

The role of customer relationship marketing on customer retention: A case of Ethiopian Insurance Corporation (EIC), Mekelle Branch, Tigray, Ethiopia

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ABSTRACT

The success of any organization depends on its customers and many organizations attempt to establish strong relationship with their customers to achieve customer retention. The overall objective of this study was to assess the role of customer relationship marketing on customer retention focusing on Ethiopian Insurance Corporation (Mekelle Branch). Therefore the study tries to examine the level of customer retention in EIC. The study employed cross sectional survey design. Both qualitative and quantitative type of data was used for the purpose of the study. In order to collect the primary data, structured questionnaire was designed and collected through convenient sampling technique from customers of EIC. Structured questionnaires were distributed to 188 customers, only 162 (86%) complete responses were returned from the customers. Moreover, semi-structured interview with marketing manager was conducted to supplement data collected using questionnaire. The SPSS version 16.00 was used to process the primary data which is collected through questionnaire. Generally, all the independent variables are positively and significantly correlated with customer retention. The result of the study indicated that the insurance doesn't provide clear and detailed information about all conditions of the service to its customers. Finally, to enhance the flow of information, the corporation should work cooperatively and make the whole system on work with customers, in order to improve customer retention.

Keywords: Relationship marketing, empathy, trust, responsiveness commitment, communication, customer satisfaction, customer retention.

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INTRODUCTION

Relationship marketing has been developed over the years as stimulating area of marketing that emphasize on creating and maintaining long-term relationships with customers and other parties. In the competitive market, organizations are not only concerned on providing quality products or services but the key concern is to communicate with customers and understand their requirement to satisfy and retain them with a profitable relationship (Tseng, 2007). Customer relationship marketing plays a decisive role for strategic position of an organization and concentrates on the integration of customer information, knowledge for finding, retaining and make customers loyal (Raghu, 2005). In the early 20th century, European entrepreneurs who came from

Great Britain, Italy, France and others saw a significant interest in the insurance industry and foreign investors owned the lion share of the investments. The nationalization of private insurance companies and the restrictions imposed on private business enterprises had significant adverse impact on the development and growth of Ethiopian insurance industry (Hailu, 2007). Hence, this study is intended to assess the role of customer relationship marketing on customer retention.

Statement of the problem

Managing customer relationship in business

organizations is a challenging phenomenon, because customers' requirement can significantly vary and organizations are concentrated on different operations to meet their customer needs (Kleinaltenkamp and Ehret, 2006). According to Kale (2004), many customer relationship marketing strategies can never be successful. There are many reasons for the failure of these strategies, the most common are: losing sight of customers, lack of management support, undervaluing customer data analysis, inflexible business process and underestimating required management involvement. Consequently, the problem on how to integrate information technology in creating and developing effective relationship marketing has not been solved yet in a comprehensive and satisfactory way (Greenberg, 2001). Moreover, though companies have been implementing different customer relationship marketing strategies to improve customer relationship and to provide better service, however some of these strategies fail to perform effectively (Ang and Buttle, 2006; Hendricks et al., 2007). How successful is the company in retaining customers and how much is the role of its customer strategy in doing so? Therefore the study tries to examine the level of customer retention in the context of the Ethiopian Insurance Corporation (EIC).

Research question

Generally, the study was conducted to answer the following basic questions:

1. How does the corporation practice customer relationship marketing strategy to retain its customers?
2. What customer relationship marketing strategies are the corporation pursues?
3. To what extent relationship marketing is contributing in attracting and retaining customers in the corporation?
4. What are the key factors that affect customer retention in the corporation?

Objective of the study

The general objective of the study is to assess the role of customer relationship marketing on customer retention in Ethiopian Insurance Corporation in the context of Mekelle branch.

The specific objectives of the study are:

1. To examine the practice of customer relationship marketing strategy on customer retention in Ethiopian insurance corporation.
2. To identify customer relationship marketing strategies the corporation pursues.
3. To investigate the contribution of customer relationship marketing in attracting and retaining customers in Ethiopian insurance corporation.

