

**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE DEPARTMENT OF
MARKETING MANAGEMENT POST GRADUATE
PROGRAM**

**The Effect of Customer Relationship Management on
Customer Loyalty: The Case of Ethiopian Airlines**

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

By: Sara Aiderous

June 2017

Addis Ababa, Ethiopia

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Statement of Declaration

I hereby declare that the research entitled “The Effect of Customer Relationship Management on Customer Loyalty: The Case of Ethiopian Airlines” is my original work done under the guidance of my advisor Dr. Mulgeta G/Medhin. It has never been presented in Addis Ababa University or any other university for any purpose. All sources of the materials used for writing the research report have been acknowledged.

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Statement of Certification

This is to certify that Sara Aiderous carried out his thesis work on topic “The Effect of Customer Relationship Management on Customer Loyalty: The Case of Ethiopian Airlines”. The work is original in nature and suitable for submission for the award of masters of art degree in marketing management.

Mulgeta G/Medhin (PHD.)

Advisor’s Name

Signature

Date

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Abstract

Because of immense competition in today's business market, organizations are struggling to apply different marketing strategies and programs to gain more market share and acquire more customers on one hand, and to make them satisfied and loyal to their company, on the other hand. The aim of this study was to investigate the effect of customer relationship management components on customer loyalty. A questionnaire was designed consisting of thirty items to obtain the required information from the study sample. Primary data was obtained through structured questionnaire from frequent flyers of Ethiopian Airlines. Convenient sampling technique was used to sample customers. 400 questionnaires were distributed to the airline customers and 382 of the questionnaires were properly filled and used for further analysis. Usable questionnaires were analyzed using descriptive and inferential statistical tools to analyze and examine the hypothesis. The application used to analyze the collected data was the Statistical Package for Social Sciences version 20. Pearson Correlation and multiple regression analysis were used to establish the relationship between the independent and dependent constructs of the research. Findings of this study revealed that there is a significant and strong correlation between relationship marketing and customer loyalty. Moreover, the study indicated that there is significant effect of trust, communication, competence and conflict handling on predicting customers' loyalty. Of these relationships, conflict handling emerged as the strongest factor which influences customers' loyalty while commitment remained statistically insignificant and negligible influence on customers' loyalty. Depending on the findings, practical implications of this study is, in order to ensure loyalty among frequent flyer members of Ethiopian Airlines; the airline should build a better relationship marketing strategy and build strong relationship bonds with its customers continuously. Furthermore, future research directions were also suggested on this study.

Key Words: Customer Relationship Management, Trust, Commitment, Communication, Competence, Conflict Handling, Customer loyalty

Acronyms

CRM- Customer Relationship Management

SPSS- Statistical Package for Social Science

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Chapter One

1. Introduction

This chapter presents an overview of the entire study. It includes background of the study, statement of the problem, research questions and objectives of the study, scope and delimitation of the study and significance of the study.

1.1. Background of the Study

In today's competitive business environment and with the advent of the internet, customers of the airline industry now have a wide choice of air carriers. Since airlines have trouble distinguishing themselves the business has become commoditized and profits are difficult to obtain with choice being plentiful and differentiation almost difficult.

Because of high oil price, political and socio-economic crisis for the past several years across the globe has resulted in a large loss and bankruptcy of some major airlines. Current economic situations of some African countries are facing currency repatriation issues that affect foreign airlines. The ban on payment of foreign currency to domiciliary accounts and transaction in foreign currency had severely affected the foreign carriers as much of their transactions were in foreign currency. (All Africa.com, Jan 15, 2016)

Boland et al in 2002 have mentioned on their article titled "The Future of CRM in the Airline Industry": Many have focused on operational improvements to reduce cost, but the customer cannot be ignored. Customer relationship must be fostered for airlines to maintain competitive advantage and profitability in the long term.

The emergence of more airlines offering scheduled services has led to increased level of competition for traffic amongst them. Loosely associated with this development is the issue of choice for potential travelers either business or leisure. The increasing numbers of airlines flying to the same route has resulted in more competition in traffic which now leaves the air travelers with the need to make a choice on which airline to fly, have long term relationship and then being a loyal customer.

Benner (2010) on his book entitled Airline Customer Loyalty model has mentioned that: Airline business growth depends on improving customer loyalty behavior. Companies with higher customer loyalty usually experience faster business growth. Having said these keeping profitable customers will help airlines achieve sustainable profit and overall objective they set in their strategic plan.

In today's fiercely competitive demanding environment customer satisfaction no longer guarantees customer loyalty. Deregulation, increased parity of products, the availability of new diverse and direct distribution channels, industry alliance and many other factors have combined to force operators in the airline industry to focus on new differentiators in order to maintain current and develop greater market share.

In response to this new environment, travel providers are undertaking initiatives centered on identifying, developing and retaining high-value customers under the overall banner of customer relationship management. CRM in airlines extends beyond the traditional sales, service, marketing, loyalty & includes all the touch points in the customer's travel experience.

1.2. Statement of the Problem

Running airlines profitable has always been a great challenge (Benner, 2002). In addition to intense competition which diminishes airlines profits, airlines are exposed to market volatility, legal regulations restricting operations, and a disadvantageous cost structure with high fixed cost (Boland et al, 2002).

The airline travel industry is aggressively competitive, so providing good service and maintaining customer relations is really important. Airlines are struggling to apply different marketing strategies and programs to gain more market share and acquire more customers on one hand and to make them satisfied and loyal to their company on the other hand. Through the application of CRM an airlines gains knowledge regarding its customer and transmit this knowledge to company offer to fulfill the needs of customers and there by satisfy them.

Accordingly, CRM will be ideally suited to an airline industry, especially when implementing it successfully and effectively, taking into our account that the airline receives a lot of data about customers. Such data can be transformed into useful knowledge about them (Kotler, 2005).

However due to the very expensive nature of its implementation airlines are having difficulty in understanding and implementing CRM.

According to the researchers observation there are limited researches that reveal the relationship between CRM dimensions and airline industry in Ethiopia. Therefore, this study has an attempt to provide a value conceptual model that explains the theoretical linkages existing between CRM dimensions and customer loyalty in the airline industry.

Furthermore, one has to bear in mind that recent studies on the CRM selectively focus on some Service sectors, such as the banking and hospitality industry in Ethiopia, so it is found important to highlight this concept.

Therefore, it is important to empirically examine the actual impact of the components of relationship marketing on customer loyalty. Such understanding will assist in better management of firm-customer relationship and in achieving higher level of loyalty among customers. The research paper tried to identify the effect of main CRM factors that influence customer loyalty and analyzed the relationship between these factors.

1.3. Research Questions

CRM is an essential component of the corporate strategy of airline companies to differentiate themselves from competitors in the eyes of the customer (Boland et al., 2002). CRM is an evolving management topic which most business firms are focusing on as a competitive advantage strategy and tool (Khalifa & Liu, 2003; Ngai, 2005), and airline industries are employing this strategy to individualize their service offer, create better communicational channels and ensure higher quality offer to create satisfaction of customers as the base of loyalty.

Main research question

- How does CRM influence customer loyalty in Ethiopian Airlines?

Sub research questions

- How does trust affect customer loyalty in Ethiopian Airlines?
- How does commitment influence customer loyalty in Ethiopian Airlines?
- How does communication influence customer loyalty in Ethiopian Airlines?
- How does competence affect customer loyalty in Ethiopian Airlines?
- How does conflict handling affect customer loyalty in Ethiopian Airlines?

1.4. Objective of the Study

1.4.1. General Objective

The main objective of the study was to determine the effect of CRM on customer loyalty in Ethiopian Airlines.

1.4.2. Specific Objectives

The specific objectives of the study were:

- To determine the effect of trust on customer loyalty in Ethiopian Airlines
- To examine the influence of commitment on customer loyalty in Ethiopian Airlines
- To examine the influence of communication on customer loyalty in Ethiopian Airlines
- To determine the effect of competence on customer loyalty in Ethiopian Airlines
- To determine the effect of conflict handling on customer loyalty in Ethiopian Airlines

1.5. Hypothesis

The below hypotheses were formulated:

H1: Trust has a positive and significant effect on customer loyalty

H2: Commitment has a positive and significant effect on customer loyalty

H3: Communication has a positive and significant effect on customer loyalty

H4: Competence has a positive and significant effect on customer loyalty

H5: Conflict Handling has a positive and significant effect on customer loyalty

1.6. Scope of the Study

Currently Ethiopian Airlines has more than 6.5 million international and domestic passengers per year and a complete evaluation and judgment on effect of CRM on customer loyalty requires a wider investigation. Hence it is necessary to limit the focus on Ethiopian Airlines International Passengers enrolled on the airlines' frequent flyer program by mainly focusing on customer relationship management and customer loyalty.

1.7. Definition of Terms

Customer Relationship Management (CRM) is a set of customer-oriented activities supported by organizational strategy and technology and is designed to improve customer interaction in order to build customer loyalty and increased profit over time (Padmavathyetal, 2012). CRM is a set of business process and overall policies designed to capture, retain and provide service to customers (Scott, 2001)

Customer Loyalty can be defined as “deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand purchasing despite situational influences in marketing efforts having the potential to cause switching behavior” (Dowling et al., 2003).

Kotler (2000) defined **customer satisfaction** as a persons' feelings of pleasure or disappointment resulting from comparing a products' perceived performance or outcome in relation to his/her expectation.

