African Journal of Business Management Vol. 6(10), pp. 3803-3816, 14 March, 2012
Available online at http://www.academicjournals.org/AJBM
DOI: 10.5897/AJBM11.2562
ISSN 1993-8233 ©2012 Academic Journals

*Full Length Research Paper*

# Exploring the relationship between trust, commitment and customer loyalty through the intervening role of customer relationship management (CRM)

**Mornay Roberts-Lombard**

Department of Marketing, C-Ring 607, Kingsway campus, University of Johannesburg, Auckland Park, South Africa.
E-mail: ajbm.acadjourn@gmail.com.

Accepted 24 January, 2012

**The purpose of the study is to investigate customer relationship management (CRM) and its influence on customer loyalty at selected short-term insurance providers in the Gauteng province of South Africa. The target population included all South Africans who currently have a policy with at least one of the selected short-term insurance providers in the study. The convenience sampling method was applied, and a sample of 500 respondents was selected. An interview administered questionnaire was used for the gathering of data. The study indicated that a significant negative relationship existed between commitment and CRM. It was evident that no significant relationship existed between trust and CRM. The study also revealed that a strong positive relationship existed between CRM and customer loyalty at the four selected short-term insurance providers in South Africa. Strategies were also provided for ways in which the four selected short-term insurance providers can maintain and improve their relationships with their customers in order to encourage loyalty, and therefore increase profitability.**

**Key words:** Short-term insurance organisation, customer relationship management (CRM), customer loyalty, trust and commitment.

## INTRODUCTION

The weakening global economy is a major concern for the South African insurance industry. A recession influences the insurance industry negatively, since an economic slowdown will reduce business levels and cut into profitability. As the economic crisis worsens, many customers will stop paying the premiums on their short-term insurance policies, or they will move their business to other insurance organisations where they can reduce their premiums and subsequently increase their benefits. Insurance is a discretionary purchase, it is not a necessity (Centre for the Study of Financial Innovation, 2010). The South African insurance market has been characterised by a gross premium income of $4.9 billion (R36.75), an increase of 31.7% since 2008. Life insurance dominated the South African insurance market in 2008 and generated 75.8% of the market's overall gross premium income, and non-life insurance generated the remaining 24.2% of the market's aggregate gross premium income (Life Offices Association, 2010). The short-term insurance industry exists in a highly competitive environment that has grown in recent years. The property and causality sectors have contributed the most to this growth in the industry by contributing 75.3% of the total industry income. The accident and health sector contributed the remaining 24.7% (Datamonitor, 2010a). The annual growth rate in the industry had been 11.2% between 2004 and 2008, but a decrease in its annual growth rate between 2009 and 2013 has been forecasted. The forecasted growth rate is 2.8%, a substantial decrease of 8.4% in annual growth (Datamonitor, 2010b).

Hasounet and Alqeed (2010) stipulate that CRM is perceived as an all embracing approach, which seamlessly integrates sales, customer service, marketing, field support and other functions that affect customers. When using this approach, by integrating people, process and technologies, and leveraging the Internet, the relationship with all customers and suppliers is maximised. CRM is perceived as a notion, regarding how an organisation can keep their most profitable customers and at the same time reduce the costs and increase the values of interaction to consequently maximise the profits (Frow et al., 2011). CRM explores an approach to maximise customer value through differentiating the management of customer relationships. The organisation utilises its understanding of the drivers of current and future customer profitability to appropriately allocate the resources across all areas that affect customer relationships. These areas are communications, customer service, billing and collections, product or service development and pricing strategies (Venkatesan et al., 2007).

Against the background provided above, the retention of customers has become increasingly important in order to secure the future survival and profitability of the short-term insurance provider. Customer retention in the short-term insurance industry is imperative, due to the fact that it is an extremely competitive industry containing many choices for customers. The unstable environment in which short-term insurers in South Africa operate, necessitates them to put greater focus on customer retention. The reasons for this being the fact that customer are experiencing tough times and are therefore searching for ways in which to cut costs. Customers are more likely to choose an alternative supplier due to the range of choices in order to decrease their monthly costs. The reasons for the increased emphasis on the retention of customers are two-fold: firstly customer retention holds a financial benefit for an organisation in the form of increased profits, and secondly the fact that it costs more to attract a new customer than it does to retain an existing one. Therefore, the focus of this article is to determine the influence of CRM on customer loyalty in the South African short-term insurance industry. The influence of the CRM elements trust and commitment on customer loyalty will also be determined.

## LITERATURE REVIEW

### Relationship marketing (RM)

The concept of relationship marketing has emerged within the field of services marketing and industrial marketing. The phenomenon described by this concept is strongly supported by on-going trends in modern business (Ndubisi, 2007). RM is marketing based on interactions with networks and relationships. The concept of RM started to gain popularity during the 1990s and stipulates that every customer is considered an individual or unit in the exchange process. It further emphasises that RM activities are based on interactions and dialogues and that an organisation is attempting to achieve profitability through the reduction of customer turnover and the strengthening of relationships (Chou, 2009). RM emphasises the establishment and management of long-term relationships with different stakeholders of the business. These stakeholders include suppliers, customers, new recruits, employees and other influential stakeholders (Berndt et al., 2009). Morgan and Hunt (1994) state that conspicuously missing from all extant definitions of relationship marketing, is the specific recognition that many instances of relationship marketing do not have a "customer" as one of the exchange participants. Strictly speaking, in strategic alliances between competitors, partnerships between firms and government in public-purpose partnerships, and internal marketing, there are neither "buyers," "sellers," "customers" nor "key accounts" – only partners exchanging resources. Therefore, to cover all forms of relational exchange and focus on the process of relationship marketing, as stressed by Dwyer, Schurr and Oh (1987), Morgan and Hunt (1994) proposed the following: "Relationship marketing refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges". RM is applied in the organisation through the implementation of CRM processes, with a focus on the long-term profitability in the event of keeping customers for life (Sauers, 2008).

### Customer relationship management (CRM)

Since 2000, many organisations such as banks and life insurance organisations have become more aware of the importance of CRM and its potential to help them acquire new customers, retain existing ones and maximise their lifetime value (Onut et al., 2006). CRM provides a transition from a transaction-based to a relationship-based model that concentrates on the acquisition, development and retention of profitable customer relationships (Baran et al., 2008). It is an enterprise-wide commitment to identify the individual customers of an organisation, and to create a mutually beneficial relationship between the organisation and the customer. CRM evolved from RM as a result of the increased emphasis on improved customer retention and loyalty through the management of customer relationships. It is not simply a method used by an organisation to gain a competitive advantage, it has become a necessity for its survival (Frow et al., 2011). CRM therefore encompasses a process of managing detailed information about individual customers, and carefully managing all customer touchpoints to maximise customer loyalty. A customer touch- point is any occasion on which a customer encounters the brand and product, from actual experience to personal or mass communication to casual observation (Ma et al., 2010).

