

The Relationship Between Service Quality with Customer Satisfaction and Words of Mouth (Iran Insurance Branch, Guilan)

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Abstract: The desire to services quality plays an important role in the service industries such as insurance services and banking, etc. 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. Given 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 customer's demands. This study aims to assess the factors affecting the positive words of mouth in the insurance services market. The population is 409 customers from Iran insurance company, Guilan that 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. Findings indicate that there is significant positive relationship between customer satisfaction and customer words of mouth. Therefore, we can conclude that there is significant positive relationship between the dimensions of service quality with customer satisfaction and customer words of mouth in Iran insurance company in Guilan province.

Key words: Service quality, customer satisfaction, words of mouth, SEM and LISREL, collect data

INTRODUCTION

In the world today, organizations management facing with the challenges of quality and its acceptance in the services sector is increasingly enhanced. Service quality is an important factor for growth, success and sustainability of the organization and as a strategic, effective and comprehensive subject has been considered in management agenda. The intense competition leads the service quality to become a key factor for the success and survival of an organization. Now a days, we live in a customer-oriented economy where the customer comes first. So all organizations are looking to attract customers and increase satisfaction. Customer satisfaction and perceptions of a set strongly influence her future behavior and increase satisfaction will improve her/his future behavior on organization. The importance of words of mouth regarding the formation of attitudes in purchasing decisions and reducing the risk associated with many buying decisions are taken into consideration. To improve services quality is necessary due to continuous born of insurance companies in the private sector and privatization of insurance companies and competition in the insurance industry. 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 are trying to encourage others to positive word of mouth using more "effective marketing programs". This especially is important in insurance companies that are in direct contact with customers. Today, retain customers and increase customer loyalty in the competitive environment of service areas is increasingly difficult and to provide quality services would be the major challenges for service firms, especially insurance companies. Since, Iran insurance companies in Guilan like all insurance companies in the country need to create a strategic vision of how to design and deliver services in line with the style and customer satisfaction and this is possible and practical only through accurate identification and analysis of factors affecting the satisfaction, so given the importance of this subject, the present research try to investigate the relationship between service quality dimensions and customer satisfaction and words of mouth in Iran insurance company. So the basic question is that whether there is a relationship between the dimensions of service quality with customer satisfaction and words of mouth in Iran insurance company?

Theoretical and research background: One of the key requirements in the development of organizations and companies 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 due to total dependence on customers to survive is two-fold importance. To provide different services from insurance companies in order to retain existing customers and attract new customers and finally gain a larger share of the competitive market imply its importance. So, knowledge of the organization image with customers in order to identify the strengths and weaknesses and improve performance is considered a top priority for all organizations, especially insurance companies. One of the basic ways in which a service company can be given to distinguish it from its competitors is to provide permanent superior quality services compared them. Many companies are realizing that provide quality services can bring strong and secure competitive advantage for them, advantage that ultimately leads to higher sales and profits (Kotler and Armstrong, 2005).

Service quality: Service quality has been attention 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 cause to create concerns for service organizations. Customer become more sensitive to service standards and with competitive trends, heir expectations of service quality has also increased (Karimi *et al.*, 2009). Service quality is defining as the degree of difference between the perceptions and expectations of the customers from services. Service quality is as one of the effective ways to achieve strategic interests, such as maintaining customer rates or increased effectiveness and operating profit gain (Sohail and Shaikh, 2004). In fact, now a days, client and customer satisfaction and service quality are being considered as a vital issue in most service industries. Quality of products and services not only is of strategic importance for companies and organizations working in the area of business but also is very important for the national economy. Several models have been proposed for quality of services including, that in this study Parasuraman SERVQUAL Model is used to 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 (Fig. 1).

Improve the services quality cause to attract new customers and also enables the organization to maintain its current customer. Provide better service to customers make repeat purchases and to expand positive word of mouth to potential clients. Another direct effect of service quality is to enhance the organization's ability to provide

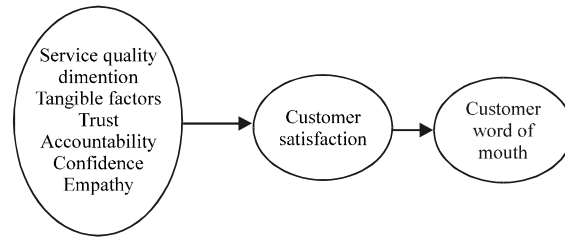


Fig. 1: Conceptual model (Chaniotakis and Lymperopoulos, 2009)

effective and efficient service to customers as the organization has found that what customers have desires and needs. Therefore, it is reduced or eliminated unnecessary services. Increasing efficiency and effectiveness in service delivery will increase the organization profitability. The dimensions of the SERVQUAL Model are included tangibles, assurance, reliability, responsiveness and empathy.

