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**SCHOOL OF GRADUATE STUDIES**

**THE EFFECT OF CUSTOMER RELATIONSHIP MANAGEMENT ON  
CUSTOMER LOYALTY: THE CASE OF DASHENBANK S.C**

**BY:**

**SIMON DOLEBO DERGASSA**

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**ADDIS ABABA**

**ETHIOPIA**

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**BY:  
SIMON DOLEBO**

**A Thesis Submitted to School of Graduate Studies, College of Business,  
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**BY:  
SIMON DOLEBO**

**Approval of Board of Examiners**

**External Examiner:**

**Internal Examiner**

Name: -----

Name: -----

Signature: \_\_\_\_\_

Signature: -----

Date: \_\_\_\_\_

Date: -----

**Advisor**

Name: -----

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Confirmation**

**Chairperson, Department Graduate Committee**

Name -----

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **Statement of certification**

This is to certify that **Simon Dolebo Dergassa** has carried out this thesis work title “**The effect of Customer relationship management on customer loyalty in the case of Dashen Bank S.C**”

The work is original in nature and is suitable for submission for the award of the Master of Art Degree in Business Administration.

Signature: \_\_\_\_\_

Date: December, 2021

Name of the Advisor: **Worku Mekonnen (PHD)**

## **DECLARATION**

I **Simon Dolebo**, the undersigned, declare that the thesis entitled “**The effect of Customer Relationship Management on customer Loyalty: the Case of Dashen Bank S.C**” is my original work, prepared under the guidance of worku Mekonnen (PHD). All sources of Materials used for the thesis have been dually acknowledged. I further, confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of any masters of degree.

**Name of the Student: Simon Dolebo**

**Signature: -----**

**Date: -----**

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## **List of acronyms**

ANOVA - Analysis of Variance

CRM- Customer relationship Management

SPSS - Statistical Package for Social Science

VIF - Variance Inflation Factor

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## **Abstract**

*The purpose of this study was to examine the effect of CRM on customer loyalty and adopted a descriptive research and explanatory research design. Dashen bank customers who have banking relationship in Addis Ababa Branches were targeted as the population of this study. This study used a purposive sampling technique to select sample respondents. The sample size of this study was therefore 323 corporate customers of Dashen Bank S.C. The study used primary data that was collected by use of questionnaires. Correlation analysis was conducted to know the strength of association between CRM dimensions namely: Trust, commitment, communication, customer focus and knowledge management and Customer loyalty. Multiple regression analysis was also conducted to analyze the effect of independent variables on customer loyalty. The study showed that all the independent variables have a significant effect on customer loyalty in the study area. Finally the research found that customer focus is the higher significant factor that affects customer loyalty in Dashen Bank followed by, Trust and commitment. Therefore, the bank should have a good customer focus that can benefit both the bank and the Business customers in the long run and should build its reputation, and need to be reliable to create confidence on integrity.*

**Keywords: Customer loyalty, Trust, Commitment, customer focus, Communication and knowledge management**

# CHAPTER ONE

## **Introduction**

This study is intended to explore the relationship between relationship management dimensions and customer loyalty. Accordingly, the degree of influence and relationship between variables was examined and the results are briefly explained in chapter four of this study.

In this section of the study background of the study, motivation of the study, statement of the problem, objective, significance, scope and methodology of the study are presented in a way that they are clear and easily understandable.

### **1.1 Background of the Study**

Relationship management is a term first introduced in 1986 to the service marketing literature by Dr. Leonard L. Berry who defined it as attracting, maintaining, and enhancing customer relationships (Smith, 2011). According to Smith relationship marketing's focus is to move all customers up the ladder of loyalty. Relationship marketing is an effort that will make your prospective customers aware of your products and services position your business in their minds as the obvious choice and help you build lifelong profitable relationships with them.

Now days, service providers are giving more attention to the lifetime value of a customers because of the increasing competition among competitors offering relatively similar services or products. The cost of maintaining existing customers is far below the cost of finding new ones, and these loyal customers are profitable ones. In this regard Kotler and Keller (2012) indicate that attracting a new customer may cost five times as much as retaining an existing one. Further, Mishkin and Serletis (2011) explained that long-term customer relationships reduce the costs of information collection and make it easier to process customer data. Thus, costs of monitoring long-term customers can then be reduced.

Relationship management gives a company new opportunities to gain a competitive edge by moving customers up a loyalty hierarchy from new customers to regular purchasers, then to loyal

supporters of the firm's goods and services, and finally to advocates who not only buy its products but recommend them to others (Smith, 2003).

It is a fact that Banking sector deal with large number of customers. Customers are the central elements for the bank's profitability. Banking service requires a different set of retention strategies as the customers have many options to choose other organizations providing similar services. Hence, Customer loyalty is the most important goal of implementing relationship marketing activities. Kuo et al (2009) mentioned that the organizations are using various methods to retain and engage their customers, so that their constant revenue can be ensured and for the same, the organizations are using the jargons like, Customer loyalty, Relationship marketing etc. In this particular study, the focus is on customer relationship marketing and customer loyalty by taking Dashen Bank S.C as case study. The assumption here is customer loyalty is affected by customer relationship dimensions such as trust, commitment, communication, customer focus, knowledge management etc.

Now days, as far as the customer loyalty aspect in banking sector are concerned, the banking business is under high pressure to manage the loyalty aspect due to the fact that there is stiff competition. It is relay hard to for the banks to become profitable without investing on customer relationship and loyalty. Alam&Khokhar (2006) explained that the customer loyalty is the foundational link and aspiration for the success, profitability and business performance of the organization. It has been supported through a research finding that when the consumer shows a great level of loyalty towards particular product or service then they would make repeat purchase and would like to spend money on buying the same.

And also Lacey (2009) concluded that customers are vital sources for future revenue Streams and marketing intelligence to the firm and loyal customers are willingly share insight about their needs and provide the opportunity for firms to tailor products, pricing, distribution Channels and marketing communications.

Research findings and literatures showed that customer loyalty is a function of Customer relationship management dimensions: trust, commitment and customer focus. Accordingly, this particular research has examined the effects of relationship management on customer loyalty in the case of Dashen Bank S.C.

## **1.2 Background of the organization**

### **1.2.1 Customer relationship management and Dashen Bank**

According (UKEssays, 2018), the marketing environment within which banks operate has undergone tremendous changes over the past decade due primarily to government's deregulation policy, technological advancement and increasing competition. These factors have resulted in new behaviors and challenges. With increasing competition among banks, customer loyalty to their banks has declined. Today's customers are approached by more competitors with equal or better offers. As such many customers have become more willing to use more than one financial institution to meet their needs and to switch funds for the short-term gain. The ultimate challenge facing bankers today is not merely to produce satisfied consumers but rather loyal customers for strategic purposes.

According to Kotler (2003:29) "Relationship marketing, which comes under one of the core marketing concepts, has the aim of building mutually satisfying long term-relations with key parties in order to earn and retain their business".

The operating principle of relationship management is "Build an effective network of relationships with key stakeholders, and profits will follow" (Kotler, 2003:13)

Presently, Dashen Bank offer its services through branches, ATMs, POSs, as well as **Digital platform known as Amole (internet banking and mobile banking)**, that become more and more attractive to consumers, given the fact that they feel more empowered with the information required to make their own decisions. Recently, the bank is giving a great emphasis for customer relationship. This was evidenced that Dashen Bank has organized Customer relationship management at departmental level in 2016 and now, same function has been organized and directed at Chief level (Dashen Bank organizational structure, 2018).

Dashen Bank has defined Customer Relationship Management (CRM) as an integrated bank effort and method of communication to establish and maintain long-term relationships with customers in order to provide value for customers and banks. CRM allows the bank to identify, segment, communicate and build long-term relationships with customers on individual basis through provision of adjusted offer to meet customer`s needs, in order to maximize profits



As part of its CRM strategies to manage profitable customer relationships, Dashen Bank has adapted an established relationship management model referred as CRM Value Chain Model that identifies and deploys five primary stages of CRM value chain activities and other supporting conditions to create and manage a valuable relationship with strategically significant customers. The CRM model is described below;

- As per the model, the ultimate purpose of the bank's CRM value chain process is to ensure that the bank builds long-term mutually-beneficial relationships with its strategically-significant customers (SSC), which can lead to customer loyalty, retention and finally to referrals to other prospects.
- A strategically significant customers of the bank refer to those customers that buy more, are trend setters, act as referral to the bank; discharge their bank commitment properly; generate more revenue, value and loyalty to the bank. The bank has considered different attributes in identifying its strategically significant customers including customer's value in bringing economic return, future business potential, learning value, reference value and other strategic value by providing access to new markets, strengthening incumbent positions and building barriers to new entrants.
- The model looks at all the stages, both primary and support stages, that are required to build a long-term relationship with customers especially SSC. The primary five stages of CRM value chain include: customer portfolio analysis (CPA), customer intimacy (CI), network development, value proposition development and managing customer lifecycle

This study therefore, showed the effect of relationship management dimensions: trust, commitment, communication, customer focus and knowledge management on loyalty in Dashen Bank S.C

### **1.3 Statement of the Problem**

According to (Payne et al., 1999).Relationship management has acted as a catalyst to understand the value of customer retention, a small improvement in retention rates could make a dramatic impact on profitability. Such a dramatic effect on profitability was due to a number of factors, including: retained business sales, marketing and set-up costs are amortized over a longer

customer lifetime; increased expenditure by the customer over time; repeat customers often cost less to service as there is a mutual familiarity with systems and processes; satisfied customers can be an important source of referrals and satisfied customers tend to be less price sensitive and may be willing to pay a price premium

Maintaining relationship between customers is important especially for banking business because of the profitability of banks is highly depends on its customers. Now a days, there are numerous banks exist across Ethiopia which are providing almost similar banking services to customer. They are competing on the same market and customer. As a result, customer can easily switch from one bank to another. The rising competitive environment has made the banking business very challenging and maintaining a long term relationship with customers is not an option, it is a must to implement in order to attract the profitable customers .According to Kotler (2003) company needs to deliver more satisfaction than its competitors, otherwise these customers switch to competitors who can satisfy them more.

Most empirical studies revealed the need and influence of CRM in different business sectors. For instance Meskerem (2017) examined the influence effect of relationship marketing on loyalty in the case of some selected Ethiopian commercial banks. As per the research finding, trust had the highest influence on loyalty, followed by commitment. On the other hand the study conducted by Ashagre (2017) showed that that there is a significant effect of trust, commitment, communication and conflict handling on customer loyalty. On this study commitment was identified as the most significant variable factor which predicted customer loyalty followed by conflict handling.

From the researchers finding, it is possible to generalize that the research conducted worldwide at different times and study area came up with different findings with regard to the effects of CRM on customer loyalty. Moreover, in Ethiopia as to the knowledge of the researcher is concerned, the research so far done focuses mainly on commercial bank of Ethiopia neglecting the private banks. For these different findings and very few researches in Ethiopia, investigating the effects of CRM on customer loyalty is still researchable. Recently, Dashen Bank, one of the nation's leading private commercial banks, has organized and directed CRM department at Chief level (Dashen Bank organizational structure, 2018)

Regardless all the findings of empirical studies reviewed, the Ethiopian banking industry practice is not in accordance with the concept of customer relationship management. During an interview made with the relationship management team, the researcher have identified that customer relationship management was neglected for a decade in Ethiopian banking business due to the fact that most banks primarily focus was how to increase their deposit by increasing account opening . They are highly engaged on acquisition of new customers then by aggressive deposit mobilization than maintaining the existed customers. The recent practice of banks towards deposit mobilization shows that banks have started account opening through personal selling on streets and home to home rounding. More often, their marketing activities such as campaign, advertisement and promotion budget goes to procurement of new customers and even most Ethiopian commercial banks except, Dasshen. Abysinia and Awash do not have well defined customer relationship set up in their organization structure. These scarifies would not have been made if they were implemented the concept of relationship management.

