

# CUSTOMER ENGAGEMENT AND SERVICE INNOVATION FOR INSURANCE COMPANIES

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## ABSTRACT

Service innovation has been highly concerned for business practices and academic study nowadays. In this research, we first investigate whether the organizational supports from organization level, service provider characteristics and customer characteristics from individual level that have impacts on customer engagement, and how well its aggregate customer engagement has effects on individual financial performance and corporate financial performance, as well as service innovation through co-creation of value between customers and an organization. We identified the influencing factors and investigated the effects from service-centered viewpoint. We conducted an empirical study from insurance industry in Taiwan. The results of the analysis suggested that the supports from organization and characteristics of service providers and customers established a significantly positive effect on customer engagement and eventually do enhance individual financial performance, corporate financial performance, and service innovation.

**Keywords:** customer engagement, service dominant logic, service innovation, individual and corporate financial performance

## INTRODUCTION

Service has become a highly important issue to the global economy nowadays. It is counted for more than 70% of Gross Domestic Product (GDP) that is dependent on services in many developed countries [46]. Service has become one of the leading research focuses in the lately years. The major economies of the market are service economies. Innovation is one of the most highly concentrated research subjects that are discussed together with service in its own industry for a firm. Service innovation has turned into a crucial topic for most of the companies in order to stay safe in the continuous change market and competitive environment.

Insurance is the industry that is highly connected to service. Insurance companies are extremely important for both mainstream science and their customers in many areas including construct buildings, ship goods, and design products [44]. Life insurance association republic of china (LIAROC) states that each Taiwanese has 0.13 insurance policy on the average in 1985. Yet, it turns out to be 1.67 insurance policy that each Taiwanese has in 2004. Simultaneously, in America, it is from 0.59 in 1985 to 3.10 in 2004. Therefore, insurance industry has evolved to a central topic over time and across countries.

Vargo and Lusch [60] [63] said Service Dominant Logic (SDL) has become more important in service science. Particularly, insurance industry has emphasized on service, relationships, interactions, values of customers, and

co-creating value with customers. Now that customer plays an interactive role with companies as the major point of customer engagement construct. The new perspectives has one major Fundamental Propositions of SDL emphasizing on “the customer is always a co-creator of value”, which stresses out the service relationships given by service providers are rather interactive and co-creative nature of value creation in order to engage customers [13]. Also, Van Doorn [58] proposed the adoption of SDL leads to a broad conceptualization of customer engagement, and it also enlarges to all customers and its exchange relationships, which suggests each customer is an engaged customer.

The general conceptualization of engagement is actively taking part in the life of a community to enhance the situations for others [2]. The Economist Intelligence Unit defines engagement as “a deeper, more meaningful connection between the company and the customer.” And, it means the engaged customers out win those customer who are only being loyalty to a company and the engaged customers will continuously purchase goods or services than those simply being loyalty [65]. The more customers engage in interacting with a firm or its own employees, the higher level of customer engagement. The higher engaged customer represents a customer is a co-creator of value to a company. Customers acquire more information about a firm, have relationships built by cumulative commitment, repeated purchase, and spend more time or energy to share with other people about the firm, products, or services, these all represent the level of customer engagement is higher.

Customer engagement in service innovation implies service producers interact with potential or engaged customers in different phases of the new service development process [4]. Furthermore, the different levels of customer engagement have different influences on service innovation. Moreover, it is suggested that higher interactive with customers not only can engage customers more to co-create value for a firm, but also can generate a better organizational and personal performance and increase sales growth, market share, ROI, and profitability [14] [48].

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

This research is grounded on three theories, which are Service Dominant Logic, Customer Engagement, Service Innovation, and the extended views. The research is developed based on the concept of Doorn [57] and Brodie, Hollebeek et. al [13]. The research model, based-theories, and its hypotheses will be discussed in this chapter as followings.

### **Service Dominant Logic (SDL)**

The concept of Service Dominant Logic has gradually become important in the research of marketing in the current years [63] [64]. The viewpoints of SDL are resulted from the concept of Good-Dominant Logic, which focuses on if the goods are tangible resources; if the goods can be sold; if the firm can offer a better products and value than their competitors. Meanwhile, SDL focuses on if the firm has clear core competences, essential knowledge, and skills that leads to win competitive advantages; if the firm has continuous improvement in order to meet customers/potential customers needs; if the firm analyze their financial performance and come back to adjust their ways of offerings to enhance their financial performance.