Tangibles: This factor refers 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.

Reliability: The extent that the service is believing. Organization's reputation, staff conduct front counter all contribute to the reliability. This dimension is concerned with dealing with client work on time, desire to solve customer problems, lack of functional errors and provide appropriate manner in the first meeting.

Responsiveness: Responsiveness is defined as the ability to handle complaints and improving service effectively. Indicators used to measure responsiveness in questionnaire are just in time delivery, responsiveness to customers and to help customers solve problems.

Assurance: The ability to properly service at the first time called assurance. 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: Empathy involves trying to understand the specific needs and demands of customers, individual attention to them and identifying permanent customer. Its measure in the questionnaire is personal attention to clients; satisfy their needs, suitable working hours for customers and wanting the best interests for clients.

Customer perceptions of service quality: The customer's perception of the general quality or superiority of a product or service according to the purpose of that product or service compared to other alternatives is defined as perceived quality (Keller, 2008). Perceived service quality is defined as the consumer's judgment about being supreme of an entity or "excellence" and is different from objective quality that includes an objective or structural aspects of a thing or an event. Perceived quality is a kind of an attitude that is related to satisfaction and it is a result of the comparison between expectations and perceptions of performance rather than the same. Parasuraman and colleagues also support the idea that quality of service is a comprehensive evaluation similar to attitude (Hossein, 2009). It can be said that customer service perception depends on the customer's expectations. If how to customer service perception is less than expectations, service will appear weak (Colleen and Fred, 2000).

Customer satisfaction: Customer satisfaction is assessed based on the extent to meet his need. 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). Lingfield psychologically defined customer satisfaction as a feel that is obtained from the comparison between the products percept with the needs and demands of customers and society expectations in relation to the product (Kavoosi and Saghaei, 2013).

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 will be satisfied. If performance is more than expected, he will be very pleased and satisfied (Kotler and Armstrong, 2005). Customer satisfaction will have a significant impact on the lives of organization present and future. Schlesinger and Heskett stated their belief in the optimal service cycle to provide theory based on the existence of the relationship between customer satisfaction and employee satisfaction in the organization as following.

According to the theory, satisfaction feel will be increased tolerance threshold required to pay more for the product, thereby can increase the amount of benefits and wages paid to employees. This will reduce the exit and

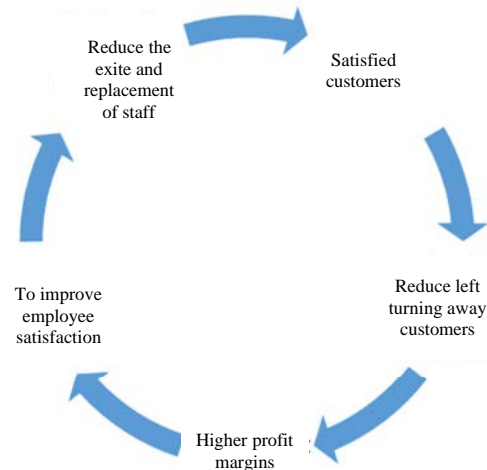


Fig. 2: Optimal service cycle (Khodayari, 2009)

replacement labor. In addition to providing job satisfaction and improved work morality, likely increased customer satisfaction. Those organizations to follow this philosophy will be more successful and ultimately gain more benefits. In this situation, the interests of employees, customers and organization owners are supplied (Saffarinejhad and Rahimi, 2008) (Fig. 2).

