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The Impact of Service Quality Dimensions on Customers' Trust

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ABSTRACT

Customers' trust is an inevitable asset for organizations. The long-term relationship of customer-organization depends upon the presence of customers' trust on the organization. The significance of this phenomenon in services industry becomes even more critical where organizations have to know individual as well as contextual factors that influence on customers' trust. This study tested the impact of different dimensions of perceived service quality (reliability, assurance, responsiveness, empathy and tangibility) on customers' trust. 220 customers from Insurance sector of Pakistan were selected to form the sampling frame. Explanatory factor analysis, correlation and hierarchical multiple regression analyses were used to test proposed hypotheses. The results indicate positive relationship between different dimensions of service quality and customers' trust. This study has several insights and valuable implications for the researchers and policy makers. First, deliberate efforts are needed on the part of policy makers in Insurance companies to nurture a climate that is conducive to build long-term customer's trust to retain and expand extent of customers. In particular, front line officers must be trained to harmonize customers' need with swift and rational solutions.



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1. Introduction

Organizations can survive in today's highly competitive business environment only if they able to maintain and enhance their customers' base. For retention of a customer, customers' trust is an important determinant of it (Lee and Lin, 2005). Customers' trust is the belief and confidence on service provider about promised service (Agustin and Singh, 2005) It will create competitive advantage for the organization (Lussier, *et al.*, 2017) and strengthen its market share (Urban *et al.*, 2000). Different characteristics of services bring complexity and difference as compared to goods like simultaneous production and consumption, variability, perishability and intangibility (Onkvisit and Shaw, 1991; Zeithaml *et al.*, 1985; Rathmell, 1966). In previous literature, service quality was shown as important

antecedent of customers' trust but mostly studies service quality was taken as single construct (Chenet, *et al.*, 2010).

Due to unique socioeconomic and political dynamics, the attitude and behavior of customers in Pakistan have unique aspects. Francois (1996) highlighted characteristics of developing countries that include unstable economic conditions, poor governance and unsatisfactory law and order situation, which mostly are applied in case of Pakistan. This intensity in services sector is owing to back of peculiar sectorial characteristics of perishability, intangibility and irreversibility. For financial services decisions, people are more conscious and done rigorous working as compared to goods.

Services sector plays an important role to improve people's life standard and support government particularly to provide health and education services at mass level. Life insurance is another important economic sector that mitigates risk of life and facilitates the people at private level. The success of insurance sector is directly linked with credible name of insurance company and reliability of its service staff who are front desk officers and responsible to deal with customer on behalf of the company. Therefore, this sector prefers more customized offers that are capable to satisfy the customers' queries and deliver them best counter services. The capability of front desk officers is considered guarantee to process insurance claims swiftly and successfully for their regular customers. In addition, the credibility, and reliability of services staff reduces the mistrust of customer to process their insurance claims in urgencies or during unstable situations in the country. Irrespective to the last year's growth rate in life insurance sector, surprisingly, its insurance-to-public ratio is lowest in developing countries i.e. every sixtieth person is availed life insurance in Pakistan (Economic Survey of Pakistan, 2016) that seems a discouraging situation to maintain human life risk.

2. Literature Review

Perceived service quality is the outcome of the evaluation process after completing or receiving the services from service provider. It is based on the confirmation / disconfirmation paradigm (Oliver, 1977). The evaluation of services received is compared by expectation by the customer i.e. expectations acts as a reference point in evaluation process (Woodruff *et al.*, 1983). Expectations with the service provider is a prerequisite as every customer have some expectations before purchasing the services and used as reference point in evaluation (Day, 1977). To perform service accurately as promised, refers to Reliability (Zeithaml *et al.*, 1990). In the present study, reliability is the ability of the insurance company to perform it services as promised. Due to the involvement of financial risk, minor deviation will bring negative image to the company. Assurance is related to the courtesy and knowledge of the employee in order to convey confidence and trust (Zeithaml *et al.*, 1990). In the current study, assurance refers to the complete knowledge of the employee regarding life insurance product is very important to build a positive image of the company. Furthermore, it will help to build strong relationship with the customer. Responsiveness is the willingness of the service provider to give prompt service and help the customers (Zeithaml *et al.*, 1990). Kelleher and Miller (2006) defined responsiveness as "an organization's willingness to respond promptly to customer inquiries and complaint." In the current study, responsiveness refers to the willingness of employees of life insurance companies to respond promptly to customer inquiries and complaint. According to Parasuraman *et al.* (1988), Empathy can be defined as "the individualized attention given by the service provider to show caring attitude." In the current study, empathy refers to the individualized attention given by the employees of life insurance companies to customer to show caring attitude. In the current study, tangibility refers to the equipment, building and any other devices or material through which employees of life insurance companies give services to customer. Trust is the confidence and willingness to rely of one party over another (Moorman *et al.*, 1992). In the current study, customers' trust refers to the confidence of customer over life insurance companies. Customer of insurance company purchases the product which will give benefit to him/her after a long period of time. It is important for the company to build a trusting relationship with the customer which ultimately brings more investment to the company.

