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## **Addis Ababa University College of Business and Economics**

**Factors Affecting Customer Retention in Private Commercial  
Banks in Addis Ababa.**

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A thesis submitted to Addis Ababa University college of Business and Economics  
in partial fulfillment of the requirements for the Award of Master of Business  
Administration.

June, 2019

Addis Ababa, Ethiopia

**Approved by Board of Examiners**

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## **Statement of Certification**

This is to certify that, Ato Daniel Yilma has carried out his research work on the topic entitled” Factors Affecting Customer Retention in Private Commercial Banks in Addis Ababa” is original work and is suitable for submission for the award of Master’s Degree in Business Administration.

.....  
Advisor: Dr. Abebe Yitayew

June, 2019

## **Declaration**

I Daniel Yilma, declare that this work entitled “Factors affecting Customer Retention in Private Commercial Banks in Addis Ababa City“ is the outcome of my own effort and has not been presented for the award of any degree in any other university and that all sources of materials used for the study have been duly acknowledged.

I have produced it independently except for the guidance and valuable comments of the research advisor Dr. Abebe Yitayew. It is offered for partial fulfillment of the Master’s Degree in Business Administration.

.....

Daniel Yilma

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## **ACRONYMS:**

<b>BP</b>	<b>Bank Pricing</b>
<b>CRM</b>	<b>Customer Relationship Management</b>
<b>CS</b>	<b>Customer Satisfaction</b>
<b>CR</b>	<b>Customer Relationship</b>
<b>CRT</b>	<b>Customer Retention</b>
<b>KMO</b>	<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</b>
<b>NBE</b>	<b>National Bank of Ethiopia</b>
<b>RATER</b>	<b>Responsiveness, Assurance, Tangible, Empathy</b>
<b>SERQUAL</b>	<b>Service Quality</b>
<b>SQ</b>	<b>Service Quality</b>
<b>SC</b>	<b>Switching Cost</b>
<b>SPSS</b>	<b>Statistical Package for Social Science</b>
<b>TR</b>	<b>Trust</b>

## **Abstract**

*The general objective of this study was to examine the major predictors of customer retention in private commercial banks in Addis Ababa city with the view of local banking industry market context. In order to attain this objective Six factors namely quality customer service, trust, customer satisfaction, switching cost, customer relationship and bank pricing were considered as predictor for the analysis of the study based on review of related literatures. Explanatory research design and quantitative approach was employed to analyze data. The hypotheses were tested on a sample of 351 out of 384 of respondents of private commercial banks customers giving a valid response of 91.4%. The data collection process was done using self-administered questionnaire filled by customers and it has taken place in different branches premises of the selected banks. The statistical package for social science (SPSS) V.20.was used to analyses the data collected. reliability analysis, factor analysis, correlation and regression analyses were used for purpose of analyzing the data. Based on  $R^2$  of the study independent predictors explain 76.3% of the variation of customer retention. Besides all independent variables (quality customer service, customer satisfaction, customer relationship, Trust, switching cost and bank pricing have a significant correlation with the dependent variable “customer retention. The results of regression analysis also showed that all predictor have significant influence on customer retention. In this case relatively quality customer service, customer satisfaction and pricing of banks were the major predictor of customer retention than the other three independent variables .Given these findings, recommendations were forwarded to management of banks to focus and have in-depth insights on predictors of customer retention in order to develop and implement the appropriate policies and procedures to enhance the retention of their existing customers.*

**Key Words:** *Customer retention, Consumer behavior, quality customer service, Trust, customer relationship, pricing.*

# CHAPTER ONE

## 1. INTRODUCTION

This chapter contains introductory part of the entire study. It provides some insights about the back ground and assumptions where the study is conducted. It states background of the study, statement of the problem, objective, research hypothesis, significance, scope, definition of terms and organization of the study. Accordingly, it begins with back ground of the study.

### 1.1. BACKGROUND OF THE STUDY

With the intense competition and increasing globalization of the financial markets building customer loyalty has become a critical strategy for most financial institutions. The banking industry must develop customer retention strategy in order to compete successfully in the competitive retail banking environment. Numerous studies have shown that banks' profitability is closely associated with customer retention (Garland, 2012, Anderson, Fornell & Lehmann, 2014). The longer a bank can retain a customer, the greater revenue and cost savings from that customer. Maintaining an existing customer is five times cheaper than obtaining a new one as the advertising, sales, and set-up costs can be amortized over a longer customer lifetime (Morgan, 2013), (Gan & Zheng, 2016).

Until a proclamation was issued out to affect the deregulation and liberalization of the financial sector in 1994, the Ethiopian banking sector had operated like a monopoly (Aderaw and ManJit (2016). However, with the entry of private banks, the industry has taken more competitive form. Banks are now faced with very high and intense competition (Harvey, 2010). Homogeneity of the services rendered and completion within the banking industry have put added pressure on banks to achieve competitive differentiation. Retaining existing customers emerges as the most challenging phenomenon facing each bank.

As of end December 2018, the number of banks operating in Ethiopia remained at 18, of which 16 are private banks. These banks opened 255 new branches during the first quarter of 2017/18 thereby increasing the total number of banks branch to 5,211. Therefore, currently one branch serves 18,933.9 people on average. Of the total bank branches, about 34.3 percent were located

in Addis Ababa. Private Banks accounted for about 70 percent of the total bank branches in the country (NBE quarterly bulletin, second quarter 2018/2019).

In view of this, the private banking sector plays significant role in the economic growth of the country. It is accomplished through financial allocation in the economy due to its intermediation functions of transferring funds from surplus to deficit unit. A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. According to Hull (2002) the banking industry is highly competitive company. The high cost of acquire new customer makes the many customer relationship goes unprofitable because the new customer only stay in the initial stage of the transactions. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

The current stiff competition among banks in the financial sector requires having in-depth insight and developing effective customer retention strategy. Customers are one of the main assets of the banks and many customers interact with banks every day and avail a variety of services (Jackson,2011).Customers having more and more alternatives and awareness, they also becoming more demanding day by day but banks not fulfilling the customer needs and demand properly(Shah,2015) .According Negesu (2015) the causes of the stiff competition in Ethiopian banking sector are aggressive branch opening by commercial banks coupled with the fact that all these banks basically provide similar services .On the other hand, customers becoming more conscious and demanding so they could easily switch from one bank to other competitor banks. Thus, such situation challenged management of the banking sector in terms of customer retention process.

The above realities justify that, there is a need to examine the effect of unexplored factors (i.e. quality customer service, customer satisfaction, switching cost, customer relationship, trust, and pricing on the customer retention in private commercial banks in order to have in-depth insight in the area and develop appropriate customer retention strategy.

## **1.2. STATEMENT OF PROBLEM**

In today's highly competitive world, many top performing organizations have identified the importance of customer retention and have taken strategic approaches to encourage and enhance customer retention (Gupta,2006).The marketing departments of every company realizes that it costs lesser to retain the existing prior customer than getting in hands new customers(coyles &Gokey,2005).It requires more finance as cost to sell the product or services to fresh customer rather than selling these products or services to the existing customer(Adyin& and Ozer,2004).

Though, customer retention is well recognized and studied by researchers most of these studies undertaken in different socio-cultural and economic environment; as a result, the findings of these studies have a contextual limitation to local banking industry environment to adopt their research findings. Customers are having more and more alternatives and awareness, they also becoming more demanding day by day but banks not fulfilling the customer needs and demand properly (Shah, 2015). According to Negesu (2015) in the face of the current stiff competition within Ethiopian banking sector there is a high probability that bank customers could easily switch from one bank to other competitor banks due to aggressive new branch openings coupled with all these banks in the industry basically provide similar services , which clearly bring a challenge to the banks in terms of retaining their existing customers. In contrast, few previous literatures such as that of Negesu (2015) and Mekonnen (2015) were conducted to address customer retention in local market context from brand equity and business performance perspective as far as the researcher's knowledge is concerned.

Thus, in light of these realities the aim of this study is to explore and generate empirical evidences that may bridge the contextual and the empirical gap in the area of customer retention in private commercial banks in Ethiopia by investigating effects of quality customer service, trust, customer satisfaction, switching cost, customer relationship and pricing on customer retention based on in depth review of the related literatures in the area.

### **1.3 RESEARCH QUESTIONS:**

The research were tried to address the following basic questions:

1.3.1 To what level does Quality Customer service influence customer retention in commercial private banks in Addis Ababa city?

1.3.2 To what magnitude does Customers' Satisfaction have impact customer retention in commercial private banks in Addis Ababa city?

1.3.3 To what level does customer relationship influence the customer retention in commercial private banks in Addis Ababa city?

1.3.4 To what extent does Trust influence the customer retention in commercial private banks in Addis Ababa city?

1.3.5 To what level does Switching cost influence customer retention in commercial private banks in Addis Ababa City?

1.3.6 To what extent does bank's pricing influence customer retention in commercial private banks in Addis Ababa city?

### **1.4 OBJECTIVES OF THE STUDY**

This study has general and specific objectives related with the above statements and tried to achieve these objectives at the end of the study.

**1.4.1 GENERAL OBJECTIVE:** The general objective of this study is to investigate the effect major factors influencing on customers retention in private commercial banks in Addis Ababa city.

#### **1.4.2 SPECIFIC OBJECTIVES:**

- I. To analyze the effect Quality customer service on customer retention at private commercial banks in Addis Ababa city;
- II. To examine the effect of customer's satisfaction on customer retention at private commercial banks in Addis Ababa city;
- III. To investigate the effect of customer relationship on customer retention at private commercial banks in Addis Ababa city;

- IV. To examine the effect of trust on customer retention at private commercial banks in Addis Ababa city;
- V. To examine the effect of Switching Cost on customer retention at private commercial banks in Addis Ababa city;
- VI. To examine the effect of Pricing/bank charges on customer retention at commercial private banks in Addis Ababa city;

### **1.5. SIGNIFICANCE OF THE STUDY**

The research will examine the major factors which influence customers' retention towards private banks as well as it will evaluate the level of their influence. In this regard, the importance of this study can be viewed from two dimensions: Theoretical contributions and Practical implications.

Theoretically, the study can fill an empirical gap in the literature regarding the customer retention in Ethiopian banking industry setting. Therefore, the findings of this study can add to the existing body of the literature and could serve as a starting point for future studies.

On the practical side, the study can help stakeholders in the field to identify the major factors that may determine the effectiveness of retention of customers. On top of that such information would help the management of the banks to have in-depth insight in formulating appropriate marketing strategies in order retain their customer based on mutual benefit.

### **1.6. SCOPE OF THE STUDY**

The concept of customer retention is broad and complex besides there may be abundant of influences of customer retention. However, based on review of previous literatures this research only investigated few predictors of customer retention namely quality customer service, customer satisfaction, switching cost, customer relationship, trust and bank pricing on customer retention process. Besides, the survey was also conducted on sample respondents which are taken from few sample branches of private commercial banks located in Addis Ababa city due to time and cost constraints.

## **1.7 LIMITATION OF THE STUDY**

Although this study has contributions on both a theoretical and practical perspective, it has few limitations: First, part of sampling technique employed was “Convenience sampling” this may impact the generalizing of the research result from methodological perspective. Secondly, the study was only targeted population of customers of private banks. Thirdly, the survey did not include staffs and management of private banks.

## **1.8 ORGANIZATION OF THE STUDY**

The arrangement of the research paper were organized into five chapters; the first chapter deal with background of the study, statement of the problem, research question, objectives of the study, significant of the study, scope of the study, limitation of the study and organization of the study. The second chapter of the paper focused on presenting the review of the related literature which described the detail theoretical aspects that support and clarify the practical aspects of the study. The third chapter concentrated on research design and methodology. The fourth chapter discusses about data presentation and analysis. Finally, the last chapter presented the summary, conclusion and recommendation of the study.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter contains concepts and theories regarding customer retentions, by which the researcher reviews earlier studies on the research topic area. The aim is to provide the relevant literature in the field of customer retentions, and to come up with a suitable conceptual framework. In addition, previous similar articles; empirical evidences is also briefly discussed.

This chapter has been structured into the Definitions of terms, consumer Behavior, Buyers decision making measures of customer retention, Theoretical perspective of customer retention and the factors affecting customer retention. Finally, under the last part of literature review, conceptual framework has been developed.

#### **2.2 DEFINITIONS**

##### **2.2.1 Customer:**

Any individual who open bank account, and all other capable person who operate by banks (Wang and Spiegel, 1994).

##### **2.2.2 Customer satisfactions:**

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

##### **2.2.3 Customer Retention:**

It is a process customer stay with the provider in the course of an established period, for example a year” (Dawes, 2009).

##### **2.2.4 Trust:**

It is when one party has confidence in the other part’s reliability and integrity (Ranaweara and Prabhu, 2003).

### **2.2.5 Switching Cost:**

The technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Shergill and Bing, 2006).

## **2.3 CONSUMER BEHAVIOR**

Nowadays companies are more concerned on individual consumer behavior. It helps them to yield information about how the consumers think, feel and choose their products. Every individual is consumer. Consumer behavior is the study of the processes involved when individual or groups select, purchase, use, or dispose of the product, service, ideas or experiences to satisfy needs and desires (Michael and Solomon,1998). The expand view of consumer embrace much more than the study of why and what consumer buy, but also focuses on how marketer influence consumers and how consumers use the products and services.

Customers are in a tough spot. Individuals have exposed to different window of information and varieties of products; many great deals of choices and options available in the market place impulse their purchase decision. However, the interpretation and decision making is different among individuals and also influenced by internal consumer behavior (perception, altitude, and motivation) and external factors (family roles, peer influence and group influence).

## **2.4 BUYERS DECISION MAKING**

The five steps of the consumer's decision-making process are need recognition, information search, evaluation of alternatives, purchase, and post-purchase evaluation of decision (Fahy and Jobber, 2012). Notably these steps are recognized and often discussed when talking about consumer buying behavior.



Figure 2.-0-1.Consumer decision-making process (Fahy and Jobber, 2012)

All of the stages are not necessarily undergone in the consumer decision-making process as this depends on the type of purchase. Buyers typically move through a series of steps from recognizing the need for something to evaluating which good should be bought to perhaps considering the purchase afterwards whether it satisfied the original need or want. (Fahy and Jobber,2012).

Need recognition: is the first stage of the buying process where the buyer recognizes a problem or need. This can mean that the buyer recognizes a want, or even a need for recognition or belonging to a group. In general consumer behavior theory, a need can be driven either by internal or external stimuli. Internal stimuli are normal needs such as hunger and thirst, whereas external stimuli are for example advertisements or friends (Kotler and Armstrong, 2010).

Information search: is where the consumer searches for more information on a good and service. This occurs when problem recognition is strong enough (Fahy and Jobber, 2012). The information can be acquired from multiple sources such as friends, acquaintances, advertising, mass media, Internet searches, or actually experiencing the product (Kotler and Armstrong, 2010).

Evaluation of alternatives: may take place after a consumer is done with searching for information, and has narrowed down the choices and arrived to a set of different brands. Different options are evaluated in order to decide which to buy (Kotler and Armstrong, 2010).

The purchase decision: comes after ranking brands and most often arriving to a brand that is most preferred by the consumer. Kotler and Armstrong (2010) state that “a marketer’s job does not end when the product is bought”. The final stage of the model explains how consumers may experience post-purchase behavior related to how satisfied or disappointed the consumer is. The post-purchase decision arises from uncertainty of whether the choice was correct (Fahy and Jobber, 2001).

