55 years old	18	4.7%
	Over 55 years old	6	1.4%
Education	Diploma	110	28.5%
	Associate Degree	78	20.2%
	B.A.	148	38.3%
	M.A.	44	11.4%
	PhD	6	1.6%

Source: research's data

Table 4. The statistical indices of customer's satisfaction, customer's loyalty, financial performance and its aspects

		Number	Mean	St.d
Independent variables and their aspects	Customer's satisfaction	386	3.81	0.46
	Economics	386	4.24	0.50
	Convenience	386	3.41	0.60
	Tangibles	386	4.05	0.53
	Customer's loyalty	386	3.87	0.54
	Image	386	3.75	0.71
	Bank's value	386	4.15	0.72
	Credit	386	3.92	0.62
Dependent variables and their aspects	Financial performance	98	3.75	0.71
	Profitability	98	3.41	0.91
	Risk	98	3.17	0.82

Source: Research's data

Table 5. Cronbach's alpha coefficient and correlation coefficient of customer's satisfaction and customer's loyalty and financial performance

	Cronbach's alpha coefficient	ECON	CONV	TANG	IMG	VAL	CRD	SAT	LOY
ECON	0/891	1							
CONV	0/821	0/829**	1						
TANG	0/811	0/768**	0/837**	1					
IMG	0/851	0/754**	0/791**	0/822**	1				
VAL	0/845	0/404**	0/505**	0/563**	0/555**	1			
CRD	0/875	0/580**	0/754**	0/791**	0/822**	0/768**	1		
SAT	0/962	0/320**	0/154**	0/291**	0/612**	0/536**	0/738**	1	
LOY	0/822	0/576**	0/725**	0/345**	0/417**	0/658**	0/681**	0/741**	1
F P	0/938	0/188**	0/422**	0/498**	0/558**	0/580**	0/597**	0/597**	0/488**

Source: Research's data (** coefficients are significant in the level of 0.01)

Table 6. Multiple regression analysis for predicting the financial performance based on the variables of customer’s satisfaction and customer’s loyalty

Model	Non-standard coefficients		Standard coefficients	t	Significance level
	B	Std.Error	Beta		
Constant value	1.492	0.195		7.669	0.000
Customer’s satisfaction	0.354	0.041	0.465	8.678	0.000
Customer’s loyalty	0.280	0.053	0.281	5.237	0.000

Source: research’s data

6. CONCLUSION

The findings of this research shows that there is a positive and significant relationship the customer’s satisfaction (economics, convenience, tangibles) and customer’s loyalty (bank’s image, bank’s value, bank’s credit) and financial performance in Resalat bank. Also the results indicate that the credit aspect has the most correlation and economics have the least correlation with the financial performance. According to the findings, the first main hypothesis about the existence of a positive and significance relationship is confirmed due to the correlation coefficient of (0.597). That is to say that as he customers’ satisfaction from Resalat bank increases, this satisfaction will be followed by improvement of financial performance in the organization. This is because the cost of keeping an existing customer is very lesser than absorbing a new one and the regular customer are significantly more profitable than the customers who visit just for one time.

The results obtained from this study are compatible with the findings of Fazl Zadeh et al. [19], Fathoallah Zadeh et al. [20], Mohammadi et al. [21], Qasemi and Khosravi [22], Bernhardt et al. [23], Chi and Gursoy [25], Dotson and Allenby [26], Alafi and Husain Alsufy [27], Narayanan et al. [28], Lombert and Louis [29], Galbreath and Shum [30]. The second main hypothesis of the study about the existence of the positive and significant effect of customer’s loyalty on the financial performance is confirmed due to the correlation coefficient of (0.488). That is to say that as the customers’ loyalty to Resalat bank increases, that will be followed by improvement of financial performance in the organization. The reason is that the customer’s loyalty leads to increase in profitability and improvement of financial performance by reducing the costs of obtaining new customers, reducing the customer’s sensitivity to fluctuations of interest rate and reducing costs of getting the customer familiar with methods of works in bank. The

