1-1-2005

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Keywords

Examination, Professional, Services, Quality, Mediator, between, Interpersonal, Communication, Repurchase, Intention

Disciplines

Business | Social and Behavioral Sciences

Publication Details

Kirchmajer, L. & Patterson, P. (2005). An examination of professional services quality as a mediator between interpersonal communication and repurchase intention. In S. Purchase (Eds.), Proceedings of the Australian and New Zealand Marketing Academy Conference (pp. 110-117). Fremantle, Australia: Australian and New Zealand Marketing Academy.

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Abstract

This study examines the role of service quality (SQ) as a mediator between interpersonal communications and repurchase intention in the context of the relationship an individual client has with their personal financial adviser. A new multidimensional scale for interpersonal communications is developed and tested. Three dimensions were identified as: *Communications clarity (five items), Social communications (four items)*, and *Information provision (seven items)*. The results show the communications dimensions play a central role in sharing perceptions of service quality (SQ) and thus repurchase intentions.

Key search words: service quality, interpersonal communication and repurchase intention.

Introduction

This paper specifically examines client repurchase intention issues in the context of personal financial planning services. We examine the impact of perceived service quality (technical quality and functional quality) as mediator variables between interpersonal communications (communications clarity, social communications, and information provision) and repurchase intention (Hellier, *et al*. 2003; Anderson and Kumar 2003). In doing so we develop, and test for the first time, a scale of interpersonal communications effectiveness in the context of professional services.

The context of this study is 'people directed' (Lovelock, 1983) professional services. Professional services, such as financial planning services - the focus of this study, are intrinsically difficult for clients to evaluate, as they are high involvement, highly customised, technical complex, and high in credence properties. Clients often do not have the technical expertise or specialist knowledge to evaluate whether a high quality core service has been provided. Often they cannot diagnose their own needs, discriminate between the range of possibilities or alternatives available to them or confidently evaluate the quality of the services they have received even after delivery and 'consumption' (Sharma and Patterson, 1999). Hence communications between a client and service provider has a central role to play in shaping perceptions of SQ.

Communication Effectiveness

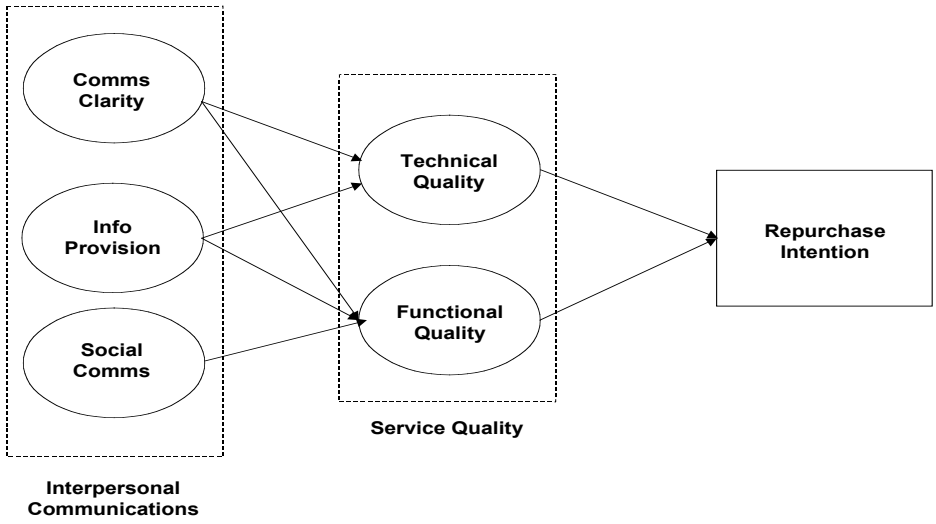
The role of interpersonal communications has received only limited attention in the literature (Duncan and Moriarty, 1998; Georges, Eggert, and N'Goala, 2003). Interpersonal communication is fundamental to any study of relationships, but especially high contact services (Andersen, 2001; Barnes, 2001). In this study we use Andersen's (2001, p.168) definition of communication as "the human act of transferring a message to others and making it understood in a meaningful way." Communication is often considered 'the glue' that holds a relationship together. Duncan and Moriarty, (1998) suggest that it is impossible to have relationships without communication. The focus of this study is the two-way personalized and customised communication, where "dialogue with the customer takes centre stage in the trust-building process" (Andersen, 2001, p.178)

In particular, we look at the role of communication in the development of the client's perception of SQ and repurchase intention. Zeithaml, Berry and Parasuraman (1988) in referring to their "four gaps" model noted: "Most of these factors involve communication …"pp.36-37. Finally, past work has by and large ignored the potentially central role that effective interpersonal communications might have on perceived service quality. The question asked here is "*does communication effectiveness of the service provider affect perceptions of technical as well as functional quality* (Sharma and Patterson 1999).