1.8. Significance of the Study

The goal of service companies including airlines is to develop services which attract and keep customers who are satisfied, loyal and speak well of the airline. As mentioned earlier in current economic situation where airlines try to overcome the costs, gain profit, differentiate their offer, individualize their service and apply communicational channels to create loyal customers with the help of CRM as a strategic and continuous program. Hence the study will provide the researcher with a detailed knowledge on the area of CRM and customer loyalty.

1.9. Limitation of the Study

Since gathering data of all passengers enrolled to the airlines' frequent flyer program will be difficult due to research cost, time and in-accessibility the questionnaire was distributed to loyal passengers around the Sheba Miles lounge at Addis Ababa Bole International airport.

1.10. Organization of the Research Report

The research report is organized in five chapters. The first chapter deals with the introduction part under which background of the study, statement of the problem, research questions and objective of the study, significance, scope and limitation of study were discussed. The second chapter covers the literature review. Research design and methodology is included on the third chapter. The fourth chapter includes data analysis and presentation part. The last chapter discusses about the summary of research findings, conclusion and recommendation.

Chapter Two

2. Review of Related Literature

This chapter covers the review of related literatures. It includes three main parts; theoretical framework, empirical literature review and conceptual framework of the study.

2.1. Theoretical Framework

2.1.1. Customer Relationship Management

The literature regarding relationship marketing and CRM is vast and is discussed extensively elsewhere (e.g. Das et al., 2009; Ngai, 2005; Palmatier, 2008). Influencing elements to form CRM as marketing practices in firm have been examined from different theoretical viewpoint and have received significant attention. Literature for CRM has developed in parallel with the relationship marketing literature (Plakoyiannaki & Saren, 2006; Shrivastava & Kale, 2003). Sin et al (2005) states that CRM is a comprehensive strategy and process that enables an organization to identify, acquire, retain and nurture profitable customers. Additionally, CRM is a core organizational process that focuses on establishing, maintaining and enhancing long term associations with customers as advocated by relationship marketing (Shrivastava et al., 1999). The comprehensive approach of CRM is to maximize the relationship with all customers. Beside the technological advances, CRM also covers the activities of acquisition management and regain management at the initiation stage, maintenance stage and termination management with the purpose to maximize the value of relationship portfolio (Chen & Popovich, 2003; Dutu & Halmajan, 2011). Hence, it is clear that CRM is not just a technology, but is a new way of doing business, therefore Reynolds (2002) point out that the comprehensive definition of CRM might be the business strategy, process, culture and technology that enables organization to optimize revenue and increase value through understanding and satisfying the individual customer's needs.

Chen and Popovich (2007) indicate that CRM has evolved from advances in information technology and organizational changes in customer centric process. Thus the attention in managing a successful CRM implementation requires an integrated and balanced approach to technology, process and people (Chen & Popovich, 2003). Coltman (2007) also addresses the

concept and argues that CRM must be viewed as more than a tool but part of a deeply embedded strategic disposition that enables business to outperform its rivals in competitive advantage.

Andrade (2003) believes CRM is based on the ability to facilitate communication and decision making to provide consistent, high quality and cost effective service to all stake holders. From individualized service perspective, CRM is a concept that enables an organization to tailor specific products or services to each individual customer. In the most advanced scenario CRM may be used to create a personalized, one-to-one experience that will give individual customer a sense of being cared for, thus opening up new marketing opportunities based on preferences and history of the customer (Wilson, et al., 2002).

CRM, from the marketing perspective, is defined as a combination of business process and technology that seeks to understand a company's customers from the perspective of who they are, what they do, and what they are like (Couldwell, 1998). This theme is also reflected by Kotler in 1997 by acknowledging customer relationship management as principally revolving around marketing and begins with a deep analysis of consumer behavior. Furthermore, Bose,2002 & McKenzie,2001 define CRM within the same perspective as an integration of technologies and business processes used to satisfy the needs of a customer during any given interaction and a combination of strategy and information systems, that aims at focusing attention on customers in order to serve them better, respectively.

CRM is a set of business process and overall policies designed to capture, retain and provide service to customers (Scott, 2001), or a coherent and complete set of process and technologies for managing relationships with current potential customer and associates of the company, using the marketing, sales and services departments, regardless of channel communication (Injazz and Karen, 2004). According to Swift (2001), CRM is a process designed to collect data related to customers to grasp features of customers and to apply those qualities in specific marketing activities. Consider the following summary from Peelen (2005) supplemented by other sources as mentioned. CRM is:

- A comprehensive development process
- Customer differentiation
- Data warehousing and mining

- The core business strategy
- Integrated collaboration
- Empowering the customer (Newell, 2003)
- A total company reorientation (Buttle, 2005)
- Customization in products or services (Sharp, 2003)
- Building mutual value (Peele, 2005; Targetbase,2001)
- Building customer equity (Gupta and Lehman, 2005; Shaw, 2001)

Below are the definitions of the components of the customer relationship marketing by some authors;

Trust: is the “cornerstone” of long-term relationships (Jusćius and Grigaite, 2011). Trust is a willingness to rely on an exchange partner in whom one has confidence" A betrayal of this trust by the supplier or service provider could lead to defection (Ndubisi and Wah, 2005). It means taking mutually agreed words as fact and reducing one’s perception of the likelihood that either party will act opportunistically (Leung et al,2005).Trust is defined as a belief or conviction about the other party’s intentions within the relationship. In the context of relationship marketing, trust is defined as the dimension of a business relationship that determines the level to which each party feels they can rely on the integrity of the promise offered by the other (Chattananon & Trimetsoontorn, 2009).

Fulfilling promises that have been given is equally important as a means of achieving customer satisfaction, retaining the customer base, and securing long-term profitability, besides fanning the fire of trust. Groñroos (1990) believed that the resources of the seller – personnel, technology and systems – have to be used in such a manner that the customers trust in them, and thereby in the firm itself, is maintained and strengthened. Trust in organizations comes from customers’ positive experiences that induce them to continue with the relationship (Vesel and Zabkar, 2010).

Commitment: is another important determinant of the strength of a marketing relationship, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency. In the marketing literature, Moorman et al. (1992) have defined commitment as an enduring desire to maintain a valued relationship. Hocutt (1998) views commitment as "an

intention to continue a course of action or activity or the desire to maintain a relationship". Studies in calculative and affective commitment, for example, have in fact demonstrated that buyers base their commitment on calculations of switching risks as well as on sentiments of allegiance (Barry et al, 2008). In general, commitment refers to an orientation that specific intentions and behaviors characterize with the purpose of realizing value for both parties over the long term (Vesel and Zabkar, 2010).

Communication: is defined as “the consumer’s perception of the extent to which a retailer interacts with its regular customers in a warm and personal way”. Such an interaction is reflected in the feelings of familiarity and friendship, personal knowledge, and the use of the client’s family name and/or first name on the sales spot (Naoui and Zaiem, 2010). Also communication is defined as the formal as well as informal exchanging and sharing of meaningful and timely information between buyers and sellers (Sin et al, 2002). Communication refers to the ability to provide timely and trustworthy information. Today, there is a new view of communications as an interactive dialogue between the company and its customers, which takes place during the pre-selling, selling, consuming and post consuming stages (Anderson and Narus, 1990). Communication in relationship marketing means keeping in touch with valued customers, providing timely and trustworthy information on service and service changes, and communicating proactively if a delivery problem occurs. It is the communicator’s task in the early stages to build awareness, develop consumer preference (by promoting value, performance and other features), convince interested buyers, and encourage them to make the purchase decision. Communications also tell dissatisfied customers what the organization is doing to rectify the causes of dissatisfaction. When there is effective communication between an organization and its customers, a better relationship will result and customers will be more loyal (Ndubisi, 2007). Bidirectional communication leads to a strong relationship satisfying both parties, which in turn leads to increased loyalty. Communication should be proactive rather than just reactive (Boedeker, 1997) and it has three sub constructs. These are the frequency, relevance and timeliness of communication from the organization to the customer (Macmillan et al, 2005).

Competence: Heene and Sanchez (1997) define competence as an ability to sustain the coordinated deployment of assets (anything tangible or intangible the firm can use in its processes for creating, producing, and/or offering its products to a market) in a way that helps a

firm achieve its goals. On the other hand Smith and Barclays (1996) defined competence as the perception of customers on the amount of skill, abilities and knowledge needed by the opposite party to effective function/service.

Conflict handling: Conflict, which has been defined as “tension and frustration between two or more social entities that arise from the incompatibility of actual and desired responses”, is an opportunity for the company to show its engagement towards its client through its efforts to resolve the conflict and its willingness to openly discuss reasons and possible satisfactory solutions (Naoui and Zaiem, 2010). Dwyer et al. (1987) defined conflict handling as a supplier’s ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems do arise. How well this is done will determine whether the outcome is loyalty, "exit" or "voice". Frequency and bi-directionality communications has the strongest effects on interpersonal conflict and that communication should be meaningful, supportive and appropriate to be more effective (Meunier FitzHugh & Piercy,2010).

2.1.2. Benefits of CRM

Early CRM researchers had hypothesized that CRM’s benefits varied by industry as the processes and technologies associated with CRM were tailored to specific industry structures (Rust, Lemon, Zeithaml, 2001). However, findings in a recent cross cultural, multi-industry study of CRM done by Reinartz et al. (2004) support the notion that desired CRM benefits do not vary greatly across industries or countries, as had earlier been thought. This later finding lends support to the idea that core benefits associated with CRM initiatives exist across contexts. The identified seven core benefits were;

- 1) Improved ability to target profitable customers;
- 2) Integrated offerings across channels;
- 3) Improved sales force efficiency and effectiveness;
- 4) Individualized marketing messages;
- 5) Customized products and services;
- 6) Improved customer service efficiency and effectiveness; and
- 7) Improved pricing.

