

Service quality effect on satisfaction and word of mouth in insurance industry

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ABSTRACT

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Quality tends to play an essential role in service industries such as banking and insurance services, as quality of service is crucial to count for the survival and profitability of the organization. Today, customer satisfaction and service quality is critical in most service industries. Taking into consideration the competitive issues from observing services quality, the subject also in the insurance industry is important based on administrative reform plan, which is required to provide quality services and meet customers' demands. This study aims to assess the factors influencing the positive words of mouth in the insurance services market. The population is Iran insurance company's customers in Guilan and 409 individuals were selected by simple random sampling. To collect data, a questionnaire was used and structural equation SEM and LISREL software was used to analyze the data. The findings indicate a significant positive relationship between all aspects of service quality and customer satisfaction. The results indicate that there was a significant positive relationship between customer satisfaction and customer words of mouth. Therefore, we can conclude that there were significant positive relationships between the dimensions of service quality with customer satisfaction and customer words of mouth in Iran insurance company in Guilan province.

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1. Introduction

Nowadays, many organizations face with the challenges in providing reliable service quality. Service quality is an essential factor for sustainable growth of organizations. The intense competition leads the service quality to become a key determinant for the success and for the survival of organizations. In fact, we live in a customer-oriented economy where the customer has the right to choose (Eboli & Mazzulla, 2007). So all organizations are looking to absorb customers and increase their customer satisfaction. Customer satisfaction and perceptions influence future behavior and an increase on customer satisfaction will improve organizational performance. Word of mouth advertisement plays essential role on the formation of attitudes in purchasing decisions and reducing the risk associated with many purchasing decisions.

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Many insurance firms look for building sustainable growth on the market through providing quality services. Service features such as being intangible, heterogeneous and inseparability of production and consumption lead customers to deal with marketing research more before buying to prevent negative word of mouth (Bush et al., 2005). Service organizations attempt to encourage others for positive word of mouth using more “effective marketing programs”. This issue is more important in insurance companies that are in direct contact with customers. Today, retaining customers and increasing customer loyalty in the competitive environment of service areas is becoming increasingly difficult. It is also getting difficult to provide quality services for service firms, especially insurance companies. This paper concentrates on the effects of the effects of service quality on customer satisfaction and increasing the word of mouth advertisement in insurance industry (Ennew et al., 2000).

2. Theoretical and research background

One of the key requirements in the development of business organizations and is that they need to consider customer as their main objectives and activities. The terms customer and customer satisfaction in service organizations, especially insurance companies play essential role for building successful organizations. To provide different services from insurance companies in order to retain existing customers and to attract new customers and finally to gain a larger market share it is essential to offer high quality services (Armstrong et al., 2005). Therefore, knowledge of the organization image with customers in order to identify the strengths and weaknesses and to improve performance is considered as a top priority for all organizations, especially insurance companies. One of the primary ways in which a service company can be given to distinguish it from its competitors is to provide permanent superior quality services. Many companies are realizing that providing quality services can bring strong and secure competitive advantage for them, advantage that ultimately leads to higher sales and profits (Kotler & Armstrong, 2013).

2.1 Service Quality

Service quality has been considered as the most important factor determining the success of service organizations in today's competitive environment. Any decline in customer satisfaction due to the poor quality of service may create various concerns for service organizations. Customers become more sensitive to service standards and with competitive trends, their expectations of service quality have also increased (Haj Karimi et al., 2009). Service quality is described as the degree of difference between the perceptions and expectations of the customers from services (Othman & Owen, 2001). Service quality is considered as one of the effective ways to achieve strategic interests, such as customer retention rates or increased effectiveness and operating profit gain (Sohail & Shaikh, 2008). In fact, client and customer satisfaction and service quality are being considered as an essential issue in most service industries. Quality of products and services is not only a strategic issue for companies and organizations working in the area of business, but also it is very important for the national economy (Thai, 2008).

Several models have been proposed for quality of services including Grönroos model (Grönroos, 1984), Lehtinen & Lehtinen model (Lehtinen & Lehtinen, 1982), Johnston model (Johnston, 1995), SYSTRA-SQ model (Aldlaigan & Buttle, 2002), Parasuraman et al. (1985). In this paper, Parasuraman SERVQUAL model is used in measuring service quality variable. SERVQUAL instrument was made based on the service quality gap model. The origin of the gap model can be found in the early writings of customer dissatisfaction. The proposed study is adopted from the earlier study developed by Ioannis and Constantine (2009) in Fig. 1. Improving the quality of services attract new customers and enables the organization for customer retention. Providing better services increases purchases and expands positive word of mouth, which creates new clients. Another direct effect of service quality is to enhance the organization's ability to provide effective and efficient

service to customers as the organizations may find about their customers' needs. Increasing efficiency and effectiveness in service delivery will increase the organization profitability (Seyyed Javadin & Kimasi, 2005).