Financial planning is a situation where the core service (technical performance) only unfolds over time. It is likely to be many months or even years in some cases (if investments happen to be in long term financial growth products such as equity trusts) before the true value of the investment advice can be assessed. Thus to be effective (from both buyer and sellers perspective) the relationship needs to endure over a considerable period of time. It is for this reason that Hatfield (1993) claims it is necessary to develop smooth, cordial and ongoing communications between client and adviser in order to develop and sustain the relationship. Communication effectiveness is also considered to impact upon technical and functional quality. Clark (1992); Stewart (1992); and Headley and Choi (1992) assert that communication is an important ingredient for achieving high perceived service quality while Benson (1994) notes that a personal financial planning service is a blend of technical knowledge and communicative ability. Strong communication skills are needed to ensure that clients understand investments (and thus become more confident in their ability to assess financial risks and outcomes) and to help them through the inevitable ups and downs of varying investment performance. Through the timely communication of an adviser, a client receives information about the current status of their investments, possible future opportunities and risks, and whether or not they are achieving expected financial returns. Based on the nature, frequency and effectiveness of communication, they form *perceptions* of service quality (Sharma and Patterson 1999).

Conceptual Model

The following diagram Figure 1.1, shows the model that is empirically tested in this study.



Service Quality (SQ)

Perceived service quality can be viewed as the client's overall assessment of the standard of service received, however it is more useful as an analytical tool to decompose service quality into two fundamental components - *technical quality* (the core service or 'what' is delivered)

and *functional quality* ('how' the service is delivered) (Grönroos 1983; Parasuraman, Zeithaml and Berry 1985; Storbacka Strandvik and Grönroos, 1994).

The antecedents and outcomes of SQ are extensively reported in the literature, across numerous service contexts, and thus not discussed at any length here (Parasuraman, Zeithaml and Berry 1994; Storbacka, Strandvik and Grönroos, 1994). However this research focuses on examining the direct impact of service quality on repurchase intention as well as a mediating variable between interpersonal communications and repurchase intention.

Thus our two general hypotheses are, H1: Interpersonal Communications will be positively correlated with both Technical & Functional Quality; H2: Technical & Functional Quality will in turn, be positively correlated with Repurchase Intentions.

Research Method

A multi-phase approach was undertaken. The first phase was exploratory, and qualitative in nature that helped to gain insights into the client-financial planner relationship. This stage was used to develop and confirm the model as well as the development of new measurement items for the communications effectiveness construct. This involved a content analysis of letters (by two independent researchers) from 147 clients concerning their relationship with their accountant. Then 19 in-depth qualitative interviews that were recorded, transcribed and content analysed. These interviews were conducted with clients of financial planning firms to gain an understanding of the antecedents of trust and intimacy, as well as the dimensions of interpersonal communications.

The second phase consisted of a quantitative survey, utilising a self-administered questionnaire. The survey questionnaire underwent a pretest stage (49 usable responses) for refinement and scale development before the large-scale distribution of the survey questionnaire. The final self-administered questionnaire yielded 325 valid responses from clients. The net response rate was 36%. Late respondents were not statistically significant from the early respondents on key questions.

Scale Development

The Communication Effectiveness construct is not well established in the management or marketing literature and no scale could be found that was relevant to a professional services context. Hence we adopted Churchill's (1979) procedure and Gerbing and Anderson's (1988) two-step approach for scale development. The final communications construct comprised 26 Likert items taken from Anderson, Lodish and Weitz (1987); Crosby and Stephens (1987); Ruekert and Walker Jr. (1987); Anderson and Narus (1990); and the qualitative interviews plus a content analysis of the 147 accountant client letters. The first step of exploratory factor analysis revealed three clean factors that together explained 69% of the variance. The second step of confirmatory factor analysis utilizing the refined measurement scale supported the three-factor solution (F1: *Communications clarity (five items)* with $\alpha = 0.904$, F2: *Social communications (four items)* with $\alpha = 0.913$, and F3: *Information provision (seven items)* with $\alpha = 0.904$). The final CFA solution demonstrated an acceptable fit ($\chi^2 = 278.7$, df = 99, AGFI = 0.915, CFI = 0.89) with all but one indicator having squared multiple correlations in excess of 0.50.

For the Service Quality construct, multi-item scales were used for *Functional* and *Technical Quality*. Only a limited amount of research could be found in the area of personal financial services, so an appropriate scale for technical and functional quality was developed based on

the measurement items used by Sharma and Patterson (1999) and on the interviews conducted in the qualitative part of this research. These items address technical quality in terms of monetary outcome and security of investments. The functional quality scale represented the promptness, consideration of client's circumstances, accessibility, being prepared to go the extra mile, a good working relationship and being supported by good staff and systems – the quality of the processes need to ensure good service quality. The overall service quality construct scale comprised 18, five-point Likert items. The first exploratory factor analysis step revealed two clean factors that together explained 76.5% of the variance. The second confirmatory factor analysis step utilizing the refined scale items supported a two factor solution (F1: *Functional Quality (six items) with* $\alpha = 0.936$ and F2: *Technical Quality (five items with,* $\alpha = 0.947$). The final CFA solution demonstrated an acceptable fit ($\chi^2 = 120.45$, df =42, GFI = .943, AGFI =0.911, TLI = .977, CFI = 0.977, RMR = .044 and RMSEA = .076) with all indicators having squared multiple correlations in excess of 0.50.