Though other studies have not presented the benefits of CRM in such a way, most importantly the results coincided with the core benefits identified by Reinartz and his friends in 2004.

CRM enables an organization to gain better information on customers' values, behaviors, needs and preferences and helps it gain a competitive edge over its competitors. It makes it possible to identify customers' potentials, uncover the profiles of key customers, anticipate their needs, predict their behavior, win back lost customers, create personalized marketing plans for each segment, develop new products and services, design communication tools and distribution channels, or identify new market opportunities based on customers' preferences and history (Tokman, Davis, and Lemon, 2007; Thomas, Blattberg, and Fox, 2004; Peppers, Rogers, and Dorf, 1999; Day, 2000).

2.1.3. Essence of CRM in the Airline Industry

As mentioned earlier in current economic situation where airlines try to overcome the cost, gain profit, differentiate their offer, individualize their service and apply effective communicational channel to create loyal customers, CRM as a strategic and continuous program would support the objectives of the company. Also customers' demand and expectations are changing in today's world. In the airline industry many of the airline companies have lost track of true needs and wants of their passengers and are sticking to the outdated views of what airline services are all about (Gustafsson et al., 1999). Many airline managers think of passengers needs from their own perspective so their immediate focus is on cost reductions in driving to more efficient operations, keeping customers at a least priority in their strategic planning programs. But the customer should not be ignored (Boland, Morrison and O'Neill, 2002).

A journal paper by Mohammed J. Tarokh and Mahmud Majidi entitled "Application of CRM in the airline industry" indicated the below CRM architecture for a major scheduled airline



Figure 1: General CRM structure for scheduled airline

2.1.4. Relationship Marketing

The concept of relationship marketing has emerged within the field of service marketing and industrial marketing (Dwyer et al. 1987; Bolton et al. 2008; Ndubisi and Wah, 2005) and blossomed in the late 1980s and 1990s (Beetles and Harris, 2010). Relationship marketing is one of the oldest approached in marketing (Zeneldin and Philipson, 2007) and it embodies international, industrial and service marketing and in a business context issuperseding traditional marketing theory (Davis, 2008). Relationship marketing emerged in the 1980s as an alternative to the prevailing view of marketing as a series of transactions, because it was recognized that many exchanges particularly in the service industry were relational by nature (Gronroos, 1994; Gummesson, 1994; Leverin and Liljander, 2006) and today this concept is strongly supported by on-going trends in modern business (Ndubisi and Wah, 2005). In 1983, it was Berry who introduced the term relationship marketing in a service context to describe longer-term approach to marketing. He viewed relationship marketing as a strategy to attract, maintain and enhance customer relationship (Ndubisi, 2007).

According to Gronroos (1994) relationship marketing is to identify and establish, maintain and enhance and when necessary also to terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, and that this is done by a mutual exchange and fulfillment of promises. The American Marketing Association's (AMA) definition of relationship marketing embodies these principles: "Relationship marketing is a kind of marketing that its goal is developing and managing long-term and trustworthy relationships with customers, suppliers and all others acting in the market" (Gilaninia et al, 2011). There are four fundamental values for relationship marketing. First the activities regarding relationship marketing do not focus upon a specialized department. This means there must be a marketing orientation of the whole company. Second, relationship marketing emphasizes on long term collaboration, so companies should view their suppliers and customers as partners, where the goal is to create mutual value. The relationship must be meaningful for all those involved, with the purpose of retaining long- term relationships with parties. Third, all parties should accept responsibilities. Relationship must also be interactive that means customer can initiate improvements or innovation of the product. Fourth, customers should be considered as individuals, suppliers' task is also to create value for the customers (Kavosh et al, 2011).

Therefore relationship marketing is a strategy where the management of interactions, relationships and networks are fundamental issues (Ndubisi, 2007). This is achieved by a mutual symbiosis and fulfillment of promises (Ndubisi, 2003; Ndubisi and Wah, 2005). Consequently customer relationships are at the center of this marketing perspective (Zineldin and Philipson, 2007). Relationship marketing adopts a customer focus and its main benefits include greater customer retention, increased loyalty, reduced marketing costs, and greater profits (Stavros & Westberg, 2009) and the goal of relationship marketing is to form mutually beneficial alliances that must restrict trade among rivals by creating barriers to entry (Fontenot and Hyman, 2004).

"Relationship marketing involves creating, maintaining, and enhancing strong relationships with customers and other stakeholders. Relationship marketing is orientated to the long term. The goal is to deliver long-term value to customers, and the measure of success is long-term customer satisfaction." (Murphy et al, 2005). Thereby relationship marketing is about retaining customers by improving communications, customer data collection and customer service quality (Patsioura et al, 2009). In other words, a key objective is to foster customer loyalty, which Oliver (1999)

defined as a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior.

2.1.5. Customer Satisfaction

Many writers use the words quality and satisfaction interchangeably. However, service marketers and researchers argue that there is a difference between the two. Even if there are similarities, satisfaction is believed to be a much broader concept. The main focus of service quality evaluation is assessment of service dimensions whereas satisfaction takes in to account additional factors such as price and product quality (Zeithaml and Bitner, 2003). Research has found that customers' perceived evaluation of service quality has an impact on their level of satisfaction, Therefore service quality evaluation is an antecedent to customer satisfaction (Clow and Kurtz, 2003).

In the service industry customer satisfaction is the key to any successful business. If customers are not satisfied with the services provided to them, they can simply switch service providers and previous provider will lose its business. For Kotler and Armstrong (2012) customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. This is in line with scholars thought which tied customer satisfaction to an evaluation process and which entails a comparison of product performance and some sort of a standard in relation to this performance (Duman, 2002).

The current thought suggests that consumers develop expectations and use them as standards to compare with perceived product performance. Expectation is the service that the customer anticipates. Expectation can be seen as a pre-consumption attitude before the next purchase: it may involve experience, but need not. That customers' expectations are formed by many uncontrollable factors these include previous experience with other companies and their advertising, customers' psychological condition at the time of service delivery, customer background and values and the image of the purchased product. The result of this comparison is termed as disconfirmation that can be both positive and negative based on this comparison. Bolton and Drew (1991) shown both customer satisfaction/ dissatisfaction and perceived service

quality are postulated to be influenced by the gap between expectations and perceptions of performance (i.e. disconfirmation).

There are five key factors that influence a customer's expectations: previous experience; personal recommendation; personal needs; marketing communications; and the level of involvement in the purchase (Mudie and Pirrie, 2006). Research suggests that the most important of these factors in shaping expectations are the consumer's past experience of the service and what other people say about it. Prior to using a service, consumers may have in mind four different scenarios of the service that they might experience: The ideal, the anticipated, the deserved and the minimum tolerable. The consumer can expect any of these. As it is already stated expectations shape satisfaction. If the 'minimum tolerable' is expected then this or anything better may lead to satisfaction. Equally, anyone expecting the 'ideal' will be dissatisfied with anything less.

Customer satisfaction comes from the quality of service delivery that is expected by the customers during the act of purchase and while being served. Customer satisfaction of a product is often measured with specific attributes that describe the product features. In general, the response to a satisfactory experience will contain both emotional and behavioral elements. So customer satisfaction will result in positive emotional states. These, in turn, mediate the response between customer satisfaction and behavioral responses – positive word of mouth, no complaint behavior and repeat purchase.

For customer centered companies, customer satisfaction is both a goal and a major factor in company success. These and other companies realize that highly satisfied customers produce several benefits for the company. They are less price sensitive, and they remain customers for a longer period. They buy additional products over time as the company introduces related products or improvements and they talk favorably to others about the company and its products (Kotler , 2005).

2.1.6. Customer Loyalty

Customer Loyalty as defined by Khan and Khan (2006) reads “... exists when a person regularly patronizes a particular (store or non-store) that he or she knows, likes and trusts”. Oliver (1999) stated that customer loyalty is a deeply held commitment to re-buy or re-patronize a preferred products or services consistently in the future. Customer loyalty is the willingness of customer to maintain their relations with a particular firm or service/product (Kim & Yoon, 2004). Loyalty is customer commitment dealing with a particular firm, buying their products and services and referring it to colleagues (McIlroy& Barnett, 2000). Zeithaml *et al.* (1996) opine that a loyal customer will result in repeat purchase; increase in purchase value and volume over time and in spreading positive word of mouth which in turn will bring newer customers to the business. Customer loyalty is a function of all aspects of a company marketing, e.g. pricing, convenience, quality of service etc. However, there is also a school of thought that advocate there is no secret to customer loyalty other than offering good service (Wilmshurst and Macay, 2002).

By tradition, customer loyalty is divided into two components one is based on behavior and the other is based on attitudes (Guillen, Nielsen, Scheike& Marin, 2011). Rauyruen and Miller (2007) also explain customer loyalty as a merged concept of behavioral loyalty (willingness of customer to repurchase from and continue relationships with the company) and attitudinal loyalty (emotional attachments and advocacy of customers toward the company). Loyalty can be measured by the intention of repurchase, recommending the product/services to other and patience towards price (Kim & Yoon, 2004).

