

The Effect of CRM on customer loyalty

ADDIS ABABA UNIVERSITY COLLEGE OF COMMERCE
POSTGRADUATE STUDIES DEPARTMENT OF MARKETING

Addis Ababa
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**THE EFFECT OF CUSTOMER RELATIONSHIP
MANAGEMENT ON CUSTOMER LOTALTY**

In The Case of Selected Banks in Ethiopia

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**ADDIS ABABA UNIVERSITY, SCHOOL OF COMMERCE DEPARTMENT OF
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ADDIS ABABA UNIVERSITY COLLEGE OF COMMERCE
POSTGRADUATE STUDIES DEPARTMENT OF MARKETING

Analysis of the effect of CRM on customer loyalty; In The
Case of Selected Banks in Ethiopia

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Analysis of the Effect of customer relationship management on
Customer Loyalty: The Case of Selected Banks in Ethiopia

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DECLARATION

I, Ayda Elias, hereby declare that this Master Thesis titled “*The effectiveness of CRM on Customer loyalty: The Case of Selected Banks in Ethiopia*” is my original work and this study has not been submitted for the award of any program or any other institution in Addis Ababa university or elsewhere. I have carried out this work independently with the guidance and support of the research advisor, Mulugeta G/Medhin (PhD). Accordingly, all sources of materials that have been utilized in the research work have been duly acknowledged.

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STATEMENT OF CERTIFICATION

This is to certify that Ayda Elias Seid has carried out this thesis work title “THE EFFECTVNESS OF CRM ON CUSTOMER LOYALTY; IN THE CASE OF SELECTED COMMERCIAL BANKS IN ETHIOPIA” The work is original in nature and is suitable for submission for the award of the Master of Art Degree in Marketing Management.

Signature:

Name of the Advisor: Mulugeta G/Medhin (PhD).

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LIST OF ABBREVIATIONS

ANOVA - Analysis of Variance

CBE: - Commercial Bank of Ethiopia

NBE - National Bank of Ethiopia

SPSS - Statistical Package for Social Science

VIF - Variance Inflation Factor

ZB - Zemen Bank S.c

CRM- Customer relationship management

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ABSTRACT

Globalization and technology improvements have exposed companies to a situation with tough competition; Banking is one of the service industries characterized by high customer contact with individually customized service solutions where customer satisfaction has been an increasing focus of research (Molina et al., 2007). Customer loyalty is the top 10 most valuable performance measures (Davidson 1999) and is also considered as one of the 15 most commonly used measures according to Ambler and Puntoni (2003). Only few studies have investigated and measured CRM effect despite the practical relevance of operational zing and measuring CRM effect for business performance variables (Padmavathy et al., 2012). The general objective of the study was to investigate the possible relationship between Customer relationship management and customer loyalty in the banking industry in Ethiopia. More specifically, the study tried to see the relationship of CRM with Trust, Commitment, conflict handling, and Communication & Primary data was obtained through structured questionnaire from customers selected banks i.e. CBE and ZB. A convince non probability sampling technique was used to sample between banking firms. The researcher proportionally distributed 294 questionnaires to customers of the two selected banks and 267 of them were good for further analysis. The questionnaires were analyzed using SPSS version 20. Pearson Correlation and multiple regressions were used to establish the relationship between the independent and dependent constructs of the research. The findings revealed that the two independent variables (Conflict handling and Competence) are statistically important determinants of customer loyalty in the banking industry of Ethiopia whereas Commitment, Trust and Communication had positive relation with customer loyalty but not predictor of customer loyalty since they were not supported by the findings. A conclusion was drawn to the effect that since factor influencing customer loyalty have been established, banks should give appropriate focus to significant dimensions of CRM.

Keywords: Customer loyalty, Trust, Commitment, Communication, Conflict handling and Competence

CHAPTER ONE

INTRODUCTION

1.1. Back ground of the study

The survival of any business depends on its customers, and the most important goal of an organization is to maintain customer loyalty and focus on customer centric approach in their organizational and marketing strategies (Jain & Singh, 2002). In today's business many companies are required to build long-term profitable relationship with customers and to achieve customer loyalty. Bowen and Chen (2001) argue that having a satisfied customer is not sufficient, because customer satisfaction needs to have direct impact to customer loyalty.

There is significant pressure on the financial sectors in all over the world; the market place is very dynamic, vibrant and competitive. The customers are 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 (Bhardwaj, 2007). Technological advancement has contributed a great deal in empowering customers by equipping them with the information they want at their fingertips. This has given customers the liberty to demand better services, reduced loan rates, higher deposit rates, timely and special customer service and many more financial offerings possible. Therefore, it's a challenge to have good customers let alone having loyal ones to our brand.

Customer relationship management (CRM) is a concept for managing a company's interactions with customers, clients, and sales prospects. It involves using technology to

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organize, automate, and synchronize business processes in order to enhance profitability, income, and customer satisfaction and finally loyal customers to the specific brand.

Customer loyalty is one of the most important customer metrics in marketing due to the profit impact of maintaining a loyal customer base (Oliver, 1997), When a consumer develops loyalty towards a brand develops a favorable attitude towards the brand resulting in commitment. When the customer becomes emotionally rather than merely intellectually vested in a brand, loyalty to the brand becomes cemented.

According to Robert Winter (2003), the advantages of Customer Relationship Management from the company's stand point include those with technical biases like data integration and automation of marketing or sales process and those with a business bias like extension and consolidation of profitable customer relationship. Customer Relationship Management enables prospective new customers to be targeted with individualized and attractive offers, thus increasing the effect of sales development (Schulze, 2000). Customer Relationship Management makes profitable customer relationships even more profitable

CRM gives a company new opportunities to gain a competitive edge by moving customers up a loyalty hierarchy from new customers to regular purchasers, then to loyal supporters of the firm's goods and services, and finally to advocates who not only buy its products but re commend them to others (Smith, 2003).

Banking is one of the service industries characterized by high customer contact with individually customized service solutions where customer satisfaction has been an increasing focus of research (Molina et al., 2007). The implementation of CRM is widespread (Peppard, 2000) and more advanced (Ryals and Payne, 2001) in the financial services industry than in other industries.

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Handful of scholars showed that CRM components have direct effect on customer loyalty, each were mentioned in different studies as a significant element. They have suggested that customers' Trust has a significant role in building long-term relationship and achieving customer loyalty (Berry, 1983; Kotler & Armstrong, 2010). The ability of the product or service provider to handle conflict well will also directly influence customer loyalty. Clow & Kurtz (2003) Commitment is another important determinant of the strength of a customer relationship management, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency (Morgan and Hunt, 1994). The findings of Ndubisi (2007) suggested that the greater the trust in the bank, the higher the level of the bank's commitment, the more reliable and timely its communications and the more satisfactorily it handles conflicts, the more loyal its customers will tend to be. Effective communication affects customers to stay with a provider of banking services. Loyalty can be nurtured by providing timely and reliable information.

The study selected one publicly owned bank: The commercial bank of Ethiopia, operated in a relatively stable environment for decades, leading in the sector from both government and private owned in terms of market share, branch network, volume of asset and profitability, currently spreading its branches all over the country aggressively to reach the unbanked society and also adopted CRM and customizing its service to satisfy the customers (Wubayehu, 2012).

The other selected bank is Zemen Bank S.C, the bank is a pioneer in introducing innovative banking products which are tailored to the needs of customer and the bank also prides itself in being superior in its service of excellence.

As I said above in a highly dynamic and competitive market environment plus with regulations getting tighter and governments involving here and there, a very small window is open for financial organizations to exercise market competition, and CRM can be one strategy that is proved effective by previous studies mentioned in the literature review of this study even

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though, most of the banks in Ethiopia adopt the strategy they fail to follow its effect and which element of the CRM have more effect to the result needed regarding Customer loyalty, and which one won't affect customers loyalty if it got cut out of the strategy, close review of long term customer relationship management and loyalty is paramount to study. Therefore, paper aims at looking at the effectiveness of customer relationship management virtues on customer loyalty to see if efforts on building long turn relationship with customers impacts or contributes to customers' loyalty.

1.2 Background of the companies

Ethiopian financial sector includes both government owned banks and shared companies owned privately by individuals, currently there are three government owned and sixteen Private Banks operating in Ethiopia.

The Commercial Bank of Ethiopia (CBE) has been established in 1942, and merged to Addis Bank and form the sole commercial bank in the country until the establishment of private commercial banks in 1994. CBE has more than 4 million account holders (www.combanketh.et). CBE is spreading its branches all over the country aggressively to reach the unbanked society and also adopted CRM and customizing its service to satisfy the customers (Wubayehu, 2012).

This bank is considered as the leading commercial bank in Ethiopia and the pioneer in introducing modern banking to the country (www.combanketh.et).

However, the industry is facing an aggressive competition since emerging private banks joined the industry. As the result, customers have now more options and are shifting to the competitors, one of the Private Banks, emerged and aggressively executing customer focused business strategy is Zemen Bank S.C.

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Zemen Bank is a privately owned commercial bank established in 2008 in accordance with the “licensing and supervision of banking business proclamation No. 84/1994” of Ethiopia to undertake commercial banking activities. The bank was founded by Ato Ermias Amelga a prominent banker in Wallsteet New York and Ato Tekle Alemneh who had more than 30 years’ experience in the Ethiopian Banking Industry. The bank obtained its license from the National Bank of Ethiopia (NBE) on 17 June 2008 and started its business activities on 2 October 2008, in accordance with the NBE’s letter of 29 September 2008

CBE and Zemen bank has a different business Strategy than other Banks, the former one is focused on customer coverage, by spreading its branches all over the country, and offering service tailored to specific region, the establishment of Zemen Bank has awakened the banking industry, others have tried to copy the Bank in areas of customer service and also adjusted their operating hour, add their focus on technology, efficiency and customer service, this were the main reasons to pick this two banks.

1.3 Statement of the problem

CRM in banking industry entirely different from other sectors, because banking industry purely related to financial services, which needs to create the trust among the people, that results in customer loyalty. It is an industry that has a huge opportunity to engage people in experiences that build lasting and mutually rewarding relationships (Doherty, 2012)

A clear and positive relationship exists between CRM and customer satisfaction, (Yao &Khong, 2011). But, Having CRM software installed or introducing the strategy does not ensure a successful result. To be successful in implementation of CRM practices, the financial and banking organizations must define and develop a business strategy as well as a supporting infrastructure for that strategy (Kwamena, 2013). One of the most important studies conducted in this field is by Reichheld and Sasser (1990), cited on Ali study (2007:16), which showed the large impact on profitability of small increases in customer retention rates, which made the marketing

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community more conscious of the need to manage customer relationships in the long term as well as prior to the first sale.

The emergence of new banks in the banking industry makes competition intense. However, in the Ethiopian banking industry, there appears to be limited effort to engage to CRM practices for securing long-term growth and profitability. For any given service sector, the growth and survival of companies is highly dependent on how loyal their customers are. Customer loyalty has been found in the literature to be a competitive tool for many companies; here application of CRM practices comes as a solution. This is even much more pronounced in today's highly globalised, industrialized and competitive markets. Loyalty has been widely researched in the domain of marketing (Bose & Rao 2011). A relative handful study of Ndubisi (2006) has specifically examined that CRM such as trust; commitment and conflict handling have a direct effect on customer retention. The evidence is almost uniformly consistent in indicating that customers are loyal when the banks relationship marketing is good.

Accordingly, this study seeks to empirically examine the effect of customer relationship management on customer loyalty within the context of the Ethiopian banking system. By addressing the question of whether there is a link between higher application of CRM practices and higher customer loyalty, considering the absence of in depth study, specific to the practices exercised, this study can provide a valuable information and knowledge base for banks as they seek to acquire and retain the loyal customers needed for their long-term success.

