IMPROVING CUSTOMER RETENTION AT A SELECTED MEDICAL FUND THROUGH INTERNAL SERVICE QUALITY AND CUSTOMER RELATIONSHIP MANAGEMENT

B.L. XALUVA

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IMPROVING CUSTOMER RETENTION AT A SELECTED MEDICAL FUND THROUGH INTERNAL SERVICE QUALITY AND CUSTOMER RELATIONSHIP MANAGEMENT

Bongiwe Lumka Xaluva

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Supervisor: Professor CA Arnolds
DECLARATION

In accordance with Rule G4.6.3, I, B L Xaluva, hereby declare that this treatise is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

SIGNATURE: ______________________________________

DATE: _______________
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The completion of this dissertation would not have been made possible without the support and encouragement of others. I would sincerely like to extend my appreciation to the following persons for their encouragement, support and valuable assistance.

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ABSTRACT

In today’s competitive arena, organisations need strategically to shift their focus from primarily concentrating on new customer acquisitions and rather to realise the importance of improving customer defections, thus looking at strategically retaining the existing customer base. Customer retention to all intents and purposes reflects the core of any service offering organisation and drives the competitiveness and viability of the business. Customer retention is a concern for all sector organisations including the medical aid schemes industry. It has been proven that retaining customers is less costly than attracting new ones and through a satisfied customer a business can elevate its competitiveness in the market.

The significance of the study hinges on the importance of each business having comprehensive knowledge of why customers remain loyal patrons or why they choose to defect. It is important to note that the financial resources and time the business expends on improving service to the customer become futile if not matched by the high performance of the internal business units’ strategies. Having an understanding of customer movement will assist the organisation in properly addressing such issues and employing strategic processes that will enable the business to improve its retention strategies and curb defections.

The primary objective of the current study was to investigate the impact internal service quality and customer relationship management have on customer retention. The study employed the SERVQUAL model as a measuring tool in establishing the relationship. The study investigated how customer retention (the dependent variable) is influenced by the different elements of internal service quality, namely assurance, empathy, service reliability, responsiveness, tangibles and relationship management, which represented the independent variables.

The sample comprised eighty-one (81) out of a possible 130 AA Medical Scheme participants through the organisation’s four national offices. The empirical results
showed that of all the variables relationship management, responsiveness and the tangibles have a positive impact on customer retention in medical aid schemes.
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CHAPTER 1

SCOPE OF THE STUDY

1.1 INTRODUCTION

The current South African healthcare industry is divided into two parts, namely the public and the private sectors, which are managed and coordinated using different models or systems, referred to as the public and the private healthcare systems. The public healthcare system serves the bulk of the population, whilst those of the citizens using the private healthcare system are better served in terms of service delivery. Significant disparities have been noted in the quality and accessibility of services offered by these two systems. This fact is attested to in a study conducted by Wadee et al. (2003) which highlighted the increased use of the private healthcare sector by South African residents. This has subsequently been evidenced by the continuous attraction of healthcare personnel to the private sector and the stagnating progress of government funding for publicly provided healthcare. These factors have huge implications for the quality of the healthcare delivered and affect household utilisation preferences.

The present study looks at the medical scheme as a primary source of private healthcare and profoundly examines the impact the services have on the end customer in terms of after-sales service offering, product and price,. The primary purpose of medical schemes is to offer healthcare insurance products and services to the population through a number of diverse schemes with each medical scheme presenting a variable set of services and in most instances standardised services with prescribed minimum benefits, hospital benefits and capitation options. The first ever documented medical scheme in South Africa was established by De Beers Consolidated Mines in 1898, with the number of schemes increasing to 169 by 1960 and further growing to 305 in 1974 (Botha et al., 2010).
According to the Council for Medical Schemes (2011) Annual Report, there has been a decrease in the number of registered medical schemes, from 105 schemes in January 2010 to 99 schemes in January 2011. There has also been a significant percentage drop in the number of open schemes of 6.7 percent within the same period. Previously only 20% of the South African population had medical scheme membership, and this figure has also decreased to 15% which is due to changes in affordability of contributions across the board (Council for Medical Schemes, 2008). According to the Council for Medical Schemes (CMS) annual report, the rise in costs is not attributed to improved service quality nor has it shown any evident benefits or value added for medical scheme members.

The medical scheme fraternity in South Africa is under immense pressure from Government due to the escalating costs and the inaccessibility of services caused by barriers in affordability. There are three dimensions that may affect the existence of medical schemes in South Africa, thus compelling highly competing schemes to revise their retention strategy by offering quality services. The first dimension is the reduction in the number of actively registered schemes. The reduction in the number of schemes is due to the prevailing economic circumstances that are affecting the medical scheme industry. It becomes apparent from the above analysis of the industry that the healthcare system finds it challenging to cope with the most critical healthcare competitive objectives, namely looking at ensuring equitable accessibility to benefits, offering high quality services as well as looking at managing affordability in the private health system. In view of these challenges it then becomes imperative for medical schemes to offer better service quality in order to balance the inequity raised by the affordability factor.

Secondly, another mitigating factor is member movement from one scheme to another, referred to as churning. The Council for Medical Schemes conducted research into the movement of members between schemes as well as loss of members from open schemes to closed schemes. These losses have been attributed to certain factors, namely the slow attrition of government employees to an exclusively Government Medical Scheme as well as contribution increases and benefit structures offered by different schemes (Council for Medical Schemes, 2011).
The report also revealed huge attritions from one scheme to other schemes with members being churned back and forth. It becomes evident that schemes compete against one another for membership acquisitions. Given this situation it has become important for medical schemes to implement appropriate marketing strategies in order to thrive in this highly volatile industry.

The last dimension affecting the existence of medical schemes in South Africa is the introduction of National Health Insurance (NHI). According to a survey carried out in 2009, many South Africans voiced their dissatisfaction with the current health system performed by the public and the private healthcare sectors, thus suggesting readiness for an alternative healthcare system (McIntyre, Goudge, Harris and Nxumalo, 2009). There are numerous concerns about the quality of service received from these sectors as well as the affordability factor that comes into play. The progressive improvement of NHI will lead to medical schemes relying more on quality service offered to promote future sustainability of their memberships.

In order to succeed and retain members in this vastly impulsive business sector, schemes need to come up with strategies that will meet the customer’s needs and expectations as it is the value of the customer’s experience with the product or service offered that is important (Mascareigne, 2009). The aim of this study is to gather information from a South African medical scheme administrator, namely B Administrations and AA Marketing Company to determine how their internal service quality strategies and offerings affect the AA Medical Fund’s customer retention. The medical aid industry is categorized under the financial sector and the study will proceed against this backdrop.

The AA Medical Fund is one of the largest schemes in the South African medical scheme industry, covering over 638,000 lives with the Discovery Health Medical Scheme accounting for 40% of the open medical schemes market and 25% of all medical scheme beneficiaries (Council for Medical Schemes, 2011). The present study suggests that this attrition can be corrected by improving customer services and enhancing relationship management.
1.2 PROBLEM STATEMENT

The study addresses the importance of internal service quality in terms of customer retention. The long-term success of a business depends on various factors such as pricing, customer relations and efficient operational processes, to name a few. In order to succeed and be able to retain their customer base, businesses need to contribute positively to service quality. Customers are identified as one of the business’s primary drivers of success and are highly considered to be sovereign in any organisation (Ahmad et al., 2010). In today’s competitive environment, business has shifted its strategic focus from concentrating only on new customer acquisitions (i.e. targeting switches) to realising the importance of targeting loyal existing customers (i.e. looking at strategically retaining the existing customer base). To most strategic executives, growth is considered as the driver of prosperity and success and growing companies are seen as flourishing whereas shrinking companies are seen as failing (Keiningham et al., 2008).

It is important for businesses to offer higher levels of satisfaction to the consumer; however businesses also need to guarantee higher levels of satisfaction towards the internal personnel involved in the driving of business activities. Creating synergy amongst all divisions involved in consumer satisfaction is critical. This fact is more emphasised in a study conducted by Gunawardane (2009) who shows dependence between the external consumer level of satisfaction and internal service performance of the different business units. If a business’s internal processes are not highly optimised and the service encounter is perceived as not being satisfactory, this may lead to significant customer attrition. Gunawardane (2009:22) concurs that high levels of internal customer service are imperative in obtaining business success.

The process of customer retention or curbing customer defections should be built around developing longer-term relationships with the existing customer with the intention of increasing the business’s prospective customer base. A study conducted by Harrison and Ansell (2002), however, reveals that business in the insurance industry generally suffers losses of between 15 to 20 percent of their customer base each year and as a result they suggest that businesses in this industry put in place
strategies that will reduce customer defections. As mentioned earlier, medical schemes are experiencing significant reductions in membership. This assertion is further supported by statistics retrieved from Statistics South Africa (StatsSA) which show a decline in membership from 17.0 percent in 1994 to 14.9 percent in 2005 (McLeod and Ramjee, 2005).

Private healthcare is perceived to be the most critical vehicle in accessing quality healthcare services in South African relative to what is offered by the current public sector system (Snoyman, 2010) and therefore it is important for service providers of private healthcare to offer high quality service to their patrons.

1.2.1 Importance of the study

According to a study conducted by Roberts-Lombard and du Plessis (2011), any business that aspires to succeed in the present highly competitive global market, where the customer is no longer a passive participant and brand loyalty erosion is increasing, will have to adopt customer relationship management in order to provide exceptional customer service. It is important to note that the financial resources and time the business expends on improving service to the customer become futile if not matched by the high performance of the internal business units’ strategies. It is important for each business to have a comprehensive knowledge of why customers remain loyal patrons or why they choose to defect.

Having an understanding of customer movement will assist businesses to properly address such issues and put strategic plans in place that will enable them to improve their retention strategies and curb defections. The market propels the business sector, including medical schemes, to competitively enhance service quality, improve customer value and build strong customer relations, in order to reaffirm their customers’ loyalty and eventually manage customer retention. This study focuses on service quality and relationship management as key determinants of customer retention.
Previous research on customer defection within the medical aid industry has focused on affordability and movement to Government medical schemes as primary reasons for membership defections (Council for Medical Schemes, 2011). Also in view of service quality, previous studies predominantly considered service quality from the external customer perspective. A gap has been identified in the medical aid industry of linking results of internal service quality and relationship management to customer retention. Testing the relationships between elements in external customer satisfaction as a dimension of internal business units’ performance becomes the focal point. According to Gunawardane (2009:22), the importance of studying the internal service component is that quality of service perceived by the external customer is highly dependent on the internal activities. The significance of this study is to find a correlation between customer retention, internal service quality and relationship management.
To this end the study proposes the following conceptual framework (see Figure 1.1) to improve customer retention in the medical aid industry. The model is a combination of internal service quality and relationship management as independent variables and customer retention as the dependent variable.

In Figure 1.1 a collective construct is given consisting of the following sub-elements:

- Service reliability: this is the ability to accurately and dependably perform the promised service.
- Responsiveness: the willingness to assist customers and continuously provide timely service.
- Tangibles: this dimension relates to the ability of the equipment and the physical appearance of the service offering personnel.
- Empathy: this refers to the caring and individualised attention given to the customers.
- Assurance: refers to the knowledge and courtesy of service personnel and their ability to inspire trust and confidence in the level of service offered.

Another proposed determinant of customer retention in the conceptual model is customer relationship management. In the present study, this means the extent to which the medical aid is successful in achieving:

- Trust: A relationship stands a very good chance of being maintained and sustained if there is a high level of trust between the parties involved.
- Communication: maintenance of communication within the business allows the relationship with the customer to develop.
- Complaints management: this is the way the business deals with the problems communicated by customers.
- Commitment: an enduring desire to maintain a valued relationship between involved parties.

In the current study, customer retention can be defined in terms of the rate the medical scheme loses its customers to the direct competition. This can further be
referred to as the rate of customer attritions experienced during either a financial year or on a monthly basis. Various reasons can persuade customers or members to defect to the competition. The aim of this study is to investigate the various factors or elements of internal service quality and customer relationship management that may lead to unsatisfactory behaviour and subsequently to defections.

1.3 RESEARCH OBJECTIVES

1.3.1 Primary objective

The primary objective of the study is to improve customer retention in a medical aid scheme by investigating the influence of internal service quality and customer relationship management on customer retention. More specifically, as far as internal service quality is concerned, the study investigates the relationship between service reliability, responsiveness, tangibles, empathy and assurance, on the one hand, and customer retention, on the other hand.

1.3.2 Research design objectives

In order to attain the primary research objective the following research design objectives are pursued:

- conducting a secondary literature review on the variables being explored
- constructing a questionnaire for the collection of empirical data
- distributing the questionnaire to about 100 employees of the AA Medical Fund
- capturing the data in an Excel computer software programme
- analysing the data using the STATISTICA computer software programme
- interpreting the results and drawing conclusions
- presenting recommendations to management.
1.4 **THE NULL HYPOTHESES**

The following null hypotheses are formulated:

H01. There is no significant relationship between internal service quality (as measured by service reliability) and customer retention.

H02. There is no significant relationship between internal service quality (as measured by responsiveness) and customer retention.

H03. There is no significant relationship between internal service quality (as measured by tangibles) and customer retention.

H04. There is no significant relationship between internal service quality (as measured by empathy) and customer retention.

H05. There is no significant relationship between internal service quality (as measured by assurance) and customer retention.

H06. There is no significant relationship between customer relationship management and customer retention.

1.5 **METHODOLOGY OF THE STUDY**

1.5.1 **Research paradigms**

1.5.1.1 Positivistic paradigm/approach

This involves a large group of subjects or participants which may be categorized further into groups; operates on the foundation of hypotheses; findings may be further applied to different situations, that is, may be of relevance to other situations (Craig, 2009). It is referred to as a positivistic approach; perceives the social world as existing externally and viewed objectively by participants; the research process is deemed value-free; the researcher is independent from the study and takes on an
objective role (Cooper and Schindler, 2008). The paradigm assumes that the research study is completely objective, replicable and thus possibly generalizable to other conditions; is derived from a theoretical basis which focuses on objective norms and abstractions of reality (MacKenzie and Knipe, 2006).

1.5.1.2 Phenomenological paradigm/approach

This involves small groups of participants as a sample size; uses open-ended questions and themes; findings are deep and varied in description and make it impossible to apply to different situations (Craig, 2009). It can be referred to as interpretivism or a qualitative approach; perceives the social world as constructed and given meaning subjectively by people; the researcher is part of the study and forms part of what is observed; the research process is determined by interests and opinions (Cooper and Schindler, 2008). It has a phenomenological aspect focusing on people’s lives, experiences and realities; is a study of how people interpret their social world in terms of experiences and opinions (MacKenzie and Knipe, 2006). The focus is mainly on the understanding and the interpretation of the research study; the data preparation is presented by verbal and illustrative descriptions (Cooper and Schindler, 2006.).

1.5.2 The sample

Convenience sampling was used to select 100 out of a possible 130 respondents working for the AA Medical Fund. The sample was stratified to include all job levels in the firm. Eighty-one (81) usable questionnaires were returned (response rate = 81%).

1.5.3 The measuring instrument

Self-constructed instruments based on the literature were used to measure the variables under investigation in this study. A minimum of ten items/questions per variable were asked and they were all anchored on a five-point Likert scale ranging from (1) strongly disagree to (5) strongly agree.
1.6  DEFINITION OF CONCEPTS

Service reliability: This dimension of internal service quality is the ability to accurately and dependably perform the promised service.

**Responsiveness:** This dimension relates to the willingness to assist customers and continuously provide timely service.

**Tangibles:** This dimension relates to the ability of the equipment, systems and the physical appearance of the service offering personnel.

**Empathy:** This dimension of internal service quality refers to the caring and individualised attention given to the customers.

**Assurance:** This is a dimension of internal service quality which refers to the knowledge and courtesy of service personnel and their ability to inspire trust and confidence in the level of service offered.

**Customer relationship management:** This is a tool used to identify and establish, maintain and enhance relationships with customers and other stakeholders.

**Customer retention:** This refers to a number of customers that actively conduct their business with an organization at the end of a financial year.