## **2.5 THEORETICAL PERSPECTIVE OF CONSUMER RETENTION**

Customers are indeed an asset to the firms (Hogan et al., 2002). A good customer base ensures a continuous source of future revenue due to repeat purchases done by them and cross- buying of other products offered by the service provider (Dawes, 2009). If the firm is incurring costs to attract new customers then it is advisable for the firms to maintain their existing customer base rather than continuously losing customers’ and replenishing the lost customers. Current customers who buy more from the firm are of greater worth than the customers who are new or those who shop less frequently. “In the loyalty literature, retention means the number of customers who stay with the provider in the course of an established period, for example a year” (Dawes, 2009).

Customer retention rates and customer share are important metrics in Customer relationship management (Reichheld, 1996). In the previous literature there is evidence indicating that the strategies which can increase customer share can also increase customer retention. However, until recently only it is believed that both the approaches require different strategies (Bolton, 2002).

Customer retention help to understand and implement loyalty programs (Agustin and Singh, 2005). In a nationwide customer retention survey, majority of the respondents reported that 75% of the sales were from existing customers (Carter, 2008). 98% of the respondents surveyed agreed to the importance of customer loyalty but only half of them were aware of any customer

loyalty program being implemented at their firm. 73% of the firms said that they did not measure customer loyalty (Ray and Chiagouris,2009).

Most companies are spending more in attracting new customers rather than retaining the existing ones. The front-end function of attracting a new customer like substantial budget, management attention and effort of marketing professionals is taken care of while the backend function of retaining customers is usually neglected. It costs six times more to get a new customer than retaining an existing one. Some companies maintain incoming of new customers to cover up regular loss of existing ones. Customer retention is now emerging as an important area of analysis and planning.

Organization can help build good relationship with the existing customers. Companies uninterested in retaining existing customers and looking for new ones is similar to throwing a needle in the Haystack, finding it, again throwing it and then looking for it. The time and money spent in attracting a new customer is not worth if you cannot keep them. It is recommended that “there needs to be a different marketing mix for retaining customers: product extras, reinforcing promotions, sales force connections, specialized distribution, and post purchase communication”.

All those firms which practice relationship marketing, customer retention have become their primary goal (Gronroos, 1991). While customer retention might have a different meaning and measurement for different industries and firms (Aspinall, 2001). There is an agreement for the fact that focuses on customer retention can generate several economic benefits (Reichheld, 1990).

## **2.6 CUSTOMER RETENTION AND BUSINESS PERFORMANCE**

Customer retention practice is reflected as one of the most significant weapons to sustain in the competition and, hence improve their performance (Padmashantini,2013). Customers are considered to be the focal point of the organizations. Therefore, the main aim of every organization is to create more customers in order to achieve their target and to retain their customers by providing the best quality of services. It is not possible for the organizations to increase their business performance without their customers (Ahmad, 2002). It has been

researched that the priority of the organizations is towards their customers, as the targeted business performance of the organization depends on their customers (Alvarez, 2001).

Organizations may develop innovative strategies in order to build a long-term relationship with their customers by providing good quality products/services so that the level of satisfaction of their customers will also increase, thus the level of customer retention will also increase (Anderson, 1994). According to Ang (2006) organizations should focus on customer retention rather than on the recruitment of the new customers. In the past, the organizations used financial measures and accounting standards in order to measure the financial performance of the organization, but now this is not the only way to measure business performance by adopting different financial measures; in fact; the firms can also measure their business performance by considering non-financial performance metrics as well.

A study by (Reinartz, 2000) has stated that loyal customers and profitability are not necessarily related to each other; in other words, loyal customers cannot be necessarily profitable customers. It can be said that customers who are more inclined towards retention generate higher profits for the company and any wealthy customers who are strongly retained, generate higher profits because of their huge spending power (Reinartz, 2000). In this research, four predictive variables are taken under the umbrella of “customer retention” that are, word-of-mouth, non-complaining behavior, repetitive purchase Behavior and price insensitivity. The dependent variable taken in this research is “firm performance” measured by profitability.

A previous study conducted by (Lewis,1995) was a cross-sectional study that investigated the profitability with respect to customer longitudinally and this study evaluated a direct relationship between the profit generated by customers and a set of retention variables. This study investigated two directions of profitability: profit evolution and profit drop. Profit evolution means the evolution of customer in association with the profit generation during the observed period and profit drop means a drop-in profit of the customer in association with the profit generation during the observed period. Profit drop expressed the reduction in profit by the end of observational period and it is a binary variable. This research was a profound research as it validated the accuracy of measuring customer profitability evolution by measuring firm’s performance with the retention variables taken under binary variable. Among scholars because of

the past researchers who claimed that firms exist to maintain and sustain the relationship with customers via customer relationship management and it is the success factor for organizations.

The market is heavily flooded and has a higher level of competition claimed that strategies of retention among firms are crucial to their existence. The past studies have established a significant association between practices of customer retention and firm performance improvement; the firms that maintain and sustain their relationship with customers and intense competition enjoy savings in monetary terms, of retaining the existing customers. Reichheld (2000) declared that with an increase of 5% in customer retention rate, profit can be increased by 25% to 95%.

## **2.7 BENEFIT OF CUSTOMER RETENTION**

### **2.7.1 Lower cost**

Levins, (2009) brand loyal customers reduce the marketing cost of the firm as the cost of attracting a new customer, the cost of seeking new customer is six times higher than the cost of retaining an old one. Holt (2009) states that loyal customers translate into lower marketing cost and increase revenue over a customer's life time relationship with a company. Patterson (2007) asserts that many firms are beginning to shift their marketing focus from new customer to existing customers in an attempt to secure a cohort of brand loyal customers to first ensure sustainability. Loyal customers are willing to pay higher price and are less price sensitive, they also provide the firm with trade leverage and valuable time to respond to competitive moves (Aaker, 1996).

### **2.7.2 Higher sales volume**

The average company loses half of its customers every five years, equating to 13 % annual loss of customers. These statistics illustrates the challenge companies' face when trying to grow in competitive environment. Achieving even 1% annual growth requires increasing sales to customers, both existing and new, by 14% reducing customer loss can dramatically improve business growth and loyalty which leads to consistent and even greater sales since the same brand is purchased repeatedly (Giddens, 2010).

### **2.7.3 Lower promotion cost.**

Loyal customers are willing to search for their favorite brand and are less sensitive to competitive promotion. This inelasticity results in lower cost for advertising, marketing, distribution. It is easier to reinforce behavior than change them and a sale is just the beginning of an opportunity to turn the purchaser to the loyalist. It costs four to six times as much to attract a new customer as it does to retain an old one (Giddens, 2010).

### **2.7.4 Increase usage and spending**

Perceived quality has been shown to positively affect customer usage. Customers tend to select brands they perceive to be quality brands. This also connects to repeat buying or brand loyalty. Customers tend to continue buying brands that reward them with a good experience versus repeating the evaluation proves time after time (Aaker, 1996). For example, a customer who repeatedly stays at the same hotel becomes more familiar with the hotel's full product line, such as gift shops and banquet rooms and that customer will likely to sample other product lines of the company, thus helping the company achieve a larger share of customers.

### **2.7.5 Financial benefit**

The advantage of customers' loyalty is long-term and commutative. The longer a customer remains loyal, the more profit a business can get from that single customer. The results of research conducted by Giddens reveals that positive financial benefits can be attained through customer loyalty (Giddens, 2010).

### **2.7.6 Lower price elasticity**

Customers' loyalty can be associated with lower price elasticity and willingness on behalf of the customer to pay more for the privilege of doing business, higher margin, almost always drop to the bottom line. Brands with a high level of brand loyal customer experience lower price elasticity as customer accepts the price, they pay for brand name and brand association. Some studies indicate that price reductions have actually had negative results in sales due to the disapproval of brand loyalists (Aaker, 1996).

### **2.7.7 Referrals**

Loyal customers can be equated with mother of all profitability engines. If loyal customers are happy customer, then it is likely they are unpaid ambassador for a company, spreading the word on how wonderful it is to do business with company. That saves the company real money in reduced customer acquisition costs. Customer also value their relationship with their branded possessions and with marketing agents and institutions that own and manage the brand and as such announce the value of the brand to family, friends, social group and work colleagues (Aaker,1996).

## **2.8 Models of Customer Retention**

These models are among models of customer retention explaining the behavior of customers and they tend to explain the link between various factors, which cause customers to remain with particular firm.

### **2.8.1 SERVQUAL Model**

SERVQUAL is a multi-item scale, which stands for service quality developed by (Parasuraman and Berry,1990) to assess customer perceptions on service quality in service and actual experience. SERVQUAL when originally developed in1985 was measuring 10 aspects of service quality, which were competence, courtesy, credibility, security, access, communication, knowing the customer, tangibles, reliability and responsiveness.

After the original SERVQUAL model was seen to be complex, subjective and statistically unreliable, it was modified in the early 1990s and proponents refined the model to the useful acronym RATER, which stands for responsiveness (willingness to help customers and provide prompt services), assurance (knowledge and courtesy of employees and their ability to gain trust and confidence), tangibles (physical facilities, equipment and personnel appearance), empathy (providing individualized attention to the customers) and reliability (ability to perform the promised service dependably and accurately) (Parasuraman and Berry, 1990). The simplified model is simple and has been useful for quantitatively assessing customers' experiences in service (Zeithaml et al.,1990).

The purpose of SERVQUAL is to serve as a diagnostic methodology for uncovering wide areas of an organization's service quality weaknesses, strength and discovering the main requirements for delivering high service quality (Zeithaml et al.,1990). The instrument is designed for use in any kind of service business and provides a basic skeleton through its expectations/perceptions format, encompassing statement for each of the five dimensions (Zeithaml, et. al., 1990).

Despite its wide usage in service industry, SERVQUAL model has been criticized by several researchers (for example, Carman, 1990; Babakus and Boller, 1992; Teas, 1994). Criticisms were mainly directed at the conceptual and operational base of the model, mostly in reliability, validity, dimensional structure and operationalization of expectations. However, it has been generally agreed that SERVQUAL items are reliable predictors of overall service quality (Khan, 2003).

### **2.8.2 Satisfaction Model**

Consumer satisfaction is a post-choice evaluation made by the customer concerning a specific purchase or choice for fulfillment of a need or want (Day,1984).

Giese and Cote (2000) summarized satisfaction literature by stating that satisfaction is an emotional or cognitive response to a particular focus such as expectations, product or consumption experience, and the response occur at a particular time after consumption or accumulated experience. Customers' satisfaction with their banks is based on the expectations, interactions and experiences with the banks.

Oliver (1993) tested a model to represent influences on satisfaction response. The model theorized that expectations and attribute performance each influence satisfaction. In addition, if attribute performance and expectations do not match, then disconfirmation may occur, which impacts satisfaction (Oliver,1993).

There is a strong link between customer satisfaction and repurchase intentions (Patterson and Spreng, 1997). If the customer is dissatisfied, he/she is less likely to repurchase the product (Oliver, 1993). Repurchase intentions are based on the evaluation of many underlying service dimensions (Kannan, and Bramlett, 2000). In banks, retention is a repurchase decision. Ideally,

satisfied customers will be retained at a higher rate than dissatisfied customers (Patterson et al., 1996).

## **2.9 Measures of Customer Retention**

As it has been explained that the organizations first priority should be to retain the customers, it is also important for the organizations to build a strong relationship with the loyal customers as well as new upcoming customers in order to retain the customers in addition to increasing financial gains of the industry (Berry,1995).When compared to new customers, the retained customers are always ready to pay for premium prices and they do not necessarily claim for discount offers because they believe that if they are paying high prices for the products and services than in return, they are buying or purchasing the best quality of products and services according to their demands. These are the customers who are totally satisfied and always make purchases whether the organizations offer the discounted schemes or not (Ahmad,2002).

The customers who stay in touch with the organization for a longer period are called “retained customers”. Consequently, the researchers have identified three methods to evaluate the retention rate of the customers; these three methods are compound method, behavioral method and attitudinal method. The behavioral method of retention rate shows the repetitive and constant buying behavior of the customers. Actually, the customers who are loyal to the brand or the product are the retained customers (Anderson, 1994). However, it has been researched that this buying behavior of the customer shows that the commitment of the retained customer towards the organization never create hurdles for the firms at the time of measuring the customer retention rate. Further, it has also been described by the researcher that if the organizations provide more distinctive benefits to their customers then the loyal customers never switch to any other brand.

Another method to measure the retention rate of the customer is attitudinal method that describes the emotional attachment of the customer towards the product or the brand. These customers are considered to be the authentic customers; in other words, authentic customers are loyal customers. These are the customers who always show a positive attitude towards the brand or the product and are considered to be evangelist customers. Evangelist customers are essentially

“word of mouth” marketers. These customers convince others to buy the product or the brand for which the new customers are not ready to purchase because of the higher prices (Berry, 1995).

The last method to evaluate or measure the retention rate of the customer is the composite method, as the composite method is the combination of both behavioral method as well as the attitudinal method. These customers are loyal and retain customers towards the organization. They continue to make purchases and always hold favorable and auspicious attitudes towards the organization. Composite method is considered to be the greatest tool for implementing the retention rate of the customer the loyal customers also have an ability to compromise with the new prices in order to receive the best quality of services from the organization (Reichheld, 1990).

The researchers have explained that the evangelist customers have become a reference group for the potential customers. These relationships between customers and the organizations become strong and long lasting. Mostly the new customers have so many complaints regarding the organization or the products provided by those organizations, but the usually retained customers have fewer complaints regarding the products or services provided by the organizations (Bowen, 2001).

## **2.10 Factors that influence Customer Retention**

Several factors affect customer retention; however, most scholars’ focus on customer satisfaction, service quality, perceived price fairness, switching cost, customer relationship, trusts. Hence these factors are discussed in the following subsections.

### **2.10.1 Service quality and Customer Retention**

Service quality literature indicated that perceptions of high service quality and high service satisfaction resulted in a very high level of purchase intentions. customer loyalty was affected by product quality, service quality, and retailer image (Gungor, 2002). He also suggested quality of product and service is directly related to customer satisfaction, and lead to the loyalty of the customer. Customer satisfaction literature showed that the relationship between customer satisfaction and customer loyalty depended on the type of satisfaction. The positive impact of

manifest satisfaction on customer loyalty was stronger than that of latent satisfaction on customer loyalty (Bloemer and Kasper, 1995).

According to Salas & Fogli (2006) service quality can be defined as “a global judgment or attitude relating to a particular service; the customer’s overall impression of the relative inferiority or superiority of the organization and its services. Service quality is a cognitive judgment”. With regards to service quality literature, Grönroos (1990) first introduced the specific two-dimensional models to measure service quality which are as follows:

1. Technical-quality: Measures the outcome of service performance.
2. Functional-quality: shows subjective perceptions of customer interaction with service provider.

Gronroos(1990)compares two dimensions with expectations of customer. Likewise, Parasuraman et al. (1985) defines service quality as degree of inconsistency among customer’s normative prospects for services and their opinions of service performed. Similarly meeting the needs and expectations of the customer defines quality of service (Smith, 1998).Also, service quality is evaluated through ten service quality dimensions proposed by Parasuraman et al. (1985) But later on Parasuraman et al. (1985) reduce these ten dimensions into five dimensions **SO AS** to measure perceived value on customer, which is also known as **SERVQUAL Model**.