1.4 Research question

In accordance to the research purpose and objective, below are questions that were addressed in this research.

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1.4.1 Main Research Question

To what extent does customer relationship management practices influence customer loyalty in the banking sector in Ethiopia?

1.4.2 Sub Research Questions

1. To what extent does trust influence customer's loyalty in the banking sector in Ethiopia?
2. To what level does commitment influence customer loyalty in the banking sector in Ethiopia?
3. To what level does communication influence customer loyalty in the banking sector in Ethiopia?
4. What is the level that conflict handling influence customer loyalty in the banking sector in Ethiopia?
5. What is the level of competence influence customer loyalty in the banking sector in Ethiopia?

1.5 Objective of the Study

1.5.1 Main objective

The main objective of this study is to examine the effect of customer relationship management on customer loyalty in the banking sector in Ethiopia.

1.5.2 Specific objectives

The research has the following specific objectives focusing on components of CRM.

- To find out the level of effect, trust has on customer loyalty in the banking sector in Ethiopia.
- To determine the level of effect, commitment has customer loyalty in the banking sector in Ethiopia.

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- To examine the effect of communication on customer loyalty in the banking sector in Ethiopia.
- To investigate the effect of conflict handling on customer loyalty in the banking sector in Ethiopia.
- To determine the effect level competence has customer loyalty in the banking sector in Ethiopia.

1.6 Significance of the Study

Once a company develop a loyal customer base, marketing is easier, sales rate and profit margin are higher, premium pricing were exercised, overall it's a key to long term success. To get all done one needs to know what affects customer loyalty and the level of impact CRM has on customer loyalty and to what extent the CRM components determine its existence. Therefore, this study focuses on such relation in the case of selected commercial banks in Ethiopia.

The research also provides managers insights into development and implementation of CRM activities based on customers' evaluation and enables the organization to identify the dimension that have impact on customer satisfaction and those which needs further enhancement. By doing so, this research will have implication on bank managers and will contribute to the CRM literatures

1.7 Scope of the study

This study focuses on commercial banks operating in Ethiopia, by evaluating CRM dimensions. The study covered two banks, one government and another private banks in Ethiopia within Addis Ababa territory selected by using convince sampling techniques, that the researcher believes the sample were representative of the population considering; wide customer range, technological advancement and adopting CRM activities. The study gives emphasis on customer relationship management along with its components' level of effects on customer

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loyalty, taking four CRM components i.e. Trust, commitment, conflict handling, competence and communication as independent variables by applying all on the dependent variable i.e. customers' loyalty.

1.8 Definition of Terms

- ❖ **Customer** - operationally customer refers to organizations individuals and businesses that patronize bank products and services
- ❖ **Customer Relation Management (CRM);** can be defined as the establishment and maintenance of long-term relationships between an organization and its customers (Torres & Kline, 2006:293; Reinartz & Kumar, 2003:77; Christopher, Payne & Ballantyne, 2002:4).
- ❖ **CRM software;** consolidates customer information and documents into a single CRM database so business users can more easily access and manage it
- ❖ **Customer Satisfaction;** is the degree to which business's product or service performance matches up to the expectation of the customer (Roberts-Lombard, 2009).
- ❖ **Trust;** as existing when one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt (1994))
- ❖ **Commitment;** refers to the efforts by a bank and its employees to serve customers with the desired levels of performance. It also reflects the bank's values, attitudes and beliefs in terms of the customer orientation and CRM efforts (Padmavathy et al.,2012, p. 260)).
- ❖ **Loyalty:** The seller's perception of the consumer's positive attitude to the product manifested by re buying. (Hougaard and Bjerre 2009: 67).
- ❖ **Communication;** Communication, especially timely communication, means helping to resolve the disputes and aligning the conceptions and expectations in order to enhance mutual trust in a relationship Sin et al. (2002)
- ❖ **Competence;** Competence has been defined by perceptions of customers on the amount of skills, abilities and knowledge needed by the opposite party to effective function/service. Smith and Barclay, (1996)

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- ❖ **Customer service;** Customer's service is the process of ensuring customer satisfaction with a product or service. Often, customer service takes place while performing a transaction to the customer, such as money transfer. It is an extremely important part of maintain ongoing client relationship, a courteous and empathetic interaction with a trained customer service representative can mean the difference between losing or retaining a customer.
- ❖ **Customers' Loyalty;** refers to customers' commitment to repeat past purchases of a preferred service over time (Peelen, 2005:32), even if other more convenient or suitable alternatives exist (McMullan & Gilmore, 2003:231).
- ❖ **Brand loyalty;** Brand loyalty has been the center of attention among academicians and practitioners for many decades Jan Møller & Torben Hansen (2006).

1.9. Organization of the Study

The study was organized into five major chapters in order to make presentable to readers. The first chapter is dedicated to an introductory part composed of background of the study, research problem and questions. The second chapter presented the literature reviewed. In the third chapter the research methodology that includes research design, population and samples of the study, data collection and analysis tools were presented. The fourth chapter covered the data analysis and presentation part. The last chapter is dedicated to the research finding and conclusion part.

Chapter two

Review of related literatures

2.1 Introduction

This part of the paper tries to cover the relevant literatures resulted from various scholars on the topic that customer relationship management and its important factor in building customer loyalty. Covering theoretical, empirical and conceptual models & issues associated with the issue such as; definitions, terms, perspectives, and empirical studies, components namely (Trust, commitment, conflict handling, and communication and competence) and their impact on customer's loyalty in the case of commercial banks in Ethiopia.

2.2 Theoretical review

2.2.1 Customer Relationship Management (CRM)

Customer Relationship Management (CRM) "is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high-quality customer data and enabled by IT" (Buttle, 2004). CRM is a business strategy to identify, cultivate, and maintain long-term profitable customer relationships. It requires developing a method to select your most profitable customer relationships (or those with the most potential) and working to provide those customers with service quality that exceeds their expectations (McDonald, 2002).

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Keeping in mind the above definition, the term CRM is not clear. There is confusion about what it stands for and how to implement it. As a result, CRM has different meanings depending on who you ask (Payne & Frow, 2005). There are various opinions about CRM and from which aspects one can see it.

Among the several definitions that have been developed so far, the following are some of the popular ones;

- ‘CRM is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high-quality customer data and enabled by information technology’ (Buttle, 2004:29).
- ‘CRM is a process designed to collect data related to customers, to grasp features of customers, and to apply those qualities in specific marketing activities’ (Swift, 2001:33).
- ‘CRM is an integration of technologies and business processes used to satisfy the needs of a customer during any given interaction’ (Bose, 2002:89).
- “CRM is a strategy to identify and attract profitable customers, tying them to the company or product by efficient relationship marketing to guarantee profitable growth. CRM offers a great platform for the acquisition of new customers in addition to gaining customer satisfaction and loyalty. Additionally, existing customer relationships can be used to drive sales via up or cross-selling. The most “valuable” customers especially need to be identified, attracted and retained” (Kracklauer, 2001:44).
- “CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with the key customers and customer segments. CRM unites the potential of relationship marketing strategies and

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IT to create profitable, long-term relationships with customers and other key stakeholders. CRM provides enhanced opportunities to use data and information to both understand customers and co-create value with them. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications.” (Payne and Frow, 2005:63).

Furthermore, based on Imhoff (2001) some variations on the meaning of CRM, Ali (2007) provided a representative set of these definitions which are summarized in the following list:

- CRM is the set of systems, processes and organizations that profitably drive customer loyalty.
- CRM is the strategic view that integrates how we want the business to relate to the customers, specifically seen through technologies available to support that view and make it come alive by integrating people, processes, culture and attitude.
- CRM is the management of the relationship so that the partnership with the customer grows, flourishes and remains healthy over time.
- CRM is building customer loyalty, not merely relationship management, using a 360-degree view of the customer.
- CRM is the set of business processes and practices that directly addresses the relationships between key customers and the principal organization.
- CRM is the 360-degree view of the customers and their transactional activity with the company.

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An analysis of the above different definitions shows that they all have common concepts of: Customer focus (customer satisfaction, loyalty and retention), technology, knowledge management, change management and leadership.

Acknowledging many Marketing practitioners and scholar's strong recommendations for close relationships with customers, it is apparent that the beliefs of existing customers are more profitable as the acquiring and attracting of new customers is expensive, and that it is less costly to up-sell or cross-sell products or services to current customers (Berry, 1995; Peppard, 2000; Sheth and Paravatiyar, 1995). One of the most important studies conducted in this field is Reichheld and Sasser (1990), cited on Ali (2007:16), which showed the large impact on profitability of small increases in customer retention rates, which made the marketing community more conscious of the need to manage customer relationships in the long term as well as prior to the first sale.

2.2.2 CRM dimensions

Mahshid Tofigh, Hossein Salimian, and Mahmood Nasrollahi have defined the components of Relationship management as given on below table:

Table 2.1: Definition of Customer relationship management

CRM components	Definition	Researchers
Trust	Trust is your tendency towards a transaction company which you trust. Trust has been defined as one of the aspects of a business relationship which is the level at which each party feels that he can trust the promises of the other. High level of customer trust in the service provider leads to long term and more constant relationships. Trust has been defined as understanding the good reputation, credibility and support provided by the other party. In fact, the success of a relationship to a large extent depends on the amount of trust between the customer and the service provider.	Moorman et al., (1992)

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Commitment	<p>Commitment is the constant tendency to maintain a valuable Relationship.</p> <p>Commitment is one of the significant variables for understanding marketing strength, and also a useful tool for measuring the probability of loyalty and predicting customer's future purchases.</p>	<p>Moorman et al., (1992)</p> <p>Vasudevan et al., (2006)</p>
Commitment	<p>Commitment is the constant tendency to maintain a valuable Relationship. Commitment is one of the significant variables for understanding marketing strength, and also a useful tool for measuring the probability of loyalty and predicting customer's future purchases.</p>	<p>Moorman et al., (1992)</p>
Communication	<p>Communication, especially timely communication, means helping to resolve the disputes and aligning the conceptions and expectations in order to enhance mutual trust in a relationship.</p> <p>Regarding the relationship between the customer and the provider, communication means providing information that is trustable</p>	<p>Sin et al. (2002)</p> <p>Ndubisi (2007)</p>
Conflict handling	<p>Conflict handling refers to the ability to minimize the negative and obvious consequences of potential conflicts of course prior to their leading to any problems.</p> <p>Conflict in relationships is predictable and its consequence is wrong conceptions of the parties about their aims and roles in the relationship. Conflict handling is the ability of the provider to avoid potential conflicts</p>	<p>Dwyer et al., (1987)</p> <p>Aydin et al., (2005)</p>
Competence	<p>Competence has been defined by perceptions of customers on the amount of skills, abilities and knowledge needed by the opposite party to effective function/service</p>	<p>Smith and Barclay,(1996)</p>

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2.2.3 Elements of CRM

CRM is a combination of people, process and technology that seeks to understand a company's customer. It is an integrated approach to managing relationships by focusing on customer retention and relationship development. CRM has evolved from advanced information technology and organizational changes in customer – centric process. Companies that successfully implement CRM will reap the reward in customer loyalty and long run profitability. However, successful implementation is elusive to many companies mostly because they do not understand that CRM requires company-wide, cross-functional, customer focused-business process re-engineering. Although a large portion of CRM is technology, viewing CRM as technology – only solution is likely to fail. Managing a successful CRM implementation requires an integrated and balanced approach to technology, process and people. (Chen & Povich 2003:21)

People

People are involved in developing CRM strategy, choosing and implementing the IT strategy, hence people must be able to work cross functionally to ensure CRM meets its goals of customer satisfaction and retention by creating and maintain customer database to design appropriate marketing programs for the appropriate segments of customers (Buttle, 2009:87).

