

Service quality dimensions that affect customer satisfaction commerce essay



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The objective of this chapter is to formulate the research question and develop the conceptual framework for the study. A detailed overview of how the research was conducted, the operationalisation of the variables, hypothesis formulation and the research methodology used which covers data collection methods used, sample selection and method used for data analysis are discussed.

3. 2 Research Question

Based on the review of literature and the research problem, the following question has been formulated in order to determine the relationship that exists between the various dimensions of customer expectation and the service quality by the insurance companies for motor insurance policy holders. It is important to understand this relationship as it would enable the companies in the insurance sector to improve their service quality and to match and to exceed customer expectations and create a knowledge base in order to stay ahead in the market.

The following research questions were derived from the research problem and the review of the literature.

What are the Service Quality Dimensions that affect customer satisfaction in the Motor Insurance industry in Sri Lanka?

What is the extent to which customers are satisfied with the services received from the Motor Insurance Industry?

What are the gaps between customer Service Quality and Customer Satisfaction of Motor Insurance policy holders?

3. 3 Conceptual Framework

Service Quality Dimensions

Dependant Variable

Independent Variables

[Source: Developed by the Researcher]

3. 3. 1 Rationalization of the conceptual framework

Conceptual framework was replicated based on Zeithaml, Parasuraman & Berry (1991), to test this study in the Motor Insurance Industry in Sri Lanka.

On the detailed literature review, the research identified five factors that impact value delivery to customer of Motor Insurance services. These five service quality dimensions of SERVQUAL Model by Parasuraman and Berry et al (1985), have been derived as independent variables. These variables fall under “ Service providers Perspective” in the conceptual framework. The dependent variable was identified as “ Customer satisfaction”.

The gaps in quality of service will be identified by using these five dimensions. This is the gap between the Customer’s expectation and

experience of the Motor Insurance service delivery, which will subsequently have an impact on customer satisfaction.

Rust & Oliver (1994) and the Nordic Model (Gronoos, 1992) too emphasizes the importance of meaning of the gap between expectations and the experience in service industry. Hence all these have been included in the conceptual framework.

3. 3. 2 Definitions for Variables

Tangibles – Modern Equipment and Technology, Visually appealing physical facilities neat appearing employees and agents, visually appealing materials associated with services. Appearance of physical facilities, equipment personnel and communication material (Parasurman et. al, 1998 and 1990).

Reliability – Keeping promises when promises to do something by a certain time , offering products and services of utmost quality, issuing contracts with clear, transparent and non ambiguous terms, settling customers claims with no unnecessary delays, , showing sincere interest when solving customers problems, offering services right the first time without unnecessarily discomforting customers, providing services within the specified contract time limits, issuing error free bills, statements, receipts, contracts, claims and other documents. Ability to perform the promised service dependably and accurately (Parasurman et. al, 1998 and 1990).

Responsiveness – telling customers exactly when the services will be performed, doing their best to give prompt service to customers, always willing to help customers, never being too busy to respond to customer's

requests . Willing to help customer and provide prompt service (Parasurman et. al, 1998 and 1990).

Assurance – Customers feeling safe in their transactions, behavior instilling confidence in customers, being consistently courteous with customers, having employees and agents with the necessary knowledge to give professional services to customers. Knowledge and courtesy of employees and their ability to convey trust and confidence (Competence, courtesy, creditability and security of the service), (Parasurman et. al, 1998 and 1990).

Empathy – Giving customers individual services, operating hours convenient to all customers, giving customers personal attention, having the customer's best interest at heart, understanding the specific needs of customers.

Caring, individualized attention the firm provides its customers (Access to organization's representatives, communication and understanding the customer), (Parasurman et. al, 1998 and 1990).

As presented in the above conceptual model, the independent variable of dimensions of service quality will be studied. Price is also a relevant variable. However, the focus of this study is on service quality attributes and therefore is not within the scope of this study.

Theoretical research has presented several different service quality definitions. However, Parasuraman et al. (1985) definition of service quality, which has been used in many industry studies before, was adopted. Service quality is defined as “ the degree of discrepancy between customers' normative expectations for the service and their perceptions of the service

performance". The SERVQUAL model developed by Parasuraman et al. (1998), is therefore used for this study.

Hypotheses Formulation

Hypothesis is a testable speculative statement delineating the relations between all the elements of a theory (Page & Meyer, 2000).