### Trust and commitment as drivers of customer relationship management (CRM)

Scholars have listed two key virtues that have been theorised in the relationship marketing literature, namely trust (Ndubisi and Wah, 2005; Morgan and Hunt, 1994; Moorman et al., 1983) and commitment (Ndubisi and Wah, 2005; Ndubisi, 2004; Morganand, 1994). Morgan and Hunt (1994) stipulate that trust and commitment are central to relationship marketing because they encourage marketers to work at preserving relationship investments by cooperating with exchange partners, resist attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners, and view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically. Therefore, when both trust and commitment – not just one or the other – are present, they produce outcomes that promote efficiency, productivity and effectiveness. In short, trust and commitment lead directly to cooperative behaviours that are conducive to Relationship Marketing success (Ndubisi and Wah, 2005).

## Trust

Trust can be viewed as a partner's belief that the other partner will perform actions that will result in positive outcomes, as well as not take actions that will result in negative outcomes (Morgan and Hunt, 1994). It therefore encompasses the willingness to rely on a partner in whom confidence is entrusted. (Exforsys, 2010; Ndubisi, 2007). The trusting relationships between customers and organisations are associated with overall positive outcomes, and trust in the organisation should increase the benefit derived from transacting with the organisation (Botha and Van Rensburg, 2010). Where trust is focused, there is a generalised sense of confidence and security in the other party. The parties believe that each party will act in the interest of the other, that each party will be credible, and that each party has the necessary expertise (Lian et al., 2008).

In developing relationships with customers, trust between the parties is of the utmost importance. Customers will trust organisations which they perceive to be honest (Prism, 2010; Sauers, 2008). Often consumers only partially know what they are buying, they do it on trust. The value of an insurance policy will only be known at claim stage, as most customers do not understand the fine print and legal conditions of their home insurance or retirement plan (Du Plessis, 2010). The decision to trust depends on the person who is making the decision, the person being trusted and the situation. Trusting becomes more difficult as the importance of the decision and the perceived risk increases. The decision to purchase online is a clear indicator of this. Online shopping is viewed differently by various people as it involves a high level of risk and therefore trust. Some may have the perception that their personal details may not be protected and are therefore sceptical about making use of online shopping. They may choose to only partake in an online transaction with a reputable or well-known seller whom they know and trust (Strachan, 2011).

Trust also provides an organisation with a competitive advantage. The reason being that if an organisation experiences a problem in its operations, the customers who trust the organisation are more likely to overlook this problem as they trust that the organisation will recover. In the competitive environment of today, consumers are constantly bombarded with media and various offers. Consumers who have a relationship with the organisation are less likely to be influenced by these offers and are therefore more willing to be loyal towards the organisation (Joseph and Winston, 2005).

## Commitment

Commitment implies that partners forgo short-term alternatives in favour of long-term benefits associated with their current partners. Customers will only make commitments to trustworthy partners because commitment entails vulnerability and leaves them open to opportunism (Read, 2009). Commitment is higher among individuals who believe that they receive more value from a relationship, therefore highly committed customers would be willing to reciprocate effort on behalf of an organisation due to past benefits received (Botha and Van Rensburg, 2010). Commitment in this context refers to both parties understanding that they are in the market together for the long run. They are willing to make sacrifices for their partners, because they are mutually dependent upon each other in their quest to achieve long-term returns on their psychological and financial investments (Robinson et al., 2011; Morgan and Hunt, 1994).

Commitment is an essential ingredient for successful, long-term relationships. Similar to trust, commitment appears to be one of the most important variables in understanding relationships, and it is a useful construct for measuring the likelihood of customer loyalty as well as for predicting future purchase frequency (Wu, 2011). Commitment arises from trust, shared values and the belief that partners will be difficult to replace. Commitment motivates partners to cooperate in order to preserve the relationship investments. Commitment means that partners forgo short-term alternatives in favour of long-term benefits associated with current partners (Caceres and Paparoidamis, 2007).

## Customer loyalty

Oliver (1999) refers to customer loyalty as a deeply-held commitment to repurchase a preferred product or service in the future, thereby causing repetitive same-brand purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour. Customer satisfaction relates to the results of a process, however, customer loyalty relates to a relationship. Customer loyalty does not occur at once, it is a long-term process, but customer satisfaction can occur immediately following a successful process. Loyalty can survive a negative process (Botes, 2008). Satisfaction is a necessary step in loyalty formation, and satisfaction becomes less significant as loyalty begins to set in through other mechanisms such as personal determinism and social bonding (Angelis et al., 2010). To keep customers loyal they must be satisfied. Customer satisfaction is the customer's evaluation of the product or service to ascertain if it met his/her needs and expectations. Failure by organisations to meet the expectation of customers will lead to dissatisfaction with the product or service, as customer loyalty flows from customer satisfaction (Zeithaml et al., 2006).

The aim of relationship marketing is the establishment and maintenance of long-term relationships with customers (Zeithaml et al., 2006). Organisations understand that it is considerably more profitable to keep and satisfy existing customers, than to constantly renew a strongly-churning customer base constantly. To make relationship marketing work, marketers have adopted a customer management orientation, which emphasises the importance of customer lifetime value, retention and the dynamic nature of a person's customer-organisation relationship over time (Gummesson, 2008). The rationale behind CRM is that it improves business performance by enhancing customer satisfaction and driving up customer loyalty. A model has been designed to explain this logic, and it is called the satisfaction-profit chain (Biedenbach and Marell, 2010).

Customer satisfaction increases because the insight into customers allows organisations to understand them better, and through this, organisations create improved customer value propositions. As customer satisfaction rises, so does customer repurchase intention. This then influences the actual purchasing behaviour, which significantly impacts business performance (Hasouneh and Alqeed, 2010). There are two major approaches when defining and measuring loyalty; one is based on behaviour and the other on attitude. The behavioural loyalty refers to a customer's behaviour on repeat purchase, indicating a preference for a brand or a service over time. There are two behavioural dimensions to loyalty. Firstly, the question must be asked if the customer is still active. Secondly, the organisation must determine if they maintained their share of the customer's spending. Attitudinal loyalty refers to a customer's intention to repurchase and recommend, which are good indicators of a loyal customer. A customer who has the intention to repurchase and recommend is very likely to remain with the organisation (Tsai et al., 2010). Attitudinal (intentional) loyalty is measured by reference to components of attitude such as beliefs, feelings and purchasing intention. Customers who have a strong preference for involvement or commitment to a supplier are then more loyal in attitudinal terms (Du Plessis, 2010).

