

## The effects of relationship quality and commitment on customer loyalty Case Study in Iran

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### ABSTRACT

With regard to the importance of customers in insurance industry, This research explores how relationship quality and commitment influence customer loyalty. Relationship quality consists of two aspects: satisfaction and trust. So, along with how the above mentioned variables from loyalty in a insurance industry environment, the managers of the branches of private insurance industry are given the chance to design and perform effective and proper strategies leading to customer loyalty. The statistical populations of the research are the customers of private insurance industry and the data was collected using the questionnaire and also the data has been analyzed using SPSS software. The results of the research show the positive effect of the abovementioned variables on loyalty.

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### Introduction

Loyalty has been defined as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future” (Oliver, 1999, p. 34).

Customer loyalty is important service firms because customer defections “can have more to do with a service company’s profits than scale, market share, unit costs, and many other factors usually associated with competitive advantage”(Reicheld and Sesser 1990 , p:105). Trust and satisfaction both are related to both behavioral and attitudinal loyalty (Chiou & Droge, 2006). Satisfaction is positively related to repurchase intention and customer loyalty (Burton, Sheather and Roberts, 2003). In a service context, Hennig-Thurau, Gwinner, and Gremler (2002) found that satisfaction and commitment are both drivers of loyalty. Additional work by Diek & Basu(1994), finds that perceptions of commitment can lead to word-of-mouth communication, an aspect of attitudinal loyalty , and can result in future purchase intentions, an aspect of behavioral loyalty (Fullerton, 2003).

### Research framework

#### Customer loyalty

According to oliver (1997), loyalty is a dedication on the part of the buyer to maintain a relationship and a devotion to buy the product or service repeatedly. Loyalty thus has a behavioral component which suggests a repurchase intention but also includes an attitudinal component which is based on preferences and impression of the partner (Sheth & Mittal, 2003). trust can create benefits for the customers by decreasing transaction cost ultimately fostering customer loyalty to the relationship(Garbarino and Johnson,1999). Loyalty has been defined as “a deeply held commitment to rebury or repatronize a preferred product/service consistently in the future” (Oliver, 1999, p. 34).According to Jones & Sesser(1995), Customer loyalty has two meanings: long-term and the short-term loyalty. Customers with long-term loyalty do

not easily switch to other service providers, while customers with short-term loyalty defect more easily when offered a perceived better alternative. This study focuses on long-term loyalty. It is beneficial for service providers to establish a relationship with customers that customers would like to retain.

#### Relationship quality

To create long-lasting customer relationships, relationship marketing, include marketing activities that attract, develop, maintain, and enhance customer relationships, has been utilized in a wide variety of industries (Berry, 1995). Customers care about the relationship as a whole and judge the relationship using past experience, expectations, predictions, goals, and desires (Crosby, Evans,& Cowles, 1990). Relationship quality has been positively linked to customer loyalty (Hennig-Thurau & Klee, 1997; Roberts, Varki, & Brodie, 2003). There is no unified definition of relationship quality (Rauyruen & Miller, 2007; Robie, Ryan, Schmieder, Parra, & Smith, 1998). Relationship quality has been conceptualized as a construct consisting of several components. These components include satisfaction (Crosby et al., 1990; Dwyer & Oh, 1987), trust (Dwyer & Oh, 1987; Hennig-Thurau & Klee, 1997), commitment (Hennig-Thurau & Klee, 1997), and overall quality (Hennig-Thurau & Klee, 1997) among others. In the prior studies, satisfaction, trust, and commitment are the most examined aspects of relationship quality (Athanasopoulou, 2009; Bejou, Wray, & Ingram, 1996; Crosby et al., 1990; De Canniere, De Pelsmacker, & Geuens, 2009; Lagace, Dahlstrom, & Gassenheimer, 1991; Rauyruen & Miller, 2007; Wray, Palmer, & Bejou, 1994). In this study, we propose that relationship quality consists of satisfaction and trust while commitment aspect belongs to customer loyalty in our conceptualization.