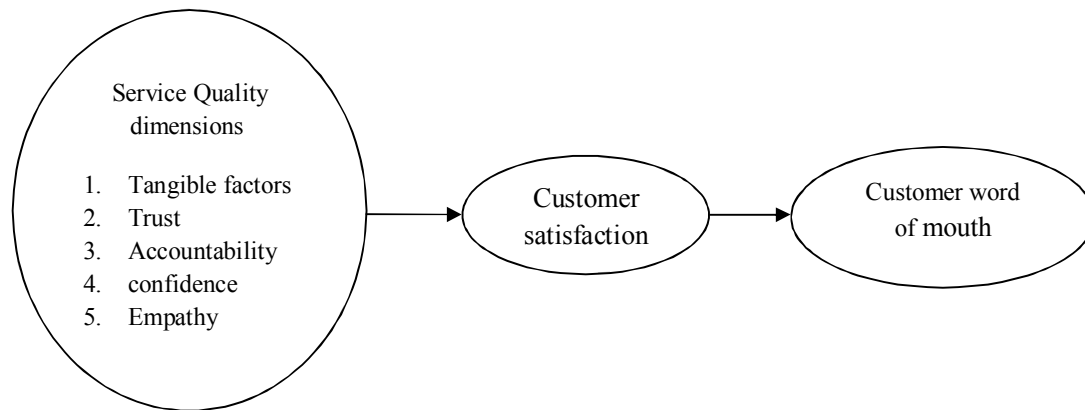


Fig. 1. Conceptual model (Ioannis & Constantine, 2009)

There are five dimensions associated with SERVQUAL, which are tangibles, assurance, reliability, responsiveness and empathy (Shokoohi, 2008). Tangibles refer to physical conditions, decoration, adornment appearance in location of service, appearance of staff and modern equipment. Indicators used to measure the tangible factors include modern equipment, clean and neat appearance of staff, ordered of the documents and physical facilities and attractive view (Seyyed Javadin & Kimasi, 2005). Reliability is another component of the service quality. This dimension is associated with dealing with client work on time, desire to solve customer problems, lack of functional errors and providing appropriate services in the first meeting. Responsiveness is described as the ability of handling complaints and improving service effectively. Assurance is the ability to properly serve customers at the first time and its measures in questionnaire are knowledge, having politeness and courtesy in dealing with clients and customer confidence and security through the behavior of employees. Empathy involves trying to understand the specific needs and customers' demand, individual attention to them and identifying permanent customer (Seyyed Javadin & Kimasi, 2005; Chi & Gursoy, 2009).

2.2 Customer perceptions of service quality

The customer's perception of the general quality or superiority of a product or service compared with other alternatives is defined as perceived quality (Keller, 2011). Perceived service quality is defined as the consumer's judgment about being supreme of an entity or "excellence" and is different from objective quality, which includes an objective or structural aspects of a thing or an event. Perceived quality is a sort of an attitude associated with satisfaction and it is a result of the comparison between expectations and perceptions of performance rather than the same (Hashemzadeh, 2009). It can be said that customer service perception depends on the customer's expectations (Cook, 2000).

2.3 Customer Satisfaction

Customer satisfaction is assessed based on the extent to meet his/her needs. The extent to meet customer needs also depends on the quality of goods and services. In other words, the quality is the same as features and characteristics that must be present in the goods and services to satisfy the needs. Customer satisfaction is the degree of acceptance whereby customer acquires because of different characteristics of goods and it is a source of profitability and the reason for the organization's activities (Paulin et al, 2006). Linfield psychologically defined customer satisfaction as a feel obtained from the comparison between the products percept with the needs and demands of customers and society expectations in relation to the product (Kavoussi & Saghaei, 2005). Customer satisfaction is obtained when the performance of the company can meet customer expectations. If

performance is below expectations, customer will dissatisfied and if the performance is equal to expectations, he/she will be satisfied. If performance is more than expected, he/she will be very pleased and satisfied (Kotler and Armstrong, 2013). Customer satisfaction will have a significant impact on the lives of organization present and future. According to Schlesinger and Heskett (1994) the relationship between customer satisfaction and employee satisfaction in the organization is defined as follows



