



**Addis Ababa University  
School of commerce  
Graduate studies**

**ANTECEDENTS OF LOYALTY IN THE  
INSURANCE INDUSTRY OF ETHIOPIA  
(A special emphasis on private insurance companies)**

**A Research Thesis Submitted in Partial Fulfillment of the  
Requirements for the award of Master of Arts degree in Marketing  
Management**

**By: Sidie Assefa**

**Advisor: Mehret Berhanu (Ass. Prof.)**

**May, 2015.**

**Addis Ababa, Ethiopia**

**ADDIS ABEBA UNIVERSITY  
SCHOOL OF COMMERCE  
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INSURANCE INDUSTRY OF ETHIOPIA  
(A special emphasis on private insurance companies)**

**By: Sidie Assefa**

**Approved by Board of Examiners**

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## **DECLARATION**

I, **Sidie Assefa**, hereby declare that this Master Thesis titled “**ANTECEDENTS OF LOYALTY IN THE INSURANCE INDUSTRY OF ETHIOPIA (A special emphasis on private insurance companies)** ” is my own original work. I have carried out the present study independently with the guidance and support of the research advisor, Mehret Berhanu (Asst. Prof). Any other research or academic sources used here in this study have been duly acknowledged. Moreover, this study has not been submitted for the award of any program or any other institution.

**Declared by:**

Sidie Assefa  
(Student researcher)

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Signature

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Date

## **Statement of certification**

This is to certify that Ato Sidie Assefa carried out his thesis work on topic  
***“ANTECEDENTS OF LOYALTY IN THE INSURANCE INDUSTRY OF ETHIOPIA (A special emphasis on private insurance companies)”***

The work is original in nature and suitable for submission for the award of masters of arts degree in marketing management (MA).

**Confirmation by Advisor**

**Mehret Berhanu (Asst. Prof)**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Date**

## **Appendix A:**

**Addis Ababa university, school of commerce**  
**MA program in marketing management**  
**English version questionnaire**

**Dear respondents,**

I am Sidie Asefa, a graduate student at Addis Ababa university school of commerce. Currently I am conducting a research study on ***'antecedents of loyalty in the insurance industry of Ethiopia; a special emphasis on private insurance companies located in Addis Ababa'*** in partial fulfillment of Master of Arts degree in marketing management. I therefore kindly request your help to spend some time by filling the questionnaire.

Dear respondents, the purpose of this questionnaire is purely for academic purpose and I assure you that any information you provide in this questionnaire will be kept confidential. Your genuine response is of high importance for the outcome of the research.

***Tank you in advance for your cooperation in filling the questionnaire***

**Part I: General information**

Please put (X) mark corresponding to your response

1. your gender:

Male       female

2. your age

Below 30       31-50       51 and above

3. Your Educational level

High school and below       certificate and diploma

First degree       masters and above

4. What type of customer are you?

Individual client  corporate client

5. For how long have you been customer of this insurance company?

< 2 years  2-5 years  > 5 years

**Part II: factors measuring customer loyalty**

The following statements relate to your feeling about your insurance service provider. Please show the extent to which you believe your insurance service provider has the feature described by the statements. Please identify your rating by circling the number with meanings as given below:

1. Strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree

No.	The issues	Your ratings				
		1	2	3	4	5
	<b>Service quality perception</b>					
1	The company uses simple & less time consuming Procedure for purchasing insurance policy	1	2	3	4	5
2	There is Prompt and hassle free claims settlement process in the company	1	2	3	4	5
3	The company gives error free policy, claim and payment documents to customers	1	2	3	4	5
4	Employees of the company are never busy to respond to your inquiries in their insurance matters	1	2	3	4	5
	<b>Price perception</b>					
1	The price charged by the insurance company is reasonable.	1	2	3	4	5
2	The service price of the company is cheaper than others.	1	2	3	4	5

3	Service provided by the company is equivalent to its price.	1	2	3	4	5
4	Service offered by the company is better value for money than what I would pay for the same service of others.	1	2	3	4	5
5	I'm willing to pay more for better service quality	1	2	3	4	5
	<b>Perceived value</b>					
1	The staff in the insurance company gives me adequate support	1	2	3	4	5
2	Whenever I have problem with the services, the company takes corrective action without delay	1	2	3	4	5
3	The company keeps me informed of things that I need to get the best use of the service.	1	2	3	4	5
4	I feel comfortable with the company's willingness to assist and support.	1	2	3	4	5
5	Overall, the chosen offerings are worth for my money, effort and time.	1	2	3	4	5
	<b>Trust</b>					
1	I believe that this company is ready and willing to offer me assistance and support.					
2	I believe that this company always fulfills the promises that it makes to its customers.	1	2	3	4	5
3	I believe that the staff has necessary ability and knowledge to fulfill its tasks	1	2	3	4	5
4	I believe that the company always puts interests of its customers first of all.	1	2	3	4	5
	<b>Customer loyalty</b>					
1	I will recommend the company as the best insurance company in Ethiopia	1	2	3	4	5
2	I will continue renewing my insurance policy with the company.	1	2	3	4	5
3	This insurance company is my first choice in my future insurance service needs.	1	2	3	4	5
4	I will buy other insurance policies from this					

	insurance company					
5	I will encourage friends and relatives to do business with this insurance company.	1	2	3	4	5

**Thank you so much for your contribution!**

**Appendix B:**

**አዲስ አበባ ዩኒቨርሲቲ**  
**ንግድ ሥራ ትምህርት ቤት**  
**የንግድ ሥራ አመራር ድህረ ምረቃ ፕሮግራም**

ስሜ ሲዴ አሠፋ ይባላል። በአዲስ አበባ ዩኒቨርሲቲ ንግድ ሥራ ትምህርት ቤት በድህረ ምረቃ ፕሮግራም የንግድ ሥራ አመራር ትምህርት ክፍል ውስጥ የመጨረሻ ዓመት ተማሪ ነኝ። ይህ የጽሁፍ መጠይቅ የተዘጋጀው ለገበያ ስራ አመራር ድህረ ምረቃ ትምህርት ክፍል ማሟያነት በአዲስ አበባ የሚገኙ የኢንቬስትመንት ተጠቃሚዎች (ደንበኞች) ለኢንቬስትመንት ኩባንያዎቻቸው ያላቸውን የታማኝነት ደረጃ ለማጥናት እንዲቻል ግብዓት ለመስጠት ነው።

እርስዎም የኢንቬስትመንት ተጠቃሚ እንደመሆንዎ የኢንቬስትመንት አገልግሎት እየሰጠዎት ላለው የኢንቬስትመንት ኩባንያ ያለዎትን የታማኝነት ደረጃ በተመለከተ የተለያዩ ጥያቄዎች ከዚህ በታች ተዘርዝረዋል። ስለዚህም ያለዎትን አስተያየት በመስጠት ለጥናቱ ስኬታማነት የበኩልዎን ሚና ይጫወቱ ዘንድ በአክብሮት እየጠየቅሁ ከዚህ ጋር በተያያዘ የሚሰጡት ማንኛውም ምላሽ በተገቢው ሁኔታ በሚስጥር ተጠብቆ የሚቀመጥ ከመሆኑ ባሻገር ለጥናቱ አገልግሎት ብቻ የሚሆን መሆኑን ላረጋግጥልዎት አወዳለሁ።

ለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ

**ክፍል አንድ፡ ስለ ደንበኛው አጠቃላይ መረጃ**

- እባክዎ ለጥያቄዎቹ በመልስነት ከቀረቡት አማራጮች ውስጥ (x) ምልክት በማድረግ ምላሹን ይሰጡ

1. ጾታ

ወንድ                       ሴት

2. ዕድሜ

ከ 30 በታች                       ከ 30 እስከ 50                       ከ 50 በላይ





ጊዜዎችን ሠውተው መጠይቁን ለመመላት ስለተባበሩኝ በድጋሚ ክልብ  
አመሠግናለሁ።

**APPENDIX C:  
REGRESSION ANALYSIS**

## **I: Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.778 <sup>a</sup>	.605	.600	.81508	.605	107.710	4

*a. predictors: (constant), service quality, price perception, perceived value, trust*

## **II: Rate of change (Regression Coefficients)**

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(constant)	-.345	.234		-1.476	.014
Service quality	.376	.072	.309	5.211	.000
Price perception	.159	.067	.139	2.363	.019
Perceived value	.224	.071	.203	3.162	.002
Trust	.255	.074	.225	3.433	.001



## **Acknowledgment**

First and foremost, I would like to express my gratitude to the almighty God for his abundant grace that I am able to be what I am today. Without the help of God, all this would have remained only a dream.

Next, I would like to express my sincere gratitude Mehret Berhanu (Asst. Prof), my advisor, for her professional guidance, unreserved comments, constructive suggestions and advice from the beginning to the completion of this study.

I am also grateful to all my respondents (customers) and staffs of the insurance companies under consideration who were highly cooperative in my effort to complete this research work.

Finally, special thanks goes to my family for reminding me not to worry too much, and for giving me the chance to be a part of a family where one could never feel alone.