## The link between customer relationship management (CRM) and customer loyalty

Loyalty measurement is a core CRM process. Loyalty indicates a commitment to support the organisation-customer relationship. If organisations aim to improve relationships with customers, they have to ensure that all key business processes are customer centric. Customer centric business processing (CCBP) recognises that although delivering a high quality service is important, it is not sufficient to keep pace with the change in an increasing competitive market. CCBP is at the core of the most effective CRM projects. The aim of CCBP, is to know and understand customers, to treat them as they expect to be treated, to anticipate their needs and respond positively to their actions. In CRM there is a high degree of importance placed on understanding and exploring customer behaviour, which is linked to CCBP as there is a high degree of respect for customers, thereby driving business activity (Baran et al., 2008). CRM is believed to work most effectively when customers are highly involved in the service. For loyalty to exist, there must be an element of personal interaction and customers must be willing to engage in relationship building activities (Leverin and Liljander, 2006).

## Relationship between customer loyalty and organisational profitability

Organisations focus on developing a loyal customer base for profit. The longer a loyal customer purchases from an organisation, the more profitable it is. However, even small increases in customer retention can lead to large increases in profitability. It is important to distinguish between strategies that lock in customers by penalising them if they exit the relationship with the organisation, and those strategies that reward a customer for remaining loyal. The most common negative retention strategy is to impose high switching costs on customers, and through this discouraging their defection. If customers find that the switching costs are too high, they will remain unwilling customers who have no other choice but to stay with the organisation as a result of the high switching costs. The danger of unwilling customers for CRM is that negative customer retention strategies produce customers who feel trapped. These customers are likely to voice their unhappiness and this will take up most of management's time. Positive retention strategies, however, include loyalty schemes that reward customers for their patronage (Du Plessis et al., 2005). Usually, the more a customer spends, the greater the reward.

Successful loyalty schemes deliver five types of value

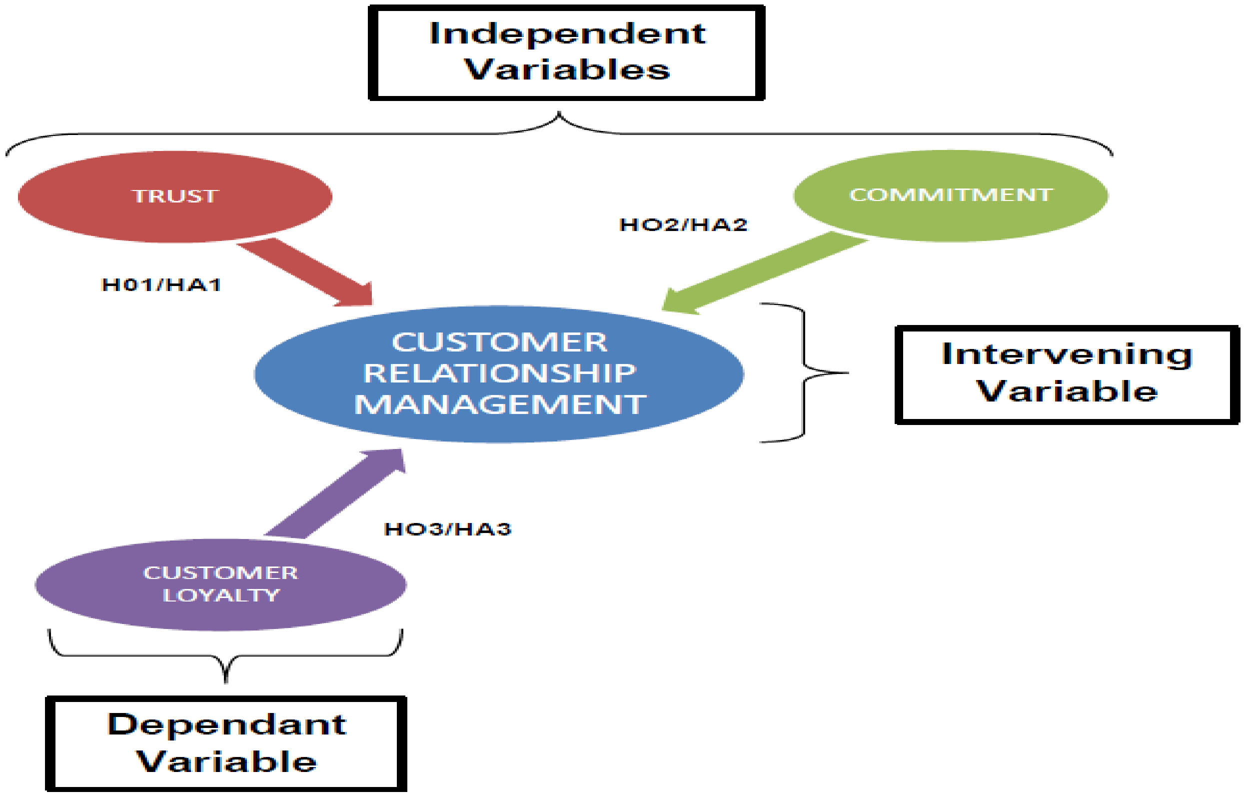


**Figure 1.** Conceptual framework. Source: Researcher's own construct.

to the participants, namely cash value – how much is the reward worth in cash compared to how much was spent to obtain it, redemption value – how wide is the range of rewards on offer, aspirational value – how keen is the customer to have the reward, relevance value – how achievable is the reward, and convenience value – how easy is it to redeem the reward (Baran et al., 2008; Evans et al., 2004). Leverin and Liljander (2006) state that a larger proportion of the long-term customers than short-term customers exhibit high profitability, and a larger proportion of the high-profitability customers than of the low-profitability customers are long-term customers. Therefore, the overall positive connection between customer loyalty and profitability cannot be underestimated and rejected.

## Problem investigated

According to Stokes (2008), the surrendering of short-term policies is increasing. This is said to be due to the fact that organisations do not fully explain the details pertaining to their policy, and they are therefore less reluctant to surrender this policy. The second reason is due to the fact that individuals are living on a restricted budget that does not consider short-term insurance to be a priority cost. Since the global economic recession in 2008, the need for short-term insurance providers in South Africa to understand and ensure the presence of the components trust and commitment has been emphasised, as these may be the components that encourage the customer to remain loyal to the organisation. The problem statement can thus be described as follows, namely "The influence of trust and commitment on customer loyalty through the intervening role of CRM in the short-term insurance industry in Gauteng remains unclear and unexplored."

Figure 1 illustrates that the independent variables of the research constitute selected variables as identified in the literature on CRM. These variables are trust and commitment. In this article each variable's influence was assessed through an empirical investigation. The article will further attempt to identify the degree of influence of CRM on the customer loyalty at selected short-term insurance providers in Gauteng, the dependent variable. The dependent variable, customer loyalty, refers to a deeply-held commitment to repurchase a preferred product or service in the future, thereby causing repetitive same brand purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour (Oliver, 1999).

Service organisations can benefit from CRM, as customers focus on the service aspect and interaction with the service provider when evaluating a service organisation, as no physical product is involved (Rootman, 2006). Short-term insurance organisations need to be aware of the variables that influence its CRM activities. This would assist these organisations in adopting the required variables to ensure the improved application of the CRM process to strengthen customer loyalty and increase market share in South Africa.

