



**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE**

**THE ROLE OF CUSTOMER RELATIONSHIP MANAGEMENT IN
BUILDING CUSTOMER LOYALTY: THE CASE OF ZEMEN BANK S.C**

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*Thesis Submitted to the School of Graduate Studies of Addis Ababa
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DEPARTMENT OF MARKETING MANAGEMENT

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DECLARATION

I, Kassahun Ayalew, hereby declare that this thesis titled, ‘The Role of Customer Relationship Management in Building Customer Loyalty: the case of Zemen Bank S.C’ is my original work. I have carried out the present study independently with the guidance and support of the research advisor, Getie Andualem Zewdie (Ph. D). 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 Degree or Diploma Program in this or any other institution.

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List of Abbreviations:

- AGFI** - Adjusted Goodness of fit Index
- ASV** – Average Shared Squared Variance
- AVE** – Average Variance Extracted
- CBE** – Commercial Bank of Ethiopia
- CFA** – Confirmatory Factor Analysis
- CR** - Composite Reliability
- CRM** – Customer Relationship Management
- GFI** – Goodness Fit
- IFI** – Incremental Fit Index
- LV**– Latent Variable
- MSV** – Maximum Shared Squared Variance
- NBE** – National Bank of Ethiopia
- NFI** – Normed Fit Index
- SEM** – Structural Equation Modeling

Abstract

The aim of this research is to determine if customer relationship management has an effect on customer loyalty in the context of Ethiopia banking industry taking “Zemen Bank S.C” as a case study. The underpinnings of customer relationship management orientations: communication, trust, relationship commitment, and conflict handling were used as independent variables whilst customer loyalty was treated as the dependent variable. For this study, accessible population of 265 the bank customers who are classified as corporate and high net worth individuals was conveniently selected. A structured questionnaire was used to collect data form respondents by using a self-administered data collection system. Data analysis mainly took place in AMOS 20.0 and SPSS 21.0 through structural equation modeling (SEM) to test hypothesized causal relationships. The study found out that the four underpinnings of customer relationship management orientations such as communication, trust, relationship commitment, and conflict handling, significantly and positively affect customer loyalty. Results of structural equation modeling analysis shows that zemen bank customers tend to be very loyal if the bank remains trustworthy to the clients; communicates them openly and timely, stay committed and tries to avoid conflict or willing to solve conflicts that already manifested.

Keywords: *Customer Relationship Management, Customer Loyalty, Communication, Trust, Relationship commitment, and Conflict handling.*

CHAPTER ONE

1. INTRODUCTION

1.1. Chapter overview

In an ever expanding and rapidly changing environment, companies cannot maintain attitudes characterized by attracting customers or expanding in new markets. The key success factor to survive in a competitive market relies on sustaining long-term relationships with customers (Demadriaga and Valor, 2007). In order to ensure sustainable growth in the market, the organization should be intended not just to attract new troops of customers but also to acquire customer loyalty and their patronage both for present and future. The challenge for today's organizations is not to attain first position, but to be there for long time and this would be possible only if organization can ensure loyalty among its customers.

The customers are also smarter, more informed, and have an access to many channels and choices which they take little time to exercise. Customer can easily defect to competitors who promise better offerings at lower prices. Transforming indifferent customers into loyal ones and establishing a long term relationship with customers is critical for organizational success (Bhardwaj, 2007). Winning organizations, irrespective of the nature of their business or size, have one thing in common; the loyalty of their customers. Organizations capable of providing trust and commitment to their consumers are the organizations that stay on top of the market with their loyal customers (Fallon, 2012).

This led organizations to move from product centric marketing orientation to customer centric marketing orientation. In order to build customer loyalty, organizations should maintain a good relationship with their customers so that organizations would be in the position to understand the customers' needs, wants & expectations for delivering desired value in a way that better than their competitors (Sachro & Pudjiastuti, 2013).

Customer relationship management enables companies to provide excellent real-time customer service through the effective use of individual account information. Based on what they know about each valued customer, companies can customize market offerings, services, programs,

messages, and media. CRM is important because a major driver of company profitability is the aggregate value of the company's customer base (Kotler, Philip, 2012). Grönroos (1994) argued that relationship marketing effort should be regarded as investment in customers. The main intention of implementing relationship marketing in an organization is to capitalize on customer loyalty (Raza &Rehman, 2012)

Though several authors attempted to define and examine customer relationship management from different perspectives, their central theme revolve on providing the best possible long-term value to customers and make them loyal to the organization in a profitable manner. For instants, (Kotler and Philip, 2012) defined Customer relationship management (CRM) as the process of carefully managing detailed information about individual customers and all customer "touch points" to maximize loyalty. (Swift, 2000) defined CRM as a method of understanding the customer behavior through intense communication with him/her to improve the performance which is represented in attracting the customer, keeping him/her and increasing his/her loyalty and profitability. Thus, they suggest that CRM is a set of business practices designed to make an organization closer to its customers in order to be able to better understand each customer so that each one becomes more important and more valuable to the organization (Godsen, 2004).

Several authors have also suggested different components of customer relationship marketing orientation that they argue will explain most customer relationship marketing in related with customer loyalty. Scholars have emphasized different key virtues that have been theorized in the relationship marketing literature, namely trust (Morgan & Hunt 1994; Moorman, Deshpandè & Zaltman, 1983), commitment (Ndubisi, 2007; Morgan & Hunt 1994), Morgan and Hunt (1994), Communication (Morgan and Hunt, 1994; Anderson and Narus 1990), and Conflict handling (Dwyer *et al*, 1987; Rahim, 2000). Customer loyalty is the heart of retention. If an organization is not able to keep customer and build long-term relationship, it will continue to operate with discrete one off –transaction.

Customer loyalty is strongly associated with customer's willingness to continue in the relationship. Loyalty can be understood in different ways depending upon the nature of the product or service which is being offered to a customer. For example, a bank customer is typically loyal as long as he holds an account with a bank and switches when he changes his

account. On the other hand, the owner of a certain brand cars can only show his loyalty to its brand when he makes a purchase the same brand next time. Furthermore, a customer can demonstrate his loyalty to a brand by showing his commitment and by providing a positive word-of-mouth to friends. Phelps and Graham (2001) are of the view that the more frequent a customer buys from an organization the more their loyalty increases. A loyal customer will always pay more for services and be less sensitive to tactical discounting so that they will actually have more profitability than customers who are attracted by trade promotion and special offers.

The banking industry in Ethiopia becoming increasingly competitive following a large expansion trend exhibited by both state and private owned banks. The last five years, especially, has witnessed an aggressive expansion taken by banks and as result the number of bank branches in the country have risen from just 600 at June 2010 to 2693 at June 2015 (NBE report), which amounts to 3.5 times from five years ago. Service products offered by these banks are also more or less similar mainly due to strict regulation set by NBE and also innovations in technology and e-banking have spread throughout the industry. It is now standard for all banks to have modern core banking systems, and services such as ATM Banking, Internet Banking, POS service, and Mobile Banking are also becoming routine. Given the stiff competition and service standardization among different banks in the country, the need to have loyal customers is becoming apparent. Therefore, it is vital to examine how banks create loyal customers using customer relationship management as a tool. At this backdrop, this study is intended to empirically investigate the impact that various elements/components of customer relationship management have on customer loyalty taking evidence from Zemen Bank S.C. The study will make use of a conceptual frame work developed by Alrubaiee & Al-Nazar (2010). This model was used to investigate the relationship between constructs/elements of customer relationship such as Trust, Commitment, communication, and conflict handling with customer loyalty through the study of Zemen Bank's customers.

1.2. Organizational background

Zemen Bank was founded in 2008 with a vision of being different—in both style and in substance— from all Ethiopian banks that came before it. The original feasibility study of the then Access Bank drafted in October 2007 put the Bank's two-pronged vision as follows: (1)

“Enhancement and expansion of existing products and services offered by other banks,” and (2) “Development and provision of innovative products and services, which are not currently offered by other banks.” To realize this vision, the feasibility study emphasized the need to: (1) raise customer service standards to levels not before seen in the industry; (2) introduce previously non-existent products, and; (3) deploy world-class IT systems and processes.

Many of these objectives were put in place from the very outset, as Zemen Bank: offered its customers novel standards of service (e.g. the then longest working hours, comfortable and luxurious physical facilities, personalized banking services); invested substantial funds into I.T. infrastructure; provided deposit products tailored to a niche market; introduced competitive interest rates for both depositors and borrowers (exporters); and committed itself to unconventional loan products such as unsecured credits (cash-flow based lending) and consumer loans. By pursuing these distinctive approaches, the Bank branded itself as a dynamic new entrant to the market.

Even while offering the conventional set of banking services provided elsewhere such as deposit product, credit service and international banking service, Zemen Bank has specifically chosen a Blue Ocean Strategy in doing so. This has involved the identification and pursuit of uncontested market spaces as a guiding framework for focusing on particular customer segments, product groups, and delivery methods. In practical terms, the pursuit of the Blue Ocean strategy within Ethiopian banking has meant focusing on relatively unaddressed and unexplored areas within the industry. Accordingly, Zemen Bank has been working to deliver relatively new and unknown service offerings and delivery methods, though the novelty and distinctiveness of these targeted sub-segments and channels has eroded over time as they came to be adopted more widely within the industry.

1.2.1 Zemen bank’s customer segments:

Corporate focused services is a priority in many aspects of the Bank’s services, including in terms of marketing focus, deposit base, credit/international banking clients, and tailored services (i.e. corporate kiosks, doorstep banking, payroll services,). Among individual clients, the bank focuses on middle- and high-income groups. The Bank has given priority to serve the middle and

upper-income segments of the market based on the assessment by the Bank's Founders' (back in 2008) that this sub-segment was ill-served by the industry (i.e., not specially catered to in terms of special products and standards). Accordingly, this focus within the retail banking segment has influenced product offerings of the bank as outlined below

1.2.2 Zemen bank's product offerings:

- Corporate tailored deposit products, including a combined checking and savings accounts intended to attract corporate clients.
- Tiered deposit account services where the requirements and benefits vary for different categories of account classes (Personal Accounts, Prestige Accounts, and Z-Club accounts).
- Competitive savings rates that are above the industry norm of 5% and that increase the more funds a customer places with the Bank.
- Daily interest accrual is computed for savings accounts, whereby customers' daily balances are utilized rather than their lowest balance in a month.
- Debit cards freely provided for all bank accounts, rather than the use of traditional pass-books utilized at other banks.
- Z-Club services for high-end clients with special benefits and privileges (such as a dedicated floor for their use).
- Doorstep Banking services, involving cash/cheque delivery and pick-up services to clients, designed in part to make the need for branches much less relevant, and offered not just to corporate clients but also to high-net worth (Z-Club) personal clients as a distinctive offering.
- Prepaid Card Services (i.e., Gift Cards, Payroll Cards, Pre-Paid (Salary) Cards, etc) involving preloaded cards that were new to the market at launch and that aimed to serve customers unable/unwilling to meet the required balance to open a regular bank account.
- VISA and MASTER CARD are accepted by the bank to serve foreign/visiting clients that help to secure foreign exchange inflows.
- Unconventional credit product offerings focused on products not typically offered elsewhere, such as consumer loans, mortgage loans, home equity loans, and unsecured loans

1.2.3 Zemen bank's delivery channels:

The bank adopted an operational model based on a minimal physical network, initially involving a "One-Branch" service model but subsequently modified towards a "Limited Branch" network (Zemen bank midterm strategic plan) this has allowed the Bank to focus on a few high-quality, customer-friendly locations. The bank also uses small kiosk/sub-branches, mainly, targeted for specific corporate clients and are located at the clients' premises. Multi-channel services that include ATM Banking, Internet Banking, and Mobile Banking have also been a core operating method for the Bank, serving as alternative service delivery channels beyond the limited branch network.