1.7  OUTLINE OF THE STUDY

The chapters that compose this research are as follows:

Chapter 1: Provides an introduction and the outline of the current research study. The chapter defines the primary research problem with subsequent secondary objectives aligned to the main research objectives. The conceptual framework of the study is analysed; the null hypotheses are formulated and the definition of concepts also forms part of this chapter.
Chapter 2: This chapter focuses on the literature study that is presented to provide a review of the study and establish answers to the research problem. The importance of internal service quality and customer relationship management as having a significant impact on customer retention is highlighted and academically linked.

Chapter 3: The researcher conducted an empirical study and developed a questionnaire used to obtain feedback from the participants representing the selected organisation. The chapter discusses the research methodology used to conduct and acquire the empirical data as well as analyse the details of the respondents.

Chapter 4: This chapter presents the results of the empirical study mentioned in the previous chapter and represents the collected opinions of the respondents relating to service quality and relationship management activities within the selected organisation.

Chapter 5: This chapter draws conclusions and effectively makes recommendations that can be used to improve the process of customer retention in the AA Medical Fund and the entire medical aid industry.

1.8 CHAPTER SUMMARY

The aim of the chapter was to describe the scope of the study, which includes the research problem, the conceptual model to address the problem, the primary objective, the null hypotheses, the research methodology, the definition of concepts and the outline of the study.
CHAPTER 2

CUSTOMER RETENTION IN MEDICAL SCHEMES: THE IMPORTANCE OF SERVICE QUALITY AND RELATIONSHIP MANAGEMENT

2.1 INTRODUCTION

A literature study is presented here to establish the impact of internal service quality and customer relationship management in relation to customer retention. The study evaluates and analyses the conceptual model on service quality and relationship management dimensions as the determinants of customer retention within the AA Medical Fund.

2.2 CUSTOMER RETENTION

2.2.1 Background to customer retention

In today’s competitive arena, business has shifted its strategic focus from concentrating only on new customer acquisitions (i.e. targeting switches) and has come to realise the importance of targeting stayers, thus looking at strategically retaining the existing customer base. To most strategic executives, growth is regarded as the driver of prosperity and success, so that growing companies are seen as flourishing whereas shrinking companies die (Keiningham et al., 2008). In the marketing literature, providing high quality service and creating greater consumer value can result in attaining high customer satisfaction, strong loyalty and a superior corporate image which will in turn ultimately lead to customer retention.

Peng and Wang (2006) state that for more than a decade companies have acknowledged that improving the customer retention rate is considered to be a highly efficient way whereby the business can significantly reduce the levels of customer churn or reduce switching behaviour drastically.
Customer retention is a concern for all sector organisations including the medical aid industry and businesses should attempt to retain their customers rather than striving to gain new ones as retaining customers is less costly and through a satisfied customer a business can gain a bigger customer base through “word of mouth” (Ahmad et al., 2010). According to a study conducted by Alrubaiiee and Al-Nazer (2010), the challenge businesses face today is finding practical and feasible ways of increasing loyalty and retention. Keiningham et al. (2008) also emphasise the fact that great managers understand that the road to growth runs through customers who are the core drivers of the business; this does not mainly refer to attracting new customers but holding onto the ones you have and further encouraging them to spend more on your business as well as promoting and recommending the business product to other patrons in the industry.

The utility benefit generated by organisations from the longevity of customers can in the long term include reduction in the costs of acquiring a new customer (financial implications of acquiring a new customer may be very high), increase in value and steady income and positive word of mouth promotions (Cohen, Gan, Yong and Choong, 2006). Previous research carried out on the factors influencing customer retention has mainly focused on the customers’ point of view. This is largely because most researchers view customer retention as the inclination for customers to stay with their service providers and it is thus viewed as a behavioural feature (Mascareigne, 2009). It thus becomes imperative to illustrate factors that influence customer retention and link these from the customer behavioural point of view to the service operations.

A study by Ranaweera and Neely (2003) further supports this relationship. The study like many other studies found a direct positive link between service quality perceptions and customer behavioural intentions. It was subsequently determined that service customers can place greater importance on the quality of service than on the cost involved in acquiring that particular service (Ranaweera and Neely, 2003). Based on the above observations it then becomes very important to understand the aspects that influence customer retention and how this feature eventually connects to the company’s bottom line strategy. In essence in all business
entities, customer retention involves concentrating on the existing customer with a view to advancing in a long-term relationship which might subsequently lead to the build up of further business prospects.

2.2.2 Customer retention defined

Different researchers define customer retention in various ways and adopt an assortment of angles in defining it. Ranaweera and Neely (2003) point out that recent research has conceptualised customer retention as a multi-dimensional construct consisting of both behavioural and emotional or sentimental dimensions (namely inertia or indifference in driving repeat purchases), whilst other researchers focus on these individual dimensions separately. According to a study conducted by Al-Hawari, Ward and Newby (2009), customer retention in a service context refers to observed behaviour, defined by repeat purchase observations. Keiningham et al. (2007) define customer retention as a customer’s stated continuation of a business relationship with the offering organisational entity. Examples used are those of continued repeat shopping at a retailer or continuing to maintain an account relationship with a bank.

Xevelonakis (2004) defines the objective of customer retention as adopting a strategy to nurture long-terms relations with customers through responsiveness, trust, reliability and quality customer service offerings. In a study conducted by Anani (2010:39) customer retention is defined in terms of the number of customers actively conducting their business with an organisation at the end of a financial year, expressed as a percentage of the total number active at the beginning of the year. Strategically it is very important for any business to know and understand how to serve its customers. The fundamental issue in relationship marketing research is the effect relationships and service quality have on customer retention and therefore it is vital for internal operations offering services to emphasise quality. Singh and Khan (2012) attest to the fact that a successful customer retention process begins with an initial contact a business makes with a customer and further continues throughout the lifetime of the relationship.
2.2.3 Importance of customer retention

Early research identified customer retention as a strategic tool in driving and attaining the business's bottom line which relates to the firm’s profitability and also found that in order to successfully compete and increase market share in the highly volatile market place, companies need to make special efforts to retain their customers. In a study conducted by Harrison and Ansell (2002) the economic value of customer retention is acknowledged. The study found a positive linear relationship between customer retention and business profits, reflecting a more positive effect of customer retention on profits rather than the other factors normally associated with drivers of competitive advantage. For example, the study demonstrates that a reduction in customer defections in the region of 5 percent can lead to a significant rise in profits of 25 to 85 percent.

To facilitate a positive bottom line, the study identifies a number of benefits customer retention is purported to offer; due to setup costs (as in the case of some medical aid retention strategies in place) and familiarity offered by the company, existing customers may cost less and customer retention may lead to the advancement of relations with other family members leading to greater sales.

According to a study conducted by (Anani, 2010), customer retention is taken to be the primary objective in businesses that practise relationship marketing and that focus on customer retention which can give rise to several economic benefits. The study assumes that as the tenure lengthens customer referrals increase and the maintenance costs tend to be reduced as the customer and service provider learn more about each other. Also in terms of acquiring new customers, it might feasibly be ten times more expensive to get a new customer than to retain an existing one.

Other researchers also consider customer switching behaviour to be a serious threat in the achievement of a long-term relationship with a customer (Lopez, Rodondo and Olivan, 2006) hence businesses need to critically analyse factors determining customer switching decisions which lead to high levels of customer defection, so as to strategically manage a successful process of customer retention. The study
further indicates that continuing customers have a lower price sensitivity, are instrumental in cost cutting and tend to be less expensive to serve unlike a newly acquired customer; they make greater usage of the business’s other services; have a tendency to engage in positive word of mouth which consequently leads to the attraction of new customers, thus saving on costs associated with acquiring new customers; uncertainties about what is on offer may also be diminished due to the level of experience accumulated throughout the long-term relationship. Losing a customer can also impact negatively on the future prospects of the business, in terms of negative word of mouth which can tarnish or damage the brand image and the reputation of the business.

2.2.4 Determinants of customer retention

Ahmad and Buttle (2002) identify customer retention as having emerged in significance from three main perspectives, namely service marketing, industrial marketing and general management. Their study critically outlines the assertion that the way to retain customers in the service market context is to improve customer service quality and satisfaction; depending on the satisfaction level, satisfied patrons are more likely to remain with the service provider where satisfaction is strongly perceived (Peng and Wang, 2006). The study supports the link between customer retention or client defection and service quality and also emphasises that trust has a positive influence on averting customer defection. Other perceived determinants of customer retention or defection, according to Lopez, et al. (2006), relate to:

- Dissatisfaction with the product/service offered;
- perceived quality of the service
- customer awareness of other existing alternatives; and
- the location of the service offered.

This study solely focuses on service marketing which also covers the medical scheme sector.
The long-term success of a business depends on various factors such as pricing, customer relations, efficient operational processes, to name a few, and in order to succeed and be able to retain the customer base, the business needs to offer quality in services rendered. As one of the business’s primary drivers of success, customers are highly considered to be sovereign in any organisation (Ahmad et al., 2010). Moreover the study emphasises the fact that quality determines the overall experience which a customer observes when relating to a product or service offered by any business entity. Hu, Cheng, Chiu and Hong, (2011) confirm that the customer is the most important assessor in terms of judging the quality of a product or service. According to Caceres and Paparoidamis (2007), service quality is often taken in the literature as an antecedent of customer satisfaction, with a direct observation that quality is one dimension on which customer or service satisfaction is based. The link then extends and quality service based on customer satisfaction is then viewed as having an impact on long-term customer retention.

In the new business world, whether a business produces products or services is no longer a strategically debatable or relevant topic; the focus has now shifted and mainly looks at the end consumer as well as the pursued service quality, value add and building strong business relations. Given the universal nature of the market, highly competing businesses are seeking to showcase their superior service qualities, improved customer value and solid customer relations, in order enhance their customers’ loyalty and eventually achieve customer retention. According to a study conducted by Roberts-Lombard and du Plessis (2011), any business that aspires to succeed in the present global competitive market, where the customer is no longer a passive participant and brand loyalty erosion is increasing, will specially have to adopt customer relationship management, in order to provide exceptional customer service.

The study claims that businesses need to thoroughly investigate customer needs, build sturdy relationships with both existing and potential customers and constantly satisfy the identified needs. It is critical to note that the current marketplace is very dynamic, energetic and highly competitive as consumers’ perceptions and participation have become smarter; they are highly informed and have access to a
diverse number of channels and choices which they can exercise. Customers can easily switch to suppliers or competitors who promise better service offerings (Alrubaiee and Al-Nazer, 2010) and develop long-term mutually beneficial relationships with their existing and prospective customers (Athanasopoulou, 2009). Currently, business environments are characterized by highly aggressive markets caused by changes in the nature of market competition as well as the ever-increasing need to attain customer satisfaction in order to stay above the rest. It then becomes inevitable that in these kinds of mature markets, businesses are forced to work strongly on and sustain long-term relationships with their customers in order to be sustainable and viable in their business arena (Alrubaiee and Al-Nazer, 2010).

Organisations striving to be market leaders need to be highly competitive and adopt strategies that will create a positive change and offer higher returns through proper retention of the core driver of business success, namely the customer. Losing customers can be very costly for businesses and therefore, developing long-term relationships with the customers can increase customer loyalty and increase profitability (Athanasopoulou, 2009). Several research studies have revealed that there is a direct positive linear relationship between perceived service quality and customer repurchasing intentions or behaviour (Mascareigne, 2009). The challenge all service providers face today is finding ways of increasing customer loyalty and retention and taking seriously the fact that changing indifferent customers into loyal patrons and developing long-term relationships with customers are critical in any organisational success (Alrubaiee and Al-Nazer, 2010).

2.3 INTERNAL SERVICE QUALITY

This section deals with a literature review of findings on this topic as collected and analysed through the years and relating them to the prospect of customer retention.
2.3.1 Background on service quality

According to Alcock (2008), quality in the service sector owes its origins to TQM and, as early as 1979, quality was defined as a situation of zero defect or doing the process right the first time around. Alcock (2008) further analyses quality control as a concept that begins with a close understanding of who the users of the service or product will be and how and when the product or service will be used. A study done by Sachdev and Verma (2004), re-emphasizes this point by identifying two angles of quality measurement, namely the internal and external measurements. The study defines internal measurement as conformance or adherence to set internal requirements translated as doing it right the first time, while external measurement is defined in terms of the customer’s perception, satisfaction, expectation, attitude and overall service delight. Both these service quality measurements relate to external customer satisfaction (Gunawardane, 2009).

Hu et al. (2011) found that customer satisfaction can minimise the probability of customers defecting if quality falters and that customer satisfaction plays a major role in total quality management (TQM) which is an antecedent of service quality. In the medical aid industry, the customer or member is deemed to be the most critical element in terms of reviewing the quality of a product or service offered by the service provider. Hu et al. (2011) concur with the statement that no one is more important than a customer in judging the quality of a product or service offered. Alcock (2008) agrees that without customer orientation excellent quality is not possible. It is important then to truly distinguish between product quality which is tangible and service quality intangibles which thus exhibit different characteristics.

Gallant (2009) defines service as a concept that cannot be seen, felt or tasted as can be done with tangible products. Gallant (2009) views services as performances or actions rather than physical objects. According to Boulter and Bendell (2010), service characteristics can be difficult to understand due to the fact that any given service can only be observed through the eyes of the service recipient as customers view service in their own unique, emotional, irrational, distinctive and totally human terms. The intangible nature of service then applies so that at the end of the day it is...
the customer who will form a judgement about the overall quality of the service received. However the study by Boulter and Bendell (2010) critically suggests that despite the difficult nature of service quality, it can be confirmed that a good service experience depends solely on the business’s ability to understand customer needs and expectations and deliver a service that will meet and exceed these expectations. Ultimately the importance of service lies in customer service management.

Superior quality customer service supersedes the notion of just running a customer service department but rather encompasses a highly competent state of mind and degree of customer care that should be accepted at all levels of the organisation, from top to bottom (Sachdev and Verma, 2004). The pressure on businesses is currently not only to focus on product processes (or tangible qualities) but also to look at the way these processes are delivered and perceived by the customer (intangible quality) (Seth and Deshmukh, 2005). This study further explains how service quality has in the past few decades become a major area of attention for business managers, practitioners and researchers, owing to its highly significant impact on business performance, lower costs, customer satisfaction, customer loyalty and the bottom line.

Sachdev and Verma (2004) show that conceptual models in service quality can effectively assist business management in identifying and understanding any quality issues arising and subsequently help in planning for the launch of proficient quality improvement programmes, thus enhancing and improving quality in the business. With the increasing liberalisation and internationalisation in the financial and insurance industry (Siddiqui and Sharma, 2010), with change in the regulatory setting, which has subsequently removed trade barriers in order to allow companies to compete (Sachdev and Verma, 2004), service quality has now become a significant differentiation tool and path to achieving business success. Such differentiation can be a key foundation in attaining competitive advantage in such industries and having an important impact on such businesses becoming market leaders through the realisation of service quality.
As alluded to earlier, customers are no longer passive players in the industry but are becoming increasingly aware of their expectations and therefore find themselves in a position to demand higher standards of service. Siddiqui and Sharma (2010) concur that because customers are now more technology inclined, they are able to make comparisons more quickly and accurately and their perceptions and expectations on what is on offer are continuously changing. This then poses a challenge to service providers who must at all times try and match these expectations. According to Sachdev and Verma (2004), the momentum of forces driving efficient customer service has increased greatly in the service sector environment, this owing to increased competition from the role-players, improved technologies and rising customer sophistication in terms of knowing what they want. This notion applies in the insurance and financial industries which form part of the service sector. Technology has been used as a tool to effortlessly reach and serve customer needs, in a seamless manner (Sachdev and Verma, 2004).