Word of mouth: Word of mouth or as recently has been labeled the "Buzz marketing" 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 is supportive and encouraging an organization. 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 important role in particular for the success of service providers. Because services is such that customer can not test it before buying and ensure about it. Thus, the service has a nature that is difficult to evaluate before purchasing. It should be noted that today, create 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. To better understand the relationship between service quality and customer satisfaction we refer to the results of some research. In a study had been carried out by Chaniotakis and Lympelopoulous (2009) entitled “The impact of service quality on customer satisfaction and word of mouth”, they showed that dimensions of service quality influence on customer satisfaction and word of mouth and there is positive relationship between service quality dimensions with customer satisfaction and word of mouth (Chaniotakis and Lympelopoulous, 2009). In research conducted by Hossein (2009) at the Bank of Greece under the title of “The impact of service quality on customer satisfaction based on SERVQUAL Model”, results indicated significant difference between customer expectations and perceptions in service quality dimensions and the results showed that there is direct relationship between perceived service quality and customer satisfaction and there is a direct relationship between customer satisfaction and word of mouth (Arasli *et al.*, 2005). In a study on “Gronroos service quality model” indicated that service quality has three dimensions of technical quality, functional quality and the image. The image acts as a filter on the customer service quality perception. Also, technical and functional quality directly affects the perceived service quality. Service quality will ultimately lead customer satisfaction. This study that was conducted in the phone service industry implies that this model compared to its American perspective (SERVQUAL Model) that considers only the functional quality is more suitable for display service quality dimensions.

Hypothesis

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

Sub-hypothesis:

- H₁: There is relationship between the tangible and customer satisfaction in the branch of Iran’s insurance companies, Guilan
- H₂: There is relationship between the responsiveness and customer satisfaction in the branch of Iran’s insurance companies, Guilan
- H₃: There is relationship between the reliability and customer satisfaction in the branch of Iran’s insurance companies, Guilan
- H₄: There is relationship between the assurance and customer satisfaction in the branch of Iran’s insurance companies, Guilan

- H₅: There is relationship between the empathy and customer satisfaction in the branch of Iran’s insurance companies, Guilan
- H₆: There is relationship between customer satisfaction and word of mouth in the branch of Iran’s insurance companies, Guilan

MATERIALS AND METHODS

This research is a descriptive correlation study and its objective is application. The population is the customers of Iran insurance company branches in Guilan. In this study, given that the customers make up a large population and their number is indefinite, finite population formula is used to determine the number of samples. That according this 409 clients were randomly selected as a sample:

$$n = \frac{Z_{\alpha}^2 S_x^2}{e^2}$$

To measure the main variables in this study, Chaniotakis and Lympelopoulous (2009) questionnaire was used which was designed as a 5-point Likert scale. The questionnaire consisted of two sections. The first part is about general questions. This part is related to 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.

RESULTS AND DISCUSSION

In this study, the results of the descriptive statistics and the results of testing research hypothesis are presented. Table 1 indicates the frequency of