#### Relationship between satisfaction and loyalty

According to fornell (1992), Customer satisfaction is an overall attitude formed based on the experience after customers

purchase a product or use a service. It is a reflection of being content with such a product or a service. Satisfaction is the assessment of the experience of interacting with a service provider up to the present time, and is used by customers to predict future experience (Crosby et al., 1990). Satisfaction is a broad feeling, which is affected by service quality, product quality, price, and contextual and personal factors (Zeithaml & Bitner, 2000). Satisfaction is one of the antecedents of customer loyalty. In prior studies done by de Ruyter & Wetzels, 2000; Deng, Lu, Wei, & Zhang, 2009; Dick & Basu, (1994) satisfaction positively affects customer loyalty. Although the reason that customers remain loyal may not always be satisfaction (Gerpott, Rams, & Schindler, 2001), it is safe to say that satisfied customers are more loyal. Thus, the following hypothesis is proposed.

**H1.** Satisfaction has positive effect on customer loyalty.

#### **Relationship between trust and loyalty**

Trust has been studied extensively in literature. Trust has been defined as one party believing that the other party will fulfill his or her needs. According to Anderson & Weitz (1998), In terms of services, trust is the belief held by a customer that the service provider will provide the service that meets customer needs. A more general definition of trust is that a party has confidence in the honesty and reliability of his partner (Morgan & Hunt, 1994).

This definition can be applied in different contexts, including exchanges of goods and services. Doney and Cannon (1997) argue that trust consists of two aspects: Perceived credibility and benevolence. According to Rauyruen and Miller (2007), there are two levels of trust, At the first level, the customer trusts one particular sales representative while at the second level, the customer trusts the institution. Trust is an important mediating factor between customer behavior before and after purchasing a product which can lead to long-term loyalty and strengthen the relationship between the two parties (Singh & Sirdeshmukh, 2000).

As with loyalty, trust is a special psychological state that can only occur in certain relationships. When a customer trusts an organization, he or she has the confidence in service quality and product quality of the organization. According to Garbarino & Johnson (1999), Customers who trust an organization are more likely to be loyal to the company (Garbarino & Johnson, 1999). Reichheld and Schefter (2000) point out that the precondition of customer loyalty is customer trust. In prior research, trust has been conceptualized as antecedent of satisfaction (e.g., Palvia, 2009). In this research we are interested in the direct effects of trust on customer loyalty. Thus, the following hypothesis is proposed.

**H2.** Trust has positive effect on customer loyalty.

#### **Relationship between commitment and loyalty**

Commitment is a pledge of continuity between relational partners (Gundlach et al., 1995). Gruen (2000) points out that It may also be viewed as the attachment that one party perceives towards another party in an situation. Morgan and Hunt (1994) put forward that commitment exists when a party wants to maintain an existing relationship. At its core, commitment is an attitude towards the act of maintaining a relationship with a partner (Bansal et al., 2004; Fullerton, 2003). Over the past few years of relationship marketing scholarship, our understanding of commitment has significantly expanded. From a construct that had a limited definition (Morgan and Hunt, 1994), it is now regarded as a complex construct that includes multiple components. Many researchers in marketing have borrowed

from the organizational behavior literature where there is a rich tradition of research on the organizational commitment Construct (Bansal et al., 2004; Fullerton, 2003; Gruen et al., 2000; Jones et al., 2008). Thus, the following hypothesis is proposed.

**H3.** Trust has positive effect on customer loyalty.

#### **Service quality**

Service managers need to understand how perceptions of their performance on service quality dimensions influence levels of customer satisfaction. The literature shows positive effects of customer satisfaction on such desirable outcomes as repeat purchase (Szymanski and Henard, 2001), retention (Bolton, 1998), loyalty (Anderson and Sullivan, 1993), retailer sales performance (Gomez et al., 2004), and profitability (Anderson et al., 1994; Bernhardt et al., 2000). Discussion of service quality has resulted in the realization of the intangible, heterogeneous, and inseparable nature of the concept (Parasuraman, Zeithaml, & Berry, 1988). Thus it is hard to measure it with the same measurement for product quality.