Service Dominant Logic is quite potentially foundational for a general theory of the marketing. In this research is developed and emphasize the direct character of service in exchange, and the use of operant resources (knowledge and skills) is the basis in service for all exchange; which emphasize value creation is interactional; emphasize service-centered view is inherently customer oriented and relational [61].

There are a number of researches that discussed about the phrase engage and/or engagement with the concept of SDL in the current literature. Most of them are discussed about Business to Consumer (B2C) relationships, and others are discussing about Business-to-Business (B2B) relationships. The terms engage or/and are mostly are talking about processes, co-creation, interactions, and marketing-related forms of service exchange [13]. In this research, we focus on B2C relationships and focus on co-creation, interactions, and service exchange.

## **Customer Engagement**

The role of customer engagement (CE) is nowadays increasingly concerned due to the dynamic and interactive environment of business. The importance of customer engagement is drawn attentions to both of the researches and businesses. [13]. Customer engagement plays a vital role under the dynamic and radical environmental changes to enhance organizational performance, which includes sales growth [48] and profitability [65]. Customers also play a major role in terms of engagement in a marketing activity through introducing or recommendations the particular service, brands, or products to other potential customers in a new service/product development [32] [38] [47] and to co-create experience and value [11] [50]. Customer engagement behavior is caused from motivational driven, which the word-of-mouth (WOM) activity, customer-to-customer (C2C) interactions are included [57].

The concept of engagement is now not a new word, which has already existed in business for some ten years [30] and being largely mentioned in business situation e.g., seminars, conference, roundtables, meetings. In the last twenties years, the term engagement has been used in several fields, including psychology [1] [54], sociology [35] [45], political science, organizational behavior, and student engagement [15] [33]. Furthermore, there are several researchers studied on defining and measuring the concept of customer engagement [13]. In this research, we focus on customer engagement.

## **Organizational Support**

Since the emergence of internet-based social media is booming, companies can provide products and activities to engage hundreds or thousands of other people to participate their events. Although, social media is customer to customer communications, it can also be considered and integrated to be a part of companies' strategies, which is called integrated marketing communications (IMC) strategies. Managers and subordinates must learn how to do to be coherent with firm's mission, objectives, and goals through applying the technique to engage customers e.g., social media tools and promotional tools. Social media can be thought to be a hybrid element of promotional mix. The use of social media has two major functions: (1) socials media enables organization to talk to their customers, (2) social media enables customers to talk to other people [42]. Sales promotion has categorized into two kinds: one is to customer, which is consumer sales promotion; another one is to sales people, which is called trade promotion. In this study, we aim to focus on the firm level, which is the trade promotion. Trade promotion aims at employers encourage to teach sales people to promote their own products

or brand. Meanwhile, [40] claims that most managers agree with the planning of training programs are needed. Besides, the importance of the evaluation of sales training programs has become comprehensive and intuitive [17]. On the other hand, it is heavily agreed that the IT will become lower cost, faster, cheaper, and easier way to communicate. Also, IT can be improved its system in order to enhance the efficiency and quality for a better customer-personnel relationship performance [37]. Therefore, base on these, we infer:

H1: Organizational Support has positive impacts on customer engagement

H1a: Promotion has positive impacts on customer engagement

H1b: IT system has positive impacts on customer engagement

### **Service Provider Characteristics**

It is claimed that researches should not simply discuss customer satisfaction data since they are not adequate and could be misleading, rather it is suggested that customer engagement should have include a more sufficient measurement to evaluate the relationship between customers and employees since their relationships are based on emotional feeling. The emotional feeling can be gauged by integrity, confidence, pride, and passion [19] [43]. Integrity is evaluated by using the Human Sigma framework and to have positive effect on the level of customer engagement [55]. People are influenced by perceptions of their service providers if their words and actions are consistent [52]. Also, the characteristic of integrity includes judgment [23], and interpersonal justice [9]. The dialogue or conversation is so vital since it stimulates groups or teams to really share why they have to support each other and what they depend on one another in the win-win information. The result of updating the related information and status can be expected to increase the engagement [34]. Therefore, the study aims to hypothesize service provider has positive effect on customer engagement.

