INVESTIGATING THE MEDIATING ROLE OF CUSTOMER RETENTION ON CRM- BUSINESS PERFORMANCE INGENERAL INSURANCE INDUSTRY

Abstract

The paper investigated the mediating role of customer retention between CRM-business performance relationship by adopting the sequence of three contrasting models given by Arnold et al. (2007).Among these three models, the partial model was selected on the basis Chi-square difference test which support the hypothesis that Customer retention mediates the relationship between CRM-business performance. Further, to strengthen customer retention, complaint redressal mechanism & claim settlement be streamlined, increase in interactive websites , mobile applications and user friendly call centres , initiating online purchase and renewal of old policies ,simplifying legal and technical knowledge of insurance policies for less educated people and regularly imparting interpersonal skills to staff of General Insurance Companies.

Keywords: Mediation, Customer Relationship Management, Customer retention

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I. INTRODUCTION

Global business environment is dynamic consequent upon volatile equity markets, reconstructed value chains, global competition, financial innovations, complexity in predicting customer preferences etc., causing threat for the business organisations. Realising the need to recognise and deliver customer needs and preferences , business firms have shifted not only from product-driven enterprise to customer-driven enterprise but also planning, learning, building, developing long lasting relationships with customers (Zulkifli& Tahir, 2012; Theorandic, 2002; Amir, Yousof& Asma, 2014).Customer Relationship Management (CRM) is widely accepted as a strategic approach concerned with creating and improving shareholder value through cross-functional integration of processes, operations and marketing capabilities by enabling latest technology, information systems and applications (Payne &Frow, 2005). Today, a large number of organisations are employing CRM practices to provide personalised services to their clients ,improving service quality, operational capability ,overall efficiency and effectiveness of the companies (Zablah, Bellenger& Johnston, 2004; Akhavan & Heydari, 2008; Peppard, 2000). Banks have relationship managers for high net worth customers, airlines have regular flying programs to reward loyal customers, credit card holders get redeemable bonus points for increased card usage, telecom companies offer customised services to their heavy users, hospitality sector have personalised services for their regular guests and insurance companies offer individual attention, customisation & other valuable services to their esteemed customers without any premium. The insurance industry has also adopted CRM within the managerial system to generate and manage long lasting relationship between a company and its existing customer base, as a key to earn highest possible persistency rates, market share and profit. CRM ensures the retention of insurance industry customers and understanding company's profitability which is the prime concern of the employees and management of abusiness organisations (Limsarun&Anurit, 2011). Insurance companies that are adopting CRM as an efficient marketing strategy are comparatively growing more rapidly and performing better than those without CRM strategies within the same industry (Kauda&Serles, 2006; Chen & Popovich, 2003).

The extant literature has covered an in depth study of CRM and its implementation in selected service sectors such as banks, tourism, manufacturing, , education, retail , telecommunication, etc. but very few researchers are conducted on CRM in insurance sector specifically General Insurance Companies. Moreover, the earlier literature has empirically evaluated and examined only few CRM dimensions and there is a lack of empirical research studies on the relationship of CRM practices with customer retention and business performance. The present study is exhaustive and investigated the mediating role of customer retention between CRM practices and organisational performance. Moreover, the study is important & socially relevant as insurance sector is risk covering and assumed special significance in the UT of J&K, which has political-economic instability, rugged topography and constant intimidation.

II. CONCEPTUAL ANALYSIS OF CUSTOMER RELATIONSHIP MANAGEMENT,CUSTOMER RETENTION AND BUSINESS PERFORMANCE

The evolution of Customer Relationship Management (CRM) can be traced from the era of 1960's but the development of the concept took around early 1970's when the business