## Research objectives

### *Primary objective*

The primary objective of this study is to investigate the influence of the variables, trust and commitment on customer loyalty via CRM at selected short-term insurers in Gauteng.

### *Secondary objectives*

The following secondary objectives were identified:
(i) To determine whether trust and commitment influence CRM at selected short-term insurers in Gauteng.
(ii) To investigate the intervening role of CRM on the effect of trust and commitment on customer loyalty at selected short-term insurers in Gauteng.

## Research hypotheses

### *Relationship between trust, commitment and customer relationship management (CRM)*

$HO^1$: There is no significant relationship between the perceived trustworthiness of selected short-term insurers and CRM at these insurance providers in Gauteng.
$HA^1$: There is a significant relationship between the perceived trustworthiness of selected short-term insurers and CRM at these insurance providers in Gauteng.
$HO^2$: There is no significant relationship between the perceived commitment of selected short-term insurers and CRM at these insurance providers in Gauteng.
$HA^2$: There is a significant relationship between the perceived commitment of selected short-term insurers and CRM at these insurance providers in Gauteng.

Relationship between customer relationship management (CRM) and customer loyalty

$HO^3$: There is no significant relationship between CRM and customer loyalty at selected short-term insurance providers in Gauteng.
$HA^3$: There is a significant relationship between CRM and customer loyalty at selected short-term insurance providers in Gauteng.

## RESEARCH METHODOLOGY

The study made use of a quantitative research approach and a descriptive research design. The study was also cross-sectional since the respondents were only interviewed once. The target population included all South Africans who have a policy with at least one of the selected short-term insurance providers in the Gauteng Province. Non-probability sampling was used to determine the sample size for the study. The convenience sampling technique was applied to select the sample size of 500 respondents. A total of 431 respondents completed questionnaires. The measuring instrument used was a structured questionnaire and was developed and validated by Du Plessis (2010).

The empirical research component of the study consisted of the completion of interviewer administered questionnaires. The interviewer assisted in cases where it was required to enhance the clarity of questions. The questionnaire consisted of two sections of which Section A was in the format of a seven-point Likert type scale. The statements' response continuum ranged from 1 to 7, where 1 = strongly disagree; 2 = disagree; 3 = somewhat disagree, 4 = neutral, 5 = somewhat agree, 6 = agree, and 7 = strongly agree. This section investigated the influence of the variables trust and commitment on customer loyalty through the intervening role of CRM at selected short-term insurance providers in South Africa. Section B gathered demographic information from the respondents. This section contained fixed-alternative questions and open-ended response questions which the respondents answered in their own words (Zikmund, 2007; Roberts-Lombard, 2006; Rootman, 2006; Ndubisi and Wah, 2005; Zikmund, 2003). The questionnaire was not pretested since it had been used in a previous study and was found reliable.

Reliability and validity are the hallmarks of good measurement and the keys to assessing the trustworthiness of any research conducted. The reliability measurement for this study was the internal consistency reliability test. Reliability tests whether the questionnaire will measure the same thing more than once and result in the same outcome every time (Cant et al., 2005; Ndubisi and Wah, 2005). The extent to which a particular measure is free from both systematic and random error indicates the validity of the measure. In this study, exploratory factor analysis, utilising the Varimax with Kaiser Normalisation technique was performed to assess the discriminant validity of the questionnaire. Validity was also confirmed by conducting the Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity (Madiba, 2009). The statistical analysis that was used in the study included a multiple regression analysis to test the hypotheses formulated for the study, and an analysis of variance test (ANOVA). The rotation of the factor matrix was also performed to assess the discriminant validity of the measuring instrument.

## FINDINGS

### Reliability

Cronbach's alpha was used to determine the reliability of the measurement sets in the study. The measure ranges from 0 to 1. A value of 1 indicates perfect reliability, whilst the value of 0.6 is deemed to be the lower level of acceptability (Malhotra, 2007). The reliability statistics for the measurement sets are presented in Table 1.

It is evident in Table 1 that the Cronbach alpha values for all the measurement sets are above the lower limit of acceptability, 0.60. This confirms that the measurement sets used in the study were reliable. It was also proven

**Table 1.** Kaiser-Meyer-Olkin **(**KMO) interpretation.

| Construct | Cronbach's alpha |
|---|---|
| Trust | 0.894 |
| Commitment | 0.849 |
| CRM | 0.885 |
| Customer loyalty | 0.869 |

Source: Researcher's own construct.

that the measurement instrument had proved itself reliable in a previous study. Therefore, the reliability of the current state of affairs was assessed.

### Validity

Exploratory factor analysis, utilising the Varimax with Kaiser Normalisation was performed to assess the discriminant validity of the questionnaire. Validity was also confirmed by conducting the Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity. Through these tests all the items on the questionnaire illustrating a significant < 0.05 rating will indicate the validity of the questionnaire as a research instrument (Madiba, 2009). The KMO measure of sampling adequacy is an index that compares the sizes of the observed correlation coefficients to the sizes of the partial correlation coefficients. The overall Kaiser-Meyer-Olkin measure of sampling adequacy is defined as follows (Norusis, 2003):

$$KMO = (\Sigma\Sigma\, r^2_{ij}) \,/\, (\Sigma\Sigma\, r^2_{ij} + (\Sigma\Sigma\, a^2_{ij})$$

Interpretations of the KMO as characterised by Kaiser, Meyer and Olkin are reflected in Table 2. Bartlett's test of sphericity tests whether the correlation matrix is an identity matrix, which would indicate that the factor model is inappropriate. In matrix algebra, the determinant of an identity matrix is equal to 1.0. For example (Norusis, 2003):

$$I = \begin{pmatrix} 1.0 & 0.0 \\ 0.0 & 1.0 \end{pmatrix}$$

$$\left| \begin{matrix} 1.0 \\ I \end{matrix} \right| = \left| \begin{matrix} 0.0 & \\ 0.0 & 1.0 \end{matrix} \right|$$

$$|\,I\,| = (1.0 \times 1.0) - (0.0 \times 0.0) = 1.0$$

The Chi-square calculated can be determined as follows:

$$\chi^2 = - [(n\text{-}1) - 1/6\ (2p+1+2/p)]\ [\ln|S| + p\ln(1/p)\ \Sigma l_j\ ]$$

p = number of variables, k = number of components, $l_j$ = jth eigenvalue of Sdf = (p - 1) (p - 2) / 2

Table 3 indicates the result of the KMO and Bartlett's test. Table 3 indicates the validity of the research instrument with a significant level of 0.000. The KMO was equal to 0.939, therefore the degree of common variance among the variables was marvellous. A factor analysis will extract most of the variance. Through the Anti-Image Correlation Matrix, the sampling adequacy was confirmed. All values on the diagonal were greater than 0.70. This is additional support for the validity of the research instrument used in the study.