Customers respect oriented business organization that will attract and develop loyal customers (Chang & Chen, 2007). It is crucial to understand the customer psyche for building competitive policies to succeed in differentiation and winning of customer loyalty in the competitive market. A firm can develop long lasting, jointly profitable associations with customer by developing customer loyalty. Customer loyalty is a vital element for the continued existence and operating of firms business (Chen & Hu, 2010).

2.1.7. Airlines' Frequent Flyer Programs (FFP)

Loyalty programs are structured marketing efforts which reward, and therefore encourage loyal behavior, which is hopefully of benefit to the firm (Sharp and Sharp, 1997). Sharp and Sharp (1997) mentioned that loyalty programs, which provide customers with loyalty incentives, are back in the marketing spotlight. The airlines' frequent flyer schemes were amongst the first in this new wave of very large-scale consumer oriented programs. It is one such innovation introduced to induce and capture loyalty of travelers. FFPs offer free travel, upgrades and incentives to fly with an airline and is the most popular and successful marketing strategy devised to build customer loyalty and sell the high priced seats.

Almost all airlines operate their own frequent flyer program, or are partners in another carrier's Program (Shaw, 2007). The primary motive behind a loyalty program is rewarding customers for their repeat purchase behavior, encouraging, maintaining and subsequently enhancing the level of loyalty by providing the customers with targets at which various benefits can be earned by them. By implementing effective reward programs, marketers retain their old customers i.e. earn their loyalty. In addition, it can attract new customers, some of whom will become loyalists in the long run (O'Malley, 1998). Loyalty programs are considered to be highly effective in retaining customers and are readily accepted by both customers and retailers.

Airlines pioneered a new era in the travel industry when they created frequent-flier programs in the 1980s. Decades later, these programs have grown in size and complexity and are ubiquitous throughout airline, hotel, and travel retailer segments. Today, more than a billion people are enrolled in what now are referred to as loyalty programs. As loyalty programs have become commonplace, airlines have struggled to differentiate their offerings from the offerings of other companies. Many have formed partnerships with other airlines—the One World, Sky Team and Star Alliances, for example—that allow customers to collect points from any alliance partner and spend them on the program of their choice. Airlines have also developed extensive networks through cross-industry partnerships that enable travelers to collect airline points for hotel stays or from using jointly branded credit cards with banks. Additionally, airlines have created multi-

tiered loyalty programs to provide different rewards as well as incentives for customers to upgrade to the next tier.

FFPs are designed to achieve a high degree of brand loyalty particularly among business travelers, attract primary demand, effectively discourage new carrier competition, and give airlines direct and efficient communication links with their best individual customers (Brancatelli, 1986; Stephenson & Fox, 1987). The growth in air passengers will depend on the state of the global economy, population growth and the increase in income and wealth of individuals. Airline marketing officials claim that FFPs boost the carrier's business by 20 to 35 percent (Stephenson & Fox). However, traffic volumes can only increase across the board if total airline industry business traffic increases. Since corporate air travel is a derived demand business, it is highly improbable that FFPs will stimulate 20 to 35 percent growth. This is only possible if business travelers made billions of dollars' worth of unnecessary air travel.

2.2. Empirical Literature Review

Apart from the theoretical backgrounds, various empirical research outputs confirm that CRM has proven benefits in the real business arena.

A research paper by Mohammed J. Tarokh and Mahmud Majidi entitled "Application of CRM in Airline Industry" supported that CRM systems should be used by major airlines to promote customer with better offers that compromise cost-effect market needs.

In another study entitled "Effects of Relationship Marketing on Customer Loyalty by Peyman Jesri, Freyedon Ahmadi and Motreza Fatehipoor (2013) it was proved based on the results that there exist relation between components of relationship marketing (trust, commitment, communication, competence and conflict handling) and customer loyalty.

In a research paper by Ehsan Ahadmotlaghi and Dr. Prafulla Pawar (2012) entitled "Analysis of CRM Program Practiced by Passengers' Airline Industry of India and Its Impact on Customer Satisfaction and loyalty", the writers have tried to identify main CRM factors that influence customer satisfaction on loyalty and tried to analyze the relationship between these factors and two parameters of satisfaction and loyalty.

They conducted the test on 900 passenger of the airline collecting the data through questioner and concluded that application of CRM program in passenger's airline industry affects customer satisfaction and directly influences satisfaction level among customers. And CRM causes higher loyalty of passengers and makes barrier in front of customer switch. Customization of service, communicational efforts by the airline having trust in the airline, commitment of airline to promised service offer and better service quality are main factors influencing customer satisfaction and loyalty.

This conclusion supports the hypothesis that CRM practice of airlines has impact on customer loyalty.

On another study by Cherinet Boke (2015) entitled "The Effect of relationship marketing on customers' loyalty" tried to investigate the influence of relationship marketing underpinnings on customers' loyalty and the finding revealed that there is a strong and significant correlation between relationship marketing and customer loyalty. The sample for the aforementioned study is taken from Zemen Bank in Addis Ababa.

Many scholars identified a number of underpinnings of relationship marketing; the major ones are listed below:

- Trust (Macintosh and Lockshin,1997; Sirdeshmukh et al, 2002; Veloutsou et al., 2002; Knemeyer et al., 2003; Beetles and Harris, 2010),
- Commitment (Morgan and Hunt, 1994; Beetles and Harris, 2010),
- Competence (Smith and Barclay, 1997; Metawa and Almosawi, 1998; Hunt et al, 2006),
- Equity (Kavali et al, 1999),
- Benevolence (Ndubisi and Wah, 2005),
- Reciprocity (Sin et al., 2002)
- Empathy (Ndubisi, 2004),
- Conflict handling (Ndubisi and Madu, 2009; Gilaninia et al, 2011), and
- Communication (Morgan and Hunt, 1994; Ndubisi and Wah,2005; Knemeyer and Murphy, 2005; Tian et al., 2008.

Among the above listed relationship marketing underpinnings trust, commitment, communication, competency and conflict handling was applied to evaluate their effect on customer loyalty under this study.

2.3. Conceptual Framework

The conceptual framework of the study was based on the model presented in a previous study by Ndubisi and Wah in 2005. It highlights the effect of relationship marketing underpinnings on customer loyalty.

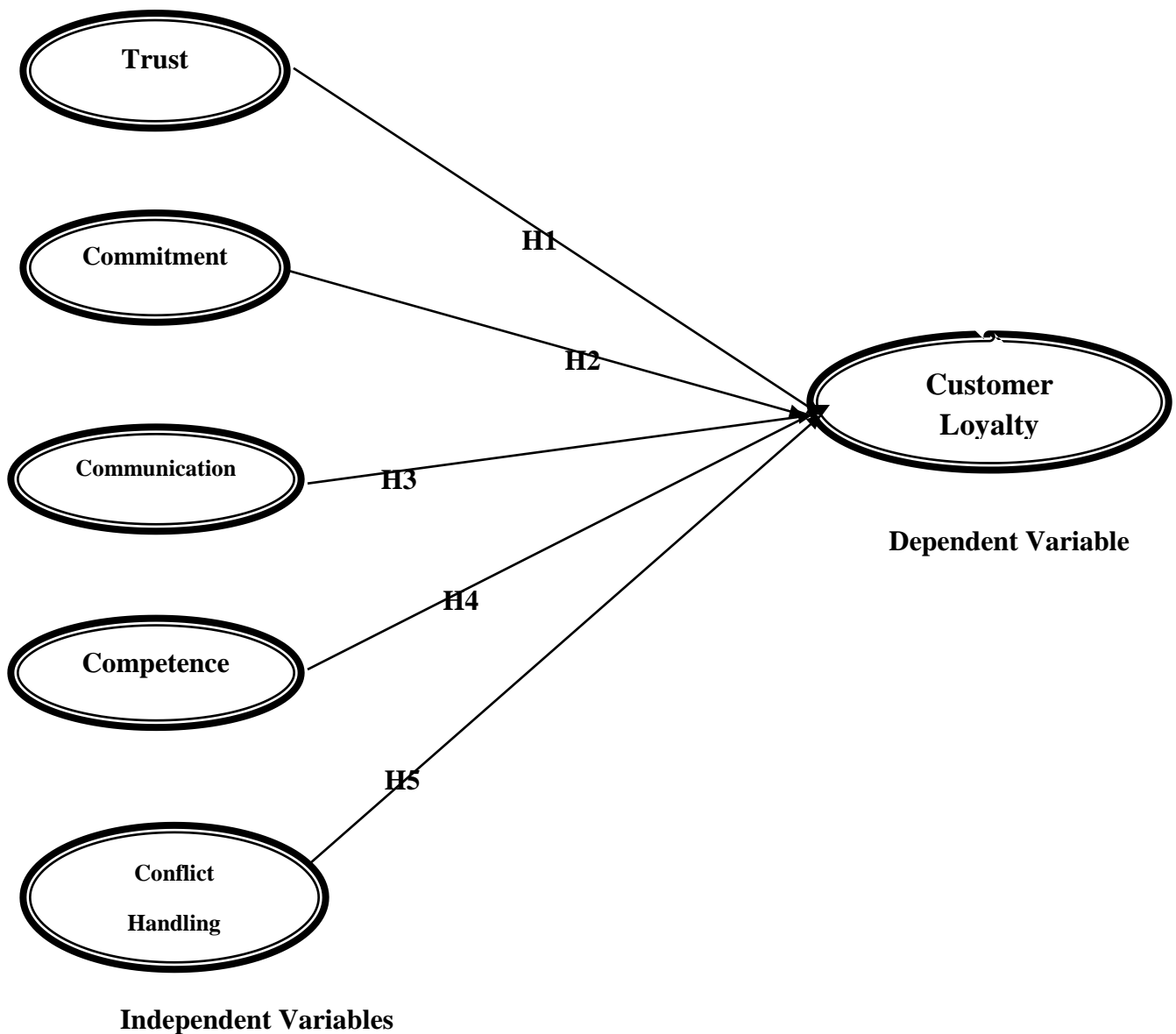


Figure 2, Conceptual framework

Source: Ndubisi and Wah (2005)

Chapter Three

3. Research Methodology

This chapter explains the research methodologies employed. It covers research approach and design, source of data collection and methods, sampling method, design of the research questionnaire and method of data analysis.