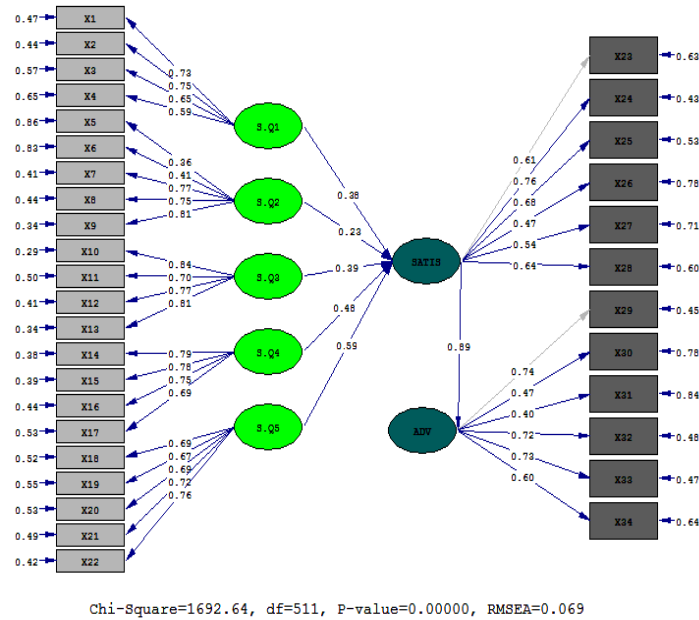


Fig. 3: Standardized test

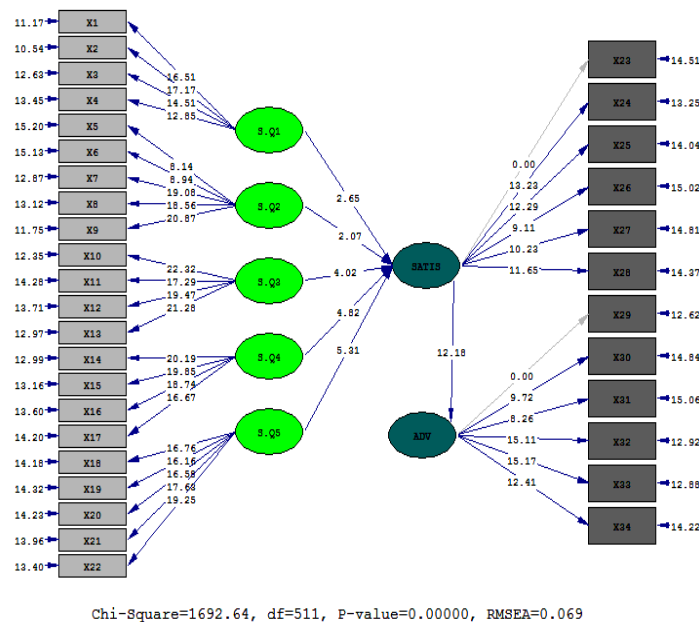


Fig. 4: Significant test

demographic variables that show that highest and lowest customers are male and women with 79.2 and 20.8, respectively. Among all subjects, the highest frequency is related to people aged 31-40 years and the highest frequency is related to bachelor degree with 46.2% and the highest work experience with Iran Insurance by customers is 2-3 years. The highest frequency with 51.8% is related to customers with income above 7,000,000 rials (Fig. 3 and 4, Table 1).

To test the hypotheses, standard structural model significant numbers will be used. The following table defines the types of fit indexes and significant for

research model. In general, the more value of this index is close to 1, the more model fit is in very good condition. As the table suggests, the model is in good condition in the goodness of fit. Considering the results of the data analysis, the tables below show the correlation coefficient variables (Table 2). This step would be to test the research hypotheses. To confirm or 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 and -1.96], hypothesis was rejected and otherwise the hypothesis is confirmed (Table 3).

Table 1: Describe the demographic variables

| Demographic variables | Frequency of respondents |
|--|--------------------------|
| Gender | |
| Male | 79.2 |
| Female | 20.8 |
| Age | |
| 21-30 | 7.8 |
| 31-40 | 46.0 |
| 41-50 | 29.3 |
| Above 50 | 16.9 |
| Education | |
| Under diploma | 1.7 |
| Diploma | 20.8 |
| Advanced diploma | 10.5 |
| Bachelor | 46.2 |
| M.A or higher | 11.7 |
| Time experience with Iran insurance (years) | |
| 1 | 10.5 |
| 2-3 | 51.3 |
| Over 3 | 38.1 |
| Monthly income | |
| <3,000,000 rials | 1.5 |
| 300-700 thousands rails | 46.7 |
| Above 700 thousands rails | 51.8 |

Table 2: Summary of confirmatory factor analysis and indexes of goodness of fit

| Indexes | Values | Optimum |
|-------------|--------|-------------------------|
| χ^2/df | | ≤ 5 and ≤ 1 |
| GFI | 0.830 | ≤ 1 and ≤ 0.8 |
| AGFI | 0.800 | ≤ 1 and ≤ 0.8 |
| RMSEA | 0.069 | ≤ 0.1 and ≤ 0 |
| IFI | 0.810 | ≤ 1 and ≤ 0.8 |
| CFI | 0.910 | ≤ 1 and ≤ 0.8 |

Table 3: Correlation coefficients of variables

| Table 3: Correlation coefficients of variables | | | | | | | | | | |
|--|-------|-------|------------|---------|---------|---------|---------|---------|---------|------|
| Variables | Mean | SD | Cronbach's | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | | | alpha | | | | | | | |
| Tangible | 3.713 | 0.683 | 0.825 | 1.00 | | | | | | |
| Reliability | 3.494 | 0.693 | 0.759 | 0.642 | 1.00 | | | | | |
| Responsiveness | 3.603 | 0.757 | 0.893 | *0.631 | **0.605 | 1.00 | | | | |
| Assurance | 3.498 | 0.744 | 0.747 | *0.607 | **0.772 | **0.734 | 1.00 | | | |
| Empathy | 3.496 | 0.672 | 0.800 | **0.701 | **0.789 | **0.790 | **0.701 | 1.00 | | |
| Customer | 3.564 | 0.632 | 0.846 | **0.590 | **0.718 | **0.710 | **0.794 | **0.741 | 1.00 | |
| Satisfaction word of mouth | 3.507 | 0.619 | 0.777 | **0.442 | *0.684 | **0.695 | **0.710 | **0.700 | **0.696 | 1.00 |