Therefore, this study aimed to provide to all banking professionals to understand the benefits of customer relationship management towards creating loyal customers. Hence, top managements in the banking sector can shift their focus toward customer loyalty through the application of customer relationship management concept

Thus, the major emphasis of this particular research is to investigate the application of CRM, and determine its effects on customer loyalty in Dashen Bank S.C, and specifically help decision makers in the area of banking service marketing from Dashen bank customers” perspective.

#### **1.4 Research Questions**

The study has raised the following general research question:

- What is the effect of customer relationship Management on customer loyalty at Dashen Bank S.C?

In addition to the above general research question, the study has raised and addressed the following specific research questions:

- What is the practice with respect to trust, commitment, communication, customer focus and knowledge management?
- What is the level of customer Loyalty?
- What is the relationship between customer relationship management and customer loyalty?

## **1.5 Objectives of the Study**

### **1.5.1 General Objectives of the Study**

The main objective of the research was to determine the effect of customer relationship management on customer loyalty in Dashen Bank S.C.

### **1.5.2 Specific Objectives of the Study**

Whereas the specific objectives of this research are:

1. To assess the practice with respect to trust, commitment, communication, customer focus and knowledge management.
2. To assess the level of customer loyalty
3. To examine the relationship between relationship management dimensions of trust, commitment, communication, customer focus and knowledge management and Customer Loyalty.

## **1.6 Significance of the Study**

CRM is a recent practice and attention in Ethiopian Banking business with low focus. As pointed out above, this study aimed at exploring the influence of CRM on customer loyalty by taking Dashen bank as case study; including the strength and kind of association each CRM dimension has on loyalty. Findings from this study provide useful inputs for researchers, service providers, and financial institutions specially, for banks so as to maximize their effort on customer relationship.

The result of this study is believed to add knowledge to the existing literature and can also be used as a reference for researchers who need to conduct a research on the topic in the future. Furthermore, this study contributes to the limited knowledge available on the positive influence of customer relationship management on attaining customer loyalty in local context.

### **1.7 Scope of the Study**

Conceptually, this research was limited to examine the effect of customer relationship management dimensions on customer loyalty. The study has examined the effects of trust, commitment, communication, and customer focus and knowledge management on customer loyalty.

With regard to geography, the research is confined to one organization called Dashen bank in the city of Addis Ababa Methodologically, relatively large sample size which is more representative was determined and the effect of customer relationship management on customer loyalty has been analyzed using statistics such as correlation and regression. Besides, the study has been conducted within 2021.

### **1.8 Limitations of the study**

Some of the visibly limitation faced by the researchers while conducting the actual study are the barriers related with:-

- Lack of up to date literature in the areas of Customer relationship management
- Lack of access to the right data
- Lack of time and resource constraint

Moreover, since the study was conducted in one organization, it is difficult to generalize the findings to other organizations in other sectors.

### **1.9 Definitions of Key Terms**

**CRM** – is a cross-functional, customer-driven and technology-integrated business process management strategy that maximizes relationships (Chen and Popovich, 2013). It involves the integration of marketing, sales, customer service, information technology and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value.

**Trust:** The confidence in the exchange partner's reliability and integrity Morgan and Hunt (1994).

**Commitment:** An exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely Morgan and Hunt (1994).

**Communication:** The formal as well as informal sharing of meaningful and timely information between firms Morgan and Hunt (1994).

● **Credit customers** – customers of Dashen Bank who use credit products like over draft facility, term loans, export Pre-shipment loan, Letter of Credit(L/C), cash against document(CAD), letters of guarantee and the like.

● **Corporate customers**- customers with credit facility equal or greater than birr 10 million.

● **Relationship managers**-employees who are engaged in serving customers of credit especially credit requests processing and repayment follow ups.

### **1.10 Organization of the Study**

The rest chapters of this study have been categorized under four major parts. Chapter two is all about literature review, related literatures about CRM and its effect on loyalty have been thoroughly reviewed, and the conceptual framework was developed. Major methodology parts such as research design, research approach, population and sample size of the study, sampling techniques and method of data analysis are clearly presented in chapter three. The fourth Chapter of this study encompasses data presentation, analysis, and interpretation. In this section of the study, both correlation and regression analysis has been carried out and accordingly, the result of the research finding has been interpreted and presented. All the research findings; conclusions and recommendations and areas for further research are presented in last chapter of the study, chapter five

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### Introduction

The purpose of this chapter is to review the literature in the area of customer relationship marketing and mainly focused on the influences of CRM dimensions on loyalty. This review of literature establishes the theoretical frame works for the study and highlights different frame works used in different studies.

#### 2.1 Theoretical Review

##### 2.1.1 Customer Relationship Management (CRM) Definition

The term customer is defined in the Oxford dictionary of English as a person of a special kind with whom one has to deal. For instance, customers can include not only those who buy a product or a service from us, but also our suppliers, our partners, our employees and our investors. Each of these customers will have different needs and wants that have to be managed. For the purpose of this research, the term customer is defined only as someone who buys our products or services. This can be either a business customer or an individual one. While an individual customer is a natural one, a business customer is a legal entity. Relationship is the way in which two or more people or things are connected, or the state of being connected. Whereas management is the process of dealing with or controlling things or people to achieve certain predetermined goals.

Therefore, customer relationship management is an approach to manage a company's interaction with currently prevailing and potential *customers* with the intention of improving *business relationships* with *customers* to achieve customer satisfaction, delight and retention for eventual sustainable growth of sales. It is the combination of practices, strategies and technologies that *companies* use to manage and analyze *customer* interactions and data throughout the *customer* lifecycle, with the goal of improving *customer service relationships* and assisting customer retention and improving sales volume (Bitner M, 1995). It is evident from this point that when

we focus on managing customer relationships, our primary goal is to maximize sales by persuading the customers come again and again to our business. Why they come again and again to our business because of the satisfaction and delight they get from our service that is bolstered by the customer relationship management.

With the advent of knowledgeable customers and highly competitive market, the traditional transaction based marketing is proved to be obsolete where by the need to find out customers' needs and wants beyond who the customer merely is has become the way of making business. High competition in the market is due to the possibility of customers to transfer in between the banks with little or no switching costs. To do so, understanding and keeping track of customers' needs and wants using relationship management has become imperative to survive in the marketplace at least in the short run.

Moreover, as various authors ascertain, the cost of retaining existing clients is by far less than the cost of attracting new ones. Hence, it has been found that a company stands a much higher chance of doing successful business when selling to its existing customers; its chance of successfully making repeated sale to an "active" customer standing at 60% to 70%. On the other hand, its chance of successfully closing a sale on a new customer can be as low as 5% and rarely exceeds 20%. It takes an average of 8 to 10 physical calls in person to sell a new customer, 2 to 3 calls to sell an existing customer. It is 5 to 10 times more expensive to acquire a new customer than obtain repeat business from an existing customer. Furthermore, a 5% increase in retaining existing customers translates into 25% or more increase in profitability. (Rana S. et al 2014). Thus, to maintain the existing customers at a lower cost as compared to attracting new ones, relationship management is essential. In the meantime, it has become evident that the satisfaction customers derive from a relationship depends on how the relationship is managed (Rana S. et al 2014). Thus, what matters is not only introducing CRM in the business but application of effective relationship management that encompasses all the necessary dimensions.

CRM is born from relationship marketing and is simply the practical application of long standing relationship marketing principles which have existed since the dawn of business itself (Gummesson, 2004). It builds on the philosophy of relationship marketing in that it aims to create, develop and enhance relationships with carefully targeted customers to maximize customer value, corporate profitability and thus shareholders value (Frow and Payne, 2005).



Several factors have contributed to the rapid development and evolution of CRM. These include the growing de-intermediation process in many industries due to the advent of sophisticated computer and telecommunication technologies that allow producers to directly interact with end-customers. Moreover, the following important perspectives have been found to be the major contributors to the outgrowth in origin of CRM as a strategic approach.

- The belief that customers are the real assets and not just the people in the audience. They need to be served individually instead of in a group as their needs and wants are different that should be satisfied differently through segmentation.
- The maturation of one-to-one transaction advent.
- Extensive use of software and technologies to maintain useful information about the customer.
- The realization of the benefits of utilizing information proactively rather than retroactively.
- The change of business view to relationship approach rather than transactional approach.
- The approach of concentrating more on customer values rather than concentrating on how the product or service is delivered to the customer.
- The approach of focusing on customer satisfaction and loyalty rather than focusing self satisfaction and company profit. This is the long term and sustainability emphasis instead of instant profit maximization.
- The acceptance of the fact that the cost of using high end technologies and software can radically be decreased without compromising on quality services with the proper application of relationship management.
- The increasing tendency to retain existing customers and trying to get more and more business out of them through environmental scanning and word –of-mouth marketing. While environmental scanning is identifying and approaching who is around the existing customer, word-of-mouth marketing is the use of the delighted clientele as the eye witnesses in attracting the new ones.
- The realization that the traditional trends of marketing and selling are increasingly fading out in the current economic scenarios (Bellenger *et al.*2004).

Relationship marketing is a term first introduced in 1986 to the service marketing literature by Dr. Leonard L. Berry who defined it as attracting, maintaining, and enhancing customer relationships (Smith, 2011). According to Smith relationship marketing's focus is to move all customers up the ladder of loyalty. Relationship marketing is an effort that will make your prospective customers aware of your products and services position your business in their minds as the obvious choice and help you build lifelong profitable relationships with them.

Berry argues that the researchers and business men have concentrated mostly on how to attract customers towards products and services rather than retaining them. According to Berry, attraction of new customers should be only the preliminary step in the process of marketing and maximum focus should be on retention approach.

Many researchers suggested that in a service industry, the objective should not be only attracting the new customers but to build and maintain a strong and long-term relationship with the existing customers. The cost of maintaining existing customers frequently are lower than the cost of attracting new customers (Berry, 1995). The definition of Relationship marketing within the service marketing literature is, "RM concerns attracting, developing, and retaining customer relations". The strategy of relationship is particularly important to the service industries because of the intangible nature of service and their high level of customer interaction. As more evidence shows that customer satisfaction and profitability are directly related, it is very important for service industry to focus on building strong firm-customer relationship. Consequently, customer retention will increase, company profitability will increase, and the company can secure a sustainable competitive advantage.

According to (Benouakrim&Kandoussi, 2013), Relationship marketing is a strategic process aiming to establish, develop, maintain and strengthen the network of relationships with various stakeholders on the basis of strong economic and social standards and the achievement of common objectives.