3. Methodology

The ways or approach of doing research is called Research design (Zechmeister et al. 2006). The main objective of this study was to test the hypothesis by examining the relationship of dimensions of service quality and customers' trust. Current study selected life insurance sector operating in Pakistan. Population of this study comprised of customers of life insurance located in four major regions (Karachi, Lahore, Islamabad, and Faisalabad) of Pakistan having three million customers. Sample size of this study was 220. This study has selected all four metropolitan cities of the country, which are most populous and considered major hubs of economic activities. For these both reasons, most of the insurance companies have established their head office and regional offices in these main regions. Based on homogenous characteristics within regions, firstly, all regions were taken as population clusters. As per economic survey of Pakistan (2013), during last three years, Faisalabad was most selling region for insurance policies due to various factors including backed by large number of industries, peoples' higher purchasing power and more awareness about benefits of insurance owing to higher level of education in middle and upper middle classes. Using multi-stage method, the population is further divided into 15 towns. From each of the town, random sampling was used to find the proportionate sample from all towns to ensure the representation of entire cluster and to the extent of 300 respondents. As this study aimed to investigate in life insurance sector of Pakistan where the literacy rate and income level of studied sample was very important for enhancing the reliability of results. Sample is divided into clusters comprising of main cities of Pakistan. In second stage, customers from all major companies were selected. Questionnaire were distributed to the respondent personally. In Pakistan, English is used as official language so there was no language barrier and respondents easily understood English. All measures remain in English and no translation was done in native language. Tangibility was measured by 4 item scale, Reliability was measured by 5 item scale, Responsiveness was measured by 4 item scale, Assurance was measured by 4 item scale, Empathy was measured by 5 item scale. All these above measures were adopted from "Servqual", developed by (Parasuraman *et al*, 1988). Trust was measured by four items adapted from the scales of Morgan and Hunt (1994).

H1: There is a significant relationship between reliability and customers' trust.

H2: There is a significant relationship between assurance and customers' trust.

H3: There is a significant relationship between empathy and customers' trust.

H4: There is a significant relationship between responsiveness and customers' trust.

H5: There is a significant relationship between tangibility and customers' trust.

4. Finding and Results

A total of 300 questionnaires were distributed, out of which 265 were received showing 88% response rate. A number of 45 questionnaires were discarded due to incomplete information. Response rate was high as researcher personally administered the survey. Data were collected on different demographic variables like gender, age, qualification, occupation, income, company (service provider) and to the number of years they have taken the policy. Respondents were asked to select the insurance company from the given list. This list was developed by using the data available on SECP (Security and Exchange Commission of Pakistan). Demographic analysis reveals that most of the respondents were male 203 (83.9 %), with only 39 (16.1 %) females. 102 (42 %) respondents were falling between 21-30 years age group, 86 (35.5 %) fall between 31-40 years, 37 (15 %) and 16 (6.6 %) above 51 years old. 123 (51 %) respondents hold master degree, 76 (31 %) bachelor degree and remaining 18 percent were below bachelor degree. Majority of the respondents were the customers of State Life Insurance Company (47.9 %). 24% of the respondents were associated to the second largest player of this sector i.e. EFU Life insurance. Remaining respondents belonged to other companies of insurance sector. Factor analysis was conducted to examine the construct validity by summarizing data and deleting the inappropriate items (Hair *et al.*, 1998). Principal component analysis was used as extraction method for explanatory factor analysis and Varimax method was used to explain the item variance. To test the reliability and internal consistency of the measures in the variables, Cronbach's Alpha was used. All values of Cronbach's

