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The Moderating Effect of Social Performance Management on Relationship Marketing and Customer Retention

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The importance of relationship marketing in managing customer relationships is widely researched with evidence abound of its potential to improve customer retention. However, despite employing relationship marketing programs, microfinance institutions (MFIs) in Kenya face challenges in customer retention. While retaining customers requires relationship marketing programs, there is growing body of literature on stakeholder management which suggests that apart from these programs, the social orientation of the business matters. Social performance management (SPM) is a practice which aims to transform institutions into socially responsible and customer-oriented ones. But despite the existence of SPM standards, Kenyan MFIs seem to underrate their importance. Study investigates extent to which social performance management matters by establishing its moderating effect on the relationship marketing-customer retention association. Using descriptive cross-sectional design, data was collected from 48 managers and 492 customers of MFIs in Kenya employing structured questionnaires and analyzed by multiple regression. Findings reveal a statistically significant and strong moderating effect of social performance management on relationship marketing and customer retention. Study concludes that social performance management is a desirable practice for improving customer retention. Study limitations included use of a quantitative approach which constrained respondents' free expression; variables were investigated in a business-to-customer setting but did not extend to include the business-to-business setting. Future studies could address these limitations. The study contributes to relationship marketing knowledge base by providing a modified theoretical framework showing the non-linear structure of the relationship marketing-customer retention association through introduction of social performance management as a moderating factor.

Field of Research: Marketing

Keywords: Relationship Marketing, Social performance management, Customer retention

1. Introduction

Marketing researchers and practitioners alike have for long recognized the importance of relationship marketing as a marketing strategy which influences customer retention

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levels. However, though extant theoretical and empirical studies indicate a positive association between relationship marketing and customer retention (Alrubaiee & Al Nazer 2010; Oly-Ndubisi 2007; Ranaweera & Prabhu 2003), retaining customers is a challenge for many businesses amidst changing market dynamics (Alrubaiee & Al-Nazer 2010). Several Kenya's microfinance institutions face customer retention challenges due to design of inappropriate products, irresponsible treatment of clients, low outreach, low visibility of microfinance institutions which hinders deposit mobilization, and providing a narrow range of services (Olingo 2018; Rahman, Rahman & Jalil 2014; Siliki 2010). Consequently many of these institutions face difficulties in expanding their programs to reach more clientele so as to make more profits and therefore the cycle of customer attraction and customer defection continues. In order to cope with such a dynamic environment, microfinance institutions use a range of relationship marketing programs in a bid to attract and retain customers namely, pricing to encourage customer loyalty, providing loyal customers with extra benefits and developing internal marketing programs. Despite these efforts, client drop-out is common among Kenyan MFIs, and although this is a costly situation, these institutions seem oblivious to this fact (Apalia 2017). This raises the question as to whether relationship marketing alone is enough to bring about customer retention.

Scholars like Zineldin (2000) and Ryals and Payne (2001) already argued that relationship marketing may not be as effective a strategy if used on its own in view the dynamic business environment, consisting of a variety forces which cannot be ignored. In particular, there are rising calls for businesses to adopt a stakeholder approach toward relationship marketing in which the interest of a business stakeholders are taken into consideration. Payne, Ballantyne and Christopher (2005) proposed a shift in relationship marketing from focusing on creating value in exchanges to creating value for stakeholders because consumers, employees and investors (both commercial and social) are increasingly making decisions on which businesses to relate with depending on the extent of social responsiveness and social performance management by companies. The role of social performance management in influencing how a business operates has thus become a central issue because through social performance, a business is in a position to monitor its responsiveness to social issues (Husted 2000; Dahlsrud 2008; Graves & Waddock 1994). According to Sinha (2006), effective performance management is a continual process of translating a firm's mission and values into practice by setting clear objectives, creating a deliberate strategy to achieve these objectives, monitoring and assessing progress towards achieving objectives, and using this information to improve overall organizational performance. When a business has a social mission/mandate, like microfinance institutions (MFIs) do, they are expected to apply commercial means to achieve their social goals. Social goals within the MFI sector include serving larger numbers of poor, low income and disadvantaged people; designing appropriate financial products that suit the needs of these people; creating benefits for clients; and improving social responsibility of an MFI.