H2: Service provider characteristics has a positive association with customer engagement

H2a: Integrity has a positive association with customer engagement

H2b: Dialogue has a positive association with customer engagement

### **Customer Characteristics**

People become easy to communicate when they are rapport, which is a behavior of subconscious rather more than conscious. In the meaning of recent customer relationship management, rapport stands for knowledge can make you and others have somewhat similarity and synergy. Customer rapport stimulates the cycle of customer engagement and interaction. Consequently, customer rapport leads to positive result of customer engagement. [25] There are a variety of researches contribute to customer-employee relationships. In this study, we focus on the customer engagement and customer's characteristics e.g., social rapport. Customers who connect or have rapport with service provider will become loyalty [51]. Hence, the more rapport of the customer, the tighter the relation bond as well as the stronger for the relationship between customer and service provider [41]. Meanwhile, people can through dialogue. Therefore, the hypothesis infers that customer has positive effect on

customer engagement.

H3: Customer characteristics has positive effects on customer engagement

### **Individual Financial Performance**

Customer engaged more on the activities held by the salespersons or its companies might influence on the performance of salesperson or the companies called engagement. Engagement is often described as out of ordinary to bring individual during work-role performances [36] [58]. Therefore, we infer the higher level of customer engagement can enhance higher sales revenue and profitability.

H4: Customer engagement has a positive effect on Individual financial performance

### **Financial Performance**

Engagement is a collection of customized information and financial transactions that can enhance customers' value to the company and increase the companies' value to the customers at the same time [49]. Researches show that customer engagement can lead to better financial performance. Also, the levels of customer engagement have effects on the percentage of people who re-purchase services or who introduce the firms to other people. The engaged customers are the most profitable capital to the company itself [55]. Many organizations see CE as way to create and improve their co-creation of value in customer-firm relationships and thereafter enhance business performance [8]. Moreover, companies with an appropriately interaction of employee engagement and customer engagement can generate more financial revenues [43]. Therefore, in this hypothesis, we can infer that:

H5: Aggregate customer engagement has a positive impact on financial performance

### **Service Innovation**

There are many researches that discuss and explore the similarities and differences between new product development and service innovation at the same time [12] [21] [26] [29]. Service innovation is defined as innovations in processes or/and innovations in firm for existing service products. In this research, we aim to focus on the customer engagement together with service innovation.

Innovation is the development and appropriate application of new and creative ideas [24] [56] [5]. It consists of six various models of innovation that are divided by Gallouj and Wenstein [28], which are radical innovations, improvement innovations, incremental innovations, ad hoc innovations, re-combinative innovations, and formalization innovations, respectively. Innovation is developed as a main driver for companies in order to survive. Therefore, companies are encouraged to be innovative. However, the abilities are needed to adjust the technique based on different types of innovation [31] [7]. Service innovation has to be thought based on development process and interaction of a variety of design elements [10].

Customer engagement can increase the co-create innovation of a company [27]. Customers need to be engaged

in the innovation process. All of the customer engagement (EC), collaborative agility (CA), entrepreneurial alertness (EA), and collaborative innovation can have effects on service innovation [3]. Therefore:

H6: Aggregate customer engagement has a positive impact on service innovation

Companies should put more efforts in innovation to be accepted by customers and to enhance their performance [39]. Continuous improvement on billing service system can generate more income [16]. To get the potential market, companies should investigate and do the business model and keep enhancing their technology to meet the rapid change market to enhance company financial performance [22]. Therefore, in this hypothesis, we infer:

H7: Service innovation has a positive impact on financial performance

Innovation orientation has its business reinforcement and turns data or information into knowledge (resource) and creates innovation [53]. Innovation orientation has critical path to be successful in co-production and service innovation. Innovation orientation can be positively moderating on the co-production and service innovation. Furthermore, Innovation orientation aspect supports the innovation to be used into every different kind of companies to have a better service innovation. Moreover, innovation orientation helps those companies which are struggling to be innovative to identify manage, and develop their own competencies and positions in order to reach the goal of being a competent service innovation company [20]. Therefore, in this hypothesis, I focus on innovation orientation has a positively moderating effect on the relationship between customer engagement and service innovation.