1.2.4 Zemen Bank marketing strategy:

Having a strong and distinctive marketing approach has been part of Zemen Bank's vision from its very establishment. As with Information Technology, Zemen Bank set up a Vice President position for Marketing, signaling its intention to have this unit play a key role in the Bank's growth. Key tools of customer acquisition during this period were personal selling that includes door-to-door sales to large corporate customers, tour events at the Bank; pursuit of news and other sources on new foreign investors, and capitalizing on customer referrals to pursue specific leads. The bank has also deployed Relationship Management systems especially for corporate customers and high net worth individual whereby key clients are handled by a single primary point of contact at a Bank, who in turn interfaces with various operational units on behalf of and in place of the customer. Such CRM systems also imply modern systems to track customer behavior, to anticipate its needs, to cross-sell multiple bank services to that customer, and in general systems to measure and maximize the life-time benefit (to the bank) from that customer.

1.3. Statement of the problem

The Ethiopian banking industry which has been at its infancy stage for many decades has started to show a dynamic change in recent years. In the past, one cannot confidently argue that there has been rigorous banking competition. During the pre-1975 imperial era, there had few banks (dominated by foreign ownership) and the absorptive capacity of the economy was too low even to accommodate moderate competition. In the Derge regime (1975-1991), private banks were fully nationalized and left no room for competition. After the down fall of the Derge regime in

1991, private banks were again allowed to operate consistent with the ideology of market oriented economic policy (Alemayehu, 1986).

Whereas, the banking environment in recent years has been marked by rapid expansion and growth and Ethiopia's 16 private banks and 3 government-owned banks have collectively raised deposits and loans by more than three-fold during the past five years (GTP1). Notable industry developments over the past five years are: large scale expansion on loans and deposit; branch numbers have risen nearly 4 times; bank accounts have reach 20 million as of June, 2015; multi-channel offerings have increased, and, as of June 2015, industry-wide data show 2 million debit cards, 3000 POS devices, and 1100 ATMs in place (NBE report). Close bank branch proximity has become widespread in the last five years (with branch network up from 650 to 2600 branches over five years) and size of still- unbanked Ethiopians has shrunk considerably during this period. In fact, for most Ethiopians, the distance from a bank (or MFI) branch is now increasingly not a reason to remain unbanked, as suggested by a World Bank/NBE Financial Inclusion Study survey which found that, in responses to "Why don't you use a financial institution to save?" the main answers were: "Insufficient funds" (78%); "Too far away" (12%); "Cost of the service" (2%); and 1% each for "Don't have documentation", "Don't trust" or "Religious Reasons"

Intensive competition among banks is now becoming a norm, given large branch expansion to date, and the need to justify and make profitable the past and on- going expansion. Hundreds of branch managers are now scoping opportunities in their location and aiming to shift customers from other bank to their bank. Intense competition on deposits and foreign exchange has reached to the point of pursuing questionable, unethical, and illegal methods. Banks are now open until 7 pm in the evening, even some stays up to 9 pm in their selected branches to cater their clients which used to be a norm to close their doors at 4 pm in the afternoon. Most banks now employ cutting edge technologies to roll out their products to their customers. Customers living in the big commercial towns are now spoiled for choice. Now client acquisition is not an easy task for banks and because of the very fierce competition in the banking sector, weekly newspapers are adorned with catchy adverts of different banks. Similarly, the electronic medias are also largely being covered by banks' messages. As technologies and promotional techniques are frequently copied by competitors; it has been argued that a more viable approach for banks is to focus on less

tangible and less easy-to-imitate determinants of customer retention such as customer relationship marketing (Fornell and Wernerfelt, 1987)

As several studies have indicated, retaining customers perhaps offers a more sustainable competitive advantage than acquiring new ones. What marketers are realizing is that it costs less to retain customers than to compete for new ones (Rosenberg and Czepiel, 1984). In addition, several marketers are concerned with keeping customers for life rather than with only making a one-time sale (Cannie and Caplin, 1991). There is greater opportunity for cross-selling and up-selling to a customer who is loyal and committed to the firm and its offerings. Consumers are less willing to make compromises or trade-offs in product and service quality. In a world of ever changing customer expectations, building cooperative and collaborative relationships with customers seems to be the most prudent way to keep track of their changing expectations and appropriately influencing them (Sheth and Parvatiyar, 1994). Customers will only choose the institutions that are making a real effort to provide a high level of quality; fast and efficient services through all the banks touch points (Puccinelli, 1999). This has led to extreme competition and decline in customer loyalty especially in the financial service industry (Webb, 1997). Hildebrand (2000) observed that, it takes an average of 8-10 physical calls in person to sell to a new customer and 2-3 calls to sell to existing customers. It is therefore important that banks do all in their power to satisfy and retain existing customers and this study will examine the impact of customer relationship management's elements on loyalty of existing customers of Zemen Bank S.C.

1.4. Objectives of the study

General objective of the study

The purpose of this study is to investigate the impact of customer relationship management on customer's loyalty, with specific focus on the the banking industry using Zemen Bank as a case study.

Specific objectives of the study

- 1) To find out the impact of communication on Zemen Bank customer's loyalty

- 2) To find out the impact of trust on Zemen Bank customer's loyalty
- 3) To find out the impact of relationship commitment on Zemen Bank customer's loyalty
- 4) To find out the impact of conflict handling on Zemen Bank customer's loyalty

1.5. Hypothesis of the study

The study, based on the specific objectives mentioned above, will propose the hypothesis that the below elements of customer relationship management have a positive effect on customer loyalty.

H1: Communication has a positive effect on customer loyalty.

H2: Trust has a positive effect on customer loyalty.

H3: Relationship Commitment has a positive effect on customer loyalty.

H4: Conflict Handling has a positive effect on customer loyalty.

1.6. Definition of terms

Below are conceptual definitions that are used in this research:

Customer relationship management: is the process of carefully managing detailed information about individual customers and all customer "touch points" to maximize loyalty. A customer touch point is any occasion on which a customer encounters the brand and product—from actual experience to personal or mass communications to casual observation (Kotler and Philip, 2012)

Dimensions of customer relationship management:

Communication: Communication in relationship marketing refers to keeping in touch with customers, providing timely and trustworthy information, and communicating proactively if a delivery problem occurs (Ndubisi, 2007).

Trust: One party who is willing to rely on the actions of another party and the situation is directed to the future (Markova & Gillespie, 2007).

Relationship commitment: can be defined as the sacrifices made by the parties involved to maintain a relationship. Moorman et al. (1992) define commitment as an enduring desire to maintain a valued relationship

Conflict handling: Conflict handling in relationship marketing refers to a supplier's ability to avoid potential conflicts, solve manifest conflicts before they create problems and discuss solutions openly when problems arise (Dwyer et al, 1987).

Customer loyalty: is a customer's intention or predisposition to purchase from the same organization again (Edvardsson et al., 2000), that result from the conviction that the value received from one seller is greater than the value available from other alternatives (Hallowell, 1996).

1.7. Significance of the study

The Ethiopian banking industry comprises one state-owned development bank and 18 commercial banks, two of which are state-owned (recently amalgamated to one), including the dominant Commercial Bank of Ethiopia (CBE). Though the number of banks remain as is in the last five years, the sector is being transformed and a huge growth and expansions have been exhibited. Most of the banks have doubled/tripled their capital and branches within the last five years. Accordingly, the competition among banks towards resource mobilization, both local and foreign currency, has intensified. As the service offerings and channels of delivery adopted by these banks are more or less similar, mainly due to the sector is highly regulated and most of the banks have already adopted new banking technologies, the field of competition has started to shift to service quality. New client acquisition has also becoming a daunting task to banks following a near quadruple increase in number of branches within the last five years. Now is the time to banks to pose and look at inside and work on retention through creating loyal customers. This study was important in identifying the role of customer relationship management has on customer loyalty on Zemen bank Customers.

With the rate of competition ever increasing to acquire new clients among banks, a strategic thinking of retaining existing customers should exist to create loyal customers. It is eminent that growth and expansions in the Ethiopian's banking sector will be intensified in the future and it will not be an easy task to win the hearts and minds of new clients. This study will have practical

significance through informing Zemen Bank to evaluate its customer relationship management impact on customer loyalty and other banks which are contemplating to introduce customer relationship management.

There are a number of thesis works done in relation to customer relationship management impact on customer loyalty especially in other countries. However, this study, by considering an Ethiopian bank, which somehow adopted a customer relationship management in its marketing strategy, will also add to existing body of knowledge in the area. It can also be a starting point for other researchers seeking to examine the impact of customer relationship management on customer loyalty in the Ethiopian context.

1.8. Delimitation/Scope of the study

This study is limited in scope in that it will only focus on Zemen Bank's customers. It assesses the impact of customer relationship management on customer loyalty through elements of customer relationship management such as Communication, Trust, Relationship commitment, and Conflict handling.

A study undertaken in an industry wide scale will have a far more generalized result although it requires more resources. However, due to financial and time constraints the study was confined to Zemen Bank.

The study will take in to account the impact that elements of customer relationship management such as Communication, Trust, Relationship commitment, and Conflict handling have on customer loyalty. It is acknowledged that there are other demographic variables elements such as sex, education and income which are not included in this study and have effect on customer loyalty.

1.9. Organization of the thesis report

The study is organized in five chapters.

Chapter one will include background of the study, statement of the problem, basic research questions, objectives of the study, hypothesis, definition of terms, significance of the study, scope and limitations of the study.

Chapter two covers review of relevant related literature. In this second chapter, various publications relevant to the research area were assessed. Literature related to customer relationship management; dimensions customer relationship management such as Communication, Trust, Relationship commitment, and Conflict handling and customer loyalty was given a separate section to allow for further inquiry in to the body of literature. The conceptual framework and model used for the research will also be discussed under this chapter.

