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Organizational factors and customers' motivation effect on insurance companies' performance☆

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A R T I C L E I N F O

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A B S T R A C T

This study associates organizational factors and customers' motivation with insurance companies' performance. Research model, according to resource-based view, considers the effects of age, size, and type of products. Sample comprises 202 insurance companies in Portuguese and Spanish markets between 2005 and 2007—before international financial crisis—and those companies' performance data between 2010 and 2012. Factor analysis and structural equation modeling methodology are tools for analysis. Results show that customers' necessities and confidence strongly affect organizational factors that, in turn, affect insurance companies' performance. Insurance companies' type of products and period also affect performance. This study provides important contributions to literature and practice.

1. Introduction

Insurance industry is highly competitive and rapidly maturing. Industry structure (Mehra, 1996) and its specific resources (Combs & Ketchen, 1999) link with performance differences among companies. The 2008 global economic crisis increases underwriting risk, seriously questioning insurance companies' profitability (Kearney, 2010). Organizations must focus on customer acquisition, retention, and cross-selling to answer customers' necessities and convenience, and ensure confidence safeguard companies' income and market value (Gupta et al., 2006). Lower satisfaction involves short relations and greater customers' diversity, making firms more sensitive to losing customers cost (Bolton, 1998). Customers' loyalty behavior increases companies' activity, which requires understanding with customers the conditions for their satisfaction (Ball, Coelho, & Machás, 2004). Confidence affects results and renders expected behavior (Pérez & Descals, 1999). For insurance companies, loyalty involves greater activity and more results (Ball et al., 2004).

Insurance companies' performance determinants receive little attention (Ahmed, Ahmed, & Usman, 2011). Knowledge regarding customers' relationship with organizations or products/services (Lacey & Morgan, 2007; Sharma & Patterson, 2000) and effect on performance is insufficient. Furthermore, knowledge on how product diversification (Liebenberg & Sommer, 2008), age, and size affect insurance companies' performance is also limited. Resource-based view supports this study (Barney, 1986; Prahalad & Hamel, 1990). The sample comprises 202 insurance companies operating in Portuguese and Spanish markets between 2005 and 2007, before international financial crisis, and performance data between 2010 and 2012.

This research focuses on organizational factors, customers' motivation, and insurance companies' performance. Objectives include evaluating how organizational factors and customers' motivation affect performance and analyzing the influence of companies' age, size, and type of products in the research model. This study also evaluates insurance companies' performance before and after international financial crisis.

Organizational and customers' motivation factors encourage insurance companies' performance, depending on companies' activities. However, customers' motivation factors strongly affect organizational factors. Different periods lead to significant variations in the model.

Section 2 contains literature review and identification of hypotheses. Section 3 presents research agenda. Section 4 comprises analysis. Section 5 involves discussion. Section 6 contains conclusions, contributions, and future research directions.

2. Literature review

Companies' organizational factors and processes quality choice follows a customer-centered point of view (Dimitriades, 2006; Shah,

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Rust, Parasuraman, Staelin, & Day, 2006). Mobilization and optimization facilitate performance maximization, which resource-based view supports (Barney, 1986; Das & Teng, 2000; Prahalad & Hamel, 1990). These factors involve competitive conditions influencing performance in a very competitive and dynamic market. These conditions force insurance companies to have tangible and intangible resources (Mahoney & Pandian, 1992) to prevent or delay imitation and gain competitive advantage.

2.1. Organizational factors

Insurance companies' organizational factors limit structure and other organizational aspects, because market long-term return affects management decisions (Cespedes, 1988). Among organizational factors, service innovation, human resources, financial resources, and information system are essential. Organizational structure deriving from routines to ensure organizations' functionality and insurance underwriting risk measurements are other important intangible resources. Size and underwriting risks positively affect insurance companies' performance (Lee & Lee, 2012; Malik, 2011; Sambasivam & Ayele, 2013). Non-life insurance companies' organizational factors and structure differently affect these companies' efficiency with unique comparative advantages (Lai & Limpaphayom, 2003). Fukuyama and Weber (2001) examine technical efficiency and productivity changes of Japanese non-life insurers concluding that technological advancements are the main source of growth. Chen and Tsou (2007) explore companies' significant focus on information technology to align business strategies, enable innovative functional operations, and expand business networks. However, organizations that can improve customers' satisfaction are more likely to invest in new technologies (Abraham, 2012; Chen & Tsou, 2007; Smith, McKeen, & Singh, 2007).