Process

Process is how operations are completed within an organization which leads to the importance of developing processes and implementing it across all functions so as to create value for the customer and meet the CRM goals and objectives. Processes includes the front office where customer communications happen and back of the house where all department work together to deliver excellent services to customers.

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Optimizing customer relationships requires a complete understanding of all customers; profitable as well as non-profitable, and then to organize business processes to treat customers individually based on their needs and their values (Renner, 2000:62).

Technology

Information technology (IT) has long been recognized as an enabler to radically redesign business processes in order to achieve dramatic improvements in organizational performance (Davenport and Short, 1990; Porter, 1987). Information is critical for product tailoring, service innovation, consolidated views of customers and calculating customer lifetime value. Among others, data warehouses, enterprise resource planning (ERP) systems, and the Internet are central infrastructures to CRM applications. (Chen & Popovich 2003:49)

2.2.4 Perspectives of CRM

As presented in the above section, several researches have made attempts to define CRM, and these definitions of CRM adopted from different sources refer to the different perspectives of CRM which ranges from narrowing IT enabling solutions to a broadly and strategically approach to managing customer relationship. Consequently, Payne and Frow (2005:68) use a continuum to define CRM from three perspectives

The first perspective takes a narrow and tactical outlook where CRM is accomplished through a defined technology initiative project. CRM is described as using data to drive marketing activities (Kutner & Cripps, 1997). CRM is also look upon as a marketing promotional activities linked to marketing database (Bickert, 1992; Winer, 2001).

The second perspective view CRM as implementing a combination of customer focused technology solutions. CRM is defined as using ecommerce to drive relationships with customer (Stone & Woodcock, 2001) and web-based methods and internet technology to drive organization to become more customer-centric (Gosney & Boehm, 2000).

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The third and last perspective takes a broader and strategic approach where CRM applies a holistic or wholesome approach to customer relationships management and to develop value for shareholder. CRM applies 1-to1 relationship marketing to respond to customer requirement supported by what the customer says they prefer and other known information related to the customer (Peppers, Rogers, & Dorf, 1999). It employs process oriented view by combining all the functions of an organization (Parvitiyar & Sheth, 2001) and uses an organized process by managing customer relationship touching on all customer touch points to develop value for the customer and profitability for the organization (Reinartz et al., 2004).

2.2.5 Types of CRM

Regarding the types of CRM, to help in compiling an extensive picture of the CRM business model, many authors including Buttle (2009:91) divide CRM into four main types, namely Strategic CRM, Operational CRM, Analytical CRM, and Collaborative CRM. The researcher acknowledges the literature that Analytical CRM has become an essential part of many CRM implementations, and base for Operational CRM difficulties to reach its full effect depending on analytical information about customers, this study were conducted mainly focusing on the operational and analytical CRM related activities in the commercial banks of Ethiopia.

Strategic CRM; is a core customer-centric business strategy that aims in winning and retaining profitable customers. Basically it is about creating customer-centric business culture. Customer centric business approach requires changing behavior from regular business models such as product-orientation, production-orientation or selling-orientation. (Buttle, 2009:91)

In a customer-centric organization resources should be allocated where they increase customer value, for example in reward programs to promote employee behavior that have positive impact on customer satisfaction and retention, as well as capturing, sharing and applying customer information across the organization. (Buttle 2009) This is the approach, which should be examined in very early stage of CRM strategy development.

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Operational CRM; Operational CRM focuses on customer-involving processes such as selling, marketing and customer service. It is about automating some of the marketing, selling and service functions of an organization. (Buttle, 2009:92)

Analytical CRM; Analytical CRM focuses on collecting, processing, interpreting and exploiting of the customer-related data for strategic or tactical purposes. It is highly involved with the customer-related data (Buttle, 2009). It enables the value creation to both, the customer and the organization, by capturing, storing, extracting, processing, interpreting and reporting the data. Customer-related data may include information about purchasing history, payment history, credit score, marketing campaign response, loyalty scheme data and service data. In addition to internal data, organizations may gather and analyze demographic and lifestyle data from external sources as well (Buttle, 2009:95).

Collaborative CRM; Collaborative CRM applies technology across organizational boundaries aiming to optimize company, partner and customer value. It is concerned with enabling better customer value delivery within entire value chain by improving cooperation and customer-related data sharing across organizational boundaries. Some vendors have developed own applications for partner relationship management (PRM) for managing complex value chains. In some organizations collaborative CRM is used to describe information systems designed to enhance communication just internally. (Buttle, 2009:95)

Acknowledging the literature that Analytical CRM has become an essential part of many CRM implementations, in addition to the fact that Operational CRM difficulties to reach its full effect without analytical information about customers, this section will discuss operational and analytical CRM further.

Operational CRM; refers to services that provide support for various 'front office' business processes in helping organization to take care of their customers. Focus on customers' value is important for a successful operational CRM strategy (Buttle, 2009:92). On the other

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hand, analytical CRM supports organizational back-office operations and analysis. It deals with all the operations and processes that do not directly deal with customers. Hence, there is a key difference between operational CRM and Analytical CRM. Unlike from operational CRM, where automation of marketing, sales-force and services are done by direct interaction with customers and determining customer's needs, analytical CRM is designed to analyze deeply the customer's information and data and unwrap or disclose the essential convention and intension of behavior of customers on which capitalization can be done by the organization (Buttle, 2009:95). Analytical CRM is a solid and consistent platform which provides analytical applications to help predict, scale and optimize customer relations (Buttle 2009:95). Advantages of implementing and using an analytical CRM are described below.

2.2.6 The effect of Customer Satisfaction on Customer Loyalty

Customer satisfaction is a judgment of the service brand's capability to provide "a pleasurable level of consumption related fulfillment, including levels of under or over fulfillment" (Oliver, 1997, p. 13). Customers are satisfied if the performance meets or exceeds their expectations prior to consumption. Likewise, they are dissatisfied if the brand does not meet their expectations. According to Garbarino & Johnson, 1999, customer satisfaction is considered as one of the most important factors contributing for customer loyalty. If customers evaluate the brand as being one that meets and even exceeds their expectation, it is presumed they are satisfied with the brand. Once they are satisfied with the brand, they will prefer it for their subsequent travel.

Customer satisfaction is further assumed to positively influence customers' commitment to their relationship with the airline brand. A high level of satisfaction resulting from the interaction with the airline brand provides repeated positive reinforcement, thereby creating positive emotional commitment bonds with the brand (Hennig-Thurau & Klee, 1997, p. 753).

2.2.7 CRM Effect and Evaluation Dimensions

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Only few studies have investigated and measured CRM effect despite the practical relevance of operational and measuring CRM effect for business performance variables (Padmavathy et al., 2012). Mithas, Krishnana & Fornell (2005) argued that marketing has moved from a brand-centered focus to a customer-centered approach. Hence, managing customer relationships is important and valuable to businesses. The effective implementation of CRM requires a cross-functional integration of marketing, sales, customer service and supply chain to enhance value delivered to customers (Parvatiyar and Sheth, 2001, p.5). As noted by Das (2012) the effective relationship between customers and banks depends on the understanding of different needs of customers at different stages.

2.2.8 Customer loyalty

Customer loyalty has been defined and measured in many various ways over the past decades. Oliver (1997) defines customer loyalty as “a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situation influences and marketing efforts having the potential to cause switching behaviors”.

According to the literature on loyalty, customer loyalty has several distinct dimensions. The two most important dimensions are the behavioral and attitudinal components (Day 1969; Yi 1991). Earlier research conceptualized customer loyalty as a behavior (Dick and Basu 1994). Behavioral loyalty signifies actual repeat purchasing behavior, or the likelihood of repeat product/service purchases from the same supplier. Yet, recent research seems to measure loyalty attitudinally (including cognitive and/or affective components). Using this perspective, customer loyalty is perceived as future intention-to-repurchase or commitment that reflects the cognitive and emotional attachment associated with customer loyalty.

Each of these dimensions has pros and cons. Academics find fault with the behavior-based loyalty measure, so far as it can fail to distinguish between true and spurious loyalty. Dick and Basu (1994) assert that if behaviorally loyal customers with spurious loyalty locate a superior alternative, they will probably switch to the alternative.

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Day (1969) blames behavior loyalty by stating, “These spuriously loyal buyers lack any attachment to brand attributes, and they can be immediately captured by another brand that offers a better deal,” which means that actual repurchase behavior is not always due to a psychological and/or emotional commitment with respect to a product or service (i.e., true loyalty). Bowen and Chen (2001) state that an individual may reside at a hotel because it has the most convenient location, Nevertheless, an individual may also change to a new hotel when it is located across the street and provides better deals. As this example illustrates, repeat purchase behavior does not always indicate commitment; rather, it may signify a random actual repeat purchase, or spurious loyalty. Yet, this spurious loyalty can be disregarded when attitudinal loyalty is the construct of interest.

Shankar and his colleagues (2003) also maintain that attitudinally loyal customers are not likely to change to an incrementally more attractive alternative, in that they have a certain degree of attachment or commitment to the product or service.

Interaction of attitude and behavior such that the behavior (loyalty) is determined by the strength of relationship between relative attitude and repeat patronage. Extending this, the loyalty dimensions or concepts are to include behavioral, attitudinal and cognitive processes. The attitudinal dimensions of loyalty were to include attributes such as word-or-mouth, complaining behavior and purchase intention. The behavioral loyalty measures include attributes such as brand allegiance, price elasticity, share of category (number of times a brand is purchased in a given period) and price until switching. The cognitive loyalty component includes attributes like preference to the service organization, the belief that the service organization provides best offer and suiting customer needs.

Dick and Basu (1994) Customer loyalty is one of the most important customer metrics in marketing due to the profit impact of maintaining a loyal customer base (Oliver 1997). The literature points out that customer loyalty leads to firm profitability because customer loyalty positively influences firm product-marketplace performance and financial performance and creates shareholder wealth.

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2.1.9 Customer loyalty in the service provider organizations

Customers remain loyal, not because of promotions and marketing programs, but because of the value they receive (Payne *et al.*, 1995). Key findings of Gee *et al* (2008) indicates that organizations must understand what drives both value and delight for their customers and adopting a customer centric vision enables an organization understand their customers, deliver customer delight and drive for loyalty. They also pointed out different customers have different requirements and were delighted in different ways and appropriate monitoring of customers is important to ensure that customer defections are not masked by customer acquisitions. This is essential for the sustainable growth of an organization. Analysis of defecting customers allows an organization to profile at risk customers where appropriate preventive measures can be put in place to reduce customer defection (Gee *et al.*, 2008).

According to Huseyin *et al* (2005) findings, it is more expensive to find and attract a new customer than it is to retain an existing one and banks need to redefine their corporate image to one that emphasizes service quality by introduction standards for service excellence to make loyal. The study conducted by Huseyin *et al* (2005) has shown that customers are looking for banks that keep their promises, instill confidence in the customer about the way they handle transactions, provide prompt service and have employees that are competent and always willing to help the customer. They also argued that due to the highly interactive nature of the employee-customer relationship, including input from employees on what constitutes service excellence were beneficial for banks and need to reassess what customers expect from them in terms of products and services and thus, provide client specific services is very important.

As Balakrishnan and Els (2008) states service initiatives aimed at customer relationship management often look at four areas such as satisfaction, retention, loyalty and lifetime profitability. They also suggest a fundamental criterion for the success of customer initiative schemes is making sure that customer perceived value is met or better still, whether it is

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exceeded and organizations should evaluate future service schemes with respect to cost and results. They also pointed out that in a competitive environment where the customer has myriad choices and few switching costs, loyalty could from the organization point of view decrease costs and increase revenues.