**Thank you and God bless you all.**

## **ABSTRACT**

*It is essential for insurance companies to understand the critical factors that influence customer loyalty in order to be successful in this competitive marketing environment. The general objective of the study is to investigate the determinants of customer loyalty in the private insurance industry of Ethiopia. More specifically, the study tries to see the relationship of factors such as perceived service quality, perceived price, perceived value and trust with customer loyalty. Primary data was obtained through structured questionnaire from customers of three insurance companies namely Awash, Africa and Nib. A multi stage non probability sampling technique was used to sample insurance companies, branches of insurance companies and customers. Purposive sampling technique was used to sample insurance companies and branches whereas convenience sampling was used to sample customers. 150 questionnaires were distributed by the researcher to the insurance policy holders and 136 of the questionnaires were returned, properly filled. The questionnaires were analyzed using SPSS version 21. Pearson Correlation and multiple regressions were used to establish the relationship between the independent and dependent constructs of the research. The findings revealed that all the independent variables (i.e. service quality, price perception, perceived value and trust) are statistically important determinants of customer loyalty in the private insurance industry of Ethiopia. A conclusion was drawn to the effect that since factors influencing customer loyalty have been established, private insurance companies should note these and emphasize them in their marketing strategy.*

**Keywords:** *customer loyalty. Service quality, price perception, perceived value, trust, correlation, regression*

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**List of abbreviations**

*Fig – Figure*

*CRM – customer relationship management*

*EIC – Ethiopian Insurance Corporation*

*NBE – national bank of Ethiopia*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

The service sector is an important component of any country's economy. It makes a direct and significant contribution to GDP, job creation and provides crucial inputs for the rest of the economy, thus having a significant effect on the overall investment climate, growth and development.(Massimiliano Cali, Karen Ellis and Dirk Willem Te velde,2008)

Many services are key inputs to all or most other business. For example: infrastructure services such as energy, telecommunications and transportation; financial services which facilitate transactions and provide access to finance for investment; health and education services which contribute to a healthy, well trained workforce; and legal and accountancy services, which are part of the institutional framework required to support a healthy market economy.

The global economy has shifted to the service sector. More than 75% of the global economy is now accounted for by services and it is the fastest growing sector in global trade ([www.oecd.org](http://www.oecd.org) retrieved on February 9, 2015). This is also true even in low income countries, where it frequently generates over 50% of GDP ([www.oecd.org](http://www.oecd.org)).The process of development usually coincides with a growing role of services in the economy (alongside a reduced role for agriculture). Thus, services constitute an increasing percentage of GDP in nearly all developing countries. Services contributed 47% of growth in Sub-Saharan Africa over the period 2005-2010, while industry contributed 37% and agriculture only 16%. Recent growth in Africa is due to services as much as

natural resources or textiles even in countries benefiting from trade preferences in these products ([www.oecd.org](http://www.oecd.org) retrieved on February 9, 2015).

According to 2013/2014 annual report of national bank of Ethiopia, the service sector is also dominant in Ethiopia after it overtook the agricultural sector in 2010/11. The share of service sector in GDP was about 45.9 percent in 2013/14 followed by agriculture (39.9%) and industry (14.2%). Such increased importance and growth of service business in the world economy in general and Ethiopia in particular made service marketing concepts and strategies be given due consideration. With the availability of many players, the service market is increasingly becoming competitive, dynamic and unstable and thus service marketers are continually seeking effective marketing strategies in order to survive and succeed in this competitive business environment.

In this regard, research on customer behavior has undergone tremendous developments in the last three decades. During the 1970s and 1980s, researchers gave prominence to customer satisfaction as the primary determinant of consumer behavior (Oliver, 1999). However, more recently marketing scholars have expanded the horizon of behavioral research beyond satisfaction in to the realms of customer commitment (Garbarino & Johnson, 1999) and customer loyalty (Oliver, 1999; Berry, 1995). This new interest is underscored by the long held view that mere acquisition of new customers and getting them satisfied cannot guarantee sustained business and that a loyal customer base is the only assurance firms have against possible losses (Berry, 1995). A new frontier of competition whereby companies not only seek to acquire new customers, but also worry about the looming threat of losing their customers to competitors has emerged. According to Oliver (1999), a paradigm shift to the pursuit of customer loyalty as a strategic business goal is becoming prominent. In support of this view, Berry (1995) argues that attraction of new customers should be viewed

only as an intermediate step in the marketing process and that business managers should strive for long term relationships with customers.

The value of customer loyalty for service industries has been recognized by many researchers (Bloemer, 1998; Caruana, 2002; Asuncion, 2004). Keaveney (1995); Gremler and Brown (1996) underlined its potential effect on the development of sustained competitive edge for the service organizations. The distinctive nature of services, increased role of technology and higher customer involvement in service delivery processes have further increased the importance of customer loyalty in service industries.

Customer loyalty not only ensures repeat purchases and positive publicity with greater value in terms of reliability, it also leads to host of other significant benefits such as cross buying intentions, exclusive and priority based preference to the company and its services, greater share of wallet and so on which provide a competitive edge to the company. Owing to these discernible and some other latent outcomes of customer loyalty such as convivial attitude towards company's business policies, integrated marketing communication, new products and customer service initiatives, greater tolerance in the event of service failure and lower resistance to price ups, etc., companies are hugely interested in a systematic and well-assisted development of loyalty behaviors among their customers. Terblanche and Boshoff (2006) agreed that comprehending the precursor of loyalty is a requisite if one wants to attain the maximum benefits of loyalty. Hence, there is a pressing need for deeper exploration into the precursors of loyalty that not only operate as its sources but also act as enhancers.

The insurance industry being sub sector of the huge service sector is no different from the recent philosophy on loyalty marketing. At present, there are seventeen (17) insurance companies operating in Ethiopia of which the Ethiopian Insurance Corporation (EIC) is state-owned while the rest are private. Marketers of

insurance service in Ethiopia are facing with a number of challenges. On one hand, the continuous increase in the number of insurance companies is sure to intensify the competitive pressures and on the other hand increased customer awareness and knowledge elevate customers' expectations several levels up which reduces the zone of tolerance. As a result, customers could easily switch to other insurance companies if they don't get something of value with their current insurance company. Ndubisi (2005) and Pfeifer (2005) point out that the cost of obtaining new customer is five times greater than serving a loyal customer. Thus, insurance companies should give due attention to customer loyalty and the factors responsible for its formation in order to survive and succeed in this competitive insurance market. Therefore, this paper focused on studying loyalty and factors affecting loyalty in Ethiopian insurance industry having its focus on private insurance companies.

## **1.2 Problem statement**

Customer loyalty has been found in the literature to be a competitive tool for many companies. This is even much more pronounced in today's highly globalised, industrialized and competitive markets. As has already been discussed in the background of the study, the growth and survival of companies depend on how loyal their customers are.

Various studies have been carried out in the developed countries regarding customer loyalty (Ndubisi, 2005; Khatibi, 2002; Uncles, 2003). However, only few studies have been carried out in this area in the developing world of which Ethiopia is no exception. Few researches have been carried out in Ethiopia regarding customer loyalty but the researches were conducted in the banking sector (Ashenafi, 2013 and Nigussu 2013). Up to the knowledge of the researcher, the insurance sector is not researched. This necessitates investigating

whether the factors that determine customer loyalty in the studies conducted in other areas holds for the case of Ethiopian insurance industry.

Moreover, competition in the Ethiopian insurance sector is becoming fierce due to mushrooming of insurance companies and increased level of customer awareness and knowledge. Despite favorable condition for insurance development in Ethiopia, customers' defections are high in the insurance sector. Interview with Nile insurance marketing manger shows, from 25,840 policyholders 3,997 (15%) did not renew their policies in 2013. According to Awash insurance company marketing and business development manager interview response, from the total of (general and life) 69,731 policies, 17,884(25.6%) were not renewed in 2013. These defection rates are higher than the 14.75% average defection rate of insurance policy holders in Africa (Alok Kumar Rai, Srivastava Medha, 2013). The longer a customer stays with a company, the more that company is worth. Long term customers can purchase other policies more, take less of a company's time, are less sensitive to price, and bring in new customers. This means, insurance companies should give emphasis to retain customers and make them loyal to the company for survival and prosperity. But, customer retention is becoming a challenge for Ethiopian insurers and the factors need to be identified.

In view of the aforesaid problems, this study attempts to provide answers for the following research questions;

### **1.2.1 Research questions**

1. What factors influence customer loyalty in the private insurance industry of Ethiopia?
  - 1.1 Is there relationship between service quality and customer loyalty in the private insurance industry of Ethiopia?

- 1.2 Is there relationship between price and customer loyalty in the private insurance industry of Ethiopia?
  - 1.3 Is there relationship between perceived value and customer loyalty in the private insurance industry of Ethiopia?
  - 1.4 Is there relationship between trust and customer loyalty in the private insurance industry of Ethiopia?
2. Which factors appear to be the most important factor in explaining and predicting customer loyalty in Ethiopian private insurance industry?

### **1.3 Objective of the study**

#### **1.3.1 General objective**

The general objective of the research is to identify factors influencing customer loyalty in the private insurance industry of Ethiopia.

#### **1.3.2 Specific objective**

1. To determine the relationship between service quality and customer loyalty in private insurance industry of Ethiopia.
2. To examine the relationship between price and customer loyalty in private insurance industry of Ethiopia.
3. To analyze the relationship between perceived value and customer loyalty in private insurance industry of Ethiopia.
4. To determine the relationship between trust and customer loyalty in private insurance industry of Ethiopia.
5. To find out which factors explain and predict customer loyalty most in private insurance industry of Ethiopia.

