



Are Effective Communication Helps Building Trust and Improving Performance of A Service Industry: A Literature Review and Theory Building

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ABSTRACT

In the fast growing and changing competitive market, it is inevitable for the business to win the trust of their customers. Building trust with the customers is a process of creating an emotional bondage between them and that needs to be seriously taken. Past studies showed that in service industries, trust with the customers can be created by positively engaging with them through an honest and effective communication. The current literature review is to show how effective communication influences the customer satisfactions which help to build strong relationship between the customers and the business in the context of service industries. The argument is therefore built along the extra-organization trust development between the business and the external customers, where studies of trust development and impact of communication in service firms like Financial Services and Healthcare have been taken for example. Finally a theoretical proposition is developed for future research to explore whether firm performance is positively influenced by effective communication and trust between the service provider and the customer.

KEYWORDS

Communication, Trust, Service Industries, Customers, Firm Performance.

INTRODUCTION

In a recent Bollywood movie "Rocket Singh", the protagonist played by Ranvir Kapoor, a few junior level employees float a computer hardware firm, and soon start to bag major business contracts and emerge as a threat to the well-established firm in which these persons earlier worked. Their secrets to success were honest communication, reliable services to customers and respect for all stakeholders.

This same analogy could work as well in the current business scenario. In a fast changing and extremely competitive market, the key to survival is customer loyalty. For service centric organizations, secret to success lies in honest communication and providing reliable services to customers and respect for all stakeholders. In a fast changing and extremely competitive market, the key to survival is customer loyalty. Important factors influencing customer loyalty are perceived honest communication and trust building. A number of studies substantiate this construct.

TRUST AND COMMUNICATION IN A SERVICE INDUSTRY: BUILDING TRUST WITH CUSTOMERS

Developing customer loyalty through effective communication

Ball D., et al (2004) argues of evidences that communication with the customers is an antecedent of trust. The customer loyalty and trust are explained by the customer satisfaction and communication and there are direct and indirect relationships between these constructs as has been shown by the European Customer Satisfaction Index (ECSI) model. ECSI model is a well-established tool to measure customer satisfaction and relationship between different constructs and validated across different industries in the European market and is now being widely used to measure customer satisfaction and interrelationship between different constructs.

The principle hypotheses tested were

- Communication has positive impacts on trust and customer satisfaction,
- Trust is determined by company image, communication and complaints handling and
- There are positive effects from communication, trust, image, complaints handling and satisfaction on loyalty.

The authors show that trust is very well explained by the communication, company image and complaints handling. This re-

sult implies that effective communication with the customers has direct significant positive effects on customer satisfactions, loyalty and trust; trust being the most significant of the three.

From the perspective of marketing, customization and personalization through effective communication with the customers has positive linkages with the customer loyalty and trust. Communication has been defined as formal and informal sharing of meaningful and timely information (Anderson and Narus, 1990). Communication, either oral or written, should be unambiguous and clearly understood. The messages should have some utility value for the customer. In the Indian context, the customer communication from Amul illustrates this point.

Integrated marketing communication strategies include both mass communication and personal communication (Wagner, Fleming, Mangold, and LaForge, 1994). Mass communication helps to generate broad awareness and personal communication helps translating broad awareness into positive attitudes and trusts.

Antecedents of trust in the financial services

Trust helps to build relationships. Christiansen, T. and S. A. DeVaney have stated that it is important for financial planners to understand clients' income and risk appetite, to help them to plan their investment portfolio, and this can happen only when there is a relationship of mutual trust. Frank and sincere communication can help building in this trust, which is absolutely essential in this kind of Planner-Client relationship. Building a trusted and committed relationship is important both for the financial planners and clients. From the perspective of financial planners, finding new clients and building relationship from the scratch is an expensive and time-taking process hence the efforts are directed towards retaining existing clients. From the perspective of latter, it is a difficult job to find knowledgeable financial planners who can provide good support to them to properly plan their financial portfolios to meet the goal of maximizing their returns, and also someone who can be trusted with information of his/her financial asset, therefore there would be reluctance to exit.

The finding of the study have revealed that trust and communication are the two important pre-determinants of commitment in the relationship between financial planners and the clients and to build this trust in the relationship, communication is the important antecedent. Clear communication between both the parties helps to gain confidence in the clients

and they start following the advice of the planners. Communication helps the clients to understand whether the planners are working in their interests or in the interest of their own. When they develop trust over the period of time with the planners, a relationship develops between them and clients always tend to maintain the relationship.