2.2.10 CRM and customer loyalty

Today the most important thing to do about the reduced customer satisfaction is the customer-centered practices adapted to each customer's needs and values. By treating different customers in different manners, firms can achieve customer loyalty (Tarhan, 2004: 77). Customer loyalty is the long and uninterrupted retention of the relationship by offering service that meets and even goes beyond the customer needs (Acuner, 2001: 89). Customer loyalty is defined with consideration paid to the amount of buying for a given trademark. The level of loyalty is measured by the watching of the frequency of buying (Javalgi and Moberg, 1997: 165). With the increase in the amount of accessible information in recent years, the conscious level of customers has improved continually. Today's customers are aware of the power they have on the market and that every activity is realized for them. It is now easier to reach the products and services. Before choosing a given trademark, consumers look at the price, newness, accessibility of the product and the additional services offered. As the alternatives increased, consumers' loyalty to the products and services decreased (Tekinay, 2002: 129). Today firms have entered into an effort to present at a lower cost than their rivals the products and services that can meet the customer wishes and expectations fully, so that they can render customers more loyal.

2.2.11 CRM and Banking Industry

Banking is one of the service industries characterized by high customer contact with individually customized service solutions where customer satisfaction has been an increasing focus of research (Molina et al., 2007). Despite substantial investments in CRM applications,

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there is a lack of research demonstrating the benefits of such investments (Mithas et al., 2005). According to Mithas et al., (2005) CRM applications are likely to have an effect on customer satisfaction for at least three reasons. First, CRM applications enable firms to customize their offerings for each customer. By accumulating information across customer interactions and processing this information to discover hidden patterns, CRM applications help firms customize their offerings to suit the individual tastes of their customers. Customized offerings enhance the perceived quality of products and services from a customer's viewpoint. Because first, quality is a determinant of customer satisfaction, it follows that CRM applications indirectly affect customer

Globalization and technology improvements have exposed companies to a situation with tough competition. In this new era companies are focusing on managing customer relationships in order to efficiently maximize revenues. Today marketing is not just developing, delivering and selling, it is moving towards developing and maintaining long term relationships with customers. Relationship marketing is becoming important in financial services. Managers really need to look at areas where opportunities lie, because industry consolidation, virtual delivery channels and the ability to move money around with a click of a mouse are making it easier for customers to leave one bank for another. In this situation CRM (Customer Relationship Management) is an opportunity that banks can avail to rise above minor advantages by developing actual relationships with their customers.

CRM in banking industry entirely different from other sectors, because banking industry purely related to financial services, which needs to create the trust among the people.

Establishing customer care support during on and off official hours, making timely information about interest payments, maturity of time deposit, issuing credit and debit ATM card, creating awareness regarding online and e-banking, adopting mobile request etc. are required to keep regular relationship with customers.

Customer relationship management in financial services industry is a cyclical process which starts with definition of customer actions (Panda T, 2003). Panda T described customer expectations are difficult to manage but are often the cause of dissonance which results in loss

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of existing customer base. So understanding of customer expectations with regard to service delivery levels and product quality is essential for establishing a long term symbolic value relationship.

CRM, which is becoming a topic of increasing importance in marketing, is concerned with using information technology in implementing relationship marketing strategies (Ryals L, et al, 2001).

Customer service is the primary end of any bank. A customer always wants something and expects that the bank should come up to the level to fulfill those needs. Again, the more you provide, still more the consumer needs. Service quality is about meeting customer needs and requirements, and how well the service level delivered matches customer expectations.

In today 's competition in Indian banking industry, customers have to make a choice among various service providers by making a trade-off between relationships and economies, trust and products, or service and efficiency (Sachdev et al, 2004). Hallowell Roger (1996) conducted a research on customer satisfaction, loyalty, and profitability and found that as compared to public sector, private sector bank customers' level of satisfaction is comparatively higher.

2.2.12 Benefits of CRM strategy in Banking Industry

Benefits of CRM can be categorized into three groups namely: Benefits for customers, benefits for employees and benefits for banks.

It brings Coordinated and professional approach to customer contact, Up-to-date customer information, Banks can offer more personalized services. Customers feel empowered if they have greater access to products and services. For example, 24 hours banking. Targeted product and service offerings can be timed to coincide with customer events and requirements e.g.,

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Education Loans and Tourism Loans. Develop better communication channels. Collect vital data, like customer details and order history Create detailed profiles such as customer preferences Deliver instant, company-wide access to customer histories Identify new selling opportunities

2.2.13 CRM in Financial Services and in the Ethiopian banks

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. Currently there are 3 government owned; and 16 Private Banks; Awash International Bank, Abyssina Bank, Dashen Bank, Wogagen Bank, United Bank, Nib International Bank, Cooperative bank of Oromia, Lion Bank, Zemen Bank, Oromia International Bank, Enat Bank, Berhan Bank, Bunna Bank, Addis International Bank, Abay Bank, Debub Global Bank operating in the country. Most of the banks started operation a decade ago.

Relationship Officers who are responsible for advising, consulting and providing adequate information to customers. And branch managers who conduct the recruiting potential customers, promote the bank in general and their branch in particular and monitor their branch's overall CRM practices. Efficient and effective customer services is also tailored by the customer service managers who support branch managers CRM activities in executing operational tasks of the branch and entertain customer request at sight. Deploying these technologies enable the bank customers to withdraw, transfer and check their account 24 hours a day easily. Hence the bank also honors its customers particularly those who displayed in earning considerable foreign currency on yearly basis and awards certificate and trophies

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(www.combanketh.com) and arranges contest for those who deposit more than certain amount which enables customers to win electronics materials and vehicles.

2.3 Empirical review

The following studies were reviewed to familiarize the topic of customer relationship management to demonstrate the originality of this study and to reveal the gap it will fill in the customer's loyalty research.

All the quoted studies on the impact of customer relationship management on customer loyalty/retention have concluded that relationship building with customers is important factor for retaining one's customers. Whether used as strategy or not, it is indicated that organizations who have built relationships with their customers and have managed that well are more successful in their attempt of retaining their customers. Most papers see customer relationship as important contributor towards customer satisfaction where by satisfaction resulting in customer retention/loyalty.

According to Swift (2001), cited in Rahimi (2007:18), companies can gain many benefits from CRM. He states that the benefits are commonly found in one of these areas:

1. Lower cost of recruiting customers – the cost for recruiting customers will decrease since there are savings to be made on marketing, mailing, contact, follow-up, fulfillment, services, and so on.
2. No need to recruit so many customers to preserve a stay volume of business – the number of long-term customers will increase and consequently the need for recruiting many new customer's decreases.
3. Reduced costs of sales – the costs regarding selling are reduced owing to that existing customers are usually more responsive. In addition, with better knowledge of channels

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and distributions the relationships become more effective, as well as the costs for marketing campaigns are reduced.

4. Higher customer profitability – the customer profitability will get higher since the customer wallet-share increases, there are increases in up-selling, cross-selling and follow-up sales, and more referrals comes with higher customer satisfaction among existing customers.
5. Increased customer retention and loyalty – the customer retention increases since customers stay longer, buy more and buy more frequently. The customer does also more often take initiatives, which increase the bounding relationship, and as a result the customer loyalty increases as well.
6. Evaluation of customer profitability – the company will get to know which customer are profitable, the ones who never might become profitable, and which ones that might be profitable in the future. This is very important since the key to success in any business is to focus on acquiring customers who generate profit, and once you have found them, never let them go. All customers are not valuable; some many even be danger to the business. This occurs when the customers use the company's time, energy and resources without generating enough business to make them worth the effort.
(Budhwani, 2002:38)

Mohammad Taleghani, Shahram Gilaninia and Seyyed Javad Mousavian, have mentioned some of the key relationship marketing virtues based on their literature review as identified by various scholars.

The stated virtues are: *Trust* (Macintosh and Lockshin,1997; Sirdeshmukh et al, 2002; Veloutsou et al., 2002; Knemeyer et al., 2003; Beetles and Harris, 2010), *Commitment* (Morgan and Hunt, 1994; Beetles and Harris, 2010), *Competence* (Smith and Barclay, 1997; Metawa and Almoossawi, 1998; Hunt et al, 2006), *Equity* (Kavali et al, 1999), *Benevolence* (Ndubisi and Wah,

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2005), *Empathy* (Ndubisi, 2004), *Conflict handling* (Ndubisi and Madu, 2009; Gilaninia et al, 2011), and (Morgan and Hunt, 1994; Ndubisi and Wah, 2005; Knemeyer and Murphy, 2005; Tian et al., 2008).

Five of the virtues listed above (trust, commitment, communication, conflict handling & competence) was used to see the impact of Customer Relationship Management on Customer Loyalty. These five virtues are chosen for this study as they are found to be highly applicable to any service giving industry and are mentioned repeatedly on most of relationship and loyalty related studies like studies.

2.3.1 The Payne's model of CRM

In line with implementing and evaluating the effect of CRM practices, a number of comprehensive CRM models have been developed. Yet there is no agreement regarding a common framework for the implementation and appraisal on how effective is the CRM practices. The IDIC, the QCi, the CRM Value Chain, the Payne's five-process, and the Gartner Competency models being the top five popular CRM models, this study will introduce and refer to the Payne's five-process model which was developed by Payne (2005).

Payne and Frow (2005) uses interaction research and a combination of literature review and field communication with executives to arrive at a strategic multi-functional process oriented CRM framework consisting of five generic processes including strategy development process; value creation process; multichannel integration process; information management process, and performance assessment process. The process begins from developing business and customer strategy (strategy development) and concluded with performance monitoring through qualitative and quantitative measurement and key performance indicator. Data are collected throughout these four processes. The notion that competitive advantage stems from the creation of value for the customer and for the company is key to the success of CRM

In general, according to Payne's model, the first two processes represent strategic CRM, the multichannel integration process represents operational CRM, and the information management process is analytical CRM. This study, while focusing on operational and analytical

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CRM related activities, mainly concentrate on multichannel integration and information management processes.

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 effect.

2.4 Research Conceptual Model

The model of Ndubisi & Wah (2005) have been used in this study to analyze the effect of customer relationship management on customer loyalty.

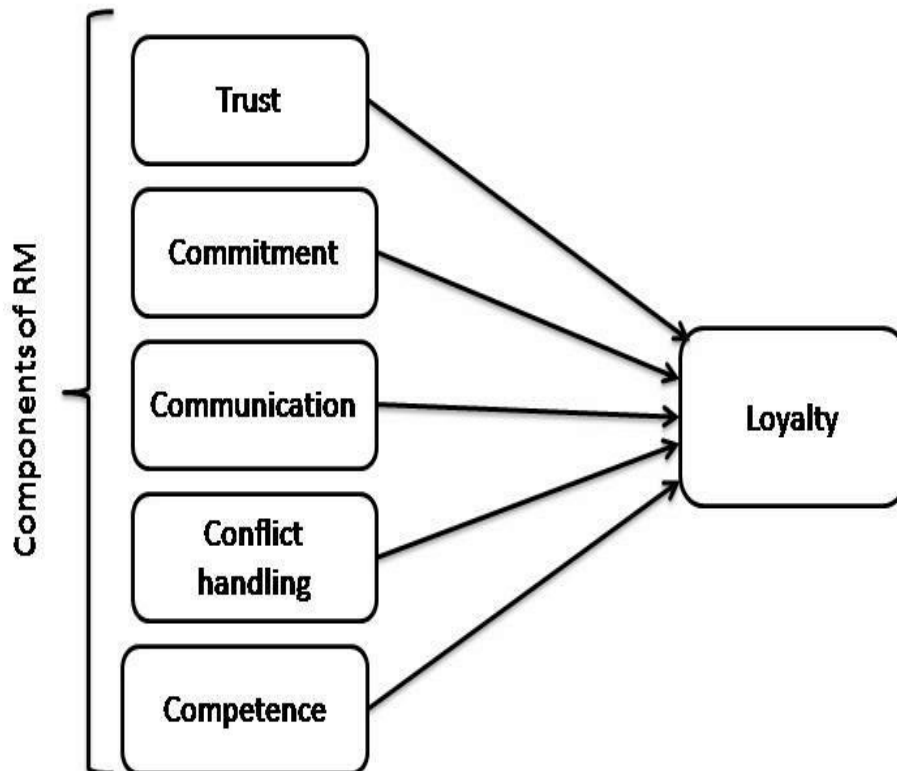


Figure 1 Conceptual Model

Source: Ndubisi and Wah (2005)

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2.5 Hypotheses

Based on the conceptual model described above, these alternative hypotheses are formulated:

H1: There is significant positive relationship between trust and customer loyalty.

