The Impact of Fairness on Trustworthiness and Trust in Banking

Abstract

Theorists and empirical researchers in marketing and other fields suggest that fairness is important in developing buyer-seller relationships. However, the construct of fairness is still opaque and relatively under-developed. Researchers still do not adequately understand the connection between service fairness and trust. Hence the purpose of this study is to provide a more developed social exchange model which examines the differential effects of various dimensions of fairness on trustworthiness and customers' trust. Data were collected from consumers of banks and analysed using confirmatory factor analysis and structural equation modelling. Findings of the study show that perceptions of fair treatment on the part of consumers are important in driving trustworthiness and engendering trust. Implications are also considered.

Keywords: Perceived Service fairness, Perceived Trustworthiness, Customer Trust

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James F. Devlin, Sanjit Kumar Roy, Harjit Singh Sekhon

Introduction

Perceived fairness is a central element of maintaining satisfactory relationships with consumers (Aggarwal and Larrick, 2012). Perceptions of service fairness are crucial in service relationships because services are difficult to evaluate prior to purchase and in certain cases even after purchases (Seiders and Berry, 1998). Berry (1995a, p. 108) states that every service encounter has the potential to yield an implicit judgment related to the fairness of the experience. Although the importance of fairness has been highlighted in some studies on service recovery (Smith et al., 1999), price fairness (Bechwati et al., 2009), satisfaction judgments (Oliver and Swan, 1989) and channel relationships (Kumar et al., 1995), it has received relatively less attention in marketing research. Although theorists and empirical researchers in marketing and other fields suggest that fairness is important in developing trust buyer-seller relationships, "the precise association between these constructs has not been fully elaborated" (Lewicki et al. 2005, p. 248). In this study we attempt to address this issue and extend this line of research by examining the effects of perceived service fairness on trustworthiness and customer trust.