Scholars like Husted (2000) and Graves and Waddock (1994) argue that firms which are able to incorporate a social lens in their operations will benefit from satisfied customers who in turn become loyal. In addition they benefit from satisfying the interests and concerns of external stakeholders including social investors. Social performance management practices therefore guide institutions in achieving these objectives. In view of the fact that it is becoming more difficult for businesses to ignore the expectations of their stakeholders, the key question marketers need answers to is what role does social performance management play in relationship building for customer retention? The principal objective of this paper is to report results from a study conducted to establish the moderating influence of social performance management on the link between relationship marketing and customer retention. Previous studies on social performance examined its direct influence on customer satisfaction and loyalty but not much is known on the complimentary role social performance management plays in firm-customer relationship management, an issue that this study sought to address. This study thus makes a contribution to the body of knowledge of relationship marketing by providing empirical evidence showing how social performance management modifies the strength of the association between relationship marketing and customer retention.

The next section of this article presents a review of literature on relationship marketing, social performance management and customer retention from which a conceptual model is derived with the associated hypothesis. This is followed by a discussion of the research methodology used for the study, the results of the research are then presented and the paper ends with a summary, conclusions and study limitations.

2. Literature Review

2.1 Relationship Marketing

Relationship marketing has become a cornerstone of marketing and business survival because firms seeking to remain competitive have to anticipate how to retain their customers (Gronroos 1994). Marketers' major task therefore is to develop strong relationships with customers because such relationships lead to better customer retention (Huang & Cheng 2016). Myhal, Kang and Murphy (2008) assert that such relationships become assets recognized as a source of competitive advantage. The term relationship marketing has been defined in a variety of ways - Berry (2002) posits that it is attracting, maintaining and enhancing customer relationships. According to Grönroos (1990) it is about giving and fulfilment of promises with customers through mutual exchange, while Harker (1999) analyzed 26 definitions advanced by scholars in this field and proposed a general definition of relationship marketing to be the practice where an organization is engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers overtime. Although these definitions seem to differ to some degree, they all point to three main characteristics – that relationship marketing is about developing buyer-seller relationships, the relationships are established over a long term period and the relationships are mutually rewarding to all parties.

2.2 Social Performance

Scholars of stakeholder management argue that managers must understand the concerns of shareholders, employees, customers, suppliers, lenders and society in order to develop objectives and strategies supported by their stakeholders (Donaldson & Preston 1995a). Adopting this kind of management philosophy however translates into the need for corporate social performance practices. A review of literature in this area though reveals that scholars of corporate social performance present varying views and perspectives on what the social performance concept means (Carrol 1979; Wartick & Cochran 1985; Wood 1991; Clarkson 1995; Davenport 2000). To resolve this confusion Wood (1991) reviewed and analyzed the definitions by earlier writers and revised the concept as all the principles of social responsibility, processes of social responsiveness, policies, programs, and observable outcomes as they relate to the firm's societal relationships. Husted (2000) concurs with Wood (1991) by suggesting that corporate social performance refers all those processes, structures and procedures a firm puts in place so as to meet or exceed the expectations of stakeholders with respect to social issues. On his part, Sinha (2006) advances that social performance management is a set of management practices consisting of processes, structures and strategies that get an to act in a socially responsible manner for improvement in clients' welfare. These definitions imply that social performance management is a business practice which entails designing policies, structures and operations to meet the firm's social goals.

2.3 Customer Retention

The main objective of relationship marketers is to attract and retain as many profitable customers as possible relative to competition. Customer retention is defined as the repeated patronage by customers of a marketer or supplier (Henning-Thurau & Klee 1997). Menon and O'Connor (2007) on their part define the concept as the longevity of a consumer's relationship with a firm, while according to Ibok, George & Acha (2012) customer retention is the repeated buying of a product from the same company over a period of time. It is evident that most scholars in this area have similar views regarding the meaning of this construct.