## 1.4 Operational definitions

- a. **Service quality:** The consumers' judgment about the overall excellence or superiority of a service (Zeithaml, 1996).
- b. **Price:** the monetary amount you pay to acquire a product or service (Kotler and Armstrong, 2010).
- c. **Perceived value:** the customers' overall assessment of the utility of services based on perceptions of what is received and what is sacrificed (Monroe 1991, Parasuraman, Zeithaml & Berry, 1985).
- d. **Trust:** Mayer(1995) defined trust as “the willingness of the party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trust or, irrespective of the ability to monitor or control that other party”
- e. **Customer Loyalty:** is a psychological character formed by sustained satisfaction of the customer coupled with emotional attachment formed with the service provider that leads to a state of willingly and consistently being in the relationship with preference, patronage and premium (Eshghi, 2007).

## 1.5 Scope of the study

This research is delimited to the following areas:

### *Conceptually;*

- The study was limited to identifying factors that contribute to the formation of customer loyalty in the Ethiopian insurance industry. Literature show that there are many factors affecting customer loyalty. For this research purpose four factors (i.e. service quality, price, perceived value, trust) were investigated.

### *Methodologically;*

- There are 16 private insurance companies operating in the Ethiopian insurance industry. But, three insurance companies namely Awash, Africa

and Nib are selected for this research purpose. These companies are selected because they are the highest market share holders, serving huge number of clients and have relatively many years of experience in the industry as compared to other private insurance companies (Annual report of insurance supervision division of NBE; 2013).

- The place in which the research has been conducted was Addis Ababa. This is because more than 78% of users of insurance in Ethiopian context are located in Addis Ababa (Hailu; 2007).
- In Ethiopian context, customers go to insurance companies either direct or through intermediaries (brokers and agents). Only those customers getting the service direct from the insurance company were selected for this research purpose. The customers are both individual and organizations.
- This research focused only on the perceptions of customers and did not measure the perception from personnel of the insurance companies.

*Time wise;*

- The data collection period for this research was limited to the month of April 2015.

## **1.6 Significance of the research**

This study is significantly important for insurance business in the insurance industry, particularly in the study area by having clear understanding about customer loyalty and its antecedents. Hopefully, the study results may contribute some inputs to the knowledge of customer loyalty and may be helpful to draw theories. Managers and marketers of insurance companies will find this study useful as it contributes its part for the management of insurance companies in developing better strategy to increase loyalty among their customers. Moreover, this research can be used as a reference to subsequent researchers who are interested in making a research on this area. Up to the knowledge of the

researcher, there is no research conducted in this regard in Ethiopian insurance industry.

### **1.7 Limitation of the study**

In spite of the fact that the researcher tries to do all the best to maximize the research fruitfulness, the study may be subjected to some limitations originating from the scope of the study. As the study emphasizes only on the private insurance companies which are found in Addis Ababa, it may be difficult to generalize the result of the research to the whole insurance industry of Ethiopia. Moreover, in adopting a quantitative research design, a failure to use a probability sampling technique significantly limits ability to make broader generalizations from the results (i.e., ability to make statistical inferences from sample to the population being studied). There may also be inherent limitations that could exist in research endeavors.

### **1.8 Paper organization**

This thesis is divided into five chapters. In the first chapter the background of the study is presented followed by the problem statement, objectives of the study, research model, hypotheses, operational definitions scope of the study, significance of the study, limitations of the study and organization of the thesis. The second chapter is on review of relevant literature while the third chapter presents the research methodology. It involves the study design and approach, target population, sample size, sampling technique and data collection tools and procedures. The chapter also discusses data processing and analysis methods. The fourth chapter deals with data presentation, analysis and interpretation. The final chapter deals with the summary of findings, conclusions, recommendation and future research directions.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 The Concept of Customer Loyalty**

The need for customer loyalty in business has been recognized by many scholars. Customer loyalty is one of the most frequently discussed subjects in the marketing and service literature (Eshghi, 2007; Heskett and Sasser, 2010). There is a plethora of definitions of loyalty and/or customer loyalty in the extant literature. Customer loyalty is customer repeating purchase intention to some specific products or services in the future (Jones, 1995). It is making customers feel committed: When the benefits are meaningful to them, they will stay on (Grossman, 1998). Loyalty is used to describe the willingness of a customer to continue patronizing a firm's goods and services over a long period of time and on a repeated and preferably exclusive basis, and voluntarily recommending the firm's products to friends and associates (Lovell, 1996). Customer loyalty is the result of an organization's creating a benefit for customers so that they will maintain and increasingly repeat business with the organization (Anderson and Jacobsen, 2000).

Customer loyalty provides the foundation for a company's sustained competitive edge. Different researchers have given credence to the reason why developing customer loyalty is beneficial to firms. Developing and increasing loyalty is a crucial factor in companies' growth and performance (Reichheld, 1996 and Lee and Cunningham, 2001). Customer loyalty is one of the key factors and can help a company achieve long-term success (Andres, 2007). The significance of customer loyalty is that it is closely related to the company's continued survival and to strong future growth (Fornell, 1992). Hence, for a company to maintain a stable profit level when subscription level has reached saturation point, the

market is mature and competition is fierce, a defensive strategy which strives to retain existing customers is more important than an aggressive one (Fornell, 1992 and Ahmad and Buttle, 2002). Ndubisi (2005) and Pfeifer (2005) point out that the cost of serving a loyal customer is five or six times less than a new customer. Walsh (2005) state that it is better to look after the existing customer before acquiring new customers.

## **2.2 Dimensions of Service Loyalty**

A review of the literature suggests the service loyalty construct consists of three separate dimensions: behavioral loyalty, attitudinal loyalty, and cognitive loyalty.

### **2.2.1 Behavioral Loyalty**

Early definitions of loyalty focused almost exclusively on its behavioral dimension (cf. Jacoby and Chestnut, 1978; Pritchard, 1991). In particular, loyalty was interpreted as a form of customer behavior (such as repeat purchasing) directed toward a particular brand over time (e.g., Sheth, 1968; Tucker, 1964). Although current thought infers that loyalty includes more than just a behavioral dimension, some researchers continue to measure loyalty exclusively on the behavioral dimension.

### **2.2.2 Attitudinal Loyalty**

Scholars have questioned the adequacy of using behavior as the sole indicator of loyalty. Day (1969), in particular, criticized behavioral conceptualizations of loyalty and argued brand loyalty develops as a result of a conscious effort to evaluate competing brands. Others have suggested this attitudinal dimension includes consumers' preferences or intentions (e.g., Jarvis and Wilcox 1976; Pritchard, 1991). After Day's criticism, attitude gained increasing attention as an

important dimension of loyalty (e.g. Jain, Pinson, and Malhotra, 1987; Monroe, 1991). Over time, scholars began to consider customer loyalty as having two dimensions: behavioral and attitudinal (Day, 1969; Dick and Basu, 1994; Snyder, 1986).

### **2.2.3 Cognitive Loyalty**

In addition to the behavioral and attitudinal dimensions, a few scholars include what has been termed a “cognitive” form of loyalty (Lee and Zeiss, 1980). Some studies suggest loyalty to a brand or store means it comes up first in a consumer’s mind when the need for making a decision as to what to buy or where to go arises (e.g., Bellenger, 1976; Newman and Werbel, 1973), while others operationalize loyalty as a customer’s “first choice” among alternatives (e.g., Ostrowski, O’Brien, and Gordon, 1993). Similarly, Dwyer, Schurr, and Oh (1987) argue that being committed to a relational exchange virtually precludes considering other exchange partners)) such customers “have not ceased attending to alternatives, but maintain their awareness of alternatives without ‘constant and frenetic testing’” This suggests alternative organizations are not seriously considered by truly loyal customers when subsequent purchases are made) a viewpoint supported by other scholars (e.g., Dick and Basu, 1994; Reynolds, Darden, and Martin, 1975). That is, a customer who is considered extremely loyal does not actively seek out or consider other firms from which to purchase.

## **2.3 antecedents of Customer Loyalty**

Since customer loyalty has become paramount for organizations, a major concern is to find out the determinants or drivers of customer loyalty (Kumar, 2011). This section discusses the determinants of customer loyalty.

### **2.3.1 Service Quality**

Quality is conformance to requirements (Crosby, 1996). Quality is the comparison of perceived performance and expected performance (Kang, 2006). Service quality is the customer's overall impression of the relative inferiority/superiority of an organization and its service offerings (Bitner, 1990). The firm's ability to create and sustain competitive advantage depends upon the high level of service quality provided by the service provider (Yoo and Park, 2007). Therefore, providing a consistently high quality service quality can differentiate one service provider from others. Theoretically, positive relationships between service quality and customer loyalty are well documented in the extant literature. Services Quality is considered as a major determinant in customer retention and building value relationship (Venetis and Ghauri, 2004). Service quality results in repeated sales and increased market share, which leads to customer loyalty (Buzzell and Gale, 1987). Providing a high service quality can lead an organization to charge premium price (Brown, 1992). High service quality enhances customers' favorable behavioral intentions while simultaneously reduces their unfavorable intentions (Zeithaml, 1996).

The implication of the above discussion is that with high service quality, customers are attracted and have an increased propensity to stay longer with their service provider. Empirical findings have shown positive relationships existing between service quality and customer loyalty in a number of industries. For example, Elnan and Andersen (1999) found a positive relationship between service quality and customer loyalty in the bus industry in Norway. Coner and Gungor (2002) found that service quality would lead towards more loyal customers in the Turkish Metropolitan retail market. Turel and Serenko (2006) found that perceived service quality and perceived value are the key constructs affecting the customer's loyalty with mobile services. Zeithaml (2008) develop a

conceptual model that correlates service quality, customer satisfaction and customer loyalty. The model shows that service quality results from reliability, assurance, responsiveness, empathy and tangibles. Service quality is determined by reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman, 1985).