Quite a few conceptualizations and measurements of service quality may be found in the literature. For example, it has been defined as consisting of two aspects: technical quality and functional quality (Gronroos, 1984). Service quality is also defined as the difference between customer expectation and the perception of service quality (Parasuraman, Zeithaml, & Berry, 1985). It is measured by five constructs: reliability, responsiveness, assurance, empathy, and tangibility (Parasuraman et al., 1988). A third conceptualization of service quality includes interaction quality, physical environment quality, and outcome quality (Brady & Cronin, 2001). Interaction quality includes attitude, behavior, and expertise. Physical environment quality includes ambient conditions, design, and social factors. Outcome quality includes waiting time, tangibles, and valence.

In this study, service quality is defined as the whole service quality perceived by customers after using the service. Service quality is very important to customer satisfaction and trust. It is also one of the often studied antecedents of relationship quality (Athanasopoulou, 2009). Service quality represents basic customer expectations, thus, a hygiene factor. In a study of service quality in banking, hospitals, and photo development, service quality was found to have a positive effect on relationship quality, which includes satisfaction and trust (Hsieh & Hiang, 2004). Herrmann, Huber, and Braunstein (2000) discovered that service quality is an important factor affecting customer satisfaction. In a study of Korean mobile services, improving service quality is found to positively affect customer satisfaction (Kim et al., 2004). Same is found for mobile instant message usage in China (Deng et al., 2009). Thus, the following hypothesis is proposed.

**H4.** Service quality has a positive effect on satisfaction.

Caceres and Pappas (2007) indicate the increase in customer's perceptions of service quality will influence aspects of relationship quality such as satisfaction and trust. It is also found that service quality has a significant effect on consumer trust towards a financial institution (Cho & Hu, 2009). In studying the 3C (computer, communication, and consumer electronic) retail industry in Taiwan, service quality has been shown to have a significant impact on trust (Jih, Lee, & Tsai, 2007). Thus, the following hypothesis is proposed.

**H5.** Service quality has a positive effect on trust.

**The first hypothesis: satisfaction has positive effect on customer loyalty.**

Table(1): Statistical analysis for the first hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
satisfaction	142	32/13	4/18	14/10	141	26	000/0

**The second hypothesis: trust has positive effect on customer loyalty.**

Table(2): Statistical analysis for the second hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
Trust worthiness	142	17/63	2/93	11/88	141	14	000/0

**The third hypothesis: commitment has positive effect on customer loyalty.**

Table(3): Statistical analysis for the third hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
commitment	142	13/80	2/41	9/62	141	10/33	000/0

**The four hypothesis: service quality has positive effect on satisfaction.**

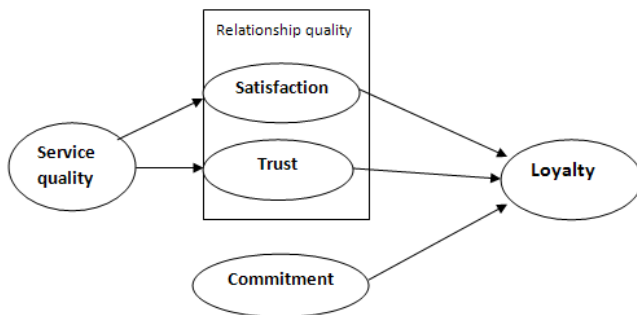
Table(3): Statistical analysis for the third hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
service quality	142	12/72	2/43	7/71	141	8	000/0

**The five hypotheses: service quality has positive effect on trust .**

Table(4):Statistical analysis for the fourth hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
service quality	142	9/73	1/15	5/09	141	8	000/0