### Non-parametric correlation between variables

Non-parametric correlation was performed to assess the relationship between CRM and customer loyalty. The results are reflected in Table 4. This was performed to give effect to the research objective formulated for this research study.

Table 4 indicates that the correlation between the different variables tested is significant, all above the 0.01 level. The Spearman rank correlation coefficient was used in this research. When utilising the Spearman correlation coefficient, the actual values of the two variables do not have to be linearly related, but their ranks do (Norusis, 2003). Strong correlation between the different variables is good, but if high, may also be an indication that the researcher is testing the same variable in different ways. From the secondary research conducted, it is clear that the different constructs tested are not identical. The primary research was conducted after consulting previous related studies and utilising the measuring tools developed during those studies, therefore the high correlation.

## DISCUSSION

### Trust

A total of 40% of the respondents agreed that trust is an

**Table 2.** KMO interpretation.

| KMO value | Degree of common variance |
|---|---|
| 0,90 to 1.00 | Marvellous |
| 0.80 to 0.89 | Meritorious |
| 0.70 to 0.79 | Middling |
| 0.60 to 0.69 | Mediocre |
| 0.50 to 0.59 | Miserable |
| 0.00 to 0.49 | No factor |

Source: Adapted from Norusis (2003:400).

**Table 3.** KMO and Barlett's test for item validity.

| | | |
|---|---|---|
| Kaiser-Meyer-Olin measure of sampling adequacy | | 0.939 |
| | Approximate Chi-Square | 5576.180 |
| Bartlett's test | Df | 378 |
| | Sig. | 0.000 |

important variable in the relationship that they have with their short-term insurance provider.

'I will have a better relationship with my short-term insurance provider if it fulfils its obligations towards me'. This statement was rated the highest (77%) under the independent variable trust, and aspects such as the speed of service delivery and the accuracy of information provided are perceived as important characteristics that will support loyalty between the customer and the organisation.

'My relationship with my short-term insurance provider depends on whether its employees show respect to customers'. This statement was rated the lowest (24%) under the independent variable trust, and it can therefore be assumed that the respect that employees have for customers will have the least impact on securing customer loyalty. Therefore, respect is least effective in securing customer loyalty.

### Commitment

The majority of the respondents (87%) are of the opinion that commitment is not an important factor that influences the relationship that they have with their short-term insurance provider.

'My relationship with my short-term insurance provider depends on the attitude of its employees towards customers.' This statement was rated the highest (75%) under the independent variable commitment, and aspects such as the helpfulness and friendliness of employees are important characteristics that will support loyalty between the customer and the organisation.

'I am very committed to my relationship with my short-term insurance provider.' This statement was rated the lowest (30%) under the independent variable commitment, and it would seem that the customers of the four short-term insurance providers in the study are not strongly committed to them.

### Customer Relationship Management (CRM) and customer loyalty

The majority of the respondents (89%) are of the opinion that CRM has an influence on their decision to be loyal to their short-term insurance provider.

'I will be a satisfied customer of my short-term insurance provider if I have extensive relationships with my short-term insurance provider.' This statement is rated the highest (76%), and it would seem that customers do find it important to have an extensive relationship with their short-term insurance provider. Therefore, having extensive relationships with customers in the short-term insurance industry that is most effective in securing customer loyalty.

'My relationship with my insurance provider can improve if the communication that I receive from it is easy to understand.' This statement is rated the lowest (45%), and it can therefore be argued that communicating information in an understandable manner has the least impact on the loyalty of the customer.

### Goodness-of-fit and multiple regression analysis

The goodness-of-fit model and multiple regression analysis were performed to assess the relationship between the four independent variables and customer loyalty, as well as the influence of CRM on customer loyalty. The discussion will be guided by Figure 2.

**Table 4.** Non-parametric correlations of variables.

| Construct | Coefficient | Trust mean: trust | Commitment mean: commitment | CRM mean: CRM | Loyalty mean: loyalty | CRM influence loyalty mean: CRM influence on loyalty |
|---|---|---|---|---|---|---|
| CRM | Correlation Coefficient | 0.608 (**) | 0.678 (**) | 1.000 | 0.855 (**) | 0.740 (**) |
| | Sig. (2-tailed) | .000 | 0.000 | . | 0.000 | 0.000 |
| | N | 500 | 500 | 500 | 500 | 500 |
| Loyalty | Correlation Coefficient | 0.620 (**) | 0.684 (**) | 0.855 (**) | 1.000 | 0.757 (**) |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | . | 0.000 |
| | N | 500 | 500 | 500 | 500 | 500 |
| CRM influence on loyalty | Correlation Coefficient | 0.649 (**) | .718 (**) | 0.740 (**) | 0.757 (**) | 1.000 |
| | Sig. (2-tailed) | 0.000 | .000 | 0.000 | 0.000 | . |
| | N | 500 | 500 | 500 | 500 | 500 |

**Table 5.** The goodness-of-fit model for the predictors.

| Model | GFI | AGFI | NFI | CFI | TLI | RMSEA | DF | CMIN (x) |
|---|---|---|---|---|---|---|---|---|
| Model 1 | 0.764 | 0.721 | 0.789 | 0.825 | 0.808 | 0.093 | 344 | 1619,513 |
| Model 2 | 0.837 | 0.802 | 0.848 | 0.88 | 0.865 | 0.085 | 246 | 1012,681 |
| Model 3 | 0.879 | 0.845 | 0.894 | 0.92 | 0.908 | 0.078 | 164 | 597,701 |

(For the full names of the abbreviations used in the Table above refer to Appendix A).

## Goodness-of-fit

Model 1 was the initial Model (refer to Figure 1) and when assessed, it was found to have a RMSEA value of 0.093 (refer to Table 5). According to Byrne (2010), if this value is between 0.08 and 0.10, it is an indication of a mediocre fit that can be improved. If this value is greater than 0.10, this indicates a poor fit. Therefore, the ideal value would be one that is less than 0.08. Model 1 was therefore not found to be a good fit and was adapted.

Two statements were excluded from Model 1 (refer to Table 6) in order to improve the fit.

These statements were excluded due to the fact that their squared multiple correlations were below 0.400. The removal of these statements created Model 2.

The aforementioned statements had a negative effect on the goodness-of-fit of Model 1 due to the fact that they may not be specific enough, and therefore respondents are uncertain about how to respond to the statement. The exclusion of the above statements caused a drop in the RMSEA value to 0.085. However, the model still required improvement, and therefore a third model was considered through the exclusion of four more statements. In Model 3 the statements in Table 6 were excluded, as well as the statements in Table 7 that had squared multiple correlations of less than 0.300.

The exclusion of the statements in Table 7 decreased the RMSEA to 0.078, which provided a more favourable model fit. Thereby, Model 3 was created.