firms started shifting their focus from being 'product centric' to 'customer centric'. Since then ,there was revolutionary development and improvement in terms of CRM and business organisations have adopted CRM as a comprehensive strategy and competitive strategy.This involves acquisition of new customers & retention of profitable customers (Ryals& Knox, 2001), developing collaborative, cooperative & profitable long term relationships (Camarata, Camarata& Barker, 1998), effective delivery of service (Bose, 2002), enhancing customer & shareholder value (Payne &Frow, 2005), customer information management & production/service customisation (Oztaysi, Sezgin & Fahri, 2011) and enhanced profitability (Chang, 2007).Business performance is a multidimensional framework and is the outcome of financial and non financial measures (Mohammad, Rashid & Tahir, 2013; Reinartz, Krafft& Hoyer, 2004). The indicators used to assess the financial performance are profitability, sales growth, market share, sales revenue, amount of premium, persistency, number of policies etc. On the other hand, non-financial performance is measured through perception of employees regarding their performance in the organisations. Customer retention focusses on elevating customer retention ratios and maintaining long term customer relations (Beatty, Mayer, Coleman, Reynolds & Lee, 1996; Hwang, Jung & Suh, 2004; Wu, Lin & Yang, 2009). Since the cost of acquiring new customers is much more than the cost of retaining existing ones, therefore, customer retention is very important to the service organisations and retaining customers can undeniably yield profits (Ang &Buttle, 2006; Lindgreen, Davis, Brodie & Oliver, 2000). Service companies are adopting different retention strategies like product bundling, cross-selling & cross-promotions depending on the situations & environment of the business sector, to retain profitable clients (Verhoef, 2003). Nwankwo & Ajemunigbohun (2013) in their study of insurance sector found significant & positive association between CRM practices and customer retention. Similarly, Malik (2015) in their study of automobile industry of India also confirmed the positive influence of CRM practices on customer retention. Wu et al. (2009) found that there exist significant relationship between effective CRM and customer retention whereas Verhoef (2003) and Richards & Jones (2008) empirically tested and proved the positive effect of CRM efforts (Commitment& loyalty programs) on both customer retention and customer share development in the telecommunication sector. Minami & Dawson (2008) revealed that the adoption of CRM strategies leads to customer retention which positively affects organisational performance. Moreover, employees of banking sector opined that the enhancement of existing customer relations will retain the customers for longer period which would increase organisational profitability and market growth of the organisations (Lin, Su&Chien, 2006). Ernst et al. (2011) advocated that implementation of CRM practices yield positive impact on business performance and further, customer retention mediates the relationship between CRM and business performance. Anuforo, Ogungbangbe & Edeoga (2015) in their study found that the main achievement of CRM is the retention of loyal customers & enhancing the customer value and confirmed that customer retention plays a mediating role in the CRM and business performance relationship. Thus, it is hypothesised that:

H₁: Customer retention mediates the relationship between CRM and business performance.
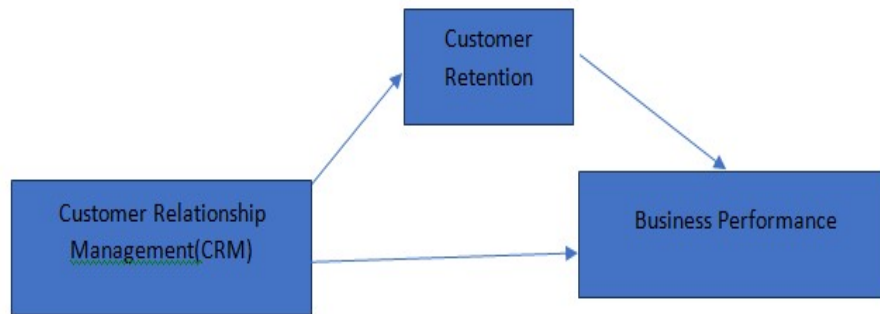
Figure 1: Mediating role of customer retention between CRM -Business performance

III. RESEARCH DESIGN AND METHODOLOGY

Data for research work was collected through primary as well as secondary sources. Two sets of questionnaires were used to collect information from employees and customers of eight General Insurance Companies namely, National Insurance Co. Ltd., New India GIC Ltd., United India GIC Ltd., Oriental GIC Ltd., Bajaj Allianz GIC Ltd., ICICI Lombard GIC Ltd., HDFC Ergo and Reliance General Pvt. Ltd. operating in UT of J&K. Effective response was received back from 404 employees and 476 customers. Each questionnaire consisted of two sections ,one general and other specific based on five point Likert scale ,to elicit information about nine practices of CRM namely, commitment, trust, service quality, loyalty, employee attitude, conflict handling, knowledgeability, communication and customer satisfaction. Suggestions were kept in open ended form.