### **2.10.1.1 SERVQUAL Model (Theoretical Framework)**

This model was first introduced in 1985 and it is one of the popular tools used to measure service quality. **SERVQUAL Model** measures the gap that exists between customer expectation and actual service received from the customer. This model consists of five service quality dimensions and they are:

**Tangibility:** It includes exterior of physical facilities, equipment, written sign and signal, personnel.

**Reliability:** Focuses on how service promises are delivered.

**Responsiveness:** Focuses on how organizations are willing to help customer and offer prompt services.

Assurance: Focuses on inspiring trust and confidence in employee while delivering services.

Empathy: Focuses on providing individual attention, and caring to the customer by providing customized services, because each and every customer is unique (Wilson et al.,2012).

### **2.10.1.2 SERVQUAL Dimensions in Banking Sector**

SERVQUAL dimensions plays vital role in measuring service quality in banking sector. Tangible related factor in banking sector relate to adequate staff to provide services, advance and useable equipment and easy physical layout. So, these factors should be properly maintained in the banks because these factors help to increase customer satisfaction. Reliability focuses on delivering of promised services. Banks with high reputation and dependability will always fulfill the promise made to customer, as well as banks also ensure level of security.

Responsiveness focuses on helping customer and provides accurate services. Many banks try to customize their services depending upon the level of customer, as well as they try to personalize their services, which helps to enhance customer satisfaction. Similarly, customer wants assurance from bank. So, bank staff must explain each and every product and services to customer in detail so that customer will feel comfortable with banking services. Finally, to assure empathy, bank employee should treat each and every customer individually because each and every customer is unique (Lau et al., 2013).

H1: Quality customer service has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

### **2.10.2 Customer Satisfaction and Customer Retention**

Customer satisfaction can be considered as a psychological concept that includes the feeling of wellbeing and pleasure that results from obtaining what one hopes for and expects (Pizam & Ellis,1999). It is not a universal miracle, which means that not everyone gets the same satisfaction by getting the same experience. This is because though it is the same industry, different customers could have different needs, objectives and experiences that influence their own expectations. As per the clarification on (Frederick and Reichheld, 2001) customer satisfaction can be a major cause for customer retention. There is strong relationship between satisfaction and retention.

The service management literature argues that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs (Blanchard and Galloway, 1994; Heskett et al.,1990) relative to the value expected from transactions or relationships with competing vendors (Zeithaml et al.,1990). Loyalty behaviors, including relationship continuance, increased scale or scope of relationship, and recommendation (word of mouth advertising) result from customers' beliefs that the quantity of value received from one supplier is greater than that available from other suppliers. Loyalty, in one or more of the forms noted above, creates increased profit through enhanced revenues, reduced costs to acquire customers, lower customer-price sensitivity, and decreased costs to serve customers familiar with a firm's service delivery system (Reicheld and Sasser,1990).

In 2010, A survey of nearly 200 senior marketing managers also establishes the relationship between customer satisfaction and loyalty, 71% responded that they found a customer satisfaction metric very useful in managing and monitoring their businesses. Unsatisfied customers are not loyal customers; thus, customer satisfaction is seen as a key performance indicator within business. Author has observed that Customer satisfaction has a significantly positive direct impact on customer loyalty. Thus, as the level of customer satisfaction increases, the level of customer loyalty increases. Customer satisfaction inversely influences customer complaints. Thus, as the level of customer satisfaction increases, the level of customer complaints decreases. Customer complaints have significantly inverse impact on customer loyalty. Thus, as the level of customer complaints increases, the level of customer loyalty decreases.

H2: Customer Satisfaction has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

### **2.10.3 Customer Rrelationship and Customer Retention**

Customer relationship raises in 90's and has been very important in the business approach. To emphasize importance of relationship, a new marketing approach has been created and named as 'relationship marketing'. Even relationship marketing has been termed for banking industry as 'relationship banking' to establish long-term bonds with customers (Mukherjee and Nath, 2003).

For banking industry, after the 2000s, with the increasing number of internet users, customers had great opportunities to be more powerful and effective against the banks. Thus, banks understood that they could only be successful if they focused on customer long lasting relationships (Koçoğlu and Kirmaci,2012) because developed positive relationships with the customer link him/her loyalty and loyal customer has a potential to provide various advantages and benefits (Roig et al, 2006).

Jobber (2001) states those retention strategies vary in the degree to which they bond the parties together. There are three levels of retention strategies based on the types of bond used to strengthen the relationship: at the first level bond is primarily through financial incentives. The problem here is that the potential for sustainable competitive advantages is low because price motivations are easy for competitors to copy. The second level is based on building long term relationship through social as well as financial bonds. Customers become clients and the relationship becomes personalized and the service customized. This type of relationship includes frequent communication with customers, providing the service through personal treatment for the customer. By lacing this level of retention strategy into practice the company raises the potential for a sustainable competitive advantage. The third level, or the top level, of retention strategies is focused, not only on financial and social bond, but also on structural bonds. This includes providing solution to customer's problems that are designed into the service delivery system. For example, logistic companies often supply their clients with equipment that ties them into their system.

H3: Customer relationship has positive and significant effect on customer retentions in private commercial banks located in Addis Ababa City.

#### **2.10.4 Switching cost and customer retention**

The organizations should build some switching barriers in order to hold their customers. If the switching cost increased by the organizations then as a result the risk will be increased for the customers and the company should be more efficient as the dependency increased on the company's side (Jones, 2002). If the companies build positive switching barriers, then it will be a positive effect on the customers. In order to create the long term relationship between the company and the customers, the company should provide more benefits to their customers in

order to increase the retention level of the customers (Berry, 1995). The benefits should be personal interaction with the customers and an effective communication in a friendly manner, emotional benefits that may relax the customer's mind, financial benefits such as offering different discounts to their customers (Bejou, 1998). When the customers are totally satisfied by the services provided by the organization, and they never think about the alternate options describes the possibility of customer switching to another organization will be reduced to an acceptable level (Ang, 2006). If the customer gets attracted to any other option or alternative, then the existing may build the switching barrier. The service recovery is also one of the components of the switching barrier which means that the organizations that are providing the services to the customers have an ability to resolve the problems of the customers and reduce dissatisfaction of the customers. The service recovery is one way to build the customer relationship into a long-term relationship (Anderson, 1994). The customer satisfaction is very significant in order to retain the customers. It has been evaluated that the effect of switching barrier directly affects the level of customer retention therefore organizations takes innovative steps in order to adjust the relationship between the customer retention and the customer satisfaction (Abrat, 1999).

The interpersonal relationship between the company and the customers can be an important factor as a switching barrier. The continuous interpersonal relationship becomes a relationship-specific asset which acquires customer to pay cost to be out of the relationship and therefore protects customer from being apart from the relationship with the company (Berry, 1995).

H4: Switching Cost has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

### **2.10.5 Trust and Customer Retention**

Security is essential to every trade and especially in banking sector where clients leave their money based on promises done (Knell and Stix, 2009). Gaining customers trust and making them feel secure have a great influence on the bank performance. Absolutely the banks should be very reliable in its any decision. The essential thing is not only to be reliable and trustworthy, but also trustful to their customers and to develop a win- win relationship with them. What customer expects from the bank is to listen, care and deal with their problems (Bell, 2000). By customers,

witnessed weaknesses of the bank spread very quickly among customer. In order to save and increase market share, banks should pay attention their reputation and image as well (Hassan et. al, 2012) and they don't damage their positive intangible possessions such as trustworthiness.

In a study conducted on customer retention focusing on professional service firms Mascareigne (2014) noted that trust and confidence are perceived as vital elements by professional service providers. Several of the customers argued that without trust, no business can be done, mostly due to the fact that client cannot evaluate performances beforehand. As client cannot trust an agency which they have not worked with earlier, they demand to see references from previously carried out projects. Some clients chose an agency based on recommendations made by other clients. The study among other variables concluded that creating close deep trustworthy and long-term relationships are key factors in retaining customers.

H5: Trust has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

#### **2.10.6 Pricing of Services and Customer Retention**

Price is the amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service; or price is the amount of money or goods needed to acquire some combination of other goods and its accompanying services. Price fairness refers to consumers' assessments of whether a seller's price is fair or justifiable (Miller, 2007). Price fairness is a very important issue that leads toward satisfaction. Charging reasonable price helps to develop customer satisfaction and loyalty. It was found that customer satisfaction is directly influenced by price perceptions of customer while indirectly through the perception of price fairness. The price fairness itself has a great impact on satisfaction.

It is very important for the customers to be familiar with the new prices offered by the companies. The companies should set out the prices of the product according to the customer's perception. If the new prices offered by the companies are too high, then there are possibilities that the customers may switch to another product or brand (Ryals, 2005). If other companies provide more benefits and the customers are keen to try other brands, then they may switch to

another brand easily. If the customers are price conscious and if they have noticed that the prices are not reasonable, they will never pay the high prices for the brand in which they are showing interest; in fact, they can easily convert their interest in to another brand. The companies should always set out the prices of the brand according to the worth of the brand so the number of customers switching to another brand because of the pricing issues can be reduced to an acceptable level (Woo, 2004).

In a study conducted on Foreign owned banks in New Zealand, Hull (2002) noted that competition in the banking industry has increased significantly in recent years due to deregulation and globalization. Given that products and services offered by banks can often be easily duplicated, banks are not only competing with each other but also with other non-banking financial institutions. When financial institutions provide almost identical product and services, they can only distinguish themselves on the basis of price and quality (Hull, 2002). According to a study by Siele and Muturi (2016) on 22 commercial banks in Thika town on customer retention, they established that interest rates and bank charges have an effect on customer retentions. Conclusions of their study being that interest rates were found to have negative effect on the customer retention, they also concluded that bank charges were found to have occasioned an increase in the tendency of the customers to leave the bank.

Essential elements influencing customers' selection of a bank include the range of services, rates, fees and prices charged (Abratt& Russell, 1999). The recent experience of some banks suggests that some customers might consider switching banks if fees on checking accounts are raised (Deloitte, 2013) Thus banking services have over the years turned cheaper as banks try to retain their customers. But this has not been prevented loss of customers to cheaper and more financial convenient banking competition. Banking fees is also a significant determinant when a customer is choosing a banking institution. The rise of mid-size banks over the past few years has increased the defection rate from large banks to mid-size banks up to 11.3 percent (Power & Associates, 2012).

H6: Pricing /Bank charge has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

## **2.11 Empirical Studies**

Radomir and Scridon (2010) in the study of Improving Bank Quality dimensions to Increase Customer Satisfaction examined the relationship between service quality dimensions and customer satisfaction with bank territorial units. The study revealed that human resources had the greatest impact on customers' satisfaction with bank territorial units and that both "Convenience and Efficiency" and "Bank personnel" were dimensions that bank management should consider in their efforts to improve and maintain the service quality level. Mascareigne (2009) explained about several factors that influence customer retention. He included creating customer satisfaction, creating customer trust, customer involvement, creating switching barriers, communication effectiveness, service quality and price and several customer retention strategies and processes for customers to remain loyal and stay longer with the organization, more specifically in the advertising sector. The study revealed that when it comes to retention of customers, professional service providers neither have any standardized nor normal procedures to follow and the strategies used by the firms are highly customized to each individual customer based on a few numbers of clients in the firms.

Moreover, Filip and Anghel (2009) aimed at researching customer level of loyalty toward Romanian organizations acting in the retail banking sector and the factors influencing customers' actions in the relationships with banking institutions including reasons of customer retention. Findings of the research were that the Romanian customers remained in banks relationships due to existence of both favorable attitudes or positive motivations and constraint factors or inertia. Also, loyalty level stated by customers did not only depend on satisfaction but also by other factors like bank's attitude towards its own customers, the level of customer trust toward the organization or its employees in ensuring financial interests of clients and by the level of customer commitment. The study found out that high level of dissatisfaction by customers determines switching behavior. However, the study failed to show the relationship between customer service, price of banks products, quality of the products developed by banks and customer satisfaction.

Furthermore, Kaura (2012) examined whether or not perceived price increases price fairness and price fairness further promoted customer satisfaction in Indian commercial banks. It also tried to find the relationship between perceived price and customer satisfaction. Results suggested that perceived price increased price fairness and price fairness increased customer satisfaction. It also revealed that transparency of price structure in banking industry is very important in customer satisfaction.

Afsar, and Shahjehan (2010) attempted to find factors of customer loyalty and their relationships with the banking industry in one of the developing countries, which is Pakistan. The study revealed that effect of satisfaction and trust on commitment was positive as well as significant and the greater the satisfaction, the greater was commitment and the greater the trust. Additionally, Rootman, Tait and Sharp (2011) addressed the need for understanding relationship of marketing and customer retention of banks, and related lessons that can be learned from banks in Canada and the United Kingdom (UK).

Results from the study revealed that six banking service delivery variables influenced banks' relationship marketing and customer retention. Bank fees were viewed by respondents to be the most significant variable. Canada was identified as the country with the most highly regarded banks in terms of relationship marketing, customer retention, empowerment of bank employees and personalization of banking services. UK banks were highlighted as superior in setting fee structures, communication strategies and ethical behavior. Therefore, strategies implemented by Canadian and UK banks relating to the variables were adapted to fit South African banks as well as institutions in other developing countries.

Elly (2010) in the study on service quality and customers retention in Tanzanian commercial banks. The purpose of the study was to investigate the link between service quality and retention of customers in Tanzanian commercial banks. The research findings revealed that the overall service quality provided by the commercial banks had a direct relationship with customer loyalty. Fasha (2007) in the study of the impact of service equality on customers' satisfaction and retention in Tanzanian commercial banks. The elements were provision of information to customers with variables, which were availability of information when needed, understanding consumers' language, and accuracy of information, relevance of information and reliability of

information. Findings indicated that information provision, complaint handling and service quality had significant impact on customers' satisfaction and hence, their retention.

## 2.12 Conceptual Framework

The aim of this section is to develop conceptual framework that will guide the study. As defined by Miles and Huberman (1994), a conceptual framework explains, either graphically or in narrative form, the main things to be studied –the key factors, constructs or variables –and the presumed relationship between them”. By doing a conceptual framework we are forced to be selective- to decide which variable are the most important, which relationship are likely to be most meaningful, and as a consequence, what information should be collected and analyzed.