## Multiple regression analysis

### *Influence of trust and commitment on CRM*

The aim of the final model was to describe the

**Table 6.** Removed statements from Model 2 to improve the goodness of fit.

| Statement code | Statement |
|---|---|
| A1G | My short-term insurance provider is concerned with the protection of my assets. |
| A2G | I am very committed to my relationship with my short-term insurance provider. |

**Table 7.** Removed statements from Model 3 to improve the goodness-of-fit.

| Statement code | Statement |
|---|---|
| A2F | My short-term insurance provider is willing to invest in maintaining relationships with its customers. |
| A4B | My relationship with my short-term insurance provider is good because it has the ability to openly discuss solutions when problems arise. |

influence of trust and commitment on CRM. The standardised regression rates for this model are illustrated as solid arrows in Figure 2. The regression between trust and CRM is low due to the regression being less than 0.5, illustrating that there is no relationship between trust and CRM. There is a moderate regression between commitment and CRM, but this relationship is negative. A negative regression implies that an increase in one aspect results in the decrease of the other. This implies that as commitment increases, the need for CRM decreases, that is the improved management of customers by a short-term insurance provider will not necessarily result in increased loyalty by the customer.

### *Influence of CRM on customer loyalty*

The final model further aimed to determine the regression between CRM and customer loyalty. The standardised regression rates for the influence of CRM on customer loyalty are illustrated by Figure 2. This figure illustrates the important function of CRM as an intervening factor in the relationship between the independent and dependent variables. This therefore necessitates the need for the intervening variable, CRM. This is due to the fact that the regression is extremely low when CRM is excluded from the model.

### P-values for an exact fit model

The p-values in Table 8 are based upon the close-fit model (final empirical model) as illustrated by Figure 3. These p-values are used to accept or reject the hypotheses in the study. If the significant p-value is larger than 0.05, it implies that the null hypothesis for a close-fit model cannot be rejected.

### Acceptance or rejection of hypotheses

The following hypotheses are accepted, and the alternative hypotheses rejected:

$H0^1$: There is no significant relationship between the perceived trustworthiness of selected short-term insurers and CRM at short-term insurance providers in Gauteng.

$HA^2$: There is a significant relationship between the perceived commitment of selected short-term insurers to customers and CRM at selected short-term insurance providers in Gauteng.

$HA^3$: There is a significant relationship between CRM and intentional customer loyalty at selected short-term insurance providers in Gauteng. Figure 3 illustrates the hypotheses that have been accepted.

## MANAGERIAL IMPLICATIONS

### Trust

A study in the long-term insurance industry in South Africa, based on the same variables as the study at hand, revealed that trust is an important factor in the development of relationships, and there is a significant relationship between trust and CRM, and therefore customer loyalty (Du Plessis, 2010). However, the regression analysis of the study at hand revealed that there is no significant relationship between trust and CRM in the short-term insurance industry. This could be due to the fact that long-term insurance such as

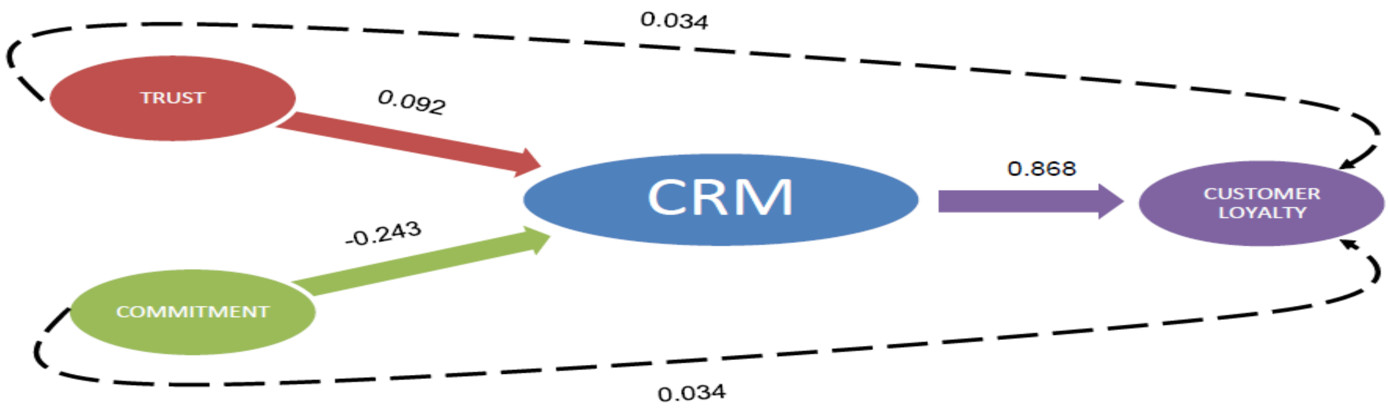


**Figure 2**. Proposed relationships between the independent variables, CRM and customer loyalty. Source: Researcher's own construct.

**Table 8.** P-values for the different constructs in the study.

| Construct | P-value |
|---|---|
| Trust | 0.315 |
| Commitment | 0.026 |
| CRM and customer loyalty | 0.040 |

life insurance, which is perceived to be of greater importance than short-term insurance, and this therefore decreases the need for trust. The four short-term insurance providers must therefore emphasise the need for short-term insurance in order to highlight its importance. This can be done by emphasising the outcome of unforeseen circumstances, and the fact that the outcome is worse if the customer does not have short-term insurance. Due to the fact that the majority of the respondents agreed with the statements relating to trust, it can be assumed that trust is needed to enhance and strengthen a relationship.

Short-term insurance providers must therefore enhance the levels of trust by communicating regularly with their customers on aspects such as better deals or better options that will clearly benefit the customer, and by making sure that insurance claims are managed in a professional manner without any hassles. If customers are paying a monthly premium, it is expected that they benefit at a time of need. The level of trust should be assessed on a regular basis in order to determine any changes that need to be made relating to staff, service and strategies. The staff of the organisation must be trained in keeping the personal information of customers confidential. They may also need training on how to make customers feel that they can trust the organisation, such as reassuring them that their personal details will be kept confidential and their requests will be processed in due time.

**Commitment**

Morgan and Hunt (1994) stipulate that commitment is important in building relationships between an organisation and its customers. This argument is supported by Ndubisi and Wah (2005). However, the results indicated a negative relationship between commitment and CRM. Customers can not be loyal if there is a lack of commitment from both the customer and the supplier. The short-term insurance industry can encourage commitment by offering incentives such as a no-claims bonus for not claiming over a certain period of time, as well as rewarding customers with lower payments and cash back bonuses. These insurance providers must ensure that the incentives provided are relevant and appealing to customers. They can do research in order to determine this. Each customer will have different preferences which will provide the organisations with various options to offer. Some may like the idea of a weekend away, financial incentives or meal vouchers. These organisations could go as far as linking up with a specific car dealership and providing incentives such as discounts on vehicles, parts or services for remaining with the organisation.