In a study by Hollis (2006) it is emphasised that every time an employee interacts with a customer an encounter occurs which effectively leads to the development of service relationships and subsequently tests the ability of the organisation to measure up to its promises. Hollis (2006) describes how these encounters can either lead to opportunities for organisations to build on the service quality offering or alternatively change the customer’s perception of the organisation in a negative manner. These developments in the service relationships can be illustrated using the internal service chain illustrated below in Figure 2.1.
2.3.2 Defining service quality

As previously noted, defining and measuring service quality has always been a challenging exercise; however according to a study conducted by Tam (2004), researchers have reached a compromise in terms of defining and measuring service quality based on the customer's perspective. The universally accepted definition of perceived service quality is that it epitomises the gap between customers' expectations and their perceptions of the actual service performance (Tam, 2004; Sachdev and Verma, 2004; Boulter and Bendell, 2010). Gronroos (1984 as cited in Boulter and Bendell, 2010) argues that service quality is dependent on the two linked variables of expected service and perceived service.

According to the above study, expected service is mainly influenced by past experiences whereas perceived service relies on the evaluation of the service offered at the actual time of delivery relative to the previous experience. Mathur (2011:107) defines service quality as 'a global judgement or attitude relating to a particular service; the customer's overall impression of the relative inferiority or
superiority of the organisation and its services. Service quality is a cognitive judgement”. Peng and Wang (2006) depict service quality as a customer judgement about the overall superiority or excellence that a business offers. Peng and Wang (2006) further describe service quality as producing favourable behavioural intentions and leading to customer retention. Ahmad et al. (2010) on the other hand also describe service quality as a form of attitude closely related to but not equivalent to satisfaction that results from the direct comparison of expectations with performance. Moreover, Ahmad et al. (2010) developed a service provider switching model in the financial and insurance industry and empirically determined the influence of service quality on satisfaction, customer switching intentions and switching behaviour. Some of the contemporary definitions of service quality as cited above are summarised in Table 2.1

**TABLE 2.1: SELECT DEFINITIONS OF SERVICE QUALITY**

<table>
<thead>
<tr>
<th>Author, Year</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parasuraman, Zeithaml and Berry, 1988</td>
<td>Global judgement or attitude, relating to superiority of service</td>
</tr>
<tr>
<td>Bitner, Boom and Tetreault, 1990</td>
<td>The customer’s overall impression of the relative inferiority/superiority of the organisation and its services.</td>
</tr>
<tr>
<td>Asubonteng, McCleary and Swan, 1996</td>
<td>The difference between customers’ expectations of service performance prior to the service encounter and their perceptions of the service received.</td>
</tr>
</tbody>
</table>

Source: Siddiqui and Sharma (2010)

The service quality modelling relies solely on a customer’s perceptions and Gronroos (1984 cited in Siddiqui and Sharma, 2010) and Boulter and Bendell (2010) divide customer perceptions of any service into two distinct dimensions, namely technical and functional quality. Technical quality refers to what the customer receives whereas functional quality is how the customer receives the technical outcome, that is the actual process of meeting the technical result. Parasuraman et al. (1985 as
cited in Siddiqui and Sharma, 2010) proposed a gap model of service quality, showing service quality as a perceived gap between expectation and the performance perception of the customer. The service marketing literature reveals the overall scope of service quality, defining it as a concept focused on meeting customer needs and requirements and also on how well the service performed or delivered matches perceived customer expectations (Alamgir and Shamsuddoha, 2004). The study describes service quality as a global judgement or attitude relating to service and results obtained from the comparisons measured by consumer expectations with their perception of actual service delivered. In a study conducted by Lewis (1993 as cited in Alamgir and Shamsuddoha, 2004), the dimensions of service quality are determined as interactions between a service business and its customer as alluded to above and these dimensions relate to the following aspects:

- Technical dimensions which relate to the outcome of the service process and can include factors such as systems and technology, for example the Nexus system which captures customer information; or online membership systems where members can navigate and access their information.

- Functional dimensions, i.e the HOW aspect of the service delivered; this can include inter-personnel interactions between the staff and the customers, personality of the service personnel and approachability of service personnel; for example the walk-in centres, call centre departments and the after-sales departments. Other factors of the functional dimension may include courtesy, attention, promptness and professionalism (Caceres and Paparoidamis, 2007).

- The corporate image dimension, which is the result of how the customer perceives the organisation and uses technical and functional dimensions as constructs; examples can include the corporate social responsibility functions of the organisation, or managed care assistance programmes. The image quality dimension which hinges on the two mentioned previously can influence the quality perception either favourably, neutrally or unfavourably depending on whether the service is viewed as either good or bad. Image perceptions can also change over time (Caceres and Paparoidamis, 2007).
In the medical scheme sector the customer’s perceptions of quality are also influenced by gaps in expectations against actual performance and these gaps might lead to service quality shortfalls. Some of the services offered by medical schemes are now electronically operated but the majority of services are still dependent entirely on inter-personal interactions.

2.3.3 Determinants of service quality

The dimensions of service quality relative to external customer satisfaction have in the past twenty years been a major focal area of research (Gunawardane, 2009). Seth and Deshmukh (2005) identified as many as nineteen service quality models developed in an attempt to define this external nature of service quality. Research literature on service quality has throughout the years identified numerous models presented by different researchers throughout the world. Various alternative mechanisms have been employed to assess and measure service quality. One of the most recognised measurements is the SERVQUAL scale or diagnostic presented in the year 1988 by (Parasuraman, Zeilhaml and Berry, 1988) and refined in 1991 bearing the abbreviation PZB (Evangelos, Simmy and Graham, n.d.).

The SERVQUAL measurement is defined as a 22 item scale that effectively measures service quality along five factors, namely service reliability, responsiveness, assurance, empathy and tangibles (Sureshchandar, Rajendran and Anantharaman, 2002; Caceres and Paparoidamis, 2007). The 22-item scale focuses mostly on the human elements of service quality as well as the tangible facets of service. Even though the SERVQUAL measurement has been seen as the most efficient tool in terms of the 22 items being the most reasonable predictors of service quality, there have been some evidenced shortfalls pertaining to the model. According to a study conducted by Sureshchandar et al. (2002), the SERVQUAL instrument seems to have overlooked some other critical factors of service quality and these include the product or core service, systematisation/standardisation of the service delivery process and the overall social responsibility of the business. Sureshchandar et al. (2002) identified five factors of service quality taking into account the previously addressed dimensions of service quality and also including
the ones which were overlooked in the SERVQUAL measurement. These factors are as follows:

- core service or service product
- human element of service delivery
- systematization of service delivery: non-human element
- tangibles of service – service scapes
- social responsibility

The modified service quality model of Sureshchandar et al. (2002) is anchored using 41 items instead of the 22-item scale developed by the SERVQUAL measurement tool. The overall success of a medical scheme relies on the factors defined in the original SERVQUAL determinants as well as the modified Sureshchandar model; as service quality is viewed according to the product, service, process and the business’s social responsibility programmes. It then becomes appropriate to adopt this type of model in measuring the extent of service quality in this service sector.

The present study will however focus on the 22-item scale that effectively measures service quality along the five factors, namely service reliability, responsiveness, assurance, empathy and tangibles.

- **Service reliability**: this is the ability to accurately and dependably perform the promised service. This can talk to whether staff can be depended upon to offer accurate and necessary information.
- **Assurance**: refers to the knowledge and courtesy of service personnel and their ability to inspire trust and confidence in the level of service offered. This refers to personnel having proper skills and competencies to offer services that satisfy customers as well as willingness to continuously assist customers.
- **Tangibles**: this dimension relates to the ability of the equipment and the physical appearance of the service offering personnel. This speaks to the attitudes projected as well as the behaviour of the personnel when assisting the clients.
- **Empathy**: this refers to the caring and individualised attention given to the customers; genuinely trying to understand and be able to take initiatives to resolve customer needs.

- **Responsiveness**: the willingness to assist customers and continuously provide timely service. Keeping to promised, turn-around times as well as solving problems the first time around.

The link between SERVQUAL and internal service quality is illustrated in Table 2.2.

**TABLE 2.2: RELATING SERVQUAL TO INTERNAL SERVICE QUALITY**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>SERVQUAL</th>
<th>Internal service quality</th>
</tr>
</thead>
</table>
| Service reliability | - Providing services as promised  
                     | - Performing services right the first time.                        | - My firm offers services as promised.  
                     |                                                                 | - My firm performs services right the first time.         |
| Assurance       | Employees who have the knowledge to answer customer questions.            | Coworkers are knowledgeable                             |
| Tangibles       | - Modern equipment  
                     | - Employees who have a neat, professional appearance.               | My firm has up-to-date equipment.  
                     |                                                                 | - Coworkers have a neat and professional appearance.     |
| Empathy         | - Having the customer’s best interest at heart.  
                     | - Giving customer individual attention.                           | - Coworkers are sensitive to my work related needs.  
                     |                                                                 | - Coworkers are sincerely concerned about problems.     |
| Responsiveness  | - Willingness to help customers  
                     | - Keeping customers informed about when services will be performed.| - Coworkers respond efficiently to requests.  
                     |                                                                 | - Coworkers are willing to help.                        |

Source: Adapted from Alexandries, Du Kang and Jame (2002)
2.3.4 Importance of service quality

In today’s world that is driven by intense competition, it becomes very critical for service organisations to sustain a competitive lead or maintain the competitive advantage in the market sphere in which they are operating. Delivering high service quality in order to maintain and retain the customer base is a very important undertaking. Caceres and Paparoidamis (2007) are of the opinion that delivering quality service is a crucial strategy in the successful performance of organisations in today’s competitive environment. The study further suggests that companies that offer superior service can achieve higher than normal growth within the operating market share and increased profits, that is maximising shareholder value.

Some studies have identified service quality as having a very considerable impact in the achievement of competitive advantage (Boulter and Bendell, 2010). In addition the study views service quality as having a direct link to customer longevity and ultimately impacting on the development of long-term market share and profitability. In the financial and insurance environment enhancing service quality is very critical and beneficial as insurance product offering becomes increasing hard to differentiate due to industry regulations. In the case of medical schemes, the Council for Medical Schemes has introduced certain standardised benefits, namely Prescribed Minimum Benefits (PMBs) and Low Income Medical Schemes (LIMS) options which mainly offer standardised managed care benefits. The introduction of the National Health Insurance as an alternate healthcare model to the current systems offered by the South African health system can also serve as a differentiation challenge to medical schemes.

It is therefore important for medical schemes to differentiate the service offered by offering especially high quality services. Siddiqui and Sharma (2010) also back up this notion through their analysis of the insurance sector. They are of the opinion that companies within this industry are changing from being product-oriented to becoming customer focused and using service quality as a differentiating factor. Against the background of the preceding literature review on service quality, the following hypotheses were formulated:
H1  There is a positive relationship between internal service quality (as measured by service reliability) and customer retention.

H2  There is a positive relationship between internal service quality (as measured by responsiveness) and customer retention.

H3  There is a positive relationship between internal service quality (as measured by tangibles) and customer retention.

H4  There is a positive relationship between internal service quality (as measured by empathy) and customer retention.

H5  There is a positive relationship between internal service quality (as measured by assurance) and customer retention.

2.4  CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management has been considerably studied in the marketing literature. Verhoef (2003), Payne and Frow (2005) and Akroush et al. (2011) have provided evidence of the significant impact of relationship management on behavioural loyalty which subsequently affects customer retention.

2.4.1  Background to customer relationship management

Customer relationship management is a subject that has been frequently studied in the marketing literature arena (Verhoef, 2003; Payne and Frow, 2005; Akroush et al., 2011.) A considerable number of empirical studies have provided evidence on the significant impact of relationship management on behavioural loyalty which subsequently affects customer retention (Peng and Wang, 2006). Verhoef (2003), Ngai (2005) and Alrubaiie and Al-Nazer(2010) also introduced customer retention, customer share and customer/behavioural loyalty as important determinants in customer relationship management. In today’s highly competitive service markets, financial service organisations such as banks and insurance organisations have come to realise the importance of adopting customer relationship management (CRM) as one of their strategic tools as they understand the potential of relationship management tools in helping them to acquire new customers, retain existing ones and maximise customer life-time value (Roberts-Lombard and du Plessis, 2011).
The literature reveals that a close relationship with customers requires a strong coordination between information technology and the marketing departments so as to provide for long-term retention of selected customers. Customers who effectively maintain a long-lasting relationship with a business entity, use the service more and also invest in other complementary services that might be on offer, are believed to be less predisposed to switching. Customer retention strategies are very important as losing customers can prove very costly for the organisation. In the service market environment, one of the originally held beliefs concerns the perceived role of businesses which is to build a customer base and subsequently keep or retain these customers. This long held business philosophy as attested to by Akroush et al. (2011) is promoted in the current market through a business strategy of customer relationship management.

The belief is that an improved relationship with one’s business customers can ultimately lead to greater customer loyalty and retention which can subsequently lead to higher business profitability. Venetis and Ghauri (2004) show that in some service industries, customer retention of about 5 percent can have an overall impact of over 125 percent in revenue or profitability. Athanasopoulou (2009) also supports the fact that the development of long-term beneficial relationships with customers has a very strong impact on customer loyalty and retention. A study by Alrubaiee and Al-Nazer (2010) also revealed that customer relationship management has a significant impact on behavioural loyalty which directly affects retention. The study emphasises that loyal relationships have been found to increase profitability of a firm over time and allows the business to compete effectively in today’s competitive global markets. Moreover relationship management represents a strategic response by organisations, allowing them to gain competitive advantage over their competitors in the operating industry. The response is built on the premise that the appreciation of the interdependence of market players and the mutual effort based on trust and perceived commitment allows firms to be competitive (Alrubaiee and Al-Nazer, 2010).

The overall purpose of CRM is to provide a move from a transaction basis to a relationship based model that centres on the acquisition, development and retention
of profitable customers. According to a study conducted by Akroush et al. (2011), a pertinent belief is that customer relationships like any other strategically important assets of the business can be successfully developed and managed. This relationship concept is favourably underpinned by the buyer-seller partnership and is conceded to be of a longitudinal nature with both parties benefiting from the relationship. This concept of a beneficial context is further supported in a study done by Venetis and Ghauri (2004) who strongly affirm that long-term business relationships are beneficial to all participants; for example in the medical aid industry some schemes employ client relationship officers, customer care agents and brokers to ensure follow up and ease of service performance to the customer.

Robert-Lombard (2011) further stresses the importance of these beneficial relations with stakeholders. According to that study, relationship management seeks to establish long-term interactions with customers of the business as well as other role players (i.e. employees, suppliers, alliances etc.) which in effect will contribute to the future success of the operation. The benefits attained from this arrangement can range from increased barriers to competition, the generation of higher revenue through an increased client base as well as maintaining higher retention rates. From the customer’s point of view this can create ease in accessing the services provided as there are continuously available resources able to assist. The beneficial nature of customer relationship management is most advanced in the financial services industry due to the revolving nature of this sector as focus is shifted from transaction orientation to becoming customer and service centric. Businesses are recognising the fact that customers have different perceptions of value to the company and in order to address this they are adapting their offerings and communication strategies so as to align the business with this paradigm shift (Reinartz, Krafft and Hoyer, 2005). Organisations are fundamentally moving away from product marketing toward a more customer focused approach.

Contrary to the transaction marketing of consumer goods where the solution and focus is on tangible goods, in relationship marketing the focus is the relationship itself and how its functions lead to the satisfaction of customer needs (Bansal, 2004; Reinartz et al. 2005). Akroush et al. (2011) also support this finding by highlighting
the evolving nature of the financial industry. According to this study the financial service industry is in the process of structural change defined by increased competition and customer demand due to a shift in legislation as well as enhanced technological systems thus compelling businesses operating in this space to be more vigilant in terms of elevating core competencies so as to offer better value to the customers. Medical schemes are not isolated from such changes as continuous rapid changes in legislation are forcing schemes now to develop services that add value to the volatile medical scheme industry and are customer centric.