Similarly, according to (Kotler, et al, 2005), relationship marketing involves creating, maintaining and enhancing strong relationships with customers and other stakeholders. Increasingly, marketing is moving away from a focus on individual transactions and towards a focus on building value-laden relationships and marketing networks. Relationship marketing is

oriented more towards the long term. The goal is to deliver long-term value to customers and the measure of success is long-term customer satisfaction. Relationship marketing requires that all of the company's departments work together with marketing as a team to serve the customer. It involves building relationships at many levels – economic, social, technical and legal – resulting in high customer loyalty

Harker (1998) identified the following most common issues of relationship marketing:

- Relationship marketing refers to commercial relationships between economic partners, service providers and customers at various levels of the marketing channel and the broader business environment.
- The creation, maintenance and termination of commercial relationships in order that parties to the relationship achieve their objectives (mutual benefit).
- Profit remains an underlying business concern and relational objectives are achieved through the fulfillment of promises.
- Trust is essential to this process of relationship development and centers upon the keeping of promises.

The relational paradigm drives an organization to focus on relationships (Gummesson, 1987; Håkansson, 1982). Strategically this involves identifying which relationships are to be pursued and how they are to be managed (Morgan and Hunt, 1994; Gummesson, 1994).

### **2.1.2 Customer relationship management (CRM) Dimensions**

Banks should use CRM as a principle of growth and adopting a customer relationship management strategy effectively addresses four key areas: customers, processes, technology, and knowledge management (Gazmend N, 2017). Above all, focusing on customers' satisfaction has become a fact that no one can escape. A satisfied customer has a high tendency to revisit a firm on one hand and persuade others to be customer of the business in which he /she is satisfied. A business created through the use of the words-of-mouth of satisfied customers is usually termed as referral business. Also, the process through which a business is undertaken matters the level of customer satisfaction. Finally, supporting the overall business undertakings and managing customer information is detrimental to achieve customer satisfaction and retention.

Per Sadek *et al.* (2011), CRM was theorized as a multi- dimensional construct consisting of four broad behavioral dimensions: Key customer focus, CRM organization, Knowledge management, and technology-based CRM. Hence, it is essential to conceptualize these four CRM dimensions before trying to see the empirical literatures.

Customer relationship management dimensions used in this particular study are described in the following way

### **1. Trust**

Trust is defined in various ways in the marketing literature; Morgan and Hunt (1994) define trust as confidence in the exchange partner's reliability and integrity. This does not, however, mention the insecurity that trust is seen to overcome. Trust is also a psychological state comprising an intention to accept or leave, based upon the positive expectations of the intentions or behavior of others (Rousseau *et al.*, 1998). Trust is not itself a behavior (unlike for example cooperation) nor a choice (as in taking a risk) but an underlying condition that can result from such activities (Rousseau *et al.*, 1998).

Schurr and Ozanne (1985) defined the term as the belief that a partner's word or promise is reliable and a party will fulfill his/her obligations in the relationship. Similarly Du Plessis (2010) defines trust as: Trust refers to one party believing that the other party will act in his best interest, that the other party is credible and that the other party has the necessary experience. A key element from this definition is credibility. Credibility affects the long-term orientation of a customer by reducing the perception of risk associated with opportunistic behavior by the firm

Further Calonius (1988) strengthen that an integral element of the relationship marketing approach is the promise concept. He suggested that the responsibilities of marketing do not only, or predominantly, include giving promises and thus persuading customers as relationship marketing and customer loyalty passive counterparts in the marketplace to act in a given way, but also in keeping promises, which maintains and enhances evolving relationship.

As well as generating cooperative behavior, trust may (Rousseau *et al.*, 1998):

- reduce harmful conflict;
- decrease transactional costs (e.g. negating the need for constant checks);
- promote adaptive organizational forms (e.g. network relationships);

- facilitate the rapid formation of ad hoc work groups;
- promote effective response to a crisis

In service marketing, Berry and Parasuraman (1991) find that customer-company relationships require trust. As it has been explained by Morgan and Hunt, (1994), similar to commitment, trust is considered as central to all relationship exchanges

## **2. Commitment**

According to Dwyer et al., 1987; Morgan & Hunt, (1994), Commitment is found to be the most influential variable and dimension of customer relationship marketing that predicts customer loyalty and it is central ingredient of establishing and maintaining long-term relationships

Najjar (2008) define commitment as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely While, Dwyer et al. (1987, 19) defined commitment as ‘an implicit or explicit pledge of relational continuity between exchange partners. Relationship commitment exists only when the relationship is considered important, and a committed partner wants the relationship to endure indefinitely and is willing to work at maintaining it.

Cai&Wheale, (2004), argued that a high level of commitment provides the context in which the customer and business can achieve individual and joint goals without fear of opportunistic behavior because more committed partners will exert effort and balance short-term problems with long-term goal achievement. Higher levels of commitment are expected for relationship success. Commitment is a means by which to differentiate successful relationships from unsuccessful ones; hence strong relationships are built on the foundation of mutual commitment (Ibrahim &Najjar, 2008).

In the service relationship marketing area, Berry and Parasuraman (1991) further argued that relationships are built on the foundation of mutual commitment. A common theme emerges from the various literatures on relationships, parties identify commitment amount exchange partners as key to achieving valuable outcomes from themselves, and they endeavor to develop and maintain this precious attribute in their relationships.

### **3. Communication**

Communication simply refers to the ability to provide timely and trustworthy information to customers

As a result of technology advancement a two-way customer relationships have profoundly changed the ways in which people relate to one another. Kotler and Armstrong (2012) pointed out that new tools for relating include everything from e-mail, web sites, blogs, cell phones, and video sharing to online communities and social networks, such as Facebook, YouTube, and Twitter.

According to Morgan & Hunt (1994) communication can be defined broadly as the formal as well as informal sharing of meaningful and timely information between firms. A partner's perception that past communications from another party have been frequent and of high quality – i.e., relevant, timely, and reliable - will result in greater trust. Thus, communication is part of the key construct of relationship marketing according to them. Similarly Liang and Wang (2006) confirmed the important role of commitment in a relationship, and found that, as commitment becomes more remarkable, the relationships on both sides become more stable.

Today, marketers are moving toward viewing communications as managing the customer relationship over time (Kotler and Armstrong, 2012).

### **4. Key customer focus**

A customer-focused structure, culture, policy, and reward system of an organization should pervade any organization that strives to implement CRM successfully. This involves an overall customer-centric focus, and continuously delivering superior value to selected key customers through personalized/ customized offerings (Parvatiyar and Sheth, 2011).

Key elements of this dimension consist of customer-centric marketing, key customer lifetime value identification, personalization and interactive co-creation marketing (Sadek *et al.*, 2015). Accordingly, key customer focus is composed of dialog with customers on customizing their needs, customizing products, customer needs assessment and implementation of customer needs information.

Among others, what most of the banks do is customer segmentation and trying to serve the corporate and the small and medium enterprise clients separately. While all customers are given

adequate concern in satisfying their needs, the corporate level customers are given higher emphasis as they fetch to the banks bigger and sustainable financial return. In short, key customer focus is to mean segmentation of the customers based on some criterion like small and medium customers versus corporate customers based on deposit transaction or loan portfolio as Dashen Bank is doing currently.

## **5. Knowledge Management**

According to the knowledge-based view of the organization, the creation, the transfer, and the application of knowledge is the primary rationale for a firm's existence. From a CRM perspective, knowledge can be learned from experience or empirical study of consumer data (Sadek *et al.*, 2011). Successful CRM is predicated on effectively transforming customer information to customer knowledge.

Specifically, to enhance customer profitability, information about customers should be gathered through interactions or points of sale across all functions or areas of the firm so that all rounded customer view is established, maintained, and continually updated (Sadek *et al.*, 2011). Customer knowledge generated through customer insights, close interactions, and customer intelligence needs to be shared and disseminated throughout the organization in a well organized manner. As we are at the age of digital services, the gathered and processed customer knowledge should be stored digitally for the eventual retrieval as and when deemed necessary. Besides, all the customer information should be formally kept to be easily accessed by the employees to satisfy the customers.

The three facets of knowledge management competence are knowledge development, knowledge dissemination, and knowledge application (Arnett and Badrinarayanan, 2005). One important feature of knowledge development is the fact that knowledge is not found in the database of any firm and can only be created from information that may be found in the database or elsewhere. This knowledge can be acquired through both formal and informal learning, personal experiences, and environmental scanning (Arnett and Badrinarayanan, 2005). Overall, key facets of this construct include learning about customer needs and wants, processing and storing the acquired knowledge, dissemination and sharing of this knowledge and action (Sin *et al.*, 2005).

### **2.1.3. Benefits of CRM**

Early researchers had hypothesized that CRM's benefits varied by industry as the processes and technologies associated with it were tailored to specific industry structures (Rust, Lemon,

Zeithaml, 2001). However, findings from relatively recent years' cross cultural, multi-industry study of CRM support that the CRM benefits do not vary greatly across industries or countries but rather converge to some degree (Reinartz et al., 2004). This later finding lends support to the idea that core benefits associated with CRM initiatives exist across contexts. The identified eight core benefits by the above author are summarized herein below.

- **Better client relationships.** The more we know and remember about our customers, the more our customers know we care about them. This enables us to forge a much stronger connection and a deeper relationship with our clients. Eventually, this leads to better customer retention.
- **Improved ability to cross-sell.** The more we know about our clients' needs and wants, the better able we are to provide the solution to their next problem. By making use of this well developed problem solving capacity, we can easily make parallel sales of a new product along with the existing one.
- **Increased team coloration.** With effective CRM, it is easy to develop and maintain the team spirit among the employees so as to seek for ways that enable us satisfy and delight the clients. One of the best findings of Henry Fiyol is that the whole is far greater than the sum of its parts.
- **Improved efficiency in serving clients.** Again, the more we know about clients, the better able we are to serve them. If everyone is using the CRM to record their customer interactions, every client interaction with the bank, then others' are able to serve the client with the knowledge of what has been previously discussed with the client. Thus, easily treatment of all customers is possible by all employees through relationship management.
- **Greater staff satisfaction.** The more knowledge our employees have about our customers the more empowered and engaged they are. Having an accurate and up-to-date CRM that everyone uses and has access to helps employees solve client problems. Doing so makes both employees and clients happy. That also enables us maintain longtime relationships with our happy clients.
- **Increased revenue and profitability.** Once everyone learns, and uses, the CRM productivity increases, sales volume increases and we get the ability to provide additional products and services to clients and client satisfaction increases.



- **Cost savings.** While CRM during initial implementation is expensive and time-consuming, over time the benefits far outweigh the costs. Members of the sales team are able to better schedule meetings with prospects in the same geographic area. Client-service representatives are better able to resolve a client's concern. We become able to have a central client and prospect database that everyone can access and serve the customer in a uniform basis that reduces business making costs and increases profitability.
- **Less client attrition.** The above study show that when a client is engaged with only one member of a professional services firm, the risk of attrition is 40%. When five or more partners are involved in a client relationship, the risk of attrition falls to less than 5%.

CRM enables an organization to gain better information on customers' values, behaviors, needs and preferences and helps it gain a competitive edge over its rivals. It helps to identify customers' potentials, uncover the profiles of key customers, anticipate their wants, predict their behavior, win back lost customers, create 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 (Homburg, Hoyer, and Stock, 2007).