3.1. Research Approach and Design

3.1.1 Research Approach

This study is descriptive in nature. Descriptive studies are usually the best methods for collecting information that demonstrates relationships (Walliman, 2001).

3.1.2. Research Design

Quantitative research method was used to quantify the problem by generating data that can be transformed into usable statistics, which was through distribution of structured and detailed questionnaire.

3.2. Population and Sampling Techniques

The target population of the study includes all international passengers of Ethiopian Airlines who are enrolled in the Airlines' frequent flyer program-Sheba Miles. However since it is not feasible to include all these Sheba Miles members, who are currently around 1,490,000, due to inaccessibility to reach all, cost and time constraint the researcher used non-probability convenient sampling to collect data from 400 members who visited the Sheba Miles office during work hours and members who used the Sheba Miles lounge at Addis Ababa Bole international airport during data collection period.

The sample of this research is calculated by using Taro Yamane (Yamane, 1973) formula with 95% confidence level. The calculation is presented as below,

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

Where : n= sample size

N = population size

e = level of precision or sampling of error which is $\pm 5\%$

Substitute numbers in formula:

$$N = \frac{1,490,000}{1 + 1,490,000(0.05)^2} = 399.89$$

After calculating the sample size by substituting the numbers into the formula, the numbers of sample is 399.89 persons. In order to obtain a reliable data, researcher has increased sample size to 400 persons.

3.3. Source and Tools/Instruments of Data Collection

The study used a structured questionnaire as a primary data source to collect data from respondents. This questionnaire was adopted from Ndubisi & Wah (2005) with minor adjustments.

The questionnaire consisted of background checks and standardized questions with seven point Likert scale. The first section of the questionnaire gathered data about personal information and background checks while the second and third section evaluated the fundamental variables.

The airlines' loyalty program guide, internal newsletters, aviation reports and magazines, articles and other relevant documents were also be reviewed to obtain secondary data.

3.4. Validity and Reliability

3.4.1. Validity

Content Validity: Ndubisi & Wah (2005) standard questionnaire was used with minor adjustment. Each attribute was derived from relevant literature to ensure the validity of the questionnaire.

3.4.2. Reliability

Reliability: Chronbach's Alpha reliability, the most popular test of consistency reliability was applied to measure the strength of the correlation and coherence between questionnaire items. The closer Chronbach's alpha is to 1, the higher the internal consistency reliability (Sekaran, 2003).

3.5. Procedures of Data Collection

A structured and detailed questionnaire was distributed to Sheba Miles members who visited the Sheba Miles office during work hours and members who used the Sheba Miles lounge at Addis Ababa Bole international airport.

To conduct the survey three steps were undertaken:

Step 1: The researcher selected respondents based on non-probability convenient sampling upon their visit of the office and while using the lounge

Step 2: The questionnaire was distributed and respondents were communicated the purpose of the questionnaire

Step 3: The distributed questionnaires was collected

3.6. Methods of Data Analysis

The survey questionnaire was coded and analyzed by using the statistical package for social science (SPSS) software. Prior to the analysis, the completed questionnaires were checked for completeness to ensure consistency.

Statistical methods like frequency distribution was used to show the frequency of various outcomes of the respondents, factor analysis was employed to reduce large set of variable items into a smaller number of factors. Correlation analysis was used to show the strength of the relationship among the variables. Multiple Regression analysis was used to measure the impact of study variables and relative importance. One-way ANOVA and Independent Sample T-Test was used to see whether there exist a significance difference between the variables.

3.7. Ethical Consideration

In order to keep the confidentiality of the data that was gathered from the respondents, the respondents were not required to write their name and they were be assured the anonymity and confidentiality of their response. The purpose of the study was disclosed in the introductory part of the questionnaire. Furthermore, the researcher tried to avoid misleading or deceptive statements in the questionnaire. Lastly, the questionnaires was handed out up on their consent only.

All research works that have contributed in any way to this study are properly acknowledged and appreciated.

Chapter Four

This chapter presents the data analysis and discussion of the research findings. The data analysis was made with the help of statistical package for social science (SPSS V20).

4. Results and Discussion

In order to make the collected data suitable for the analysis, all questionnaires were screened for completeness. Hence incomplete questionnaires were considered as errors and removed from the survey data. Out of the 400 distributed questionnaires, 382 were found to be valid and used for the final analysis.

4.1. Reliability

The reliability analysis applied to the level of Cronbach's Alpha (α) is the criteria for internal consistency, which was at a minimum acceptable level ($\text{Alpha} \geq 0.70$) suggested by (Sekaran, 2003). The internal reliability test indicated that all of the measures adopted have internal consistency reliability which is above 0.7 and that is acceptable for further analysis.

Table 1: Reliability Statistics

Cronbach's Alpha	No of Items
.824	6

Source: Own Survey

Table 2: Item-Total Statistics

	No. of Items	Cronbach's Alpha if Item Deleted
Trust	5	.781
Commitment	3	.813
Communication	5	.771
Competence	3	.781
Conflict Handling	3	.833
Customer Loyalty	3	.793

Source: Own Survey

4.2. Descriptive Analysis

4.2.1. Demographic Profile of Respondents

Table 3 shows the demographic variables of the study sample. It shows that 34% of the study samples were females and 66% were males. For Age, 56.8% of the study sample ranged 26-45years of age, while 32.7% of the study sample ranged between 46-60 years, 10.2% of the study samples were above 60 years and 0.3% of the study samples were below 25 years of age. For trip purpose, Table 3 shows that the majority of respondents of the study sample travel for Business/Corporate purpose 34.3%, personal business/trade constituted for 27%, leisure travelers accounted for 25.7% while 13.1% goes to visit of family and friends. Regarding class of service 74.35% of the sample studies were Economy class travelers while 25.65% were travelling Business class. For tier level, 29.1% of the sample study were having the tier level Silver, 28.3% had Gold tier level, Blue tier level accounted for 27.2% , 15.2% of the study samples had No tier while Platinum tier level constituted for 0.3%.

Table 3: Demographic profile of Respondents

No.	Variable	Categorization	Frequency	Percentage
1	Gender	Male	252	66
		Female	130	34
2	Age	Below 25	1	0.3
		26-45	217	56.8
		46-60	125	32.7
		Above 60	39	10.2
3	Trip Purpose	Leisure	98	25.7
		Business/Corporate	131	34.3
		Personal Business/Trade	103	27
		Visit of Family and Friends	50	13.1
4	Class of Service	Business	98	25.7
		Economy	284	74.3
5	Tier Level	Platinum	1	0.3
		Gold	108	28.3
		Silver	111	29.1
		Blue	104	27.2
		No Tier	58	15.2

Source: Own Survey (May 2017)

4.3. Factor Analysis

This study employed factor analysis to perform the reduction of a large set of variable items into a smaller number of factors. Principal component analysis was performed as a dimension reduction and KMO and Bartlett's test was also performed. The usual accepted index for KMO is 0.6 while the Bartlett's test of Sphericity must be less than 0.05 so that it shows the validity and suitability of the responses collected. Accordingly all the test results of the variables for KMO was above 0.6 and Bartlett's test of Sphericity was less than 0.05 (appendix 2). Hence it can be said that the sample adequacy was acceptable.

4.4. Correlation Analysis

This study employed the correlation analysis, which investigates the strength and direction of relationships between the studied variables. Strength refers to the larger absolute value of the coefficient. A value of 0 indicates the absence of a relationship whereas direction refers to the sign of the coefficient indicates the direction of the relationship. If both variables tend to increase or decrease together, the coefficient is positive. If one variable tends to increase as the other decreases, the coefficient is negative.

Pearson correlation analysis was used to provide evidence of convergent validity. As per the general principle suggested by Field (2005), correlation values less than 0.3 are considered weak, correlations between 0.3 and 0.7 are considered moderate, and correlations greater than 0.7 are considered strong as the closer it gets to 1 the stronger it becomes and the closer it gets to zero the weaker it is. Based on the above assumption, bivariate correlation was computed to analyze the proposed relationship between variables. The Pearson's correlation coefficients illustrated below here on table 4 confirmed significant positive relationship between all the predictors and the dependent variables at P-value 0.01 level.