Alpha were within the acceptable range and none of the item was deleted. High correlation was found between the independent variables (empathy, responsiveness, tangibility, reliability and assurance) and dependent variable i.e. customers' trust. The correlation value between tangibility and customers trust was $r = .367$ at $p = .00$, positive and significant. The correlation value between reliability and customers' trust was $r = .401$ at $p = .000$, positive and significant. The correlation value between responsiveness and customers trust was $.371$ at $p = .000$, positive and significant. The correlation value between assurance and customers' trust was $r = .448$ at $p = .000$ which shows a strong relationship between the variables. The correlation between empathy and customers' trust was $.423$ at $p = .000$. This value shows strong relationship between empathy and customers' trust.

Table 1: Correlation Analysis between the Variables

	1	2	3	4	5	6
1.TANGIBILTY	(.605)					
2.RELIABILITY	.397**	(.824)				
3.RESSPONSIVENESS	.385**	.431**	(.815)			
4.ASSURANCE	.377**	.431**	.534**	(.715)		
5.EMPATHY	.334**	.405**	.512**	.531**	(.759)	
6.Customers' TRUST	.367**	.401**	.371**	.448**	.423**	(.881)

N=220.

** Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

Reliabilities (α) given in bold along the diagonal

Hierarchical regression was used to test the hypothesis related to the independent variables i.e. tangibility, reliability, assurance, empathy and responsiveness dimensions of service quality and dependent variables i.e. customers' trust. Hypothesis 1 predicted the relationship between tangibility dimension of service quality and customers' trust. Regression results between tangibility and customers' trust show significant relationship ($\beta = .118$, $p = .017$), hence accepted (see Table 2). Hypothesis 2 predicted the relationship between reliability dimension of service quality and customers' trust. Regression results between reliability and customers' trust show significant relationship ($\beta = .163$, $p = .013$), hence supported (see Table 2). Hypothesis 3 predicted the relationship between responsiveness dimension of service quality and customers' trust. Regression results between responsiveness and customers' trust show insignificant relationship ($\beta = .04$, $p = .03$), hence accepted hypothesis 5c (see Table 2). Hypothesis 4 predicted the relationship between assurance dimension of service quality and customers' trust. Regression results between assurance and customers' trust show significant relationship ($\beta = .201$, $p = .004$), hence accepted (see Table 2). Hypothesis 5 predicted the relationship between empathy dimension of service quality and customers' trust. Regression results between empathy and customers' trust show significant relationship ($\beta = .117$, $p = .011$), hence supported (see Table 2).

Table 2: Regression Analysis for Customers' Trust

Predictors	B	R ²
Tangibility	.118**	
Reliability	.163**	
Responsiveness	.042*	

Assurance	.201***	
Empathy	.177**	.30

***Correlation is significant at the .00 level (2-tailed)

** Correlation is significant at the .01 level (2-tailed)

* Correlation is significant at the .05 level (2-tailed)