H2: There is significant positive relationship between commitment and customer loyalty.

H3: There is significant positive relationship between conflict handling and customer loyalty.

H4: There is significant positive relationship between communication and customer loyalty.

H5: There is significant positive relationship between competence and customer loyalty.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

In this chapter the methods that are used to conduct the primary research for the study are discussed. The research method, design, process, approach, and strategy are explored. Further, sampling, questionnaire design, data collection and analysis are also expressed in this chapter.

3.2 Research Approach

Logically there are two broad methods of reasoning known as the deductive and inductive approaches. The deductive approach works from the more general to the more specific; this ultimately leads to testing the hypotheses with specific data to confirm or not confirm the original theories (Trochim, 1998-2000). while an inductive reasoning, by its very nature, is more open-ended and exploratory; a deductive reasoning is narrow and is concerned with testing or confirming hypotheses (*Olle Stromgren (2007)*)

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Accordingly, in line with the study objectives and strategy i.e. find out if customer relationship management components have relationship and effects up on customer loyalty, the study followed the deductive approach.

There is a tendency to divide research into qualitative and quantitative, Quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationships. The objective of quantitative research is to develop and employ mathematical models, theories and hypotheses pertaining to natural phenomena.

The mixed research method of research approach is followed in this study because mathematical models is applied and hypotheses is tested which require quantitative data and methods, Qualitative method will also be employed for instrument development, problem identification and hypotheses formation; a self-administered questionnaire is considered an appropriate approach to collecting the data for this research. The qualitative data is collected through secondary data sources. Finally, pre-testing of the questionnaire was conducted before the questionnaire is distributed to the sample Respondents. Due to the nature of the research which was to be studied at one time, the researcher will to use a cross sectional descriptive approach

3.3 Research Design

Research design represents the major methodology driving the study, which are distinctive and specific research approaches that are best suited to answer the research question (Comack, 1996). Accordingly, the researcher employed descriptive and explanatory research design with which to describe and explained the effect of CRM on Customer loyalty together with contribution of each component to customers' satisfaction and loyalty to the brand is clearly examined.

As to this study strategy, after considering the available time, cost, and suitability a cross-sectional design is adopted in this study where data is collected at only one point in time, after

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acknowledging that Cross-sectional research involves the measurement of all variable(s) for all cases within a narrow time span so that the measurements may be viewed as contemporaneous (Baltes, Reese, Nesselrode, 1988; Creswell, 1994). The advantage of cross-sectional research is that it is more economical in time and cost than other designs.

3.4 Population and Sampling Techniques

3.4.1 Population

All individuals of interest to the researcher are called population (Alan and Kaufman, 2005). The target populations for this study were customers of commercial banks in Ethiopia.

Unit of analysis is related with the population (specific population) that is used to collect data. The unit of analysis for this study was customers of Commercial banks of Ethiopia and Zemen bank S.C. including both account holders and walking customers.

3.4.2 Sampling and Sampling Technique

Sampling is a procedure that uses a small number of units of a given population as a basis for drawing conclusions about the whole populations (Albaum, 1997). A sampling frame is a list of individuals in the population (Mooi and Sarstedt 2011). The most important aspect of sampling is that the sample selected is representative of the population with representative it means that the characteristics of the sample closely match those of the population (Mooi and Sarstedt 2011).

The study used non probability sampling technique from non-probability convenient random sampling was used. Convenience sampling inherently is a non-probability sample method. Zikmund (2003) demonstrated that convenience sampling was referred to as sampling by obtaining units or people who were most conveniently available. Malhotra (2007) showed that convenience sampling was common with market researchers and newspaper reporters. Convenience sampling also called accidental or opportunity sampling is a technique in which a

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sample is drawn from that part of the population that is close to hand, readily available, or convenient.

The banking industry in Ethiopia comprises a total of 19 government and private owned banks. Accordingly, the strata were two groups, Government owned and Private owned Banks, the sample of this study included conveniently selected one government and one private owned bank; these are *Commercial Bank of Ethiopia* and *Zemen Bank S. C. respectively* in Addis Ababa, customers of these banks were the respondents for this study. The study include any person who appears in the banks premises to get financial service, though the intention of this research is to assess the effect of CRM from customer perspective and its effect on customer loyalty it is impractical to assess the evaluation of all customers. Time limit and budget constraint compel the student researcher to focus on selected branches of the two banks to undertake the survey. Therefore, it is necessary to survey a sample of the population as an alternative in order to formulate predictions about the entire population.

According to krejcie and Morgan (1970), chon (1969) for the population that is more than 100,000 at the confidence level of 95% and precision level of +or -6% the number of sample size that should be obtained shall be counted, greater than or equal to 266.77 - 267 to represent to the population.

Necessary sample size = $(z\text{-score})^2 * \text{Std Dev} * (1 - \text{StdDev}) / (\text{margin of error})^2$

$$= (1.96)^2 * 0.5 * 0.5 / (.06)^2$$

$$= 266.77$$

- Sample size= 267
- Where: 95% confidence level corresponds to value of 1.96 from Z-score table.
- Margin of error = +/-6%
- Std Dev= 0.5

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The questionnaires are distributed to customers of the banks at any time of the day. In order to make generalizations with confidence about the constructs under investigation, the appropriate respondents have to be involved. Therefore, 294 questionnaires were distributed to meet up to the required level of number of responses from customers of CBE & Zemen bank S.C.

To obtain representative samples, in selecting the research respondents, convenient method was applied, this sampling method helps for a population from which sample has been constitute a homogeneous group, therefore the study takes 267 respondents as target respondents from these customers who have account with balance and/or regular customer for money transfer or any banks' services.

Moreover, findings of previous studies, published journal articles, publications in measuring customer relationship management effect and other source like websites were considered as secondary data source

since there is a limitation of cost, time and difficulty of using sample frame, and difficulty in determining the total population to list out the sample frame, convenience sampling technique were used to choose customers of commercial banks, To avoid bias and got enough mix of holders of different bank account, questioners were randomly distributed to walk in customers in different time of the day at teller stations, account opening section, credit service section and IBD departments of selected branches.

3.5 Data collection instruments and variables/data collection method

3.5.1 Data Collection

According to Catherine (2007), data may be collected as either primary or Secondary, the research uses both primary and secondary data. The secondary data employed to explore the theoretical issues is based on CRM books, journal articles, other research projects and credible

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CRM web portals. Reviewing the secondary literature will enable for better understanding of the research topic, in general, and the study problem at hand, in particular it serves as useful reference for making comparisons to the primary research, later on in the research report.

For the purposes of gathering primary data for this research report, questionnaires were prepared, Primary data were collected based on structured questionnaires. **Structured questionnaire** (fixed response type) is used to collect primary data from respondent, by focusing on the research objective, the questionnaire was adopted to extract customers' experience regarding the customer relationship marketing dimensions namely Trust, Commitment, communication, competence and conflict handling towards their customer loyalty to respective banks. The questionnaires consist of two parts. Part one were prepared to gather general information about the respondents' gender, age, education, occupation, monthly income and for how many time the customer using the banks' services. Part two were prepared to ask respondents to answer customer relationship management and customer loyalty questions. This part consists of questions and measures the impact of customer relationship marketing on customer loyalty which is divided in five dimensions.

All items in Sections used a five-point Likert-type scale ranging from Strongly Disagree (1) to Strongly Agree (5). A five point Likert type scale ranging from 1 (one being strongly disagree) to 5 (five being strongly agree) is a widely used rating scale which requires the respondents to indicate a degree of agreement or disagreement with each of a series of statements or questions. (Album, 1997). This rating scale is easy to construct and administer and respondents readily understand how to use the scale (Malhotra et al., 2007). The Likert scale used in this study is odd numbered; balanced (the number of favorable and unfavorable categories is equal). The balanced state helps to obtain an objective data; has non-forced choices "no opinion" to improve the accuracy of the data as proposed by Hasnich, 1992. Five is an effective choice since the reliability decreases if the number of response options is greater than five (Hayes, 1992).

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The independent variable is customer relationship marketing and were measured by five dimensions that are trust, commitment, conflict handling, competence and communication. The dependent variable is customer loyalty and measured by the feelings of customers' loyalty towards their respective bank.

3.5.2 Data Analysis

After collecting the data through questionnaire, the process of analysis was done using statistical tools like regression and correlation models. The data collected were edited, coded, tabulated, and presented for analysis. Out of the different types regression, Multiple regression analysis is a statistic technique used to investigate the relationships between a dependent variable and two or more independent variables (Kothari, 2007). Therefore, is used to know by how much the independent variable i.e. Customer relationship management, (the five dimensions) explains or influences the dependent variable which is customer loyalty. Correlation analysis also conducted to measure the strength of the association between CRM dimensions and customer loyalty. And also descriptive analysis was used for the demographic factors such as gender, age, education, occupation, monthly income and for how many times the customers are using the bank's services. Tools like tables and percentage were also used. Data analysis was performed by using SPSS software version 20. In order to reduce the possibility of getting wrong answers, different actions were taken to ensure the soundness of this study.

Multiple regression was used to further investigate the significant effects of the independent variables on the dependent variable based on;

$$Y=a+b_1X_1+b_2X_2+b_3X_3+b_4X_4+b_5X_5+e$$

Where:

Y= Customer loyalty

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B_1 = beta weigh or regression coefficient of trust

X_1 = Trust

B_2 = beta weigh or regression coefficient of Commitment

X_2 = Commitment

B_3 = beta weigh or regression coefficient of Conflict handling

X_3 = Conflict handling

B_4 = beta weigh or regression coefficient of Communication

X_4 = Communication

B_5 = beta weigh or regression coefficient of Competence

X_5 = Competence

- ✓ Data was collected from reliable sources, from respondents who are customers of the bank. By customer, both walking individuals and account holder.
- ✓ The questionnaire was based on literature review to ensure the soundness of the results.
- ✓ SPSS software version 20.0 was employed to analyze the data and special emphasis was given during data coding

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3.5 Methods of Presentation

The data from the study were presented in the form of tables, graphs and charts as desired so as to make all the data readable and understandable by all concerned parties.

3.6 Reliability and Validity

Sound measurement must meet the tests of validity, reliability and practicality. In fact, these are the three major considerations one should use in evaluating a measurement tool. “Validity refers to the extent to which a test measures what we actually wish to measure. Reliability has to do with the accuracy and precision of a measurement procedure ... Practicality is concerned with a wide range of factors of economy, convenience, and interpretability (Jaipur C.R. KOTHARI ,May 1990)

Kazi (2010) suggest two major criteria which applied to evaluate the quality of the study i.e. validity and reliability.

3.6.1 Validity

Validity represents how well a variable measure what it is supposed to measure. Validity is concerned with whether the findings are really about what they appear to be about. Kazi (2010) defined the validity as “the degree to which a measure accurately represents what it is supposed to”. Validity is concerned with how well the concept is defined by the measure(s). In this study all variables (items) were inspected by the researcher with the support of customer service officers to ensure that they were an adequate and a thorough representation of the construct under investigation. To test the questionnaire for clarity and to provide a coherent research questionnaire, a macro review was accurately held. Some items were added, based on valuable recommendations. Some others were reformulated to become more accurate and clear, and this were required for the purpose of enhancing the research instrument.