Chapter three encompasses research design and methodology, population and sampling, data collection methods and analysis. Justification of why such research design and methodology is chosen will also be discussed.

In chapter four results and discussion of the study is presented. Major findings from the study are discussed in detail with focus given to the relationship between customer loyalty and customer relationship management dimensions.

The last chapter presents the summary, conclusions and recommendations of the study. The summary of findings is made based on the results discussed under chapter four. Conclusions, recommendations and further area of research will also be pointed out in this section.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Chapter Overview

The purpose of this chapter is to critically review literature related to the theoretical concept of the topic of customer relationship management and customer loyalty. The literature review is to develop a theoretical framework for the study.

2.2. Customer relationship management

The essence of CRM thinking originates from three concepts in marketing management: (1) customer orientation, (2) relationship marketing, and (3) database marketing. With the advancement of information and communication technology (ICT), these three marketing tenets have come together in the paradigm of CRM (Langerak and Verhoef 2003). As customers became more difficult to reach with mass advertising, CRM emerged to more accurately target customer segments on a one-to-one basis. But, exactly what is CRM? At present, in the universe of marketing management, multiple definitions abound. For instance, Kotler and Armstrong define CRM as “the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction” (2004). This definition seems to include the broad-based essence of marketing, wherein value and satisfaction are prominent. Zikmund, McLeod, and Gilbert provide a more technology-oriented perspective by defining CRM as “a business strategy that uses information technology to provide an enterprise with a comprehensive, reliable, and integrated view of its customer base so that all processes and customer interactions help maintain and expand mutually beneficial relationships” (2003).

In view of the wide variance among CRM definitions, broader perspectives began to emerge in a number of definitions that started to focus on considering CRM as an organization-wide effort that centered on building and maintaining profitable customer relationships (Akroush *et al.*, 2011). Broader Customer relationship management is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and

satisfaction. It deals with all aspects of acquiring, keeping, and growing customers (Kotler and Armstrong, 2012). Hence, CRM tools are activities by business organizations to manage customer interactions across channels and department, including marketing, sales, customer service and technical support (Chaney, 2013).

Though the competitive advantage for any enterprise can be gained only by leveraging knowledge of customers' expectations, preferences and behavior which involve creating an ongoing dialog with customers and exploiting the information and insight obtained at every customers touch points as argued by Payne (2005). Kotler and Armstrong (2012) indicated that mostly companies try to increase customer satisfaction by lowering price or increasing the service which results in lower profit. However, firms through effective CRM tools can generate customer value profitably without giving away their profit. The philosophical rationale behind the importance of and the need for CRM lies in the importance of cooperative and collaborative relationship between buyers and sellers (Akroush *et al.*, 2011). Accordingly, Atul & Jagdish (2001) defined CRM as a Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value.

Berry (1995), in somewhat broader terms, also has a strategic viewpoint concerned with CRM. He has stressed that attracting new customers should be viewed only as an intermediate step in the marketing process and that developing closer relationship with these customers and turning them into loyal ones should be equally important aspects of marketing. Thus, he proposed that relationship marketing be seen as “attracting, maintaining, and – in multi-service organizations – enhancing customer relationships”

Marketers are extensively using customer relationship management to make customers loyal in order to ensure that the customers will come back to service provider again and again for the similar service requirement; Customer Loyalty is central to the customer relationship management. Customer relationship management by design will not guarantee long lasting

customer relationship; in fact, customers would demonstrate relationship with varied closeness and intensity. In order to develop effective relationship marketing strategies, organizations should improve customers' perceived benefits of getting into relationships (O'Malley and Tynan, 2000).

2.3. The “underpinnings” of customer relationship management

The marketing literature has theorized key virtues that underpin customer relationship marketing, such as trust (Morgan and Hunt, 1994; Veloutsou *et al.*, 2002), commitment (Grossman, 1998; Chan and Ndubisi, 2004), conflict handling (Dwyer *et al.*, 1987; Ndubisi and Chan, 2005), and communication or sharing of secrets (Ndubisi and Chan, 2005; Morgan and Hunt, 1994; Crosby *et al.*, 1990). These have been linked in this study to customer loyalty. Ndubisi (2004) has suggested that companies should make sacrifices and worthwhile investments in building relationships with loyal, or at least potentially loyal, customers. It is argued here that the following four identified underpinnings of customer relationship management are directly linked to and have positive relationship with customer loyalty.

2.3.1 Communications:

In this context, communication refers to the ability to provide timely and trustworthy information. Today, there is a new view of communications as an interactive dialogue between the company and its customers, which takes place during the pre-selling, selling, consuming and post-consuming stages (Anderson and Narus, 1990). Communication in relationship marketing is keeping in touch with valued customers; providing timely and trustworthy information on service and service changes; and communicating proactively if a delivery problem occurs. It is the communicator's task in the early stages to build awareness, develop consumer preference (by promoting value, performance and other features), convince interested buyers, and encourage them to make the purchase decision (Ndubisi and Chan, 2005). Empirical evidence suggests that communication increases the level of trust between partners (Anderson and Narus, 1990; Anderson and Weitz, 1992; Morgan and Hunt, 1994). Communications also tell dissatisfied customers what the organization is doing to rectify the causes of dissatisfaction. When there is effective communication between an organization and its customers, a better relationship will

result and customers will be more loyal. The following hypothesis is proposed to find out the impact of communication as one of the underpinnings of CRM on customer loyalty.

H1: Communication has a positive effect on customer loyalty

2.3.3 Trust:

Trust has been defined as “. . . a willingness to rely on an exchange partner in whom one has confidence” (Moorman *et al.*, 1993). A betrayal of this trust by the supplier or service provider could lead to defection. Schurr and Ozanne (1985) defined the term as the belief that a partner’s word or promise is reliable and a party will fulfill his/her obligations in the relationship. Du Plessis (2010) also defines trust as follows: “Trust refers to one party believing that the other party will act in his best interest, that the other party is credible and that the other party has the necessary experience.” A key aspect that is reflected in this definition of trust is credibility. Credibility affects the long-term orientation of a customer by reducing the perception of risk associated with opportunistic behavior by the firm. Other authors have defined trust in terms of opportunistic behavior (Dwyer *et al.*, 1987), shared values (Morgan and Hunt, 1994), mutual goals (Wilson, 1995), uncertainty (Crosby *et al.*, 1990), actions with positive outcomes (Anderson and Narus, 1984) and making and keeping promises (Bitner, 1995).

Calonius (1988) emphasized that an integral element of the relationship marketing approach is the promise concept. He argued that the responsibilities of marketing do not only, or predominantly, include giving promises and thus persuading customers as relationship marketing and customer loyalty passive counterparts in the marketplace to act in a given way, but also in keeping promises, which maintains and enhances evolving relationship. Fulfilling promises that have been given is equally important as a means of achieving customer satisfaction, retaining the customer base, and securing long-term profitability (Reichheld and Sasser, 1990), besides fanning the fire of trust. Indeed, one would expect a positive outcome from a partner on whose integrity one could confidently rely (Morgan and Hunt, 1994). Gronroos (1990) believed that the resources of the seller – personnel, technology and systems have to be used in such a manner that the customer’s trust in them, and thereby in the firm itself, is maintained and strengthened. Once trust is established, firms learn that coordinated joint efforts will lead to outcomes that exceed what the firm would achieve if it acted solely in its own best interests (Anderson and

Narus 1990). In this study, the following hypothesis is proposed to find out the impact of trust as one of the underpinnings of CRM on customer loyalty.

H2: Trust has a positive effect on customer loyalty.

2.3.4 Commitment:

Commitment is another important determinant of the strength of a customer relationship, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency (Gundlach *et al.*, 1995; Morgan and Hunt, 1994; Dwyer *et al.*, 1987). Ibrahim and Najjar (2008) define commitment as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely”.

A high level of commitment provides the context in which the customer and business can achieve individual and joint goals without fear of opportunistic behavior because more committed partners will exert effort and balance short-term problems with long-term goal achievement. Higher levels of commitment are expected for relationship success (Cai & Wheale, 2004). Commitment is a means by which to differentiate successful relationships from unsuccessful ones; hence strong relationships are built on the foundation of mutual commitment (Ibrahim & Najjar, 2008). This implies a higher level of obligation to make a relationship succeed and to make it mutually satisfying and beneficial (Gundlach *et al.*, 1995; Morgan and Hunt, 1994). Since, commitment is higher among individuals who believe that they receive more value from a relationship, highly committed customers should be willing to reciprocate effort on behalf of a firm due to past benefits received (Mowday *et al.*, 1982) and highly committed firms will continue to enjoy the benefits of such reciprocity from loyal customers.

Commitment is generally regarded to be an important result of good relational interactions and is affected by the customer’s perception of the effort made by the seller. Commitment is fuelled by the ongoing benefits accrued to each partner in the relationship, through the fact that committed customers have a greater propensity to act because of their need to maintain their relationship commitment. When the proportion of commitment becomes more marked, it is clear to infer that the relationship on both sides becomes more stable. Subsequently, commitment is also an

important variable in the measurement of customer loyalty (Du Plessis, 2010; Liang & Wong, 2004). Commitment operates in the same manner as trust in that certain levels of commitment are required to initiate the relationship, and as the relationship evolves, so does the level of commitment. In this study, the following hypothesis is proposed to find out the impact of Relationship Commitment as one of the underpinnings of CRM on customer loyalty.

H3: Relationship Commitment has a positive effect on customer loyalty.

2.3.4 Conflict handling:

Dwyer *et al.* (1987) defined conflict handling as a supplier's ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems do arise. How well this is done will determine whether the outcome is loyalty, "exit" or "voice". Rusbult *et al.* (1988) concluded that the likelihood of these behaviors in individual cases depends on the degree of prior satisfaction with the relationship, the magnitude of the customer's investment in the relationship, and an evaluation of the alternatives available. Ndubisi and Chan (2005) found a significant relationship between conflict handling and customer loyalty, indirectly through trust and perceived relationship quality. The ability of the product or service provider to handle conflict well will also directly influence customer loyalty. Thus, the research proposition is that:

H4: Conflict Handling has a positive effect on customer loyalty.

2.4. Customer loyalty

In today's competitive market, an organization's success is heavily depends upon its capability to develop and enhance long term customer relationships through offering amazing customer experience. Earlier research revealed that cultivating loyal customers can lead to increased sales and customer share at lower costs and thus improve the profitability of the organization (Rusbult *et al.*, 1988; Anderson *et al.*, 1994; Grönroos, 2000). Reichheld (1993) argued that "when a company consistently delivers superior value and wins customer loyalty, market share and revenue goes up, and the cost of acquiring and serving customers goes down". Rusbult *et al.* (1988) argued that the probability that an individual will exhibit loyalty, exit, or voice depends on the degree of former satisfaction with the relationship, the magnitude of the person's

investment in the relationship, and an evaluation of the alternatives one has. Grönroos (2000) indicated that loyal customers are willing to pay a premium price that, in turn, improves the organization's profitability.