2.4.2 Defining customer relationship management

A number of research sources have been used to define the concept of customer relationship management. Alrubaiiee and Al-Nazer (2010) describe relationship marketing as a tool used to identify and establish, maintain and enhance relationships with customers and other stakeholders, at a profit, in order to meet the objectives of the parties involved, with this outcome achieved through mutual exchange and fulfilment of promises. The study extends this definition to include trust, relationship commitment and communication as constructs of cooperative relationships (Arnet and Badrinarayanan, 2005, as cited in Alrubaiiee and Al-Nazer, 2010). Bansal (2004) defines relationship management as a mutually oriented interaction occurring over time between two parties, involving commitment and interdependence. Bansal (2004) particularly stresses the view of “mutual commitment”, as this signifies a deviation from the transaction-oriented view of exchange on the market. Based on that study relationship management covers three processes, as illustrated in the following diagram:
As in the above diagram, the interaction process is the core of relationship management, a platform where the service provider and the customer interact. This process according to Bansal (2004) represents the communication side of the relationship. A two-way dialogue is critical to establish the interaction phase and a value process is needed to show how the customer views the creation and transfer of value over time. The study then concludes that once the relationship has been created the process hinges on the interaction loop. In medical scheme businesses as highlighted in other healthcare sectors, encounters between the customer and the service provider are very important in terms of defining service value as this perception is characterised by the need for superior business performance and the element of trust and commitment deliverables.

Akroush et al. (2011) define customer relationship management as a method of building and maintaining profitable customer relationships through the delivery of superior customer value and satisfaction. Another interesting definition cited in this study is that of Parvatiyar and Sheth (2001) who described CRM as a comprehensive strategy and process of actively acquiring, retaining and partnering with selective customers to create excellent value for the customer and the business. The study explains that the successful and effective implementation of CRM requires a cross-functional link of marketing, sales, customer service, and supply-chain to
enhance value delivered to the customer. Other research studies have also supported the role of relationship management as an enhancer of customer value (Reinartz, et al., 2004; Payne and Frow, 2005; Ryals, 2005). Robert-Lombard (2011) described customer relationship management as an enterprise-wide commitment used to identify the individual customers of an entity and to subsequently create a mutually beneficial relationship between the organisation and the customers.

The common trend in all these definitions is the focus on the customer and service provider relationship, where emphasis is placed on these two participants and the perceived end result (perceived value creation and the beneficial reciprocal aspect) of the service offered. However some other researched studies also emphasise the importance of forming strong relations with other business alliances. The core business of medical aid which involves offering of medical benefits, suggests that all parties involved in the process must commit to providing superior value to the client, that is from the marketing department using authentic strategies to attract customers, to the sales department handing over to the after-sales department to ensure a continuous value-adding process to the hospitals, GPs, brokers etc that form part of the chain.

2.4.3 Elements of customer relationship management

Most empirical studies done on relationship characteristics have thoroughly analysed their significant influence on the different relationship constructs ranging from satisfaction, service repurchase, customer referrals, profitability, trust and perceived quality. These are characteristics highlighted by Lopez et al. (2006) in addressing customer switching behaviours. According to a study conducted by Alrubaiiee and Al-Nazer (2010), relationship marketing as a point of reference measures the extent to which a business engages with its customers in developing a long-term sustainable relationship. Alrubaiiee and Al-Nazer (2010) hypothesize relationship management as a multi-dimensional construct, consisting of five behavioural components, namely: trust, commitment, communication, satisfaction and bonding (Alrubaiiee and Al-Nazer 2010; Caceres and Paparoidamis, 2007). Roberts-Lombard and du Plessis (2011)
have also characterised well drawn up determinants that can assist organisations to build stronger relations with customers.

Based on this research perspective, an organisation that desires a good and strong relationship with its customers must guarantee that their personnel that deal with customers are trustworthy and show a strong commitment to the service delivery process. Trust and commitment are therefore believed to be a critical construct in relationship building. There are however studies that have gone further than these highlighted constructs in describing the measurements of relationship management. The study by Athanasopoulou (2009) shows some of these dimensions as ranging from expectation of continuity to such dimensions as goal compatibility and the comparative level of the alternative; perceived service or product quality; perceived quality of interaction; relationship stability; customer orientation; coordination and profit; long-term relationship orientation; information sharing; communication quality and satisfaction with the relationship.

In addition to these characteristics further fundamental principles investigated and suggested by Caceres and Paparoidamis (2007) are namely mutual value creation, conflict handling (Robert-Lombard, 2011), complaint management (Spekham, Isabella and MacAvoy, 2000) while further researchers add other critical constructs of relationship management. The current study will critically focus on just some of the relationship management building blocks and effectively relate and apply them to the medical scheme business. These include trust, communication, commitment and complaints management. The aim of the present study is to analyse the selected constructs as they contribute to relationship stabilisation in the aforementioned industry. Extensive empirical studies have been done in unpacking these constructs but research in terms of their application in the medical scheme financial sector is very restricted, almost amounting to none. For a business in the medical scheme industry to effectively maximise stakeholder value in terms of acquiring, retaining and assuring customer loyalty it must be able to actively build and maintain sustainably beneficial long-term relationships with its prospective customers.
This goes in accordance with the cited defining roles of relationship management discussed in the previous section. A study done by Yang and Peterson (2004) validates the contention that maintaining successful long-term relationships with customers helps the business to achieve a portfolio of satisfied and loyal customers who in turn assist in maintaining the improved economic and competitive position of the business. The selected constructs are individually analysed below.

2.4.3.1 Trust

A relationship stands a very good chance of being maintained and sustained if there is a high level of trust between the parties involved. In a relationship, when the level of trust breaks down, the likely result is for the relationship or bond to dissolve (Roberts-Lombard and du Plessis, 2011). Athanasopoulou (2009) suggests that some literature research studies break the element of trust into two parts, namely using trust in kindness and representing trust in integrity. Caceres and Paparoidamis (2007) extend the analysis of this element of trust to customer and vendor trust. The study by Caceres and Paparoidamis (2007) defines trust as a willingness to assuredly rely on an exchange partner in whom one has confidence. The end result in the trust relationship is for the parties to provide positive outcomes, creating a perceived beneficial value.

2.4.3.2 Communication

A two-way communication process with customers is facilitated through advances in information and telecommunication systems. The integration, recording and maintenance of communication in the business allows the relationship with the customer to develop (Caceres and Paparoidamis, 2007). Some research material separates communication into two spheres, emotional and calculative communication (Athanasopoulou, 2009). The communication channel and its efficiency is very vital in providing customers with the right perceived offerings, through the correct channels, taking timing into account. For example providing customers with the 2010 benefit guide instead of the 2012 guide, posted on the Scheme website does no justice to the effective sharing of information. Rather a
comparison of the yearly benefits can be posted with emphasis placed on the current year. It then becomes very important that the given information is relevant and reliable.

2.4.3.3 Complaints management

Complaints management refers to the way the business deals with the problems communicated by customers concerning some aspects of their service that generate a certain degree of dissatisfaction (Alvarez, Casielles and Martin, 2011). Another study has noted that the customer complaint handing process should favourably regard each presented complaint as an opportunity to retain a customer (Michel and Johnston, 2008). The complaint system should make it easy for customers to efficiently lodge their complaints and when each complaint is received it must be handled with professionalism and speed. How the complaint or conflict is handled between the customer and the organisation can either ensure loyalty or result in customers defecting to the competition (Roberts-Lombard and du Plessis, 2011). An appropriate handling of these complaints might lead to a happier customer who can easily recommend the services of the business.

2.4.3.4 Commitment

Relationship commitment is also a very important aspect in the development and stabilisation of relationships. Alrubaiee and Al-Nazer (2010) define commitment as an enduring desire to maintain a valued relationship between involved parties. Empirical research shows that commitment is at the very core of all successful relationships and is viewed as a necessary ingredient in sustaining long-term relationships (Alrubaiee and Al-Nazer, 2010). In previous research studies, Henning-Thurau (2000) and Athanasopoulou (2009) see commitment as classified into two elements – emotional and calculative commitment.
2.4.4 Importance of customer relationship management

The importance of customer relationship management as an effective tool to potentially acquire and retain customers as well as maximise stakeholder value has been realised by many industries operating in the service market space. Organisations have come to realise that if they aspire to competitively succeed in today’s global market they need to adopt and maintain customer relationship management programmes that can enable them to cut above their competitors (Roberts-Lombard and du Plessis, 2011). A study done by Yang and Peterson (2004) reflects this same notion. The study explains how firms need to realise that in order to succeed they undoubtedly need to deliver superior value to customers and an effective way to achieve this is by maintaining quality relationships with customers. The management of these relationships is thus critical for achieving corporate success.

The medical scheme industry is very volatile with a high rate of customers easily switching to other competitors. Customer relationship management serves as a foundation for the organisation to effectively manage, build and improve relations with customers. The concept of retaining customers and developing loyalty has in fact become a primary factor of driving and harnessing competitive advantage in the medical aid industry as in any relationship marketing structure.

2.5 CHAPTER SUMMARY

In this chapter the literature on customer retention, service quality and relationship management has been reviewed and discussed. The chapter addressed the background, importance and determinants of each variable and how the independent variables impact customer retention. The following chapter will look at the research methodology used in measuring and analysing the variables used to construct the conceptual framework.
CHAPTER 3

RESEARCH METHODOLOGY AND EMPIRICAL RESULTS

3.1 INTRODUCTION

In Chapter 2, a literature review pertaining to internal service quality and customer relationship management as drivers of customer retention was discussed at length to put the current research study into perspective. In Chapter 3, aspects linked to the research process are depicted and discussed. A broad description of the available research methods is discussed and analysed. The sample selection and data collection methods will be presented, followed by a discussion of the validity and reliability of the study.

Leedy and Ormrod (2005:12) define research methodology as a general approach taken in carrying out a research project which dictates the specific tools a researcher selects in conducting the research. The primary purpose of this chapter is to justify the use of the specific methods employed in the research methodology process in solving the primary objective of the current study.

3.2 RESEARCH METHODOLOGY

According to Collis and Hussey (2003:55), research methodology refers to the overall approach to the research process, from the theoretical groundwork to the collection and analysis of the data. Leedy and Ormrod (2005) further define research as a methodical process of collecting, analysing and interpreting data as well as making deductions and reaching conclusions, in order to amplify the comprehension of the research phenomenon that a researcher is interested in unveiling. In another study by Kothari (2006) research is referred to as a scientific and systematic search for significant information on a particular topic.

Kothari (2006) states that in a manner of speaking research relates to a search for knowledge, a careful investigation or inquiry through a search for new facts with the
effect of gaining new insights and developing new knowledge. Collis and Hussey (2003:1) are also of the opinion that research is a process of inquiry and investigation; it is regarded as a systematic and methodical process that increases the researcher’s knowledge. The research process is therefore identified as a chronological process of conducting a study. The sequential process starts with the identification of a research problem, which is developed into objectives and ultimately leads to the formulation of hypotheses. Research requires a scientific approach and a skilled use of certain methods and is not merely a process of collecting and using data.

Applied research was used in this study. According to Kothari (2006), applied research aims at finding a solution to an immediate problem challenging a business organisation. Applied research focuses on addressing specific situations encountered by businesses or solving specific problems facing an organisation. (Collis and Hussey, 2009).

3.3 RESEARCH PARADIGMS

When conducting research, the researcher should decide on the research paradigm or approach the study will follow. The researcher should decide on a specific approach that will be applied as each research paradigm is characterised by different research techniques and assumptions in support of the objectives formulated. Babbie (2010) asserts that a research paradigm is defined as a fundamental model or frame of reference that a researcher employs to organise observations and reasoning maintained by the study. The research paradigm is mainly concerned with why certain data are collected, what type of data are collected, the source where they are collected, the time when collected, how collected and how the data will be analysed. According to Maritz (2005:245), data collection methods cover both primary and secondary data. The primary data are classified into four categories, namely verbal communication, written communication, observation and experimentation. Maritz (2005) further confirms that quantitative and qualitative methodologies cannot be used in mutual exclusivity but rather as complementary paradigms. The diagram below illustrates the marketing research sequence.
There are two main research paradigms or approaches that are discussed:
- The positivist approach or quantitative method; and
- the phenomenological approach or qualitative method.

### 3.3.1 The positivist approach

The positivist approach is founded on facts obtained through empirical observations and experiments and is invariably backed by the belief that reality is independent of the researcher or the universe. Social research under a positivist approach involves a deductive process where social phenomena are observed and explained with theories establishing causal relationships as the research moves from the general to the specific (Collis and Hussey, 2009; Babbie, 2010). This approach is defined as an organised method for blending deductive logic with precise empirical observations of individual behaviour in order to ascertain and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activities. The above thus confirms that the positivist approach is based upon quantitative techniques (Collis and Hussey, 2009).
This approach perceives the social world as existing externally and being viewed objectively by participants; the research process is regarded as value-free; the researcher is independent from the study and takes on an objective role (Cooper and Schindler, 2008). The paradigm assumes that the research study is completely objective, replicable and thus possibly blanketed from other conditions. It is derived from a theoretical basis which focuses on objective norms and abstractions of reality (MacKenzie and Knipe, 2006). Basically Collis and Hussey (2009) describe quantitative research as a method based on collecting data in a numerical format which are subsequently then analysed using statistical methods whilst qualitative research is defined as a method based upon collecting data in a nominal or non-numerical format which are then analysed using interpretive methods.

3.3.2 The phenomenological approach

Research conducted with a phenomenological approach (also referred to as an interpretive approach) is inductive in nature as the researcher directly relates what is observed and subsequently tries to interpret, understand and explain the observations as the research moves from the specific to the general (Collis and Hussey, 2009). Interpretivism further referred to as a qualitative approach perceives the social world as constructed and given meaning subjectively by people. The researcher is part of the study and forms part of what is observed and the research process is determined by interests and opinions (Cooper and Schindler, 2008). It relates to the phenomenological aspect, focusing on people’s lives, experiences and realities and culminates in how people interpret their social world in terms of experiences and self-opinions (MacKenzie and Knipe, 2006). The purpose of this approach is to generate hypotheses that can be tested and assessed (Bryman and Bell, 2007).

The focus is mainly on the understanding and the interpretation of the research study and the data preparation is presented by verbal and illustrative descriptions (Cooper and Schindler, 2006).
TABLE 3.1: DIFFERENCES BETWEEN QUANTITATIVE AND QUALITATIVE RESEARCH

<table>
<thead>
<tr>
<th>Quantitative Research</th>
<th>Qualitative Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysed using statistical data analysis techniques</td>
<td>Analysed using interpretive techniques</td>
</tr>
<tr>
<td>Normally associated with a positivist approach</td>
<td>Normally associated with an interpretive approach</td>
</tr>
<tr>
<td>Results can be generalised from the sample to the population</td>
<td>Findings can be generalised from one setting to another similar setting</td>
</tr>
<tr>
<td>High reliability and low validity</td>
<td>Low reliability and high validity</td>
</tr>
<tr>
<td>Data analysis does not begin until all of the data have been collected</td>
<td>Data analysis starts as soon as research has begun and thus it guides data collection</td>
</tr>
<tr>
<td>Manipulates numbers that represent empirical facts to test an abstract hypothesis</td>
<td>Creates new concepts and theory by combining empirical evidence and abstract hypotheses</td>
</tr>
<tr>
<td>Data are in a numerical format that is precise and objective</td>
<td>Data are in a nominal (non-numerical) format that is subjective and ‘rich’</td>
</tr>
<tr>
<td>Choose from a standardised set of data analysis techniques</td>
<td>Wide variety of data analysis techniques according to approach</td>
</tr>
<tr>
<td>Deductive process to test previously specified theory</td>
<td>Inductive process to formulate theory</td>
</tr>
</tbody>
</table>

Source: Adapted from Neuman (2006) and Collis and Hussey (2009)

Overall, past research in essence reveals the foremost benefit of using a quantitative approach to data collection as being the relative simplicity and speed with which data can be collected, this being due to the sample sizes used. In the case of a quantitative paradigm, large samples can be used to collect data while in the case of a qualitative paradigm smaller sized samples may be used (Collis and Hussey, 2009). The following examples can be used as a reference; a case study may consist of one respondent while a questionnaire on the other hand requires a larger number of participants. A qualitative data collection approach can be costly and time-consuming.
consuming, even though it is said to provide a more real basis for understanding, interpretation and analysis. The current study will be hinged on the quantitative data collection method. Qualitative research is viewed as a methodology that provides insight and understanding of the problem whilst quantitative research quantifies the researched data and employs some statistical analysis.