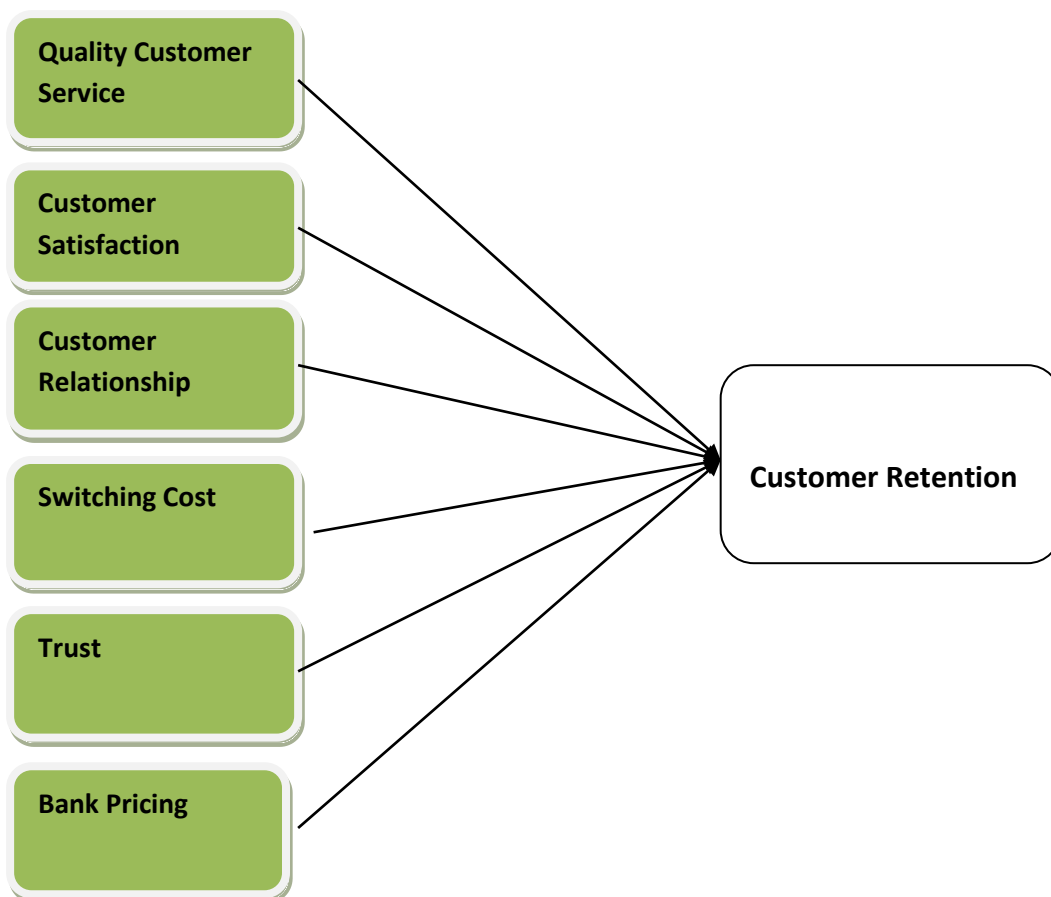


Figure 2.2. Conceptual Framework of the study

Source: Adapted from Beerli (2004). "A model of customer loyalty in the retail banking market

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1 Research Design**

Research design is the conceptual structure which constitutes the blue print of what the research intended to do from writing the hypothesis and its operational implication to the final analysis of data. Wallimam (2006) research design provides a framework for the collection and analysis of data and subsequently indicates which research methods are appropriate.

In this study both descriptive and explanatory research was used. The major purpose of descriptive research is description of the state of affairs as it exists at present (Kothari, 2004). According to Creswell (2012), an explanatory research design is a correlational design in which the researcher is interested in the extent to which two variables or more co-vary, that is, where changes in one variable are reflected in changes in the other.

In this study both descriptive and explanatory research were employed, since this study attempted to investigate the effect of independent variables on customer retention (dependent variable) through testing the hypothesis.

#### **3.2 Research approach**

According to Hair et al. (2007), there are two types of research approaches available to researchers, namely quantitative and qualitative. The data in quantitative approach are numbers and lends itself to statistical analysis in order to imply the characteristics of something. An important point to consider is that structure, representativeness, and providing objectivity are important strengths of quantitative research. This approach provides objectivity because the respondents are the ones who provide the numbers; therefore, researcher's opinion does not have any impact on testing the hypothesis. In a general sense, this approach is used in explanatory researches. Furthermore, it allows generalization and enables the researcher to predict the future.

The data in qualitative approach is generally collected by observation or unstructured interviews. They are usually in the form of words, phrases and pictures. It is important to say that this

approach provides a deeper understanding of the phenomenon the researcher wants to find and therefore furnishes a holistic view. Also, because judgment has an important role in this approach, it is difficult to replicate the findings. Using this approach, the researcher can choose small sample sizes. Moreover, the author will have less concern about the representativeness of the results (Hair et al., 2007).

Based on the above discussions, in this research quantitative approach was used to meet the research objective. Though this approach the hypothesis of the study was tasted. In conclusion, quantitative research strategy found to be more suitable than qualitative approach to reflect reality sufficiently by using a large number of data.

### **3.3 Population**

A population consists all elements (individuals, items or objects) whose characteristics are being studied (Mann, 1995). According to Ngechu (2004) a population is a well-defined set of people, service, elements, and events, group of things or households that are being investigated. Since this research was confined to the private commercial banks; the population consist only individuals who have experience of using banking services in any one of the private commercial banks in Addis Ababa. The sampling frame for this study incorporates complete list of all customers of private banks in any of branches located in Addis Ababa.

In this study the population is all private commercial bank customers in Addis Ababa city. Hence, based on larges ample size determination formula for the population that are large to yield a representative sample for population (Cochran, 1997).

### **3.4 Sample Size**

Determining sample size is very important issue because samples that are too large may waste time, resource and money. While samples that are too small may lead to in accurate results. According to Saunders (2007) researchers normally work to a 95% level of certainty. According to G.Cochran(1977),for the population that are large to yield are representative sample for proportions which is valid ; where  $N$  is a sample size,  $Z$  is the Abscissa of the normal curve that cuts off an area " $\alpha$ " at the tails, the tails are  $(1 - \alpha)$  equals the desired confidence level i.e. 95%."E" denotes the desired level of precision, "p" is the estimated probability of attribute that is present in the population. "q" is  $1-p$ . The value for  $Z$  is found in the statistical tables which

contain the area under the normal curve. The resulting sample in this study will be determined as follows:

$$\begin{aligned} N &= Z^2 pq/E^2 \\ &= \frac{(1.96)^2 * (0.5)*(0.50)}{(0.05)^2} \\ &= 384.16 \end{aligned}$$

### **3.5 Sampling Techniques:**

Sampling techniques is a technique used to select suitable sample so as to represent the whole population. There are two common sampling techniques, probability and non-probability sampling. Probability sampling is where the population has an equal opportunity of being selected but in non- probability sampling methods, the probability of being selected is unknown (Bhattacharjee, 2012).

Convenience sampling is a type of non-probability sampling where member of target population that meet certain practical criteria, such as easy accessibility, geographical proximity, availability at a given time, or the willingness to participate are included for the purpose of the study (Dornyei,2007). The main assumption of associated with convenience sampling is that the member of the target population are homogeneous. That is, there would no difference in the research result obtained from a random sample, nearly sample, a co-operative sample, or a sample gathered in some accessible part of the population (Leiner, 2014).

The researcher was forced to use a non-probability sampling method of convenience sampling technique and stratified sampling because of:

1. The difficulty to get complete list of target population of Customers in Addis Ababa City.
2. The target populations of the study were geographically scattered.
3. To appropriately distribute the questionnaires to those willing and easily accessible.
3. Convenience sampling technique gives a better result within a small budget and time constraints ( Farhana & Islam, 2012).

Through a combination of a stratified and Convenience sampling Technique: First, the commercial private banks classified based on their years of service into three groups which is

termed a 'strata 'as homogeneously as possible. Then, samples are drawn proportionately from each strata. Finally, through convenience sampling technics a survey questionnaire distributes to ratile customers (i.e. those individuals who opened saving or checking accounts and execute their financial transaction at their bank) of private commercial banks at the premises of those branches located in Addis Ababa city.

**Table 1.0.1 Classification of Banks based on their years of service in to three groups or Strata**

	Greater than or equal 15 Years Group A	Less than 15 years and greater or equal 10 Years Group B	Less than 10 years	
	Awash Bank (1994)	Cooperative Bank of Oromia (2004)	Bunna International Bank(2009)	
	Dashen Bank (1995)	Lion International Bank (2006)	Berhan International Bank (2009)	
	Bank of Abyssinia (1996)	Zemen Bank (2008)	Abay Bank (2010)	
	Wegagen Bank (1997)	Oromia International Bank (2008)	Addis International Bank (2011)	
	United bank (1998)		Debub Global Bank (2012)	
	NIB International Bank (1999)		Enat Bank (2012)	
Total No Banks	6	4	6	<b>16</b>
Percentage of representation	6/16=0.375	4/16=0.25	6/16=0.375	<b>1</b>
Sample size to be taken from each group	384* 0.375=144	384* 0.375=96	384* 0.375=144	<b>384</b>

### 3.6 Source of Data

There are two type of data sources; primary and secondary data source. Primary data is information that needs to be gathered from the original source. On the other hand, secondary data is the one used from already availed or from data that has been collected for another purpose. Both primary and secondary data were used in this study. The Primary data were used to collect from sample respondents using survey questionnaire. On the other hand, secondary data has also employed from relevant Literatures and data.

### **3.7 Data Collection Procedure**

Bhattacharjee (2012) noted that survey research is a research method involving the use of standardized questionnaires or interviews to collect data about people and their preferences, thoughts and behaviors' in a systematic manner.

Some of the advantages of survey are; first, survey is an excellent vehicle for measuring a wide variety of unobservable data such as people's preferences, traits, attitudes, beliefs behaviors of actual information. Second survey research is economical in terms of research time, effort and cost than most other methods such as experimental research and case research. Third, due to their unobtrusive nature and the ability to respond at one's convenience, questionnaire survey is preferred by some respondents (Bhattacharjee, 2012).

A questionnaire is a research instrument consisting of a set of questions (items) intended to capture responses from respondents in a standardized manner. Structured questions ask respondents to select an answer from a given set of choices (Bhattacharjee, 2012). Respondents were asked to answer questionnaire whenever they are free. Hence, survey study was carried out to collect primary data from sample respondents through structured questionnaire. The instrument used in this study was a close-ended questionnaire that was adapted from the review of related literature. Close-end, mainly Likert-scale, questions was used to collect data from respondents but not questions relates to demographic characteristics of the respondents. The five-point Likert scale weighing was: 1= Strongly Disagree, 2=Disagree, 3=Neutral, 4= Agree and 5= Strongly Agree. It 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 (Sekaran, 2003). This rating scale is easy to conduct and administer and respondents readily understand how to use the scale.

Pilot test of questionnaires have been undertaken by distributing the survey questionnaire to 25 participants who are staff of private banks. The objective of the pilot testing was to filter the questionnaire and get feedback on the content and understandability of the question.

The questionnaire this study was divided into two sub sections:

Section One: Demographic variables, the demographic information were collected with closed-ended questions.

Section Two: basic information required by the research objectives relevant to factors influencing customer retention

Finally, the questionnaires have been coded into SPSS for data analysis. A validation on the questionnaire was also done to avoid any missing values.

### **3.8 Method of data analysis**

The data collected were analyzed through Statistical Package for Social Sciences (SPSS) Version 20. The data first coded in alphabetical and numerical order and then inputted in into the statistical program. Then, the data were screened and treated for errors and missing values. The selections techniques to analyze the results of this study were done based on the research objectives. Reliability analysis, correlation and regression analysis was computed for the study.

Reliability /Internal Consistency / Analysis: reliability of data was tested using the cronbach's alpha. Coefficient alpha ( $\alpha$ ) is the measurement of squared correlation between observed scores and true scores. In other words, reliability is measured in terms of the ratio of true score variance to observed score variance. It can test the internal consistency of each factor. The reliability and internal consistency of the data are measured by the Cronbach Alpha coefficient. George and Mallery (2003) provide the following rules of thumb:  $\alpha > 0.9$  Excellent,  $\alpha > 0.8$  Good,  $\alpha > 0.7$  Acceptable, and  $\alpha > 0.6$  Questionable  $\alpha > 0.5$  Poor and  $\alpha < 0.5$  Unacceptable. According to Field (2007) the reliability is regarded to be satisfactory when the Alpha coefficient is equal to or exceeds 0.70). However, a lower Cronbach alpha coefficient was set at 0.58 when interval scales are used to measure human behavior.

**Correlation analysis:** Analyses were conducted to analyze the strength and direction of the linear relationship between the variables. Pearson correlation coefficients were calculated to determine the relationships between the customer retention influences. Correlations of 0.30 are regarded to mention worthy (Cohen, 1988). High correlation coefficients illustrate higher level of association between the influences. According to Cohen (1988), the value of Pearson's correlation is divided into three areas. A correlation coefficient between 0.10 and 0.29 indicate a

small correlation; a correlation coefficient between 0.30 and 0.49 indicates a medium Correlation and a correlation coefficient between 0.50 and 1.0 indicates a large correlation.

### **3.9 Validity and Reliability of the Instruments**

#### **3.9.1 Validity**

Validity defined as the extent to which data collection method or Methods accurately measure what they were intended to measure (sounders et al., 2003). In order to achieve the objective, the researcher has been taken the following steps to ensure the validity of the study:

1. Survey questionnaire were prepared based on previous empirical review and literature review;
2. Pilot test of Survey questionnaire were distributed employee of various bank staffs.
3. Data were collected from the reliable sources, (i.e. from those respondents who are customers of private banks in Addis Ababa (primary source)

#### **3.9.2 Reliability**

Reliability estimates the consistency the measurement or more simply, the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. Reliability is essential about consistency, if we measure something many times & the result is always the same, then we can say that our measurement is reliable (John et al., 2010)

**Reliability (internal consistency) Analysis:** Reliability of data tested using the Cronbach's alpha. The reliability and internal consistency of the data are measured by the Cronbach Alpha coefficient. Gerge and Mallery (2003) provides the following rules of thumb:  $\alpha > 0.9$ , Excellent,  $\alpha > 0.8$  Good,  $\alpha > 0.7$  Acceptable, and  $0.6 < \alpha < 0.7$  questionable  $\alpha > 0.5$  poor and  $\alpha < 0.5$  Unacceptable. Accordingly, to Field (2007) the reliability is regarded to be satisfactory when the Alpha Coefficient is equal to or exceeds 0.7)

Accordingly, the study followed above reliability and validity measures to estimate the consistency of measurements. The Cronach's alpha coefficient calculated for all items under each variable of the study and alpha coefficient value equal to or exceeds 0.7 were accepted.

### **3.10 Ethics in Research**

The researcher observed strict ethical responsibilities in conducting this research. Research ethics relating to rights of human subjects in field work, notably the right to informed consent; right to privacy and confidentiality; and right not to be deceived or harmed as a result of participation in the research should be emphasized (Bryman, 2007).

The prospective participants were fully informed about the procedures and risks involved in the research and must give their consent to participate in the survey. They also informed that their participation is based on voluntary and they may readily withdraw at any time. The participants assured that their participation would not result in any adverse consequences, and all information provided will be treated with the strictest confidentiality. Finally, this research will be practiced the principle of anonymity i.e. the participants remains anonymous throughout the study - even to the researcher.

## CHAPTER FOUR

### 4. PRESENTATION, ANALYSIS AND DISCUSSION

This chapter presents the findings of the research in accordance to the research objectives. The analyses and interpretation of the data collected from the respondents is presented. It began with description of the demographic respondents. The Cronbach's alpha coefficients for reliability were examined. Then, the results of factor analysis, correlation analysis and regression analysis for the research variables were also discussed.