***Coefficients are significant at 0.01

Table 4: Results of hypothesis testing

| Path analysis | Standardized coefficient | t-statistics | Conclusion (Sig.0.95) |
|--------------------------------------|--------------------------|--------------|-----------------------|
| Customer satisfaction-Tangible | 0.38 | 2.65 | Confirmed |
| Customer satisfaction-Reliability | 0.23 | 2.07 | Confirmed |
| Customer satisfaction-Responsiveness | 0.39 | 4.02 | Confirmed |
| Customer satisfaction-Assurance | 0.48 | 4.82 | Confirmed |
| Customer satisfaction-Empathy | 0.59 | 5.31 | Confirmed |
| Word of mouth-Customer satisfaction | 0.89 | 12.18 | Confirmed |

According to the results we can say that finally after testing the model in our study, all hypotheses were confirmed (Table 4).

CONCLUSION

Service quality is an important factor for growth, success and sustainability of the organization. As a strategic, effective and comprehensive subject has been considered in management agenda. The intense competition leads the service quality to become a key factor for the success and survival of an organization. Due to continuous born of insurance companies in the private sector and privatization of insurance companies and as a result of competition in the country insurance industry, there is need to improve the quality of 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. Considering the results of the hypotheses and the results of research conducted in this area and according to the model, executives in the insurance industry can increase their customer's satisfaction towards services provided through strategic, timely and accurate planning and efficient and effective use of the elements and thereby strengthen their competitive position in the market and to continually achieve greater profits.

SUGGESTIONS

As a result, managers can consider the following suggestions:

- Branches that have unfit appearance and layout must identify and attempt to improve their appearance and layout
- Technologies, tools and advanced equipment (such as Internet in service provider, etc.) should be used more efficiently. However, the tools and equipment must introduced to customers and the required trained should be provide them in various ways such as conducting awareness campaign
- Providing internal comfort items inside the branches such as seats, air conditioning, water, etc. should be considered for the welfare of more customers
- Management should pay attention to the staff cleanliness and the adornment. In this regard, they must provide the necessary facilities for employees
- Management to establish the branches must choose spaces where many variables including distance from the other branches, the concentration of population, etc. should be considered
- Management adopting measures that perform their services at a time when it had promised. In this regard, they must provided the required guarantees for customers and in not promised the compensation to be paid to customers
- Diverse services should be considered in management followed by promote the people awareness from the types of insurance services and provide advice on the use of various insurance services
- Manual on the production and distribution of all types of insurance, cost rate and generally, all insurance services to offer customers
- Identify crowded branches and attract employees needed for the branch in order to better meet customer to raise awareness of employees through education about the importance of responding quickly and appropriately to customers
- Management should be considered measures including the conduct of reward and punishment which makes staff dealing with customers politely
- In the selection of employees, particularly employees who have direct contact with customers, carefully precision must applied and those applied who have appropriate behavior
- Training should be managed in all working life and this point must be considered in relation to staff training that training should be related to individual tasks and activities to enhance their knowledge
- Pay special attention from staff to customers, pay attention to the specific needs of each client and respect for the economically active clients should be considered by managers and employees. And for this purpose it is necessary to considered person to person marketing until through continuous and mutual communication between organizations and individual clients meet their special needs
- It is necessary to be more acceptable work hours of insurance companies to clients
- It is suggested that, privacy policy holder should be more attention by managers through the hidden identity of the clients, privacy, etc.
- Managers should try to offer customer service that fits their needs and must provide timely service thereby the satisfied customers do positive word of mouth
- Services provided in different was so that customer can notice a difference service provided compared to other competitors in the industry and provided the areas for word of mouth by the clients
- To deal effectively with customers can lead to their satisfaction and this satisfaction cause customer provides positive word of mouth in provision of company's services to other

In general, it is recommended that insurance companies will take into consideration the factors that contribute to customer satisfaction to provide positive word of mouth.

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