### **2.3.2 Customer Satisfaction**

Oliver (1980) explained that customer satisfaction arises when customers weigh their perceptions of actual service performance against their expectations and any discrepancy between the two generates disconfirmation which can be of three types:

Positive disconfirmation: high satisfaction.

Negative disconfirmation: high dissatisfaction.

Zero disconfirmation.

Oliver (1997) stated that “satisfaction is the consumer fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under-or over-fulfillment”.

Over the years, several researchers such as Ganesan (1994), Mittal, Ross, and Baldasare (1998), Mittal and Kamakura (2001) and others have exhibited customer satisfaction to be influencing the factors that signify customer loyalty or in other words, the long-term orientation of a relationship. Geyskens, Steenkamp and Kumar (1998) considered customer satisfaction as an essential factor responsible for the long-term association between suppliers and buyers. It has often been enunciated that the affect component of satisfaction could stimulate a satisfied customer to patronize the service provider as well as referring its services to others. The positive effect of customer satisfaction on these dimensions of loyalty has been repeatedly voiced in the literature.

### **2.3.3 Price**

Price is the amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service (Kotler and Armstrong, 2010). In a competitive market, service providers are expected to compete on both price and quality of services and also it is necessary for the service providers to meet the consumers' requirements and expectations in price and service quality (Melody, 2001). Nowadays, due to breathtaking competition, service providers tend to offer innovative services as well as competitive prices just to attract handful magnitude of customers (Haqea, 2010).

The implication of this is that offering a high service quality is not sufficient to attract and retain customers; offering the service at an attractive and affordable price is equally necessary to achieve a competitive advantage in the market. Specifically, price has been used by all the firms in the insurance market of Ethiopia, as a strategic tool both to attract new customers and more importantly to retain current ones. In the market, where it is difficult to perceive any significant difference in the service quality of most of the insurance firms, price competition has become widespread and an important competitive tool.

However, the reality of the price competition in the market is existence of price war with competitors traversing from one company to another to take advantage of the latest price cut, thereby giving no room for any loyalty to be developed. The poser is can price be used to achieve customer loyalty in the market? In the study concerning the behavior of consumers, it was found that the loyalty of individual customers is affected by price considerations (Bolton and Drew, 1991). This finding was also corroborated by Athanassopoulos (2000) and Varki and Colgate (2001), whereby customer satisfaction from pricing was found to

positively affect overall customer satisfaction. Firms should charge premium that is fair and acceptable to their customers, taking into cognizance their price sensitivity. This is because there is a relationship between the level of customer loyalty and price sensitivity. According to Xia (2004) price fairness refers to consumers' assessments of whether a seller's price is reasonable, acceptable or justifiable. Customers are satisfied and become loyal when they feel that the price they pay corresponds to the quality of service they receive. Choi (2006) found that disloyal customers were more price sensitive, in the sense that changes in price motivated them to move to other organizations, whereas loyal customers were not affected by price. Martin-Consuegra (2007) also found that perceived price fairness influences customer satisfaction and leads to loyalty in the aviation industry of south Africa.

### **2.3.4 Commitment**

Thibault and Kelley (1959) recognized commitment as construct that belongs to literature of social exchange. The relationship literature also regarded commitment as an important dimension. Dwyer (1987); Moorman (1992); Morgan and Hunt (1994) opined that commitment in a relationship is a psychological state where a client has plans to continue the relationship with his existing supplier. Highlighting the role of commitment in relationships, Parasuraman (1991) stated that "relationships are built on the foundation of mutual commitment". Moorman (1992) defined commitment as "an enduring attitude or desire for a particular brand or firm.

It is the degree to which customers as members of an organization are emotionally connected to an organization, its brand or product, sustained by continues desire to maintain membership".

Jones (2010) investigated the dimensionality of commitment as a construct and concentrated on the differential effects of affective, normative and continuance dimensions on an array of consumer responses signifying loyalty such as

repurchase intentions, willingness to pay more, fidelity, advocacy, and altruism. They reviewed marketing literature and noted that affective commitment found place in different contexts like channels, sales, services, etc. as a leading factor for varied focal responses of customers in form of repurchase intentions (uncles,2003), switching intentions (Fornell,1992), and relative attitude (Pritchard, 1991).

### **2.3.5 Corporate Image**

Aaker (1996) perceived image as “the net result of all the experiences, impressions, beliefs, feelings and knowledge that people have about a company”. Minkiewicz (2011) carried their study in leisure services context and defined it as “stakeholders’ beliefs, perceptions, feelings and attitudes towards an organization”. They further agreed with Bosch (2006) and expressed the possibility that these perceptions and feelings take shape through customer response to the strategic intent of the organization.

Shlesinger and Graf von der Shulenburg (1993) stipulated that corporate image and service quality affect customers’ choice of insurers as well as accepted level of price. Sirgy and Samli (1989) concluded that image has a direct relationship with store loyalty. Bloemer (1998) carried their study in banking industry and reported an indirect relationship between the above mentioned constructs which is mediated by service quality. Kandampully and Suhartanto (2000) stated that in tourism industry, image is a major determining factor behind customers’ decision to repurchase and recommend. Ball (2004) concluded that though, there is a considerable association between image and loyalty, it is indirect in nature as satisfaction and trust mediate the relationship. Chun and Davies (2006) in their study concluded that in retail, positive image positively correlates with customer satisfaction which is a significant predictor of loyalty.

### **2.3.6 Switching Costs**

Jackson (1985) described switching cost as the sum total of economic, physical and psychological costs. Porter (1998) opined that switching cost can be considered as the cost of migrating to another service provider. Chen and Wang (2009) stated that switching costs may range from termination costs imposed by current service provider to costs of joining another service provider. Barroso and Picón (2012) chose Spanish insurance market for studying various dimensions of Switching costs and their antecedents as well as outcomes and proposed that switching cost is a higher order construct which is a composition of six dimensions namely (i) benefits loss costs; (ii) personal relationships loss costs; (iii) economic risk costs; (iv) cost of searching and evaluation; (v) set-up costs; and (vi) monetary loss costs. Each of these six dimensions reflected customer's perception of time, money or efforts involved in switching.

Gronhaug & Gilly (1991); Fornell (1992); Ping (1993) found switching costs to be positively related to customer loyalty. Bateson and Hoffman (1999) argued that customer satisfaction and switching costs are believed to be the most significant predictors of repurchase intentions or repeat buying behavior. Similar effects of switching costs had been observed for trust and perceived service quality by Aydin, Ozer & Arasil (2005) and Wang (2010) respectively. Oliva, Oliver, & MacMillan (1992); Jones (2000) stipulated that switching costs influence customer loyalty through its interaction with customer satisfaction. Yanamandram and White (2006) noted that customer's perception of higher cost of switching detains him from wandering off to the competitive offers.

### **2.3.7 Communication**

Anderson and Narus (1984) perceived communication as a partaking of significant and well-timed formal as well as informal information between a customer and a supplier. Anderson and Narus (1990) perceived communication as an interactive dialogue between company and its customers during the pre-selling, selling, consuming and post-consuming stages. Morgan and Hunt (1994); Lusch and Brown (1996); Johanson and Mattsson (1997) underscored the significance of communication in developing and retaining a relationship. Mohr (1996); Siguaw(2003) argued that it aids in continuing the relationship in time. Claycomb and Martin (2002) stressed on the importance of regular communication with customers while suggesting that extended durations where customers are not contacted should be avoided as regular interactions reduce the perceived risks associated with purchasing. Ndubisi and Chan (2005) suggested that in context of relationship marketing, communication involves rendering trustworthy information, fulfilling promises and informing in case of delivery related problems. Jaya chandran (2005) proposed that the quality of relationship is likely to be improved if customers find it easy to communicate within the relational information processes. Jaya chandran (2005) developed a research model to study the role of trust, attitude, communication, image, customer satisfaction and service quality in explaining repurchase intention and concluded that communication has a major impact on trust in Iranian context.

### **2.3.8 Trust**

Moorman (1993); Morgan and Hunt (1994) presented trust as a vital element of relationships. Mayer (1995) defined trust as “the willingness of the party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trust or, irrespective of the ability to monitor or control that other party”. Kumra and Mittal (2004) suggested

that trust in honesty denotes faith in partner's openness and truthfulness in business communication. Lim (1997); Garbarino and Johnson (1999); Chaudhuri and Holbrook (2001) underlined the significance of trust in explaining loyalty. Garbarino and Johnson (1999); Chaudhuri and Holbrook (2001) found credibility trust to be affecting loyalty whereas Singh and Sirdeshmukh(2000); Sirdeshmukh (2000) proposed benevolence as a component of trust which explains loyalty. Ball (2004) contended that in a competitive market, lack of trust obstructs loyalty formation. Kassim and Abdullah (2010) studied the link between trust and customer loyalty in the banking sector in two cultural contexts i.e., Malaysia and Qatar and found it to be significant. Nguyen and Leclerc (2011) posited that customers in service industry tend to hold positive behavioral attitude toward the brand they trust. Zeithaml (1996); Castaneda (2011); Shainesh (2012) perceived trust as a significant marker of customer loyalty.