#### 4.1 Demographic profile of Respondents

A total of 384 questioners were distributed to those who are customer of various private commercial banks in Addis Ababa city. There were 33 invalid questionnaires (i.e. questionnaires which were not fully completed or not properly filled by the respondents were discarded). The rest 351 questionnaires were completed and used in data analysis which represented 91.4% of response rate. Male respondents were 216 or (61.5%) and female respondents were (38.5%). with respect to age group most of the respondents between 31-40 years which is 61.3 % of the respondents. On the other hand, married respondents account 217 or (61.8 %) of the total respondent the rest were single, divorce and widowed. Descriptive statistics also showed that almost half of the respondents were BA degree holder which constitutes 179 out of 351 respondents or 51 % of the respondent.

#### 4.2. Reliability Assessments (Internal Consistency)

Reliability of data tested using the Cronbach's alpha. The reliability and internal consistency of the data are measured by the cronbanch Alpha coefficient. Gerge and Mallery (2003) provide the following rules of thumb:  $\alpha \geq 0.9$ , Excellent,  $\alpha \geq 0.8$  Good,  $\alpha \geq 0.7$  Acceptable, and  $0.6 \leq \alpha \leq 0.7$  questionable  $\alpha \leq 0.5$  poor and  $\alpha <$  Unacceptable .According to Field (2007) the reliability is regarded to be satisfactory when the Alpha Coefficient is equal to or exceeds 0.7.

## Composite Reliability:

Table 4.1 Measurement Reliability

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
0.955	0.963

The coefficient alpha scores analyses were conducted for the entire variables to ensure that the scales developed is reliable. The result shows the alpha Values for all constructs in the study were greater than the guideline of 0.70, so it implies that the measurements can be applied for further analysis with acceptable reliability. A low Alpha coefficient simply indicates that the factor is less likely to present itself if the study is to be repeated when subjected in a different application setting.

### 4.3 FACTOR ANALYSIS ( Construct validity Test)

**Factor Analysis:** is an interdependence technique in that an entire set of inter dependent relationships are examined without making the distinction between dependent and independent variables. The suitability of using factor analysis as a validation tool was checked by applying the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and the Barlett's Test of Sphericity. The measurements are strived to measure the KMO at  $\geq 0.70$  and the Barlett's significance at  $< 0.005$ . The KMO assesses the assumptions whether there appears to be some underlying (latent) structure in the data. The Kaiser-Meyer-Olkin (KMO) measure is utilized to examine the appropriateness of factor analysis in this study. The Bartlett test of sphericity is used to determine if each set correlate perfectly with itself ( $r = 1$ ) or has no correlation with the other variables ( $r = 0$ ). For Statements meet the KMO and the Barlett's Test of Sphericity requirements, factor analysis is done. Factor loadings of 0.4 and higher are considered to validate the items that measure each of the influences (Field, 2007). The variance explained by the factor analyses was serves as indicator to determine the relative importance of each of the factors influences. Then each table provides a component matrix representing values of factor loadings for each question and explains the percentage variance for each category of influences.

### 4.3.1 Quality Customer Service

**Table 4.2 .KMO and Bartlett Test- Quality Customer Service**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.780
Bartlett's Test of Sphericity	Approx. Chi-Square	463.131
	Df	10
	Sig.	.000

Source: Own Survey Result, 2019

The Service Quality questions are summarized in tables no 4.2. The KMO score is higher than the 0.700 requirements with 0.780 and the Bartlett's score equally satisfactory at sig. 0. 000. Therefore, the data were good for factor analysis.

Once factor analysis suitability had been assessed, exploratory factor analysis could then be conducted. The factor analysis of the Service Quality construct indicates at all the questions loaded into one factor. In order to determining which factors to extract from this, only questions with factor loadings 0.4 were considered. As shown in Table no. 4.3. below all the questions have favorable factor loadings which is exceeding 0.40. This indicates that Quality customer service is adequately measured by the mentioned five questions.

**Table 4.3. Factor analysis of Quality Customer Service**

Component Matrix		
codes	Questions	Component 1
QCS1	Your bank delivers service as promised to its customer within a given time, therefore you will keep on being a customer	.744
QCS2	Your bank's physical facilities and office layout associated with service are very pleasing and comfortable; therefore, you will keep on being a customer.	.724
QCS3	Your bank's working hour and branch location is convenient; therefore, you will keep on being a customer.	.671
QCS4	Your bank's staffs always provide prompt service and willing to help customers, therefore you will keep on being a customer	.748
QCS5	Your bank continuously attends its customer query, if any; therefore, you will keep on being a customer.	.781

### 4.3.2 Trust:

The Trust questions are summarized in table no 4.4. The KMO score is higher than the 0.7. Requirements with 0.761 and the Bartlett's score equally satisfactory at sig. 0. 000. Therefore, the data were good for factor analysis.

**Table 4.4 KMO and Bartlett – Trust**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.761
Bartlett's Test of Sphericity	Approx. Chi-Square	463.131
	Df	10
	Sig.	.000

Source: Own Survey Result, 2019

**Table 4.5 Factor analysis of Trust**

Component Matrix		
codes	Questions	component
		1
TR1	You believe your bank is a reliable and financially strong institution; therefore, you will keep on being a customer.	.701
TR2	The staffs of your bank are honest & professional; therefore, you will keep on being a customer.	.581
TR3	I believe that your money is on the safe hand and if a need arise you can easily withdraw any time, therefore you will keep on being a customer.	.691
TR4	You believe your bank keeps financial information confidential; therefore, you will keep on being a customer.	.784

The factor analysis of the trust influence indicates that all the questions loaded into one factor. Therefore, all the questions have favorable factor loadings (i.e. exceeding 0.4).

### 4.3.3. Customer Satisfaction

**Table 4.6.KMO and Bartlett Test – Customer Satisfaction**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.783
Bartlett's Test of Sphericity	Approx. Chi-Square	643.497
	Df	6
	Sig.	.000

Source: Own Survey Result, 2019

The Customer Satisfaction questions are summarized in table no. 4.6. The KMO score is higher than the 0.700 requirements with 0.783 and the Bartlett's score equally satisfactory at sig. 0. 000. Therefore the data were good for factor analysis.

**Table 4.7.Factor analysis of Customer Satisfaction**

Component Matrix		
codes	Questions	component
		1
CS1	The products and services provided by your bank is consistent and satisfactory, therefore you will keep on being a customer.	.594
CS2	Your bank designs its products and services based on customer need; therefore you will keep on being a customer.	.889
CS3	The product and service provided by your bank exceeds its customer's expectation, therefore you will keep on being a customer.	.870
CS4	Your bank provides user friendly service and latest technology; therefore you will keep on being a customer.	.887

The factor analysis of the Customer Satisfaction influence indicates that all the questions loaded into one factor. Therefore, all the questions have favorable factor loadings (exceeding 0.40).

### 4.3.4 Switching Cost

**Table 4.8 KMO and Bartlett Test – Switching Cost**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.686
Bartlett's Test of Sphericity	Approx. Chi-Square	262.300
	Df	10
	Sig.	.000

Source: Own Survey Result, 2019

The KMO score of switching cost is slightly lower than the 0.700 requirement with 0.686 and the Bartlett’s score equally sufficient at 0.000. Although below the desired 0.700 value, a KMO value of 0.686 does not disqualify the data from being used in factor analysis. Field (2007) the reliability is regarded to be satisfactory when the Alpha coefficient is equal to or exceeds 0.70). However, a lower Cronbach alpha coefficient was set at 0.58 when interval scales are used to measure human behavior.

**Table 4.9. Factor analysis of Switching Cost**

Component Matrix		
codes	Questions	component
		1
SC1	It would take a lot of effort and time to switch to another bank; therefore you will keep on being a customer.	.509
CC2	If you switch to another bank, You may face unexpected trouble after switching to new bank; therefore you will keep on being a customer	.708
SC3	If you switch to another bank, there can be a potential facing higher cost after switching to new bank; therefore you will keep on being a customer.	.626
SC4	If You switch to another bank, you will lose the friendly relationship with bank; therefore you will keep on being a customer	.487
SC5	If you switch to another bank, you may not get the best service as your bank providing; therefore you will keep on being a customer.	.535

The factor analysis of the Switching Cost influence indicates that all the questions loaded into one factor. Therefore, all the questions have favorable factor loadings (exceeding 0.40).

### 4.3.5 Customer relationship

**Table 4.10.KMO and Bartlett Test – Customer relationship**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.729
Bartlett's Test of Sphericity	Approx. Chi-Square	443.377
	Df	10
	Sig.	.000

Source: Own Survey Result, 2019

The Customer relationship questions are summarized in table no.4.10 The KMO score is higher than the 0.700 requirements with .729 and the Bartlett's score equally satisfactory at sig. 0. 000. Therefore, the data were good for factor analysis.

**Table 4.11. Factor analysis of Customer relationship**

Component Matrix		
codes	Questions	component
		1
CR1	Your bank treating you based on personal banking needs and desire; therefore you will keep on being a customer.	.791
CR2	Your bank providing you timely information about its products and service, therefore you will keep on being a customer.	.566
CR3	Your bank continuously seeks for your feedback towards the quality of its service; therefore you will keep on being a customer.	.753
CR4	Your bank motivates its long term customers by providing rewards and recognition; therefore you will keep on being a customer.	.677
CR5	Your bank engage relation officers to strengthen customer relationship, therefore you will keep on being a customer.	.755

The factor analysis of the Customer relationship influence indicates that all the questions loaded into one factor. Therefore, all the questions have favorable factor loadings (exceeding 0.40)

### 4.3.6 Bank Pricing

**Table 4.12. KMO and Bartlett Test – Bank Pricing**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.750
Bartlett's Test of Sphericity	Approx. Chi-Square	456.499
	Df	6
	Sig.	.000

Source: Own Survey Result, 2019

The Customer relationship questions are summarized in table no.4.12. The KMO score is higher than the 0.700 requirements with 0.750 and the Bartlett's score equally satisfactory at sig. 0. 000. Therefore, the data were good for factor analysis.

**Table 4.13. Factor analysis of Banking Pricing**

Component Matrix		
codes	Questions	component
		1
BP1	Customer bank's service charges are fair relative to the market; therefore you will keep on being a customer.	.520
BP2	Your bank Pays attractive interest rate on saving accounts; therefore you will keep on being a customer.	.784
BP3	Your bank's interest rate on different loan products are faire, therefore you will keep on being a customer.	.874
BP4	Your bank offers special discount on its bank charges for its loyal customer, therefore you will keep on being a customer	.839

The factor analysis of the Bank Pricing influence indicates that all the questions loaded into one factor. Therefore, all the questions have favorable factor loadings (exceeding 0.40).

### 4.3.7 Customer Retention

**Table 4.14. KMO and Bartlett Test – Customer Retention**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.732
Bartlett's Test of Sphericity	Approx. Chi-Square	458.521
	Df	10
	Sig.	.000

Source: Own Survey Result, 2019

The Customer Retention questions are summarized in table no 4.14. The KMO score is higher than the 0.700 requirements with .732 and the Bartlett's score equally satisfactory at sig. 0. 000. Therefore, the data were good for factor analysis.

**Table 4.15. Factor analysis of customer retention**

Component Matrix		
codes	Questions	component
		1
CRT1	Your bank provides Quality Customer service; therefore you will keep on being a customer.	.756
CRT2	You believe that, our bank is a trusted bank; therefore you will keep on being a customer.	.735
CRT3	You are satisfied with the service provided by your bank; therefore you will keep on being a customer.	.819
CRT4	If you switch to another bank, you probably face additional financial and social costs; therefore you will keep on being a customer.	.566
CRT5	The customer relationship commitment of your bank is very good; therefore you will keep on being a customer.	.594
CRT6	Your bank's pricing strategy is attractive; therefore you will keep on being a customer.	.655

The factor analysis of the Customer relationship influence indicates that all the questions loaded into one factor. Therefore, all the questions have favorable factor loadings (exceeding 0.40).

#### **4.4 Summary of Findings in Factor Analysis**

Factor analysis was conducted to test how well the measured variables represent the number of influences. In view of this, the factor analysis explored on the six influences and dependent variable is found to be loaded into one factor and the following were the outcomes:

All of the influences score higher factor loadings more than 0.4 requirements with acceptable variance except The KMO score of switching cost is slightly lower than the 0.700 requirement with 0.686 and the Bartlett's score equally sufficient at 0.000. Although below the desired 0.700 value, a KMO value of 0.686 does not disqualify the data from being used in factor analysis.

To sum up, the results reveal that the measured variables do represent the number of influences tested. Thus, the factor analysis conducted did confirm all the six identified influences as true influences of Customer retention. It also confirmed the statements selected for each influences and dependent variable were indeed valid. Bartlett's test of sphericity also confirmed the suitability of the data in each influence while KMO validated the appropriateness of factor analysis in this study.

### **5. Correlation Analysis**

Bivariate Correlation tests whether the relationship between two variables is linear (as one variable increases, the other also increases or as one variable increases, the other variable decreases). In addition to this the Pearson product moment correlation coefficient is a measure of the linear correlation between two variables X and Y, giving a value between +1 and -1 inclusive, where 1 is perfect positive correlation, 0 is no correlation, and -1 is perfect negative correlation (Pedhazur, 1982). Furthermore, when Pearson's r is close to 1, this means that there is a strong relationship between the two variables. This mean that changes in one variable are strongly correlated with changes in the second variable. When Pearson's r is close to 0, this means that there is a weak relationship between the two variables. This means that changes in one variable are not correlated with changes in the second variable. The classification of the correlation coefficient (r) is as follows: - 0.1 – 0.29 is weak; 0.3 – 0.49 is moderate; and > 0.5 is

strong (Field, 2007). On the other hand, when Pearson's  $r$  is positive (+), this means that as one variable increases in value, the second variable also increases in value. Similarly, as one variable decreases in value, the second variable also decreases in value. This is called a positive correlation. When Pearson's  $r$  is negative (-), this means that as one variable increases in value, the second variable decreases in value. This is called a negative correlation (Field, 2007).

Sig (2-Tailed) value:-This value tells that whether there is a statistically significant correlation between two variables or not. If the Sig (2-Tailed) value is greater than .05, the researcher can conclude that there is no statistically significant correlation between two variables. That means, increases or decreases in one variable do not significantly relate to increases or decreases in the second variable. If the Sig (2-Tailed) value is less than or equal to .05, the researcher can conclude that there is a statistically significant correlations between two variables. That means, increases or decreases in one variable do significantly relate to increases or decreases in the second variable (Pedhazur, 1982).

## **5.1 Correlation between Factors**

Table 19 below displayed a correlation matrix using the Pearson Product-Moment correlation coefficient for all variables. According to Cohen (1988), the value of Pearson's correlation is divided into three areas. A correlation coefficient between 0.10 and 0.29 will indicate a small correlation, a correlation coefficient between 0.30 and 0.49 will indicate a medium correlation, and a correlation coefficient between 0.50 and 1.0 will indicate a large correlation.

The correlation between independent and dependent variables was analyzed using Statistical Package for Social Science (SPSS) version 20. The above correlation matrix shows the correlation between variables in the questionnaire with a Pearson Correlation coefficient.