The focal point of service organizations is to delight customers and to ensure customer loyalty, i.e. retaining customers and generating repeat orders. Customer relationship profitability takes place in the course of attracting and retaining high quality customers with low cost of maintenance that also lead to increased revenue for the organization (Anderson & Mittal, 2000). Although there is not a single universally accepted definition of customer loyalty; researchers tried to define customer loyalty in various ways. Loyalty refers to the “favorable attitude towards a brand in addition to purchasing it repeatedly” (Day, 1969). Jacoby and Kyner (1973) explained “loyalty as the biased (i.e. non-random), behavioral response (i.e. purchase), expressed over time, by some decision making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (i.e. decision making, evaluation) processes”. Jones & Sasser Jr (1995) opined that the customer loyalty is “a feeling of attachment to or affection for a company's people, products, or services”. Dick & Basu (1994) viewed customer loyalty “as the strength of the relationship between an individual's relative attitude and repeat patronage”. They have also noted that the customer loyalty has two dimensions i.e. attitudinal and behavioral dimension. Both the attitudinal as well as behavioral measures were used to define customer loyalty. From an attitudinal perspective, Czepiel & Gilmore (1987) viewed customer loyalty as a definite desire to maintain the relationship with a service organization for long term. Neal (1999) considered behavioral perspective and defined customer loyalty as “the proportion of times a purchaser chooses the same product or service in a category compared with his or her total number of purchases in the category, assuming that acceptable competitive products or services are conveniently available”

One of the most acceptable definitions of customer loyalty is given by Oliver (1999) who defined customer loyalty as “a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior”. Customer loyalty can also be defined as a commitment to continue doing business with an organization on an on-going basis. Loyalty is

something that consumers may exhibit to brands, services, stores, product categories and activities (Uncles *et al.*, 2003). Considering the above definitions, Wong & Sohal (2003) noted that customer loyalty takes place when customers:

- Come for repeat purchase for the specific good or service over a period of time; and
- Have positive attitudes towards the good or service; or towards the organizations offering the good or service.

Reichheld (2003) noted that “Loyalty is the willingness of someone—a customer, an employee, a friend—to make an investment or personal sacrifice in order to strengthen a relationship”. Loyal customers not only come for repeat purchases, they do talk good about company to their family and friends. Butcher *et al.*, (2001) identified four different dimensions of customer loyalty apart from repeat purchase i.e. positive word of mouth communication; unwilling to switch for competitors' offerings; associate well with the service offered by the organization; and fondness towards specific service provider.

2.5. Impact of customer relationship management on customer loyalty

Relationships are established through voluntary repeat business between a supplier and a customer where the behavior is planned, co-operative and intended to continue the mutual benefit of both parties. An understanding of trust and commitment is required to build this long-term relationship. Businesses need to show customers that they are committed while offering customers the core service benefit. Should these issues be addressed correctly, it may lead to the customer developing long-term relations with the business, which in turn will create loyalty (Thompson & Thompson, 2003). Customer loyalty can be defined as a customer’s likelihood to choose a particular brand with reference to his or her past purchases. This behavioral definition of loyalty captures the outcomes of both attitudinal commitment and habitual buying. The term ‘customer loyalty’ is used to emphasize that loyalty is a characteristic of customers, rather than characteristics of brands (Zhang, Dixit & Friedmann, 2010). Effective relationship-building strategies are vital in fostering customer loyalty within a business (Rootman, 2006).

Dekimpe *et al.*, (1997) regarded loyal customers' base as a competitive asset; and it can be used as a barrier to new entrant in the business and often considered as a basis for charging price premium Liang & Wang (2005) developed and empirically tested a conceptual model in order to examine the connection between relationship bonding tactics, customer satisfaction, trust/commitment and customer behavioral loyalty in a relationship marketing system financial services industry in Taiwan. The study's findings suggested that financial products with different product attributes will benefit the most from individual types and levels of relationship investment that can be applied directly to each product. Peng & Wang (2006) indicated that organizations today have moved their strategic focus from attracting new set of customers (targeting switchers) to retaining existing customers (keeping loyal customers) with the intention of gaining sustainable competitive advantage. The main idea behind designing and implementing a relationship marketing strategy in an organization is to maximize customer loyalty. Raza & Rehman (2012) found all relationship marketing tactics to be positively related with relationship quality and customer loyalty. It is very vital for the organizations to have a long term profitable relationship in order to achieve the utmost level of customer loyalty, and it can be done by ensuring high level of relationship quality while interacting with the customers. Apart from relationship quality, trust and satisfaction were also found to be positively connected with customer loyalty

Ndubisi (2007) demonstrated that measurement of the “underpinnings” of relationship marketing can predict customer loyalty. Therefore organizations intended to nurture customer loyalty must pay close attention to various aspect of relationship marketing, namely- trust, commitment, communication and conflict handling.

2.6. CRM Research in financial service industry

The implementation of CRM is widespread (Peppard, 2000) and more advanced (Ryals and Payne, 2001) in the financial services industry than in other industries. However, to date few studies have examined the effectiveness of CRM in financial services industry from customer perspective (Padmavathy *et al.*, 2012). According to Crosby (2002) in financial services, the idea of relationship banking was receiving considerable attention as a means of acquiring, retaining and improving the profitability of customers. However little is known about customers'

perceptions of CRM implementation activities and efforts (Kim et al., 2012). This is due to the fact that focus of researches on the company side of CRM implementation (example: Bohling *et al.*, 2006; Onut et al., 2006; Jallat and Anacarani, 2008; Malik and Wood-Harper, 2009; Akroush *et al.*, 2011).

Malik and Wood-Harper (2009) tried to identify the problems and challenges in the banking sector of Pakistan using CRM. Bohling *et al.*, (2006) concluded that linking CRM strategy and implementation more tightly with the overall marketing strategy of a business will lead to greater CRM implementation effectiveness. Chen et al. (2009) proposed a metric system for measuring CRM effectiveness from the supplier perspective. Akroush, Dahiyat, Gharaibeh and Abu-Lail (2011) examined the generalizability of the CRM scale originally developed by Sin *et al.*, (2005) to investigate the strength of linkages between CRM implementation components and business performance in Jordan financial service organizations. Hence, they conducted survey in financial service organizations located in Jordan. From the customer perspective, Jain *et al.*, (2007) proposed a two-dimensional measure of CRM effectiveness. Reinartz et al. (2004) conceptualized CRM from the customer perspective as: systematic process to manage the customer relationship initiation, maintenance, and termination across all customer contact points in order to maximize the value of the relationship portfolio. Though the researches, conducted on CRM from customer perspective, are few valuable researches are available on the subject matter. Kim *et al.*, (2012) assessed customer's viewpoints to explore the gap between actual bank CRM implementation and customers' expectation. Kwamena (2013) in his study assessed the CRM practices at National Investment Bank in Ghana and also recommended win-back and retention strategies to meet the needs of customers in a highly customized and responsive manner. Whereas Padmavathy, Balaji and Sivakumar (2012), developed five dimensions, namely organizational commitment, customer experience, process-driven approach, reliability and technology orientation, to measure the effectiveness of CRM from customer perspective.

2.7. The banking industry in Ethiopia

Banking is one of the oldest professions in human history. A broader definition of a bank is any financial institution that receives, collects, transfers, pays, exchanges, lends, invests, or

safeguards money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. These institutions include finance companies, investment companies, investment banks, insurance companies, pension funds, security brokers and dealers, mortgage companies, and real estate investment trusts. (Encarta, 2009)

The banking industry is facing an ever-increasing level of competition around the world as the dynamics of the business change. Technology, commoditization, deregulation and globalization forever changed the face of banking (Joyner, 2002). Banks have understood the need to capitalize on the new technologies to gain advantage in the competition by exploiting their customer base, brand value and costly infrastructure investments in order to increase profits, as there is a direct link between the customer satisfaction and the profitability. CRM is the strategy which enables the banks to analyze the customer profiles, to detect their needs and potential profitability areas and establish the necessary actions that achieve customer satisfaction, competitive advantage and thus the profitability.

Banking in Ethiopia began in 1905 with the establishment of Bank of Abyssinia, a private company controlled by the Bank of Egypt. In 1931 it was liquidated and replaced by the Bank of Ethiopia which was the bank of issue until the Italian invasion of 1936. During the Italian occupation, Italian owned banks were operating in Ethiopia. To name a few Banco di Roma, Banco di Napoli, Banca Nazionale del lavoro and Agricultural Bank were the prominent ones. After the Italians were forced to leave the country the Italian banks were closed, but the branch offices of Banco di Roma, and Banco di Napoli continued their operations in Asmara, Massawa and Addis Ababa until 1974.

Under the subsequent British occupation, Ethiopia was briefly a part of the East Africa Currency Board. In 1943, the State Bank of Ethiopia was established, with two departments performing the separate functions of an issuing bank and a commercial bank. In 1963, these functions were formally separated and the National Bank of Ethiopia (the central and issuing bank) and the Commercial Bank of Ethiopia were formed (Lulseged, 2005). The first private Ethiopian bank, Addis Ababa Bank Share Company, was established on Ethiopians initiative and started

operation in 1964 with a capital of 2 million in association with National and Grindlay Bank of London which had 40 percent of the total share. The Ethiopian Government Bank established after the Italian occupation ended in 1934 E.C. This bank has the mandate from the ministry of Finance to issue paper money and coins.

The banking system has developed well over the years in terms of its geographical coverage, deposit mobilization and credit expansion. In recent years, the sector has been marked by rapid expansion and growth. Ethiopia's 16 private banks and 3 government-owned banks (recently reduced to two) have collectively raised deposits and loans by more than three-fold during the past five years (GTP1). Notable industry developments over the past five years are the following: (NBE and IMF- Ethiopia Report 2015/16)

Large scale expansion: The financial sector has broadened and deepened the scope of its activities in multiple areas over the past five years. Deposits are up from near Birr 100 billion in June 2010 to Birr 367 billion in June 2015 (or from 26 to 39 percent of GDP). Loans are up from Birr 45 billion in June 2010 to Birr 189 billion in June 2015 (or from around 12 to 15 percent of GDP). Financing extended in the form of bonds (and thus not recorded as loans) is up from around Birr 25 billion in June 2010 to Birr 150 billion in June 2015. Branches/Outreach: Branch numbers have risen from around 600 at June 2010 to 2693 at June 2015. Of the 2693 branches, about 58 percent (1,564 branches) are those of private banks, and in terms of location, 957 of the 2693 branches, or 36 percent, are in Addis Abeba. Total bank accounts have reach 20 million as of June 2015, of which 16 million at banks and 4 million at MFIs. As of June 2015, industry-wide data show 2 million debit cards, 3000 POS devices, and 1100 ATMs in place.