2.4 Empirical Literature Review

Relationship marketing activities are believed to influence a firm's customer retention levels although the strength of this relationship will determine the extent of increase in customer loyalty and/or commitment (Sin et al., 2002). This view is shared by Ryals and Payne (2001) who assert that relationship marketing programs are the key underpinnings of customer retention. Several studies on relationship marketing and customer retention reveal a positive association. For instance, Abtin and Pouramiri (2016) found relationship marketing dimensions (trust, satisfaction, management, communication and competence) were significant and positive; Magasi (2016) investigated if trust, commitment, satisfaction, and relationship influence affect customer retention and results showed a positive and statistically significant influence, while Mazhari, Madahi and Sukati (2012) used relationship marketing dimensions (trust, commitment, communication, and conflict handling) to establish their effect on customer retention and found a statistically significant positive association too. Hennig-Thurau and Klee (1997) sought to develop a conceptual framework which explains the link between satisfaction, relationship quality and customer retention. Whereas Fullerton (2014) undertook to establish the moderating effect of normative commitment on the service quality-customer retention relationship, others like Ryals and Payne (2001), Berndt, Herbst, and Roux (2005) and Hunt, Arnett and Madhavaram (2006) demonstrated that relationship marketing leads to improved customer retention and consequently profitability. Reichheld and Sasser (1990) pioneered work on the link between customer retention and profitability and demonstrated that retaining customers has a powerful impact on a firm's bottom line where their results showed that the longer a firm maintains a relationship with customers, the more its profits rise, by almost 90% through retaining just 5% more of their customers. The study further revealed that retaining customers generates cost-reduction potentials for an organization. Customer retention is thus a valued outcome of a majority of marketing activities.