3.4 THE RESEARCH DESIGN

According to Collis and Hussey (2009), research design is described as a comprehensive plan that can be implemented and used to guide and focus the research process. Research design is further defined as the science and art of planning procedures for conducting studies so as to get the most valid findings (Collis and Hussey, 2003:113). Blumberg, Cooper and Schindler (2008) add that a research design is a blueprint for satisfying objectives and subsequently answering the posed research questions. The ultimate objective is to ensure that the validity of the research findings is optimally achieved and maximised. A choice of a research design shows the precedence being given to a range of dimensions in a research process. According to a study done by Bryman and Bell (2007:40), this indicates the significance ascribed to the following dimensions: expressing of causal connections between variables, generalising to larger groups of individuals other than those actually forming part of the study, understanding behaviour as well as the meaning of the behaviour and having an appreciation over time for social phenomena and their interconnections.

Research design can be further classified into exploratory or conclusive research. Conclusive research is categorised into causal and descriptive research (Hollis, 2006). The research design for this study involves human beliefs, values and perceptions used to measure or gauge the impact of internal service quality and relationship management against customer retention. The following Figure depicts the research design for this study.
3.5 THE SAMPLE

The selection of a sample is a critical element when one conducts a research study. In a study conducted by Neuman (2006), the author shows that it is sometimes not practical to study a whole given population nor is it always probable. Collis and Hussey (2003) concur that selecting a sample for a research study is very important.
as a sample is made up of a certain group of people or collection of items which form part of a population and are used for research purposes. Cooper and Schindler (2008:228) further provide the following description: “the basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population”. A further definition describes a sample as an unbiased subset that is representative of the entire population under study (Collis and Hussey, 2009). The purpose is to ensure that the researcher is able to generalise the findings of the chosen sample to the entire population.

The sample types are classified into probability (objective) and non-probability (subjective) samples. According to a study conducted by Evans (2010), in probability samples the number of participants from whom the sample will be drawn is known in advance and each member of the population has a non-zero probability of being selected. Conversely, in a non-probability sampling, members are picked out from the population using a non-random approach. Non-probability sampling methods include judgment sampling, snowball sampling, quota sampling and convenience sampling; probability sampling methods on the other hand include random sampling, stratified sampling and systematic sampling (Evans, 2010).

Convenience sampling was used in the present study to select 100 participants out of a possible 130 targeted for the sample. The sample was chosen with a view to convenience, taking into consideration the cost and time required to select a sample. The sample included all the staff members of a business unit of a single medical scheme administered by one of the largest administrators in South Africa.

3.5.1 Selected organisation

One of South Africa’s leading multi-scheme healthcare administrators, B Administrators, was selected for this particular study. B Administrators is responsible for the administration of the medical scheme, in terms of membership operations, scheme finance, the call centre, managed care programmes, hospital authorisations, etc. The other administrators include the Dental Management Systems, Managed Care programmes and Optical Provider Network. However the study will only focus
on B Administrators and all the relevant units that administer the medical scheme. B Administrators provide administration to a combination of 27 closed and open schemes whose membership is diverse and requires an equally varied team of personnel to offer services to the members.

The Administrator prides itself on customer centricity and the overall customer experience hinges on highly skilled and experienced managers and staff; constant monitoring of quality and efficiency; best practice business processes, etc.

3.5.2 Geographic demarcation

The Administrator’s business operation is geographically segmented into two distinct areas, coastal and inland. The coastal region comprises the Western Cape (WC), Eastern Cape (EC) and Kwa-Zulu Natal (KZN). The inland region covers Gauteng, Mpumalanga, the Free State, Limpopo and the Northern Cape.

The present study covers inland (Gauteng) and coastal (EC, WC and KZN) areas focusing on and including walk-in offices situated in the EC province. Mpumalanga, the Free State, Limpopo and the Northern Cape (NC) were excluded from the study.

A survey in a questionnaire format was sent for completion to a hundred call centre agents, administrative assistants, management, business coaches, actuaries, customer service consultants, key accounts office/client liaison officers and broker consultants out of the total population. Only eighty-one (81) usable questionnaires were returned from the selected units with three being spoilt (3). This translated into a response rate of 81%.

Figure 3.3 shows that 40% of the respondents were male and 60% were female. This apparently fair gender composition is suggestive of a fair spread of gender equality within the organisation. This result shows that many females have now moved away from being stay-at-home mothers and are actively involved in the corporate structure.
Table 3.2 depicts the demographic composition of the sample.

### TABLE 3.2: DEMOGRAPHIC COMPOSITION OF THE SAMPLE: GENDER AND AGE

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>32</td>
<td>40.0</td>
</tr>
<tr>
<td>Female</td>
<td>49</td>
<td>60.0</td>
</tr>
<tr>
<td></td>
<td>81</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>26</td>
<td>32.09</td>
</tr>
<tr>
<td>30-39</td>
<td>29</td>
<td>35.8</td>
</tr>
<tr>
<td>40-49</td>
<td>22</td>
<td>26.2</td>
</tr>
<tr>
<td>50-59</td>
<td>3</td>
<td>3.7</td>
</tr>
<tr>
<td>60+</td>
<td>1</td>
<td>1.23</td>
</tr>
<tr>
<td></td>
<td>81</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Figure 3.4 indicates that 26 of the respondents were aged between twenty to twenty-nine years, 29 were in the thirty to thirty-nine years old age group, 22 were between forty to forty-nine years, 3 were between fifty and fifty-nine and one was over the age of sixty. This translates into 32.09%, 35.8%, 26.2%, 3.7% and 1.23% percent respectively. The aforementioned age group profile depicts the maturity of the participants as well as represents the diversity of the maturity levels within the organisation. The age gaps present prospects for employees to impart ideas and learn from each other. The perceived near balance of the age groups places the organisation at an advantage in terms of the transfer of skills and expertise, with the
older employees transferring their skill and expertise to the young and the younger employees sharing new ideas in terms of technological know-how.

**FIGURE 3.4: RESPONSE RATE BY AGE GROUP**

Table 3.3 illustrates that the majority of the respondents had obtained their matric level qualifications, followed by respondents who had obtained diploma, certificate and degree qualifications. There were also a number of respondents who had attained a post-graduate qualification while the remainder had levels below matric. The response rate for matriculants was 44.4%, diploma qualifications 22.2%, degrees 11.1%, and national certificates 12.5%. The response rate of people who did not study beyond matric was 7.41%. In terms of job title out of the eighty respondents 44.4% represented the call centre, a combined 25.87% representing relationship management consultants (classified into key accounts officers, customer service consultants and broker consultants), 5% were junior managers, 1.23% middle management and 2.5% were senior management. Specialists and junior employees represented 10% of the responses.
### TABLE 3.3: DEMOGRAPHIC COMPOSITION OF THE SAMPLE: EDUCATION AND JOB TITLE

<table>
<thead>
<tr>
<th>Education</th>
<th>Number of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matric</td>
<td>36</td>
<td>44.0</td>
</tr>
<tr>
<td>Diploma</td>
<td>18</td>
<td>22.2</td>
</tr>
<tr>
<td>Degree</td>
<td>9</td>
<td>11.1</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Certificate</td>
<td>10</td>
<td>12.5</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>7.41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Title</th>
<th>Number of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Accounts Officer/Client Liaison Officer</td>
<td>10</td>
<td>12.3</td>
</tr>
<tr>
<td>Customer Service Consultant</td>
<td>6</td>
<td>7.4</td>
</tr>
<tr>
<td>Call Centre Agent</td>
<td>36</td>
<td>44.4</td>
</tr>
<tr>
<td>Team Leader</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Manager</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Middle Management</td>
<td>1</td>
<td>1.23</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Broker Consultant</td>
<td>5</td>
<td>6.17</td>
</tr>
<tr>
<td>Business Coach</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Actuary</td>
<td>1</td>
<td>1.23</td>
</tr>
<tr>
<td>Admin Assistant</td>
<td>3</td>
<td>3.7</td>
</tr>
<tr>
<td>Specialist</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Driver</td>
<td>1</td>
<td>1.23</td>
</tr>
<tr>
<td>Personal Assistant`</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Almost half of the respondents (48.1%) had job tenure at their current employer of less than five years, 23.5% of respondents had tenure ranging between five and nine years, 16.05% had job tenure ranging between ten and fourteen years, and 16.25% had job tenure ranging between fifteen and nineteen years, with another 6.05% having had job tenure greater than twenty years with the current employer.
TABLE 3.4: DEMOGRAPHIC COMPOSITION OF THE SAMPLE: TENURE AND JOB EXPERIENCE

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Number of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>39</td>
<td>48.1</td>
</tr>
<tr>
<td>5-9</td>
<td>19</td>
<td>23.5</td>
</tr>
<tr>
<td>10-14</td>
<td>13</td>
<td>16.25</td>
</tr>
<tr>
<td>15-19</td>
<td>5</td>
<td>6.05</td>
</tr>
<tr>
<td>20+</td>
<td>5</td>
<td>6.05</td>
</tr>
<tr>
<td><strong>81</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Experience</th>
<th>Number of responses</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>26</td>
<td>32.1</td>
</tr>
<tr>
<td>5-9</td>
<td>24</td>
<td>29.6</td>
</tr>
<tr>
<td>10-14</td>
<td>17</td>
<td>20.99</td>
</tr>
<tr>
<td>15-19</td>
<td>6</td>
<td>7.4</td>
</tr>
<tr>
<td>20+</td>
<td>8</td>
<td>9.88</td>
</tr>
<tr>
<td><strong>81</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Out of the 81 respondents 32.1% had less than five years' experience in their current job or profession, 29.6% of the respondents had experience ranging between five and nine years, 20.99% had experience in their current job or profession ranging between ten and fourteen years with 7.4% between fifteen and nineteen years. The remainder (9.88%) had experience of over twenty years. The above table illustrates that the sampled participants had enough experience in their current job or profession. This type of experience is necessary for the organisation to sustain its competitive edge in the perpetually evolving business environment. This fact can however have an opposite effect or negative impact on the performance of employees as complacency might set in, leading to certain individuals in the organisation resisting change and creating comfort zones.

3.6 THE MEASURING INSTRUMENTS AND DATA ANALYSIS

According to a study done by Blumberg et al. (2008), measurement refers to a process of assigning numbers to empirical events in compliance with a set of rules. Collis and Hussey (2003:17) have alluded to the fact that there is a range of tools or ways in which research data can be collected, namely: structured interviews, observations, diaries, focus groups and questionnaires, to mention a few. Collis and Hussey (2003) have also advised that structured interviews and questionnaires were the most commonly used research methods.
For the purpose of the current research study, a questionnaire was used as a method of collecting original data from the selected sample group. A questionnaire is defined as a list of carefully crafted questions, used to drawing out reliable responses from a chosen sample with the aim of finding out what a selected group of participants do, think or feel (Collis and Hussey, 2003). The questionnaire which included self-constructed items as well as items sourced from previous research studies was used in order to validate the findings of the literature review. Collis and Hussey (2009) are of the opinion that the researcher needs to consider the following when designing the questionnaire:

- A question design: The questions need to be clear, concise and easily understandable.
- Establishing respondents: This process needs to be done in order to determine who the respondents will be representing the sample size;
- The distribution channels: There are a number of different distribution channels and each one has its own strengths and weaknesses;
- Running a pilot study: It is essential to run a pilot study to test the questionnaire before its final distribution.

The questionnaire was divided into two sections, namely:
- Section A: The research questions
- Section B: Classification data which represented the biographical information of the respondent.

The questionnaires were sent directly to the participants and were personally collected by the researcher. Each questionnaire was accompanied by a covering letter that clearly explained the purpose of the study.

In order to draw clear inferences, the researcher used the theoretical elements discussed in the literature review to compose a comprehensive questionnaire. The questions were selected to address the variables outlined in the conceptual framework to improve customer retention. The service quality dimensions were measured using items obtained from the service quality literature (Caceres and Paparoidamis, 2007). Items measured evaluated the following constructs:
Six items were used to measure assurance which defines the knowledge and
courtesy an organisation's personnel have to convey in order to instil customer trust
(Maritz, 2005; Gallant, 2009; Alexandris et al., 2002). Six items self-constructed in
the research and adopted from a study by Maritz (2005), Alexandris et al. (2002)
and Gallant (2009) were used to measure empathy which defined the caring and
individualised attention the AA Medical Fund personnel offer to the customers. The
third construct which is service reliability used six items to measure the ability of AA
Medical Fund’s staff to perform services accurately and also to keep promises
(Gallant, 2009; Maritz, 2005; Alexandris et al., 2002).

The fourth construct of SERVQUAL responsiveness used seven statements to
measure the willingness of staff to assist customers and continuously provide timely
service. The fifth construct relates to the organisation's tangibles which refer to the
appearance, ability of personnel, systems and equipment (Maritz, 2005; Gallant,
2009; Alexandris et al., 2002). In terms of relationship management, thirteen items
were used to measure customer relationship management. Statements were self-
constructed but adopted from some of the literature studies relating to customer
relationship (Robert-Lombard, 2011; Akroush et al., 2011; Caceres and
Paparoidamis, 2007; Alvarez et al., 2011). The customer retention instrument
consisted of six items (Geel, 2011; Anani, 2010; Slabbert, 2010; Al-Hawari et al.,
2009).

The statements of the questionnaire were anchored on a five-point Likert scale
measuring instrument ranging from (1) strongly disagree to (5) strongly agree.
Closed questions were used to solicit responses. The STATISTICA Version 10.0
(2010) computer software program was used to conduct the statistical analyses in
the study.

3.7 THE RELIABILITY OF THE MEASURING INSTRUMENTS

Collis and Hussey (2003) in their research study, identify validity and reliability as the
main techniques in measuring the integrity of research findings. According to
Tavakol and Dennick (2011:53), it should be observed that the reliability of an
instrument is closely associated with its validity. A measuring instrument cannot be valid unless it is reliable; however the opposite is true for reliability as the reliability of an instrument does not depend on its validity (Tavakol and Dennick, 2011). Neuman (2006) asserts that validity and reliability are at the epicentre of all measurements and the two concepts improve the process of truthfulness and credibility of the research study.

Reliability is more concerned with whether the current study can be simulated or replicated without any effort by another researcher. Leedy and Ormord (2005) view reliability as the consistency with which a measuring instrument produces a particular outcome when the unit measured has not changed, meaning that the unit measured will yield consistent results. Collis and Hussey (2003) reinforce the concept of replication as their study views reliability as the repeatability of the research to produce the same research findings. According to Collis and Hussey (2009), an absence of differences in the comparison of the results between the original and repeat research projects is very critical in proving the reliability of the study.

In his study Neuman (2006) makes mention of three types of reliability; stability reliability, representative reliability and equivalence reliability. These types of reliability are further broken down as follows:

- Stability reliability relates to the reliability over time and periodically measures whether same result is observed over different time periods;
- Representative reliability relates to reliability across divisions or sub-groups of people and verifies whether the results will remain the same when measuring is done amongst different groups;
- Equivalence reliability is present when the same construct or hypotheses is measured more than once by the researcher.

Bryman and Bell (2007:41) view reliability as a commonly used tool in answering the question of whether or not the measures devised for concepts used for business, such as employee motivation and organisational effectiveness are consistent.
Cronbach’s alpha is introduced in the present study as a construct reliability measure. Tavakol and Dennick (2011) confirm that it is possible to objectively measure the reliability of an instrument using Cronbach’s alpha which is referred to as the most widely used objective measure of reliability. Thomas, Nelson and Silverman (2010) recommend the use of the Cronbach’s coefficient alpha as a model measuring tool to use in cases where participants respond to questions anchored on a Likert scale. Thomas et al. (2010) have concurred that a 5-point Likert scale can help to increase reliability in the research. The Cronbach’s calculations consider the inter-correlations amongst the test items and the closer a Cronbach’s coefficient alpha is to 1.00 the higher the instrument’s internal consistency and reliability. Tavakol and Dennick (2011) advise that a Cronbach alpha of 0.50 has in many research studies been considered as acceptable for basic research, whilst a scale producing a reliability coefficient of over 0.70 is regarded as a reliable instrument.