A state-bank dominated sector: After years of growth in the market share of private banks up to 2010, the last five years has seen a rising state bank market share. The state bank share of total industry assets/deposits/branches has reach 60 to 70 percent in all three domains as of June 2015. CBE alone has become a formidable player in the market thanks to its ambitious branch expansion (up to near 1,000 branches from just 250 a few years ago); its aggressive work to attract exporters and large remittance inflows; its ability to give large loans (due to a single borrower limit that exceeds Birr 1 billion); and its advantages from certain favorable government

policies (the monopoly to exclusively handle exports to China and exemption from the NBE Bills Directive). Through much internal reforms, it has modernized its marketing, customer acquisition, and customer service offerings to levels that often now match or even beat those at private banks.

Close bank branch proximity: Close bank branch proximity has become widespread in the last five years (with branch network up from 650 to 2600 branches over five years) and size of still-unbanked Ethiopians has shrunk considerably during this period. In fact, for most Ethiopians, the distance from a bank (or MFI) branch is now increasingly not a reason to remain unbanked, as suggested by a World Bank/NBE Financial Inclusion Study survey which found that, in responses to “Why don’t you use a financial institution to save?” the main answers were: “Insufficient funds” (78%); “Too far away” (12%); “Cost of the service” (2%); and 1% each for “Don’t have documentation”, “Don’t trust” or “Religious Reasons” (WB- Ethiopian report 2015)

Growing standardization across banks in the Technology/E-banking space: Innovations in technology and e-banking have spread throughout the industry. It is now standard for all banks to have modern core banking systems, and services such as ATM Banking, Internet Banking, POS service, and Mobile Banking are also becoming routine and are actually available to the majority of Ethiopia’s banking customers.

In view of the above recent developments, competition among banks in the Ethiopian banking industry has been intensified the right tool to cope with the competition is inevitable. CRM is of the tools to survive from the ever increasing completion in the sector as it deals with mainly customers and customer is core essence of any organization.

2.8. CRM in the banking industry

The banking industry is one of the first sectors which deployed CRM solutions as described by Khan & Bajaj (2012). Today, many financial services organizations are rushing to become more customer focused (Peppard, 2002). Eriksson & Mattsson (1998) argue that banks are known to have stable and long lasting relations with their customers, which is why development of

customer relations is a crucial strategic issue in banking. However, a basic problem in banking is that the customer base is heterogeneous, ranging from homogenous segments of customers with the same preferences to customers with individual demands for customized services.

CRM is a sound business strategy to identify the bank's most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, re-pricing, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses (Onut *et al.*, 2006). As indicated by Kwamena (2013) with so many different financial institutions to choose from, customers are now more knowledgeable, sophisticated, assertive, continuously demand higher levels of customer service, less loyal, and more inclined to switch to a competitor. In this consumer economy, attracting and crucially keeping customers for the long term is a key challenge for all businesses and more especially the banks. Hence banks have realized that managing customer relationships is a very important factor for their success as CRM is a strategy that can help them build long lasting relationships with their customers and increase their profits through efficient management systems and the application of customer-focused strategies.

According to Boris Milovic (2012) due to the highly competitive market in the banking sector, it is very difficult for banks to differentiate themselves from the competition because the services that they offer are very similar, which leaves the customer interaction as a way to distinguish the bank from the competition. Customers usually choose a bank based on its location or how close it is to the customer's home or work place. Competitive pressure and dynamic market have contributed to the development of CRM in the financial sector. According to Das et al., (2009) CRM in the banking industry is entirely different from other sectors, because banking industry is purely related to financial service, which needs to create trust among the people.

2.9. Conceptual frame work of the study

Conceptual frame work helps to visualize ideas and allow to clearly illustrate how thing are related. For this study, a modified conceptual model served to depict causal relationships which were tested and verified (Laith and Nahla, 2010). As can be seen in the figure1, the customer relationship management orientation as multi-dimensional construct consists of the following four components: communication; trust; commitment; and conflict handling. Then, this study

proposes customer relationship management orientation to be significant determinant of customer loyalty in banking industry.

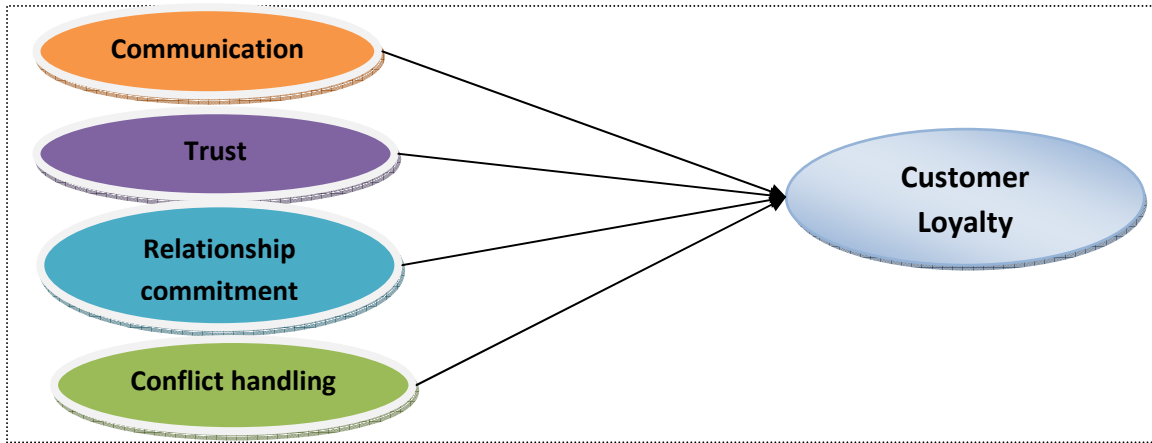


Figure-1: Conceptual framework of the study adapted from (Laith and Nahla, 2010)

2.10. Conceptual framework with Hypothesis

Based on the conceptual model proposed in the previous section under Figure-1 the study proposes the following conceptual framework operationalised to be empirically tested. Operationalisation in this case changes the theoretical construct into a concept that can be “seen” in the empirical reality (Bhattacharjee, 2012).

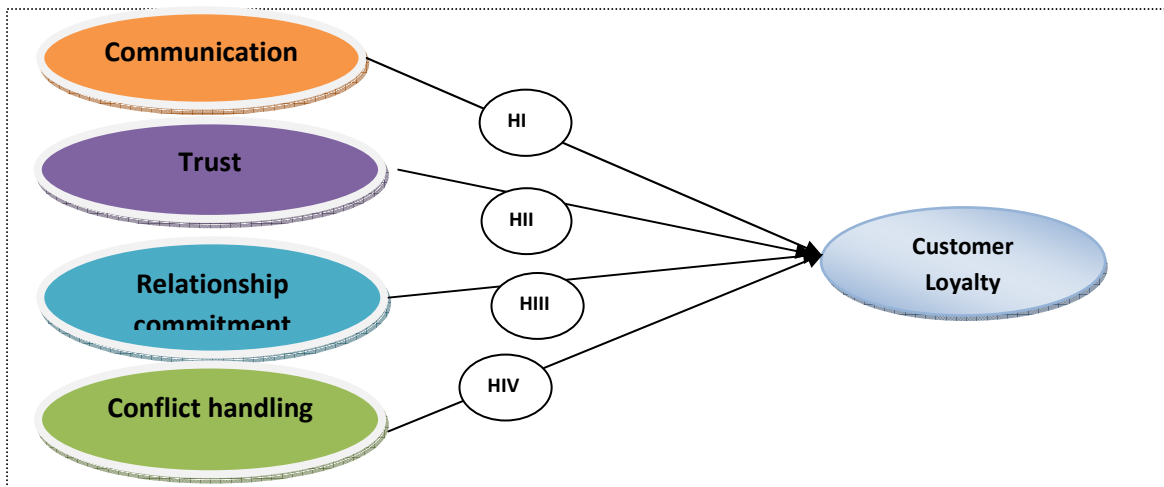


Figure-2: Conceptual framework of the study adapted from (Laith and Nahla, 2010)

As depicted in Figure-2 there are a total of four hypotheses proposed in the study. All the four components of customer relationship management orientations namely communication; trust; commitment; and conflict handling proposed to have a positive direct effect on customer loyalty.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

This chapter deals with the research design and methodology aspect of the research. The methods of data collection and analysis are discussed in detail, together with other issues in relation to research design and methodology.

3.1. Research design

A research design refers to a complete plan for a data collection in an empirical research project. It is a “blueprint” for empirical research aimed at answering specific research questions or testing proposed hypothesis (Bhattacharjee, 2012). This research follows a quantitative research design.

The study after a thorough look at the available related literature review proposed a conceptual framework, which was used as a point of reference throughout the study. Research in social science mostly employs theoretical constructs by operationalizing them in to variables to allow for empirical testing (Bhattacharjee, 2012). This study will adopt a set of independent and dependant variables from the conceptual model presented in Figure 1 to undertake empirical testing. This empirical testing involves a set of hypothesis that was used to investigate the presence of causal relationship between customer relationship management orientations as multi-dimensional construct consists of four components, such as: communication; trust; commitment; and conflict handling with customer loyalty.

Using a probable random sampling, data was collected from a population of Zemen bank corporate and high net worth customers in Addis Ababa though structured questionnaires adopted from extensively cited research works by (Laith and Nahla, 2010). Descriptive analysis was undertaken followed by validity, reliability tests to make sure the measurements are consistent, and adequately cover the construct under study. Structural Equation Modeling (SEM) was used to investigate causal relationships between the independent and dependant variables under study.

3.2. Population and sampling techniques

The population for this study comprises a finite number of Zemen Bank customers who are categorized as corporate and high net worth individuals as per the bank product classification and for which the bank has implemented a CRM system. Lists of such customers are taken from the bank database along with their email address and customers on the list and fall in the sample were communicated via email.