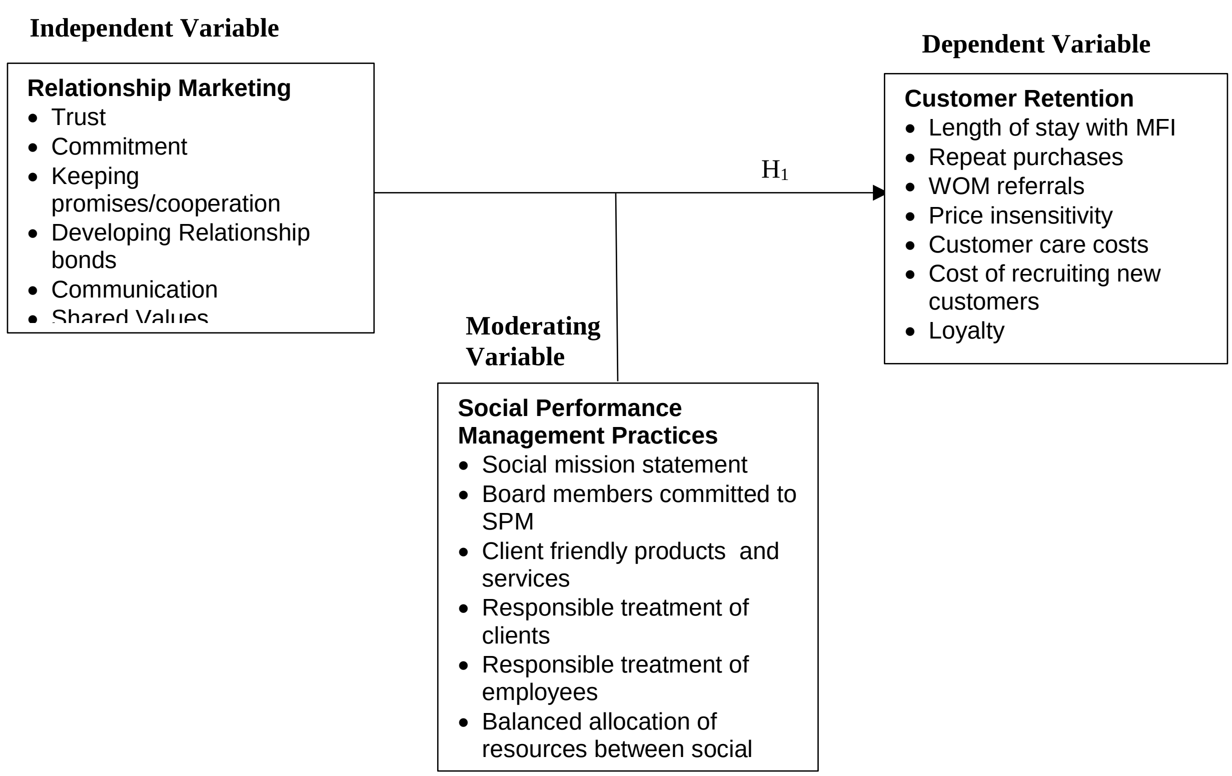
Although several relationship marketing scholars stress the importance of managing relationships for customer retention (Gronroos 1994; Sin et al. 2002; Huang & Cheng 2016), there are others who argue that the social orientation of a business needs to be incorporated in relationship management (Morgan & Hunt 1994; Buttle 2006; Gummesson 2008; Husted 2000; Graves & Waddock 1994). However, in spite of these latter views, not much empirical evidence is available on the effect of employing social performance management practices on an organisation's relationship marketing-customer retention efforts. There exists a paucity of studies which interrogate the role of adopting a stakeholder approach to building long term relationships with customers and other stakeholder groups. In fact Short, McKenny Ketchen, Snow and Hult (2015), pointed out that corporate social performance is an issue that has been under examined empirically in literature to date (p. 1122). An analysis of prior studies on social performance shows that the focus of researchers was more on examining either the relationship between corporate social responsibility practices and customer retention (Hassan, Nareeman & Namuwonge 2013), or relationship between financial and social performance (Wood & Jones 1995) or the relationship between corporate social performance and stocks uptake (Graves & Waddock 1994). Others examined the inter-relationships between board composition characteristics, social responsibility performance and financial performance (Sahin, Basfirinci & Ozsalih 2011), ethics and responsibility in relationship marketing (Perret & Holmlund 2013). Those studies which sought to establish an association between social performance and firm performance, a majority of them found a positive relationship between corporate financial performance and social performance (Sahin, Basfirinci & Ozsalih 2011; Campbell 2007; Carroll 1979; De Bakker 2005). However, others revealed contradictory findings, for instance, Boyle et al. (1997), Vance (1975) and Wrights and Ferris (1997) found a negative relationship, while Teoh, Welch and Wazzan (1999), Aupperle et al. (1985), Alexander and Buchholz (1978), Folger and Nutt (1975) found no relationship between social performance and firm performance. Wood and Jones (1995) instead concluded that the causality between social performance and financial performance is complex and ambiguous, although the data from their study demonstrated bad social performance hurts a company financially. Hoepner, Liu, Moauro, Perez-Rocha and Spaggiari (2012) on their part, found that social performance management and social responsibility towards the staff are necessary to sustain financial performance.

Therefore, although studies investigating the effect of social performance management on financial performance are several, those investigating social performance within a marketing context are few. In particular, studies seeking the moderating effect of social performance on the relationship marketing-customer retention association are rare and hence this study sought to fill this knowledge gap. It was found important to establish this issue because the future of relationship marketing lies in adopting a stakeholder approach to relationship management (Zineldin 2000; Ryals & Payne 2001). This study therefore hypothesized that social performance management practices modify the strength of the association between relationship marketing and customer retention. Empirical evidence was thus sought through the hypothesis that: ***H1:*** *Social performance management practices have a statistically significant moderating effect on the association between relationship marketing and customer retention.*

2.5 Conceptual Model

Following the above literature review, a conceptual model (Figure 1) was derived depicting the researchers' conceptualization of the relationships between the variables - relationship marketing, social performance management and customer retention.