Fig. 2. Optimal service cycle (Khodayari fard, 2009)

According to the theory, satisfaction feel will increase tolerance threshold required to pay more for the product, thereby it can increase the amount of benefits and wages paid to employees. This will reduce the exit and replacement labor. Those organizations following this philosophy will be more successful and ultimately gain more benefits. In this situation, the interests of employees, customers and organization owners are supplied (Saffarinejad & Rahimi, 2008).

2.4 Word of Mouth

Word of mouth or “Buzz marketing” is still considered as an important marketing element. Previous studies indicate that word of mouth can be a significant impact on consumer buying behavior and their satisfaction of products and services. In addition, consumers tend to trust more to get personal information (Bush et al., 2005). Communications or word of mouth importance is well regarded in services area. Word of mouth has provided important information about organizations to consumer and this information are often effective in their decisions that whether or not it is supportive and encouraging an organization (Maxham, 2001). Word of mouth is also referred to as a factor influencing in reducing the consumers risk when purchasing decisions. Scientists believe that word of mouth plays an essential role in particular for the success of service providers. Services is such that customer cannot be tested before buying and service has a nature that is difficult to evaluate before purchasing. It should be noted that today, creating strong competition among insurance companies, rising customer expectations for high quality service and rapid changes in technology require insurance companies to provide quality service to customers and keeping them satisfied. It is therefore important that officials of insurance companies should be considered scientific research on this subject toward identifying the constituent elements of quality and provides better service. Ioannis and Constantine (2009) reported that dimensions of service quality could influence on customer satisfaction and word of mouth and there was a positive relationship between service quality dimensions with customer satisfaction and word of mouth. Arasly et al. (2005) reported a significant difference between customer expectations and perceptions in service quality dimensions, a direct relationship between perceived service quality and customer satisfaction and a direct relationship between customer satisfaction and word of mouth. Kang and James (2004) reported that service quality had three dimensions of technical quality, functional quality and the image.

3. The proposed study

Main Hypothesis: There is a relationship between the dimensions of service quality with customer satisfaction and word of mouth in the branch of Iran's insurance companies, Guilan.

3.1. Sub- Hypothesis

H₁: There is a relationship between the tangible and customer satisfaction in the branch of Iran's insurance companies, Guilan.

H₂: There is a relationship between the responsiveness and customer satisfaction in the branch of Iran's insurance companies, Guilan.

H₃: There is a relationship between the reliability and customer satisfaction in the branch of Iran's insurance companies, Guilan.

H₄: There is a relationship between the assurance and customer satisfaction in the branch of Iran's insurance companies, Guilan.

H₅: There is a relationship between the empathy and customer satisfaction in the branch of Iran's insurance companies, Guilan.

H₆: There is a relationship between customer satisfaction and word of mouth in the branch of Iran's insurance companies, Guilan.

This research is a descriptive correlation study and its objective is application. The population is the customers of Iran insurance company branches in Guilan.

$$N = Z_{\alpha/2}^2 \frac{p \times q}{e^2}, \quad (1)$$

where N is the sample size, $p = 1 - q$ represents the probability, $z_{\alpha/2}$ is CDF of normal distribution and finally ε is the error term. For our study we assume $p = 0.5$, $z_{\alpha/2} = 1.96$ and $e = 0.05$, the number of sample size is calculated as $N = 409$. To measure the main variables in this study, Ioannis and Constantine (2009) questionnaire was used designed as a five-point Likert scale. The questionnaire consisted of two sections. The first part is about general questions. This part is associated with demographic characteristics of respondents including gender, age, education, and experience with Iran Insurance, customer monthly income and insurance type used by clients. The second part of the question measured the variables including five dimensions of independent variable service quality (Tangible, responsiveness, reliability, assurance and empathy) and the dependent variable (word of mouth) and mediator variable (Customer satisfaction). Content validity has been used to assess the validity of the questionnaire. The content validity of the questionnaire was confirmed by a number of corporate and academic experts. Cronbach alpha coefficient was used to assess the reliability. The Cronbach alpha coefficient obtained through software Spss for all variables were above 70 % that indicate the reliability of the measuring instrument is appropriate. Structural equation modeling SEM is a powerful multivariate multiple analysis from family of multivariate multiple regression. And more exactly, it is an extension of the general linear model GLM that allows the researcher to examine a set of regression equations simultaneously. In this study, structural equation modeling and LISREL8.53 software is used to analyze the data and test the research hypotheses. Data analysis in this study had been taken place both in descriptive and inferential statistics. For descriptive statistics, statistical data related to the distribution of respondents in demographic and other characteristics in the questionnaire are presented. This section also used the frequency distribution tables and statistical graphs to describe respondents. In the inferential statistics, path analysis model was conducted by LISREL software and thereby to test the hypothesis. In our study, 79.2% of the participants were male and 20.8% of them were female. Fig. 3 shows other characteristics of the participants.