Short-term insurance providers can segment their customers according to their life-time value as well as profitability. With regard to CRM, organisations should first divide their customers into groups before deciding which customers have greater potential and therefore

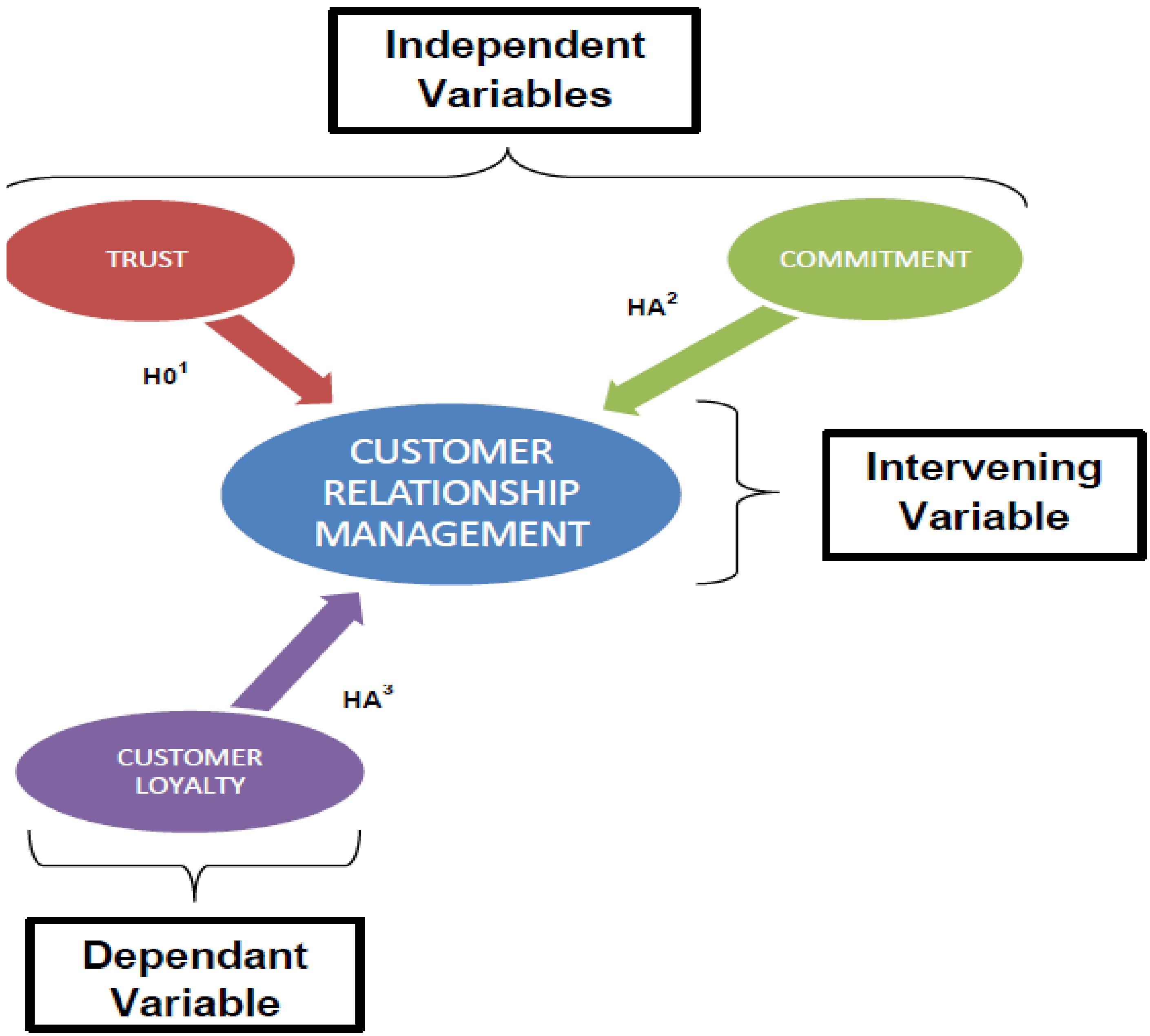


**Figure 3.** Final empirical model of hypotheses acceptance. Source: Researcher's own construct.

need increased attention. It may not be viable for a relationship to be built with each customer. The four selected short-term insurance providers are large organisations that have a high number of customers, it would therefore be too difficult for relationships to be developed with each of these customers. The level of commitment of the organisation and the customers should be assessed on a regular basis by means of surveys or questionnaires. If commitment is low, the reason must be determined and corrective actions must be put into place.

**Relationship between customer relationship management (CRM) and customer loyalty**

The empirical results state that there is a significant relationship between CRM and customer loyalty. The intervening variable CRM, is needed in order to achieve customer loyalty due to the fact that there is no significant relationship between trust, commitment and customer loyalty, without the intervening variable CRM. This therefore necessitates the need for CRM. The success of CRM can only be achieved if the entire organisation is behind its implementation. The top management of short-term insurance providers have to believe in the benefits that CRM can provide, as well as justify its expenditure in order to lead by example. Short-term insurance providers should therefore retain and develop loyal customers by being trustworthy and committed, by communicating adequately and regularly, and lastly by resolving conflicts in a timely and acceptable manner, limiting the hassle and disappointment experienced by the customer. This can be achieved by monitoring complaints and communication with customers, as well as conducting regular surveys assessing the level of trust and commitment in order to determine how and if these levels need to be improved. Trust can be obtained by delivering on promises made, which in turn can lead to commitment.

Commitment can also be achieved through personalising offerings to the individual needs of customers in order to provide them with a reason to be loyal. The short-term insurance providers must ensure that they offer incentives in order to encourage customers to be loyal. These incentives could include the “pay-as-you-drive”, which is offered by Hollard Insurers, and is relevant to customers who do not drive a lot and therefore cannot warrant an expensive premium. It is the tailoring of offers, such as this that encourages customers to be loyal. They could also introduce loyalty programmes that track the number of claims made, and decrease the premiums for every year that no claims are made.

## REFERENCES


Angelis J, Pinheiro de Lima E, Siraliova J (2010). Servitised experiences: business and management implications. Verslo Aktualijos/. Curr. Issues Bus., 5: 5-21.

Baran RJ, Galka RJ, Strunk DP (2008). Principles of customer relationship management. Mason: Thomson South-Western.

Berndt A, Herbst F, Roux L (2009). Implementing a Customer Relationship Management Programme In: An Emerging Market. J. Glob. Bus. Technol., 1(2): 82-89.

Biedenbach G, Marell A (2010). The impact of customer experience on brand equity in a business-to-business services setting. Brand. Manage. J., 17(6): 446-458.

Botes JA (2008). Customer loyalty and employee enthusiasm: an eclectic paradigm for strategic sales improvement at MB Silicon Systems. Unpublished Master’s dissertation. Johannesburg: Milpark Business School.