Table 4: Illustrate the Correlation between Dependent variable (Customer Loyalty) and Independent Variable (CRM Components)

		Trust	Commitment	Communication	Competence	Conflict Handling	Customer Loyalty
Trust	Pearson Correlation Sig. (2-tailed) N	1 380					
Commitment	Pearson Correlation Sig. (2-tailed) N	.470** .000 380	1 382				
Communication	Pearson Correlation Sig. (2-tailed) N	.668** .000 380	.455** .000 382	1 382			
Competence	Pearson Correlation Sig. (2-tailed) N	.575** .000 378	.463** .000 380	.550** .000 380	1 380		
Conflict Handling	Pearson Correlation Sig. (2-tailed) N	.221** .000 379	.209** .000 381	.354** .000 381	.358** .000 380	1 381	
Customer Loyalty	Pearson Correlation Sig. (2-tailed) N	.472** .000 379	.332** .000 381	.523** .000 381	.474** .000 380	.437** .000 381	1 381

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

Source: Own Survey (May 2017)

4.5. Multiple Linear Regression

Before the regression analysis, all assumption tests to perform the analysis were performed and met (appendix 2). Among the tests multicollinearity was one of it. The commonly used cut-off points mentioned for determining the existence of multicollinearity among independent variables are tolerance value and variance inflation factor (VIF) value. The rule is that when tolerance value is less than 0.2 and the VIF exceeds 10; it is a signal of multicollinearity, which could lead to misleading and/or inaccurate results. Multicollinearity occurs when there are high inter-correlations among some set of the predictor variables. In other words, multicollinearity happens when two or more predictors contain much of the same information. Refer to collinearity Statistics shown below, the tolerance and VIF showed that there was no multicollinearity because VIF of all variables were less than 10 and tolerance of all variables also greater than 0.2.

Table 5: Multicollinearity Statistics

Variables	Collinearity Statistics	
	Tolerance	VIF
Trust	.471	2.122
Commitment	.702	1.424
Communication	.473	2.114
Competence	.561	1.781
Conflict Handling	.826	1.211

a. Dependent Variable: Customer Loyalty

Source: Own Survey (May 2017)

Table 6: Normality Test

N	Valid	378
	Missing	4
Skewness		-.153
Std. Error of Skewness		.125
Kurtosis		-.189
Std. Error of Kurtosis		.250

In interpreting Skewness and Kurtosis results a positive skewness value indicates positive (right) skew while a negative value indicates negative (left) skew, the higher the absolute value, the greater the skew. Similarly, a positive kurtosis value indicates positive kurtosis and a negative one indicates negative kurtosis, the higher the absolute value, the greater the kurtosis. For both measures, a perfectly normal distribution should return a score of 0. To determine how extreme either the Skewness or Kurtosis value must be there a simple rule of thumb to be applied, if you divide either score by its standard error and the result is greater than ± 1.96 , it suggests that your data are not normal with respect to that statistic. Hence the result on table 6 indicates that dividing each value by its standard error gives -1.22 for Skewness and -0.756 for Kurtosis, both well within ± 1.96 which indicates that the data is normal with respect to the statistics. This can be confirmed by visual inspection of the histogram of the same data shown in figure 3 below.

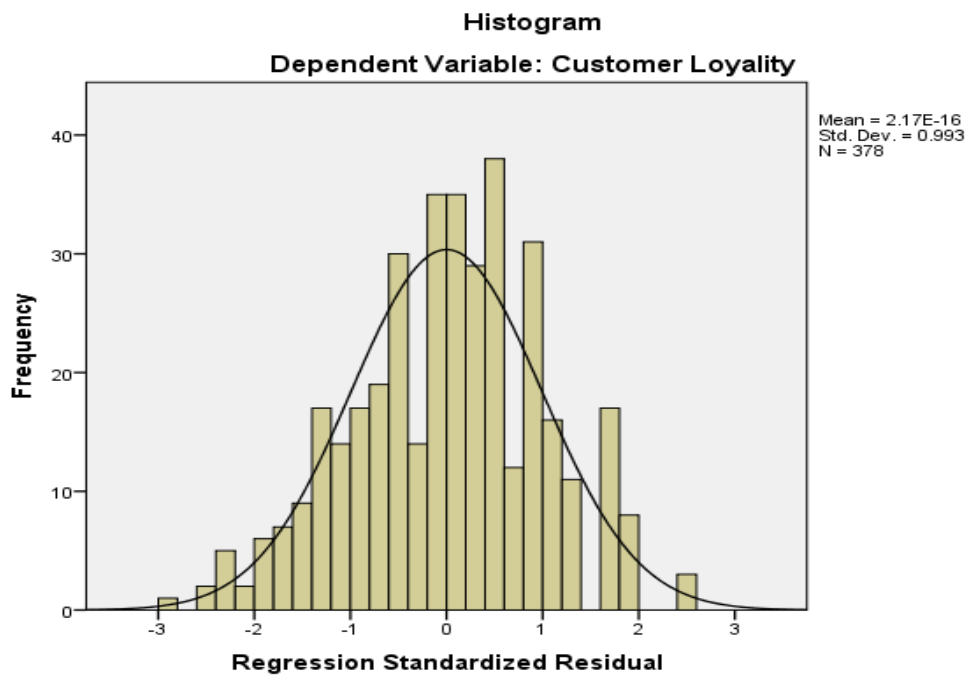


Figure 3: Histogram with normal curve plotted (SPSS output)

Table 7: Multiple regression analysis test result of effect of CRM component on customer loyalty

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1	(Constant)	-.002	.041		-.053	.957
	Trust	.169	.059	.169	2.865	.004
	Commitment	.024	.048	.024	.495	.621
	Communication	.226	.059	.225	3.819	.000
	Competence	.147	.054	.147	2.718	.007
	Conflict Handling	.263	.045	.263	5.901	.000

a. Dependent Variable: Customer Loyalty

Source: Own Survey (May 2017)

According to the above table, the regression standardized coefficients for the five independent variables, i.e. trust, commitment, communication, competence and conflict handling are 0.169, 0.024, 0.226, 0.147 and 0.263 respectively. Their significance levels are 0.004, 0.621, 0.000, 0.007 and 0.000 respectively, which are less than 0.05 except for commitment which is greater than 0.05 that is insignificant. This indicates that there is significant relationship between trust, communication, competence, conflict handling and the dependent variable (customer loyalty).

Table 8: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.625 ^a	.390	.382	.78863628	1.639

a. Predictors: (Constant), Conflict Handling, Commitment, Trust, Competence, Communication

b. Dependent Variable: Customer Loyalty

Source: Own Survey (May 2017)

As table 8 shows above, the model or the predictor variables have accounted for 38.2% of the variance in the criterion variable (Effect of CRM on customer loyalty). The remaining 61% are explained by other variables out of this model.

The below equation indicates loyalty explanation and prediction by five components of CRM , Multiple Regression method was used and according to Beta coefficient it can be said that conflict handling has maximum impact (0.225) and commitment has minimum impact (0.024) on customer loyalty variable. Then regression model can be written as follows in a significant level of 95%.

$$\hat{Y} = -0.02 + 0.169 X_1 + 0.024 X_2 + 0.225 X_3 + 0.147 X_4 + 0.263 X_5$$

In regression equation Trust variables X1, commitment variable X2, communication variable X3, competence variables X4, conflict handling X5 and customer loyalty variable as the \hat{Y} is considered.

4.6. Analysis of Variance

Table 9: ANOVA (Analysis of Variance)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	148.205	5	29.641	47.658	.000 ^b
	Residual	231.364	372	.622		
	Total	379.569	377			

a. Dependent Variable: Customer Loyalty

b. Predictors: (Constant), Conflict Handling, Commitment, Trust, Competence, Communication

Source: Own Survey (May 2017)

F ratio is the test statistic used to decide whether the model as a whole has statistically significant predictive capability, considering the number of variables needed to achieve it. With F value of 47.658, it can be said that 47.65% improvement in predicting the outcome can be achieved by fitting the model.

According to the above table, we can see that the Mean Square of Regressions is more than Mean Square of Residual and the sig = 0.000 < 0.05. Thus for this research Regressions is significant at a confidence level of 95%.

4.7. Hypothesis Testing

Hypothesis test is a process in which we assume an initial claim to be true and then test this claim using sample data. According to the research method, the Pearson Correlation Coefficient is used to test the hypotheses. There are five hypotheses that aim to see if there is relationship between the five factors of Customer Relationship Management (Trust, Commitment, Communication, Conflict Handling, and Competence) and customer loyalty. The Sig result of four hypothesis test was less than 0.05 except for competence thus each test having significance value less than 0.05 was supported. The tests are summarized as follows:

Table 10: Summary of the overall outcome of the research hypothesis

Hypothesis	Result	Reason
H1: Trust has a positive and significant effect on customer loyalty	Supported	$\beta = 0.169, P < 0.05$
H2: Commitment has a positive and significant effect on customer loyalty	Rejected	$\beta = 0.024, P > 0.05$
H3: Communication has a positive and significant effect on customer loyalty	Supported	$\beta = 0.226, P < 0.05$
H4: Competence has a positive and significant effect on customer loyalty	Supported	$\beta = 0.147, P < 0.05$
H5: Conflict Handling has a positive and significant effect on customer loyalty	Supported	$\beta = 0.263, P < 0.05$

Source: Own Survey (May 2017)

In general, as table 10 clearly shows, among the five factors, multiple linear regression (Beta coefficients) analysis revealed that, conflict handling is the most significant factor in determining effect of CRM in customer loyalty followed by communication.

Trust takes the third place and competence is considered as the fourth most important factor. On the other hand, commitment has no significant effect in determining effect of CRM in customer loyalty as it is explained by the significance level $P > 0.05$.

4.8. Underlying Factors Affecting Customer Loyalty Based on Respondents' Profile

In order to achieve the objective that aims to examine if there is a difference between the demographic profile of consumers and the factors they consider to be important in affecting their loyalty, two inferential statistics techniques were employed. The independent sample t-test and one-way ANOVA were applied to compare demographic characteristics and investigate how they are related with trust, commitment, communication, competence and conflict handling.