Finally, CRM has proven benefits in the real business arena, particularly for the banking sector. In their study for measuring the effect of CRM components on the non- financial performance of Egyptian commercial banks, Sadek *et al*, 2011 have confirmed that the deployment of the CRM components has positive association with customer satisfaction and consequently to customer loyalty. Banks used CRM have been witnessed to better perform than those that did not use it.

#### **2.1.4 CRM and the Service Sector**

The present day's financial service industry has become highly dynamic and turbulent. The fundamental causes include frequently changing government regulations, dynamic consumer behavior, information-communication breakthrough and intense competition (Heinonen, 2014). Banks have to exert great efforts to create added customer value. It can be done through creating long-term customer relationships that provide greater value than the value provided by the banking product itself. Building of any added value is hard to achieve nowadays since

competitors' activities, which are often very similar, erode added value of any business (Zineldin, 2005).

Service firms especially financial organizations such as banks are regarded as companies that most likely to benefit from CRM implementation due to the fact that they collect and accumulate a lot data on each customer (Bose, 2002).

Since services are typically produced and delivered at the same institution, it minimizes the role of middlemen. Between the service provider and the service user an emotional bond also develops creating the need for maintaining and enhancing the relationship. It is therefore not difficult to see that CRM is in service marketing. Also, customer expectations have been changing rapidly over the last two decades. Fueled by new technology and the growing availability of advanced product features and services, customer expectations are changing almost on a daily basis (Bose, 2002).

For instance, the use of Automatic Teller Machine (ATM) was not thinkable in Ethiopia before fifteen years from now. But today, citizens are reached at the condition when they can effect payments and transfer funds from one account to the other by the use of smart phones. Besides, through Dashen Bank's Amole product, one can easily purchase sports entrance tickets without necessitating queuing up in line around the stadium. It has also been possible to effect bills payments through our smart phones from wherever we are.

Consumers are less willing to make compromises or trade-offs in product and service quality. In a world of ever changing customer expectations, building cooperative and collaborative relationships with customers seems to be the most prudent way to keep track of their changing expectations and appropriately influencing them (Bose, 2002 ).

### **2.1.5 CRM in the Banking Industry**

Bank is merely a financial institution that accepts deposits and lends money to the needy persons. Banking is the process associated with the activities of banks. *It* is an industry that handles cash, credit, and other financial transactions. *Banks* provide a safe place to store extra cash and credit. They offer savings accounts, certificates of deposit, and checking accounts. Also, they provide credit facilities, electronic payment schemes and electronic commerce. Banking activities include issuance of cheque and cards, monthly statements, timely announcement of new services, helping the customers to use internet and mobile banking services, among others. CRM in

banking is a business strategy to identify the most profitable customers and prospects, and devote time and attention to expanding relationships through individualized marketing, pricing, and decision making (Dimitriadis, 2011).

In banking, relationship management is having deeper knowledge about the customer, keeping in touch with the customer, ensuring that the customer is getting what he/she wishes to get and understanding when they are not satisfied (Jugovic, et al., 2015). The present day CRM includes developing customer base. Accordingly, banks have to pay adequate attention to increase customer base by all means. It is possible if the performance is at satisfactory level, the existing clients can recommend others to have banking connection with the bank he/she is operating that is known as referral banking. Hence, asking reference from the existing customers can develop their client base. If the base is increased, the profitability will also increase (Saeed, *et al.*, 2011).

### **2.1.6 Banking Service in Ethiopia**

Evolution of modern institutionalized financial system in Ethiopia started in 1905 following the establishment of the first bank by historically reminiscent name of Bank of Abyssinia. This Bank introduced for the first time in Ethiopian financial system's historical banking services and instruments such as deposit accounts and export financing (Gidey, 1987). But it is not the present day Bank of Abyssinia.

In pre 1974 Ethiopia, the financial system operated in a free market economic environment. However, in 1980s, the financial system was restructured and reorganized to serve centrally planned economic system in accordance to the socialistic view of the Dergue government. The socialistic view of the day was to maximize social welfare and discourage individual capital accumulation. During this period, the government nationalized all financial institutions in the country and created three specialized banks (excluding the central bank) and one insurance company. Private ownership of financial institutions was totally prohibited.

Following the principles of mono-banking, the three state-owned banks and the insurance company were administered by the central bank –the National Bank of Ethiopia (NBE). Indeed, the NBE used to run those government-owned financial institutions like its own cost centered functional units. Among the specialized banks, the then Agricultural and Industrial Development Bank (the current Development Bank) was responsible for financing agricultural and industrial

projects with medium and long term loans, while the then Housing and Savings Bank (later on Construction and Business Bank which is merged with the CBE) used to lend for construction of residential and commercial buildings. The third bank, Commercial Bank of Ethiopia (CBE) was the only bank engaged in trade and other short term financing activities (Berhanu & Befekadu, 2000).

In the post 1991, as a result of the shift from socialist to market economic system through the overthrow of Dergue military junta and the coming into throne of the then Ethiopian People's Revolutionary Democratic Front(EPRDF), Ethiopia reformed its financial sector policy. The reform measures included comprehensive restructuring of government owned financial institutions and paving the ways for private sector participation in the financial sector of the country.

The three government-owned banks and one insurance company inherited from socialist regime were made autonomous in terms of managing their business and recapitalized their capital position but the NBE was made in charge of monitoring and controlling the performance of the entire financial sector of the country. While there was no change in the role of Commercial Bank of Ethiopia (as short term financier), Development Bank of Ethiopia (as provider of medium and long term development finance) and Ethiopian Insurance Corporation (as provider of both general and life insurance services), CBB was allowed to engage in short-term financing activities (Berhanu & Befekadu, 2000).

Following this major change in the financial sector of the country, Dashen Bank was founded by eleven visionary shareholders and veteran bankers with initial capital of Birr 14.9 million in September 1995. Upon securing license from the NBE, Dashen opened its doors for service on the 1st of January 1996 with eleven fully-fledged branches.

Dashen Bank coined its name from the highest peak in Ethiopia, mount Dashen, and aspires to be 'Best in class Bank in Africa'. The Bank aimed to be among the leading banks in Africa and it will extend its reach across Africa both for competitive benchmarking and business.

Headquartered in Addis Ababa, the Bank is among the biggest private Banks in Ethiopia. Dashen is the most reputable brand in the domestic banking market; a reputation earned Ethiopia. It operates through a network of more than 403 Branches, ten dedicated Forex Bureaus, 372 ATMs

and 904 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. It has established correspondent banking relationship with 462 banks covering 70 countries and 170 cities across the world. As the Bank states, wherever a business takes customers around the world, Dashen Bank is already there.

The Bank also works in partnership with leading brands in the electronic payments industry (AMEX, VISA, MasterCard & UnionPay) and prominent money transfer operators (Western Union, MoneyGram, Express Money & Dahabshiil, EzRemit, Transfast, and Ria). Hence, the bank managed to register major expansions both in its capital position and customer outreach during its life time of 25years.

Nevertheless, the adoption of CRM as a business strategy is new phenomenon to the Ethiopian banking industry in general and to Dashen Bank in particular(DB Company profile, 2019). Hence, this research work has an intention of assessing the level of CRM practice in Dashen Bank and its effects on customer satisfaction and retention.

## **2.2. Customer loyalty**

Customer loyalty is the most important goal of implementing relationship marketing activities. Oliver (1997) defined customer loyalty as a deeply held commitment to re-buy a preferred Product/service consistently in the future, thereby causing repetitive same-brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause Switching behavior. It is assumed that customers who are behaviorally loyal to a firm display more favorable attitudes towards the firm, in comparison to competitors. Customer satisfaction and loyalty are highly correlated. Customer satisfaction with a bank relationship is a good basis for loyalty (Leverin and Liljander, 2006).

The loyalty of the customers is the backbone of the business organization as it is low costly than acquiring new customers. Banks should consider the customer loyalty aspect as the most important activity to become more profitable and stay competitive in the market. Buerenet. al. (2005) mentioned that committed customer is deeply rooted with the organization that they make effort to re-purchase the product and services in future even in case the competitors make effort to influence the customer behavior and create the situation to make potential switching and the loyalty acts into both the dimensions, i.e. attitudinal and behavioral.

Hoqet. al. (2010) pointed that the loyalty of the customer is key aspect of the growth of organization as once the customer becomes loyal for the organization then it will ensure repeat purchase. The customer referrals will further increase resulting into growth in revenue, profitability and market share. The loyal customer providing word of mouth referrals are acting as free marketer and the fact is true that the customers are best advocates. The loyal customers also inform the organization regarding the moves of their competitors by informing them about latest service addition and this gives a room of breath to organization.

Lacey (2009) through his research finding came to the conclusion that customers are vital sources for future revenue Streams and marketing intelligence to the firm and loyal customers are willingly share insight about their needs and provide the opportunity for firms to tailor products, pricing, distribution Channels and marketing communications. This author also indicated that relational outcomes Reflect the combination of marketing resources that contribute to a more efficient and effective marketing enterprise, including personal referrals, sharing personal information, engaging in firm-sponsored marketing research activities, providing complaint feedback, being more open to firm promotions and increasing purchasing activities.

Oliver (1997) describes four levels of loyalty based on these components:

1. **Cognitive**’ one brand is preferable based on superior brand attributes.
2. **Affective**: liking towards brand has developed over the course of multiple purchase situations that were satisfying.
3. **Co native**: affective stage which expresses intention to re-buy.
4. **Action**: Co native stage plus the active desire to overcome situational influences and marketing efforts that may have the potential to cause switching behavior. On reaching the action phase, the customer possesses a deep commitment to repurchase but also is active in blocking the influence of alternative brands. Action level loyalty will be created when consumers intentionally immerse themselves in a social system that rewards brand patronage. As Oliver (1997) lists the requirements for this state to occur are the following.
  1. The product must be perceived as superior by a large enough segments of the firm’s customers in order to be profitable.
  2. The product must be subject to respect (or focused commitment).
  3. The product must have the ability to be embedded in a social network

### **2.2.1. Customer loyalty in the service provider organizations**

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

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

As Balakrishnan and Els (2008) states service initiatives aimed at customer relationship management often look at four areas such as satisfaction, retention, loyalty and lifetime profitability. They also suggest a fundamental criterion for the success of customer initiative schemes is making sure that customer perceived value is met or better still, whether it is exceeded and organizations should evaluate future service schemes with respect to cost and results. They also pointed out that in a competitive environment where the customer has myriad

choices and few switching costs, loyalty could from the organization point of view decrease costs and increase revenues.

According to Gee *et al.*, (2008) the need for businesses to retain customers is an important issue in today's global marketplace. They also suggested that to retain customers, a business must build long-term relationships with profitable customers. Good communication in service organizations should affect all aspects of the relationship, but largely trust, satisfaction, and loyalty (Ball *et al.*, 2004). Interactions between the customer and the service organization lie at the heart of service delivery and people who deliver the service are of key importance to both the customer they serve and the employer they represent (Huseyinet *al.*, 2005). They also indicated that bank customers want a high degree of interaction with bank staff that are sensitive to their needs and expect personalized service.

The findings of Ndubisi (2007) suggested that the greater the trust in the bank, the higher the level of the bank's commitment, the more reliable and timely its communications and the more satisfactorily it handles conflicts, the more loyal its customers will tend to be. Effective communication affects customers to stay with a provider of banking services. Loyalty can be nurtured by providing timely and reliable information, for example about the uses and benefits of new banking services or about the status of transactions. It can also be reinforced by the provision of honest information on what the bank is doing about existing problems and what it does to anticipate potential ones.