Relationship marketing is all about building a long term and trustful relationship between the marketer or service provider and the customer which is mutually beneficial for both the parties. Since market is now becoming more and more customer focused, it is in the interest of the marketer or services provider to do customer centric business. Customer also finds comfortable dealing with those suppliers/service providers with whom they have built trustful relationship. It has been proven that it is more beneficial and cost effective, both for the service provider as well as the customers, to maintain existing relationships, than to explore and build new ones. The four major inputs that go into building successful relationship in such cases are (a) understanding customer's expectations, (b) building service partnerships (c) empowering employees and (d) total quality management (Evans and Laskin, 1994)

Mukherjee, A. and P. Nath, (2003) find that concept of relationship marketing is gaining prominence in the current business world and now businesses are shifting their focus more and more towards customers by designing innovative business models to satisfy customer needs to the maximum extent possible. Relationship marketing is now even being extensively used in the banking sector which is known as relationship banking. It stresses the continuous interaction between the seller/service provider and the customer which has become more context specific in the case of banking because this is the building block of all the transactions happening between the banks and the customer or between customer and other business transactions in which bank plays an intermediary role. With the paradigm shift in the banking sector and introduction of retail banking, internet is playing a very important role and web/online banking is facilitating most the transaction processes. The online banking accesses data from the bank account of the customers and does the transaction, which would generally be perceived as a threat to the security of the individual personal information like details of his/her bank account. Trust between the customers and the banks are important because online transactions are economic transactions which involve risks and where the stakes of the customers are very high. Any mismanagement in the transaction process will come with the huge financial loss for the customers. Thus the challenge for the bank is how to transcend the threat and turn it into a business opportunity that would satisfy customer needs and help in extending banking services. It is important that the services be such that the customer is able to trust the platform of transaction, in this case, the internet based online banking. Here trust is defined as "willingness to rely on an exchange partner in whom one has confidence" (Moorman, C., Gerald, Z. and Rohit, D. 1993). Morgan and Hunt (1994) felt trust exists "when one party has confidence in an exchange partner's reliability and integrity".

One of the hypotheses of the study was that, the communication between the bank and the customers in the case of online banking is positively related to customer trust. One of the key findings was that the communication plays a significant positive role for building customer trust. Hence in the banking sector particularly when the people are using online banking for multiple transactions, it is the trust which generally leads them. This will happen only when there will be open, transparent, effective and timely communication happens between the website and the customer.

The communication which is the construct has different variables like openness, speed of response and quality of information. Here it has been theorized that when there will be an interaction between website and individual customers for the purpose of transaction the openness, speed of response and quality of information will make the website user friendly and

will greatly address the needs of the customers. This will lead to more and more such transactions by the customer through online banking.

Impact of communication and trust in the healthcare services

Contribution of service sector in the macro business environment is growing by leaps and bounds these days. Role of communication is not restricted to Banking and Finance sector alone, but touches upon other sectors as well, where there is direct provider-customer relationship. Gummerus, J., V. Liljander, M. Pura, and A.V. Riel, (2004) in "Customer Loyalty To Content-Based Web Sites: The Case Of An Online Health-Care Service" find that a broad array of services are being provided to the patients through website in online health care services, a broad array of services are being provided to the patients through website. This includes providing medical data and information, articles, online advice and interactions with the doctors, online counselling to the patients etc. Though some of the services are chargeable, most of the services are provided free of cost which are basically being sponsored by advertisers or other interested players. The study was conducted with the customers of the health care online sites and they were asked to evaluate these sites in terms of rating the measures to evaluate user satisfaction, interface, timely and quick response and security in terms of not seeking customers' personal information. The authors try to explore and explain how the customer loyalty is guided by customer satisfaction and trust and trust, in turn, is being guided by user interface, responsiveness, need fulfilment and security.

The findings are that need fulfilment and responsiveness of the sites is strong predictor of trust and customer satisfaction. When the services are customised as per the customers' needs and wishes, it develops a feeling among them that they are an integral part of the entire target audience of the company. This made the customers satisfied with the services and clearly helped to build trust between the company and the customer. Similarly, responsiveness of the online services was another important antecedent of trust because quick response to the customer requests particularly in the case of health care becomes quite convenient for the customer and also show that the company is customer oriented and takes seriously to the customer needs and requests. Hence, quick and meaningful response to the customer requests again helps to develop trust between the company and customer.