Table 11: Independent Sample T-Test between gender and underlying factors of CRM components

CRM Componenets	Gender of Respondents	N	Mean	Std. Deviation	Std. Error Mean	Sig.
Trust	Male	250	.1126492	.96754816	.06119312	.188
	Female	130	-.2166331	1.02913166	.09026082	
Commitment	Male	252	-.0299701	1.10701942	.06973567	.000
	Female	130	.0580959	.75089814	.06585812	
Communication	Male	252	.1570352	1.02973402	.06486715	.111
	Female	130	-.3044067	.86531365	.07589303	
Competence	Male	251	.0358171	1.02369495	.06461505	.073
	Female	129	-.0696905	.95223275	.08383942	
Conflict Handling	Male	252	.0595362	1.02647360	.06466176	.203
	Female	129	-.1163032	.93914939	.08268749	

Source: Own Survey (May 2017)

As it is shown in the above table, the mean difference between female and male for four independent variables is not significant as their p-values are more than 0.05. This shows that the effects of the four CRM components (trust, communication, competence and conflict handling) in determining loyalty in female and male is almost similar.

4.9. Underlying Factors Affecting Customer Loyalty Based on Class of Service

Independent sample T-test was employed to find out if there is any significant difference between classes of service in CRM. As it is shown in table 13 the mean difference between business and economy class for trust, communication and competence is not significant as their

p-values are more than 0.05. The loyalty of respondents who travel in different class of service is affected by CRM components competence and conflict handling.

Table 12: Independent Sample T-Test between class of service and underlying factors of CRM components

CRM components	Class of Service	N	Mean	Std. Deviation	Std. Error Mean	Sig
Trust	Business	98	.0648796	1.04730380	.10579366	.447
	Economy	272	-.0043104	.97734498	.05926024	
Commitment	Business	98	.0960607	.90371431	.09128893	.006
	Economy	274	-.0180555	1.03518410	.06253776	
Communication	Business	98	.1697059	.91884561	.09281742	.951
	Economy	274	-.0176222	.99857705	.06032625	
Competence	Business	98	.2859508	1.06984937	.10807111	.735
	Economy	272	-.0857772	.96548536	.05854115	
Conflict Handling	Business	98	.3529646	.76841301	.07762144	.005
	Economy	273	-.0855885	1.02653296	.06212860	

Source: Own Survey (May 2017)

4.10. Underlying Factors Affecting Customer Loyalty Based on Tier Level

ANOVA result in the below table 13 shows that there is a significant difference between the respondent's tier level and the components of CRM as their p-value is <0.05. According to the findings of the research, these components are perceived differently among respondents, who are in different tier level.

Table 13: One Way ANOVA between tier level and CRM components

		Sum of Squares	Df	Mean Square	F	Sig.
Trust	Between Groups	19.045	4	4.761	4.960	.001
	Within Groups	359.955	375	.960		
	Total	379.000	379			
Commitment	Between Groups	13.147	4	3.287	3.368	.010
	Within Groups	367.853	377	.976		
	Total	381.000	381			
Communication	Between Groups	36.898	4	9.225	10.106	.000
	Within Groups	344.102	377	.913		
	Total	381.000	381			
Competence	Between Groups	16.768	4	4.192	4.340	.002
	Within Groups	362.232	375	.966		
	Total	379.000	379			
Conflict Handling	Between Groups	31.103	4	7.776	8.380	.000
	Within Groups	348.897	376	.928		
	Total	380.000	380			

Source: Own Survey (May 2017)

4.11. Underlying Factors Affecting Customer Loyalty Based on Trip Purpose

The results of the analysis presented in table 14 below presents that from the five factors, significance difference between trip purposes is observed with regard to five factors (trust, commitment, communication, competence and conflict handling). As table: 15 shows different trip purpose perceive trust, commitment, communication, competence and conflict handling differently at F=4.960, 3.368, 10.106, 4.340 and 8.380 $p < 0.05$, which is 0.001, 0.010, 0.000, 0.002 and 0.000 respectively.

Table 14: One Way ANOVA between trip purpose and CRM components

		Sum of Squares	df	Mean Square	F	Sig.
Trust	Between Groups	26.118	3	8.706	9.276	.000
	Within Groups	352.882	376	.939		
	Total	379.000	379			
Commitment	Between Groups	10.898	3	3.633	3.710	.012
	Within Groups	370.102	378	.979		
	Total	381.000	381			
Communication	Between Groups	32.193	3	10.731	11.629	.000
	Within Groups	348.807	378	.923		
	Total	381.000	381			
Competence	Between Groups	29.281	3	9.760	10.494	.000
	Within Groups	349.719	376	.930		
	Total	379.000	379			
Conflict Handling	Between Groups	17.872	3	5.957	6.202	.000
	Within Groups	362.128	377	.961		
	Total	380.000	380			

Source: Own Survey (May 2017)

Chapter Five

5. Summary, Conclusion and Recommendation

This chapter summarizes the findings followed by conclusions and recommendations. Limitations and implications for future research are discussed at the end.

5.1. Summary and Discussion of Major Findings

From the demographic characteristics of respondents, majority were male respondents. Besides, majority of respondents who participated on the survey were ranging from 26-45 years of age. Regarding trip purpose, majority were traveling for Business/Corporate purpose. In respect of the class of service many of the respondents were Economy class travelers. In terms of tier level, majority were having Silver tier.

The Pearson correlation coefficient reveals that trust ($r=.470$); commitment ($r=.470$), communication ($r=.668$), competence ($r=.575$) and conflict handling ($r=.472$). For most of the variables, the strength of the correlation was found to be moderate and positively correlated with customer loyalty. The strength of correlation is highest for communication followed by competence. The correlation is also significant at .01 level two tailed.

Results indicate that four out of five independent variables have got a direct and meaningful relationship with the loyalty of customers. That is to say four propositions are supported the multiple or multi variable relationship coefficient between the dimension of loyalty and 4 dimensions of trust, competence, communication and conflict handling. Results can be interpreted as nearly 38.2% of the changes of loyalty dimension is determined by the four mentioned variables.

Ndubisi (2007) too in his research in Malaysia banks used these four variables as RM relation bound marketing strategy and concluded that these four variables had a significant impact on loyalty of customers which is in line with the results of this study except for one variable

commitment. Interestingly in Ndubisi study, risk management was one of the components of CRM variable that had the lowest amount of impact on loyalty while this variable was not considered on this study.

Finally from the multiple regression result, estimate of regression weight shows that all the independent variables except commitment significantly predict and explain customer loyalty.

5.2. Conclusion

This research provides empirical evidence for the influence on customer loyalty and five components of customer relationship management: trust, commitment, communication, competence and conflict handling. This study adds value to the literature by empirically investigating the effect of CRM components on customer loyalty in the airline industry. According to the results of this study, airlines wishing to retain and develop loyal customers should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers.

Therefore it is reasonable to conclude that customer loyalty can be created, reinforced and retained by marketing plans aimed at building trust, demonstrating commitment to service, communicating with customers in a timely and reliably and handling conflict efficiently.

5.3. Recommendation

According to the results of this study, the airline wishing to retain and develop loyal customers should be:

1. Trustworthy enough for their customers, since there is a significant and positive relationship between trust and customers loyalty. That means the airline should be careful about providing quality service and their promises should be reliable to discharge obligations and fulfill promises should be clear.
2. Committed for the service. This means, the airline should make adjustments to suit customer needs, be flexible when services are changed, and work with customers for the continual relationship.

3. Communicating timely and accurately since there is significant and positive relationship between communication and customers' loyalty. This means the airline should communicate information like updated flight information, information on new routes or services and information on flight delays or change on flight operation.
4. Building competent and confident staff who can professionally deliver the promised service
5. Working hard to reduce the overall level of disagreement between the airline and customers.

5.4. Future Research

The relationships investigated in this study deserve further research. Because this research focuses on airline industry, therefore further research in other sectors may be necessary before generalization can be made on the entire service industry. Researchers by employing these constructs, and replicating this study in other industries, would be able to unveil the factors that discriminate between loyal customers and those who are not, and also produce more generic results. Also the impact of the customer relationship marketing underpinnings can be investigated on other dependent variables such as empathy, reciprocity and equity. Although the dimensions identified were really verified in this industry, it would be helpful to replicate this study in other industries. The outcome of the future studies will determine the extent of generalization to be made.

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Appendix 1

Addis Ababa University School of Commerce

Department of Marketing Management

Dear Respondent,

First of all I would like to thank you for taking your time to read and fill this questionnaire

I am conducting a research in partial fulfillment of the requirements for Masters Degree in Marketing Management. This questionnaire is to be used solely for the research I am undertaking in order to fulfill my thesis work required to complete my study.

The aim of the research is to determine the effect of customer relationship management on customer loyalty in Ethiopian Airlines. Your participation is invaluable and will remain anonymous.

Therefore this is to kindly request you to take some of your time and fill the questionnaire.