In the current study, the Cronbach coefficient alpha was used to calculate the internal consistency regarding the reliability of the measuring scales. The initial step in the data analysis process was to measure the internal reliability of the measuring instruments by means of Cronbach alpha coefficients. The results, reported in Table 3.4. show that all the instruments returned alpha values of more than 0.70, which are regarded as reliable.

### TABLE 3.4: CRONBACH ALPHA VALUES OF THE MEASURING INSTRUMENTS

<table>
<thead>
<tr>
<th>MEASURING INSTRUMENT</th>
<th>ALPHA VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance</td>
<td>0.89</td>
</tr>
<tr>
<td>Empathy</td>
<td>0.75</td>
</tr>
<tr>
<td>Service reliability</td>
<td>0.88</td>
</tr>
<tr>
<td>Customer relationship management</td>
<td>0.89</td>
</tr>
<tr>
<td>Responsibility</td>
<td>0.91</td>
</tr>
<tr>
<td>Customer retention</td>
<td>0.87</td>
</tr>
<tr>
<td>Tangibles</td>
<td>0.83</td>
</tr>
</tbody>
</table>
3.8 THE VALIDITY OF THE MEASURING INSTRUMENTS

Lancaster (2005) considers validity as an important element of a measuring instrument due to its perceived credibility and its purpose of ensuring that the research method describes or measures what it is suppose to describe or measure. Collis and Hussey (2003) refer to validity as the degree a research finding represents what truly happens in an identified scenario. Leedy and Ormrod (2005) further define the validity of a measurement as the degree to which the employed instrument measures what it is supposed to measure. This is an measuring instrument concerned more with the effectiveness of the instrument. In a study conducted by Neuman (2006) validity is presented as a degree to which an instrument measures what it is assumed to measure and four different ways of assessing validity are listed, namely logical validity, construct validy, content validity and criterion validity.

Logical or face validity implies that the measures employed by the researcher actually measure or test what is suppose to be measured or tested. Construct validity, according to Thomas et al. (2010), links to the hypothetical constructs that cannot be directly observed, but only through their expressions, thus ensuring that the researcher’s observations can be justified by the hypothetical construct. Content validity focuses on whether the entire content of a definition is being measured or only a portion thereof. Criterion validity measures the validity of a definition using a standard or a principle that the researcher is comfortable with and has confidence in.

In the present study, content validity was determined on the basis of the literature review by assessing the impact of the service quality variable and relationship management on customer retention.

3.9 THE EMPIRICAL RESULTS

The empirical results on the reliability and validity of the measuring instruments indicate that reliable and valid measuring instruments were used in this study. Multiple regression analysis was conducted to statistically investigate the relationships among the service quality determinants and relationship management (independent variables) and customer retention (the dependent variable). The
responses to the individual questionnaire statements were analysed to measure the respondent’s perceptions about selected service quality determinants and relationship management pertaining to customer retention.

### 3.9.1 Multiple regression analysis

The STATISTICA Version 10 (2010) computer software programme was used to test the relationships between service quality determinants and relationship management (the independent variables) in relation to customer retention (the dependent variable). The relationships include the influence of reliability, assurance, empathy, responsiveness, tangibles and relationship management on customer retention. The results of the multiple regression analysis are summarised in Table 3.5. The empirical results indicate that the four determinants investigated in this study explain about 72.0 percent ($r^2 = 0.721$) of the variance on customer retention (RETE). This means that all these variables are important determinants of customer retention (RETE), but that three of them, customer relationship management (CRM), responsiveness (RESP) and tangibles (TANG), play the most significant role.

### Table 3.5: Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Dependent variable: Customer retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td></td>
</tr>
<tr>
<td>Multiple R</td>
<td>0.84912503</td>
</tr>
<tr>
<td>Multiple R</td>
<td>0.72101332</td>
</tr>
<tr>
<td>Adjusted R</td>
<td>0.69839277</td>
</tr>
<tr>
<td>F(6,74)</td>
<td>31.874</td>
</tr>
<tr>
<td>$p$</td>
<td>0.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Std. Err. of Estimate</th>
<th>N=80</th>
<th>b*</th>
<th>Std. Err. of b*</th>
<th>B</th>
<th>Std. Err. of b</th>
<th>t</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td></td>
<td>-0.241422</td>
<td>0.219535</td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
</tr>
<tr>
<td>ASSU</td>
<td></td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
<td>-0.468660</td>
<td>0.423938</td>
</tr>
<tr>
<td>EMPA</td>
<td></td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
<td>-0.468660</td>
<td>0.423938</td>
</tr>
<tr>
<td>RELB</td>
<td></td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
<td>-0.468660</td>
<td>0.423938</td>
</tr>
<tr>
<td>RELM (CRM)</td>
<td></td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
<td>-0.468660</td>
<td>0.423938</td>
</tr>
<tr>
<td>RESP</td>
<td></td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
<td>-0.468660</td>
<td>0.423938</td>
</tr>
<tr>
<td>TANG</td>
<td></td>
<td>-0.022052</td>
<td>0.116820</td>
<td>-0.104283</td>
<td>0.189306</td>
<td>-0.468660</td>
<td>0.423938</td>
</tr>
</tbody>
</table>

Note: P-values in bold indicate a significant relationship
3.9.1.1 The influence of internal service quality (as measured by service reliability) on customer retention

The following hypotheses were formulated:

Hypothesis H1 stipulated that internal service quality (as measured by service reliability) exerts a positive influence on customer retention.

H01: There is no significant relationship between internal service quality (as measured by service reliability) and customer retention.

According to the respondents, internal service quality measured by service reliability does not exert a significant influence on customer retention. The hypothesis H1 is therefore not supported, while the null hypothesis H01 is supported. This suggests that improving service reliability will not necessarily lead to improved customer retention.

3.9.1.2 The influence of internal service quality (as measured by responsiveness) on customer retention

The following hypotheses were formulated:

Hypothesis H2 stipulated that internal service quality (as measured by responsiveness) exerts a positive influence on customer retention.

H02: There is a significant relationship between internal service quality (as measured by responsiveness) and customer retention.

The empirical results show that there is a significantly positive influence between internal service quality as measured by responsiveness and customer retention ($r = 0.35$, $p < 0.05$). The hypothesis H2 is therefore supported while the null hypothesis H02 is not supported. This means that by improving rate of responsiveness, the organisation will subsequently increase customer retention.
3.9.1.3 The influence of internal service quality (as measured by tangibles) on customer retention

The following hypotheses were formulated:

Hypothesis H3 stipulates that internal service quality (as measured by tangibles) exerts a positive influence on customer retention.

H03: There is no significant relationship between the organisational tangibles and customer retention.

The empirical results show that there is a significant positive relationship between the tangibles and customer retention \((r = 0.42, p < 0.05)\). The hypothesis H3 is therefore supported while the null hypothesis H03 is not supported. This means that by improving the organisation's tangibles, management will increase the rate of customer retention.

3.9.1.4 The influence of internal service quality (as measured by empathy) on customer retention

The following hypotheses were formulated.

Hypothesis H4 stipulated that internal service quality (as measured by empathy) exerts a positive influence on customer retention.

H04: There is no significant relationship between internal service quality (as measured by empathy) and customer retention.

The empirical results show that internal service quality as measured by empathy does not significantly influence customer retention. The hypothesis H4 is therefore not supported while the null hypothesis H04 is supported. This means that by improving empathy, the organisation will not increase the customer retention rate.
3.9.1.5 The influence of internal service quality (as measured by assurance) on customer retention

The following hypotheses were formulated:

Hypothesis H5 stipulated that internal service quality (as measured by assurance) exerts a positive influence on customer retention.

H05: There is no significant relationship between internal service quality (as measured by assurance) and customer retention.

The empirical results show that internal service quality as measured by assurance does not significantly influence customer retention. The hypothesis H5 is therefore not supported while the null hypothesis H05 is supported. This means that by improving empathy, the organisation will not increase the customer retention rate.

3.9.1.6 The influence of customer relationship management (CRM) on customer retention

The following hypotheses were formulated:

Hypothesis H6 stipulated that customer relationship management exerts a positive influence on customer retention.

H06: There is no significant relationship between customer relationship management and customer retention.

The empirical results show that there is a significant positive relationship between customer relationship management and customer retention ($r = 0.47$, $p < 0.05$). The hypothesis H6 is therefore supported while the null hypothesis H06 is not supported. This means that by improving customer relationship management, the organisation will increase the rate of customer retention.
3.10 CHAPTER SUMMARY

In this chapter a theoretical background to the research methodology was provided. The sampling design and composition, as well as the measuring instruments were discussed. The data collected by using these instruments were tested for reliability and validity with positive results. A multiple regression analysis was conducted to evaluate the relationship between the selected independent variables on the dependant variable.

The results of the multiple regression as summarised in Table 3.5 showed that half of the independent variables customer relationship management (RELM), responsiveness (RESP) and tangibles (TANG) had a significant influence on customer retention (RETE) representing the dependant variable. This means an improvement in customer relationship management (RELM), responsiveness (RESP) and tangibles (TANG) will increase customer retention (RETE), while the other half of the independent variables, namely assurance (ASSU), empathy (EMP) and service reliability (RELB) do not have a significant influence on customer retention (RETE).

The next chapter provides the analysis, interpretation and results of the empirical study.
CHAPTER 4

PRESENTATION AND DISCUSSION OF DESCRIPTIVE STATISTICS RESULTS

4.1 INTRODUCTION

In this chapter the data analysis and the reporting of results are continued. The descriptive statistics of the responses to individual questionnaire statements were analysed to establish how the internal service quality determinants and relationship management were perceived by the respondents. The computer programme STATISTICA Version 10 (2010) was used to analyse data. The data analysed consisted of the calculation of the means and medians. All strongly disagree and disagree responses were condensed into one section while all the strongly agree and agree responses were combined into another section in order to ease the process of analysis and make it more meaningful.

4.2 DESCRIPTIVE STATISTICS: INTERNAL SERVICE QUALITY AND RELATIONSHIP MANAGEMENT

This section presents a summary of the responses to Section A of the questionnaire. Table 4.1 to Table 4.7 as well as Figure 4.1 to Figure 4.7 summarise the respondents’ perceptions of the impact of assurance (ASSU), empathy (EMPA), service reliability (RELB), customer relationship management (RELM), responsiveness (RESP) and tangibles (TANG) on customer retention (RETE). The respondents were asked to rate their levels of agreement with the statements set out in the questionnaire and relating to their organisation’s departments.

4.2.1 Assurance

Figure 4.1 and Table 4.1 depict the responses on how the participants view assurance in their organisation. Table 4.1 demonstrates the average responses by providing results for the means and standard deviation to individual questions. The overall mean score for assurance is over 3.0 indicating a satisfactory level.
<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree %</th>
<th>Agree %</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSU1</td>
<td>Our service personnel can be relied upon to put extra effort when needed</td>
<td>6.2</td>
<td>27.2</td>
<td>66.6</td>
<td>3.81</td>
<td>0.88</td>
</tr>
<tr>
<td>ASSU2</td>
<td>Our service personnel always provide necessary and accurate information</td>
<td>9.9</td>
<td>33.3</td>
<td>56.8</td>
<td>3.64</td>
<td>0.93</td>
</tr>
<tr>
<td>ASSU3</td>
<td>Our service personnel have our customers' interests at heart.</td>
<td>5.0</td>
<td>22.2</td>
<td>72.8</td>
<td>4.00</td>
<td>0.87</td>
</tr>
<tr>
<td>ASSU4</td>
<td>Our service personnel are constantly prompt and timely in providing service.</td>
<td>7.4</td>
<td>33.3</td>
<td>59.3</td>
<td>3.73</td>
<td>0.92</td>
</tr>
<tr>
<td>ASSU5</td>
<td>Our service personnel are consistent in providing quality services.</td>
<td>8.6</td>
<td>23.4</td>
<td>68.0</td>
<td>3.89</td>
<td>0.93</td>
</tr>
<tr>
<td>ASSU6</td>
<td>The behaviour of our service personnel instils confidence in our customers.</td>
<td>12.3</td>
<td>22.2</td>
<td>65.5</td>
<td>3.67</td>
<td>1.00</td>
</tr>
</tbody>
</table>

**AVERAGE MEAN SCORE = 3.79**

Table 4.1 and Figure 4.1 show that 72.8% of the respondents declared that their organisation’s personnel have the customer’s interest at heart. Altogether 65% (sixty-five percent) of the respondents confirmed that the service personnel were consistent in the provision of service quality. A concern however is that 27.2% of the respondents were neutral in terms of whether the organisation’s service personnel can be relied upon to make an extra effort when required to do so and 22.2% either agreed nor disagreed about personnel having the interests of the customers at heart. Another 12.3% of the respondents disagreed with the statement that the behaviour of the organisation’s personnel instils confidence in the customer.
Table 4.2 depicts an average mean score of 3.66 which indicates a satisfactory level of empathy within the organisation. A variance on the statement pertaining to the organisation sparing no effort to understanding customers’ needs and problems is detected. The 2.8 mean score indicates that the effort is made but to a lower extent.
4.2.2 Empathy

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree %</th>
<th>Agree %</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMPA1</td>
<td>My firm cares for its customers</td>
<td>6.2</td>
<td>13.6</td>
<td>80.2</td>
<td>4.14</td>
<td>0.88</td>
</tr>
<tr>
<td>EMPA2</td>
<td>My firm spares no effort in trying to understand the customers' needs and problems.</td>
<td>40.7</td>
<td>18.5</td>
<td>40.8</td>
<td>2.80</td>
<td>1.38</td>
</tr>
<tr>
<td>EMPA3</td>
<td>Through individualised attention, my firm instils confidence in our customers.</td>
<td>8.6</td>
<td>29.6</td>
<td>61.8</td>
<td>3.67</td>
<td>0.91</td>
</tr>
<tr>
<td>EMPA4</td>
<td>Our service personnel co-operate to deliver a caring service to our customers</td>
<td>4.9</td>
<td>23.5</td>
<td>71.6</td>
<td>3.90</td>
<td>0.86</td>
</tr>
<tr>
<td>EMPA5</td>
<td>Our service personnel commit themselves to serve co-workers</td>
<td>12.3</td>
<td>37.0</td>
<td>51.0</td>
<td>3.47</td>
<td>0.95</td>
</tr>
<tr>
<td>EMPA6</td>
<td>Our service personnel show commitment in serving customers</td>
<td>4.9</td>
<td>22.2</td>
<td>72.9</td>
<td>3.99</td>
<td>0.90</td>
</tr>
</tbody>
</table>

AVERAGE MEAN SCORE = 3.66

Table 4.2 and Figure 4.2 indicate that 80.2% of the respondents agreed with the statement that the organisation cares for its customers and a mere 6.2% disagreed, whilst 13.6% of the respondents neither agreed nor disagreed. A significant number of respondents (37.0%) did not commit to the statement that the organisations’ personnel committed themselves to fellow co-workers while 51% (fifty-one percent) concurred with the statement of commitment.

Almost half of the respondents (40.7%) were of the opinion that the organisation did not make any effort in understanding the customer’s needs and problems, whilst the other half of the respondents (40.8%) agreed that the organisation did make an effort. A highly significant number agreed that the organisation showed commitment in serving customers. Some 8.6% of the respondents did not feel that through
individualised attention the organisation instilled confidence in customers while 61.8% agreed with the statement and the remaining 29.6% neither agreed nor disagreed.