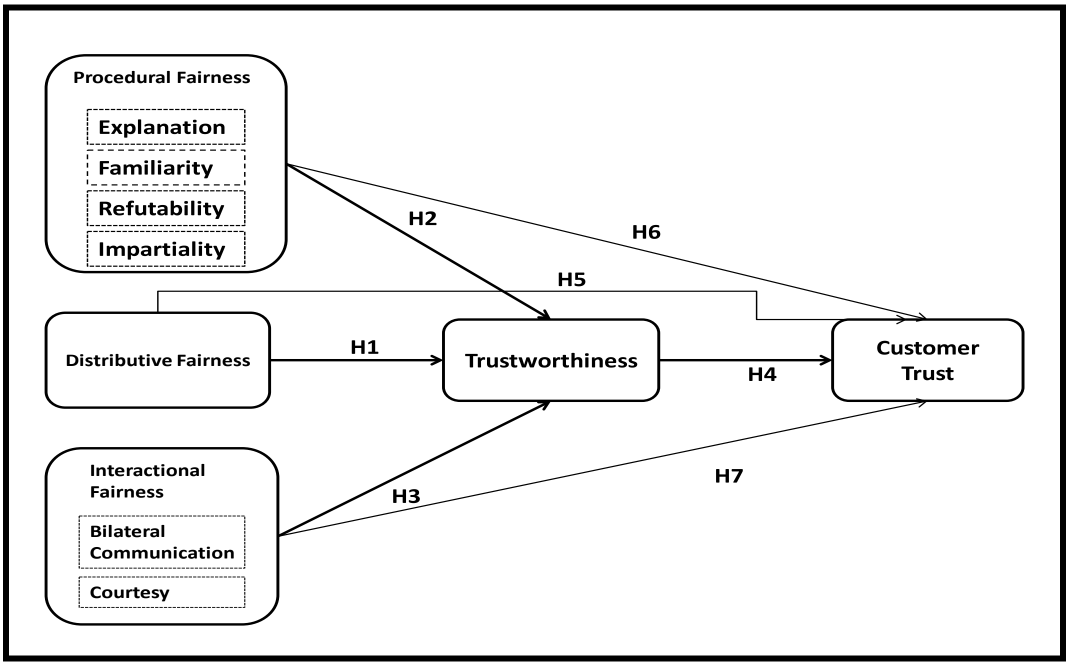
Context

The context for our study is customer of retail banks in the UK and their perceptions of fairness and trust of institutions operating in the industry. Financial services offers an ideal testing ground for our hypothesised relationships. Fairness has been noted as important in ensuring sufficient interactions between consumers and firms and has been championed as crucial in financial services by policymakers (FSA, 2008a, 2008b). Banking is also an environment where trust is considered crucial to customer engagement (Kuneva, 2009). There is also a clear relationship between the trustor (customer) and trustee (product provider). And, as Berry (1995b) posited, where there is vulnerability, risk and interdependence associated with the purchase of services there will be a role for trust. The buying process for financial services is complicated by the variety and complexity of the products available and these factors, in combination with concerns about levels of consumer understanding create the need for a trusting relationship. Given that many products supplied by banks also involve significant risk, the presence of trust is important if customers (trustors) are to engage with providers (trustees) with confidence. Finally, the industry has been subjected to what can only be described as justifiably negative publicity, and has endured perceived low levels of trust. In such a context, enhanced understanding of perceived fairness on trustworthiness and levels of trust will be of considerable value as banks seek to re-build their reputations. Taken together, and given the timely nature of our work we therefore contend that banking represents an excellent context for our study.

Literature Review and Hypotheses

The research model advanced and tested in this study has its foundations in Equity Theory (Adams, 1965), Fairness Heuristic Theory (Lind, 2001), and Social Exchange Theory (Blau, 1964). Thus, our model benefits from well recognised and generally accepted theoretical underpinnings and elucidates the relationship between perceived service fairness, perceived trustworthiness, and levels of customer trust. The model is illustrated below and subsequently, we elaborate upon and justify the hypothesised relationships contained in the model.

Figure 1: Conceptual Model



Fairness Dimensions

There is an ongoing debate surrounding the dimensionality of fairness (Colquitt et al., 2001, p. 427). For example Cohen-Charash and Spector (2001) in their meta-analysis found a three-dimensional structure of fairness. Seiders and Berry (1998) also propose the three dimensional structure of service fairness which are distributive fairness, procedural fairness and interactional fairness. Moreover, the distinction between these three dimensions is well established in literature (Martinez-tur et al., 2006; Chiu et al., 2009; Smith et al., 1999). However, Colquitt (2001) provided an alternative perspective. In an empirical study, they found four dimensions of fairness consisting of procedural fairness, distributive, interpersonal and informational justice. Colquitt, Conlon, Wesson, Porter and Ng (2001) also identified the four dimensional structure of fairness.

In the interests of simplicity and parsimony, we adopt the three dimensional conceptualisation of fairness favoured by the majority, namely distributive, procedural and interactional fairness. Following others (Kumar et al., 1995) we define distributive fairness as a customer's comparison of his/her actual outcomes the customer deems s/he deserves. In essence, the sub-dimension of distributive fairness is concerned with the degree to which exchange partners get "a fair share of the pie". Procedural fairness has been defined as the fairness of the processes and policies with which the outcomes of an exchange are determined (Lind and Tyler, 1988). Consistent with this and others, including Kumar et al. (1995), we define procedural fairness as the customer's perception of the fairness of the company's procedures and processes in relation to the customer. Finally, with regard to interactional fairness, Bies and Moag, (1986) conceptualise interactional fairness as the quality of the interpersonal treatment which people receive when subject to procedures implemented by organizations. It is the degree of politeness, respect and dignity shown towards people by organizations. Thus, our final conceptualisation of fairness has the following dimensions: *distributive fairness*, which is the fairness of the outcomes of the exchange; *interactional fairness*, which is the courtesy, respect and consideration shown during the exchange and the degree of bilateral communication involved and *procedural fairness*, which incorporates the elements of impartiality, refutability, explanation and familiarity (Kumar, et al, 1995; Roy et al. 2012).