5. Conclusion and Recommendation

This study systematically examined the relationships between dimensions of service quality (tangibility, reliability, assurance, empathy and responsiveness) and customers' trust in order to reduce the growth barriers in this sector. Data were gathered through quantitative approach from 220 customers of insurance sector in Pakistan. The purpose of second research question was to examine the main effect of service quality dimensions (empathy, responsiveness, assurance, tangibility and reliability) with customers' trust. Five research hypotheses were developed to identify the dimension of service quality, which play an important role in insurance sector of Pakistan. All five dimensions of service quality were found to be positive relationship with customers' trust. These results are consistent with Kassim and Abdullah (2010), who conducted study in Malaysian and Qatri markets where strong correlation was found between the dimensions of service quality and customers' trust. This study found strong correlation between responsiveness and customers' trust, which is consistent with Kassim and Abdullah (2010) who also found strong association between these variables. Their finding shows that when customer feels any un-comfort from the delivery of the service their risk level increases. In this case, customer requires information regarding the problem, which he/she is facing. If the company promptly responds to the customers' queries, it generates higher level of trust on the company's policies. This phenomenon is supported by the results of this study that if the service provider gives prompt response to the customer, it generates customer's trust and reduces the chances of customer's dissatisfaction. The correlation results between assurance and customers' trust found strong association between these variables ($r=.448$, $p=.00$) which is justified by Kassim and Abdullah (2010). This result is aligned with past studies' of Ribbink *et al.*, (2004). Study results indicate that if front desk officers have well knowledge about the insurance products and they are confident to respond customers' queries, it increases customer trust and confidence on policy terms. McColl-Kennedy and Fetter (2001) supported this concept and indicate that in case of insurance, information is very important for the customer for its future intentions. Carrying this theorem, current study found strong relationship with reliability and customers' trust, which also is aligned with the previous studies of (Parasuraman *et al.*, 1991) indicate that reliability is the most important dimension in service quality. Cho and Hu (2009) also support this argument and shows that it is the most important dimension for financial service providers. It is very much important for the financial service provider like banks, insurance firms etc. to give reliable services as high risk is involved in their operations. Customer needs to offset such risk factors using reliable information that support the results of current study that found strong relationship between tangibility and customers' trust. In this regard, Cho and Hu (2009) found it in second priority of important after reliability dimension of service quality to generate customers' trust. The purpose of this research was to investigate the impact of dimensions of service quality on customers' trust following practical implications are derived, which might be useful for managers and practitioners, Marketing research department of insurance sectors need to be strengthened and empowered to make effective strategies and methods of need identification. It's important to establish dedicated market research divisions in order to recognizing, stimulating, restructuring and associating the prospective markets along with devising required policies for insurance sector. Additionally, digital marketing can be an advanced tactic to gauge customer needs and get competitive edge against contenders (Rapp *et al.*, 2010). Companies should concentrate on customer retention by improving the skills of customers service representatives and use of advance information technology system to facilitate customers for quick responses. Standard operating procedure should be developed, which empowers the service encounter to deal according as per customer's personality. Such information about personality of customers can be helpful in understanding customers' needs with regard to their desired services. The developed operating procedure empowers the marketer to serve a customer in a more customized way

when all related information is available on demand. Chuang and Lin (2013) support the use of swift response system, which requires a customer centered planning and tasks that finally produce competitive edge against competitors. Employees at all levels, especially who hold the responsibility of customer services, should take continuous training of advanced IT education (Mahmood et al., 2000). In this way, the knowledge of employees can be increased that empowered them to analyze the level of service quality. In this way, employees are able to get useful insights to opt service standards as means of quality benchmarks (Selim, 2007; Ahmed, 2010; Alsabawy et al., 2013). This study is not free from limitations despite of its great contribution for both practitioners and academician. The nature of sample is main limitation as only insurance sector of Pakistan is taken as study population. Although, customers from different areas having different demographics were included in the sample, but there may be a concern about external validity because of single industry. So the organizations other than insurance sectors should follow the recommendations with due care. The future research should include other services sectors, having significant stakes in the country's economic growth. It was assumed that knowledge about customers' behavior is developed over time. There are chances that an organization may not have accurate knowledge about customers or may not make a best use of it to improve effectiveness and efficiency. That is why; this study's main focus was not on 'why and how' organizations are developing knowledge about customers. The prime emphasis was to developing a prudent and comprehensive framework, which makes employees able to achieve customers' trust by understanding their personalities. Present research is based on insurance sector of Pakistan. Other sectors may also consider for further investigation such as banks, tourism, hotel and hospitals. The findings of this research should be compared with similar cultural context like India and Bangladesh to increase generalizability. Sample size can also be enlarged to cover more areas and demographics over a longer period of time. A comparison among different services sectors can also be conducted in order to better understanding of customers' trust and service quality in different sectors. IT infrastructure provides flexibility for better service delivery. That's why IT based focused research can be initiated in future. Finally, this study focuses on only one outcome variable i.e. customers' trust. Other variables such as WOM, repurchase intentions and customer loyalty may also consequences of service quality, hence should study in future research. In addition, improve customer trust is important outcome of service quality that can open the avenues of greater level of customer loyalty and satisfaction. Therefore future researchers may turn their attention on including more dependent variables.

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