### **2.3.9 Perceived value**

Perceived value can be defined as the customers' overall assessment of the utility of products or services based on perceptions of what is received and what is sacrificed (Monroe 1975, Parasuraman, Zeithaml & Berry, 1985). Simply stated, perceived value is trade-off between benefits and sacrifices. The perceived sacrifice includes all the costs the customer faces when they are in the process of purchasing such as purchase price, acquisition costs, installation, repair and maintenance, risk of failure or poor performance (Monroe 1975, Parasuraman, Zeithaml & Berry, 1985). The perceived benefits include physical and service attributes, technical support, and other indicators of perceived service quality. Monroe (1975), Parasuraman, Zeithaml & Berry (1985) point out that perceived value is subjective and individual, and therefore varies among customers. Research evidence suggests that customers who perceive that they receive value for money are more satisfied and tend to become loyal customers more often than ones who do not (Zeithaml, Berry & Parasuraman, 1996). Customers who remain

with a service provider for a longer period of time because they are pleased with the perceived quality and value of the services tend to buy more additional services and spread favorable word-of-mouth messages and have a willingness to recommend the firm to others (Boulding,1993; Zeithaml&Berry,1996). Perceived value, from the service providers' standpoint, should be viewed as a major competitive weapon and can be used to create and improve their sustainable competitive advantage (Khatibi, Ismail & Thyagarajan 2002). By adding more perceived value to the service, customer loyalty can be increased.

## **2.4 Conceptual frame work**

The conceptual frame work is the foundation that the entire research is based on and a good model should help in identifying and labeling the underlying variables in the circumstances that are related to the research problem (Sekaran, 2005).

The conceptual frame work for this research is based on the empirical research conducted in the area of antecedents of loyalty forming part of the literature review of this research. Having list of the antecedents, the researcher personally approached selected branch managers of insurance companies to make them rate the antecedents in order of their importance in determining customer loyalty in Ethiopian insurance industry context. Four factors (i.e. service quality, price, trust and perceived value) were identified to be common from the ratings of the branch managers

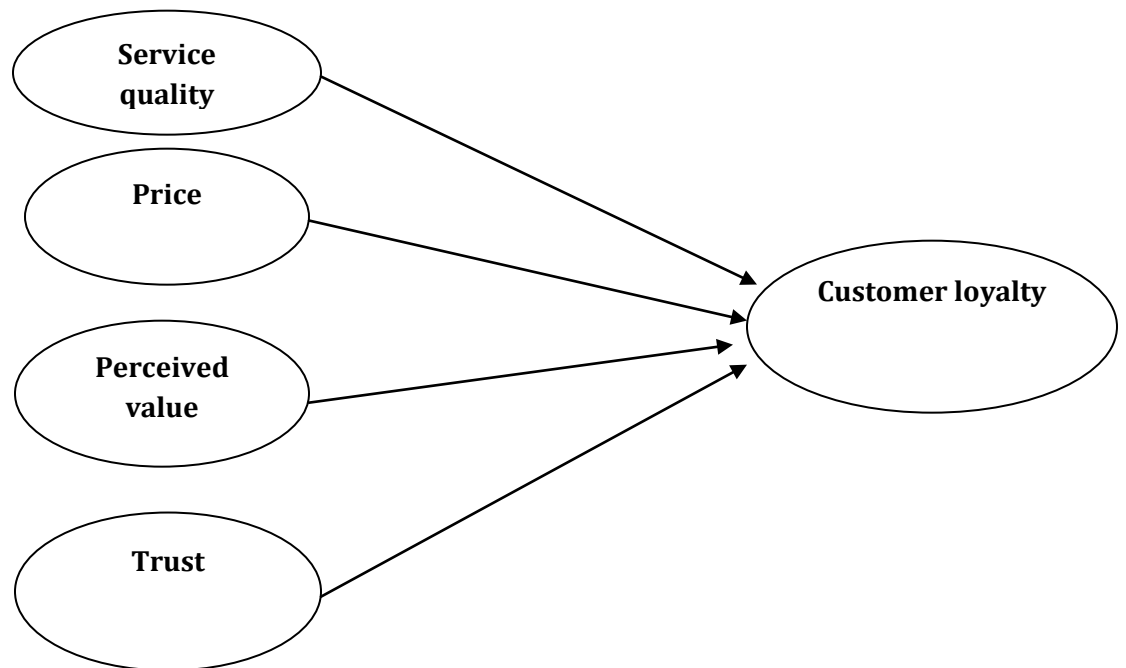
The researcher combined these four variables in to a single model to analyze whether these variables really determine customer loyalty in the case of Ethiopian insurance industry particularly in the private insurance companies.

**Independent variables:** service quality, price perception, perceived value, trust

**Dependant variable:** Customer loyalty

The proposed model and all hypotheses tested in the context of Ethiopian insurance industry particularly in private insurance companies are outlined as follow:

Fig 1: the conceptual model



*Source: researcher's own frame work based on existing literature (2015)*

## 2.5 Hypotheses

Based on the conceptual frame work developed the following four hypotheses were developed:

**H01:** There is no significant and positive correlation between service quality and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.

- Ha1:** There is significant and positive correlation between service quality and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa
- Ho2:** There is no significant and positive correlation between price and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.
- Ha2:** There is significant and positive correlation between price and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.
- Ho3:** There is no significant and positive correlation between perceived value and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.
- Ha3:** There is significant and positive correlation between perceived value and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.
- Ho4:** There is no significant and positive correlation between trust and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.
- Ha4:** There is significant and positive correlation between trust and customer loyalty in Ethiopian insurance industry particularly in Addis Ababa.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter deals with how the research was conducted to achieve the objectives of the study. It consists of research design, research approach, research strategy source of data, population, sampling design, data collection tools and instruments, data collection procedure and method of data analysis.

#### **3.1 Research design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Malhotra, 2004).

This research is descriptive and explanatory type. It is descriptive as the research describes respondents and their perception on variables identified. It is also explanatory as the research seeks to discover relationship between the variables under consideration.

#### **3.2 Research approach**

Considering the research objective and hypotheses developed in chapter one, a quantitative approach is used in this research. Malhotra (2004) maintained that a quantitative approach is a research methodology that sets out to quantify the data in order to use statistics for analyzing the data set. A quantitative approach enables a researcher to establish statistical evidence on the strengths of the relationship between variables. Besides, quantitative methods can be used to test hypothesis and determine reliability and validity of the variable measurement (Malhotra, 2004).

### **3.3 Research strategy**

This research employed survey method as a research strategy to have an analysis on antecedents of loyalty in the insurance industry of Ethiopia with a focus in private insurance companies. In order to find the factors and the relationship between the factors, a structured questionnaire was designed. However, the researcher had to check and see whether the factors identified are appropriate to be applied in the insurance industry of Ethiopia. In this regard, the researcher made a discussion with selected branch managers of insurance companies and all the factors considered by the researcher were accepted.

### **3.4 Time horizon**

Saunders (2002) believes that most research projects undertaken for academic courses are necessarily time constrained. When planning for the research, there are two options; cross sectional and longitudinal study. Cross sectional study is a study in which a group(s) of individuals are composed in to one large sample and studied at only a single point of time. Longitudinal study is a study in which an individual or a group of individuals is observed over a period of time. In this research, cross sectional study is applied.

### **3.5 Source of data**

The study used primary and secondary data sources in order to gather relevant information for the study. The primary data was collected from customers of private insurance companies through structured questionnaire. The secondary data was collected from existing literature forming the literature review of this study. The sources of the secondary data included journals and articles obtained from the internet and library.

### **3.6 Population**

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study. The unit of analysis may be a person, individual, organization, country, object or any other entity that you wish to draw scientific inference about (Kothari, 2004). The population in this research consists of customers of private insurance companies.

Customers of insurance companies could be first time appearing or existing customers (policy holders). For the purpose of this study, the target population was existing customers (policy holders) of private insurance companies and these customers could be individual or corporate (organization) customers. However, it was not feasible to include all these customers in this study because of time and cost constraint.

### **3.7 Sample Design**

#### **3.7.1 Sample size**

Sample size refers to the number of items to be selected from the universe to constitute a sample. Determining sample size is a very important issue because samples that are too large may waste a lot of time, resource and money, while samples that are too small may lead to inaccurate results (Kothari, 2004).

There has been considerable debate over what constitutes an acceptable sample size with no simple and definite rule to define an appropriate sample size (Flynn and Percy, 2001). Different authors have suggested different sample sizes as appropriate. The sample size of this research was decided in consideration of the following scholars' contentions.

According to De Coster (2004), minimum sample size used in statistics analysis should be equal to or greater than five times the number of variables(items), but

not less than 100 to generate reliable results:  $n \geq 100$  and  $n \geq 5k$  (where  $k$  is the number of items). This research has 23 items, as a result, the minimum sample size required in this research is:  $n = 5 \times 23 = 115$ . According to Kothari (2004), minimum sample size recommended for correlation analysis is 64 participants for one tailed test and 82 participants for two tailed test. In view of this, the researcher took the bigger sample size determined (i.e. 115 respondents) plus an allowance of 30% (i.e 35 samples) for potential non response making the total sample size 150 respondents.

### **3.7.2 Sampling technique**

Generally, random sampling is preferred over non probability sampling to undertake explanatory study and for generalizability of the findings (Leary, 2004; Yu and Cooper; 1983). However, this research used non probability sampling technique. The reason for choosing non probability sampling technique for this research is that; first, random sampling is not viable option for this study because of nature of the service, cost and time constraint. Second, for a theoretical test purpose, Reynolds (2003) contended that non probability sampling is considered as an acceptable method if there is a sound justification. Similarly, Leary (2004) claimed that non probability is acceptable for research that has an objective of testing hypotheses.

This research has gone through multi stage sampling procedure. Though there are 16 private insurance companies operating in Ethiopia, only three insurance companies namely Awash, Africa and Nib were selected purposively. These companies are selected because they are the highest market share holders, serving huge number of clients and have relatively many years of experience in the industry as compared to other private insurance companies operating in Ethiopia (Annual report of insurance supervision division of NBE; 2013).