Fairness and Trustworthiness

We argue that Fairness Heuristic Theory can explain how perceived service fairness influences perceived trustworthiness. Fairness heuristic theory (Lind, 2001) suggests that when individuals face uncertain circumstances, they rely on impressions of fairness while developing responses to such circumstances.. According to such a theory, individuals use a "fairness heuristic" to determine whether to cooperate and enter into exchange relationships with the organization. Colquitt and Rodell (2011) found that individuals form fairness judgments prior to the formation of trustworthiness perceptions.

In the context of buyer-seller relationships in banking, customers are unsure about the outcomes of their exchanges with financial service institutions. As a result customers are likely to form perceptions of trustworthiness about the financial service institution based upon fairness perceptions (procedural, distributive, and interactional). Hence based on the theoretical reasoning and findings in previous literature we propose the following hypotheses:

H1: Distributive fairness has a positive influence on trustworthiness.
H2: Procedural fairness has a positive influence on trustworthiness.
H3: Interactional fairness has a positive influence on trustworthiness.

Trust and Trustworthiness

In case of services, a customer's trust can be considered as her/his willingness to rely on the exchange partner (i.e. service provider in this case). Mayer et al. (1995) clearly distinguish between trust and trustworthiness and conceptualise trust as an outcome of trustworthiness. According to Lewis and Weigert (1985) one driver of such expectations of trustor is the trustworthiness of trustee. Similarly, Flores and Solomon (1998) argue that trustworthiness plays an important role in understanding and predicting trust. For trust to emerge, the trustor has to make a judgment that the trustee can fulfil its obligation(s), and the basis for this judgment is the trustee's trustworthiness. Siredeshmukh, Singh and Sabol (2002) empirically examined the relationship between trustworthiness and trust in relational exchanges involving the frontline employees and management policies and practices. Based on the above theoretical reasoning and empirical evidence we propose the following hypothesis:

H4: Trustworthiness has a positive influence on trust.

Fairness and Trust

Trust is "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer, Davis, and Schoorman 1995: 712). Konovsky and Pugh (1994) state that trust is a key element in the emergence and maintenance of various social exchange relationships viz. buyer-seller relationships in service organisations. Research in organisational behaviour and sociology has identified trust as an outcome of organizational fairness (Aryee, Budhwar and Chen, 2002; Lind and Tyler, 1988). Procedural fairness and distributive fairness influences people's trust as well as decision making process (Konovsky and Pugh, 1994). Although limited research evidence exist in the marketing literature on the relationship between service fairness and trust, based on the empirical evidence in related fields (Pillai et al., 2001; Chiu et al., 2009) we propose that different fairness dimensions will impact customers' trust in service organisations. Thus, we also incorporate into our model the possibility of a direct relationship between fairness and trust and, as a result, put forward the following hypotheses:

> ***H_5: Distributive fairness will have a positive impact on trust.***
> ***H_6: Procedural fairness will have a positive impact on trust.***
> ***H_7: Interactional fairness will have a positive impact on trust.***

Methods

Research Instrument

Our measurement scales were adopted from the previous literature and adapted to suit the requirements of the present study. Measurement items for procedural fairness, distributive fairness and interactional fairness were adopted from *reference withheld for review* and included a total of 30 scale items. Examples include; *My bank provides me with clear information at all times* (procedural item), *My bank shows courtesy in its dealings with me* (interactional item) and *I benefit from my interactions with my bank as much as they do (*distributive item). Items for trust were adopted from Chiou et al. (2002) with a total of 4 scale items. An example question is *My bank is very reliable.* Trustworthiness measures were taken from Ennew and Sekhon (2007), with a total of 4 scale items, including by way of example; *My bank has a reputation for being honest.*

Data Collection

Data was collected in 2013 from the retail bank customers in UK by a market research company using quota sampling and a structured questionnaire. The questionnaire was administered in an online environment. The final sample size was 476 respondents and, given the professional nature of the data collection the sample was broadly representative of bank users nationally.