4. To explore the key factors that affect customer retention in the insurance.

Significance of the study

The study enables the student researcher to have an academic knowledge on conducting research. The study will also contribute to the future development of this type of research, especially in developing countries like Ethiopia. Also the result of this study will provide valuable inputs and directions to the corporation to integrate its marketing strategies.

Scope of the study

The study was delimited geographically, conceptually and methodologically. Geographically EIC Mekelle branch was selected for the purpose of this study. Conceptually, the study was confined to assess the Role of Customer Relationship Marketing on Customer Retention in terms of relationship marketing dimensions such as empathy, trust, commitment, communication and responsiveness are the focuses of this study. Methodologically customers who are registered after December 2013 were not included in the study.

LITERATURE REVIEW

Definition of relationship marketing

The dramatic change from transactional marketing to relationship marketing increases its significance and contribution in the customer relationship marketing (Lindgreen, 2001). Relationship marketing deals with planning, understanding, analyzing, monitoring and control of measures that initiate, stabilize, intensify and promote business relationships with stakeholders, mainly with customers and the creation of mutually beneficial relationships (Bruhn, 2003).

Influencing factors of customer retention

According to Berman and Evans (2010), customer satisfaction occurs when customers expectation have been met or exceeded by the firm in terms of value and customer service provided. According to Menon and O'Connor (2007), customer retention is defined as holding and maintaining customers to maximize customer life time value by creating effective relationship with the firm. There are different variables that can influence companies' relationship marketing and customer retention such as communication, customer information, empowerment, customization, loyalty programs, ethical behavior and technology of the firm (Kim et al., 2004).

Relationship marketing practices and dimensions

Trust

Trust is the “corner stone” for building and developing long term relationship with customers (Juscus and Grigaite, 2011). Trust is defined as the dimension of relationship marketing that determines the level in which each party feels it relies on the integrity of the promise offered by the other party. This relationship involves both parties sharing information and working together effectively to solve problems. Generally, trust is shown to have a positive influence on key relational outcomes, customer retention (Doney et al., 2007).

Commitment

Commitment is a critical issue in building customer loyalty, in identifying customers' need, modifying products/services to meet customers' requirement, and the existence of flexibility in customer relationship is a key issue to improve the service (Ndubisi, 2007).

Communication

Communication is defined as a formal as well as informal exchanging and sharing of meaningful and timely information between customers and service providers.

Empathy

Empathy is the ability to share and understand another person's state of mind or behavior. Empathy is characterized by looking expressions of the people facial expression or body movement, or by hearing their tone of voice, which will have immediate response on how they feel and treat them in the manner they would like to be treated (Ndubisi 2004).

Responsiveness

This is a firm's ability to respond the needs and wants of its customers in timely manner. For a firm to be responsive, it must gain deeper understanding and profiling of customer behavior and real-time customer information (Kuranchie, 2010).

Effects of customer relationship marketing on customer retention

The final goal of customer relationship marketing is customer retention which is the key to survive in competitive market for any firm. Customer satisfaction and surviving in today's competitive environment requires

the ability to understand the requirement of customers, intelligence to analyze and ability to provide products or services to customers (Ghahfarokhi and Zakaria, 2009). Relationship marketing strategy provides a rise to the development of information technology applications often referred to as customer relationship management system which perform as an enabler, producing relevant customer related information and making them readily accessible to (Chen and Hitt, 2002).

Conceptual framework

The overall objective of relationship marketing is providing higher level customer service than similar companies do. The researcher set the conceptual framework to guide the study as shown in Figure 1.