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3.6.2 Reliability

Extents to which a variable or set of variables is consistent in what it is intended to measure (Hair et al., 1998). It differs from validity in that it relates not to what should be measured, but instead to how it is measured. Several measures have been used to establish the reliability of the instrument. The current study used multiple items in all constructs. So the internal consistency method is appropriate for the current study. Hair et al. (1998) mentioned that the rationale for internal consistency is that the individual items or indicators of the scale should all be measuring the same construct and thus be highly inter-correlated. Internal consistency reliability of all questions were assessed by the Cronbach's alpha coefficients of measurement items for each construct. Zikmund (2003), suggest that a Cronbach's alpha value of > 0.7 indicates a considerably high reliability.

3.7 Ethical Considerations

All information collected were treated with confidentiality without disclosure of the respondents' identity. Moreover, no information was modified or changed, hence the information was presented as collected and all the literatures collected for the purpose of this study were acknowledged in the reference list.

In order to keep the confidentiality of the information that were given by respondents, they will not be required to write their name and assured that their responses were treated in strict confidentiality. The purpose of the study was disclosed in the introductory part of the questionnaire. Furthermore, the researcher tried to avoid misleading or deceptive statements in the questionnaire. Lastly, the questionnaires were distributed only to voluntary participants.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRITAION

4.1 Introduction

This chapter presents the analysis of the survey questionnaire as well as results of the data analysis in order to realize the ultimate objective of the study, no information was modified or changed, hence the information was presented as collected and all the literatures collected for the purpose of this study was acknowledged in the reference list.

The target population of this study was customers of selected Government and Private Banks in Ethiopia. Questionnaires have been spread out and collected at one time within 10 days. Out of 294 questionnaires including the additional 27 questioners dispersed to customers of banks at different locations, 275 responses were returned. Out of these, 8 couldn't use because of incompleteness. Thus, 267 questionnaires were eventually used for the study with a response rate of 90.8%, which is sufficient amount to carry out the study as stated by Saunders 2002.

The researcher uses different techniques to analyze the data as follows: The researcher used descriptive statistics (frequency and percentage) to describe and analyze the demographics of the respondents. Secondly, the researcher used descriptive statistics (mean and standard deviation) to describe the opinion of the respondents on different variables. Next, the researcher used Pearson's correlation to determine whether there is a relationship between the dependent and

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independent variables. Finally, the researcher conducts t - test to test each hypothesis. All the results are generated using SPSS software and are presented in tabular form below.

4.2 Data screening and data clearing

Three steps are taken to conduct the survey and make sure the data collected is good for further analysis

- ✓ The researcher selected respondents (bank customers) based on convenient sampling while they visited banks premises at any time of the day.
- ✓ The Questionnaire is distributed and respondents are communicated the purpose of the questionnaire.
- ✓ Finally, questionnaires are collected within days.

After the data is collected through structured questionnaire, computation and analysis is done by using SPSS (Statistic Package for Social Science) software. Descriptive statistics Mean Score, Standard Deviation and inferential statistics like Correlation test using Pearson's correlation and Multiple Regression analysis are used in order to address the initial research question of the study.

4.3 Reliability test result

Alpha reliability is regarded as a measure of internal consistency of the mean of the items at the time of administration of the questionnaire. Cronbach's alpha is a reliability coefficient that indicates how well the items in a set are positively related to one another. It is computed in terms of the average inter correlations among the items measuring the concept. Reliability is calculated in such a way that it represents the reliability of the mean of the items, not the reliability of any single item. This coefficient can hold a value of 0 to 1. The result of 0.7 and above implies an acceptable level of internal reliability. The result of reliability test for the questionnaire is shown in the following table.

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Table 4.1 Reliability Coefficients of Research Measures (Cronbach's Alpha)

Construct	Items	Cronbach's Alpha
Total items	22	0.871
Trust	4	.691
Commitment	3	.656
Conflict handling	4	.631
Communication	4	.552
Competence	4	.627
Customer loyalty	3	.390

(Own survey may, 2017)

Extensive literature review was performed to operationalize the variables. Specifically, Nunnally (1978) recommended 0.70 Cronbach's alpha value (internal consistency) for newly developed research instruments. All the major research measures met Nunnally's (1978) internal consistency (reliability) standard. Therefore, subjects to the specific and unusual limitations associated with this type of research, with an average Cronbach's alpha value of 0.871 the research instrument appears reliable and valid.

4.3 Descriptive analysis

Descriptive analysis was used to present respondents' demographic status with the help of general or demographics questions. The demographics factors used in this research are

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gender, age, level of education, occupation, income level and length of relationship of the respondents with the bank.

Table 4.2 Summary of Respondents' Gender

Gender of respondent	Frequency	Percentage
Female	76	28.5%
Male	191	71.5%
Total	267	100.0%

(Own survey may, 2017)

Table 4.2 illustrates the frequency and percentage distribution of gender of the Respondents of this research. Out of 267 respondents surveyed in this research, 71.5% were Male respondents and 28.5% were Female respondents

Table 4.3 Summary of age of Respondents

Age of Respondents	Frequency	Percentage
< 18	27	10.1%
19-39	118	44.2%
40-59	96	36.0%
>60	26	9.7%
Total	267	100.0%

(Own survey may,2017)

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Table 4.3 illustrates the frequency and percentage distribution of age of the respondents of this research. The age group is categorized into 4 groups in this research. The largest group of respondents falls into the age group of 19-39 years. It represents 44.2% of the total sample of this research. Secondly, the respondents aged 40-59 years represent 36% of the total sample. Next, respondents aged below 18 years represent 22.8% of the total sample. Finally, respondents aged 60 years and above represent only 9.7% of the total sample.

Table 4.4 Educational level of the respondents

Education level of Respondent	Frequency	Percentage
Primary	39	14.6%
Secondary	79	29.6%
Diploma	68	25.5%
Degree	60	22.5%
Postgraduates	19	7.1%
Others	2	0.7%
Total	267	100.0%

(Own survey may, 2017)

Table 4.4 the educational level of the respondents looks like what is shown in above table. As it can be seen from the table 22.5% of the respondents hold a first degree. 25.5 % of them are diploma holders 29.6 of them are secondary school 14.6 of them are primary school the rest 7.8% have got their postgraduate and others.

Table 4.5 Summary of occupational status of respondents

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Occupation of Respondents	Frequency	Percentage
Student	34	12.7%
Private sector	81	30.3%
Own business	85	31.8%
Gov. sector	57	21.3%
Others	10	3.7%
Total	267	100.0%

(Own survey may, 2017)

Table 4.5 the occupation of the respondents looks like what is shown in above table. As it can be seen from the table 31.8% of the respondents hold their own business. 30.3 % of them are private sectors 21.3% of them are government sector 12.7 of them are student and the rest 3.7% have other occupation.

Table 4.6 Summary of Monthly income of Respondents

Income level of Respondents	Frequency	Percentage
< 2500	58	21.7%
2501-5000	68	25.5%

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5001-10000	69	25.8%
>10001	72	27.0%
Total	267	100.0%

(Own survey may, 2017)

Table 4.6 illustrates that the largest groups of respondents have the income level of above 10001 birr. It represents 27% of the total sample of this research. Secondly, respondents with a monthly income of 5001-10000 birr represent 25.8% of the total sample. Next, respondents with monthly income 2501-5000birr represent 25.5%, respondents with a monthly income below 25, 00 birr represent 21.7% of the total sample respectively.

Table 4.7 Summary of respondents' time length as customer of the bank

Service year of Respondent	Frequency	Percent
< 1 year	43	16.1
1-3 years	67	25.1
3-5 years	73	27.3
> 5 years	84	31.5
Total	267	100.0

(Own survey may,2017)

Table 4.7 illustrates the frequency and percentage distributions of respondent's have been customer of the bank. Out of 267 respondents surveyed in this research, accordingly 31.5% of the respondents have been customer of bank for above 5 years. While about 27.3% respondent's customer of bank for 3-5 years, 25.1 of them are customer of the bank for 1-3 years. The rest 16.1% respondent's have been costumer of bank for below 1 year.

4.4 Descriptive Statistics of variables

4.4.1 Analysis of the Level of Agreement

The researcher uses itemized rating scale to construct a range. This range was used to measure the perception level of the respondents towards each variable. The researcher uses the following formula to construct the range.

$$\text{Itemized rating scale} = \frac{\text{max} - \text{min}}{n_i}$$

$$= \frac{5 - 1}{5}$$

$$= 0.8$$

(The mean of each individual item ranging from 1- 5 falls within the following interval)

4.8 Interval of Means Perception

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Mean interval	perception
1.81 - 2.60	Disagree
2.61 - 3.40	Neutral
3.41 - 4.20	Agree
4.21 - 5.00	Strongly Agree

(poonlar Btawee,1987) as cited by Sidie Assefa (2015).

One statistical approach for determining equivalence between groups is to use simple analyses of means and standard deviations for the variables of interest for each group in the study (Marczyk et al. 2005). The mean indicates to what extent the sample group on average agrees or does not agree with the different statement. The lower the mean, the more the respondents disagree with the statement. The higher the mean, the more the respondents agree with the statement.

4.9 Summary of descriptive statistics between variables

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<i>Variables</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>N</i>
Trust	3.52	1.21	267
Commitment	3.38	1.22	267
Conflict handling	3.46	1.18	267
Communication	3.36	0.60	267
Competence	3.53	1.24	267

(Own survey may, 2017)

Based on table above, competence has the highest mean score of 3.53 followed closely by trust with a mean score of 3.52, conflict handling comes next with a mean score of 3.46 then commitment scored forth 3.38 and communication has the list score of 3.36.

Accordingly, competence and trust variables lie in the category between 3.51 and 4.50 which means respondents have good perception on each of the variables under consideration, the other three variable lies slightly less than 3.51 that indicates the respondents showed average or moderate perception on the variables. On the other hand, the standard deviation shown on each variable was relatively low. Low standard deviation means that the data are narrow spread, which tells that customers gave close opinion on each variable.

4.5 Correlation Analysis

Like the demographic factors, the data from the scale typed questionnaire were fed to the SPSS software version 20.00, to process the correlation analysis. Based on the questionnaire which was filled by the customers of bank, the following correlation analysis was made. A correlation coefficient is a very useful means to summarize the relationship between two variables with a single number that falls between -1 and +1 (Field 2005). A correlation analysis with Pearson's correlation coefficient was conducted in this study. According to guidelines suggested by Field (2005) to interpret the strength of relationship between variables, the correlation coefficient(r) is as follows:

Correlation coefficient falls between; 0.1 to 0.29 weak relationships

0.3 to 0.49 moderate relationship

and > 0.5 strong relationship

In this study, Pearson correlation was used to examine the relationship between each of the independent variables and the dependant variable using a two tailed test of statistical significance at the level of 99% confidence and significance < 0.01

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Table 4.10 Correlation between independent and dependent variables

		Trust	Commitment	Conflict handling	Communication	Competence	Customer Loyalty
Trust	Pearson Correlation						
	Sig. (2-tailed)						
Commitment	Pearson Correlation		1				
	Sig. (2-tailed)						
Conflict handling	Pearson Correlation		.458**	1			
	Sig. (2-tailed)		.000				
Communication	Pearson Correlation		.509**	.598**	1		
	Sig. (2-tailed)		.000	.000			
Competence	Pearson Correlation		.330**	.520**	.494**	1	
	Sig. (2-tailed)		.000	.000	.000		
Customer Loyalty	Pearson Correlation		.262**	.387**	.268**	.325**	1
	Sig. (2-tailed)		.000	.000	.000	.000	

From the results shown in table 4.10 above, each variable correlated perfectly with itself with coefficients value of +1.00. The correlation between all the independent variables and dependant variable is proved to be positive and significant, which means the improvement in any or all of the independent variables results in improvement in customer loyalty

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The correlation matrix shows that there is a positive and significant relationship between commitment and customer loyalty; between conflict handling and customer loyalty; between communication and customer loyalty. On the other hand, there is also a significant positive but weak relationship between trust and customer loyalty with a value of $r=0.262$ at significant level of $p=0.000$ & there is also weak & positive relationship between communication and customer loyalty

4.6 Multiple Regression Analysis

This regression is conducted to know how much the independent variable explains the dependent variable. It is also used to understand by how much each independent variable (trust, commitment, conflict handling, communication & Competence) explains the dependent variable, which is customers' loyalty. The regression model presents how much of the variance in the measure of customer loyalty is explained by the underlying dimensions of CRM, in Ethiopian Banking industry, Customer loyalty was used as the dependent variable while Customer relationship management dimensions were used as the independent variables.