Awash, Africa and Nib insurance companies have 18, 12 and 15 branches of service delivery in Addis Ababa. Because of time and cost constraint, two

branches from each of the three insurance companies with larger number of visits were selected purposively. The branches considered in the study were Bole branch and main branch from Awash insurance company; Ras branch and main branch from Nib insurance company and head office branch and Yoseph branch from Africa insurance company.

Branch managers of each of the branches under consideration for this research purpose have provided the researcher the estimated number of existing clients that are expected to visit the service counter during April, 2015 (data collection period of the research). And accordingly, the sample size (i.e. 150 participants) was distributed to each branch under consideration in proportion to the number of customers visiting the branch during April. The sample distribution is shown in the following table.

**Table 3.1: sample size distribution**

<b>Insurance company</b>	<b>branch</b>	<b>Expected number of visit in April 2015</b>	<b>proportion</b>	<b>Sample size</b>
<b>Awash</b>	Bole	149	20%	30
	Main	108	15%	23
<b>Sub total</b>		<b>257</b>	<b>35%</b>	<b>53</b>
<b>Africa</b>	Head office	102	14%	21
	Yoseph	94	13%	20
<b>Sub total</b>		<b>196</b>	<b>27%</b>	<b>41</b>
<b>Nib</b>	Ras	126	17%	25
	Main	154	21%	31
<b>Sub total</b>		<b>180</b>	<b>38%</b>	<b>57</b>
<b>Total</b>		<b>733</b>	<b>100.00%</b>	<b>150</b>

*Source: own survey (2015)*

The customers were sampled through convenience sampling technique based on availability, suitability and willingness of participants (i.e. as they arrive to the service delivery counter). For ethical reason, measuring respondents' attitude and perception through surveys as used in this study requires respondents consent. Thus, only customers who agreed to participate in the survey were selected to be respondents. All these procedures are essentially non random sampling.

### **3.8 Data collection tool and instrument**

The data collection tool used in this research was a structured and self administered questionnaire, which had 2 sections (bio-data and research questions).

An instrument for assessment of customer loyalty has been designed on the basis of previously identified antecedents. It consisted of 23 measurement items related to the constructs of service quality, price, perceived value, and trust and customer loyalty. As it was mentioned previously, the study borrowed items from previous researches in the areas of these antecedents where these items have been used to measure their respective construct effectively. The researcher modified them as per the context of present study and nature of insurance services in order to make them more relevant. A five - point Likert scale, ranging from "1 =strongly disagree" to "5 = strongly agree" was used. The questionnaire was developed in English at first and translated into Amharic. The questionnaire was pretested to determine the clarity and understandability of the language.

### **3.9 Pilot testing**

According to (Saunders, 2002), the purpose of the pilot test is to refine the questionnaire so that respondents will have no problem in answering the questions and there will be no problem in recording the data.

Though the questionnaire developed for this research was based on previously conducted research questionnaires applied in other countries, the researcher believes pilot test of the questionnaire to be carried out as there were environmental differences and content modifications. For most questionnaires, the minimum number for a pilot is 10 (Fink, 1995). The pilot test was done in 3 stages

The first stage was done on few branch managers of insurance companies to see whether the factors of this research model are proper in this environment or not. All of them agreed on each factor.

The next stage was done on customers to check simplicity of the questionnaire. 10 questionnaires were given to customers of insurance companies randomly to see whether the questions were understandable or not. In this stage, the researcher was with each customer during the filling process and took notes of all their comments. After doing the pilot test, some little editing was done.

The last stage of the pilot test was done on other 10 customers to see whether everything was OK with the questionnaire or not. Fortunately, the researcher got positive answer.

### **3.10 Data collection procedure**

Questionnaires were distributed to the sample respondents on daily basis and collected on the spot so as to appreciate the positive response rate. Respondents got very brief orientations about how to fill the questionnaire from the researcher. This might help the respondents to be clear about how to fill the questions and avoid confusion.

### **3.11 Method of Data Analysis and interpretation**

The method of analysis used in the research includes descriptive statistics, correlation analysis and regression analysis. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual or group. It provides a picture of what happened in the study (Kothari, 2004). Pearson's correlation coefficient was used to establish if there is relationship among the independent and dependant variables and Regression analysis was employed to study if the independent variables (service quality, price, perceived value and trust) significantly predicted and explained the dependant variable (customer loyalty). To carry out all these statistical analysis, statistical package for social science (SPSS) software version 21 was used.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

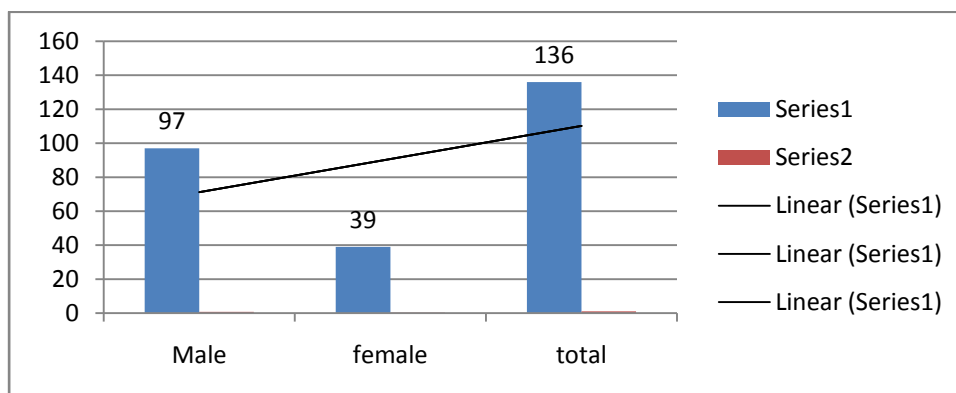
This chapter reveals the analysis of the data gathered, presentation and interpretation of the findings. Under this chapter, demographic profile of respondents, descriptive statistics in relation to the identified factors (mean and standard deviation score), factor analysis and correlation analysis were deployed. Further, regression analysis was also used to identify the most explanatory variable.

#### **4.1 Response rate**

It took the researcher four weeks to distribute and collect the questionnaires. 150 questionnaires were distributed among 6(six) branches of the 3(three) selected insurance companies, 144(one hundred forty four) questionnaires were returned out of which 8(eight) questionnaires were found to be unusable for analysis as a result of error in filling. Overall, 136 correctly filled questionnaires were returned making the response rate 90.6%. According to (Saunders, 2002), a response rate of 70% and above for questionnaire survey is sufficient to carry out the analysis.

## 4.2 Demographics of respondents

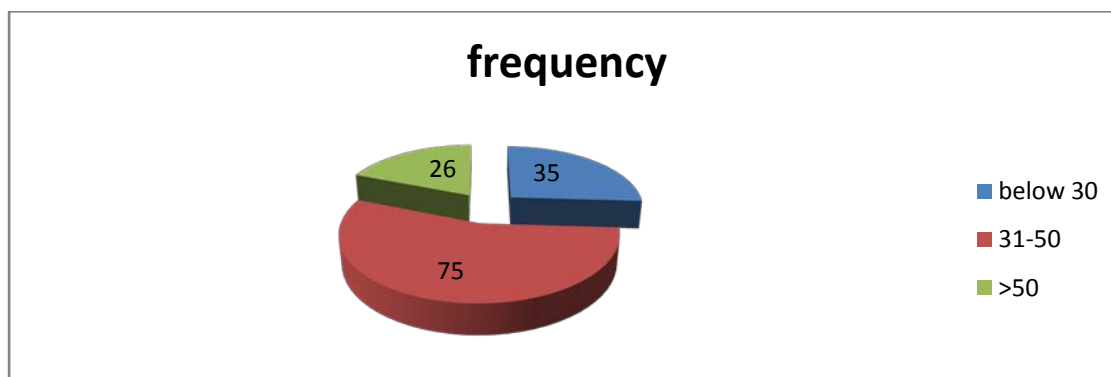
**Fig. 4.1 Gender**



*Source: own survey 2015*

With regards to gender, as one can see from fig. 4.1, the highest proportion of customers is male 97 (71%) and the rest of customers who filled up the questionnaire are female 39 (29%). This shows that the majority of users of insurance service are male.

**Fig.4.2 Age group**



*Source: own survey 2015*

Age wise as indicated in fig. 4.2, the highest accounted is for the age group between 31 and 50 which scores 75 (55%). The second largest group is respondents with age group less than 30 and is 35 (26%) of the total sample.

The lowest score is to the age group of 50 and above representing 26(19%) of the respondents. This tells that the customers going to insurance companies are moderately aged.

**Table 4.1: Educational level, customer type, and year of clientele of respondents**

No.	item	scale	Frequency	Percentage
1	Education level	High school and below	4	3%
		Certificate and diploma	42	31%
		First degree	85	63%
		Masters and above	5	3%
		<b>total</b>	<b>136</b>	<b>100%</b>
2	Type of customer	Individual	41	30%
		corporate	95	70%
		<b>Total</b>	<b>136</b>	<b>100%</b>
3	Years of clientele	Less than 2 yrs	<b>26</b>	<b>19%</b>
		2-5 years	<b>86</b>	<b>63%</b>
		Above 5 years	<b>24</b>	<b>18%</b>
		<b>total</b>	<b>136</b>	<b>100%</b>

*Source: own survey (2015)*

Referring to the above table 4.1 item one, in terms of education, most of the respondents (63%) are first degree holders followed by certificate and diploma holders (31%). The lowest score is for masters and above educational level representing only 3%. From this result, we can deduce that the majority of the respondents are with sufficient academic back ground. Item two in the same table is regarding the type of customer groups insurance companies serve, customers are divided in to two major groups, namely corporate clients and individual clients. Corporate clients include public organizations, nonprofit organizations, and financial organizations etc. that seek insurance service. Respondents of such kind were represented by the answers given through their legal representatives and liaison officers who have continuous interaction with the insurance companies. Individual clients represent individuals that come to the doors of

insurance companies to get service for their individual interest. The above table shows that 70% of the respondents represent corporate clients where as 30% are individual customers. This shows that majority of users of insurance are organizations regardless of their objectives and type.