As far as banking sector is concerned the each of the banks are having tough fight with each other in order to gain more market share because of globalization effect. Now, some Ethiopian banks have started using the strategy of relationship marketing in order to develop the loyal customer base and this is improving their financial and market performance by adding competitive advantage to the system. More importantly, Johnson & Grayson (2005) implied that, the banks have to be trustworthy, reliable, operating open communication channel and also show commitment towards services in order to handle the customers. The loyal customers are great asset of the organization, so they should maintain a strong customer base as they bring a greater number of customers for the organization because of their favorable word of mouth resulting into increased profitability and revenue



### **2.2.2. Customer loyalty and customer retention**

Today companies are target on developing stronger bonds and loyalty with their ultimate customers. In the past, many companies took their customers for granted. Their customers either did not have many alternative suppliers, or the market was growing so fast that the company did not worry about fully satisfying its customers. These companies need to pay closer attention to their customer defection rate and undertake measure to reduce it. Today's companies are going all out to retain their customers. They are struck by the fact that the cost of attracting new customer may be five times the cost of keeping a current customer happy (Kotler& Armstrong, 2010).

Good customer relationship management creates customer delight. In turn, delighted customers remain loyal and talk favorably to others about the company and its products. Studies show big differences in the loyalty of customers who are less satisfied, somewhat satisfied, and completely satisfied (Kotler& Armstrong, 2010). Even a slight drop from complete satisfaction can create an enormous drop in loyalty. Thus, the aim of customer relationship marketing is to create not18 just customer satisfaction, but customer delight and customer loyalty. Companies are now realizing that losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. As companies move form a transaction-oriented view of their customers to a relationship building view, they will create and sponsor programs to keep their customers coming back, buying more, and staying loyal.

The challenges is to develop a special relationship with the companies best customers in which they experience good two-way communication and see themselves as receiving special privileges and awards. Among the most promising programs are frequency marketing programs and club marketing programs (Kotler, 1994). Frequency marketing programs (FMP) are designed to provide rewards to customers who buy frequently and/or in substantial amounts. Kotler (1994) defined frequency marketing as the effort to identify, maintain, and increase the yield from best customers, through long-term, interactive, and value added relationships. Frequency marketing is an acknowledgement of the Pareto principle which 20% of a company's customers might account for 80% of its business. In club marketing programs- many companies have created club concepts around their product (Kotler, 1994).

Club membership can be offered automatically upon purchase or promised purchase of a certain amount. According to Huseyinet *al* (2005) findings, it is more expensive to find and attract a new customer than it is to retain an existing one and banks need to redefine their corporate image to one that emphasizes service quality by introducing standards for service excellence to make loyal.

### **2.3 Empirical Review**

The development of long-term relationships with selected customer acquisition requires knowledge of the dimensions contributing to the establishment and maintenance of such relationships. Although numerous empirical studies have been conducted, most focused on specific sections of the marketing relationship, such as the influence of satisfaction on trust, trust on commitment; and commitment on an exchange partner's intention to stay in a relationship. In this study very important empirical research findings with direct relation to the research topic have been reviewed. Empirical researches related to financial and other business sectors such as hotel and manufacturing industries were covered in these research studies.

Shifts toward relationship marketing become a major issue in the contemporary marketing and attract the attention of marketing academics and practitioners. For instance, Abaynesh (2014) studied the effects of relationship marketing on customer loyalty on manufacturing industry, and her study findings indicate that relationship marketing dimensions can enhance the quality of a buyer-seller relationship and in turn increase customer loyalty of Hibret Manufacturing and Machine Building Industry.

Yonnas (2014) also studied the impact of relationship marketing and service quality on customer loyalty and trust in the Airline industry, and he empirically supported his research finding.

Meskerem (2015) studied the impact of relationship marketing on customer loyalty in Commercial Bank of Ethiopia, and her research result indicated that relationship marketing is positively related to customer loyalty in Commercial Bank of Ethiopia. All these studies use different kind of conceptual frameworks, however they all reach same conclusion.

Betty (2014) studied the impact of relationship marketing practices on customer retention in the insurance industry in Kenya; Abizer (2015) also investigated the influence of customer

relationship marketing strategies on performance of synthetic hair manufacturers in Kenya; both studies suggested the need for customer relationship marketing.

Similarly, Saravanakumar and Senthil (2013) studied the impact of customer relationship marketing strategy and customer loyalty – a study of banking sector in South India, and their study brings another breath to the customer relationship marketing. Thus, in this research the effect of customer relationship marketing on loyalty for a different but important and mostly unnoticed business sector, the banking industry, has been studied.

## **2.4 Related Works**

The development of long-term relationships with selected customer retention and then by loyalty requires knowledge of CRM dimensions contributing to the establishment of such relationships. Although a number of empirical studies have been made, most of them are focused on specific sections of the marketing relationship, such as the influence of satisfaction on trust, trust on commitment; and commitment on an exchange partner's intention to stay in a relationship.

In this study very important empirical research findings with direct relation to the research topic have been reviewed. Empirical researches related to financial and other business sectors such as hotel and manufacturing industries were covered in these research studies.

A shift toward relationship marketing becomes a major issue in the contemporary marketing and attracts the attention of marketing researchers and practitioners. For example, A study made on the CRM in the banking industry of Czech Republic concluded that CRM is playing a major role in increasing the market share, enhancing productivity, creating superior employee's morale, improving customer knowledge towards the services rendered by banks and also higher customer satisfaction that eventually improves customers stickiness with the banks(Rana S et al, 2014).

A study of CRM of Indian banks has revealed that the key drivers for customer loyalty and retention are efficient complaints handling mechanisms, superior service quality and positive staff attitude (Shailja P, 2018). Another a study made on the impacts of CRM on customer satisfaction and loyalty in Malaysia banks has revealed that service quality, service access, and complaints handling have positive and significant impact on customer satisfaction and retention (Saeed A et al, 2017).

Abaynesh (2014) examined the effects of relationship marketing on customer loyalty by taking Hibret manufacturing as case study and found that relationship marketing dimensions can increase customer loyalty.

A study conducted by Yonnas (2014) showed that relationship marketing and service quality have a great impact on customer loyalty. In this particular research trust was identified as the most influential variable.

Similarly, Meskerem (2015) examined the influence of relationship marketing on customer loyalty and the finding showed that relationship marketing and customer loyalty are positively related in Commercial Bank of Ethiopia.

And also Abebaw (2018) studied the effects of customer relationship marketing dimensions on customer retention in Nyala insurance S.C and as per this research finding trust dimension of CRM was the highest determinant variable.

Likewise, Kassahun (2016) through his study entitled as the effects of customer relationship marketing on loyalty in the case of Zemen Bank explored that the four elements of customer relationship management namely: communication, trust, relationship-management and conflict-handling demonstrate a positive and significant association with customer loyalty.

Furthermore, Ashagrie (2017) examined the effects of CRM on loyalty by taking trust, commitment, communication and conflict handling and found that all variables except, commitment had a significant effect on customer loyalty. In this study conflict handling with beta coefficient .518 was identified as the highest determinate of customer loyalty.

Saravanakumar and Senthil (2013) on their study of banking sector in south India also tried to assess the impact of customer relationship marketing strategy on customer loyalty

However, Following it new move or concept for the Ethiopian banking industry, many literatures are not available regarding Customer relationship management. Those which are available mainly concentrated on some dimensions of relationship management and are subject to the following weaknesses.

- Most of them are concentrated on Commercial bank of Ethiopia within the City of Addis Ababa whereas there are about 16 other commercial banks in Ethiopia. Thus, more studies are required that includes other private commercial banks
- Ina additions, Most of them are conducted by taking a sample of respondents from the city of Addis Ababa while 54% Bank branches are distributed in upcountry cities. As a result, the outcome of the studies may not be adequate enough to represent.

Therefore, carrying out this research aimed to help financial institutions in general and private banks in particular to understand the benefits adopting and implementing Customer relationship marketing in bringing customer loyalty. Hence, this study has tried to fill the research gaps observed on previous studies on the topic.

## **2.5 Proposed Conceptual Framework**

The study mainly concerned on the effects of CRM on customer loyalty and it deals with theoretical framework and overview of related concepts. For each context, various factors have been identified from the literature but only those that are considered relevant for study are included in the framework.

The relationship between CRM dimensions and customer loyalty are shown on the below conceptual frame work of the study.

The effects of CRM on customer loyalty

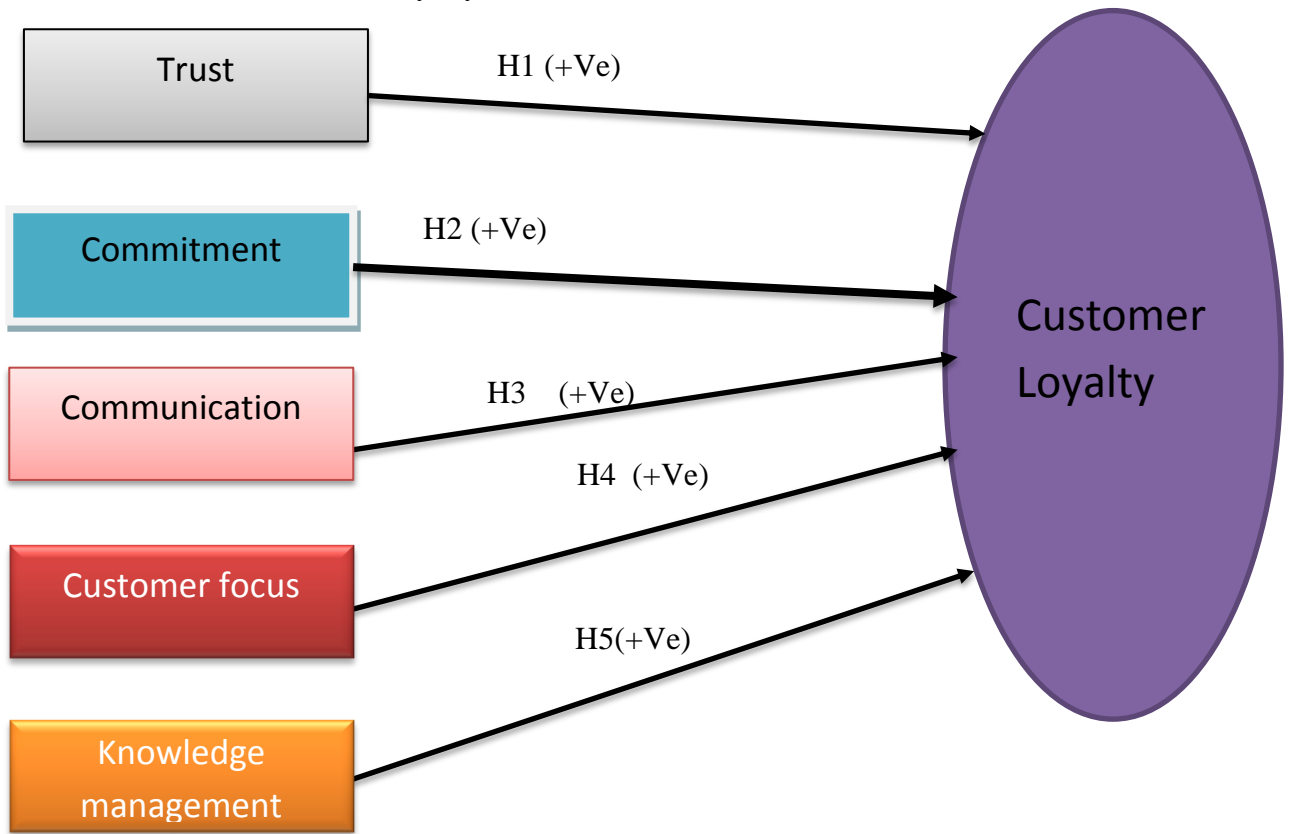


Figure 2.4.1 Proposed Customer Relationship Management Conceptual Framework

Source: Morgan and Hunt (1994) with modification based on reviewed literatures

## 2.6 Hypothesis Development

Base on the proposed conceptual framework of the research the following hypotheses are developed:

Abebaw (2018) studied the effects of customer relationship marketing dimensions on customer retention in Nyala insurance S.Cand as per this research finding trust dimension of CRM was the highest determinant variable. Therefore,

***Alternate hypothesis H<sub>1</sub>- Trust has a positive and significant effect on customer loyalty.***

A study conducted by Yonnas (2014) showed that relationship marketing and service quality have a great impact on customer loyalty. In this particular research trust and commitment was identified as the most influential variable. By converting indifferent customers into loyal ones, companies generate repeat sales. The cost of maintaining existing customers is far below the cost

of finding new ones, and these loyal customers are profitable ones. Lacey and Morgan (2009) findings suggest that customers with stronger levels of commitment are indeed more willing to contribute as customer advocates. They also pointed out that relationship marketing represents a dramatic change in buyer-seller interactions from the previous transaction-based marketing that focused on a single transaction. Effective relationship marketing heavily relies on developing strategic partnerships with customers (Boone & Kurtz, 2005).

Hence,

***Alternate Hypothesis H<sub>2</sub>- Commitment has a positive and significant effect on customer loyalty.***

Ashagrie (2017) examined the effects of CRM on loyalty by taking trust, commitment, communication and conflict handling and found that all variables except, commitment had a significant effect on customer loyalty. In this study conflict handling with beta coefficient .518 was identified as the highest determinate of customer loyalty. Thus,

***Alternate Hypothesis H<sub>3</sub>- Communication has a positive and significant effect on customer loyalty***

A customer-focused structure, culture, policy, and reward system of an organization should pervade any organization that strives to implement CRM successfully. This involves an overall customer-centric focus, and continuously delivering superior value to selected key customers through personalized/ customized offerings (Parvatiyar and Sheth, 2011).

Key elements of this dimension consist of customer-centric marketing, key customer lifetime value identification, personalization and interactive co-creation marketing (Sadek *et al.*, 2015). Accordingly, key customer focus is composed of dialog with customers on customizing their needs, customizing products, customer needs assessment and implementation of customer needs information. Therefore,

***Alternate hypothesis H<sub>4</sub>- Customer focus has a positive and significant effect on customer loyalty.***

According to the knowledge-based view of the organization, the creation, the transfer, and the application of knowledge is the primary rationale for a firm's existence. From a CRM perspective, knowledge can be learned from experience or empirical study of consumer data

(Sadek *et al.*, 2011). Successful CRM is predicated on effectively transforming customer information to customer knowledge.

Specifically, to enhance customer profitability, information about customers should be gathered through interactions or points of sale across all functions or areas of the firm so that all rounded customer view is established, maintained, and continually updated (Sadek *et al.*, 2011). Customer knowledge generated through customer insights, close interactions, and customer intelligence needs to be shared and disseminated throughout the organization in a well organized manner. As we are at the age of digital services, the gathered and processed customer knowledge should be stored digitally for the eventual retrieval as and when deemed necessary. Hence,

***Alternate Hypothesis H<sub>5</sub>-Knowledge management has a positive and significant effect on customer loyalty.***



## **Chapter Three: Research Methodology**

### **3. Introduction**

This section of the study deals with the research design and methodology of the study. Research design and approach of the study, target population, sample and sampling techniques, data collection instruments, methods of data analysis are presented in a clear and organized manner.

#### **3.1. Research design and Approach**

**Research Design:** According to Kothari, (2004), the research design is nothing but the conceptual framework within which the research is undertaken. This study employed explanatory and descriptive research design. In order to investigate the objective of the study and test the hypothesis, explanatory research design is the best suited for this study. This particular study tried to obtain information that describes existing phenomena by asking sampled respondents about their perceptions on the effects of CRM dimensions on Customer loyalty. Hence, it adopted a descriptive research design

**Research Approach:** According to Tundui, 2012, the quantitative approach struggles for accuracy by concentrating on items that can be counted into prearranged categories and subjected to statistical analysis. It is quite possible to generalize that quantitative research approaches produces statistical data through the use of large scale survey research, using methods such as close ended questionnaires and/or structured interviews (Dawson 2002).

This study used this approach because the data that have been used in the main questionnaire were quantitative and analyzed using statistics such as, correlation and regression analysis

#### **3.2. Population of the study**

The study was undertaken to examine the effect of relationship management on customer loyalty by the customers of Dashen Bank S.C. The bank has more than 450 branches, excluding those branches currently under formation; the branches are clustered in 8 districts in all over Ethiopia with total population of over 2.5 million and nearly 1.8 million account holders in four districts of Addis Ababa respectively. Due to the time and money constraint , for this research the population is corporate customers of Dashen bank S.C who are banking with various branches of the bank found

in various geographical locations of Addis Ababa specifically from the four districts namely , North, south, west and east districts of the bank, having 182 branches.

The following table shows total number and grades of all branches found under the four district offices of Addis Ababa city as at June 30, 2021.

District Name	Branches Grade				
	I	II	III	IV	Total
North Addis	40	4	2	2	<b>48</b>
South Addis	32	4	2	3	<b>41</b>
East Addis	43	4	0	3	<b>50</b>
West Addis	38	2	1	2	<b>43</b>
<b>Total</b>	<b>153</b>	<b>14</b>	<b>5</b>	<b>10</b>	<b>182</b>

Source: Strategy and Innovation Department of Dashen Bank

From a total of 1.8 million account holders who have banking relationship in four districts of Addis Ababa, **1,662** of customers are classified or segmented as corporate customers based on their deposit contribution and with credit facility equal or greater than birr 10 million.

Hence the population for this study is 1,662 corporate customers of Dashen Bank S.C.

### **3.3. Sampling size and techniques**

There are several approaches to determining the sample size. These include using a census for small populations, imitating a sample size of similar studies, using published tables, and applying formulas to calculate a sample size.

A sample size refers to the number of items to be selected from the universe to constitute the sample, and this answers how many sampling units should be surveyed and interviewed, (Kothari, 2004). Large samples give more reliable results than small samples. According to Yamane (1967) a good and enough sample size is calculated by the formula as follows with a 95 percent confidence level and 0.05 level of precision. The formula is presented here under:

$$n = \frac{N}{1+Ne^2} \dots\dots\dots 1$$

Where;

- ❖ n is the sample size
- ❖ N is the population size
- ❖ e is sampling error

Accordingly, sample of this research was calculated as follows

$$n = \frac{1,662}{1 + 1,662(0.05)^2} = 322.4 \approx 323 \dots\dots\dots 2$$

The sample size of this study was therefore 323 Dashen Bank corporate customers who have corporate banking relationship in the four districts of Addis Ababa.

Accordingly, 323 questionnaires were distributed to meet up to the required level of number of responses from corporate customers of Dashen Bank of the four districts. Branches were selected by using simple random sampling method from the districts expecting that the researcher would get the necessary data. To obtain representative samples, in selecting the research respondents, convenience method was applied, and therefore the study took 323 respondents as target respondents.

### **3.4. Data collection instruments and variables**

The study used primary and secondary source of data. Primary data was collected based on structured questionnaires developed and distributed to respondents. In doing so, the questionnaires were adopted to extract customers' experience regarding the relationship management dimensions namely Trust, Commitment, communication, customer focus and knowledge management towards their loyalty to the Dashen Bank S.C.

### **3.5. Data analysis**

Having collected the primary data through questionnaires, the researcher made analysis using regression and correlation models. Correlation analysis was a conducted to measure the strength of

the association between CRM dimensions and Customer loyalty. Whereas regression analysis was made to determine by what extent CRM (the five core dimensions) explained or influenced customer loyalty.

Tools like tables and percentage were also used. The data analysis was done by using SPSS software version 22. For the sake of reducing possibility of getting wrong answers and to ensure the soundness of this study, the following measures were taken.

1. Data was carefully collected from trustworthy sources, from respondents who have banking business with the bank.
2. The questionnaire was based on literature review
3. The latest SPSS software version was employed to analyze the statistical data and maximum was made during data coding.

### **3.7. Model Specification/Assumptions**

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + \dots + b_nx_n + \varepsilon$$

Where, Y = Customer Loyalty

a = y intercept

b<sub>1</sub> = the regression coefficient of trust

X<sub>1</sub> = Trust

b<sub>2</sub> = the regression coefficient of commitment

X<sub>2</sub> = Commitment

b<sub>3</sub> = the regression coefficient of communication

X<sub>3</sub> = communication

b<sub>4</sub> = the regression coefficient of customer focus

X<sub>4</sub> = Customer focus

b<sub>5</sub> = the regression coefficient of knowledge management

X<sub>5</sub> = knowledge management

ε = error term

### **3.7 Validity and Reliability**

#### **3.7.1 Validity**

To check the validity of questioners and to make sure that questioners are valid in terms of content, the researcher has performed the following activities:

1. Before questionnaires were distributed to respondents, a pilot test was conducted, and pilot questioners were distributed to individuals who had previously undertaken a research and expertise in the area.
2. Questioners were submitted to the advisor for further comment.

Based on their valuable comments, modification was done on questionnaires.

#### **3.7.2 Reliability**

According to Burn and Bush (2014) reliability is the degree to which a respondent is consistent in his or her answers.

To assess the reliability of a scale measurement to investigating multidimensional constructs, summated scale measurements tend to be the most appropriate scales (Hair et al., 2003). In this type of scale, each dimension represents some aspect of the construct.

Hence, in this particular research the Cronbach's alpha was used to check the internal consistency the variables used in this study, and the results of reliability test are presented in chapter four under reliability section. In addition, consultations have been made with the research advisor and senior experts to check the degree to which the instruments of measurement are appropriate for the data to be analyzed.

### **3.8 Research Ethics**

Throughout the study all code of conducts of research are appropriately implemented. Any relevant concept in this research was properly quoted. All research participants are protected, there information which were collected via questionnaires from sample respondents, are kept confidential and are only used for the intended purpose of this study.

## **CHAPTER FOUR**

### **Data Presentation, Analysis and Interpretation**

#### **Introduction**

This section of the study is all about data presentation, analysis and interpretation. The primary data collected from respondents has been processed through a statistical tool, SPSS version 22 software. This chapter consists of four major sections, which are reliability test, correlation analysis, normality test, regression analysis, hypothesis testing and discussion of results

#### **4.1 Reliability Test:**

The questionnaire survey was conducted within one week time. A total of 323 questionnaires were distributed to sample respondents and only 288 were collected, the remaining 35 of them were left uncollected due to the fact that respondents were not able to fill and submit on the given time frame. Hence, for this particular study 288 questioners were effectively used for analysis that indicates 89.16% response rate which is acceptable to undertake a study.