Botha GJ, Van Rensburg AC (2010). Proposed business process improvement model with integrated customer experience management. South. Afr. J. Ind. Eng., 2(1): 45-57.

Byrne BM (2010). Structural equation modelling with AMOS. 2nd edition.London: Taylor and Francis Group, LLC.

Caceres RC, Paparoidamis NG (2007). Service quality, relationship satisfaction, trust, commitment and business-to-business loyalty. Eur. J. Mark., 41(7/8): 836-837.

Cant M, Gerber-Nel C, Nel D, Kotze T (2005). Marketing Research. 2nd edition. Claremont: New Africa Books.

Centre for the Study of Financial Innovation CSFI (2010). Insurance Banana Skins 2010, the CSFI survey of the risks facing insurers. London: Centre for the Study of Financial Innovation.

Chou HJ (2009). The effect of experiential and relationship marketing on customer value: A case study of international American casual dining chains in Taiwan. Soc. Behav. Pers., 37(7): 993-1008.

Datamonitor (2010a). Insurance in South Africa. Available from: www.datamonitor.com (Accessed: 20 June .

Datamonitor (2010b). Non-Life insurance in South Africa. Available from: www.datamonitor.com (Accessed: 20 June).

Du Plessis L (2010). Customer Relationship Management and its influence on Customer Loyalty at Liberty Life in South Africa. MCom dissertation. Johannesburg: University of Johannesburg.

Du Plessis PJ, Jooste CJ, Strydom JW (2005). Applied strategic marketing. 2nd edition. Sandton: Heinemann.

Dwyer FR, Schurr PH, Oh S (1987). Developing buyer-seller relationships. J. Mark., 51(2): 11-27.

Evans M, O’Malley L, Patterson M (2004). Exploring direct and customer relationship marketing. 2nd edition. London: Thomson.

Exforsys (2010). Understanding Customer Needs. Available from: http://www.exforsys.com/career-center/marketing-management/understanding-customer-needs.html (Accessed 25 August 2011).

Frow P, Payne A, Wilkinson IF, Young L (2011). Customer management and CRM: addressing the dark side. J. Serv. Mark., 25(2): 79-89.

Gummesson E (2008). Customer centricity: reality of a wild goose chase? Europ. Bus. Rev., 20(4): 315-330.

Hasounet ABI, Alqeed MA (2010). Measuring the Effectiveness of E-mail Direct Marketing in Building Customer Relationship. Int. J. Mark. Stud., 2(1): 48-64.

Joseph EE, Winston BE (2005). A correlation of servant leadership, leader trust, and organisational trust, Leadersh. Organiz. Dev. J., 26(1): 6-22.

Leverin A, Liljander V (2006). Does relationship marketing improve customer relationship satisfaction and loyalty? Int. J. Bank. Mark., 24(4): 232-251.

Lian C, Chen H, Wang W (2008). Does online relationship marketing enhance customer retention and cross-buying? Serv. Ind. J., 28(6): 769-787.

Life Offices Association. (2010). Half-yearly statistics – circular 74/2010. Cape Town: Life Offices Association.

Ma Y, Ding J, Hong W (2010). Delivering customer value based on service process: The example of Tesco.com. Int. Bus. Res., 3(2): 131-135.

Madiba G (2009). The influence of the elements of the extended marketing mix on consumers’ intention to purchase at a fast-food retail chain in Johannesburg. MCom dissertation. Johannesburg: University of Johannesburg.

Malhotra NK (2007). Marketing research an applied orientation. New Jersey: Pearson Prentice Hall.

Moorman C, Deshpandé R, Zaltman G (1983). Relationship between Providers and Users of Market Research: The Role of Personal Trust, Marketing Science Institute, Cambridge, MA.

Morgan RM, Hunt SD (1994). The Commitment-Trust Theory of Relationship Marketing. J. Mark., 58: 20-38.

Ndubisi NO (2007). Relationship Marketing and Customer Loyalty. Mark. Intell. Plan., 25(1): 98-106.

Ndubisi NO (2004). Understanding the salience of cultural dimensions on relationship marketing , its underpinning and aftermaths. Cross Cultural Manage., 11(3): 70-89.

Ndubisi NO, Wah CK (2005). Factorial and discriminant analyses of the underpinnings of relationship marketing and customer satisfaction. Int. J. Bank. Mark., 23(7): 542-557.

Norusis M (2003). SPSS 12.0 Statistical procedures companion. New Jersey: Pearson Prentice Hall.

Oliver RL (1999). Whence consumer loyalty? J. Mark., 63(10): 33-44.

Onut S, Erdem I, Hosver A (2006). Customer Relationship Management in the Banking Sector and A Model Design for Banking Performance Enhancement. Istanbul: Yildiz Technical University.

Prism (2010). Relationship Marketing. Available from: http://www.prismdc.com/App_Themes/Prism/ (Accessed 20 August).

Read B (2009). Top Tips To Build and Keep Customer Loyalty With CRM. Customer Inter@ction Solutions, 27(9): 26-28.

Roberts-Lombard M (2006). Verhoudingsbemarking by reisagentskappe in die Wes-Kaap Provinsie. Doctoral thesis. Potchefstroom: North-West University.

Robinson L, Neeley SE, Williamson K (2011). Implementing service recovery through customer relationship management: identifying the antecedents. J. Serv. Mark., 25(2): 90-100.

Rootman C (2006). The influence of customer relationship management on the service quality of banks. Unpublished Master's dissertation. Port Elizabeth: Nelson Mandela Metropolitan University.

Sauers AC (2008). Effective Customer Relationship Management. New York: Cambria Press.

Stokes G (2008). Policy surrenders on the rise. Available from: http://www.fanews.co.za/article.asp?Life_Insurance;9,General;1202, Policy_surrenders_on_the_rise;4100 (Accessed: 10 August 2010).

Strachan L (2011). Investigating the influence of Customer Relationship Management on customer loyalty at selected short term insurance providers in Gauteng. BCom (Honours) Dissertation. Johannesburg: University of Johannesburg.

Tsai MT, Tsai CL, Chang HC (2010). The effect of customer value, customer satisfaction, and switching costs on customer loyalty: An empirical study of hypermarkets in Taiwan. Soc. Behav. Pers. J., 38(6): 729-740.

Venkatesan R, Kumar V, Bohling T (2007). Optimal Customer Relationship Management Using Bayesian Decision Theory: An Application for Customer Selection. J. Mark. Res., 44: 579-594.

Wu LW (2011). Inertia: Spurious Loyalty or Action Loyalty. Asia. Pac. Manage. Rev., 16(1): 31-50.

Zeithaml VA, Bittner M, Gremler DD (2006). Services marketing, integrating customer focus across the firm. 7th edition. New York: McGraw-Hill.

Zikmund WG (2003). Business research methods. 7th edition. Mason: Thomson South-Western.

Zikmund WG, Babin BJ (2007). Essentials of marketing research. 3rd edition. Mason: Thomson South-Western.