METHODOLOGY

The study employed cross sectional survey design. Descriptive statistics was used for the study and also both qualitative and quantitative types of data were employed. The study employed both primary and secondary sources of data. Primary data sources was collected through questionnaire and interview and secondary data was collected from studies done before, like journal, articles and also annual report and magazines of the corporation (2011 to 2013) was used to strengthen the study. Ethiopian Insurance Corporation was purposely chosen among different insurance companies. The target population was customers of the corporation who were registered until December 2013 and their total number is 4406. The sample size is determined based on the following simplified formula proposed by Kothari (2004).

$$\text{Sample size } (n) = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N-1) + z^2 \cdot p \cdot q} = 188$$

Where, n is sample size, and N is the population size, which is 4406
p is sample proportion of success and q is sample proportion of failure, q = 1- p, p is 0.02
e is the level of precision (acceptable error) and its value is 0.02
z is the value of the standard variant at a given confidence level which is 2.005

Since the data was collected from 188 customers by using convenience sampling technique based on the availability and willingness of customers to answer the questions.

Questionnaire

In order to collect the required data the researcher was used structured questionnaire as best instrument.

Personal interview

The interview was designed to conduct semi-structured interview with marketing manager of the corporation.

Data processing

This deals with data processing procedure such as editing, coding,

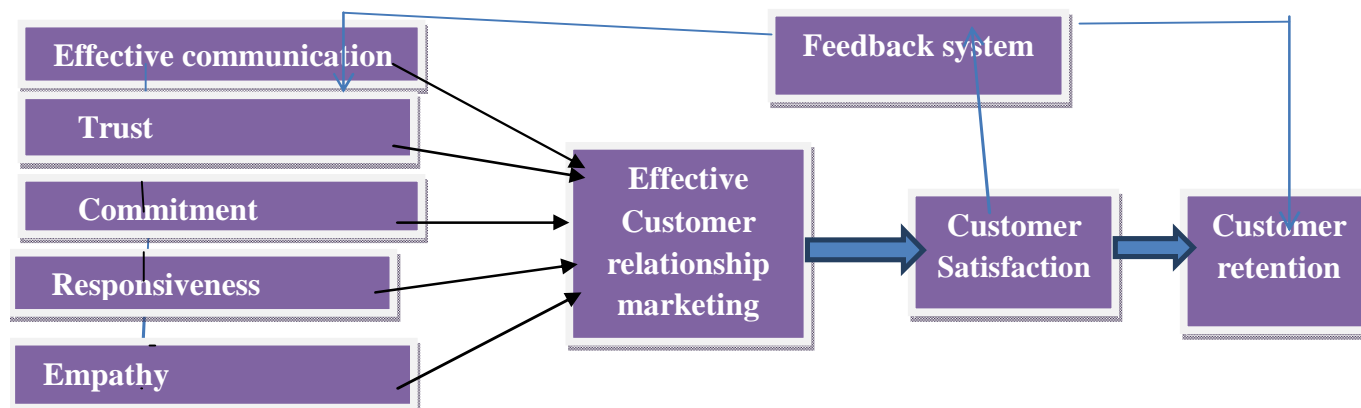


Figure 1. Conceptual framework for the study.

classification and tabulation of data. The process and procedure of assigning numerical or other symbols come at this part to reduce responses into a limited number of groups.

Data analysis and interpretation

The data collected through questionnaires was analyzed quantitatively by utilizing statistical techniques such as tabulation and pie charts, mean, percentage, and standard deviation are used to analyze the data. The qualitative type of data was employed to analyze and interpret the data collected through personal interview. The Statistical Package for Social Science (SPSS) version16 software was used.

RESULTS AND DISCUSSION

Respondents' demographic characteristics

As shown in Table 1, majority of the respondents (84.6%) were males and the rest 15.4% were females. Majority of the customers of the insurance company are educated and the implication here is that educated customers may initiate the insurance to adopt new technology such as communicating through email, website of the corporation. As indicated in Table 1, majority of the customers work in the governmental sector and in their own business. As presented in Table 1, the most purchased type of policy was Asset with 64.8% of the total type of policy purchased.