The study used a systematic random sampling technique. This method was selected because the population is known and their email address was able to be accessed from the bank data base. A sample refers to a subset of a population selected for observation and statistical inference about the population (Bhattacharjee, 2012). To undertake this survey, the sample size for the study must be defined first. An estimation of appropriate sample size was calculated by using a formula stated in Figure-3 below. In order to determine the sample size, a judgment about the confidence level and the maximum allowance for random sampling error should be determined. An estimation of the expected proportion of success must also be considered (Kothari, 2004). In this case, a more conservative proportion of success (p) which is 50% was selected together with a level of confidence of 95% (z), a sampling error no greater than 5% (e). This resulted in a sample size of 265 people for the study.

$$n = \frac{z^2 \cdot N \cdot \sigma_p^2}{(N - 1) e^2 + z^2 \sigma_p^2}$$

Figure-3: Statistical Formula for sample size of finite population

Where:

z = the value of the standard variate at a given confidence level (to be read from the table giving the areas under normal curve as shown in appendix) and it is 1.96 for a 95% confidence level;

n = size of the sample = 265

N = Population Size = 850

e = Sample error = 0.05

σ_p = standard deviation of the population = 1.96

3.3. Instruments of data collection

In order to achieve the objectives of this survey research and effectively undertake data analysis in the later stages of the research, a structured questionnaire was used to collect information from respondents. Structured questionnaires are important as they could be aggregated into composite scales for statistical analysis (Bhattacharjee, 2012). The structured questionnaires had statements, which measured variables such as communication; trust; commitment; and conflict handling. These constructs to be used in the study were taken from studies from (Laith and Nahla, 2010). A five point likert scale ranging from “I strongly disagree to I strongly Agree” was used to record data from respondents.

3.4. Procedures of data collection

The study is empirical based on the primary data collected from bank customers in Addis Ababa. The study was carried out in 2016 on samples of 265 respondents, which were selected using a systematic random sampling, through distribution of structured questionnaires via emails to the bank customers within the area of Addis Ababa. A total of 241 usable questionnaires were collected giving response rate 91%, a rate that is regarded as good (Bhattacharjee, 2012).

3.5. Methods of data analysis

After data was collected and organized, descriptive analysis took place to present the type of customers and how long they stayed with the bank. Descriptive statistic such as percentages and frequency distributions, were prepared before a deeper analysis of data.

The major statistical methodology that was used in this study is the Structural Equation Modeling (SEM). This method was selected due to the extensive application of the methodology by several authors who have previously used the method to test their proposed hypothesis (Premium Liang & Wang, 2005; Laith and Nahla, 2010; Peng & Wang, 2006).

The four main hypothesis proposed by this study were tested by SEM. Fit to measurement and fit to structure measures were undertaken to make sure that the measurement model is adequate, the parameters are estimated and hypothesis was tested.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

This chapter will present the results of the data analysis carried out in this study. The composition of Zemen bank clients reached out in this study samples is discussed first followed by reliability and validity test results for the study's measurement model. Finally, the structural model and the hypothesized relationships between the independent and dependant variables are presented and discussed using SPSS 21.0 and AMOS 20.0 software.

4.1. Demographic characteristics of the sample

A total of 265 questionnaires were distributed from which 241 were returned which accounts to 91% response rate.

As described in Table 4.1 below, the majority of the respondents surveyed are corporate clients accounting for 56.8% of the sample. Personal clients in this particular sample account for 43.1%. With regarded to clients relationship with the bank, most of the respondents relationship with the bank dates between 1 to 3 years (33.6%) and 4 to 5 years (31.1%). The remaining clients are new (less than one year) and above 5 years with 16.1% and 19% of the sample respectively.

Table 4.1 Sample Characteristics of Zemen Bank's Clients

Variables		Frequency	Percent
Types of Customer	Personal Client	104	56.8
	Corporate	137	43.1
Relationship period with the bank	New (less than 1 year)	39	16.1
	1 to 3 years	81	33.6
	4 - 5 years	75	31.1
	Above 5 years	46	19

Source: Own Survey, 2016

4.2. Measures of normality, reliability and validity

4.2.1 Normality

Most studies, which involve statistical procedure, work under the assumption that observations have normal distribution. The normality of the population distribution is the basis for making statistical inferences about the sample drawn from the population (Kothari, 2004). Any violation of the normality rule may lead to overestimation or underestimation of the inference statistic (Marczyk *et al.*, 2005). In order to examine normality, one has to measure each variable's skewness, which looks at lack of symmetry of distribution, and kurtosis, which looks at whether data collected, are peak or flat with relation to normal distribution (Marczyk *et al.*, 2005).

Table 4.2 below describes the level of skewness and kurtosis for the five constructs, which constitute 17 variables. The general rule-of-thumb for the test of normality varies depending on the nature of the research. The common one mostly suggested mentioned in literature for both kurtosis and skewness to be between -2 and +2 (George & Mallery, 2010). As indicated in the table below, skew and kurtosis measures for this study are well within that range between -1 and +1 values. Therefore, the data for this study is normally distributed

Table 4.2 Skewness and Kurtosis

Constructs	Skewness	Kurtosis
Communication	0.385	0.136
Trust	0.346	0.119
Relationship Commitment	0.362	0.104
Conflict Handling	0.361	0.061
Customer-Loyalty	0.361	0.082

Source: Own Survey, 2016

4.2.2 Reliability of the measurement scale

The most common measure the reliability of a measurement scale is Cronbach's alpha which is often considered as the lower bound estimate of reliability (Raykov, 1997). Most researchers consider a Cronbach's alpha value of more than 0.7 and above as an indicator of high internal

consistency of the measurement scales (Hair *et al.*, 1998). Other researchers consider a Cronbach's alpha of 0.8 and higher as a signal for internal consistency and urge a low alpha score warns the existence of a measurement item which is unreliable (Ho, 2006).

In this study, Cronbach's alpha is well above 0.7 and all 17 items of the five constructs were found to be reliable and hence, internally consistent. Therefore, the study considered each of the variables for further investigation. The results of the reliability measure are presented in Table 4.3 below.

Table 4.3 Cronbach's alpha reliability measure

Variable Name	Cronbach's Alpha	No. of Items
Communication	0.97	4
Trust	0.98	4
Relationship Commitment	0.96	4
Conflict Handling	0.96	3
Customer Loyalty	0.94	2
Overall	0.97	17

Source: Own Survey, 2016

4.3. Composite reliability and construct validity of the measurement model

Structural Equation Modeling (SEM) is divided in two parts namely the measurement model and the structural equation model (Ho, 2006). The measurement model deals with the description of the rules governing how latent variables are measured in terms of observed variables. The structural model on the other hand measures the relationships among dependant and independent variables according to the hypothesized relationships (Ho, 2006).

Several researchers hold a skeptical view of the reliability of the Cronbach's alpha as measure of reliability (Hair *et al.*, 1998; Bollen, 1989). According to Bollen (1989), alpha is not a desirable measure of reliability for a multidimensional construct. Therefore, it is appropriate to undertake a more stringent reliability test for the measurement model used in this study.

Composite Reliability (CR) measures the overall reliability of a group of similar items in terms of the extent to which latent constructs share in their measurement of a construct (Hair et al., 1998). A composite reliability score of 0.7 or more is recommended by several researchers to establish the reliability of the model (Hair et al., 1998). As indicated in Table 4.4 below, composite reliability for all constructs, are well above the cut-off level of 0.7 being in the range of 0.93 to 0.98.

Construct validity refers to the degree to which a measure actually assesses the theoretical construct it is meant to assess and is often assessed through confirmatory factor analysis (CFA) (Fornell et al., 1981). It consists of face validity, convergent validity, discriminant validity, and nomological validity where convergent validity and discriminant validity can be statistically measured (Hair et al., 2010).

4.3.1. Convergent validity

Convergent validity is part of the construct validity which measures whether the variables in the same factor correlate well with each other and adequately explain the latent variable (Fornell et al., 1981). Convergent validity is measured by the Average Variance Extracted (AVE) which is a measure of the extent the Latent Variable (LV) is explained by its observed variables (Hair et al., 2010). The AVE should be more than 0.5 and less than the value of CR for convergent validity to hold. AVE for this study ranges from 0.87 to 0.93 which shows the presence of convergent validity (see Table 4.4).

4.3.2. Discriminant validity

Discriminant validity examines whether variables correlate more with other variable outside their latent factor which poses the question that the latent variable is better explained by other variable outside of the construct (Hair *et al.*, 2010). This validity is measured by the shared variance which is the extent a variable can be explained in another variable. Fornell et al. (1981) stated the thresholds for discriminant validity is both the Maximum Shared Squared Variance (MSV) and

the Average Shared Squared Variance (ASV) to be less than the Average Variance Extracted (AVE). As indicated in table 4.4 both MSV and ASV are less than AVE.

Table 4.4 Validity and Reliability Table

	CR	AVE	MSV	ASV
Customer Loyalty	0.939	0.886	0.717	0.615
Communication	0.971	0.893	0.460	0.353
Trust	0.982	0.930	0.634	0.481
Relationship Commitment	0.964	0.872	0.717	0.572
Conflict Handling	0.963	0.896	0.651	0.526

Source: Own Survey, 2016

4.4. Confirmatory factor analysis of the measurement model

Performing a confirmatory factor analysis is a vital first step to analyzing the structural model. A poor fit of data to the measurement model at this stage will mean that changes have to be made to the model (Ho, 2006). All the latent variables during the CFA were allowed to load on their respective constructs. However, during a factor analysis it was found out that one item from communications construct “the bank provides timely and up to date information in case of policy change and new service launch” was loading on other constructs as well as its own parent construct. Therefore this factor was removed from the construct.

Model fit criteria suggested by Hu and Bentler (1999) as cited in (Tong & Hawley, 2009), were used for both the measurement and the structural model. These include $(\chi^2)/df$, goodness of fit (GFI), adjusted goodness of fit index (AGFI), comparative fit index (CFI), root mean square residual (RMR), normed fit index (NFI), incremental fit index (IFI), and root mean square error of approximation (RMSEA). Acceptable models should have $(\chi^2)/df \leq 3$, AGFI $\geq .80$, RMSEA ≤ 1.0 , and GFI, NFI, IFI and CFI greater than 0.90.

The confirmatory factor analysis as presented in Table 4.5 below indicated that all of the 17 measurement variables are significantly represented by their respective latent constructs. The factor loadings for each of the measurement variables are significant with t-values more than

1.96. The absolute model fit represented by chi-square goodness-of-fit test shows that the model did not fit the data well, χ^2 (N = 241, df = 105) = 206.616, $p < .05$. However, several authors acknowledge this is mostly the case for a data, which is considered large (241) and resort to other model fit criteria (Hair *et al.*, 2010; Ho, 2006).