The development of hypothesis was categorized into two sections based on insurance companies' customers. Accordingly five hypotheses were developed. The source for all hypothesis development was based on the conceptual framework. Furthermore, the hypotheses based on insurance companies were primarily related to the importance of each expectation. The hypotheses developed for customers were based on the service quality of obtaining Motor insurance policies. When developing hypothesis, Literature review under section 2. 18, according to the study carried out in Greece and Kenya by Rand, (2006), it was proved that there is a relationship between service quality dimensions and expected and experienced service quality by the customers in the insurance industry.

3. 5 Hypothesis Rationalization

Expected & Experienced Service Quality in relation to Reliability dimension in motor insurance

According to Parasuraman et al (1985) Reliability dimension measures the ability to perform the promised service dependably and accurately. As per the research carried out by Rand (2006) , it says that the Reliability has a huge impact on the service quality in service industry. Especially in a industry like Motor insurance it has a huge effect. Consumer's satisfaction

choice of service provider and service quality evaluation are influenced by the expectations of the consumer, (Trinh et al. 2000).

As mentioned above in the research carried out in Kenyan Insurance industry by Rand (2006), it is noted that most of the researchers (Rand, 2006; Trinh, 2000) have identified that Reliable service always has a positive impact on the service quality provided by the company. Therefore it is worthy to investigate the relationship among Expected & Experienced Service Quality in relation to Reliability dimension in motor insurance. It could be hypothesized that,

H 1 0 – There is no relationship between Expected & Experienced Service Quality in relation to Reliability dimension in motor insurance

H 1 – There is a relationship between Expected & Experienced Service Quality in relation to Reliability dimension in motor insurance

Expected & Experienced Service Quality in relation to Responsiveness dimension in motor insurance

The Dimension Responsiveness explains about willingness to help customers and provide prompt service. Responsiveness factor significantly has a positive effect on Customer satisfaction.

Quality service provision, customer satisfaction and customer loyalty has recently been emerging as important parameters for both researchers and practitioners in turkey. This has been proved through a research carried by Yale University in Turkey (2009) on Service Quality in healthcare. This research was also based on the service quality. To provide superior service

quality responsiveness is a very important factor since service providers should always willing to help customers. Especially in an industry such as insurance it is a very decisive factor since the customer is expecting a prompt action for their problems. So responsiveness factor effectively contributes to reduce the gaps between the Expected & Experienced Service quality by the motor insurance policy holders. Therefore it is worthy to identify the relationship between the Expected & Experienced Service Quality in relation to Responsiveness dimension in motor insurance. So it could be hypothesized that,

H 2 0 – There is no relationship between Expected & Experienced Service Quality in relation to Responsiveness dimension in motor insurance

H 2 – There is a relationship between Expected & Experienced Service Quality in relation to Responsiveness dimension in motor insurance

Expected & Experienced Service Quality in relation to Assurance dimension in motor insurance

Assurance dimension is all about, the knowledge, competence, and courtesy of service employees and their ability to convey trust and confidence. Ducker (1991) defines service quality as “ What the customer gets out and is willing to pay for “ rather than “ what the supplier (of the service) puts in”? Hence, service quality is often “ conceptualized as the comparison of service expectations with actual performance perception” (Bloemer, Ruyter et al. 1999; Kara, Lonial et al. 2007). Service science literature often relies on SERVQUAL as an instrument to measure quality of service provided.

SERVQUAL scale was developed based on a marketing perspective with the

support of the Marketing Science Institute (Parasuraman, Zeithaml et al. 1986). It is very important to keep the assurance on the agreement made the company to their customers. Specially in the insurance industry, it is crucial factor to offer the assurance of the services provided. Therefore it is worthy to identify the relationship between the Expected & Experienced Service Quality in relation to Assurance dimension in motor insurance. So it could be hypothesized that,

H 3 0 – There is no relationship between Expected & Experienced Service Quality in relation to Assurance dimension in motor insurance

H 3 – There is a relationship between Expected & Experienced Service Quality in relation to Assurance dimension in motor insurance

Expected & Experienced Service Quality in relation to Empathy dimension in motor insurance

Empathy dimension is about caring individualized attention provided to customers. According to the expectancy disconfirmation model, customer's satisfaction is a function between his/her service performance perception and expectation (Pizam and Ellis, 1999), and illustrated as $\text{Satisfaction} = f(\text{Perception} - \text{Expectation})$. It is very important to offer individual attention to the customer's specially in the service industry. Trustworthiness is one of the critical factors in any industry for the customer's. Empathy factor defines that. Keeping the customer complaints and criticisms is very important in the motor insurance industry as the competition is very high. If the organization loses one policyholder that may affect the organization immensely.