While making interpretation of the results of mean scales are reassigned as follows to make the interpretation easy and clear: 1 to 1.8 = Strongly Disagree, 1.81 to 2.6 = Disagree, 2.61 to 3.4 = Neutral, 3.41 to 4.20 = Agree and 4.21 to 5 = Strongly Agree (Best, 1977 as cited by Yonas, 2013).

Descriptive statistics

Table 2 illustrates the reflection of the respondents

towards the individual variables of empathy using mean and standard deviation. As presented in Table 2, the results of the variables fall between the range of 3.41 and 4.2 and this indicates that majority of the respondents agreed with all the individual variables of empathy. So, it is pertinent to say that empathy has a great role in retaining customers to the insurance.

Table 3 illustrates the reflection of the customers towards the variables responsiveness using mean and standard deviation. As can be seen from the table, the results of the variables of responsiveness fall between the range of 3.41 and 4.2, this indicates that majority of the customers agreed with all the individual variables of responsiveness. The implication here is that the insurance is responsive to the requests of its customers and this is essential to build and develop strong relationship with its customers and other parties.

Table 4 illustrates the reflection of the customers towards the individual variables of trust using mean and std. dev. The results of the variables of trust fall between the range of 3.41 and 4.2; and this indicates that majority of the customers agreed with all the individual variables of trust. This implies that the corporation fulfils its obligation to satisfy and retain its customers.

Figure 2 indicates that majority of the respondents (74.2%, including 60.6% agree plus 13.6% strongly agree), support the statement up on the insurance has the ability to openly discuss solutions when problems arise. So the analysis shows that the corporation openly discusses solutions when problem arise and allows for its customers to express their problems openly and this helps to develop strong relationship and improves customer retention.

As presented in Table 5, the results of the customers' response towards the individual variables of communication were in different ranges, meaning customers are in different levels of agreement. The results imply that there are tasks that insurance has to do on the variables of communication. Since the insurance clearly communicates about each policy to you (about

Table 1. Demographic information of respondents and business characteristics.

Demographic variables	Classification of variables	Frequency	Percent
Gender	Male	137	84.6
	Female	25	15.4
	Total	162	100.0
Age	≤ 25	13	8.0
	26 -35	70	43.2
	36 - 45	51	31.5
	46 -55	21	13.0
	≥ 56	7	4.3
	Total	162	100.0
Educational qualification	No formal schooling	3	1.9
	Primary	16	9.9
	Secondary	26	16.0
	Diploma	36	22.2
	1st Degree	73	45.1
	Masters and above	8	4.9
	Total	162	100.0
Occupation	Student	2	1.2
	Private sector	26	16.0
	Own business	85	52.5
	Government sector	46	28.4
	Other	3	1.9
	Total	162	100.0
Type of policy purchased	Asset	105	64.8
	Business	20	12.3
	Staff	13	8.0
	Asset and Staff	18	11.1
	Staff and Business	6	3.7
	Total	162	100.0

Source: Own survey result, 2014.

Table 2. Descriptive statistics of empathy.

No.	Variables of empathy	N	Mean	Std. Dev
1	Employees' understanding of customers need	162	3.99	.968
2	Service delivery system of the insurance	162	3.77	.816
3	Working hours of the insurance	162	3.88	.987
4	The insurance listen problems	162	3.71	.950
5	The insurance works in co-operation	162	3.62	.926

Source: Own survey result, 2014.

your right, responsibility, and other related issues), the overall mean score of customer response is 2.41 with std. deviation of 0.994 (Table 5). Based on this analysis majority of the customers were disagreed with the statement. This implies that the corporation did not

clearly communicate with its customers about the policy and this makes customers confused with policies of the corporation and finally customers can move to other corporations.

As shown in Table 6, the perception of the respondents

Table 3. Descriptive statistics of responsiveness.