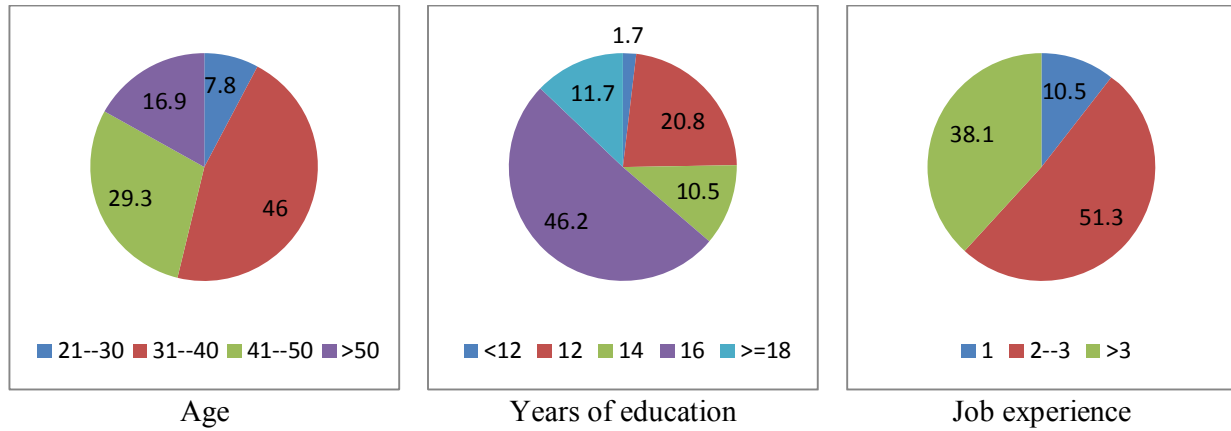


Fig. 3. Personal characteristics of the participants

The proposed study of this paper uses structural equation modeling to examine various hypotheses of the survey and Fig. 4 demonstrates the summary of standard coefficients as well as t-student values.