Organizations' human resources affect efficiency, profitability, and productivity (Solkhe & Chaudhary, 2011). Human resources optimal use, depending on talent, is an essential competitive advantage source considering imitation difficulties for competitors (Kundu & Vora, 2004; Luthans, Avey, Avolio, & Peterson, 2010). Human resource aptitude and development affect companies' performance (Rizov & Croucher, 2008). Organizational contextual variables (e.g., ownership, age, and firms' size) affect some human resource management practices in small and medium enterprises (Zheng, O'Neill, & Morrison, 2009). Both financial resources that are critical for business success and information systems that ensure processes efficiency affect insurance companies' performance. Factors identification leads to the following hypothesis:

H1. Organizational factors affect insurance companies' performance.

2.2. Customers' motivation

Motivated and high potential customers lead to organizations' better economic performance (Becker, Greve, & Albers, 2009; Reinartz, Krafft, & Hoyer, 2004). Therefore, companies focus on better understanding customers and their reactions (Ball et al., 2004; Schieffer & Leininger, 2008). Gupta et al. (2006) highlight that meeting customers' necessities and convenience is essential to obtain their confidence, thus ensuring companies' income and market value. According to Pérez and Descals (1999), confidence affects results and makes behavior predictable. Durvasula, Lysonski, Mehta, and Tang (2004) emphasize service experience importance according to customers' necessities satisfaction. Customers contribute to value creation for themselves and for companies (Shah et al., 2006). Monitoring customer satisfaction should decrease insurance policies cancelation risk and risk's negative impact on business margins (Guillen, Neilsen, & Perez-Marin, 2008).

Companies tend to understand better their limitations when focusing on customers, striving to manage actively customer expectations and measuring actions effectiveness (Capon & Senn, 2010; Rigby & Ledingham, 2004). Consequently, customers should trust companies and their products/services (Chiou & Droge, 2006). Confidence makes customers aware of companies' limitations, understanding better risks, and increasing loyalty and commitments with companies (Aurier & N'Goala, 2010; Fullerton, 2003). Loyalty increases activity, providing insurance companies with better results (Ball et al., 2004).

Lower satisfaction involves shorter relationships and customers' diversity, making companies more sensitive to losing customers cost (Bolton, 1998). Monitoring customer satisfaction in insurance sector may decrease insurance policies cancelation risk and risk's negative impact on business margins (Guillen et al., 2008). Customer's confidence and satisfaction with products affects company's profitability (Durvasula et al., 2004). In the insurance industry, insurance policies cancelation risk and risk's impact on sales profitability have a relationship higher customer loyalty (Guillen et al., 2008). However, customers' behavior in relation with insurance products purchase stems from satisfaction of making savings or protection necessities. Wallace, Joan, and Johnson (2004) mention customer loyalty's importance in income generation.

From cognitive loyalty perspective, customers consider the product superior to others and perceive the brand with greater benefits (Jones, Beatty, & Mothersbaugh, 2000). Johnson, Herrmann, and Huber (2006) and Taylor, Hunter, and Longfellow (2006) note that factors leading to loyalty are complex, multidimensional, and dynamic, constantly changing and evolving. Loyal attitudes rely on customers' cognitive judgment and reflect in service confidence and preference, affiliation sense with the product, service or organization, and recommendation to others (Butcher, Sparkes, & O'Callaghan, 2001; Jones & Taylor, 2007; Patterson & Ward, 2000). Loyal customers are proud to use company's products or services over alternatives (Bove, Pervan, Beatty, & Shiu, 2009; Johnson, Garbarino, and Sivadas (2006); Jones & Taylor, 2007; Li & Petrick, 2008; Russell-Bennett, McColl-Kennedy, & Coote, 2007). This pride results in preference and in exclusive service provider consideration (Aydin & Özer, 2005). Additionally, customers want to purchase more diversity of products/services from current suppliers (Sublaban & Aranha, 2009). Essentially, necessity and confidence in products reflect customers' motivation. The hypothesis is the following:

H2. Customers' motivation affects insurance companies' performance.

2.3. Age, size, type of product, and period

Size is a major determinant of insurance companies' financial health, positively affecting life insurance companies' financial performance (Browne, Janney, Paul, Muralidhar, & Ruff, 2001; Chen & Wong, 2004). Ahmed et al. (2011) analyze how life insurance companies' characteristics affect performance, concluding that age negatively affects performance, while size affects performance positively, especially in larger companies. Insurance companies' performance depends on several factors, including organizational form (Cummins, Weiss, & Zi, 1999) and size (Fecher, Perelman, & Pestieau, 1991; Malik, 2011).

The types of products are essential in insurance market. Choosing life or non-life insurance directly affects capital requirements and solvency levels, among other legal reasons. Booth, Chadburn, Cooper, Haberman, and James (1999) argue that life insurance products are essential for individuals and companies wishing to safeguard from financial losses deriving from death, survival, disease, or disability. Arena (2008) and Gamarra-Trigo (2008) support that, for insurance companies, the types of products have strategic implications in capital and technical capacity—very demanding in terms of human resources, risk management, and innovation processes. Business