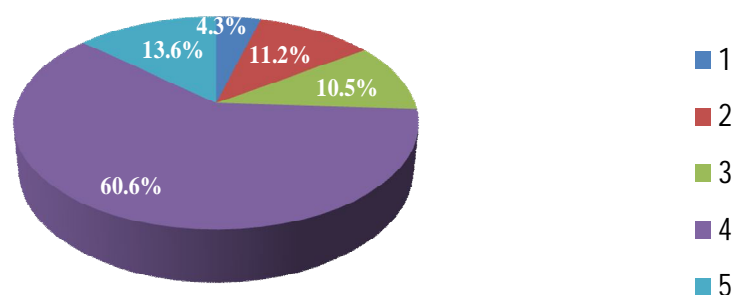
No.	Variables of responsiveness	N	Mean	Std. Dev
1	Employees response to customers request	162	3.53	.992
2	Employees devote enough time	162	3.94	.998
3	Services is done without delay	162	3.48	.979
4	Responsiveness of the insurance	162	3.69	.968
5	The insurance quickly solve your problem	162	3.52	.960
6	Employees are well trained	162	3.45	.859

Source: Own survey result, 2014.

Table 4. Descriptive statistics of trust.

No.	Variables of trust	N	Mean	Std. Dev
1	Ability to discuss solutions when problem arise	162	3.68	.988
2	Trust of the insurance	162	4.16	.787
3	The insurance fulfils its obligation	162	4.07	.789
4	The insurance show respect and honest	162	4.08	.923
5	Ability to meet promises	162	3.79	.902

Source: Own survey result, 2014.

**Figure 2.** Ability to discuss solutions when problem arises. Source: Own survey, 2014.**Table 5.** Descriptive statistics of communication.

No.	Variables of communication	N	Mean	Std. Dev
1	The insurance allow to express your opinion	162	4.17	.831
2	The insurance communicates timely when there is change	162	3.61	.960
3	The insurance applies more technology	162	2.40	.999
4	Marketing strategy is effective to inform you	162	2.59	1.000
5	The insurance uses technology to become unique	162	3.43	1.043
6	The insurance communicates based on your desire	162	4.16	.898
7	The insurance communicates its policy	162	2.41	.994
8	Providing channels to enable two way communication	162	3.95	.951

Source: Own survey result, 2014.

towards individual variables of commitment using mean and standard deviation ranged between 3.41 and 4.20 for the majority of the variables. Also insurance willingness

to help customers and employees politeness during service contact ranged between 4.21 and 5, this implies that majority of the customers strongly agreed with this

Table 6. Descriptive statistics of commitment.

No.	Variables of commitment	N	Mean	Std. Dev
1	Insurance willingness to help customers	162	4.23	.836
2	Flexibility to change service	162	3.85	.927
3	Being flexible to serve customer needs	162	3.78	.899
4	Employees are polite during service contact	162	4.44	.756
5	The insurance makes sure that problems do not rise	162	3.49	.992
6	The insurance keeping customers informed	162	4.06	.868
7	Providing consistent quality service	162	3.68	.937
8	The insurance provides detail information	162	2.48	.986

Source: Own survey result, 2014.

Table 7. Descriptive statistics of customer retention.

No.	Variables of customer retention	N	Mean	Std. Dev
1	Giving positive word of mouth to others	162	4.11	.863
2	The insurance stimulates you to buy repeatedly	162	3.67	.926
3	The insurance has an excellent reputation	162	3.42	.963
4	Establishing long term relationship with you	162	4.20	.842
5	Providing individualized marketing message	162	3.93	.979
6	The insurance provides reward to motivate you	162	2.72	.994
7	I'm happy with the low charges of the insurance	162	2.85	.994

Source: Own survey result, 2014.

Table 8. Descriptive statistics of customer satisfaction.