H8: Innovation orientation positively moderates the relationships between customer engagement and service innovation

## **RESEARCH METHODOLOGY**

To verify the conceptual model and the hypotheses that proposed in this research. A questionnaire was developed to find the relationships between the antecedents and its effects on customer engagement and its impact on service innovation and financial performance. This analyzed base in this study focus on both individual level and organizational level in insurance industry in Taiwan.

### **Instrument Design**

The questionnaire was developed and designed according to the academic and empirical study to form the research framework. We developed the questionnaire carefully through six constructs, which include organization, customer, service provider, customer engagement, service innovation, and financial performance. All the constructs were measured with 5-point Likert type scales ranging from 5 (strongly agree) to 1 (strongly disagree). The questionnaire consists of a total sixty three statements. The results will be examined from empirical evidence from all the measurement items and there are some secondary data found from the official website.

## **Sampling**

This research views insurance company as the target population, which is from Life Insurance Company and broker insurance company. Both of the insurance companies of the gathering samples are from Taiwan. Data of this research are planned to collect from 22 insurance companies and 28 insurance broker companies in Taiwan. Each insurance company are going to have 5 to 11 respondents based. The respondents are sales people from insurance companies and insurance broker companies. One way of the sample gathering are to get the email contacts from internet and their own office website. The insurance company list in Taiwan was originated from The Life Insurance Association of the Republic and China, and Insurance Brokerage Association of Taiwan. The study filters the sample by checking their official website and calling customer service hotline to make sure the life insurance company has its own salesperson rather than only outsource their insurance products to insurance broker company. There are three life insurance companies do not have salesperson, and six life insurance companies only have telemarketing instead of direct salesperson. However, insurance broker companies only have direct salesperson.

## **Data Collection Process**

In this multilevel research, a total of 453 questionnaires in Chinese were distributed through visiting their sales representatives of the life insurance companies and insurance broker companies to ask the salesperson to fill out the questionnaire and salesperson. Another way of distributing questionnaire is by email. These email contacts are gathered from their official websites of life insurance companies and insurance broker companies, their personal webpage, The Life Insurance Association of the Republic and China, and Insurance Brokerage Association of Taiwan. Salesperson receives the research questionnaire after one email was sent to ask salespersons' whether they are willing to fill out the questionnaire. From the beginning, there are two types of questionnaires were developed to gather the research questionnaires. One is the hard copy based questionnaire, which is used when visiting their companies. Another one is to apply Google documents application, which is adopted to email contacts. The results of these two methods are Life Insurance Company has 149 samples and 22 companies, and the Insurance Broker Company has 154 samples and 28 companies.

There are a total of 453 research questionnaire were distributed and gather back 50 companies and 304 samples from Life Insurance Company and Insurance Broker Company collected. And the response rate is 67.11% out of total responses samples (N).

Due to four months of sampling collections, the responses were divided into two groups based on two months in the early response and the two month in the late response by using the independent t-test. [6] Among of total of 303 valid responses from Life Insurance Company and Insurance Broker Company, there are 220 valid early responses and 304 valid late responses.

## **CONCLUSIONS**

In this study, we developed and used a multi-level measure to examine antecedents of customer engagement and customer engagement. Exploratory factor analyses support the antecedents of customer engagement and

support customer engagement dimension, thus providing evidence of construct validity. Confirmatory factor analyses provided support for antecedents of customer engagement, customer engagement, aggregate customer engagement, individual financial performance, financial performance, and service innovation, thus these also provide strong evidence of construct validity. Our primary objective was to highlight how organizational supports, service provider characteristics, and customer characteristics influence on customer engagement. Also, to explore how much degree of its aggregate customer engagement has impact on individual financial performance. Moreover, to examine how much level of aggregate customer engagement has effect on financial performance and service innovation. Moreover, we aim to investigate whether Innovation orientation moderates the relationships between aggregate customer engagement and service innovation. In this survey, customer engagement in insurance industry was investigated using domestic data set, and the results have revealed several findings as below.

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