According to Hair et al. (2006), Cronbach's Alpha Reliability is testing on the reliability of the research that allow researcher to come out with consistent results. The measurement of Cronbach's Alpha is specified as number 0 and 1. Hence, Cronbach's Alpha have better consistency within items in the scale if coefficient that closer to 1.

In this study Cronbach's Alpha is used to measure the internal consistency of the items used. George and Mallery (2003), provides the following rules of thumb: >0.9-Excellent, >0.8-Good, >0.7-Acceptable, >0.6-Questionable, >0.5-Poor, <0.5-Unacceptable (as cited by Gleam and Rosemary, 2003). The results are shown in the below Table (4.1).

**Table 4.1 reliability statistics result for the independent and dependent variables based on Cronbach's Alpha Value**

Variable	Cronbach's Alpha	N of Items	Remark: Based on Cronbach's Alpha Value
Trust	.875	8	Good
Commitment	.864	6	Good
Customer focus	.915	5	Excellent
Communication	.714	4	Acceptable
Knowledge management	.715	4	Acceptable
Customer loyalty	.970	5	Excellent

*Source: Questionnaire survey, (2021)*

The above table, 4.1 showed the internal consistency of the data used for this study based on Cronbach's alpha value. The alpha values for the five variables showed that there is reasonable internal consistency in the constructs– being from 0.715 and 0.915(From acceptable to Excellent).

Based on the reliability test result showed above, all variables are considered variable because their value is more than 0.70. The independent variable, customer focus has the highest alpha value of 0.915 with 5 items. This implies that customer focus is the most reliable variable. Trust and commitment have the second highest alpha value of 0.875 with 8 items and .864 with 6 items respectively, followed by knowledge management and communication, having the alpha value of 0.715 with a total of 4 items and alpha value of 0.714 with 4 items respectively. Besides, the variable with 5 items is customer loyalty with alpha value of 0.970

For testing the reliability of the entered variables, it is rational to say that the test is dependable with independent variables achieved and fulfilled the level of internal consistency as it was measured by Cronbach's Alpha value

## **4.2 Validity**

To check the validity of questioners and to make sure that questioners are valid in terms of content, the researcher has performed the following activities:

1. Before questionnaires were distributed to respondents, a pilot test was conducted, and pilot questioners were distributed to 7 (Seven) individuals who had previously undertaken a research and expertise in the area.
2. Questioners were submitted to the advisor for further comment

Based on their valuable comments, modification was done on questionnaires

## **4.3 Descriptive Analysis**

According to Hair et al. (2003) once the data have been collected and prepared for analysis, there are some basic statistical analysis procedures to perform. The descriptive analysis help to find out what the entire set of responses are which were obtained in the form of numbers; that is, respondents provide their agreement and disagreement level in the form of numbers and these numbers are entered into the computer system to generate more meaningful statistics. Consequently, every set of data needs some summary information developed that describes the numbers it contains. Basic statistics and descriptive analysis were developed for this purpose (Hair et al, 2003).

The Descriptive Statistics table displays the mean and standard deviation of the dependent variables (Trust, Commitment, communication, customer focus and knowledge management) and the same measures for the independent variable Customer loyalty.

**Table 4.1.1 Descriptive statistics for all variables**



Descriptive Statistics			
	Mean	Std. Deviation	N
Loyalty	4.9813	.98352	288
Trust	4.2813	.45100	288
Commitment	4.0104	.70826	288
Communication	4.0894	.76881	288
Customer focus	4.3757	.52169	288
Knowledge management	4.0938	.76758	288

*Source: Questionnaire survey, (2021)*

As shown in the above table, the value of individual items mean is very closer to each other, the highest mean value is 4.9813 and the lower mean value of the items is 4.01, and the remaining items mean fall within this range. Similarly there is lesser variability among each item the highest variance value read as .983 from the table and the lowest variance is .451. The mean of the items for all variables is very closer 4 .2 with smaller variation and when standard deviation is less than 1 it means deviation among data is very minimum and most of the respondents have agreed on the statements presented on the questionnaire.

#### **4.4 Correlation Analysis**

The next step after checking the goodness of data and validity of data is making correlation analysis. In this section of the study, the association between the independent and the dependent variables has been determined and hypotheses testing were made accordingly.

According to Hair (2003), the Pearson correlation coefficient measures the degree of linear association between two variables and its value varies between  $-1.00$  and  $+1.00$ , with 0 representing absolutely no association between two variables, and  $-1.00$  or  $+1.00$  representing a perfect link between the two variables in question, and the higher the correlation coefficient, the stronger the level of association is. Further Sekaaran (2003) pointed out that the Pearson correlation coefficient is appropriate for interval- and ratio-scaled variables, and any bivariate correlation can be obtained.

Accordingly, this study used Pearson correlation coefficient to know the degree of association between customer relationship management and loyalty.

To properly evaluate the outcome of Pearson correlation coefficients of each variables the below rules of thumb are used in this study.

**Table 4.2 Rules of thumb about the strength of correlation coefficients of variables**

Range of Coefficient	Description of Strength
±.81 to ±1.00	Very strong
±.61 to ±.80	Strong
±.41 to ±.60	Moderate
±.21 to ±.40	Weak
±.00 to ±.20	None

Source: Hair (2003)

**Table 4.3. Pearson Correlation for the determinants of customer loyalty**

		Correlations					
		Trust	Commitment	Communication	Customer focus	Knowledge management	loyalty
Trust	Pearson Correlation	1	.767**	.729**	.883**	.734**	.853**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	288	288	288	288	288	288
Commitment	Pearson Correlation	.767**	1	.774**	.856**	.777**	.864**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	288	288	288	288	288	288
Communication	Pearson Correlation	.729**	.774**	1	.689**	.985**	.763**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	288	288	288	288	288	288
Customer focus	Pearson Correlation	.883**	.856**	.689**	1	.698**	.892**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	288	288	288	288	288	288
Knowledge management	Pearson Correlation	.734**	.777**	.985**	.698**	1	.768**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	288	288	288	288	288	288
Loyalty	Pearson Correlation	.853**	.864**	.763**	.892**	.768**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	288	288	288	288	288	288

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

Source: Questionnaire survey, (2021)

The above correlations table showed that Trust, Commitment, communication, customer focus and knowledge management are correlated at .853, .864, .763, .892 and .768 respectively (which are statistically significant at the .000 level). These results revealed that each of the five variables (Trust, Commitment, communication, customer focus and knowledge management) are strongly related to customer loyalty—that is, changes in any of these variables is subject to changes in Customer loyalty.

As clearly shown on the above correlation matrix table, all variables are significantly connected to one another. There are five variables within the range of 0.763 - 0.892 which have a strong relationship. Since, all variables correlation coefficients are less than 0.9, multicollinearity does not exist in these data.

Thus, to test the developed hypothesis, this study used the Pearson correlations coefficients matrix as shown in the above table and the results are presented as follows:

#### **4.3.1 Correlation between trust and Customer loyalty**

Pearson correlation test was checked for trust and customer loyalty. Based on the Pearson correlations coefficient result shown in the above table Trust and Customer loyalty are evaluated and their value, .853, is significant at the 0.01 level (2-tailed). As per the rules of thumb on the strength of the associations between the two variables, the coefficient value, .853 falls within the very strong strength intensity level. Therefore trust and customer loyalty are correlated with a very strong and positive relationship ( $r = 0.853^{**}$ ).

#### **4.3.2 Correlation between commitment and Customer loyalty**

Pearson correlation test was also conducted to know the degree of relationship between the independent variable, which is commitment, and the dependent variable, customer loyalty. The results of the correlation between these variables are shown in the correlation matrix table. There is a significant correlation between commitment and customer loyalty with a significant value of 0.000 lower than 0.05. In other words commitment dimension and customer loyalty are related with a very strong relationship ( $r = 0.864^{**}$ ).

### **4.3.3 Correlation between communication and customer loyalty**

Pearson correlation test was also conducted to know whether there is significant correlation between communication and customer loyalty, and the results are shown in the above Table 4.3. There is a positive and a significant correlation between these two variables with a significant value of 0.000 lower than 0.05. The result of correlation analysis prove that communication and customer loyalty are correlated with a strong relationship ( $r = 0.763^{**}$ ).

### **4.3.4 Correlation between customer focus and customer loyalty**

For these variables, customer focus and customer loyalty, also Pearson correlation test was conducted and the results are shown in Table above. There is a positive and a significant correlation between customer focus and customer loyalty with a significant value of 0.000 lower than 0.05. The result of correlation analysis prove that customer focus and customer loyalty are correlated with a very strong relationship ( $r = 0.892^{**}$ ).

### **4.3.5 Correlation between knowledge management and Customer loyalty**

In order to see the correlation between knowledge management and Customer loyalty, Pearson correlation test was conducted, and the results found were like shown in table 4.3. There is a positive and significant correlation between knowledge management and Customer loyalty with a significant value of 0.000 lower than 0.05. In other words knowledge management dimension and Customer loyalty are related with strong relationship ( $r = 0.768^{**}$ ).

## **4.4 Regression Analysis**

Regression analysis uses knowledge about the level and type of association between the independent and the dependent variables to make predictions. Statements about the ability determinant variable to cause changes in the dependent variable must be based on conceptual logic or information other than just statistical techniques.

### **Assumptions of Simple regression model**

(1) The variables of interest are measured on interval or ratio scales (except in the case of dummy variables);

(2) These variables come from a bivariate normal population and

(3) The error terms associated with making predictions are normally and independently distributed.

Based on these assumptions into consideration the linear regression model is developed and briefly discussed in the next sub section.