Descriptive analysis revealed that 19% customers of General Insurance Companies falls between 20-30 years, 41% customers falls between 30-40 years, 25% customers are between 40-50 years and the remaining 15% customers are above 50 years.361 customers of General Insurance Companies contacted were male and the remaining 87 female. On education level-upto graduation, post-graduation & others and the percentage of customers of General Insurance Companies contacted at each level were 62, 30 and 8 respectively. The monthly income of the customers was divided into four levels. 21% of respondents having monthly income less than Rs. 20,000 per month, 39% of respondents were between Rs. 20,000-Rs. 40,000 per month and the remaining 40% are having income of above Rs. 40,000 per month. The occupation of the customers was divided into three categories viz. business, service & profession and the number of customer falling in each category were 176, 224 and 48 respectively.127 customers of the General Insurance Companies were consistently associated with the company from the last 3 years, 203 customers were associated from last 6 years, 89 customers were associated from last 9 years and the remaining 29 customers were associated for more than 9 years. Out of 404 employees, 68 employees are working in National Insurance Co. Ltd., 105 in New India Assurance Co. Ltd., 74 in Oriental Insurance Co. Ltd., 86 in United India Insurance Co. Ltd., 32 in Bajaj Allianz General Insurance Co., 15 in ICICI Lombard, 3 in HDFC Ergo and 21 in Reliance General Insurance Co. Ltd. 295 employees of the General Insurance Companies contacted were male and the remaining 109 employees female. The monthly income of employees was divided into three levels. 4% employees had income below Rs.20,000 per month, 77% employees fell between Rs.20,000-Rs.40000 and the remaining 19% were having salary above Rs.40,000 per month. Education-

wise ,the percentage is 37%,44% and 19% at graduation, post graduation& others respectively.6% of the contacted employees had 0-3years of work experience, 10% had 3-6 years of work experience, 5% had 6-9 years of work experience and the remaining 79% of employees had above 9 years of work experience. The normality of there sponses was assessed by using graphical and statistical methods. In case of employee data, 15 outliers were deleted whereas in case of customer data, 12 outliers were removed to make the data normal.

IV. SCALE PURIFICATIONTHROUGH EFA & CFA

The study is based on input of three scales viz. Customer Relationship Management (CRM), Customer Retention (Mediator) and Business Performance, each comprising 104, 8 and 9 items respectively. Items in the scales were reduced through factor analysis and later confirmed by SEM.

The multivariate data reduction method of factor analysis was applied on nine dimensions of CRM construct which resulted into nine factors viz. Customer satisfaction (3 factors),trust (3 factors), commitment(4 factors),service quality(3 factors),loyalty (3 factors),attitude(4 factors),communication (5 factors),conflict handling (3 factors) and knowledge ability(3 factors).After deletion of one factor (Customer needs),one item each in factor trust & belief and four items in dimension commitment , the CFA model yields the model fit results within recommended levels i.e. CMIN/DF= 3.296, GFI= 0.976, AGFI= 0.943, NFI= 0.889, TLI= 0.856, CFI= 0.918 and RMSEA= 0.073. Further, this model was found to be valid and reliable, as the value of AVE satisfies the threshold criterion i.e. 0.64 and composite reliability equals to 0.83.