**FIGURE 4.2: EMPATHY – DESCRIPTIVE STATISTICS**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>My firm cares for its customers</td>
<td>6.2</td>
<td>4.9</td>
<td>80.2</td>
</tr>
<tr>
<td>My firm spares no effort in trying to understand the customers’ needs and problems</td>
<td>8.6</td>
<td>12.3</td>
<td>71.6</td>
</tr>
<tr>
<td>Through individualised attention, my firm instills confidence in our customers</td>
<td>4.9</td>
<td>13.6</td>
<td>61.8</td>
</tr>
<tr>
<td>Our service personnel co-operate to deliver a caring service to our customers</td>
<td>4.9</td>
<td>29.6</td>
<td>51</td>
</tr>
<tr>
<td>Our service personnel commit themselves to serve co-workers</td>
<td>13.6</td>
<td>23.5</td>
<td>72.9</td>
</tr>
<tr>
<td>Our service personnel show commitment in serving customers</td>
<td>18.5</td>
<td>37</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3 reveals an average mean score of over 3.0 for service reliability indicating that customers can rely on the organisation to fulfil their needs and resolve their problems at the stipulated times and for offering necessary and accurate information to the customer. The empirical results reveal that 75.3% of the respondents agree that their organisation continuously attempts to resolve customer problems and their needs, 19.7% were however not definite about this statement.

A substantial number of the respondents (50.0%) are of the mind that the organisation keeps to the promised turn-around times, while (33.3%) neither agreed nor disagreed with this statement, with (16.0%) totally in disagreement with the assertion.

Some of the respondents (65.4%) agreed that the service personnel within the organisation can be relied upon to do a good job, with (29.6%) showing indifference in this regard.
### 4.2.3 Service reliability

**TABLE 4.3: DESCRIPTIVE STATISTICS ON RELIABILITY**

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree %</th>
<th>Agree %</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>RELB1</td>
<td>My firm continuously endeavours to solve the problems of our customers</td>
<td>5.0</td>
<td>19.7</td>
<td>75.3</td>
<td>3.93</td>
<td>0.84</td>
</tr>
<tr>
<td>RELB2</td>
<td>Our service personnel can be relied on to do a good job</td>
<td>5.0</td>
<td>29.6</td>
<td>65.4</td>
<td>3.86</td>
<td>0.86</td>
</tr>
<tr>
<td>RELB3</td>
<td>Our service personnel always provide the necessary and accurate information to our customers</td>
<td>4.9</td>
<td>27.2</td>
<td>67.9</td>
<td>3.83</td>
<td>0.85</td>
</tr>
<tr>
<td>RELB4</td>
<td>My firm genuinely tries hard to understand our customers’ needs and problems</td>
<td>7.4</td>
<td>22.2</td>
<td>70.4</td>
<td>3.91</td>
<td>0.94</td>
</tr>
<tr>
<td>RELB5</td>
<td>My firm performs the required service right at the first time</td>
<td>12.3</td>
<td>27.2</td>
<td>60.5</td>
<td>3.68</td>
<td>1.01</td>
</tr>
<tr>
<td>RELB6</td>
<td>My firm always keeps to the promised and stipulated turn-around times.</td>
<td>16.0</td>
<td>33.3</td>
<td>50.7</td>
<td>4.00</td>
<td>1.2</td>
</tr>
</tbody>
</table>

**AVERAGE MEAN SCORE = 3.87**
Figure 4.3 shows average disagree = 8.4%; average agree = 65.0%

4.2.4 Customer Relationship Management

FIGURE 4.3: SERVICE RELIABILITY – DESCRIPTIVE STATISTICS

![Bar chart showing service reliability statistics]

- My firm continuously endeavour to solve the problems of our customers
- Our service personnel can be relied on to do a good job
- Our service personnel always provide the necessary and accurate information to our customers
- My firm genuinely tries hard to understand our customers’ needs and problems
- My firm performs the required service right at the first time
- My firm always keeps to the promised and stipulated turn-around times.

FIGURE 4.4: CUSTOMER RELATIONSHIP MANAGEMENT – DESCRIPTIVE STATISTICS

![Bar chart showing customer relationship management statistics]

- My firm is trust-worthy in its dealings with our customers
- My firm often resolves complaints in a time frame that is acceptable to our customers
- My firm’s process of escalating customer enquiries is effective
<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree %</th>
<th>Agree %</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>RELM1</td>
<td>My firm is trust-worthy in its dealings with our customers</td>
<td>2.5</td>
<td>17.3</td>
<td>80.2</td>
<td>4.07</td>
<td>0.75</td>
</tr>
<tr>
<td>RELM2</td>
<td>My firm often resolves complaints in a time frame that is acceptable to our customers</td>
<td>13.6</td>
<td>32.1</td>
<td>54.3</td>
<td>3.55</td>
<td>0.99</td>
</tr>
<tr>
<td>RELM3</td>
<td>My firm’s process of dealing with customer enquiries is effective</td>
<td>11.1</td>
<td>23.5</td>
<td>65.4</td>
<td>3.73</td>
<td>0.97</td>
</tr>
<tr>
<td>RELM4</td>
<td>My firm uses complaint information to drive process improvement</td>
<td>9.9</td>
<td>22.2</td>
<td>67.9</td>
<td>3.83</td>
<td>1.10</td>
</tr>
<tr>
<td>RELM5</td>
<td>In my firm, the different customer relations processes work in close cooperation in order to solve customer complaints</td>
<td>7.4</td>
<td>30.9</td>
<td>61.7</td>
<td>3.69</td>
<td>0.86</td>
</tr>
<tr>
<td>RELM6</td>
<td>My firm makes use of letters, telephone-calls, e-mails, faxes or SMS to keep in touch with our customers</td>
<td>1.2</td>
<td>7.4</td>
<td>91.4</td>
<td>4.47</td>
<td>0.69</td>
</tr>
<tr>
<td>RELM7</td>
<td>My firm interacts with individual customers to improve our knowledge about their needs</td>
<td>7.4</td>
<td>37.0</td>
<td>55.6</td>
<td>3.59</td>
<td>0.92</td>
</tr>
<tr>
<td>RELM8</td>
<td>In my firm, customers are regularly updated on progress made with regard to their complaints</td>
<td>12.3</td>
<td>21.0</td>
<td>66.7</td>
<td>3.71</td>
<td>0.98</td>
</tr>
<tr>
<td>RELM9</td>
<td>My firm regularly updates the account history of our customers</td>
<td>2.5</td>
<td>25.9</td>
<td>71.6</td>
<td>3.93</td>
<td>0.77</td>
</tr>
<tr>
<td>RELM10</td>
<td>Our performance on customer service is continuously evaluated in my firm</td>
<td>6.2</td>
<td>16.0</td>
<td>77.8</td>
<td>4.11</td>
<td>0.97</td>
</tr>
<tr>
<td>RELM11</td>
<td>My firm develops products and services to satisfy the individual needs of each customer</td>
<td>6.2</td>
<td>27.2</td>
<td>66.6</td>
<td>3.81</td>
<td>0.96</td>
</tr>
<tr>
<td>RELM12</td>
<td>My firm has an organised way of sharing information with customers</td>
<td>3.7</td>
<td>23.5</td>
<td>72.8</td>
<td>4.00</td>
<td>0.84</td>
</tr>
<tr>
<td>RELM13</td>
<td>My firm spends more effort on our more valuable customers</td>
<td>13.6</td>
<td>27.2</td>
<td>59.2</td>
<td>3.60</td>
<td>1.02</td>
</tr>
</tbody>
</table>
Table 4.4 shows an average mean score of 3.85 indicating that relationship management is practised within the organisation. In terms of communicating to customers, 91.4% of the respondents agreed that the organisation effectively makes use of letters, telephone-calls, e-mails, faxes or SMS to keep in touch with the customers. Also 72.8% of the respondents reported that the organisation has a structured manner of sharing information with customers, whilst 27.2% did not attest to this statement. Seventy-seven percent (77.8%) of the respondents reported that the organisation continuously evaluated performance on service quality.

Figure 4.4 reflects the following results: 80.2% of the respondents agreeing with the organisation’s trust-worthiness in its dealings with customers with a very minimal number (2.5%) disagreeing with this fact and 17.3% offering a neutral response. Just over fifty percent of the respondents (61.7%) agreed with the statement that the organisation resolves complaints in a time acceptable to customers. Thirteen percent (7.4%) of the respondents disagreed with this statement whilst 30.9% (which is a significant number) of respondents were indifferent.

4.2.5 Responsiveness

Table 4.5 reports an average mean score of 3.73 on responsiveness. This score indicates that the level of responsiveness is above average within the organisation. Seventy percent (72.9%) of the respondents agreed that the organisation’s personnel went beyond their duties in responding to customers while 18.5% were indifferent and 8.6% disagreed with the statement.

Sixty-three percent (63.0%) of the respondents agreed that the organisation’s service personnel were never too busy to respond to customer requests and 30.8% of the respondents gave a neutral response to this statement.
## TABLE 4.5: DESCRIPTIVE STATISTICS ON RESPONSIVENESS

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree %</th>
<th>Agree %</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESP1</td>
<td>Our service personnel go beyond their duties in responding to customer requests and needs</td>
<td>8.6</td>
<td>18.5</td>
<td>72.9</td>
<td>3.93</td>
<td>0.91</td>
</tr>
<tr>
<td>RESP2</td>
<td>Our service personnel’s response to customer needs is accurate and appropriate</td>
<td>4.9</td>
<td>38.3</td>
<td>56.8</td>
<td>3.65</td>
<td>0.82</td>
</tr>
<tr>
<td>RESP3</td>
<td>Our service personnel respond efficiently to customer requests</td>
<td>8.6</td>
<td>27.1</td>
<td>64.3</td>
<td>3.72</td>
<td>0.93</td>
</tr>
<tr>
<td>RESP4</td>
<td>Our service personnel respond to customer requests as quickly as possible</td>
<td>11.1</td>
<td>29.6</td>
<td>59.3</td>
<td>3.70</td>
<td>0.98</td>
</tr>
<tr>
<td>RESP5</td>
<td>Our service personnel are never too busy to respond to customer requests</td>
<td>6.2</td>
<td>30.8</td>
<td>63.0</td>
<td>3.70</td>
<td>0.87</td>
</tr>
<tr>
<td>RESP6</td>
<td>Our service personnel are always willing to accommodate customers’ special requests and needs</td>
<td>6.2</td>
<td>35.8</td>
<td>58.0</td>
<td>3.77</td>
<td>0.90</td>
</tr>
<tr>
<td>RESP7</td>
<td>Our service personnel provide the required service at the promised time</td>
<td>11.1</td>
<td>32.1</td>
<td>56.8</td>
<td>3.63</td>
<td>0.98</td>
</tr>
</tbody>
</table>

**AVERAGE MEAN SCORE = 3.73**
The scores in Figure 4.5 can be converted into the following averages; disagree = over 8.1%; neither agree nor disagree = 30.3% and agree = 61.5%.

The results report that over 61.5% of the respondents agreed on the responsiveness of the organisation towards its customers while (30.3%) of the respondents were indifferent in their response.

The overall mean score of over 3.0 shows that most of the respondents are satisfied with how their organisation handles the constructs relating to the effectiveness of customer retention.
### 4.2.6 Customer retention

#### TABLE 4.6: DESCRIPTIVE STATISTICS ON RETENTION

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree %</th>
<th>Agree %</th>
<th>Mean</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>RETE1</td>
<td>My firm has a system in place for measuring customer defection</td>
<td>5.0</td>
<td>24.6</td>
<td>70.4</td>
<td>3.86</td>
<td>0.87</td>
</tr>
<tr>
<td>RETE2</td>
<td>My firm always identifies why customers leave and continuously follows up on the defections</td>
<td>9.9</td>
<td>24.7</td>
<td>65.4</td>
<td>3.69</td>
<td>1.00</td>
</tr>
<tr>
<td>RETE3</td>
<td>My firm always compares its service quality with that of major competitors</td>
<td>3.7</td>
<td>17.3</td>
<td>79.0</td>
<td>4.17</td>
<td>0.85</td>
</tr>
<tr>
<td>RETE4</td>
<td>My firm uses a strategy to identify dissatisfied customers before they leave</td>
<td>17.3</td>
<td>21.0</td>
<td>61.7</td>
<td>3.60</td>
<td>1.07</td>
</tr>
<tr>
<td>RETE5</td>
<td>My firm always strives to maximise customer satisfaction</td>
<td>5.0</td>
<td>22.2</td>
<td>72.8</td>
<td>3.98</td>
<td>0.85</td>
</tr>
<tr>
<td>RETE6</td>
<td>Recovery of defecting customer is a priority</td>
<td>8.6</td>
<td>24.7</td>
<td>66.7</td>
<td>3.80</td>
<td>1.01</td>
</tr>
</tbody>
</table>

**AVERAGE MEAN SCORE = 3.85**

The empirical results depicted an average mean score of 3.85 on the retention of customers within the organisation. This shows a positive rate as the mean is over 3.0. A score of seventy-nine percent (79.0%) showed that the majority of the respondents agreed that the organisation always compares its service quality strategies with that of major competitors while 17.3% of the respondents neither agreed nor disagreed. Another significant attestation was given by 72.8% of the respondents who confirmed statements on the organisation's efforts to maximise customer service.

In terms of the organisation identifying dissatisfied customers before they leave, 61.7% of the respondents agreed that the organisation makes an effort to identify
these customers, 21.0% of the respondents were uncertain about the statement and 17.3% of the respondents disagreed with the statement. The results show that of the total respondents 38.3% were not in full agreement with the statement and this is a very significant number.

**FIGURE 4.6: RETENTION – DESCRIPTIVE STATISTICS**

Figure 4.6 shows a total average percentage of the disagree score as 8.25; total average of the neither agree nor disagree as 22.4 and the total average of the agree rating as 69.3.

The total average of 69.3% shows that respondents within the organisation view the rate of customer retention as manageable and could be much more improved if the rating of neither agree nor disagree can be reduced. Regarding the recovery of defecting customers only 65.4% are of the opinion that the organisation has strategies in place to recover them whilst a significant 24.7% of the respondents are indifferent. It is therefore imperative for the organisation to establish and convert the indifferent responses.
A total average score of 69.3% in retaining customers can be taken as an average score which can have an adverse impact on the survival of the organisation. A study by Harrison and Ansell (2002) confirms that a reduction in customer defections in the region of 5 percent can lead to a significant rise in profits of 25 to 85 percent. It thus becomes very critical for the AA Medical Fund to increase the average score on customer retention.

4.2.7 Tangibles

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Disagree %</th>
<th>Neither agree nor disagree</th>
<th>Agree %</th>
<th>Mean %</th>
<th>St. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>TANG1</td>
<td>My firm’s equipment and systems are highly competitive</td>
<td>7.4</td>
<td>16.0</td>
<td>76.6</td>
<td>3.94</td>
<td>0.89</td>
</tr>
<tr>
<td>TANG2</td>
<td>Our service personnel are always well dressed and appear neat at all times</td>
<td>7.4</td>
<td>23.5</td>
<td>69.1</td>
<td>3.88</td>
<td>0.93</td>
</tr>
<tr>
<td>TANG3</td>
<td>One can physically see the quality service that my firm is providing to all our customers</td>
<td>3.7</td>
<td>30.9</td>
<td>65.4</td>
<td>3.88</td>
<td>0.89</td>
</tr>
<tr>
<td>TANG4</td>
<td>Our service personnel have the physical skills and abilities to do their jobs adequately</td>
<td>3.7</td>
<td>22.2</td>
<td>74.1</td>
<td>3.99</td>
<td>0.81</td>
</tr>
<tr>
<td>TANG5</td>
<td>Our service personnel undergo continuous training and development in areas where they require it</td>
<td>6.2</td>
<td>21.0</td>
<td>72.8</td>
<td>3.93</td>
<td>0.93</td>
</tr>
<tr>
<td>TANG6</td>
<td>Our service personnel always keep and maintain error free member files and records</td>
<td>19.8</td>
<td>28.4</td>
<td>51.8</td>
<td>3.38</td>
<td>0.99</td>
</tr>
<tr>
<td>TANG7</td>
<td>Our service personnel undergo adequate training and development in areas where they require it</td>
<td>4.9</td>
<td>26.0</td>
<td>69.1</td>
<td>3.93</td>
<td>0.86</td>
</tr>
</tbody>
</table>

AVERAGE MEAN SCORE = 3.85
Table 4.7 reveals an overall mean score of 3.85 in relation to the organisation’s tangibles. This indicates that to some extent the organisation’s personnel appearance, systems and ability to project professionalism are average. This score can also be translated in terms of the internal personnel respondents. It means that the respondents are satisfied to some extent with the level and ability of the equipment, systems and the physical appearance of the service offering personnel.