obtained results of this study are consistent with findings of Fathoallah Zadeh et al. [20] and Lombert and Louis [29]. The first sub-hypothesis of the study about the existence of a positive and significant effect of the economics on financial performance is confirmed regarded to the correlation coefficient of (0.188). This is because as the profit rate of deposits of Resalat bank is more and its rates and costs including (loan interest rates, fees, avails of loans, and other costs for received services) are lower and also the time consumed to receive services is lesser, the customers’ loyalty and satisfaction will increase and as a consequence the financial performance of Resalat bank will be improved. The second sub-hypothesis about the existence of a positive and significant effect of convenience on the financial performance is confirmed due to the correlation coefficient of (0.422). the reason can be the fact that as the working hours of Resalat bank and customers’ convenience to the services and bank’s facilities and surrounding parking area are more, and as the time required to reach bank and the distance from bank to the other banks are lesser, the customers’ loyalty and satisfaction will increase and consequently the financial performance of Resalat bank will be improved. The third sub-hypothesis of the study about the existence of a positive and significant effect of tangibles on financial performance is confirmed due to the correlation coefficient of (0.498). The obtained result can be expressed in the way that the increase in physical environment attractiveness can lead to the increase in customers’ satisfaction and increase in number of customers and this may be effective in improvement of financial performance. The fourth sub-hypothesis of the study about the existence of the significant and positive effect of bank’s image on financial performance is confirmed regarded to the correlation coefficient of (0.558). the positive image of a bank is appeared through increase in loyalty to the service provider; thus regarded to the confirmation of this hypothesis, it can be said that since the image of any organization is the determiner of the social

atmosphere that organization acts in it, hence it can influence the customers' behavior; thus, the positive, clear and powerful image of bank may increase the customers' trust to the bank, bank's reputation and advising it to the others and as a consequence, it is considered an important factor for improving the financial performance of Resalat bank and also its consistent presence in the competition scene. The fifth sub-hypothesis of the study about the existence of the significant and positive effect of bank's value on financial performance is confirmed regarded to the correlation coefficient of (0.580). The perceived value of bank by the customers is one of the most important influencing factors in bank's success. The more the customers' perceived value of the services provided by Resalat bank including (communication and information of the bank, bank's service portfolio, bank's convenience and its reputation) is more, the competitive advantage of the bank can be increased and this can lead to increase in commitment, satisfaction and loyalty of customers to Resalat Bank and ultimately the financial performance can be improved. The sixth sub-hypothesis of the study about the existence of the significant effect of bank's credit on financial performance is confirmed regarded to the correlation coefficient of (0.597). Increase in Resalat bank's credit causes the improvement of behavioral tendencies of customers and make the customers to advertise their bank to the others and this increases the customers' satisfaction in addition to making them more trust Resalat bank and more trust causes the customers commit to Resalat bank and consequently the number of bank's customers increases and in this way the profitability and financial performance of Resalat bank are improved.

7. RECOMMENDATIONS

With the severe competition among banks in finding customers for their services and products and also the increase of customer's strength in today's competitive world, Resalat bank not only should be intended to absorb new customers, but also it must consider keeping and saving previous customers and make strong connections with them. Hence, to reach this aim, it must properly obtain customers' loyalty and satisfaction.

As Resalat bank increases its knowledge about customers' interests, behavioral habits, income level and general characteristics, it can provide

services for its customers which are closer to their demands and expectations; this leads to customers' loyalty to the bank and makes it profitability.

Improving flexibility through decentralization and adoption of flexible structures, promoting the culture of transformation and modernization, focusing on group activities and participation culture, delegating authority to the organization's personnel, focusing on training as an important tool, educating and training personnel different skills, investment in modern and proper hardware technologies, utilizing flexible production system to adopt to changes in order's types and composition, using flexible production support systems to adopt to changing conditions of orders, establishing a virtual production system, using appropriate standards and protocols in exchanging inter-organizational information, using modern informational and communicational systems and technologies in order to make appropriate and timely relationship among partner organizations, integrating the distributed components including customers, providers and coworkers in virtual organizations.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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