Therefore it is worthy to identify the relationship between the Expected &

Experienced Service Quality in relation to Empathy dimension in motor insurance. So it could be hypothesized that,

H 4 0 – There is no relationship between Expected & Experienced Service Quality in relation to Empathy dimension in motor insurance

H 4 – There is a relationship between Expected & Experienced Service Quality in relation to Empathy dimension in motor insurance

Expected & Experienced Service Quality in relation to Tangibility dimension in motor insurance

Tangibility is all about appearance of physical facilities, equipment, ambience, personnel and communication materials. The rewards to firms that establish a loyal customer base have been well documented (Armstrong and Symonds, 1991: Heskett et al. 1994: Reichheld and Sasser, 1990). In general, increased loyalty leads to lower cost of servicing the firms customers, reduced marketing expenditure, increased business from the existing customer base and greater profits. The internal appearance and the facilities is also affecting the service quality. It in turn helps the company to retain their customer and reduce the unnecessary costs such as saving costs. Therefore it is worthy to identify the relationship between the Expected & Experienced Service Quality in relation to Tangibility dimension in motor insurance. So it could be hypothesized that,

H 5 0 – There is no relationship between Expected & Experienced Service Quality in relation to Tangibility dimension in motor insurance

H 5 – There is a relationship between Expected & Experienced Service

Quality in relation to Tangibility dimension in motor insurance

3. 6 Operationalization

Based on the SERVQUAL scale and using five service quality dimensions.

Concepts

Variable

Indicator

Measure

Reliability

Price/Premium

Reasonable Premium rates

In order to evaluate customer expectation and experience , a 5 point scale was used.

To measure customer perception the rating scale , for 1 Not important and 5 Very Important .

And to measure customer experience the rating scale, for 1 Not Experienced at all , to 5 Experienced at a high level

Product Range

Range of products offered, to suit individual requirements

Physical Access

Availability and convenience of facilities and branch network

Electronic access

Availability of Telephone and online facilities

Service delivery

Level of service as expected/promised

Responsiveness

Waiting time

Average time taken to process a claim after an accident

In order to obtain data on average time spent with the Insurance providing company to get an service rating scale from 1 to 5 was used . for 1 Not Experienced at all , to 5 Experienced at a high level .

In order to evaluate customer expectation and experience , a 5 point likert scale was used.

Level of responsiveness of the Insurance staff

Time taken to respond to an issue

Assurance

Stability

The guarantee of safety when making a claim

In order to evaluate customer expectation and experience, a 5 point likert scale was used.

Safety of the investment

Making the actual cost

Convenience to the holder

Confidentiality

Maintenance of confidentiality

Product Knowledge

The knowledge of the product/features by the staff members

Empathy

Benefits

Special benefits and features for the customer

In order to evaluate customer expectation and experience, a 5 point likert scale was used.

Attention

Personal attention to customers and recognizing regular customers

Caring

Helping customers in a pleasant and caring manner

Approachability

Easy to approach staff members

Tangibles

Environment

Pleasant ambiance inside the company

In order to evaluate customer expectation and experience, a 5 point likert scale was used.

Facilities

Facilities provided to the policy holders

Parking

Availability of adequate parking at the Insurance company

Number of repair centers in Sri Lanka

Directional signs and information

Availability of adequate instructions and directions of counters and procedures and easy directions when filling forms and other documents

Appearance of Staff members

Staff members are dressed appropriately

Layout

Convenient layout of the company interior

Customer Satisfaction

Level Satisfaction

Level of satisfaction of the insurance company in relation to each service quality dimension

A 5 point likert scale was used to measure the likelihood of these indicators ranging from Very Likely to Highly Unlikely.

In Order to measure the time length of the relationship the respondent has with the Insurance provider , 5 time slots were presented where by the respondent could select his/her most relevant time slot.