Figure 1: The Conceptual Model



Source: Current Researcher, 2017

3. The Methodology and Model

This study adopted a descriptive cross-sectional survey design because the study sought to establish the direction and strength of relationships between the variables (Cooper & Schindler 2006). The target population was all microfinance institutions in Kenya who were members of the Association of Microfinance Institutions (AMFI) as at January 30th 2016 and all customers of these institutions. As at January 2016, there were fifty five such institutions registered with the AMFI while population of customers stood at 41,007 (Association of Microfinance Institutions Annual Report 2016). This sector was deliberately chosen due to the varying characteristics and nature of competition in the industry which has required firms to adopt relationship marketing in order to survive. In addition, these institutions are expected to adopt social performance management practices in order to deliver on their core mandate, that is provide social and economic empowerment to low income and disadvantaged groups. Data collected from this sector was thus used to establish the moderating influence of social performance management on the association between relationship marketing and customer retention.

Opinions were sought from employees (either the Chief Executive Officer or Relationship Manager or Social Performance Program Manager) and customers of the respective institutions because Biong, Parvatiyar and Wathne (1996) recommend that when assessing relationship satisfaction, it is necessary for the views of all parties in the exchange relationship to be obtained and measured. Employee respondents were selected using purposive sampling, while customers were selected using convenience sampling. Primary data was collected by self-administered questionnaires comprising of five point likert scales, ranging from not at all (1) to a very large extent (5); or strongly disagree (1) to strongly agree (5), targeting 55 employees and 554 customers of the MFIs. Customers' sample size was calculated using the formula for finite population as proposed by Yamane (1967) cited in Israel (1992). At 95% confidence level and 0.05 alpha level,

$$n = \frac{N}{1+N(e^2)}$$

Where: n= desired sample size; N= Population; e = margin of error at 5% (standard value of 0.05); the sample size for the study was thus 396 customers constituted the required sample size. However, to cater for non response Israel (1992) suggests that 40% increase to this figure, as such the adjusted sample size was 554 customers which constituted the planned study sample. Responses, however, were received from 48 managers and 492 customers representing a response rate of 87.3 %, and 88.8 % respectively.

4. The Findings

Analysis data was performed through the use of inferential statistical tests – correlations and regressions. Correlation analysis was necessary to establish if there were significant associations between relationship marketing, social performance management and customer retention. The correlation results were as presented in Table 1.

Table 1: Correlation Analysis Results

Variables		Relationship Marketing	Social Performance Management Practices	Customer Retention
Relationship Marketing	Pearson Correlation	1	.761**	.585**
	Sig. (2-tailed)		.000	.000
	N	492	492	492
Social Performance Management Practices	Pearson Correlation	.761**	1	.446**
	Sig. (2-tailed)	.000		.000
	N	492	492	492
Customer Retention	Pearson Correlation	.585**	.446**	1
	Sig. (2-tailed)	.000	.000	
	N	492	492	492

Source: Primary Data

The analysis in Table 1 shows that relationship marketing has the strongest positive influence on customer retention ($r = .585$ and $P<0.05$) implying that the relationship is statistically significant. Social performance management practices too are positively correlated to customer retention ($r = .446$ and $P<0.05$) implying a statistically significant relationship though the association is moderate. These results imply that the relationship marketing variable and social performance management are key determinants of customer retention, though relationship marketing has a stronger influence. These results thus allowed for hypothesis testing using simple and multiple regression.