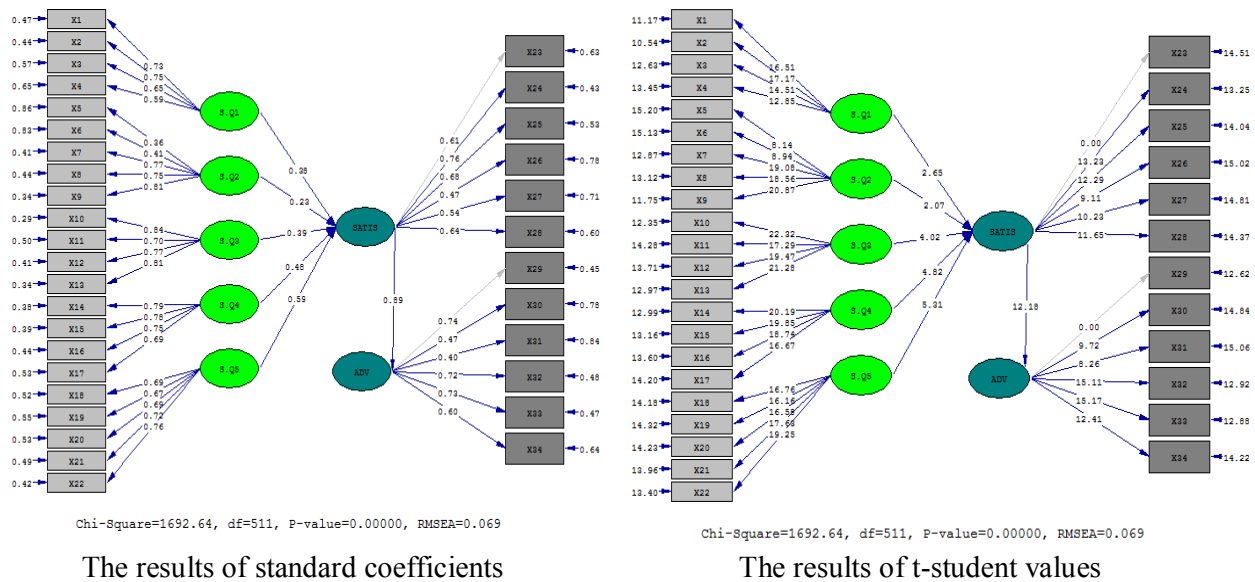


Fig. 4. The summary of standard coefficients as well as t-student values

Table 2 demonstrates the results of some basic statistics such as Chi-Square value, etc.

Table 2

Summary of confirmatory factor analysis and indexes of goodness of fit

| index | Chi-Square/df | GFI | AGFI | RMSEA | IFI | CFI |
|---------|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Value | | 0.83 | 0.80 | 0.069 | 0.81 | 0.91 |
| Optimum | $1 \leq \&\leq 5$ | $0.8 \leq \& \leq 1$ | $0.8 \leq \& \leq 1$ | $0 \leq \& \leq 0.1$ | $0.8 \leq \& \leq 1$ | $8.0 \leq \& \leq 1$ |

As we can observe from the results of Table 2, all statistics are within acceptable levels. In addition, Table 3 shows details of correlation coefficients between different components. This step would be to test the research hypotheses. To confirm or to reject the hypothesis, standardized structural model of the research and significant number will be used. Criteria to approve or reject the hypothesis are that if the t-statistic is in the interval $[1.96 \& -1.96]$, hypothesis was rejected and otherwise the hypothesis is confirmed. Table 4 summarizes the results of our investigation.

Table 3
Correlation coefficients of variables

| Variables | Mean | Sd | Cronbach's alpha | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------------------|-------|-------|------------------|---------|---------|---------|---------|---------|---------|---|
| 1.Tangible | 3.713 | 0.683 | 0.825 | 1 | | | | | | |
| 2.Reliability | 3.494 | 0.693 | 0.759 | **0.642 | 1 | | | | | |
| 3.Responsiveness | 3.603 | 0.757 | 0.893 | *0.631 | **0.605 | 1 | | | | |
| 4.Assurance | 3.498 | 0.744 | 0.747 | *0.607 | **0.772 | **0.734 | 1 | | | |
| 5.Empathy | 3.496 | 0.672 | 0.800 | **0.701 | **0.789 | **0.790 | **0.701 | 1 | | |
| 6.Customer | 3.564 | 0.632 | 0.846 | **0.590 | **0.718 | **0.710 | **0.794 | **0.741 | 1 | |
| 7.Word of mouth | 3.507 | 0.619 | 0.777 | **0.442 | *0.684 | **0.695 | **0.710 | **0.700 | **0.696 | 1 |

** Coefficients are significant at 0.01

Table 4
The summary of testing the hypotheses

| Path analysis | Standard coefficient | t-value | Result |
|--|----------------------|---------|-----------|
| Tangible → Customer satisfaction | 0.38 | 2.65 | Confirmed |
| Reliability → Customer satisfaction | 0.23 | 2.07 | Confirmed |
| Responsiveness → Customer satisfaction | 0.39 | 4.02 | Confirmed |
| Assurance → Customer satisfaction | 0.48 | 4.82 | Confirmed |
| Empathy → Customer satisfaction | 0.59 | 5.31 | Confirmed |
| Customer satisfaction → Word of mouth | 0.89 | 12.18 | Confirmed |

According to the results of Table 4, we can say that finally after testing the model in our study, all hypotheses have been confirmed.

5. Conclusions

Service quality is an important factor for growth, success and sustainability of the organization. In this paper, we have presented an empirical investigation to study the effects of service quality on customer satisfaction and the effects of customer satisfaction on word of mouth advertisement. The study has adopted a standard questionnaire for measuring various components of service quality and customer satisfaction in insurance industry and confirmed that all components of service quality including Tangible, Reliability, Responsiveness, Assurance and Empathy influence on customer satisfaction, positively. In addition, customer satisfaction also influences on word of mouth advertisement, positively. The results of this study are consistent with findings of Ioannis and Constantine (2009).

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