Study was carried out to ascertain the validity and Reliability of the Questionnaire. This was done as the instrument to use collected data was not tested previously.

3. 7 Research Methodology

The Research methodology is the way research is conducted. Research methodology refers to the theory of how research should be undertaken (Saunders, et al 2005).

The first step of the study is to assess the service quality gaps in relation to the customer expectations and experience among five leading Insurance Companies which deals with Motor insurance in Sri Lanka and with each of the five SERVQUAL dimensions. This study helps to determine the average service quality gap score (between customer's expectations and experience)

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for each service quality dimensions and how it affects the overall customer satisfaction. The second step each Insurance company's gap scores for each service quality dimensions.

This is to examine the differences within each insurance company when providing services to the customers and to compare the differences of the overall satisfaction of customers in each insurance company. Stage three measured the level of satisfaction of the customers and the fourth stage examines the relationship between the expected and experienced service quality gaps by the customers for each dimensions. The final Stage integrates the data obtained from the five insurance companies and conclusions were prepared in accordance to the findings. Based on research problem, preliminary data was the main source of data used in this research. Consistent with the deductive research method, data collection through questionnaires has been a long proven method to collect valid and reliable data (Page & Meyer, 2000). The deductive method refers to the use of a theory to generate prepositions or hypothesis that can be tested. Thus, the research method has been chosen for this study is based on deductive method.

3. 7. 1 Method of Data Collection

In this study the primary data was collected through a self completion questionnaire from customers of the selected five Insurance companies. The study followed the Quantitative method to gather and analyze the data. The secondary data was collected from secondary source such Government publications (IBSL Annual Report 2010 & Central Bank Annual Report 2010),

Company Annual reports and from other publications.

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3. 7. 2 Selection of Sample

For the purpose of gathering data on customer expectation and customer experience, a total number of 250 questionnaires were distributed, from which a total of 224 valid Responses were received and selected for data analysis.

Individuals within a sample are chosen by chance rather than by the researcher or by being self-selected (Page and Meyer, 2000). A simple random sampling technique was used for this study, so that each unit of the population will have a known and equal chance of being selected.

The sample was spread across Motor insurance policy holders of Five different Motor insurance providing companies in Sri Lanka. A brief description of selected five companies are given below,

Aviva NDB Insurance PLC

Aviva NDB Insurance PLC took wing as a leading player within Sri Lanka's insurance landscape in the late 1980s. Over the years, the Company's good governance practices, ethics and innovation have helped it to soar to new heights.

The dynamism and creativity of the Aviva NDB Family has been the engine of its evolution into a superior entity in the insurance and financial services sector.

The Company has recorded a Consolidated Revenue of Rs. 7, 265 million with an impressive growth rate of 23. 7% over the previous year. The Revenue reported for the current year includes Rs. 171. 2 million being the

gross-up of tax withheld at source on Government Securities. Excluding this, the growth for 2010 stands at 20. 8%.

Union Assurance PLC

Union Assurance is a composite insurer transacting both Life and General business including personal insurance, in operation since 1987. A Public Quoted Company, UA entered the insurance arena at the time the private sector was permitted to set up in insurance, following the enactment of the Control of Insurance (Amendment) Act No. 42 of 1986. Committed to pursuing the highest standards of service and security, UA is backed by the corporate might of blue chip companies John Keells and Carson Cumberbatch.

UA's reinsurers are world leaders, chosen for their dependability and total security. In short, they are the best in the business. The company's paid up capital as at 31 December 2009 is Rs 250 million and net asset base, Rs 1. 6 billion, also indicates the company's financial stability and strength, and places it firmly at the apex off private insurance service providers in Sri Lanka.

Asian Alliance Insurance PLC

Within a very short time period, Asian Alliance Insurance PLC has achieved what every company yearns for; it has touched the hearts of its customers with outstanding levels of professionalism and service.

Asian Alliance commenced operations in December 1999 with 50 employees. Today the company has grown from strength to strength to become one of

Sri Lanka's leading players in the insurance industry. The company caters to an ever-growing client base that consists of corporate and individual clients. The secret behind the Asian Alliance Insurance success story lies in its ability to offer tailor-made insurance solutions to its customers.