Finally, item three is considering years of experience, 63% of the respondents have 2-5 years of service experience with their respective insurance companies. 19% of the respondents have the experience of less than two years. And 18% of the respondents have experience of 5 years and above. This result reveals that majority of customers have moderate time of clientele with their insurers.

### **4.3 Research instrument Reliability**

The purpose of this stage is to describe on the reliability of the measuring tools employed in this research. This is important because reliability shows whether or not an instrument's measures are free from error, thus yielding reliable outcomes. the most common technique used in the literature to assess the scales reliability and stability is use of cronbach alpha statistic(churchil,1982;pallant,2005),which identifies to what extent items hang together as one set (Sekaran,2005) as cited by Zeglat 2008). Low cronbach alpha value mean items don't capture the same construct, but high values of cronbach alpha indicate that items very well measure and reflect the construct. Ideally cronbach alpha should be over 0.70 to produce a reliable scale (cronbach, 1951), as quoted by zeglat(2008) and any scale with cronbach alpha less than this standard should be eliminated. The results showed that service quality, perceived price, perceived value, trust and customer loyalty scales are all reliable (see table 4.2).

**Table 4.2: reliability statistics of the variables**

<b>factors</b>	<b>Cronbach's alpha</b>	<b>Number of items</b>
Service quality	0.901	4
Price perception	0.888	5
Perceived value	0.879	5
Trust	0.897	4
Customer loyalty	0.882	5

*Source: own survey (2015)*

#### **4.4 Descriptive statistics**

The descriptive statistics (mean and standard deviation) in respect of each variable is shown in the following table

**Table 4.3: descriptive statistics of variables**

	N	Mean	Standard deviation
Service quality	136	2.78	.998
Price perception	136	3.22	.845
Perceived value	136	2.99	.970
trust	136	3.01	.867
loyalty	136	2.98	.998

*Source: own survey (2015)*

Table 4.7 show that price perception has the highest mean score of 3.22 with a standard deviation of .845. Trust is second with a mean score of 3.01 and standard deviation of .867. Perceived value stands third with a mean value of 2.99 and standard deviation of .970. Perceived service quality is the least with mean score of 2.78 and standard deviation of .998.

The interpretation was made based on the following measurement scale intervals or range. Mean scores 4.51-5.00 excellent or very good, 3.51- 4.50 good, 2.51-

3.50 average or moderate, 1.51-2.50 fair and 1.00-1.50 is poor (poonlar Btawee,1987) as sited by Hailu Demissie(2013). Accordingly, all the variables lie in the category between 2.51 and 3.50 which means respondents have average perception on each of the variables under consideration. On the other hand, the standard deviation shown on each variable is relatively low. Low standard deviation means that the data are narrow spread, which tells that customers gave close opinion on each variable.

#### **4.5 Correlation analysis**

A correlation coefficient is a very useful means to summarize the relationship between two variables with a single number that falls between -1 and +1 (Field,2005). A correlation analysis with Pearson's correlation coefficient was conducted on all the independent and dependant variables in this study to explore the relationship between variables. According to guidelines suggested by Field (2005) to interpret the strength of relationship between variables, the correlation coefficient( $r$ ) is as follows: if the correlation coefficient falls between 0.1 to 0.29,it is weak; 0.3 to 0.49 is moderate; and  $>0.5$  is strong relationship between variables.

In this study, bivariate Pearson correlation was used to examine the relationship between each of the independent variables and the dependant variable using a two tailed test of statistical significance at the level of 95% confidence and significance $<0.05$ .

From the results shown in table 4.4 to table 4.7 here under and according to Field (2005), there is positive, strong and significant relationship between each of the independent variable and the dependant variable

## Hypotheses testing

*Ho1: There is no significant and positive correlation between service quality and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.*

*Ha1: There is significant and positive correlation between service quality and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.*

**Table4.4: correlation b/n service quality and customer loyalty**

		Service quality	Customer loyalty
Service quality	Pearson correlation	1	.706**
	Sig.(2-tailed)		.000
	N	136	136
Customer loyalty	Pearson correlation	.706**	1
	Sig.(2-tailed)	.000	
	N	136	136

**\*\* Correlation is significant at the 0.01 level (2-tailed). Source own survey (2015)**

Based on the result in table 4.8, Pearson's correlation exhibits that there is a significant strong and positive relationship between service quality and customer loyalty value ( $r=.706^{**}p<.01$ ) which didn't support the null hypothesis number one of the research. Consequently, the null hypothesis is rejected but the alternative hypothesis number one of the research that "there is a significant and

positive relationship between service quality and customer loyalty in the Ethiopian insurance industry particularly in Addis Ababa” is accepted.

***Ho2: There is no significant and positive correlation between price perception and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.***

***Ha2: There is significant and positive correlation between price perception and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.***

**Table 4.5: correlation between price perception and customer loyalty**

		Price perception	Customer loyalty
Price perception	Pearson correlation	1	.643**
	Sig.(2-tailed)		.000
	N	136	136
Customer loyalty	Pearson correlation	.643**	1
	Sig.(2-tailed)	.000	
	N	136	136

***\*\* Correlation is significant at the 0.01 level (2-tailed). Source own survey (2015)***

Based on the result in table 4.9, Pearson’s correlation exhibits that there is a significant strong and positive relationship between price perception and customer loyalty value ( $r=.643^{**}p<.01$ ) which didn’t support the null hypothesis number two of the research. Consequently, the null hypothesis is rejected but the alternative hypothesis number two of the research that “there is a significant and

positive relationship between price perception and customer loyalty in the Ethiopian insurance industry particularly in Addis Ababa” is accepted.

*Ho3: There is no significant and positive correlation between perceived value and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.*

*Ha3: There is significant and positive correlation between perceived value and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.*

**Table 4.6: correlation between perceived value and customer loyalty**

		Perceived value	Customer loyalty
Perceived value	Pearson correlation	1	.693**
	Sig.(2-tailed)		.000
	N	136	136
Customer loyalty	Pearson correlation	.693**	1
	Sig.(2-tailed)	.000	
	N	136	136

**\*\* Correlation is significant at the 0.01 level (2-tailed). Source own survey (2015)**

Based on the result in table 4.10, Pearson’s correlation exhibits that there is a significant strong and positive relationship between perceived value and customer loyalty ( $r=.693^{**}p<.01$ ) which didn’t support the null hypothesis number three of the research. Consequently, the null hypothesis is rejected but the alternative hypothesis number three of the research that “there is a significant

and positive relationship between perceived value and customer loyalty in the Ethiopian insurance industry particularly in Addis Ababa” is accepted.

***Ho4: There is no significant and positive correlation between trust and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.***

***Ha4: There is significant and positive correlation between trust and customer loyalty in the insurance industry of Ethiopia particularly in Addis Ababa.***

**Table 4.7: correlation between trust and customer loyalty**

		trust	Customer loyalty
Trust	Pearson correlation	1	.697**
	Sig.(2-tailed)		.000
	N	136	136
Customer loyalty	Pearson correlation	.697**	1
	Sig.(2-tailed)	.000	
	N	136	136

***\*\* Correlation is significant at the 0.01 level (2-tailed). Source own survey (2015)***

Based on the result in table 4.11, Pearson’s correlation exhibits that there is a significant strong and positive relationship between trust and customer loyalty value ( $r=.697^{**}p<.01$ ) which didn’t support the null hypothesis number four of the research. Consequently, the null hypothesis is rejected but the alternative

hypothesis number four of the research that “there is a significant relationship between trust and customer loyalty in the Ethiopian insurance industry “is accepted.

### Summary of the hypothesis testing

**Table 4.8: summary of the hypotheses testing**

Hypothesis	r value	Relationship	result	Alternative Hypothesis
Ho1: there is no significant and positive relationship between service quality and customer loyalty	0.706**	Positive	Rejected	Accepted
Ho2: there is no significant and positive relationship between price perception and customer loyalty	0.643**	Positive	Rejected	Accepted
Ho3: there is no significant and positive relationship between perceived value and customer loyalty	0.693**	Positive	Rejected	Accepted
Ho4: there is no significant and positive relationship between trust and customer loyalty	0.697**	Positive	rejected	Accepted

*Correlation is significant at the 0.01 level (2-tailed). Source: own survey (2015)*

According to table 4.12, there is a significant positive and strong relationship between the independent variables and dependant variable. The highest correlation is between service quality and customer loyalty (0.706\*\*); followed by trust and customer loyalty (0.697\*\*); perceived value and customer loyalty (0.693\*\*). The least correlation is between perceived price and customer loyalty (0.643\*\*). The correlation between all the independent variables and dependant variable is proved to be positive and significant, which means the improvement in any or all of the independent variables results in improvement in customer loyalty.