Table 4.5 Confirmatory Factor Analysis

Observed Indicators		Latent Variables	Factor Loadings	t-values ³
COM4	<---	Communication ($\alpha^1 = 0.97$, CR = 0.97, AVE = 0.89)	0.851	-
COM3	<---		0.983	23.776
COM2	<---		0.98	23.621
COM1	<---		0.959	22.41
TRU4	<---	Trust ($\alpha = 0.98$, CR = 0.98, AVE = 0.93)	0.972	-
TRU3	<---		0.98	41.239
TRU2	<---		0.945	31.386
TRU1	<---		0.961	30.617
REL4	<---	Relationship Commitment ($\alpha = 0.96$, CR = 0.96, AVE = 0.87)	0.871	-
REL3	<---		0.957	23.774
REL2	<---		0.963	24.156
REL1	<---		0.941	22.78
CON3	<---	Conflict Handling ($\alpha = 0.96$, CR = 0.96, AVE = 0.89)	0.944	-
CON2	<---		0.944	30.104
CON1	<---		0.951	30.919
LOY2	<---	Customer Loyalty ($\alpha = 0.94$, CR = 0.94, AVE = 0.8)	0.948	-
LOY1	<---		0.934	27.686

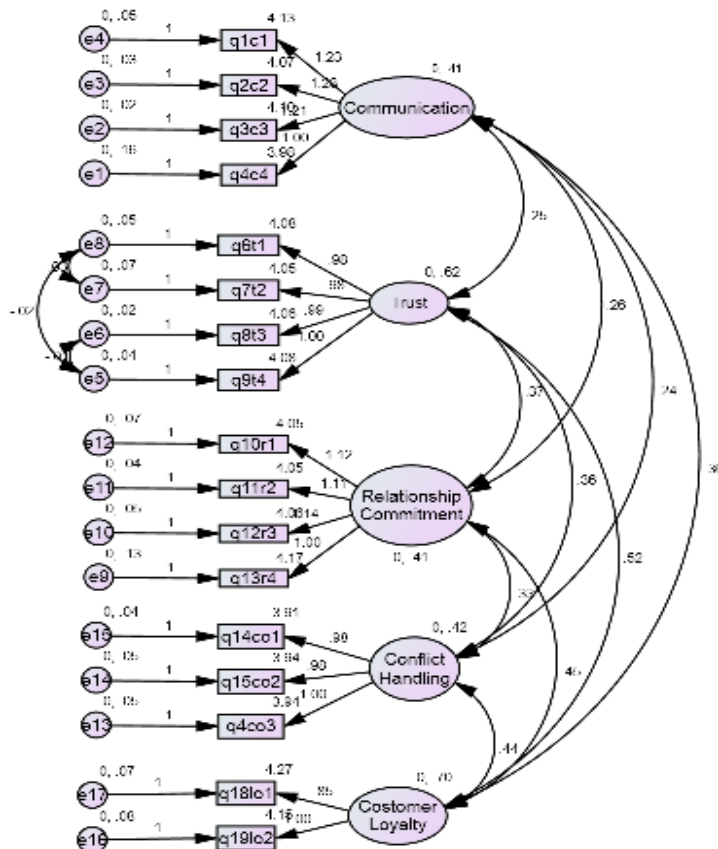
1. α = Cronbach's alpha, CR = composite reliability, AVE = average variance extracted
2. “-” means the path parameter was set to 1, therefore, no t-value was given
3. All loadings are significant at 0.001 level

Source: Own Survey, 2016

The comparative fit measures indicated that the measurement model was acceptable ($\chi^2/df=1.94$ ($p < 0.01$); GFI=0.913; AGFI=0.874; CFI=0.985; NFI=0.969; IFI=0.985 and RMSEA=0.063) (Hu & Bentler, 1999).

These results were achieved after the measurement model passed through modification which has improved the fit of the data. Ho (2006) indicated that a model fit to a data can be improved by allowing the error terms within the same latent construct to correlate. Subsequently, error terms associated with the construct *trust*, e5 (the measurement variable associated with T4) and e8 (the measurement variable associated with T1) were allowed to correlate. Similarly e6 and e7 (the measurement variables associated with T3 and T4) allowed to correlate with e5 and e8 respectively. The modification has improved the model fit by lowering Chi-square by 67.54 (562.95 – 495.41) and increasing the comparative model fit figures (GFI=0.78 from 0.913). In general, the measurement model was found reasonably fit, which made the testing of the structural model and hypothesis testing in the following section possible.

Figure- 4: Confirmatory Factor Analysis AMOS Output



4.5. Structural model analysis and discussion

Analysis of the structural model has indicated the model is moderately fit to the data. As indicated in Table 4.6 below, the structural model the Chi-square test χ^2 with the value of 206.616 was found with 106 degree of freedom. The p-value for the model is lower than 0.05, which indicated the model was not fit in the absolute sense. However, several authors have indicated that the Chi-square may not be appropriate to be used as criteria for large sample sizes and suggested the use of other indicators of model fit (Hair, *et al.*, 2010). Other model fit indicators such as GFI, AGFI and NFI indicated a moderate fit of the model together with more indicators such as CFI, IFI, and RMSEA. These results are similar to the results of other works in the area and which were acceptable and adequate for interpretation (Yoo et al., 2000).

Table 4.6 Structural Model Fit Summary

Model Fit Summary	Recommended Value	Conclusion
(N = 241, df = 106) = 206.616, p < .05	p > 0.05	Not fit
$(\chi^2)/df = 1.94$	< 3.00	fit
Root Mean Square Error of Approximation (RMSEA) = .063	< 1.00	fit
Goodness-of-Fit Index (GFI) = .913	> 9.0	fit
Adjusted Goodness-of-Fit Index (AGFI) = .874	> 8.0	fit
Normed Fit Index (NFI) = .969	> 9.0	fit
Comparative Fit Index (CFI) = 0.985	> 9.0	fit
Incremental Fit Index (IFI) = 0.985	> 9.0	Fit

Source: Own Survey, 2016

After testing the measurement model for validity and reliability the structural model was analyzed, to examine the relationships among the constructs. This study considered four exogenous variables namely; communication, trust, relationship commitment and conflict handling. These four exogenous variables are hypothesized to have a direct positive effect on the endogenous variables Customer loyalty.

The hypothesized variables indicated in Table 4.7 and Figure 6 below is tested by using a one tailed t test due to the directional hypothesis formulated for the study. The t-values and the direction of the ‘beta’ estimates were used to find out the p values of the hypothesized relationships. Using one-tailed test, a t-value greater than 2.33 is significant at the level of 0.01; and a t-value of greater than 1.65 is significant at 0.05 (Yoo *et al.*, 2000).

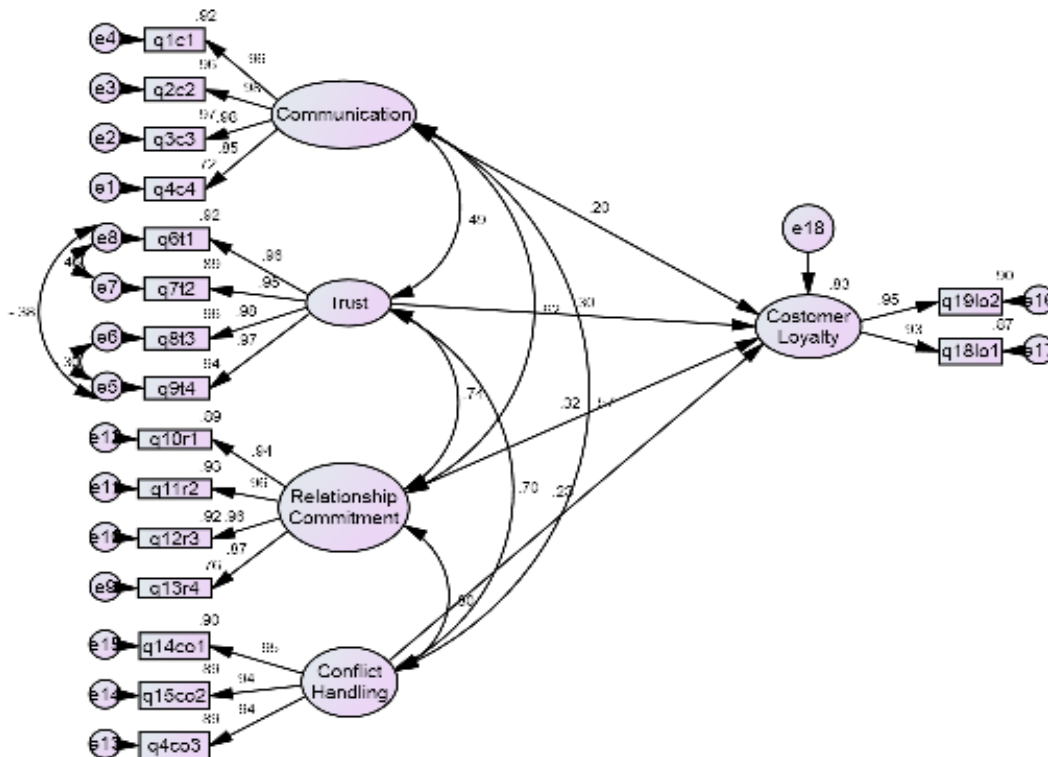
Table 4.7 Estimates of the Structural Model

Hypothesized Relationships	Parameters	Estimate	t-value	p-value	Conclusion
<i>Relationships of the dimensions of relationship marketing to customer loyalty</i>					
H1: Communication-->Customer Loyalty	β_1	0.20	4.78	***	Supported
H2: Trust --> Customer Loyalty	β_2	0.30	5.85	***	Supported
H3: Relationship Commitment→ Customer Loyalty	β_3	0.32	4.8	***	Supported
H4: Conflict Handling --> Customer Loyalty	β_4	0.23	8.48	***	Supported

Source: Own Survey, 2016

***p values are < 0.001

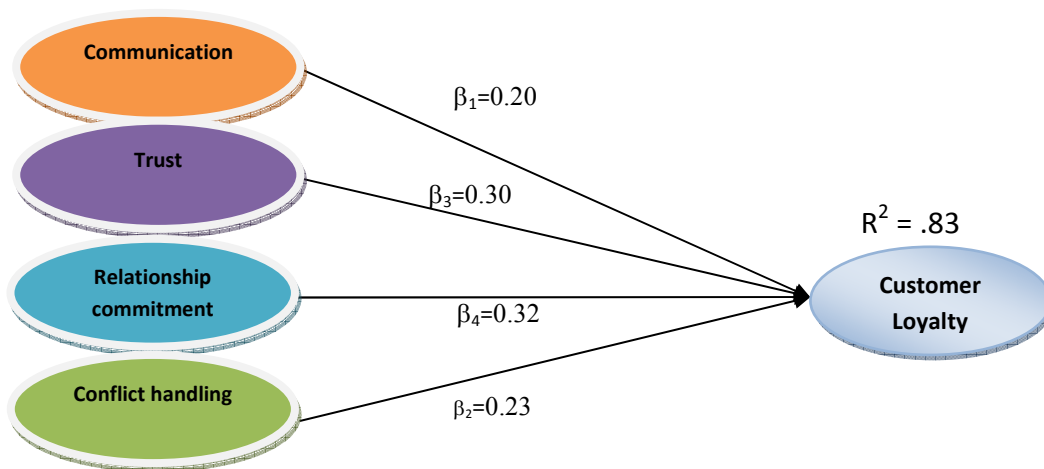
Figure-5: Output of the Structural Model Analysis



4.5.1. Relationships between elements of CRM and customer loyalty

The hypothesized relationships dealt with the relationship among the customer relationship dimensions and customer loyalty. All four hypothesized paths were found to be significant ($p < 0.001$). The strongest relationship was found to be Relationship Commitment ($\beta_3 = 0.32$, t -value = 4.8) followed by the relationship between Trust and customer loyalty ($\beta_2 = 0.30$, t -

Figure-6: Estimates and Paths of the Hypothesized Relationships



value = 5.85, $p < 0.001$). Conflict handling ($\beta_4 = 0.23$, t -value = 8.48, $p < 0.001$) and Communication

H1: *Communication is positively and significantly related to customer loyalty* (Supported: $\beta_1 = 0.20$, t -value = 4.78, $p < 0.001$)

This hypothesis proposed that communication is positively and significantly related to customer loyalty. The results of this study supported this hypothesis. As the result indicates, a one unit increase in the communication element causes a 0.2 units increase in the standard deviation of customer loyalty to Zemen Bank. The result of this study is in line with the findings of Alrubaiee & Al-Nazar (2010) on their study of banks around the city of Amman, Jordan. They found out that a bank which aims to create a strong customer relationship with its customers should have effective system of communication.