**Table 4.16. Pearson Correlation Matrix**

		Quality Customer service	Trust	Customer Satisfaction	Switching cost	Customer Relation	Bank price	Customer retention
Quality Customer Service	Pearson Correlation	1						
Trust	Pearson Correlation	.528**	1					
Customer Satisfaction	Pearson Correlation	.616**	.443**	1				
Switching cost	Pearson Correlation	.516**	.521**	.509**	1			
Customer Relation	Pearson Correlation	.681**	.748**	.507**	.513**	1		
Bank price	Pearson Correlation	.502**	.652**	.517**	.503**	.618**	1	
Customer Retention	Pearson Correlation	.536**	.480**	.652**	.531**	.439**	.553**	1

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

## 5.2 Correlation Analysis

The above correlation matrix indicates that the six factors were positively and moderately and strongly correlated with consumer’s Customer retention. The highest strong coefficient of correlation is between customer satisfaction and customer retention ( $r = 0.652$ ,  $n = 351$ ,  $p \leq 0.01$ ). This means that there was a significant positive relationship between customer satisfaction and customer retention. The second highest strong coefficient of correlation is between bank pricing variable and customer retention ( $r = 0.553$ ,  $n = 351$ ,  $p \leq 0.01$ ). The third highest strong coefficient of correlation is between quality customer service factor and Customer retention ( $r = 0.536$ ,  $n = 351$ ,  $p \leq 0.01$ ). The fourth strong correlation is between switching cost and customer retention ( $r = 0.531$ ,  $n = 351$ ,  $p \leq 0.01$ ). The fifth and the sixth moderate correlation is between trust and customer retention ( $r = 0.480$ ,  $n = 351$ ,  $p \leq 0.01$ ), customer relation and customer retention ( $r = 0.439$ ,  $n = 351$ ,  $p \leq 0.01$ ). Generally, the above correlation matrix shows that all independent variables are positively and either moderately or strongly correlates with the dependent variable.

The above correlation table shows that the P value is significant at (0.001) Sig. (2-tailed). The convention implies that if P value is less than .05, then the correlation is considered to be significant (meaning that the researcher can be 95% confident that the relationship between variables is not due to chance). The researcher can predict that there is a significant correlation between the six independent variables and the dependent variable (customer retention).

## **6. Multiple Regression Analysis**

Regression is a technique used to predict the value of a dependent variable using one or more independent variables (Albaum,1997). Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another. To explore such issues, the investigator assembles data on the underlying variables of interest and employs regression to estimate the quantitative effect of the causal variables upon the variable that he/she influences. The investigator also typically assesses the “statistical significance” of the estimated relationships, that is, the degree of confidence that the true relationship is close to the estimated relationship (Malhotra, 2007).

### **6.1 Assumptions Testing for Regression Analysis**

Meeting the assumptions of regression analysis is necessary to confirm that the obtained data truly represented the sample and that researcher has obtained the best results (Hair et al., 1998).

#### **I Multi-Collinearity**

Collinearity (or multi independent variables. -collinearity) is the undesirable situation when one independent variable is a linear function of other. Eigen values of the scaled and un centered cross products matrix, condition indices, and variance-decomposition proportions were displayed along with variance inflation factors (VIF) and tolerances for individual variables (Gelman,2007). Generally, as multi-collinearity rises, it would complicate the interpretation of the variables because it is more difficult to confirm the effect of any single variable, owing to their interrelationship (Hair et al., 1998). Before regression analysis was done variation inflation factor (VIF) was checked to ensure that no interdependence exists. Since the VIF, as indicated in the table below is less than 10 which is ranged from 1.130 to, 1.710. The researcher can say that

there is no interdependence among independent variables (Tabachnick, 2007). Therefore, regression analysis was appropriate for this particular study.

Table 4.17. Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Quality customer service	.682	1.710
Trust	.717	1.310
Customer Satisfaction	.692	1.472
Switching cost	.704	1.421
Customer Relation	.710	1.130
Bank price	.786	1.525
Customer Retention	.742	1.364

Source : Own Survey Results,2019

## II. Homoscedasticity of the Error Terms

At each level of the predictor variable(s), the variance of the residual terms should be constant. This just means that the residuals at each level of the predictor(s) should have the same variance (Homoscedasticity); when the variances are very unequal there is said to be heteroscedasticity (Field, 2005). This assumption is referred to as the description of data in which the variance of the error terms ( $e$ ) appears constant over the range of values of an independent variable. The assumption of equal variance of the population  $\varepsilon$  (where  $\varepsilon$  is estimated from the sample value,  $e$ ) is critical to the proper application of linear regression (Hair et al., 1998). If the variance of the regression errors is unequal, estimation are more efficiently performed using weighted least squares, where each point is weighted inversely proportional to its variance. In most cases, however, this issue is minor (Gelman,2007).

## III. Normality of the Error Term Distribution

The normality probability plots were plotted to assess normality and the values of skewness and kurtosis should be zero in a normal distribution; Positive values of skewness indicate a pile-up of scores on the left of the distribution, whereas negative values indicate a pile-up on the right. The further the value is from zero, the more likely it is that the data are not normally distributed

(Field, 2005). Useful graph that the researcher can inspect to see if a distribution is normally distributed is called a P-P plot (probability–probability plot). This graph plots the cumulative probability of variable against the cumulative probability of a particular distribution (Field, 2005). The figure in the next page showed that the data are normally distributed.

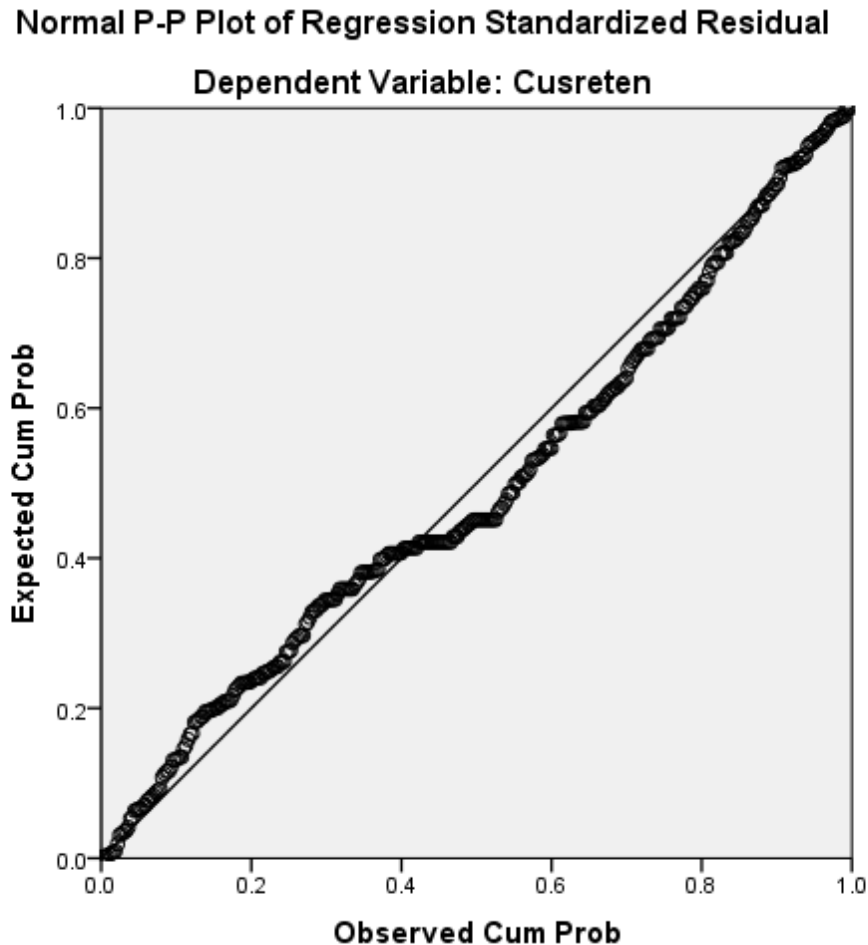


Figure 4.0-1. P-P Plot of regression

### III. Independent errors:

For any two observations the residual terms should be uncorrelated (or independent). This eventuality is sometimes described as a lack of autocorrelation. This assumption can be tested with the Durbin–Watson test, which tests for serial correlations between errors. Specifically, it tests whether adjacent residuals are correlated. The test statistic can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated (Field, 2005). Durbin–Watson test of

model summary was scored a value of 1.792 which is very close 2; therefore, the residual terms were uncorrelated or independent.

#### **IV. Linearity:**

The linearity of the relationship between the dependent and independent variable represented the degree to which the change in the dependent variable is associated with the independent variable (Hair et al., 1998). Conventional regression analysis would underestimate the relationship when nonlinear relationships are present, i.e.,  $R^2$  underestimates the variance explained overall and the betas underestimate the importance of the variables involved in the non-linear relationship (Malhotra and Brik, 2007). This means the mean values of the outcome variable for each increment of the predictor(s) lie along a straight line. In plain English this means that it is assumed that the relationship the researcher is modeling is a linear one. If the researcher models a non-linear relationship using a linear model then this obviously limits the generalizability of the findings (Field, 2007). In the correlation analysis the entire above correlation matrix shows that all independent variables are positively and either moderately or strongly correlated with the dependent variable. Therefore, there was linearity of the relationship between the dependent and independent.

#### **6.2 Multiple linear regression analysis**

Linear regression estimates the coefficients of the linear equation, involving one or more independent variables that best predict the value of the dependent variable (Field, 2005). Multiple linear regression was conducted in order to determine the explanatory power of the independent variables (Quality Customer Service, Customer Satisfaction, Trust, Bank pricing, Switching cost Customer Relation,) to identify the relationship and to determine the most dominant variables that influenced the Customer retention. The significance level of 0.05 with 95% confidence interval was used. The reason for using multiple regression analysis was to assess the direct effect of independent variables on the Customer retention private banking customers.

**Table 4.18. Shows the model summary of the regression analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.781	.763	.771	.08686	.963	61.378	6	344	.000	1.833

a. Predictors: (Constant), Bank price, Switching cost, Trust, Quality Customer Service Customer Relation, Customer Satisfaction

b. Dependent Variable: Customer retention

The above regression model presents how much of the variance in the measure of the Customer retention private banking in Addis Ababa city is explained by the six independent variables namely (Quality Customer Service, Customer Satisfaction, Trust, Bank pricing, switching cost Customer Relation). Besides to explain R, R<sup>2</sup>, adjusted R<sup>2</sup> and Durbin–Watson in detail:

R – Indicates the value of the multiple correlation coefficient between the predictors and the outcome, with a range from 0 to 1, a larger value indicating a larger correlation and 1 representing an equation that perfectly predict the observed value (Pedhazur, 1982). From the model summary (R = 0.781) indicates that the linear combination of the six independent variables (Quality Customer Service, Customer Satisfaction, Trust, Bank price, switching cost Customer Relation) strongly predict the dependent variable (Customer retention).

R Square (R<sup>2</sup>) – indicates the proportion of variance that can be explained in the dependent variable by the linear combination of the independent variables. In another word R<sup>2</sup> is a measure of how much of the variability in the outcome is accounted for by the predictors. The values of R<sup>2</sup> also range from 0 to 1 (Pedhazur, 1982). The linear combination of customer’s retention predictor i.e. Quality Customer Service, Customer Satisfaction, Trust, Bank price, switching cost, Customer Relation of the variance explains 76.3% of variance in Customers retention in private banking industry in Addis Ababa the remaining 23.7 % is explained by extraneous variables, which have not been included in this regression model.

**Adjusted R Square (R<sup>2</sup>)** – The adjusted R<sup>2</sup> gives some idea of how well the model generalizes and its value to be the same, or very close to the value of R<sup>2</sup>. That means it adjusts the value of R<sup>2</sup>

to more accurately represent the population under study (Pedhazur, 1982). The difference for the final model is small (in fact the difference between  $R^2$  and Adjusted  $R^2$  is  $(0.763 - 0.771) = 0.008$ ) which is about 0.8%. This shrinkage means that if the model were derived from the population rather than a sample it would account for approximately 0.8% less variance in the outcome.

**Durbin-Watson** - the Durbin–Watson statistic expresses that whether the assumption of independent errors is acceptable or not. As the conservative rule suggested that, values less than 1 or greater than 3 should definitely raise alarm bells (Field, 2005). So that the desirable result is when the value is closer to 2, and for this data the value is 1.833, which is so close to 2 that the assumption has almost met.

**Table 4.19. ANOVA of Customer Retention**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	67.961	6	11.327	61.378	.000b
	Residual	25.595	344	.008		
	Total	93.556	350			

Own survey Result ,2019

a. Dependent Variable: Customer retention

b. Predictors: (Constant), Quality Customer Service, Customer Satisfaction, Trust, Bank price, Switching cost, customer retention

The ANOVA table shows the overall significance/ acceptability of the model from a statistical Perspective (Pedhazur, 1982). The above ANOVA table shows the acceptability of the model. The p-value is less  $< 0.05$  i.e. 0.001 which indicates the variation is explained by the model is not due to chance. As table 4.19. advocate the researcher can connote that  $R$ ,  $R^2$ , and Adjusted  $R^2$  conducted for the multiple regression predict customer retention based on the linear combination of independent variables of Quality Customer Service, Customer Satisfaction, Trust, Bank price, switching cost, Customer Relation are statistically significant.

## F - Ratio

F-ratio determines whether the model is a good fit for the data. The F-ratio is calculated by dividing the average improvement in prediction by the model (MSM) by the average difference between the model and the observed data (MSR). If the improvement due to fitting the regression model is much greater than the inaccuracy within the model then the value of F will be greater than 1 and SPSS calculates the exact probability of obtaining the value of F by chance (Pedhazur, 1982). The F-ratio for the above model is 61.378, which is very unlikely to have happened by chance.

## The Regression coefficients

This study intends to identify the importance of independent variables (i.e. Quality Customer Service, Customer Satisfaction, Trust, Bank price, Switching cost, Customer Relation) in the prediction of the dependent variable (customer retention). Thus, the strength of each predictor (independent variables) influencing the criterion (dependent variable) can be investigated via standardized Beta coefficient. The regression coefficient explains the average amount of change in the dependent variable that is caused by a unit change in the independent variable. The larger value of Beta coefficient an independent variable has, brings the more support to the independent variable as the more important determinant in predicting the dependent variable.

Table 4.20. Coefficients of regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.364	.048		3.614	.000	.157	.470
Quality Service	.220	.032	.296	6.874	.000	.157	.282
Trust	.102	.023	.157	4.490	.000	.057	.147
Customer Satisfaction	.278	.034	.261	8.132	.000	.211	.345
Switching cost	.008	.010	.111	.854	.004	.011	.227
Customer Relation	.201	.031	.191	6.467	.000	.140	.262
Bank price	.287	.033	.274	8.560	.000	.221	.353

a. Dependent Variable: Customer retention

Source: Own survey Result, 2019

The marked column B is the value for the intercept ( $\alpha$ ) in the regression equation on the first row, labeled (constant). The numbers below the column ' $\beta$  eta' are the values for the regression coefficients for Quality Customer Service, Trust, Customer Satisfaction, Switching cost, Customer Relation, Bank pricing. In the multiple regression, this standardized regression coefficient  $\beta$  is useful, because it allows you to compare the relative strength of each independent variable's relationship with the dependent variable (Pedhazur,1982).The above coefficient table shows the constant beta value ( $\beta$ ) and p-value of the variables to examine the significance of the hypothesis. The significance level of each variable (P-value) is: .001, .001, .001, 0.004, 0.001 and 0.001. The standardized coefficients of Quality Customer Service, Trust, Customer Satisfaction, switching cost, Customer Relation, Bank price are 0.296, 0.157, 0.261, 0.111, 0.191 and 0.274 respectively. The p-value of all the independent variables is below 0.05 which implies all have a significant relationship with the dependent variable (Customer retention).