#### **4.6 Multiple regressions**

Correlations are very useful research tools but they tell us nothing about the predictive power of variables (Field, 2005). To support the correlation tools, a regression analysis was implemented. A regression analysis was used to further investigate the relative importance of the independent variables in predicting the dependant variable. In other words, it answers the second research question of the research. Table 4.14 shows the result of regression analysis. Regression analysis is a statistical method which is used to explain and predict dependant variable from independent variables. In regression analysis the predictive model is used to predict the values of dependant variable from independent variable. Thus, regression analysis is functionally used to explain and predict.

Before the regression analysis, multicollinearity of variables was tested. The commonly used cut-off points as Pallant (2005) mentioned for determining the existence of multicollinearity among independent variables are Tolerance value and Variance inflation factor (VIF) value. The rule is that when tolerance value is less than 0.2 and the VIF exceeds 10; it is a signal of multicollinearity, which could lead to misleading and/or inaccurate results. Multicollinearity occurs when there are high intercorrelations among some set of the predictor variables. In other words, multicollinearity happens when two or more predictors contain

much of the same information. Refer to collinearity Statistics shown below, the tolerance and VIF showed that there was no multicollinearity because VIF of all variables were less than 10.

**Table 4.9: Multicollinearity statistics**

Variables	Tolerance	VIF
Service quality	0.341	2.931
Price perception	0.399	2.507
Perceived value	0.405	2.468
Trust	0.327	3.058

*Source: own survey (2015)*

**Table 4.10: regression result of independent variables and dependant variables**

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std.Error	Beta		
(constant)	-.345	.234		-1.476	.014
Service quality	.376	.072	.309	5.211	.000
Price perception	.159	.067	.139	2.363	.019
Perceived value	.224	.071	.203	3.162	.002
Trust	.255	.074	.225	3.433	.001

*Source: own survey (2015).significant at 0.05 level*

The result here above showed that all independent variables: service quality, price perception, perceived value and trust had impact on the dependent variable

(customer loyalty) with Beta and Significance level of: (1)service quality: 0.376 and Sig.= 0.000, (2) price perception: 0.159 and Sig. =0.019, (3) perceived value: 0.224 and Sig. = 0.002, (4) trust: 0.255 and Sig. =0.001. As shown in the table 4.14, all independent variables had Sig. < 0.05, they were found to significantly contribute to customer loyalty. The result also indicated that Service quality was the most important factor influencing customer loyalty of insurance service customers followed by trust and perceived value. The significant factors have been included for the establishment of the function. The established regression function is

$$L = -.345 + .376(SQ) + .255(T) + .224(PV) + .159(PP)$$

Where:

*L* = customer loyalty

*SQ* = service quality

*T* = trust

*PV* = perceived value

*PP* = price perception

-.345 = constant ( y-intercept)

The regression result also indicated that all the independent variables combined significantly influence the loyalty of customers. The value of adjusted R square of .600 indicates 60.0% of the variance in customer loyalty can be predicted by the independent variables. In other words, 40% of the variation in customer loyalty is affected by other factors

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

This chapter provides the summary of results, conclusions, recommendations and future research directions.

#### **5.1 Summary of results**

From the demographic characteristics of respondents, majority are male respondents. Besides, respondents participated in the survey are middle aged. Regarding educational back ground, majority have got bachelor degree. In respect of the type of customer group many of the respondents are corporate customers. In terms of years of service experience, the majority have the experience between 2 to 5 years with their current insurance companies.

The descriptive statistics shows that the mean score values of the independent variables (i.e. service quality, price, perceived value and trust) ranges from 2.78 to 3.22. According to (poonlar Btawee; 1987) as cited by Hailu Demissie(2013) each of the variables under consideration were perceived as average among respondents.

The Pearson correlation coefficient reveals that Service quality ( $r=.706$ ); price perception( $r=.643$ ) perceived value( $r=.693$ ) and trust ( $r=.697$ ) are all strongly and positively correlated with customer loyalty supporting all the four alternate hypotheses in the research. The strength of correlation is highest for service quality followed by trust, perceived value and perceived price. The correlation is also significant at .05 level two tailed.

Finally from the multiple regression result, estimate of regression weight shows that all the independent variables (service quality ( $\beta=.376$ ), price perception ( $\beta=.159$ ), perceived value ( $\beta=.224$ ) and trust ( $\beta=.255$ ) significantly predict and explain customer loyalty. service quality and trust are the most dominant factors in influencing customer loyalty in Ethiopian insurance industry particularly in private insurance companies.

## **5.2 Conclusions**

The main objective of the research was to identify factors affecting customer loyalty in the Ethiopian insurance industry particularly in private insurance companies. Accordingly, the study tried to test the relationship that exists between selected factors from existing literature (service quality, price perception, perceived value and trust) vis a vis customer loyalty.

Service quality appeared to be the most correlated construct with customer loyalty in the Ethiopian private insurance industry with a correlation coefficient of 0.706. It is also the most dominant factor in predicting customer loyalty with a beta coefficient of 0.376. This confirms the findings of the earlier researchers (Elnan and Anderson, 1999; Corner and Gungor, 2002; Turel and Serenko, 2006). This implies that as customers perceive the service of insurance companies to be of quality, they remain loyal to their respective insurance companies. Thus, improving service quality brings about improved customer loyalty.

Trust is the second most correlated construct with customer loyalty in the Ethiopian private insurance industry with a correlation coefficient of 0.697. It is also the second most dominant factor in predicting customer loyalty with a beta coefficient of 0.255. This result supported the findings of previous researchers (Garbarino & Johnson, 1999; Chaunduri & Holbrook, 2001; Singh &

Sirdeshmukh, 2000). The implication is that as customers of insurance companies trust their respective insurance companies, customers tend to be loyal. So, increasing trust of customers increases loyalty.

Perceived value is the third most correlated construct with customer loyalty in the Ethiopian private insurance industry with a correlation coefficient of 0.693. It is also the third most dominant factor in predicting customer loyalty with a beta coefficient of 0.224. This relationship was also evidenced by previous researchers (Boulding, 1993, Khatibi, Ismail & Thyagarajan, 2002). This implies that as customers get the service of insurance companies as valuable, they remain loyal to such insurance companies. Thus, increased value results in increased customer loyalty.

Price is the fourth most correlated construct with customer loyalty in the Ethiopian private insurance industry with a correlation coefficient of 0.643. It is also the fourth most dominant factor in predicting customer loyalty with a beta coefficient of 0.159. This relationship was also evidenced by previous researchers (Bolton & Drew, 1991; Athnassopoulos, 2000; Variki & Colgate, 2001; Martin Consuegra, 2007). This implies that as price of insurance service decreases, they remain loyal to such insurance companies. Thus, reduced price makes customers be loyal.

In conclusion, service quality, trust, perceived value and price appeared to be antecedents of loyalty in the Ethiopian insurance industry particularly in private insurance companies. Therefore, private insurance companies should note the four factors that are found to predict loyalty and emphasize them in their marketing strategy.

### **5.3 Recommendation**

Depending on the findings of the research, the researcher suggests the following points.

- The study found a positive, significant and strong correlation between each of the four independent variables (service quality, price perception, perceived value, trust) and customer loyalty. Moreover, all the independent variables have predicted and explained the dependant variable significantly where service quality and trust were the most important factors in predicting customer loyalty. Therefore, managers should design strategy to improve on all the independent variables specifically service quality and trust to increase customer loyalty.
- Service quality is found to be the most dominant factor in determining customer loyalty in the private insurance industry of Ethiopia. Therefore, managers better focus on different dimensions of service quality to retain its customers.
  - First, they better identify needs of customers by conducting market survey.
  - They better have the necessary and sufficient resource capacity (both human and material) to deliver the service competitively.
  - They should improve the reliability of their service delivery.
  - Responsiveness is critical in insurance contracts. Customers need immediate claim settlement based on the insurance policy when they face accident.
  - To better perform in all these areas the management need to train its employees so that they become more professional in

their job; have excellent communication skill, being courteous, friendly and competent to meet customers' needs

- Trust is really what matters in insurance industry. And the result of the research has shown this. Therefore, managers should design a strategy to increase their company's trustworthiness. Thus, Insurance companies better
  - Be always ready and willing to offer assistance and support to their customers.
  - Fulfill promises adequately in a reasonable time period.
  - Have staff with the necessary ability and skill to fulfill its commitments effectively and efficiently.
  - Show that the company puts the interests of its customers first. Such actions could help to improve trustworthiness.
  
- Most importantly, the key to customer retention is customer relationship management (CRM), the process of managing detailed information about individual customers and managing all customer touch point to maximize loyalty. Therefore, insurance business should engage in CRM.

#### **5.4 future research directions**

- Conceptually, this study was limited to identifying factors that contribute to the formation of customer loyalty in the Ethiopian private insurance industry. Literature show that there are many factors affecting customer loyalty. For this research purpose four factors only (i.e. service quality, price, perceived value, trust) were investigated. Future studies should investigate other additional factors to have a broader and comprehensive understanding about loyalty of customers in the insurance industry of Ethiopia.

- The place in which this research has been conducted was Addis Ababa. Future researches should attempt to include customers located outside Addis Ababa to have a complete picture about the subject matter in Ethiopian context.
- This research also didn't consider government owned Ethiopian insurance corporation (EIC), the biggest insurance company in Ethiopia. Future researches should try to consider EIC and make comparative analysis between government insurance company and private insurance companies whether there exists significant difference on factors affecting customer loyalty.
- This research focused only on the perceptions of customers and did not measure the perception from personnel of the insurance companies. Future researches should consider both ways and identify differences among perception of customers and personnel of insurance companies.
- Future researches should also focus on the relationship between demographic characteristics and loyalty.

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