Data Analysis and Results

Measurement model

Confirmatory factor analysis was conducted on the nine latent constructs in the measurement model. The measurement model resulted in acceptable good model fit indices. Composite reliabilities of the constructs are all greater than the threshold of 0.6 (Bagozzi and Yi, 1988) and Cronbach alpha values are greater than 0.7, statistics which are indicative of an excellent level of reliability for the latent constructs measured in the study. The average variance extracted (AVE) greater than 0.5 for all the constructs in the measurement model which indicates the convergent validity (Fornell and Larcker, 1981). We assessed the discrminant validity using Fornell and Larcker (1981) i.e. by comparing the AVE values with the square of the inter-construct correlations between the constructs. Overall, the measurement model statistics are highly acceptable which helps confirm that the measurements incorporated in the study and generally reliable and valid and are suitable for use in further analysis.

Hypotheses Testing
The structural model as illustrated in Figure 1 was tested using structural equation modeling. Model fit indices (χ^2 = 1848.02; df = 629; CFI = 0.94; IFI = 0.94; TLI = 0.93; RMSEA = 0.06) were acceptable. Distributive has positive and significant effects on trustworthiness (β = 0.345; $p<0.001$) and trust (β = 0.586; $p<0.05$) **supporting hypotheses H1 and H5**. Trustworthiness has a positive impact on customers' trust (β = 0.23; $p<0.001$) which **supports H4.** Procedural fairness (refutability) (β = 0.24; $p<0.05$) and procedural fairness (impartiality) (β = 0.318; $p<0.001$) have positive and significant impacts on perceived trustworthiness providing **partial support to H2**. Interactional fairness (bilateral communication) has a positive effect on perceived trustworthiness (β = 0.374; $p<0.001$) providing **partial support to H3**. Procedural fairness (explanation) has a positive impact on customers' trust (β = 0.150; $p<0.05$) providing **partial support to H6**. Finally, interactional fairness (courtesy) has a positive impact on customers' trust (β = 0.142; $p<0.001$), providing **partial support for H7**.

Discussion and Implications
Our study aims to explore the role of fairness in developing trust of financial services in the financial services. The empirical analyses provide unique contributions to our knowledge in the domain service relationships by examining the role of fairness and trustworthiness in building customers' trust. Our study provides one of the first analyses of the role of trustworthiness on the relationship between service fairness and trust in the financial services industry.

Overall, our model fits the data very well, indicative of the fact that the role that we posit for fairness as an antecedent to trust in banks would appear to be extremely valid. In turn, it would appear that policymakers are correct in their assertion that increasing perceptions of fairness is imperative if levels of trust and, ultimately, consumer engagement are to rise. If banks want to benefit from the positive results of increased levels of customer trust, then they must pay due heed policymakers' exhortations to ensure that they do treat customers fairly. More specifically, perhaps the specific finding worthy of most note is that fact that distributive fairness has a strong impact on perceptions of trustworthiness and, both directly and indirectly, trust. Results show that distributive fairness has a stronger effect on customers' trust than other dimensions of fairness. Clearly, when it comes to judging whether or not a fair exchange is in the offing, how the pie is shared out and related financial/economic benefits are upper most in consumers' minds. However, other elements of fairness also have a significant impact on trustworthiness and trust. Customers clearly welcome an impartial approach and a lack of favoritism, as well as the ability to refute policies and decisions. They want a fair hearing and they want equal treatment. Given the segmentation that occurs in retail banking and the potential for differential approaches to customer interactions on the part of banks, measuring up to such demands could well prove challenging. Finally, the importance of interpersonal factors in engendering increased levels of trust should not be overlooked, although they are not as important as other elements of fairness in the main.

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