Based on these results, the regression equation that predicts customer retention based on the linear combination of Quality Customer Service, Trust, Customer Satisfaction, switching cost, Customer Relation, Bank price is as follows:

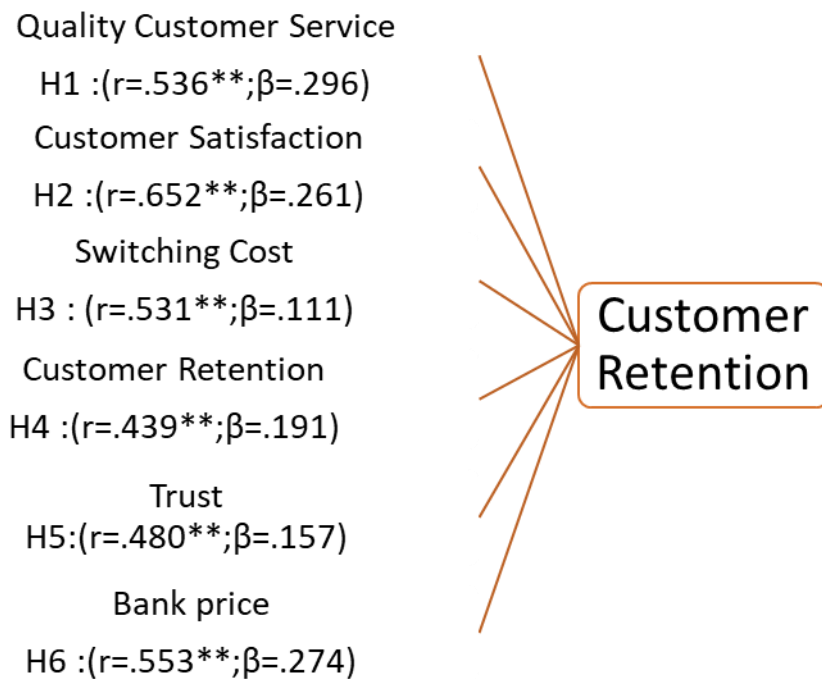


Figure 0-1.2 Summary of the correlation & regression analysis

## 7. Hypothesis Test

The regression coefficient result indicates that, the intercept is at 0.364, means when all independent variables have value of zero. Then, moving through the equation, holding Trust, Customer Satisfaction, switching cost, Customer Relationship, Bank price as constant, a unit change Quality of customer service the in private commercial banks in Addis Ababa explains on average 29.6 % of customer retention improvement, if other factors remains constant. The p-value for this coefficient is statistically significant at ( $p < .05$ ) meaning that quality customer service is a significant predictor of customer retention in private commercial banks. Hence, the Null hypothesis was rejected.

H1: Quality customer service has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

The second hypothesis which states, customer satisfaction has positive and significant effect on customer retention in private commercial banks located in Addis Ababa city, was also supported the data survey because the P-value is 0.001 which is ( $P < 0.05$ ;  $\beta = 0.261$ ), we can infer that a unit change in customer satisfaction level in private commercial banks in Addis Ababa explains on average 26.1% the customer retention improvement level, if other factors remains constant. Hence, the based on this result, the null hypothesis were rejected.

H2: Customer satisfaction has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

The regression coefficient result indicates that customer relationship has a positive and significant effect on customer retention in private commercial banks in Addis Ababa city at ( $P < 0.05$ ;  $\beta = 0.191$ ). It implies that unit change in customer relationship explains on average 19.1% of customer retention level. Therefore, based this, the null Hypothesis was rejected.

H3: Customer relationship has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

The fourth, Switching cost has a positive and significant effect on customer retention in private commercial banks located in Addis Ababa City was also supported, because the P-value of

Switching cost is significant at ( $P < 0.05$ ;  $\beta = 0.111$ ) it implies that a unit change in switching cost explains on average 11.1% of customer retention level, if other factors remain constant. Hence the Switching cost factor has a significant effect on customer retention in private commercial banks in Addis Ababa city based on the result, Hence, the null hypothesis was rejected.

H4: Switching cost has a positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

The fifth, hypothesis which states that trust has a positive and significant effect on customer retention in private commercial banks located in Addis Ababa city was also supported because the P-value of Trust is significant at ( $P < 0.05$ ;  $\beta = 0.157$ ) it implies, unit change in trust explains on average 15.7 % of customer retention level for each additional trust level increment (improvement), if other factors remains constant. Hence, trust has a significant effect on customer retention, thus based on this the null hypothesis was rejected.

H5: Trust has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

Finally, regression coefficient result indicates, unit change in Bank pricing explains on average 27.4 % of customer retention level for each additional price improvement. The p-value for this coefficient is statistically significant at ( $p < .05$ ) meaning that Bank price was a significant predictor of customer retention in private commercial banks in Addis Ababa city. Accordingly, the null hypothesis was rejected.

H6: Bank pricing has positive and significant effect on customer retention in private commercial banks located in Addis Ababa City.

## **8. Discussions of the result**

This study was aimed to examine the effect of Quality Customer Service, Trust, Customer Satisfaction, Switching cost, Customer Relation, Bank price on the customer retention in private commercial banks in Addis Ababa city. Thus, this section discuss the main findings of the research and makes comparison with findings of related previous researches.

The finding this research shows that there is statistically significant relationship between quality customer service and the customer retention in private commercial banks in Addis Ababa city. Previous studies on the relationship of the quality customer service and the customer retention also support the significance quality customer service on the customer retention. Elly (2010) conducted a study on service quality and customers retention in Tanzanian commercial banks. The purpose of the study was to investigate the link between service quality and retention of customers in Tanzanian commercial banks. The research findings revealed that the overall service quality provided by the commercial banks had a direct relationship with customer loyalty.

The data collected under this study supports the hypothesis which states, there significant relationship between Customer Satisfaction and the customer retention in private commercial banks in Addis Ababa city. Previous related research findings reveal the same result Afsarand Shahjehan (2010) attempted to find factors of customer loyalty and their relationships with the banking industry in one of the developing countries, which is Pakistan. The study revealed that effect of satisfaction and customer retention has positive as well as significant and the greater the satisfaction, the greater was the customer retention and the greater the trust.

According to the regression coefficient result, the customer relationship has a significant effect on customer retention in private commercial banks in Addis Ababa city at ( $P < 0.05$ ;  $\beta = 0.191$ ). Previous studies also found out that positive relationships between the customer relationship and loyal customer (Roig et al., 2006).

The hypothesis which states that there is positive and significant relationship between Switching cost and the customer retention in private commercial banks in Addis Ababa city was also supported by the previous research findings, Johns and Beatty (2004) investigate the relationships between switching costs and outcomes such as customer retention by using correlation analysis. The authors' results show that switching costs are positively and significantly related to customer retention.

According to the test result of this study, there is positive relationship trust and the customer retention in private commercial banks in Addis Ababa city at ( $P < 0.05$ ;  $\beta = 0.157$ ). Mascareigne (2014) a study conducted on customer retention focusing on professional

service firms noted that trust and confidence are found to be vital elements predicting customer retention .

The finding this research shows that the Bank price has significant relationship the customer retention in private commercial banks in Addis Ababa, Previous related research findings reveals the same result. Price fairness is a very important issue that leads toward satisfaction. Charging reasonable price helps to develop customer satisfaction and loyalty (Xia and Monroe, 2007).

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION ANDRECOMMENDATION

In this chapter of the study, summary of findings, conclusion and recommendations are presented. The purpose of this study was aimed to examine the effect of Quality Customer Service, Customer Satisfaction, Trust Switching cost, Customer Relation, Bank pricing on Customer Retention of private commercial bank in Addis Ababa City.

#### 5.1 Summaries of major findings:

The study has investigated about the effect of independent variables (Quality Customer Service, , Customer Satisfaction, Trust ,Switching cost, Customer Relation, Bank pricing) on dependent variable Customer Retention Based on this, the overall findings of the research are summarized as follows:

The study model fit regression equation of

$Y = .354 + .296X_1 + .157X_2 + .261X_3 + .111X_4 + .191X_5 + .274X_6 + e$ , at p-Value less than (P<0.05)

Where:

Y= Customer Retention

X1= Quality Customer service

X2= Trust

X3= Customer Satisfaction

X4= Switching cost

X5= Customer Relation

X6= Bank pricing

e= Error Term

Based on this, the Beta weight score indicated that the influence of quality customer service was highest among the other independent variables with ( $\beta = 0.296$ ) at ( $p = < 0.05$ ). The second important variable was Bank pricing with ( $\beta = 0.274$ ,) at ( $p = < 0.05$ ), the third was Customer Satisfaction ( $\beta = 0.261$ ), at ( $p = < 0.05$ ), the fourth was Customer relationship and the fifth and

six were trust and switching cost with a moderate influence of ( $\beta = 0.157$ ) and ( $\beta = 0.111$ ) at ( $p < 0.05$ ) respectively. Thus, the researcher can reject the entire null hypotheses and accept all alternate hypotheses of the study.

## **5.2 Conclusions:**

The banking industry in Ethiopia is getting highly competitive and dynamic from time to time. Hence, bank management must develop customer-oriented strategies in order to compete successfully in the competitive retail banking environment. In the face of the current competitive market, retaining the existing customer must be the priority of every bank. The longer the bank retain a customer, the greater the revenue and cost saving from the customer. Accordingly, the aim of this research was to investigate the major factors that determine customer retention among customers of private banks located in Addis Ababa. Based on the conceptual framework and the measuring instrument employed there were six factors which are identified and measured. Among the factors, the findings provide evidence that customer retention is significantly influenced by factors; Quality Customer Service, Customer Satisfaction, Customer Relation, Bank pricing. Factors like Trust and Switching cost have also a moderated level of influence.

According to the result of the study, quality customer service was found as top influence of Customer retention. Thus, banks expected to exert utmost effort to excel their service quality by being responsive, provide accurate and consistent services. Their employee should also treat each and every customer individually because each and every customer is unique. The second important determinant of customer retention was bank pricing. Setting out attractive bank interest rate on various savings accounts and charging fair interest rate for loans and advance coupled with providing incentives of discounts on service charge to existing customers will have a positive impact on retaining of the existing customers. Based on the research finding, the level of customer satisfaction was found to the third important factor in determining customer retention. Continuously tracking and reviewing customers' feedback and taking measures to meet the expectation of existing customer are a paramount important. The research finding also indicated that establishing strong and long-term relationship with the existing customer has a positive impact on the retaining customer. Thus, banks should understand that they could only be successful if they focused on building lasting relationship with their customers.

On other hand, the research shows that trust is one of the predictors of customer retention. Security is essential to every trade and especially in banking sector where clients leave their money based on promises done. Gaining customers trust and making them feel secure have a great influence on the bank performance. Finally switching cost was also the predictor of customer retention based on the finding of the research. Hence, banks need to build positive switching barriers such as personal interaction with the customers and an effective communication in a friendly manner, emotional benefits that may relax the customer's mind, financial benefits such as offering different discounts to their customers.

### **5.3 Recommendations:**

According to the result of the study quality customer service the strongest predictor of customer retention among the independent variables of the study .Thus, this study recommends that bank management may take a major review of their daily banking activities so as to deliver quality customer service consistently across their service outlets .They should also develop a strategy that deliver a combination of superior, unique and the one that satisfies their customer. In today's competitive banking environment, delivering customer-oriented service and coping with the dynamic of environment is paramount important in retaining the existing customer.

The findings of the study indicate that customer satisfaction one of the major influences on customer retention among the independent variables of the study. The result is in agreement with the knowledge of marketers that they consider customer satisfaction as the ultimate marketing instrument. Therefore, it is recommended that marketers and management of the private banks may work towards continuously tracking the level customer satisfaction and put in place policies and procedures that enhance the level of customer satisfaction.

As it is revealed on the study, Customer relationship is one of the major influences among the six independent factors of the study. Therefore, managements and marketers of the banks may bestow emphasis on how to strengthen long term and beneficial relationship with their respective customers during designing and implementation of marketing strategy by understanding the fact that Customer relationship is the most important factor that leads to effective customer relationship and competitive advantage.

Based on the result of the study bank's pricing strategy has a significant influence on Customer retention. Thus the management of the private banks may strive in setting a strategy to install competitive pricing that could encourage long term relationship by employing a loyalty /reward program for existing customers to retain them in their banks with frequent review of their pricing against the industry average.

It is found that Trust is one of the influences of customer retention. The result is in line with the nature of the banking industry that reliability, integrity and having of confidence in an exchange partner is very important. Hence, the management of private banks has a duty to consider Brand Trust building as the central construct during designing and implementation of their corporate strategy. Banks should pay their attention in building reputation & image in order to make their customer feel secure.

Based on the research finding switching cost is one of the factors that influence Customer retention. Hence, management of the private banks may exert maximum effort to reduce customers switching by continuously reviewing and building positive switching barriers through offering of incentives like discount for various service charges and strengthening personal interaction between their employees and the customers.

#### **5.4 Limitations and direction for future research**

Although this study provides contributions from both a theoretical and practical perspective, there are a few limitations:

First, the one of limitation for this study was the sampling issue since part of sampling technique employed was "Convenience sampling". So, from the statistical point of view the result of the study may not be generalizable to the total population. So future researchers with more time and resources may employ one of probability sampling so that each member of the population will have an equal probability of being selected and the result may also to be more generalizable.

Secondly, targeting only private commercial located in Addis Ababa could not adequately represent population of Private commercial banks in Ethiopia. Therefore, it necessitates for conducting of further research by incorporating other commercial banks located other geographical area of the country.

Third, this research is based on the survey response of only customers of private commercial banks; it did not conduct a survey on the feedback of bank staffs and managements towards customer retention. Therefore, future researches could expand their analysis by incorporating bank staffs and managements in examining the factors affecting customer retention.

Fourth,  $R^2$  of this study explains only 76.3% of the variation of the retention of private commercial banks in Addis Ababa. Thus, rest 23.7. % of variation was attributed to other factors which were not investigated in this research. Therefore, further research needs to be conducted on the other unexplored areas which may have significant influence on customer retention.

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# Appendix A: Questionnaire English Version

## Addis Ababa University College of Graduate Studies MBA Program

### Questionnaire to be filled by customer of private commercial banks

Dear Respondents,

I am a prospect postgraduate student of Masters of Business Administration at Addis Ababa University. Thus, this questionnaire is prepared to gather information in order to conduct a study on the title “Factors Affecting Customer Retention in Private Commercial Banks in Addis Ababa City” Accordingly all responses will be used to conduct a study for the partial fulfillment of Master of Business Administration in Addis Ababa University –college of Business and Economics. As your name is not asked here, your Anonymity/ secrecy will be strictly maintained and the information obtained will not be used for any other purposes. Besides, this survey would probably take 10-15 minutes of your time.

I am grateful and would like to give heartfelt thanks for your kind cooperation in advance!

### Thank you in advance for taking your time to fill out this questionnaire

If you need any further assistance, please do not hesitate to contact me in the following address.

- Daniel Yilma -Tel. 0911-664209
- Email address –danielyillma@yahoo.com

Please put a „√“mark to all your responses in the space provided beside to each Question.