Business performance is measured with nine items, clubbed under three factors namely, 'Goal achievement', 'Professional advancement' and 'Employee satisfaction'. The overall alpha reliability score for all factors is satisfactory at 0.816. The KMO value came to be 0.761 and BTS values as Chi-square= 375.060, df= 28 at 0.00 significance level with cumulative variance of 59.729%.This model found excellent results as Chi square statistics was below 0.05 and other indices also revealed satisfactory fit i.e. CMIN/DF= 2.874, RMSEA= 0.079, GFI= 0.952, AGFI= 0.913, CFI= 0.892, NFI= 0.847 & TLI= 0.844. Convergent validity also got established as AVE is arrived at 0.61 and composite reliability equals to 0.79

The measurement 'Customer Retention' contained eight items categorized under three factors viz. `Custodian relation', `Better bargain' and `Low iteration' containing three, three and two items respectively. The KMO value (0.662) gives the required adequacy of data for factor analysis and BTS values as Chi-square = 163.640, df = 28 at 0.000 significant level. The results of CFA indicated that the model fits the data excellently (CMIN/DF= 1.128, GFI= 0.983, AGFI= 0.967, NFI= 0.877, TLI= 0.974, CFI= 0.983 and RMSEA= 0.021) (Table 5.3). Further, reliability & validity were checked as the value of AVE is 0.49 and the value of CR is 0.82.

V. DATA ANALYSIS AND INTERPRETATION

The meditation effect of customer retention in the relationship between CRM and business performance (financial & non-financial performance) was tested through Structural Equation Modelling (SEM). In order to establish the mediating relationship, the present study adopted the sequence of three contrasting models given by Arnold et al. (2007). Therefore, for testing meditating effect of customer retention, the three mediation models i.e. fully mediated model (i.e. customer retention fully mediates the relationship between CRM & business performance), a partial mediated model (i.e. CRM directly affects business performance &customer retention mediates the relationship between CRM & business performance) and a non mediated model (i.e. CRM directly affects business performance) were tested and examined. Among the three contrasting models i.e. partially mediated model, non mediated model & full mediated model, the partial model was selected on the basis Chi-square difference test and the results are shown in Table 2.Hence, the hypothesis '***Customer retention mediates the relationship between CRM and business performance'***stands accepted. Further, partial mediation of customer retention in the relationship between CRM and business performance was confirmed which states that CRM directly as well indirectly through customer retention affects the performance of General Insurance Companies.
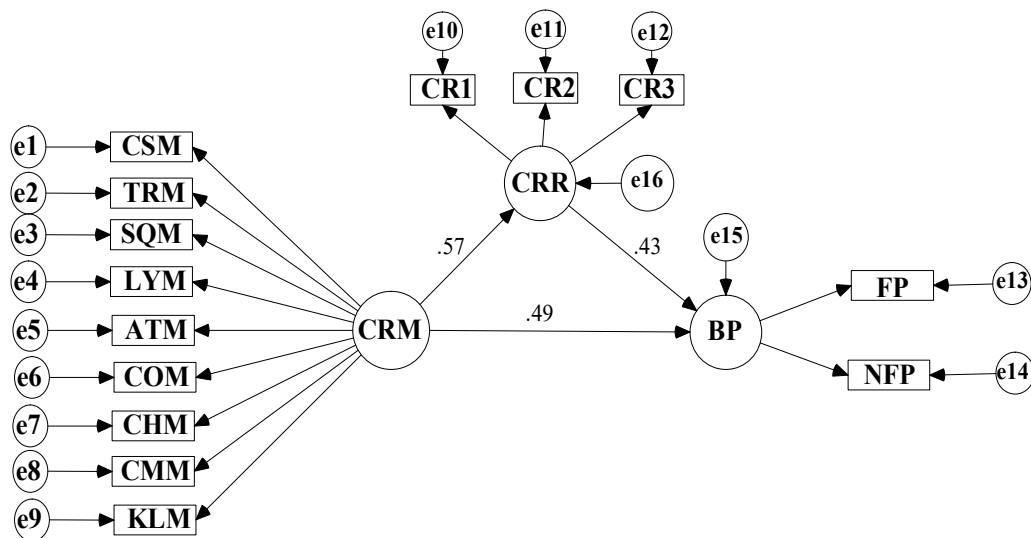