The empirical results reveal that 74.1% of the respondents agree with the statement that organisational personnel have the physical skills and abilities to do their jobs adequately whilst 22.2% neither agree nor disagree with this statement and the remaining 3.7% disagree. This response shows that the organisation is aimed in the right direct direction in terms of efficiency. Moreover 76.6% of the respondents are confident that the organisation’s equipment and systems are highly competitive, with 16.0% showing indifference and 7.4% disagreeing with the statement.

An area of concern is that only fifty-two percent (51.8%) of the respondents have agreed that the organisation keeps updated customer files, with 28.4% neither agreeing nor disagreeing and a significant number of the respondents (19.8%) disagreeing with the statement.

**FIGURE 4.7: TANGIBLES (%)**

![Bar chart showing responses to different statements related to tangibles]
Figure 4.7 depicts a total average of 8.0 for the disagree rating, total average rating of 24.0 for neither agree nor disagree and total average for the agree rating of 68.0. It becomes important to reduce the indifference rate as the more impressive the tangibles are, the more the customer will expect from the service offered.

4.3 CHAPTER SUMMARY

This chapter reported on the descriptive statistics results of the study. According to these results, the respondents seem to be satisfied with the organisation’s performance, especially in terms of service quality measured by assurance, empathy and service reliability. The results therefore indicated which areas need special attention to the variables with which the respondents were dissatisfied.

In the following chapter, the managerial implications of the empirical findings will be discussed and recommendations on the strategies that can be employed by management to increase customer retention will be discussed.
CHAPTER 5

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this, the final chapter, the empirical results are discussed in terms of the managerial implications they present. First, a brief summary of the entire study is presented. Secondly, the empirical results pertaining to each variable in the hypothesised model are discussed. The shortcomings of the study, as well as recommendations for future research are also discussed.

5.2 OVERVIEW OF THE STUDY

In Chapter 2, the theoretical foundation of the proposed influence of internal service quality and customer relationship management on customer retention was presented. More specifically it was hypothesised that assurance, empathy, service reliability, responsiveness and the tangibles, as internal service quality dimensions, and customer relationship management were important determinants of customer retention.

In Chapter 3, the methodology of the study was discussed. This included the sampling design, sample composition and measuring instruments. The data collected by using these measuring instruments were tested for reliability and validity and the results of these tests were also reported in Chapter 3. Furthermore, multiple regression analyses were conducted on the hypothesised relationships between the internal service quality dimensions and customer relationship management, on the one hand, and customer retention, on the other hand. The results of this process were reported in Chapter 3.

In Chapter 4, the descriptive statistics (mean scores and percentage agree versus disagree responses) were reported and discussed. This analysis highlighted the
areas of satisfaction and weaknesses in the service quality and relationship management within the selected medical aid fund.

The next sections elaborate on the managerial implications of the empirical results reported in Chapters 3 and 4. The conclusion includes the shortcomings of the study and recommendations for future research.

5.2.1 Customer relationship management

The literature review in Chapter 2 demonstrated that a significant number of empirical studies provided evidence on the major impact of relationship management on customer retention. Peng and Wang (2006), Verhoef (2003), Ngai (2005), Alrubaiee and Al-Nazer (2010) in addition introduced customer retention and customer share as important determinants of customer relationship management. According to these studies, customers who effectively maintained long-lasting relationships with the organisation had the ability to use the services on offer more and were believed to be less inclined to switch.

Based on the regression analysis, relationship management turned out to be the leading factor in the improvement of customer retention from the internal customer’s perspective. The empirical results indicated that there was a significant positive relationship between customer relationship management and customer retention which means that by improving customer relationship management, the organisation will increase the rate of customer retention. The results of the average mean score of 3.85 as outlined in Table 4.4 effectively led to the conclusion that the respondents are reasonably satisfied with the extent to which CRM is implemented in the firm. However even though the overall responses showed that the participants were satisfied with the levels of relationship management, some of the respondents’ statements indicated that there were certain major improvements that needed to be done in terms of the organisation enhancing customer retention.
The first identified statement referred to the organisation’s resolving customer complaints in a time frame acceptable to the customer (13.6% disagreed, 32.1% neither agreed nor disagreed and only 54.3 agreed).

The second statement concerned the organisation directly interacting or making an effort to interact with individual customers in order to enhance and improve internal personnel's knowledge of what the customer really needed (7.4% disagreed, 37.0% neither agreed nor disagreed and 55.6% agreed). When a customer experiences a unique kind of experience and believes that his/her needs were satisfied, this behaviour could lead to the customer developing some sense of loyalty to the organisation. Ensuring that internal personnel have proper knowledge of the customer especially the valued customers could lead to the customers feeling this unique kind of experience and thus increasing customer loyalty which will subsequently lead to customer retention.

It is very important for the organisation through its personnel to realise how sensitive the customers are, so as to be able to ensure that the best value is provided to the customer (Siddiqui and Sharma, 2010). Understanding the customer's intimate specific needs and having the ability to inspire trust and confidence in terms of customer knowledge can indeed have a positive impact on customer relationship management. Managers need to focus on the relationships between the internal divisions and ensure synergy which should enhance cooperation between co-workers.

Gerbert, Geib, Kolbe and Brenner (2003:107) declared that in building good relationships with customers, it is necessary for organisations to serve customers in a preferred manner and this can be done through the management of customer knowledge. A customer-based knowledge management focuses on the knowledge most valuable to the organisation, i.e. knowing what the customer needs serves as the basis for managing quality relationships in a cost-effective way. Customer relationship management (RELM) can then be seen as an interactive process to achieve satisfaction of customer needs whilst at the same time enhancing performance management.
According to Subban, Pillay, Bhowan and Raga (2007), knowledge in customer-oriented processes entails the following elements: measuring inputs, service costs and outputs in terms of allocated budgets; acquiring and continuously updating knowledge on customer needs; applying customer knowledge to continuously improve performance through a culture of learning from previous successes and failures; the implementation of appropriate systems to support customer knowledge acquisition; sharing and measurement of customer relationship management effectiveness; and constantly contrasting the balance between service inputs and the changing needs of customers (Gerbert et al., 2003)

Dyche (2002) views customer relationship management (RELM) as first and foremost a business strategy that if correctly implemented can assist an organisation to tighten its business practices and processes across all divisions whilst effectively forming a tight connection with the customer. Customer relationship management means keeping track of the unsatisfied customer base that may be willing to share their bad experiences with the organisational prospects. Dyche (2002) further asserts that reducing customer defections by even a fraction has in previous studies been proven to improve profits exponentially through successfully implementing the following strategies:

- understanding customer needs even before the customer does. The idea is to allow the formation of personalised relationships with customers, with the aim of improving customer satisfaction and maximizing the bottom-line, identifying the most profitable customers and providing them with the optimal level of service;

- reducing customer churning by effectively increasing customer satisfaction. This entails providing employees with the information and processes necessary to know their customers, understand their needs, and effectively build relationships between the company, its customer base and distribution partners; and
- making use of customer relationship management technology to enhance customer service and enabling a degree of flexibility so as to be able to provide unique customer interactions; and

- developing a business to enable its marketing departments to identify and target their best customers, manage marketing campaigns with clear goals and objectives, and generate quality leads for the sales teams.

### 5.2.2 Responsiveness

In Chapter 2 responsiveness was defined as one of the dimensions that effectively measure internal service quality (Sureshchandar et al., 2002; Caceres and Paparoidamis, 2007). The element of responsiveness is defined as speed and timeliness of service delivery, willingness to assist, adhering to agreed turnaround times as well as solving problems the first time around (Hollis, 2006).

The empirical results reported an average mean score of 3.73 as shown in Table 4.1 which has effectively led to the conclusion that the respondents are reasonably satisfied with the level of responsiveness exhibited by the firm. The regression analysis also confirmed a significant positive relationship between internal service quality as measured by responsiveness and customer retention. Out of the seven statements, four received an agreed rating of just below sixty percent (60%), a neither agree nor disagree rating of over thirty percent which represents over a third of the responses, and a disagreed rating with an average of 8 percent (8%).

Timeliness was one of the elements that received a lower rating. The statement referred to service personnel providing the required service at the promised time. Consistently being punctual and having personnel keeping their word and passing on feedback when they said they would is very critical to the performance of the organisation. Management needs to take cognisance of the fact that failure to do things within a perceived reasonable time could create irritability. Strategies must be found to ensure that the staff adheres to turn-around times and ensure that constant feedback is given to the customer.
According to Subban et al. (2007), relationships between the public sector and customers are influenced by the service provider’s responsiveness to service needs, service quality and efficiency, and this notion has led to the generation of an approach referred to as the value-for-money approach. This approach should also be implemented in the medical scheme sector as the generation of value relies solely on the satisfaction of customer needs and the service offering.

5.2.3 Tangibles

This is another one of the dimensions of internal service quality that has a significant relationship with customer retention. Chapter 2 of the study refers to tangibles as an internal service quality dimension which relates to the ability of the equipment and the physical appearance of the service offering personnel. This speaks to the attitudes projected as well as the behaviour of the personnel when assisting the clients. The regression analysis indicated that there was a significant positive relationship between internal service quality as measured by the tangibles and customer retention. The empirical results represented by the total average mean of 3.85 indicated that the organisational staff was satisfied with the tangibles involved in internal service quality. However the statement pertaining to customer files was rated low and this is the one element that requires management’s attention.

Management needs to set strategies in place that will ensure proper maintenance of the customer files. Upgrading the systems to accommodate the updating of customer information is vital as this will allow the organization to be able to trace and track their customer base. Also doing small things for the customer, like sending a birthday wish or following up on major events happening in the space of the most valued customers, can be achieved through the exercise of keeping up-to-date files. It should be made a norm that when customers call in or servicing agents go out, updating of customer records should be done.

Descriptive measures as defined in Chapter 4 are now combined to make inferences appropriate to the current study using the descriptive statistics. The descriptive
statistics showed that the level of responsiveness within the organization was above average with respondents viewing their co-workers as going beyond their duty in responding to customer needs. In relation to empathy almost half of the respondents were of the opinion that the organisation did not make any effort in understanding the customer’s needs and problems, whilst the other half of the respondents agreed that the organisation did make an effort. A highly significant number agreed that the organisation showed commitment in serving customers.

The overall mean score for assurance is over 3.0 indicating a satisfactory level. The majority of the respondents declared that their organisation’s personnel had the customer’s interest at heart and could be relied upon to make an extra effort when required to do so by their co-workers.

5.3 CHAPTER SUMMARY

In line with the literature review and the empirical data collected it can be concluded that customer relationship management and internal service quality (as measured by responsiveness and tangibles) are driving elements in enhancing customer retention. Focusing more efforts and resources on these variables will definitely increase customer retention in the selected and other medical funds.

Customer retention requires continual attention to customer care. Some of the strategies management could use to improve customer retention include continuous customer surveys, process management, updating of customer files, early identification of dissatisfied customers, tracking of dissatisfied customers and this could be achieved through updated records, constantly improving organisational objectives on customer satisfaction and process improvements, and encouraging employee involvement in the process of improving processes and the behavioural patterns.

There were however shortcomings in the study that need to noted: (1) the study initially estimated the number of respondents to be 130 which represented over sixty percent of the organization’s personnel, however only eighty-one (thirty-seven
percent of the population) responses were returned leading to a small sample and (2) it also transpired from the study that the following determinants of internal service quality, EMPA, RELB and ASSU did not influence RETE, and this could be seen as the result of the small sample. In line with the above identified shortcomings, it is recommended that the study be replicated with bigger samples that include other medical funds.
LIST OF SOURCES


ANNEXURE 1: COVERING LETTER

Dear Respondent
I am studying towards my MBA (Masters in Business Administration) degree at the Nelson Mandela Metropolitan University Business School. I am conducting research on how to improve customer retention for AA Medical Aid Fund. I believe that my study will make an important contribution to the improvement of customer service and retention in the medical aid scheme industry in South Africa.

You are part of our selected sample of respondents whose views we seek on the above-mentioned matter. We would therefore appreciate it if you could answer a few questions. It should not take more than fifteen minutes of your time and we want to thank you in advance for your co-operation.

There are no correct or incorrect answers. Please answer the questions as accurately as possible. For each statement, tick the number which best describes your experience or perception. For example, if you strongly agree with the statement, tick the number 5. If you strongly disagree with the statement, tick the number 1. Tick only one answer for each statement and answer all questions please. Please note also that the word “firm” refers to AA Medical Aid Fund.

Please note also that your participation in this study is entirely voluntary and that you have the right to withdraw from the study at any stage.

Thank you very much.

BongiweXaluva
To verify the authenticity of the study, please contact Prof CA Arnolds at 041-5043825 and cecil.arnolds@nmmu.ac.za.
ANNEXURE 2: MEASURING INSTRUMENTS

ASSURANCE
Our service personnel can be relied upon to put extra effort when needed.
Our service personnel always provide necessary and accurate information.
Our service personnel have our customers’ interests at heart.
Our service personnel are constantly prompt and timely in providing service.
Our service personnel are consistent in providing quality services.
The behaviour of our service personnel instills confidence in our customers.

TANGIBLES
My firm’s equipment and systems are highly competitive.
Our service personnel are always well dressed and appear neat at all times.
One can physically see the quality service that my firm is providing to all our customers.
Our service personnel have the physical skills and abilities to do their jobs adequately.
Our service personnel undergo continuous training and development in areas where they require it.
Our service personnel always keep and maintain error free member files and records.
Our service personnel undergo adequate training and development in areas where they require it.

SERVICE RELIABILITY
My firm continuously endeavours to solve the problems of our customers.
Our service personnel can be relied on to do a good job.
Our service personnel always provide the necessary and accurate information to our customers.
My firm genuinely tries hard to understand our customers’ needs and problems.
My firm performs the required service right at the first time.
My firm always keeps to the promised and stipulated turn-around times.

**EMPATHY**
My firm cares for its customers.
My firm spares no effort in trying to understand the customers' needs and problems.
Through individualised attention, my firm instills confidence in our customers.
Our service personnel co-operate to deliver a caring service to our customers.
Our service personnel commit themselves to serve co-workers.
Our service personnel show commitment in serving customers.

**RESPONSIVENESS**
Our service personnel go beyond their duties in responding to customer requests and needs.
Our service personnel's response to customer needs is accurate and appropriate.
Our service personnel respond efficiently to a customer requests.
Our service personnel respond to customer requests as quickly as possible.
Our service personnel are never too busy to respond to a customer requests.
Our service personnel are always willing to accommodate customers’ special requests and needs.
Our service personnel provide the required service at the promised time.

**CUSTOMER RELATIONSHIP MANAGEMENT**
My firm is trust-worthy in its dealings with our customers.
My firm often resolves complaints in a time frame that is acceptable to our customers.
My firm’s process of escalating customer enquiries is effective.
My firm uses complaint information to drive process improvement.
In my firm, the different customer relations processes work in close cooperation in order to solve customer complaints.
My firm makes use of letters, telephone-calls, e-mails, faxes or SMS to keep in touch with our customers.
My firm interacts with individual customers to improve our knowledge about their needs.
In my firm, customers are regularly updated on progress made with regard to their complaints
My firm regularly updates the account history of our customers
Our performance on customer service is continuously evaluated in my firm
My firm develops products and services to satisfy the individual needs of each customer
My firm has an organised way of sharing information with customers
My firm spends more effort on our more valuable customers

**CUSTOMER RETENTION**
My employer has a system in place for measuring customer defection.
My employer always identify why members leave and continuously follow up on the defections.
My employer always compares the organisation’s service quality with that of major competitors.
My employer uses a strategy to identify dissatisfied members before they leave.
I always strive to maximise member satisfaction on current members.
Recovery of defecting member is a priority