These two factors were then individually subjected to a further one-factor congeneric measurement modeling approach to obtain valid and reliable composite variables for both constructs that were subsequently used in our structural equation modeling. (Holmes-Smith, 2001) This procedure was undertaken for the Service Quality construct as it measurement items were not a main contribution of this research and a strong desire to eliminate any problems with robustness of structural equation modeling with smaller sample sizes (n=325) (Boomsma 1983, Gerbing and Anderson 1985, Tanake 1987, Anderson and Gerbing 1988). Repurchase Intention was measured with a single item (10 point Juster Scale).

Results

Table 1.1: Correlation Matrix of all Constructs

Construct	1	2	3	4	5	6
1. Repurchase Intention	1.0					
2. Technical Quality (TQ)	.526	1.0				
3. Functional Quality (FQ)	.531	.690	1.0			
4. Communications Clarity (CC)	.467	.612	.814	1.0		
5. Information Provision (IP)	.525	.678	.733	.656	1.0	
6. Social Communications (SC)	.477	.589	.748	.710	.628	1.0

While there are modest correlations between the constructs, the variance inflation factor (VIF) indicated multicollinearity was not a major issue. A structural path model based on Figure 1.1 was then developed using AMOS 4 (Arbuckle and Wothke 1999). The resultant path coefficients are shown in Table 1.2.

Table 1.2 Structural Model Standardised Path Coefficients and t-values

Path	Stand. Path Coeff. λ_i	t value
1. Communications Clarity → Technical Quality	.288	4.20
2. Communications Clarity → Functional Quality	.535	8.38
4. Information Provision → Technical Quality	.506	6.88
5. Information Provision → Functional Quality	.247	4.96
7. Social Communications → Functional Quality	.190	3.79
8. Technical Quality → Repurchase Intention	.307	5.12
9. Functional Quality → Repurchase Intention	.321	5.36

Model fit statistics: $\chi^2 = 396.1$, df 145, p = .000, GFI = .887 AGFI =0.852, CFI = 0.949

R^2 are 63%, 82% and 33% for technical quality, functional quality & repurchase intentions, respectively.

Referring to Table 1.2, firstly the overall fit statistics of the structural model show that the two service quality constructs do a modest job of explaining how clients' perceptions of technical and functional quality lead to repurchase intentions. Next the findings show that *Information Provision* (i.e. keeping clients informed as to how their investments are going, giving positive as well as negative feedback, making sure that the information provided about impending changes is timely) is far and away the strongest determinant (λ_i = 0.506, p< .000) of clients' perceptions of the technical (outcomes) quality, though it also had a modest impact (λ_i = 0.247, p< .000) on functional quality. *Communications Clarity* (i.e., the listening skills, enthusiasm, open and honest discussion) displayed by a financial planner when meeting with a client is far and away the strongest determinant (λ_i = 0.531, p< .000) of clients' perceptions of functional (process) quality, though it also had a modest impact (λ_i = 0.288, p< .000) on technical quality. *Social Communications* (the informal transfer of information, discussions of a social nature and open two-way communication) only had limited impact (λ_i = 0.190, p< .000) on clients' perception of functional (process) quality. Not surprisingly, it did not impact technical quality. Overall the three communications dimensions demonstrated high predictive validity with the R^2 for technical & functional quality being 62% and 82%, respectively.

Discussion of Findings

This is one of the few studies that have demonstrated the key role that interpersonal communications plays in impacting perceptions of technical and functional quality. This study found that interpersonal communications has three dimensions – (i) *communications clarity, (ii) social communications and (iii) informational provision*. This information would be useful to professional service providers, as it would allow them to focus on communication strategies and actions which would increase the client's perception of functional quality and technical quality.

The results indicate that interpersonal communications is a major determinant of functional and technical quality. The listening skills, enthusiasm exhibited, open and honest discussion (labeled Communications Clarity) go a long way to convincing the client that the financial advisor has the requisite technical/professional skills to capably invest a client's money. In other words it is a major determinant of functional quality – an ingredient in developing long term repeat client patronage. Keeping clients informed as to how their investments are going, giving a lot of positive as well as negative feedback, making sure that the information provided about impending changes is timely, the provision of requested information (labeled Information provision) also go a long way enhancing the client's perception of the technical (outcomes) quality of the service being provided. The informal transfer of information, discussions of a social nature and open two-way communication (labeled Social Communications) appears to have limited impact on the client's perception of the service quality they have received.

This study also suggests that there is moderate positive relationship between functional and technical quality and repurchase intentions. Further discussion will ensue at ANZMAC 2005.

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