Figure 2: Partially Mediated Model of Customer Retention

Keywords: *CRM- Customer Relationship Management**, CRR- Customer retention BP-Business performance, CSM (Customer satisfaction), TRM (Trust), CMM (Commitment), SQM (Service quality), LYM (Loyalty), ATM (Attitude), COM (Communication), CHM (Conflict handling), KLM (Knowledge ability), CR1, CR2, CR3, FP (Financial performance) & NFP (Non-financial performance) are the manifest variables and e1- e16 are the error terms.*

Table 1: Fit Indices of Measurement Models and Second Order Models

S.No	Dimension	X/Df	GFI	AGFI	CFI	NFI	TKI	RMSEA	RMR
I	**CRM Construct**								
1	Satisfaction	3.973	.946	.898	.878	.846	.820	.090	.024
2	Trust	1.747	.981	.959	.938	.859	.951	.045	.011
3	Commitment	2.378	.973	.941	.930	.888	.887	.068	.016
4	Service quality	1.427	.976	.953	.954	.868	.928	.038	.014
5	Loyalty	3.464	.978	.935	.800	.758	.601	.090	.035
6	Attitude	3.482	.972	.927	.942	.922	.890	.071	.018
7	Communication	2.443	.978	.943	.902	.853	.817	.069	.020
8	Conflict handling	2.316	.985	.955	.927	.884	.854	.066	.022
9	Knowledgeability	2.803	.967	.929	.822	.761	.712	.077	.031
II	**Customer retention**								
		1.128	.983	.967	.983	.877	.974	.021	.014
III	**Business performance**								
		2.874	.952	.913	.892	.847	.844	.079	.019

Table 2: Contrasting Models of Customer Retention as Mediator

Basis	Models	CMIN	df	CMIN/df	NFI	CFI	RMSEA	Result
Models	Fully-mediated model (CRM-CR-BP)	41.604	12	3.467	0.856	0.893	0.07	Significant difference
	Partially-mediated model (CRM-CR-BP)	67.625	25	2.705	0.890	0.932	0.06	
	Non-mediated model (CRM-BP)	40.752	12	3.396	0.891	0.927	0.07	
Chi-square difference test								
Comparison between models	**Fully &partially mediated model**		**Fully &non mediated model**		**Partially &non mediated model**			
Result	Significant		Significant		Significant			

VI. CONCLUSION AND MANAGERIAL IMPLICATION

The present study found positive and significant relationship of CRM practices on business performance (financial and non-financial performance) in General Insurance Companies. In particular, dimension-wise impact of CRM on business performance was also examined which confirmed the significant relationship between them. Further, the significant and positive impact of customer retention on business performance was also confirmed. However, it was empirically proved that financial performance is strongly influenced by the implementation of CRM practices as compared to non-financial performance in non-life insurance companies. Finally, it identified that customer retention partially mediates the relationship between CRM practices and business performance.

To enhance customer retention, visibility and speed of complaint redressal mechanism be enhanced. During the course of the study, it was found that companies' sales & channel partners are easy locatable for new business contracting but the Third Party Associates (TPA's), channel partners and employees responsible for claim settlement are not so easily accessible. It is, therefore, suggested interactive websites mobile applications and user friendly call centres be increased to reach customers. Hidden charges in sale of insurance products must be disclosed to customers and QR (Quick Response) code should be set in place for linking product and policy information. On line sale and renewal of insurance product be encouraged and 10% discount on new insurance policies being sold on-line should be properly implemented. To facilitate easy buying of insurance policies especially for less educated people, insurance companies should avoid usage of legal and technical terminologies in the terms and conditions of the insurance contract. The companies should ensure an effective control mechanism to prevent fraudulent activities of the sales force by way of multiple checks including presales and post sales verifications. Lastly, skills, knowledge and capability of employees be enhanced through regular training, guest lectures, development programmes etc. for holistic development of employees.

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