Evidences also show that handling customer complaints improperly and with incompetence is viewed by the customer as opportunistic conduct by the suppliers/service providers and this may negatively impact the credibility of the providers. Effective communication can help to understand and resolve the complaint of the customer properly, and help in restoring the confidence and trust. Wagner, Fleming, Mangold, and La-Forge, (1994) in their article 'Relationship Marketing in Health Care' said that building relationships with patients is critical to the success of many health care organizations in which communication plays a major role.

Impact of communication trust in hospitality/tourism industry

For the hospitality and tourism industry, apart from guest confidence which is created when the services is being provided to the customers as per the agreed upon terms and guest contact which is building interpersonal relationship with the customers, it is equally important to effective communication with the customers. Effective communication fosters building trust with the customers because it helps resolving disputes without any delays. Effective two sided communication between the service providers and the customers helps customers build trust and satisfaction which bring numbers of positive implications and both the parties enjoy long term fruitful relationships (Kim, W.G., Han, J.S. & Lee, E., 2001). In a study "Effects of Relationship Marketing on Repeat Purchase and Word Of Mouth" the author established that there was a strong positive association between communication and sus-

tained relationship between the hotels and the customers. As the hotel services are divided into three parts-before service, in service and after service, it was found that effective communication is required in all the three services to maintain the long term, sustained and trustful relationship with the customers. Once the hotels won the client satisfaction and trust, their performance also increase due to repeat purchase and referrals of the customers to other customers.

DEVELOPING PROPOSITION AND DIRECTION FOR FUTURE RESEARCH

The above studies have been done in the context of service sector showing that communication has a significant impact on building trust with the customers. In the highly competitive market, customer has now become a central focus. Effective communication, apart from other factors, will only help to build a sustained and trusted business relationship between the suppliers/service providers and the customers. The current business environment is full of uncertainties both internally and externally and these uncertainties can have drastic implications which can result in loss of customers. Hence, companies are designing effective communication strategies particularly with the view that the effective implementation of these strategies will bring customers and the business closer to each other so that business can feel the nerves of the customer and accordingly respond. When the relationship establishes between the service providers and the customers, both the parties benefit from this. It may also improve the performance of the companies because on the one hand it is always cheaper for the companies to maintain relationship with the existing customers, on the other hand existing customers generally make repeat purchases from the same companies, make referrals about the product and the company to other customers and work as advisory or sounding board for the company. From the above literature review, we can construct theoretical propositions which show the interrelationship between communication, customer satisfaction, trust and relationship.



The above figure shows that the openness in communication, timely, transparent and quality of communication are the building blocks of effective communication which leads to customer satisfaction. Here customer satisfaction is defined in terms of timely need fulfilment, security in transactions and proper complaint handlings which leads to trust building between the service providers and the customers. Trust between them finally leads to commitment in relationship or customer loyalty. There is a need to show how effective communication and trust will lead to improved firm performance in terms of profitability and increase in the size of the firm which the future study would be able to establish.

Therefore, the future research would be that to analyze firm performance to show how effective communication and trust positively affect firm performance may be in terms of sustained growth in profitability and growth in size. The proposition for the future study would be:

Proposition: Firm performance is positively influenced by effective communication and trust between the service provider and the customer.

The managerial implications of these findings and future research would be that in the case of service organizations, communication strategies with the customers would be designed in such a way so that the transactions could be made user friendly, interactive, with the minimal response time and clarity in terms of quality platform. The other implications would be that the studies will inform the service providers on what are the characteristics which the customers need in the services to build their trust and loyalty. This would also make the managers of the service organizations realize the importance of effective communication with the customers which will not only lead to trust building but also help to build a long term relationship between them and this will also help to improve the firm performance. The findings could also be generalized for other sectors like automobile, consumer durables, electronic items etc. however with caution because the relationship dynamics between the customers and the suppliers/service providers are different in different markets.

CONCLUSION

To conclude the discussion, what is emerging from the analysis of various studies considered for this paper is that communication and trust still are intriguing phenomena especially in the context of service industries. In a highly competitive market, what gives an edge to one organisation over other similar ones is the extent to which a customer is able to repose his/ her trust in the organization, and the extent to which the firm is able to build customer loyalty and retain its customers. Through a wide range of verbal and non-verbal cues, an organisation builds this relationship. Communication plays a vital role in strengthening such relationships and is the concomitant of building trust.

The studies have presented evidences to show how the hypothesis holds true. While this has managerial implications for managers in this sector to put communication high up in his / her agenda; for researchers, there is a scope to further explore on different aspects of communication and trust building with customers/ clients and its impact on business performance.

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