No.	Variables of satisfaction	N	Mean	Std. Dev
1	Improved service/products accessibility	162	3.91	.931
2	The insurance consistently meets your expectation	162	3.57	.996
3	Providing appropriate solutions to problems	162	3.86	.964
4	Recommending this insurance to my friends and family	162	4.10	.907
5	I will choose this insurance over any other insurance	162	4.10	.941
6	I'm satisfied with the performance of the insurance	162	3.91	.944

Source: Own survey result, 2014.

statement. But the insurance provides detail information about all conditions of the service ranged between 1.81 and 2.60, this indicates that customers disagreed with the statement the insurance provides detail information about all conditions of the service and this makes customers confused.

As shown in Table 7, the perception of the respondents towards the individual variables of customer retention using mean and standard deviation ranged between 3.41 and 4.20 for almost all the variables. This indicates that the customers agreed with variables of retention. But the insurance provides reward to motivate you and I'm happy with the low charges of the insurance ranged between 2.61 and 3.40, this indicates that majority of the customers neither agreed nor disagreed with these statements. And this result implies that there are tasks the insurance has to do on the variables of customer

retention.

As shown in Table 8, the response of the customers towards the individual variables of customer satisfaction using mean and standard deviation ranged between 3.41 and 4.20 for all the variables. This indicates that the customers agreed with all variables of customer satisfaction. This implies that the insurance service is improved to satisfy and retain its customers. According to the marketing manager response the corporation provides no claim discounts for those customers who are free from any accident.

Correlation analysis between relationship marketing and customer retention

The results of correlation analysis in Table 9 shows that,

Table 9. Correlations between relationship marketing and customer retention.

Relationship marketing	Customer retention	
	Pearson correlation	Sig. (2-tailed)
Empathy	.658**	.000
Responsiveness	.629**	.000
Trust	.730**	.000
Communication	.694**	.000
Commitment	.745**	.000

** . Correlation is significant at the 0.01 level (2-tailed). N= 162. Source: Own survey result, 2014.

all the independent variables (empathy, responsiveness trust, communication and commitment) are positively and significantly correlated with the dependent variable (customer retention) at 99% confidence level ($P < 0.01$). The highest correlation is signified by commitment ($r = 0.745$), followed by trust ($r = 0.730$), communication ($r = 0.694$), empathy ($r = 0.658$) and responsiveness ($r = 0.629$). This indicates that if the level of empathy, responsiveness, trust, commitment and communication of the insurance is high then the level of customer retention will be also high.

CONCLUSIONS

The finding of the study indicates that the insurance has no clear compliant handling procedures, but attempts to handle complaints of its customers through face to face communication. And also, the corporation did not apply more technology in meeting the customers' requirement and this creates a problem on managing and retaining them. The insurance company did not clearly communicate with its customers about each policy (right, responsibility and other related issues) and this makes customers confused with policies of the corporation, thus the customers finally move to other corporation that provide clearer instructions and policies to them. The insurance company did not provide clear and detailed information about all conditions of the service to its customers. With regard to the Pearson correlation analysis, the study clearly shows that the five relationship marketing dimensions are positively correlated to customer retention.

Limitation of the study

The study emphasized on the role of customer relationship marketing on customer retention in EIC in Mekelle city. The secondary data gathered from magazines and annual reports of EIC were too small and almost all were prepared at the main branch of Addis Ababa; and the researcher used these documents to supplement the data collected through questionnaire.

RECOMMENDATIONS

Based on the findings, the researcher forwarded the following recommendations.

To improve customer retention level the insurance company should give greater awareness on enhancing communication with its customers, by developing effective relationship marketing strategy and providing individualized attention to them. Today customers' demand is variable and the insurance company should establish strong connection with them so as to obtain clear and updated information about their requirement. The insurance should provide sincere and detail information about all conditions of the service to its customers so as to make customers informed and to obtain full clarity about the service. The insurance company should make the whole system on work with its customers by applying customer based technology to meet their requirement. In general the insurance company should establish effective way of complaint handling procedures so as to solve the complaints of its customers effectively and efficiently.

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