Sri Lanka Insurance Cooperation

Sri Lanka Insurance Corporation which was established in 1962 as a State Owned Corporation was converted to a Limited Liability Company for a brief period of 6 years and was re-instilled in the state sector on the 4th June 2011, further strengthening the Corporation as the strongest and the largest Insurer in the Country. Sri Lanka Insurance is now backed by government protection and service excellence on par with the best in the private sector. At present Sri Lanka Insurance has over 120 Branches Island with an unparalleled assets base under management of over Rs. 64. 8 billion with a Life fund of over Rs. 39 billion and over one million policies in force.

The Motor Insurance Department has branched off into unrelated areas such as Theft only, Fire Only, Fire and Theft, 3rd Party Fire and Theft and Act only; once again, offering covers aimed at satisfying their clientele to a maximum.

Ceylinco Insurance PLC

From a solid and innovative start in 1939, Ceylinco Insurance Company Limited has faced numerous changes and challenges and has successfully weathered them all. Registered as Ceylinco Insurance Company Limited in 1987 and commenced business on the 14th of January 1988, in the spheres of Life and General Insurance, we have grown from strength to strength.

Today, they have become the leading insurance company in Sri Lanka, with the largest network of branches and agents in the insurance industry. Their goals include becoming the leading provider of protection and financial security in Sri Lanka and in select international markets.

3. 7. 3 Structure of the Questionnaire

Part one of the questionnaire focuses on demographic features of the respondents. Part two focuses on the dimensions.

Questions from 1. 14 entail in “ Reliability” dimension and thereafter, based on Operationalisation, 10 questions focus on “ Responsiveness” dimension 16 questions represents the “ Assurance” dimension and 9 questions on “ Empathy” dimension. Final dimension which is “ Tangibility” has 10 questions. Each dimension has 2 columns to rate expected and experienced using a likert scale of 1. 5, not important at all being No. 1 and Very important being No. 05.

For the study, questionnaire was designed in accordance with the research objectives.

The Questionnaire is based on the five SERVQUAL dimensions presented by Parasuraman et al (1985) and the “ Gap 5” which is also known as the “ Customer gap (the gap between customer expectation and experience) of the SERVQUAL model presented by Parasuraman et al (1985) , modified and tailored to specific service quality requirements of the Motor Insurance industry.

Table 2: Structure of the Questionnaire

Questionnaire Variables

Measurement Items

Section 1

Personal details

Section 2

Measure Service quality perceptions of five insurance companies in general from individuals

Section 3

Measure Service Quality dimensions separately to find out Expected & Experienced service quality by each customer.

3. 1 – Reliability

3. 2 – Responsiveness

3. 3- Assurance

3. 4 – Empathy

3. 5 -Tangibility

3. 7. 4 Method of Data Analysis

The Data was collected through a Questionnaire. The study was carried out using Descriptive statistics as well as Inferential Statistics. Under Inferential statistics an ANOVA analysis and paired sample two test were carried out.

Descriptive Statistics – Descriptive statistics are used to describe the main features of a collection of data quantitatively.

Inferential Statistics – Inferential statistics are used to draw inferences about a population from a sample.

T-Test – This test is used to compare the means of two samples (or treatments), even if they have different numbers of replicates.

ANOVA test – The Analysis Of Variance, popularly known as the ANOVA test, can be used in cases where there are more than two groups.

The following methods have been used to analyze the data obtained from the study.

Gap technique – The gap technique will be used to analyze and identify the service quality gaps between expectation and experience of customers.

Comparative Analysis – A comparative analysis will be conducted in relation to the gap technique between the five Insurance companies using graphs and tables.

Relationship Analysis – Under Inferential Statistic analysis paired sample two test will be conducted to analyze the relationship between Expected service Quality and Experienced Service Quality by the customers.

3. 7. 5 Pilot Study

Pilot study was carried out to ascertain the reliability and validity of the questionnaire. The instrument used to gather data in a research should be valid and reliable (Page & Meyer, 2000).

3. 8 Summary

The purpose of this chapter was to explain and formulate the research questions and to provide a conceptual framework.

The research question was formulated and thereafter the conceptual framework was designed using Service Quality as the independent variable and Customer Satisfaction being the dependent variable. Thereafter, the operationalization for the study was designed in accordance with the features/qualities of motor insurance industry. Given this, the methodology for the researcher was presented which included methods of data collection, selection of the sample, the questionnaire design and the methods of data analysis. Finally the limitations of the study were mentioned.