### Part I: General Information

I. Gender : Male  Female

II. Age Group : 18-30  31-40  41-50  51-60  61+

III. Marital Status: Married  Unmarried  Divorced  widowed

IV. Educational back ground: primary  high school  Diploma  BA Degree  Masters  
Doctorate Degree

V. Your current Occupation:

Unemployed  Employee  Self-employed  Pensioner  Student  Housewife

VI. Currently, Your first choice customer bank name is .....

VII. How long did you stay as customer at your first choice customer bank?

Up to one year  between 1 and 3 years

Between 3 and 5 years  between 5 and 8 years

Between 8 and 10 years  More than 10 years

## Part II

Direction: In the under likert scale questions, there are statements towards each factor of the study .Please therefore, kindly Put tick mark (√) based on the level of your agreement/disagreement on statements mentioned below in the table.

1=strongly disagree    2=disagree    3=Neutral    4=Agree    5= Strongly Agree

	<b>Factors</b>	strongly disagree	disagree	Neutral	Agree	strongly Agree
	<b>Quality Customer Service</b>	1	2	3	4	5
QCS1	Your bank delivers service as promised to its customer within a given time, therefore you will keep on being a customer.					
QCS2	Your bank's physical facilities and office layout associated with service are very pleasing and comfortable ;therefore you will keep on being a customer.					
QCS3	Your bank's working hour and branch location is convenient, therefore you will keep on being a customer.					
QCS4	Your bank's staffs always provide prompt service and willing to help customers, therefore you will keep on being a customer.					
QCS5	Your bank continuously attends its customer query, if any; therefore you will keep on being a customer.					
	<b>Trust</b>					
TR1	You believe your bank is a reliable and financially strong institution; therefore you will keep on being a customer					

TR2	The staffs of your bank are honest & professional;therefore you will keep on being a customer					
TR3	You believe that your money is on the safe hand and if a need arise you can easily withdraw any time, therefore you will keep on being a customer					
TR4	You believeyour bank keeps financial information confidential, therefore you will keep on being a customer					
<b>Customer Satisfaction</b>						
CS1	The products and services provided by your bank is consistent and satisfactory, therefore you will keep on being a customer.					
CS2	Your bank designs its products and services based on customer need; therefore you will keep on being a customer.					
CS3	The product and service provided by your bank exceeds its customer's expectation, therefore you will keep on being a customer.					
CS4	Your bank provides user friendly service and latest technology; therefore you will keep on being a customer.					
<b>Switching Cost</b>						
SC1	It would take a lot of effort and time to switch to another bank; therefore you will keep on being a customer.					
SC2	If you switch to another bank, You may face unexpected trouble after switching to new bank; therefore you will keep on being a customer.					
SC3	If you switch to another bank, there can be a potential facing higher cost after switching to new bank; therefore you will keep on being a customer.					
SC4	If You switch to another bank, you will					

	lose the friendly relationship with bank; therefore you will keep on being a customer.					
SC5	If you switch to another bank, you may not get the best service as your bank providing;therefore you will keep on being a customer.					
<b>Customer Relationship</b>						
CR1	Your bank treating you based on personal banking needs and desire; therefore you will keep on being a customer.					
CR2	Your bank providing you timely information about its products and service, therefore you will keep on being a customer.					
CR3	Your bank continuously seeks for your feedback towards the quality of its service;therefore you will keep on being a customer.					
CR4	Your bank motivates its long term customers byproviding rewards and recognition; therefore you will keep on being a customer					
CR5	Your bank engage relation officers to strengthen customer relationship, therefore you will keep on being a customer.					
<b>Bank Pricing</b>						
BP1	Your bank's service charges are fair relative to the market; therefore you will keep on being a customer.					
BP2	Your bank Pays attractive interest rate on saving accounts,therefore you will keep on being a customer					
BP3	Your bank's interest rate on different loan products are faire, therefore you will keep on being a customer.					

BP4	Your bank offers special discount on its bank charges for its loyal customer, therefore you will keep on being a customer.					
<b>Customer Retention</b>						
CRT1	Your bank provides Quality Customer service, therefore you will keep on being a customer					
CRT2	You believe that ,our bank is a trusted bank, therefore you will keep on being a customer					
CRT3	You are satisfied with the service provided by your bank; therefore you will keep on being a customer.					
CRT4	If you switch to another bank, you probably face additional financial and social costs,therefore you will keep on being a customer.					
CRT5	The customer relationship commitment of your bank is very good,therefore you will keep on being a customer					
CRT6	Your bank's pricing strategy is attractive; therefore you will keep on being a customer.					

**Thank you again for your patience in responding the questionnaire!**

# Appendix B: Questionnaire in Amharic Version

## በአዲስ አበባ ዩኒቨርሲቲ

### የቢዝነስ አደሚኒስትሬሽን ድህረ ምረቃ ትምህርት ክፍል

#### ቃለ መጠይቅ

ይህ መጠይቅ የተዘጋጀው በአዲስ አበባ ዩኒቨርሲቲ ለቢዝነስ አደሚኒስትሬሽን ማስተርስ ፐሮግራም የሚሟሟ ጥናት “አዲስ አበባ ውስጥ የሚገኙ የግል ባንኮች ደንበኞቻቸው ከእነርሱ ጋር በደንበኝነት እንዲዘልቁ የሚያደርጉ ጉዳዮች” በሚል ረዕስ የተዘጋጀና ይህን ጥናት ለማከሄድ መረጃ ለማሰባሰብ ነው። ስለሆነም እርሶ የሚሰጡት መረጃ ለዚህ ጥናት ግብአትነት ብቻ የሚውል ሲሆን ይህን መጠይቅ ለመሙላት ስም መጥቀስ የማያስፈልግና መጠይቁን የሞላው ግለሰብ ማንነት ሚስጥራዊነቱ የተጠበቀ ነው። በተጨማሪም ይህን መጠይቅ ለመሙላት ከ 10 እስከ 15 ደቂቃ ብቻ በቂ መሆኑን መግለፅ እወዳለው። በመሆኑም ይህን መጠይቅ ጊዜ ወሰደው በመሙላት መልካም ፍቃድ ስለሆነ ከልብ አመሰግናለሁ።

መጠይቁን በሚሞሉበት ጊዜ የመረጡት መልስ በሚገኝበት ቦታ አንፃር የ  (✓) ምልክት በማስቀመጥ ያመልክቱ።

#### ክፍል 1. አጠቃላይ መረጃዎች

1. ያታ ወንድ  ሴት
2. እድሜ 20-30  31-40  41-50  51-60  61+
3. የጋብቻ ሁኔታ የገባ  ያላገባ  ፈት  ባለቤቷ/ቱ የሞተበት
4. የትምህርት ደረጃ መጀመሪያ ደረጃ  ከፍተኛ ደረጃ  ዲፕሎማ  ዲግሪ  ማስተርስ  ዶክትሬት
5. የስራ ሁኔታ  
 ስራ የሌለው  ተቀጣሪ  ተማሪ   
 የግል ስራ  ጡረተኛ  የቤት እመቤት
6. በአሁኑ ወቅት የመጀመሪያ ምርጫዎ የሆነ ደንበኛ ባንክዎ ስም ይጥቀሱ.....
7. ከላይ በጠቀሱት ባንክ በደንበኝነት የቆዩበት ጊዜ  
 እስከ አንድ አመት  በአምስት እና ስምንት አመታት መካከል   
 በአንድ እና ሶስት አመታት መካከል  በስምንት እና አስር አመታት መካከል   
 በሶስት እና አምስት አመታት መካከል  ከአስር በአመታት ላይ

**ክፍል 2** እባክዎ ከዚህ በታች ለሚገኙት የጥናቱ መጠይቆች መልስ ይሆናል ብለው ያመኑትን ቦታ ይህን (✓)ምልከት በማድረግ በጥንቃቄ ይመልሱ።

ተ.ቁ		በጣም እስማማለው	እስማማለው	አስተያየት የለኝም	አልስማማም	በጣም አልስማማም
የደንበኞች አገልግሎት ጥራት		1	2	3	4	5
QCS1	የእኔ ደንበኛ ባንክ ቃል በገባው መሰረት አገልግሎቱን በአግባቡ ለደንበኞች ስለሚያቀርብ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
QCS2	የእኔ ደንበኛ ባንክ አገልግሎት የሚሰጥበት ቅርጫፎች ውስጥ የሚገኙ መገልገያ መሳሪያዎች ምቹና አስደሳች ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
QCS3	የእኔ ደንበኛ ባንክ የስራ ሰዓት እና ቅርጫፎቹ የሚገኙበት ቦታ ምቹ ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
QCS4	የእኔ ደንበኛ ባንክ ሰራተኞቹ ቀልጣፋና ደንበኞችን ለመርዳት ሁሌም ዝግጁ ስለሆኑ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
QCS5	የእኔ ደንበኛ ባንክ ለጥያቄዎቹ (ቅሬታዬ) ተገቢውን ትኩረት ስለሚሰጥ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
በባንኩ ላይ ያለ እምነት						
TR1	የእኔ ደንበኛ ባንክ አስተማማኝ እና ጠንካራ ባንክ ነው ብዬ ስለማምን የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
TR2	የእኔ ደንበኛ ባንክ ሰራተኞች ታማኝና ሙያዊ እውቀት አላቸው ብዬ ስለማምን የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
TR3	ደንበኛ ባንኬ ጋር ያስቀመጥኩት ገንዘብ በአስተማማኝ ባንክ እጅ እንዳለና በፈለኩበት ጊዜ ሁሉ መልሼ በቀላሉ ማግኘት እችላለሁ ብዬ ስለማምን የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
TR4	ደንበኛ ባንኬ የግል ሚስጢራን በታማኝነት ይጠብቃል ብዬ ስለማምን የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
የደንበኞች እርካታ		1	2	3	4	5
CSI	የእኔ ደንበኛ ባንክ አገልግሎቱ ሁልጊዜም ተመሳሳይ እና አጥጋቢ					

	ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CS2	የእኔ ደንበኛ ባንክ አገልግሎት አሰጣጡ የደንበኞችን ፍላጎት መሰረተ ያደረገ ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CS3	የእኔ ደንበኛ ባንክ አገልግሎት አሰጣጡ ደንበኞች ከባንኩ ከሚጠበቁት የላቀ ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CS4	የእኔ ደንበኛ ባንክ ለደንበኞቼ የሚሰጠው አገልግሎትና የሚጠቀመው ቴክኖሎጂ ምቹ እና ቀላል ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
	<b>የደንበኛ ባንክ መቀየር ተፅዕኖ</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
SC1	ከደንበኛ ባንኩ ወደ ሌላ ባንክ ለመቀየር ብዙ ጥረትና ጊዜ ስለሚጠይቅ ጉዳይ ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
SC2	ከደንበኛ ባንኩ ወደ ሌላ ባንክ ብቅይር ያልገመትኩት ችግር ሊጋጥመኝ ይችላል ብዬ ስለምሰጋ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
SC3	ከደንበኛ ባንኩ ወደ ሌላ ባንክ ብቅይር ለተጨማሪ ወጪ ሊያጋልጠኝ ይችላል ብዬ ስለምሰጋ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
SC4	ደንበኛ ከሆነኩበት ባንክ ወደ ሌላ ባንክ ብቅይር ከባንኩ ጋር የነበረኝ ቤተሰባዊ ግንኙነት ሊያሳጠኝ ስለሚችል የባንኩ ደንበኛ በመሆን እቀጥላለሁ።					
SC5	ወደ ሌላ ባንክ ብቅይር ባንኩ አሁን እየሰጠኝ ያለውን ጥራት ያለው የአገልግሎት ዓይነት ከሌላ ባንክ ላይ የምችል ስለማይመሰለኝ ከባንኩ ጋር ደንበኛ በመሆን እቀጥላለሁ።					
	<b>የደንበኞች ግንኙነት</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
CR1	ባንኩ የግል የባንክ ፍላጎቶቼን መሰረተ ያደረገ አገልግሎት እየሰጠኝ ስለሆነ ደንበኛ በመሆን እቀጥላለሁ።					
CR2	ባንኩ ስለአገልግሎቱ በየወቅቱ አስፈላጊ መረጃ የሚሰጠኝ ስለሆነ ደንበኛ በመሆን እቀጥላለሁ።					
CR3	ባንኩ ስለአገልግሎቱ ጥራት ያለኝን አስተያየት በመወሰድ በየጊዜው ማሻሻያ የሚያደርግ ስለሆነ ደንበኛ በመሆን እቀጥላለሁ።					
CR4	ባንኩ የረጅም ጊዜ (ነባር) ደንበኞችን እውቅና እና የተለያዩ የማበረታቻ ሽልማት ስለሚሰጥ ደንበኛ በመሆን እቀጥላለሁ።					
CR5	ባንኩ የደንበኞች ግንኙነት መኮንኖችን በመመደብ ከደንበኞች ጋር ያለውን ግንኙነት እያጠናከረ የሚሄድ ስለሆነ ከባንኩ ጋር ደንበኛ በመሆን እቀጥላለሁ።					
	<b>የባንክ የአገልግሎት ተመን(ዋጋ)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

BP1	ደንበኛ ባንክ ለተለያዩ አገልግሎቶች የሚያስከፍለው ክፍያው ተመጣጣኝ ስለሆነ ከባንክ ጋር ደንበኛ በመሆን እቀጥላለሁ።					
BP2	ደንበኛ ባንክ ለደንበኞች የሚከፍለው የቁጠባ የወለድ ምጣኔ ከገበያው አንፃር ጥሩ የሚባል ስለሆነ ከባንክ ጋር ደንበኛ በመሆን እቀጥላለሁ።					
BP3	ባንክ ለተለያዩ የብድር ዐይነቶች የሚያስከፍለው የወለድ ምጣኔ ከገበያው አንፃር ጥሩ የሚባል ስለሆነ ከባንክ ጋር ደንበኛ በመሆን እቀጥላለሁ።					
BP4	ባንክ ለታማኝ ደንበኞቹ በተለያዩ የአገልግሎት ክፍያዎቹ ላይ ልዩ ቅናሽ ስለሚያደርግ ከባንክ ጋር ደንበኛ በመሆን እቀጥላለሁ።					
	<b>በደንበኝነት መዘለቅ</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
CRT1	ደንበኛ የሆነኩበት ባንክ በጣም ምርጥ አገልግሎት እየሰጠኝ ስለሆነ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CRT2	ደንበኛ የሆነኩበት ባንክ በህብረተሰቡ ዘንድ የታመነ በመሆኑ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CRT3	ደንበኛ የሆነኩበት ባንክ በሚሰጠኝ አገልግሎት በጣም ደስተኛ ስለሆንኩ የመጀመሪያ ምርጫዬ ሆኖ ይቀጥላል።					
CRT4	ደንበኝነቴን ወደ ሌላ ባንክ ብቀይር ተጨማሪ የገንዘብና የማህበራዊ ህይወት ጫና ስለሚያስከትልብኝ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CRT5	ከባንክ ጋር ባለኝ ጠንካራ ግንኙነት ተጠቃሚ ስለሆነኩ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					
CRT6	ደንበኛ የሆነኩበት ባንክ የአገልግሎት ክፍያ እና የሚከፍለው የወለድ ምጣኔው ተመራጭ በመሆኑ የዚህ ባንክ ደንበኛ በመሆን እቀጥላለሁ።					

ስለ መልካም ትብብር በድጋሚ አመሰግናለሁ!!!