H2: *Trust is positively and significantly related to customer loyalty* (Supported: $\beta_2=0.30$, t-value=5.85, $p<0.001$)

This study has found support for the hypothesis that trust is positively and significantly related to customer loyalty. It is the second most influential dimension next to relationship commitment. According to the study a one unit change in the trust dimension of the construct improves the customer loyalty dimensions by 0.03 units. This result is consistent with the finding of Macareigne (2009) who indicated in his finding that creating customer trust is one of the key factors in customer retention and loyalty.

H3: *Relationship commitment is positively and significantly related to customer loyalty* (Supported: $\beta_3=0.32$, t-value=4.8, $p<0.001$)

As discussed in the literature review, relationship commitment is at the core of all meaningful and successful business relationships. Among the constructs in this study relationship commitment has a strong relationship with customer loyalty. This is especially true for the type of bank like Zemen, which is engaged in a highly personalized service due to the type of customers it caters to. This result is also consistent with the findings of Ababio & Amy (2010) on the banking sector of Ghana. The result indicated that for a long term relationships to blossom, there has to be commitment between customers and banks.

H4: *Conflict handling is positively and significantly related to customer loyalty.* (Supported: $\beta_4=0.23$, t-value=8.48, $p<0.001$)

Conflict handling was found to have a positive significant relationship with customer loyalty. As indicated in the analysis section a one unit change in the conflict handling construct will improve the customer loyalty construct by a 0.23 units of standard deviation. Several researchers also stated that this ability of businesses to handle conflict well is an important determinant of customer loyalty and the finding in this study is also consistent with previous finding by different researchers (Laith and Nahla, 2010; Peng & Wang, 2006). For a bank like Zemen it especially holds true as the bank strives up on being customer focused which in turn calls for putting in place a system by which customer grievances are properly handled.

4.5.2. The role of CRM in building customer loyalty

The outcome of this research provides empirical evidence for the influence on customer loyalty of four elements of customer relationship management: communication trust, relationship commitment, and conflict handling. It builds on past studies in this area, (Ndubisi, 2004; Wong and Sohal, 2002) and proved that customer relationship management has a significant role in building customer loyalty. Banks wishing to retain and develop loyal customers should be committed and trustworthy to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers. It has been suggested (Ndubisi, 2004) that loyal customers are valuable communicators of favorable word-of-mouth about organizations or products to which they feel loyal.

As this study proved, 83% of the variation in Customer Loyalty is explained by its predictors such as communication, trust, and relationship-commitment and conflict-handling, CRM play a very significant role in building loyal customers. Loyalty can be nurtured by providing timely and reliable information, for example about the uses and benefits of new banking services or about the status of transactions. It can also be reinforced by the provision of honest information on what the bank is doing about existing problems and what it does to forestall potential ones. Effective communication predisposes customers to stay with a provider of banking services. Trust is an important ingredient in firm-customer relationships and ultimately in the development of loyalty. Therefore, Zemen Bank and othes in the industry should strive to win customers' trust. The ways in which this can be achieved include the giving and keeping promises to customers, showing concern for the security of transactions, providing quality services, showing respect for customers through front-line staff, fulfilling obligations, and acting to build customers' confidence in the bank and its services. As for relationship commitment as a critical factor in building customer loyalty, consisting in this study of accommodating to customers' needs, tailoring products to requirements, and being generally flexible in their customer relationships. Banks should recognize the potency of service commitment in keeping loyal customers, and act accordingly. They must show genuine commitment to customer relations, not lip service. Lastly, customers tend to be loyal to banks that handle customer complaints (which

will always happen, regardless) and other conflicts satisfactorily. It is therefore important that effective conflict resolution mechanisms are not only in place but are proactive, so as to pre-empt potential sources of conflict and address them before problems become manifest. Effective reactive solutions should also be marshaled decisively and in time to resolve problems and protect customers from avoidable losses. Sometimes, what may cause a customer to defect is not so much the occurrence of a problem as how it is handled. Banks should be willing to discuss problems openly with their customers.

In general, this study has demonstrated that measurement of the “elements” of customer relationship management: communication, trust, and relationship-commitment and conflict-handling can predict customer loyalty, at least in Zemen Bank. Therefore, banks aiming to nurture loyal customers should pay close attention to CRM.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents the summary, recommendation and conclusions derived from the data analysis carried out in the previous section. Further area of research that may be of interest for other researchers, were also described in this chapter.

5.1. Summary

The aim of this research was to determine if customer relationship management has an effect on customer loyalty in the context of Ethiopia banking industry taking “Zemen Bank S.C” as a case study. The underpinnings of customer relationship management orientations: communication, trust, relationship commitment, and conflict handling were used as independent variables whilst customer loyalty was treated as the dependent variable.

The study provides empirical evidence that the four elements of customer relationship management orientations such as communication, trust, relationship commitment, and conflict handling, significantly and positively affect customer loyalty. Results of structural equation modeling analysis in chapter four shows that zemen bank customers tend to be very loyal if the bank remains trustworthy to the clients; communicates them openly and timely, stay committed and tries to avoid conflict or willing to solve conflicts that already manifested.

Table 4.7 shows that elements of customer relationship management have a significant positive association with customer loyalty. As can be seen from the table and figure-5, all the four elements of customer relationship management (communication, trust, relationship-management and conflict-Handling) demonstrate a positive and significant association with customer loyalty. These are generally expected results. Relationship Commitment is found to be the most dominant relational element in determining the variation in customer loyalty (standardized Beta coefficients 0.32). Moreover, as can be seen from Table 4.7 the positive sign of all the four estimates (beta coefficients) shows that the greater the extent of these customer relationship management variables, the higher the level of customer loyalty. Therefore, on the basis of the

analysis made, it can be said that successful customer relationship management efforts of Zemen Bank can improve customer loyalty.

5.2. Conclusion

This chapter presents the conclusions derived from the major findings from the study and recommendation for banks who may be interested in creating customer loyalty through customer relationship management in their banks.

The banking industry in Ethiopia has been changing and the rate at which banks are growing and expanding in the last five years is exponential and has never been witnessed in the banking history of the country. To this end, competition for customers is more likely to increase which prompt banks to adopt different strategies to attract and retain customers.

This study examined the perception of customers towards Zemen Bank with respect to the elements of customer relationship management and their role in creating customer loyalty. The results indicated that communication, trust, relationship commitment and conflict handling all have a significant relationship with customer loyalty.

Respondents stated communication is a key in building customer loyalty. It is also true that it is through communication that a bank can appear to be trustworthy, and show its commitment to building a long term relationship. The second dimension, which is trust, is also a key factor in the process of building customer loyalty. Especially in the financial services business which is related with the livelihood of companies and personal clients, it is imperative that there needs to be a mutual trust between banks and their customers which is likely to lead to a strong bond.

The other two elements of the construct are relationship commitment and conflict handling. This two elements are somehow inter related in that if there is a commitment to a relationship there will be a strong desire to solve conflicts in the smoothest way possible. As in any business relationship conflicts are bound to happen in some extent. The most important thing would be how this conflict is handled. It is essential that both parties, especially the customer feels that the

conflict is handled in a way that increases its commitment to continue to be the customer of the bank.

In general, as is the case for many researches, zemen bank customers tend to be very loyal if the bank remains trustworthy to the clients; communicates them openly and timely, stay committed and tries to avoid conflict or willing to solve conflicts that already manifested. This may be due to customers' satisfaction or value derived from the exercise of the bank customer relationship management.

5.3. Recommendation

Based on the findings and conclusions of the study, the following recommendations are forwarded for Zemen Bank and other banks in the Ethiopian banking industry.

- Banks should strive to create a strong customer relationship management scheme to build strong customer loyalty. As the number of banks' branches continuously increases banks, it is becoming much easier for customers to switch between banks. This calls for banks to think of ways of keeping the customer with them by providing personalized services to their most important client base.
- Zemen Bank has to continue with the use of customer relationship management as a tool so as to give more value and satisfaction to its corporate and high net worth individual which in-return leads to create loyal customers. By doing so, the bank not only benefit from businesses of its loyal customers but also can acquire more new clients through the referral of satisfied and loyal customers at hand.
- Although all customer relationship management dimensions investigated in this study are important, the bank's efforts need to be directed more in to creating relationship commitment. All other dimensions such as communication, trust and conflict handling can contribute to relationship commitment through which customer loyalty can be enhanced.

- Zemen Bank has to also diversify its current customer relationship management strategy with the underlying orientations, which is currently confined to mainly to corporate clients and high net worth individual, to other customer segments of the bank.
- The bank can benefit from the finding to identify training needs for bank staffs and to develop appropriate training programs that can help to improve their understanding of the activities involved in developing customer relationship management orientations.
- Other bank managers can also learn what impact customer relationship management orientations have on customer loyalty and use these findings upon implementing CRM strategies to their bank.

5.4. Areas of future research

There are a number of ways research in the area of CRM can be expanded in terms of the causal relationship between the underpinnings of customer relationship management and customer loyalty.

- First, this study did not consider the impact of CRM orientations on customer loyalty on different segments of banks' customers and a similar study that involve different segments of customers worth considering.
- Second, a large scale study of similar nature on Ethiopian banking industry as a whole need to south in order to reach at a more comprehensive outcome.
- Third, in this study, the impact of customer relationship management orientations on customer loyalty was the highest. It would make sense to investigate the impact of customer relationship management orientations on banks' performance as a multidimensional approach.

- Fourth, other studies can explore additional customer relationship management orientations such as the effect of banks image, shared value and empathy in building customer loyalty.

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