Thank You

Part I: Respondent Background

- I. Sex
 1. Male
 2. Female
- II. Age
 1. Below 25
 2. 26-45
 3. 46-60
 4. Above 60
- III. Purpose of your trip
 1. Leisure
 2. Business/Corporate
 3. Personal business/trade
 4. Visit of family and friends
- IV. Class of Service
 1. Business
 2. Economy
- V. Tier Level
 1. Platinum
 2. Gold
 3. Silver

4. Blue
5. No tier

Part II: Survey of your expectation

Concept	Dimensions	No.	Items	Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
Relationship Marketing	Trust	1	The airlines' words and promise are reliable	1	2	3	4	5	6	7
		2	The airlines is consistent in providing quality service	1	2	3	4	5	6	7
		3	Employees of the airlines shows respect to the customer	1	2	3	4	5	6	7
		4	The airlines fulfill its obligations to customers	1	2	3	4	5	6	7
		5	I have trust in the airlines service	1	2	3	4	5	6	7
	Commitment	6	The airline offers personalized services to meet customer needs	1	2	3	4	5	6	7
		7	The airline is flexible when its services are changed	1	2	3	4	5	6	7
		8	The airline is flexible in serving my needs	1	2	3	4	5	6	7
	Communication	9	The airline provides timely and trustworthy information	1	2	3	4	5	6	7
		10	The airline provides information if there are new services	1	2	3	4	5	6	7

	11	The airline fulfill its promises	1	2	3	4	5	6	7	
	12	Information provided are accurate	1	2	3	4	5	6	7	
	13	The airline provides information when there is a delay or change on flight operation	1	2	3	4	5	6	7	
	Competence	14	The airlines staff has knowledge about the service	1	2	3	4	5	6	7
		15	The airline staff shows high professionalism upon providing service	1	2	3	4	5	6	7
		16	The airline staff makes adjustments to suit my needs	1	2	3	4	5	6	7
	Conflict Handling	17	The airline tries to avoid potential conflict	1	2	3	4	5	6	7
		18	The airline tries to solve manifest conflicts before they create problems	1	2	3	4	5	6	7
		19	The airline has the ability to openly discuss solutions when problems arise	1	2	3	4	5	6	7

Part III. Survey of your satisfaction and behavioral intentions towards the airline

Concept	No.	Items	Strongly Disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Loyalty	20	I would still use the airlines' service for my next trip	1	2	3	4	5	6	7
	21	I would recommend others to use the airlines' service	1	2	3	4	5	6	7
	22	I would consider myself loyal for the airline	1	2	3	4	5	6	7

Thank you!

Appendix 2 SPSS Results

Factor Analysis

Correlation Matrix

		Trust 1	Trust 2	Trust 3	Trust 4	Trust 5
Correlation	Trust 1	1.000	.549	.414	.545	.367
	Trust 2	.549	1.000	.509	.457	.505
	Trust 3	.414	.509	1.000	.377	.385
	Trust 4	.545	.457	.377	1.000	.402
	Trust 5	.367	.505	.385	.402	1.000
Sig. (1-tailed)	Trust 1		.000	.000	.000	.000
	Trust 2	.000		.000	.000	.000
	Trust 3	.000	.000		.000	.000
	Trust 4	.000	.000	.000		.000
	Trust 5	.000	.000	.000	.000	

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.812
Approx. Chi-Square		557.170
Bartlett's Test of Sphericity	df	10
	Sig.	.000

Communalities

	Initial	Extraction
Trust 1	1.000	.600
Trust 2	1.000	.667
Trust 3	1.000	.504
Trust 4	1.000	.551
Trust 5	1.000	.490

Extraction Method: Principal
Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.812	56.232	56.232	2.812	56.232	56.232
2	.691	13.813	70.045			
3	.623	12.468	82.513			
4	.492	9.848	92.361			
5	.382	7.639	100.000			

Extraction Method: Principal Component Analysis.

Correlation Matrix

		Commitment 1	Commitment 2	Commitment 3
Correlation	Commitment 1	1.000	.317	.472
	Commitment 2	.317	1.000	.672
	Commitment 3	.472	.672	1.000
Sig. (1-tailed)	Commitment 1		.000	.000
	Commitment 2	.000		.000
	Commitment 3	.000	.000	

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.596
Approx. Chi-Square	322.728
Bartlett's Test of Sphericity	df
	3
	Sig.
	.000

Communalities

	Initial	Extraction
Commitment 1	1.000	.485
Commitment 2	1.000	.696
Commitment 3	1.000	.808

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.989	66.284	66.284	1.989	66.284	66.284
2	.708	23.614	89.898			
3	.303	10.102	100.000			

Extraction Method: Principal Component Analysis.

		Communication 1	Communication 2	Communication 3	Communication 4	Communication 5
Correlation	Communication 1	1.000	.476	.548	.580	.653
	Communication 2	.476	1.000	.480	.453	.553
	Communication 3	.548	.480	1.000	.626	.658
	Communication 4	.580	.453	.626	1.000	.725
	Communication 5	.653	.553	.658	.725	1.000
Sig. (1-tailed)	Communication 1		.000	.000	.000	.000
	Communication 2	.000		.000	.000	.000
	Communication 3	.000	.000		.000	.000
	Communication 4	.000	.000	.000		.000
	Communication 5	.000	.000	.000	.000	

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.864
Approx. Chi-Square	925.530
Bartlett's Test of Sphericity	df
	10
	Sig.
	.000

Communalities

	Initial	Extraction
Communication 1	1.000	.642
Communication 2	1.000	.506
Communication 3	1.000	.668
Communication 4	1.000	.705
Communication 5	1.000	.794

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.315	66.303	66.303	3.315	66.303	66.303
2	.594	11.883	78.186			
3	.459	9.171	87.357			
4	.379	7.572	94.929			
5	.254	5.071	100.000			

Extraction Method: Principal Component Analysis.

Correlation Matrix

		Competence 1	Competence 2	Competence 3
Correlation	Competence 1	1.000	.422	.310
	Competence 2	.422	1.000	.271
	Competence 3	.310	.271	1.000
Sig. (1-tailed)	Competence 1		.000	.000
	Competence 2	.000		.000
	Competence 3	.000	.000	

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.620
Approx. Chi-Square	122.042
Bartlett's Test of Sphericity	df
	3
	Sig.
	.000

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.673	55.753	55.753	1.673	55.753	55.753
2	.753	25.087	80.840			
3	.575	19.160	100.000			

Extraction Method: Principal Component Analysis.

Correlation Matrix

		Conflict Handling 1	Conflict Handling 2	Conflict Handling 3
Correlation	Conflict Handling 1	1.000	.431	.456
	Conflict Handling 2	.431	1.000	.571
	Conflict Handling 3	.456	.571	1.000
Sig. (1-tailed)	Conflict Handling 1		.000	.000
	Conflict Handling 2	.000		.000
	Conflict Handling 3	.000	.000	

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.671
Approx. Chi-Square		258.415
Bartlett's Test of Sphericity	df	3
	Sig.	.000

Communalities

	Initial	Extraction
Conflict Handling 1	1.000	.578
Conflict Handling 2	1.000	.688
Conflict Handling 3	1.000	.708

Extraction Method: Principal Component Analysis.

Correlation Matrix

		Loyalty 1	Loyalty 2	Loyalty 3
Correlation	Loyalty 1	1.000	.567	.563
	Loyalty 2	.567	1.000	.573
	Loyalty 3	.563	.573	1.000
Sig. (1-tailed)	Loyalty 1		.000	.000
	Loyalty 2	.000		.000
	Loyalty 3	.000	.000	

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.711
Approx. Chi-Square		347.679
Bartlett's Test of Sphericity	df	3
	Sig.	.000

Communalities

	Initial	Extraction
Loyalty 1	1.000	.708
Loyalty 2	1.000	.716
Loyalty 3	1.000	.713

Extraction Method: Principal

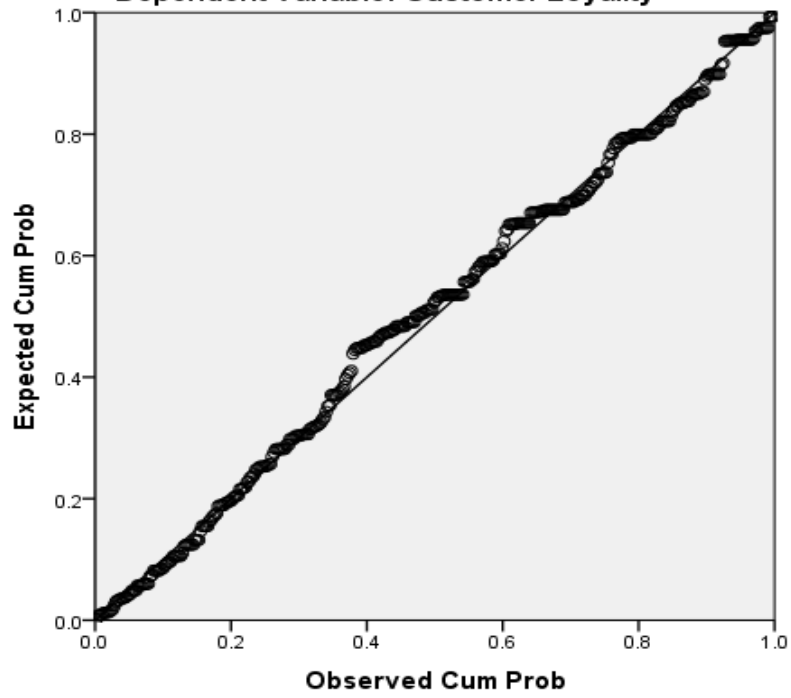
Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.136	71.191	71.191	2.136	71.191	71.191
2	.438	14.592	85.783			
3	.427	14.217	100.000			

Extraction Method: Principal Component Analysis.

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Customer Loyalty



Scatterplot
Dependent Variable: Customer Loyalty