Before the regression analysis, the four major assumptions of variables were tested for checking errors. These are Homoscedacity, Normality, Independency and multicollinearity and all the assumptions were satisfied, and the multicollinearity and normality result tables are presented.

4.6.1 Multi collinearity test

Multi collinearity is tested in this study using the **variance inflation factor (VIF)** which quantifies the severity of multicollinearity in regression analysis. Multicollinearity occurs when there are high inter correlations among some set of the independent variables. Various recommendations for acceptable levels of VIF have been published on various studies (a value of 10 by Hair, Anderson, Tatham, & Black, 1995; Kennedy, 1992; Marquardt, 1970; Neter, Wasserman, & Kutner, 1989, a value of 5 by Rogerson, 2001 and even 4 by Pan & Jackson,

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2008). The rule is that when tolerance value is less than 0.2 and the VIF exceeds 10; it is a signal of multicollinearity, which could lead to misleading and/or inaccurate results.

4.11 Multicollinearity statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Trust	.622	1.607
	Commitment	.679	1.472
	conflict handling	.492	2.033
	Communication	.538	1.860
	Competence	.659	1.518

a. **Dependent Variable: customer loyalty**
(own survey may,2017)

Therefore, in this study the tolerance level for all variable is above 0.2 and VIF is less than 2.0, confirming that the study is free from multicollinearity issue.

- Refer to collinearity Statistics shown above in table 4.16 , the tolerance and VIF showed that there was no multicollinearity between the study predictors.

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4.6.2 Normality statistics

4.12 Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Trust	267	1.00	5.00	3.5178	.87676	-.660	.149	-.123	.297
Commitment	267	1.00	5.00	3.3767	.93623	-.376	.149	-.803	.297
Conflict handling	267	1.50	5.00	3.4588	.81237	-.618	.149	-.262	.297
Communication	267	1.25	4.75	3.3577	.78392	-.295	.149	-.520	.297
Competence	267	1.00	5.00	3.5337	.85937	-.864	.149	.440	.297
Customer Loyalty	267	1.20	5.00	3.5456	.76122	-.481	.149	.235	.297
Valid N (list wise)	267								

(Own survey may, 2017)

According to Sinn, on his SPSS Guide–Correlation & Regression, explained skewness as a measure of degree and direction of symmetry, a normal distribution is symmetric and has skewness value of zero, indicates the data is distributed evenly in between our respondents.

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A skewness value more than half of its standard error indicates that the data is not symmetrical.

Divide the skewness value by the S.E to find out if the skewness is statistically significant, if the result is +/- 1.96 it is statically significant.(Cramer & Howitt,2004)

- The above normality table showed the distribution & confirmed to be normal and the data were qualified for the regression analysis.

Adjusted R square was used to measure the percentage of variance in the customer loyalty explained by the Trust, Communication, Commitment, conflict handling and Competence. The regression model presents how much of the variance in the measure of customer loyalty is explained by the underlying dimensions of CRM .

4.6.3 Regression Analysis between Independent and Dependent Variable

4.13 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.421 ^a	.178	.162	.69691

a. Predictors: (Constant), competence, commitment, trust, communication, conflict handling
b. Dependent; customer loyalty

Based on table 4.13 above, the model or the predictor variables have accounted for 17.8% with estimated standard deviation 0.69691, of the variance in the criterion variable (customer loyalty). The other variables that were not considered in this study contribute about 82.2% of the variability the Dependent.

4.14 ANOVA of Customer Loyalty

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Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	27.370	5	5.474	11.271	.000 ^b
	Residual	126.764	261	.486		
	Total	154.134	266			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), competence, commitment, trust, communication, conflict handling

The above table 4.14 shows the overall significance/acceptability of the model from a statistical perspective. As the significance value of F statistics shows a value of 11.271 and p value (.000), which is less than $p < 0.05$, the model is significant. This indicates the variation explained by the model is not due to chance.

4.6.4 Regression for Customer Loyalty

Table 4.15 Regression for Customer Loyalty

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.948	.232		8.403	.000
	Trust	.023	.062	.027	.379	.705

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Commitment	.074	.055	.091	1.336	.183
Conflict handling	.245	.075	.262	3.272	.001
Communication	-.025	.074	-.026	-.334	.738
Competence	.142	.061	.160	2.312	.022

(Own survey may,2017)

According to Table above, the regression standardized coefficients for the three independent variables, i.e. conflict handling and Competence with beta value 0.262 & 0.160 respectively. Their significance levels are .001 & .022 respectively, which are less than 0.05. This indicates significant relationship between them and the dependent variable (customer loyalty).

From the linear multiple regression equation, the standard regression coefficient (beta weight) was determined to compare the effect of each independent variable has on the variability of the overall customer loyalty. The regression coefficient explains the average amount of change in dependent variable that is caused by a unit of change in the independent variable.

4.7 Hypothesis Tests

According to the research method, the Pearson Correlation Coefficient is used to test the hypotheses. There are five hypotheses that aim to see if there is relationship between the five factors of Customer Relationship Management (Trust, Commitment, Communication, Conflict Handling, and Competence) and customer loyalty; two inferential statistics techniques were employed. The independent t-test and one-way ANOVA were applied to compare demographic characteristics and investigate how they are related with the independent variables.

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T-test is used to test mean differences between two groups. In general, t -test requires a single dichotomous independent variable and a single continuous dependent variable (Marczyk et al. 2005). Thus, t-test were used to compare mean difference between types of bank and underlying factors perceived to be important in forming customer loyalty. Similarly, ANOVA is also a test of mean comparisons across more than two groups or conditions (Marczyk et al. 2005). Hence, One Way ANOVA analysis between the factors perceived to be important in customer loyalty and five service year's groups were executed.

The hypotheses tests of this research are conducted within the following two grounds:

1. Use Pearson's correlation test to test the relationship between the independent (X) and dependent (Y) variable of the research.
2. Conduct t – test to test the significance of the relationship. This research uses a standard of 95% confidence interval to test all the hypotheses.

Five hypotheses was raised based on the five independent variable, each of them were analyzed and two of them proved to be acceptable and the other three was rejected as of the findings of the study.

Table 4.16; Summary of Hypothesis

Hypothesis	r-value	Relationship	Beta	Sig.	Result
H1: Trust has a significant positive impact on Customer	0.272	Positive	0.27	.705	significant Not Supported

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Loyalty					
H2: Commitment has	0.262	Positive	0.91	.183	
a significant positive					
impact on Customer				significant	Not Supported
Loyalty					
H3: Conflict handling has	0.387	Positive	0.262	.001	
a significant positive					Supported
impact on Customer				Significant	
Loyalty					
H4: Communication has	0.268	Positive	0.026	.738	
a significant positive				significant	
impact on Customer					Not Supported
Loyalty					
H5: Competence positive	0.325	Positive	0.160	.022	

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impact on Customer	Supported
Loyalty	significant

(Own survey may,2017)

The hypotheses testing are summarized in table 4.16 above. The result also indicated that conflict handling is the most important factor influencing customer loyalty of banking industry in Ethiopia followed by competence variable.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The purpose of the study was to examine the effect of service brand equity dimensions to customer loyalty of banks in Ethiopia. In this chapter of the study, summary of findings, conclusion drawn, and recommendations of the study are stated. Limitation and suggestions for future researches is also included at the end of this chapter.

5.2. Summary of the major findings

First the reliability and validity of research measure were tested using Cronbach's alpha coefficients 0.871, which is above the minimum required i.e. 0.7

- Then the demographic data showed the distribution of gender of the Respondents, Out of 267 respondents surveyed in this research, 71.5% were Male respondents and 28.5% were Female respondents Besides, respondents participated in the survey were middle age, that falls in the into the age group of 19-39 years & aged 40-59 years resulted 44.2% & 36% respectively, of the total sample of this research. The respondents' found to be in secondary level education, Diploma holder, and degree holders with a very narrow gap in between i.e. 29.6%, 25.5% & 22.5% respectively. Major portion of the respondents have either private

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organization employees or own their own businesses, 30.3% %31.8% respectively. The respondents in this research showed a proportionate distribution in between given group of income levels per month. Out of 267 respondents surveyed in this research, 31.5% of the respondents have been customer of bank for above 5 years that holds the largest percentage.

Most of the respondents tend towards agreeing that the bank is effective from the five dimension evaluated with grand mean value ranging from 3.36 to 3.52. According to (poonlar Btawee; 1987) as cited by Sidie Assefa (2015) each of the variables under consideration were perceived as good & valid among respondents.

- Among the five dimensions of CRM effect higher number of respondents perceived that the bank is effective in competence dimension. The least mean score of 3.36 was for the Commitment dimension according to the study findings.

In this study, Pearson correlation was used to examine the relationship between each of the independent variables and the dependant variable using a two tailed test of statistical significance at the level of 99% confidence and significance < 0.01 .

- The Pearson correlation coefficient reveals that trust ($r=0.272$), Commitment ($r=0.262$), Conflict handling (0.387), Communication (0.268), and Competence (0.325) are all positively correlated with customer loyalty. The strength of correlation is highest for Conflict handling followed by Competence with the Bank; the correlation is also significant at .01 level two tailed.
- The multiple regression findings show that the two independent variables Conflict handling ($\beta=0.262$) & Competence ($C=0.022$) significantly refer and explain the dependent variable Customer loyalty supporting H3& H5. The rest of variables do not support H1, H2 & H4 since the significant levels resulted above 0.05 with ($\beta=0.27$)

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- Based on the evidence of the R square value obtained which indicates of the variance on customer Loyalty can be predicted by 17.8% of the independent variables.
- Thus the hypothesis that CRM dimensions as a cumulative have a positive and significant effect on customer satisfaction is accepted
- Finally, the t-test showed that all the independent variables have a positive t observed value that is greater than the significance level, for independent variable Trust with an $r=0.272$, t test resulted $t_r=4.67$, for Commitment variable with $r=0.262$ the observed t is 4.586, for Conflict handling with $r=0.387$, the t calculated is also highest $r=7.4$, in the case of Communication $r=0.268$, t calculated is 4.7, and for the last variables Competence $r=0.325$ the $t_r=5.92$ resulted as the second highest.
- Based on the value of β all the dimensions have positive relationship with the dependent variable. Indicated that the discussed dimensions' have significant effect on customer loyalty
- Among the five dimensions the conflict handling has strong degree of importance on customer Loyalty followed by Competence.
- The two hypothesis, H3 & H5 were supported and the other three, H1, H2, H4 were not supported by the finding

5.3 Conclusion

Based on the findings summarized in the previous section the following conclusions were drawn.

- The main objective of this study is to examine the effect of customer relationship management on customer loyalty in the banking sector in Ethiopia. The researcher concluded that CRM effect dimensions namely: Trust, communication, conflict handling, commitment & Competence have positive significant correlation with the dependent variable customer Loyalty.