**Figure (1): Conceptual model of research****Hypotheses Test**

In this research, the hypotheses based on the literature review were formulated and finally, by conducting a hypothetical statistical test the five hypotheses were confirmed. According to the table above, the mean and standard deviation of customer satisfaction are (32/13) and (4/18) respectively. Since the calculated T (14/10) with the freedom degree of (141) is significant at the level (99) percent ( $P < 0/01$ ) and since the mean of job satisfaction (32/13) is larger than the mean of the norm of the questions of the questionnaire concerning customer loyalty (26), customer satisfaction has positive effect on loyalty. According to the table above, the mean and standard deviation of trustworthiness are (17/63) and (2/93) respectively. Since the calculated t (11/88) with the freedom degree of 141 is significant at the level of 99 percent ( $P < 0/01$ ) and the mean of trustworthiness (17/63) is larger than the norm of the questions concerning the reliability of the questionnaire (14), customer trustworthiness has positive effect on loyalty. According to the table above, the mean and standard deviation of commitment are (13/80) and (2/41) respectively. Since the calculated t (9/62) with the freedom degree of 119 is significant at the level of 99 percent ( $P < 0/01$ ) and the mean of commitment (13/80) is larger than the mean of the norm of the questions

(10/33), customer commitment has positive effect on their loyalty.

According to the table above, the mean and standard deviation of service quality are (12/72) and (2/43) respectively. Since the calculated t (7/71) with the freedom degree of 141 is significant at the level of 99 percent ( $P < 0/01$ ) and the mean of service quality (12/72) is larger than the mean of the norm of the questions (8), service quality has positive effect on satisfaction. According to the table – bove, the mean and standard deviation of service quality are (9/73) and (1/15) respectively. Since the calculated t (5/09) with the freedom degree of 141 is significant at the level of 99 percent ( $P < 0/01$ ) and the mean of service quality (9/73) is larger than the mean of the norm of the questions concerning the service quality of the questionnaire (8), service quality has positive effect on trust.

**Methodology**

Conceptual model of Research has been taken from the theoretical principles of the research in which the variables of satisfaction, trust, commitment have been considered as independent variables and the variable of customer loyalty has been thought of as the dependent variable. This study is practical and based on the purpose of the study. The statistical populations of the research are the customers of private insurance and the data was collected using the questionnaire and also the data has been analyzed using SPSS software. Validity of the study has been taken based on the forms and criteria of the literature and experts. Reliability of the questionnaire has been calculated through cronbach alpha. The reliability (%79) shows that questionnaire has reliability.

**Discussion**

In this research, a model that investigates the effects of relationship quality and commitment on customer loyalty is tested in the context of insurancy industry services. Both relational qualities, including satisfaction and trust, and commitment have significant effects on customer loyalty. In our

study, relationship quality, especially satisfaction, is more critical to customer loyalty in insurance service industry. This approach provides a complete and detailed way to study factors relevant and of interest to marketing scholars. Service quality is found to be an important factor to both satisfaction and trust in this study, which is consistent with prior research. It is still true in insurance industry services that improving service quality brings the benefits of increased customer satisfaction and trust. Service providers should really consider ways to improve their services in order to maintain the basic strength to compete.

### Conclusion

In this research, the hypotheses based on the literature review were formulated and finally, by conducting a hypothetical statistical test the five hypotheses were confirmed. Now we can come to the conclusion based on the conducted research: satisfaction with the insurance industry has the most amount of positive effect on customer loyalty in service business organization. The variable of trust is of most positive effect after satisfaction and following this variable commitment is most effective on customer loyalty respectively. In this research we also came as a result, the supervisors and senior managers of private insurance industry can increase customer level of loyalty by increase level of satisfaction, standardizing their insurance industry services, attempting to submit services of higher quality to customers and being placed in a position compared to the ideal situation of customers' expectations. They can also generate a positive mental image in customers as well as their trust to the insurance industry by decreasing their expert errors and mistakes, respectful treatment of the personnel with customers and increasing their personnel's specific level. With regard to the significance of customer and his/her significant position in the equivalences of the organization and the existing competitive environment. It is necessary to consider the customer's needs and benefits in the organization. Also submitting helpful and true information to customers by the insurance industry and providing information about the new services of the organization are of great significance in customer satisfaction and attracting his/her trust. Also according to many experimental researches, there is a direct relationship between the satisfaction of organization personnel and that of customers. The personnel who are in direct contact with customers are at a position that can get aware of customers' needs and wants and respond them properly. Satisfied personnel and solve the problems by having positive contact with customers. And it can be claimed that the personnel who are satisfied with their job have enough energy to empathize with customer.

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