Regression analysis was used to establish the moderating effect of social performance management on the association between relationship marketing and customer retention. Specifically, stepwise regression technique was employed by applying the three step procedures recommended by Fairchild and MacKinnon (2009) and Baron and Kenny (1986). Moderation effect is confirmed when the effect of interaction term is statistically significant. At this stage of analysis, we first sought to establish the direct effect of social performance management on customer retention using simple linear regression through sub-hypothesis (**H_{1a}**): Social performance management has a statistically significant effect on customer retention, and thereafter, tested for the indirect effect using multiple regression through sub-hypothesis (**H_{1b}**): the moderating effect of social performance management on the association between relationship marketing and customer retention is statistically significant. The results of the direct effect were as presented in Table 2.

Table 2. Regression Results of Social Performance and Customer Retention

a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Performance Management Practices	.446[a]	.199	.197	.42373

b) ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
Performance Management Practices	Regression	21.809	1	21.809	121.466	.000[a]
	Residual	87.978	490	.180		
	Total	109.786	491			

c) Combined coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.748	.119		14.721	.000
Social Performance Management Practices	.347	.031	.446	11.021	.000

a. Dependent Variable: Customer Retention
a. Predictors: (Constant), Social Performance Management Practices
Source: Primary Data

Results in Table 2 suggest that there exists a moderate relationship between social performance management practices and customer retention (R=.446). Coefficient of determination R^2=.199 implies social performance management practices influence customer retention by 19.9% while other factors not considered in this model explaining 80.1%. Results of the coefficients show that a unit increase in social performance management practices will cause .347 increase in customer retention thus social performance management can be said to a good predictor of customer retention. Arising from these results therefore, sub-hypothesis (H_{1a}) was accepted. The findings were sufficient to support the influence of social performance management practices on customer retention.

The regression equation was thus fitted as follows;
Y = 1.748+ .347SPM where Y = Customer Retention, SPM= Social Performance Management Practices.

The study next sought to test for the moderating effect social performance management practices on the association between relationship marketing and customer retention. The results were as presented in Table 3. Model 1 results show that the association between relationship marketing and customer retention was significant (R= .585[a,] R^2=0.342, P-value<0.05). In model two (R= .700[a,] R^2=0.489, P-value<0.05) and in model three (R= .761[a,] R^2=0.579, P-value<0.05), the findings reveal that there was a progressive increase in the value of the coefficient of variation in each step thus portraying an influence of social performance management practices. Coefficient of determination R^2=.0.579 implies social performance management practices influence the association between relationship marketing and customer retention by 57.9%. This is a positive and strong moderating influence. The value of the interaction term (RM * SPM) had a significant influence (β= .675, P<0.05) thus confirming a moderation effect of social performance management practices on the association between relationship marketing and customer retention.

Hypothesis **H1** that social performance management practices moderates the effect of relationship marketing on customer retention was thus supported. The moderating equation was thus fitted as follows:

$Y = .803 + .360X_1$
$Y = .740 + .357X_1 + .314Z$
$Y = .803 + .360X_1 + .314Z + .675X.Z$

Where : Y = Customer retention; X= Relationship marketing ; Z= Social performance management practices; X.Z= relationship marketing and Social performance management practices interaction.

Table 3. Moderation Results of the Effect of Social Performance Management on Relationship Marketing and Customer Retention

a) Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
1	Relationship marketing	.585[a]	.342	.340	.38402	.104	1.856	3	485	.150
2	Relationship marketing, social performance management practices	.700	.489	.394	.59014	.281	4.634	2	5	.150
3	Relationship marketing, social performance management practices interaction	.761[a]	.579	.578	.39456	.385	6.490	5	490	.000

b) ANOVA

Model			Sum of Squares	df	Mean Square	F	Sig.
1	Relationship marketing	Regression	3.048	1	1.016	1.856	.030
		Residual	26.277	490	.547		
		Total	29.325	491			
2	Relationship marketing, social performance management practices	Regression	14.961	2	4.980	8.823	.000
		Residual	22.007	487	.446		
		Total	28.967	489			
3	Relationship marketing, social performance management practices interaction	Regression	14.349	5	1.794	6.490	.000
		Residual	14.975	485	.348		
		Total	29.325	490			

c) Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.803	.314		2.559	.013		
	Relationship marketing	.360	. 086	.426	4.192*	. 000	.966	1.035
	Customer Retention	.290	.106	.278	2.740*	.008	.966	1.035
2	(constant)	.740	.319		2.321*	.023		
	Relationship marketing	.357	.086	.421	4.148*	.000	.964	1.037
	Social performance management practices	.314	.108	.301	2.905*	.005	.925	1.081
3	Relationship marketing and social performance management practices interaction	.675	.068	-.354	-3.957*	.026	.958	1.044

a. Predictors: (Constant), social performance management practices, Relationship marketing

b. Predictors: (Constant), social performance management practices, Relationship marketing, Interaction term between social performance management practices, Relationship marketing

c. Dependent Variable: Customer Retention

Source: Primary Data

5. Summary and Conclusions

This study's objective was to determine the influence of social performance management on the association between relationship marketing and customer retention among Kenyan microfinance institutions. Inferential statistical results showed that the influence of social performance management practices on customer retention was significant, an outcome which is similar to prior studies that found the same effect. However, while prior studies examined the direct effect of social performance management on customer loyalty or satisfaction, hardly any sought to examine the moderating influence of social performance management within the relationship marketing-customer retention context, an issue this study investigated. The results on this moderating effect were statistically significant, a finding that is considered new within the relationship marketing body of literature because they imply that when social performance management practices are employed by microfinance institutions alongside relationship marketing programs, the ability to retain customers is greater. Social performance management therefore seems to matter for customer retention. This finding is important because social performance has previously been under examined empirically (Short et al. 2015), therefore it was not clear the extent to which social performance management positively or negatively affects business operations such as relationship building for customer retention.

In conclusion therefore, the findings show social performance management strongly moderates the relationship between relationship marketing and customer retention. Such results provide new insights into the role social performance management plays in relationship management for customer retention. There existed a paucity of studies testing such a moderating effect of social performance management hence this study addressed this knowledge gap by providing such empirical evidence. This finding breaks new ground in the relationship marketing-customer retention theoretical framework because while prior studies concentrated on showing a direct effect between relationship marketing and customer retention, not much was documented on the role of third forces (moderating factors). This study thus extends this original theoretical framework by providing a modified framework that shows a non-linear structure of the relationship marketing-customer retention association through introduction of social performance management as a moderating factor.

The study therefore contributes to the growing body of literature on the stakeholder approach to relationship marketing by providing empirical evidence on the moderating role of third forces like social performance management in influencing the relationship marketing - customer retention association. These research findings are significant for Kenyan MFIs who seem reluctant to embrace social performance management practices going by the low number of institutions that report social performance data to the Microfinance Information Exchange (MIX). Based on the findings of this study, managers of Kenyan MFIs may thus have the much needed justification for investing resources in developing social performance management programs and implementing them. As asserted by Gutiérrez-Nieto et al. (2009) microfinance institutions are expected to pursue social goals alongside the financial ones and be efficient at both.

This study however had some limitations. We used a quantitative cross-sectional research design where respondents were interviewed only once using a structured questionnaire. It was thus not possible to establish respondents' underlying views to gain deeper insights into the nature of relationship between the firm and customers. Future research could thus delve deeper to establish these view by employing a qualitative research approach. Additionally, a relatively small population in comparison with the target population was used for this study because many MFIs in Kenya are not registered with the umbrella body AMFI. This therefore restricted the number of institutions that participated in the survey thereby limiting the level of generalizability of the study results. Future studies could address this shortcoming by targeting a higher population size. Furthermore, this study was carried out in a business to customer environmental context and hence the scope of understanding the interaction between the variables was limited to these parties of exchange. However, relational exchanges occur at other levels not covered by this study for instance relations between business to business; business to suppliers; business to middlemen; business to government among other stakeholders. Therefore future research could examine the same interaction of variables however using these alternative mega-relationships.

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