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- One of the specific objectives of the study was to investigate the effect of conflict handling on customer loyalty in the banking sector in Ethiopia. Conflict handling appeared to be the most correlated construct with customer loyalty in the Ethiopian banking industry with a correlation coefficient of 0.387. It is also the most dominant factor in predicting customer loyalty with a beta coefficient of 0.262. This result supported the findings of previous researchers (Veloutsou et al. 2004). It was also discussed as, The ability of the product or service provider to **handle conflict** well will also directly influence customer loyalty. Clow & Kurtz (2003) This implies that when the company can manage conflicts well and try to avoid any possible conflicts customers remain loyal to their respective banks. Thus, improving conflict handling methods brings improved customer loyalty.
- The other objective aimed as an objective was, to determine the effect level competence has customer loyalty in the banking sector in Ethiopia. Competence is the second most correlated construct with customer loyalty in the Ethiopian banking industry with a correlation coefficient of 0.325. It is also the second most dominant factor in predicting customer loyalty with a beta coefficient of 0.160. The implication is that as customers are more sensitive to competent service & they tend to be loyal. So, increasing competency in every direction increases Customer loyalty.
- According to the specific objective of the study i.e. To find out the level of effect, trust, Commitment & Communication have on customer loyalty in the banking sector in Ethiopia. they were analyzed and the findings shows that Trust, Communication & commitment were found to be less considered in the loyalty of banking customers but Trust has a significant direct relation with customer loyalty at 0 .272 correlation coefficient and on the other hand, there is also a significant positive but weak relationship between communication and customer loyalty with a correlation coefficient value of 0.268. Even though, in previous studies it was discussed that **Commitment** as an important determinant of the strength of CRM, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency (Morgan and Hunt, 1994). The variable Commitment has the

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weakest correlation coefficient .262 that indicates, customer of this selected banks gives little concern regarding their loyalty.

In conclusion, taking in to account the above result Ethiopian banks should note the two dimensions of CRM, conflict handling & Competence to be antecedents that are found to predict loyalty and emphasize them in their marketing strategy.

5.4. Recommendations

To be successful in implementation of CRM practices, the financial and banking organizations must define and develop a business strategy as well as a supporting infrastructure for that strategy (Kwamena, 2013). This study investigated the influential dimensions of CRM that makes consumers to be loyal to the Bank. the findings of the study followed by the conclusion made by the researcher, the following recommendation was developed to be used by Ethiopian banks currently exercising CRM. The problem statement of the study goes around the fact that CRM is already under operation but the banks lacks a follow up mechanism to make sure its effect.

- In order to enhance customer satisfaction the bank should make continuous effort to enhance the effect of CRM dimensions specially the dimensions, Competence & Conflict handling, which have significant effect on customer satisfaction.

As the findings of the study showed consumers' loyalty depends highly on Conflict handling attributes; it is a sensitive dimension of CRM to the customer.

- Since it has the highest influence on customer satisfaction, the banks should be very conscious in improving more the mechanisms used to handle conflicts. For example, Try to avoid conflict probability by closely monitoring the work environment, narrow gaps for potential problems, and try to reach a win-win situation at time of conflict, Having a complain managing personnel can lead to the success of firms and to get sustainable competitive advantages by retaining loyal customers.

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Competence is explained in different dimensions, the study raised competence in relation to knowledge, locations convince and employees service quality and that experience of the customer is important to bring out the long-term loyalty.

- Therefore, bank's officials responsible for the success of the adopted CRM strategy should give attention to being competence regarding all dimensions of bank service. Recruiting outstanding stuffs, arranging trainings and experience sharing stages and creating Customer focused culture all over the bank.
- Even though the three dimensions; Trust, Commitment & Communication, unexpectedly have shown little effect on customer satisfaction still they are positively correlate with the dependent variable. The banks should not ignore the dimensions; rather they should Acknowledge many Marketing practitioners and scholars and dedicate some level of effort to balance their effect on customer loyalty.

High level of customer satisfaction leads to increased in customer loyalty. Customer loyalty promises higher intention to purchase, word-of-mouth recommendation, profit, market share, and return on investment, overall a great competitive advantage. Hence the management of the bank should enhance the awareness of frontline employees regarding CRM

- Finally the bank is recommended to utilize the banking technology and the CRM implementation activities in collecting the necessary customer data that will help in customizing the service and make sure of its application in every stage of service.
- The management of the banks are recommended to understand their gap and take action regarding the practice.

5.5 Directions for Further Studies

We can raise certain limitations in this study and acknowledge them before moving on to generalizations of findings. The study is focused on examining CRM dimensions effect and effect on customer Loyalty and Further future research is recommended to assess the influence

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of the effect of CRM dimensions on customers' retention and loyalty since this study were conducted on two selected banks, There is limitation with regard to scope of the study the branches where data was collected were due to location convince, therefore, additional studies with broader customer base are needed to have a complete picture about the subject matter in Ethiopian context.

Since CRM is a wide concept it has many other variables related to it that might have even more effect on it than raised on this study. Therefore Gathering the data by using different uncover other variables that might have an impact on customer loyalty in order to be able to dig deeper insights to the issue.

This research focused only on the perceptions of customers and did not measure the observation from customers of the banks. Future researches should consider the employees perception and the bank as a business perception, and measure the variable accordingly.

CRM can be adopted by any business organization and the variables that has effect on customer loyalty in the case of banking industry might be insignificant in other sections, therefore there is a huge room for future researchers to study CRM application in other industries.

All the above mentioned problems in effect limit the realm of the study .Hence it does not address all customers of the banks and doesn't consider other industries future researchers are appreciated.

Appendix I

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Appendix II Questioner

ADDIS ABABA UNIVERSITY SCHOOL OF COMMRCE
MASTERS OF MARKETING MANAGEMENT

Researcher: Ayda Elias

Contact Address: +251-913 20 66 06

E-mail: seidayda52@gmail.com

Self-Administered Questionnaire Guide

Research topic: The effect of customer relationship management on customer loyalty.

Dear respondents: I would like to express my earnest appreciation for your generous time, honest and prompt responses.

Objective: To examine the effect of customer relationship management on customer loyalty in the banking sector in Ethiopia.

This questionnaire is designed to collect data about the impact of relationship marketing on customer loyalty in the case of commercial bank of Ethiopia. The information that you offer me with questionnaire was used as a primary data in my case research which I am conducting as a partial fulfillment of the requirements for the degree of Master's of marketing management at Addis Ababa University School of commerce. Therefore, this research is to be evaluated in terms of its contribution to our understanding of customer relationship marketing and its impact on customers' loyalty and its contribution to improve the area.

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I need your help and would appreciate your sparing a few minute to complete the attached questionnaire and answer the questions related to CRM practices in your bank that you are customer to. Results was used to help and expand our knowledge and understanding of any major shift in relationship marketing practices. All answers will be kept strictly confidential and only aggregate results will be reported.

General Instructions

- There is no need of writing your name.
- Please indicate the extent to which you agree/disagree with the following statements.
Strongly Disagree carries the least weigh of 1 while Strongly Agree carries the highest weight of 5. Please put \surd mark accordingly

Part I: Demographic or General information

1. Gender Female Male
2. Age Below 18years 19-39 years
 40-59 years 60 years and above
3. Education qualification Primary Secondary Diploma
 Degree Postgraduate Others
4. Occupation Student Private sector Own Business

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Government sector Others

5. Monthly income

Below Birr 2500 Birr 2501-5000
 Birr 5001-10000 Birr 10,001 & above

6. For how long have you been customer of the bank?

Below 1 year 1- 3 years s
 3- 5 years above 5 years

Part II

Please, indicate your opinion by marking the appropriate box on the five point scale where:

#	Variables	Level of agreement				
		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
	Trust					
7	The bank is secured and confidential regarding my financial information	1	2	3	4	5
8	The bank shows all the necessary concern to my financial transactions	1	2	3	4	5
9	Employees of the bank are trustworthy	1	2	3	4	5

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10	In your experience, the bank taken as reliable entity	1	2	3	4	5
	Commitment					
11	The bank promise for quality service all the time	1	2	3	4	5
12	The Bank is committed in providing easy & speedy transactions	1	2	3	4	5
13	My relationship with the bank is one that I really care about	1	2	3	4	5
	Conflict handling	(SD)	(D)	(N)	(A)	(SA)
14	The bank tries to avoid potential conflict	1	2	3	4	5
15	The bank tries to solve obvious conflicts before the problems exist	1	2	3	4	5
16	The bank shows a sincere interest in solving customers' problems rapidly	1	2	3	4	5
17	The bank is responsive to my complaints	1	2	3	4	5
	Communication					
18	The employees of the bank understand your specific needs	1	2	3	4	5
19	The bank clearly communicates about each bank's policy to their customers (about customers' right, responsibility, and other related issues)	1	2	3	4	5

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20	The bank clearly communicates to you about how and where to complain in case of a problem	1	2	3	4	5
21	The Bank use information from customers to design or improve its services.	1	2	3	4	5
	Competence					
22	The bank's staff appears knowledgeable & confident in communicating information	1	2	3	4	5
23	The bank's staff cope successfully with unexpected events	1	2	3	4	5
24	Bank has convenient locations to all its customers	1	2	3	4	5
25	The Bank employees go beyond their responsibility to serve customers	1	2	3	4	5
	Customer loyalty	(SD)	(D)	(N)	(A)	(SA)
26	I am a loyal customer to the bank	1	2	3	4	5
27	The bank always come to my mind at time of need for bank service	1	2	3	4	5
38	I would always recommend the bank to someone who seeks my advise	1	2	3	4	5

Thanks for your assistance!!

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Appendix III

SPSS results

: Correlation between trust and customer loyalty

		Trust	Customer Loyalty
Trust	Pearson Correlation	1	.272**
	Sig. (2-tailed)		.000
	N	267	267
customer loyalty	Pearson Correlation	.272**	1
	Sig. (2-tailed)	.000	
	N	267	267

** . Correlation is significant at the 0.01 level (2-tailed).

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ANOVA

customer loyalty

	F	Sig.
Between Groups	2.430	.003
Within Groups		
Total		

Correlations

		commitment	customer loyalty
commitment	Pearson Correlation	1	.262**
	Sig. (2-tailed)		.000
	N	267	267
customer loyalty	Pearson Correlation	.262**	1
	Sig. (2-tailed)	.000	

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N	267	267
---	-----	-----

** . Correlation is significant at the 0.01 level (2-tailed).

ANOVA

customer loyalty

	F	Sig.
Between Groups	3.745	.000
Within Groups		
Total		

Correlations

	conflict handling	customer loyalty
--	-------------------	------------------

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conflict handling	Pearson Correlation	1	.387**
	Sig. (2-tailed)		.000
	N	267	267
customer loyalty	Pearson Correlation	.387**	1
	Sig. (2-tailed)	.000	
	N	267	267

** . Correlation is significant at the 0.01 level (2-tailed).

ANOVA

Customer loyalty

	F	Sig.
Between Groups	6.261	.000
Within Groups		
Total		

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Correlations

		Communication	Customer loyalty
Communication	Pearson Correlation	1	.268**
	Sig. (2-tailed)		.000
	N	267	267
Customer loyalty	Pearson Correlation	.268**	1
	Sig. (2-tailed)	.000	
	N	267	267

Correlation is significant at the 0.01 level (2-tailed).

ANOVA

Customer Loyalty

	F	Sig.
Between Groups	5.706	.000
Within Groups		
Total		

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Correlations

		competence	Customer loyalty
competence	Pearson Correlation	1	.325**
	Sig. (2-tailed)		.000
	N	267	267
Customer loyalty	Pearson Correlation	.325**	1
	Sig. (2-tailed)	.000	
	N	267	267

** . Correlation is significant at the 0.01 level (2-tailed).

ANOVA

Customer Loyalty

	F	Sig.
Between Groups	4.229	.000

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Within Groups		
Total		