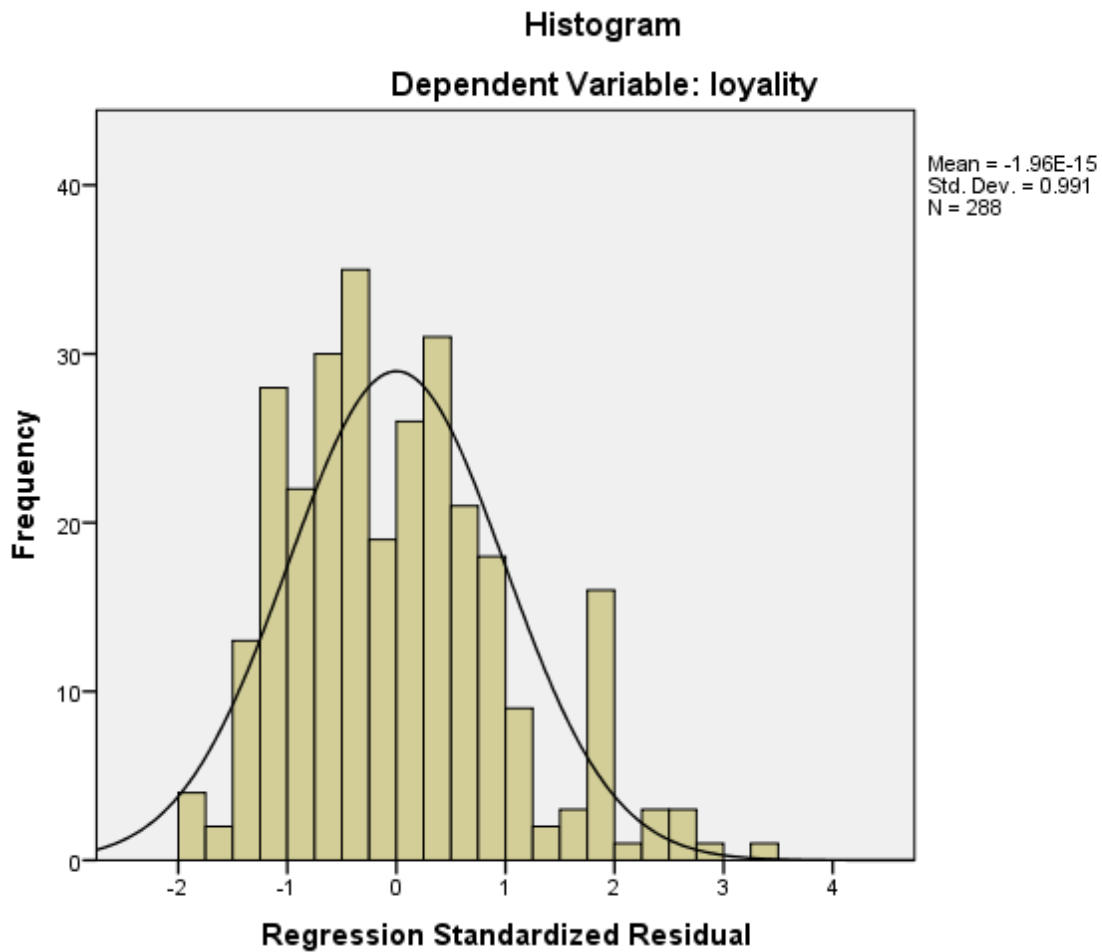
#### **4.4.1 Regression analysis between the determinant factors of customer relationship management**

The bivariate regression analysis conducted by using SPSS tool produced three important tables namely: model summary, ANOVA and coefficients. The first table presents the model summary:

## 4.5 Multiple regression assumption tests

### 4.5.1 Normality Test

The histogram below indicates how the data is distributed. Accordingly, it is possible to state that the data are nearly normally distributed since the histogram has a close to bell shape.



Source: Questionnaire survey, (2021)

#### **4.5.2. No-auto correlation (Durbin Watson Test)**

The Durbin Watson Test that is also called as serial correlation in residuals that measure the autocorrelation from the regression analysis. According to Field (2009), test statistic consider normal in values that ranges between 1.5 and 2.5. In this study, the Durbin Watson statistic value is 1.771. Hence, it is consider relatively normal.

#### **4.5.3 Multi-collinearity**

The characteristic of the data presents situation in which the independent variables are highly correlated among themselves is referred to as multicollinearity (Hair et al., 2003). Multiple regressions are a co relational procedure that examines the relationships among several variables. Specifically, this technique enables researchers to find the best possible weighting of two or more independent variables to yield a maximum correlation with a single dependent variable (Ary et al., 2010).

Tolerance and VIF (variance inflation factor) both measures collinearity among variables. They tell us the degree to which each independent variable is explained by the other independent variables. If the tolerance value is smaller than .10 or the VIF is 10 or larger, it can be conclude that multicollinearity is a problem (Hair et al., 2003).

**Table 4.5 Bivariate correlation analysis: Coefficients of the variables**

Model	Coefficients <sup>a</sup>						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.716	.072		-10.004	.000		
Trust	.445	.113	.204	3.924	.000	.187	5.351
Commitment	.378	.070	.272	5.377	.000	.197	5.070
Communication	.104	.169	.081	.617	.000	.209	4.430
Customer focus	.718	.115	.381	6.242	.000	.136	7.380
Knowledge management	.077	.169	.060	.457	.000	.329	4.631

a. Dependent Variable: loyalty

*Source: Questionnaire survey, (2021)*

As shown in the table above in the, Collinearity Statistics column, the smaller tolerance value is 0.136 which is beyond 0.10 and the maximum VIF value is 7.38 which is much smaller than maximum value that it can. Hence, we can assume that in this research there are no independent variable which are highly correlated among them, hence multicollinearity is not a problem and did not affect the research findings.

#### **4.6. Multiple Linear Regressions**

Multiple linear regressions were conducted to identify the relationship and to determine the most dominant independent variable that influenced customer loyalty. This regression analysis was done to know and understand to what extent each independent variable (CRM dimensions) explains the dependent variable that is customer loyalty. In order to show the impact that each determinants dimensions of CRM has on customer loyalty, the study checked the Standardized Coefficients. The results of the regression analysis are depicted in the following tables



**Table 4.6 Regression analysis: Model Summary**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.926 <sup>a</sup>	.858	.855	.37442	1.771

a. Predictors: (Constant), knowledge management, customer focus, commitment, trust, Communication

b. Dependent Variable: loyalty

*Source: Questionnaire survey, (2021)*

Table 4.6 above shows the multiple linear regression model summary and overall fit statistics. The adjusted R<sup>2</sup> of the model is .855 with the R<sup>2</sup> = .858. This means that the linear regression model with the independent variables explains 85.81% of the variance of the dependent variable. The Durbin-Watson d = 1.771, which is between the two critical values of 1.5 and 2.5 (1.5 < d < 2.5), thus it can be assumed that there is no first order linear autocorrelation in the multiple linear regression data in this research. Thus, regression model is applicable to conduct. Since all the independent variables are entered into the linear regression model the R<sup>2</sup> have the higher value.

**Table 4.7 .Regression analysis: ANOVA**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	238.085	5	47.617	339.656	.000 <sup>b</sup>
Residual	39.534	282	.140		
Total	277.619	287			

a. Dependent Variable: loyalty

b. Predictors: (Constant), knowledge management, customer focus, commitment, trust, Communication

The above table is the F-test, or ANOVA. The F-Test is the test of significance of the multiple linear regressions. The F-test has the null hypothesis that there is no linear relationship between the variables (in other words R<sup>2</sup>=0). The F-test of the Model is highly significant( P value <0.05), thus we can assume that there is a linear relationship between the variables in this model

**Table 4.8. Regression analysis: Coefficients**

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.716	.072		-10.004	.000		
Trust	.445	.113	.204	3.924	.000	.187	5.351
Commitment	.378	.070	.272	5.377	.000	.197	5.070
Communication	.104	.169	.081	.617	.000	.029	4.430
Customer focus	.718	.115	.381	6.242	.000	.136	7.380
Knowledge management	.077	.169	.060	.457	.000	.029	34.631

a. Dependent Variable: loyalty

*Source: Questionnaire survey, (2021)*

The Coefficients table above shows the multiple linear regression coefficient estimates including the intercept and the significance levels. Hence, the regression equation would be:

$$CL = -.716 + .445 (T) + .378 (CT) + .104 (CN) + .718(CF) + .077(KM) + .072 \text{ (avg. error in prediction)}$$

Where: CL = Customer Loyalty  
 T = Trust  
 CT=Commitment  
 CN =Communication  
 CF= Customer focus  
 KM = Knowledge management

From the above model, for every unit increase in customer focus, the Customer Loyalty will also increase by 0.718. Similarly, for every unit increase in any of the other variables: trust, commitment, Communication, and knowledge management; the Customer loyalty will increase by .445, .378, .104, and .077 respectively.

Since all independent variables are entered in the analysis the **B** weights compare the relative importance of each independent variable in standardized terms. Thus customer focus has a higher impact than the other independent variables.

#### **4.7 Summary of hypothesis Testing**

The coefficient of correlation matrix table indicates the strength and dimension of association between customer relationship management dimensions and customer loyalty. A positive relationship was exit between the independent and dependent variables`

To accept or reject a hypothesis, this study checked the Standardized Coefficient  $\beta$  value along with the significant value. This study showed that the formulated hypotheses are supported by the research finding. This has done by taking the coefficient of correlation table, which signal strength and dimension, along with the coefficient of regression analysis  $\beta$  value. Thus:

- ✓ **H<sub>1</sub>**, - Trust positively and significantly affects customer loyalty is supported with the research finding because  $\beta=.445$ ;  $p < .000$ . Similarly,
- ✓ **H<sub>2</sub>**, - Commitment positively and significantly affects customer loyalty is supported because  $\beta = .378$  and  $p < .000$ .T
- ✓ **H<sub>3</sub>**, - communication positively, but less significantly affects Customer loyalty is supported as the  $\beta = .104$  and  $p < .000$ .
- ✓ **H<sub>4</sub>**– customer focus positively and significantly affect customer loyalty is also supported because the  $\beta = .718$  and the  $p < .000$ .
- ✓ **H<sub>5</sub>**, - Knowledge management positively, but less significantly affects customer loyalty is supported as a result of its  $\beta = .077$  and  $p < .000$  values.

## 4.8 Hypotheses Results

### The effects of customer relationship management on customer loyalty

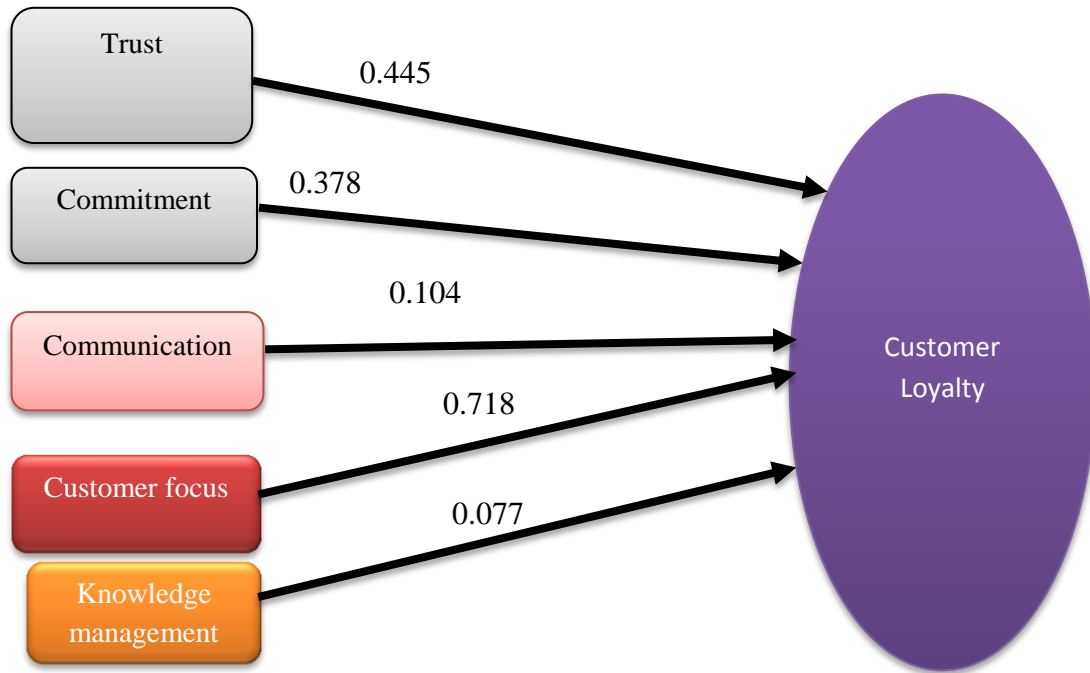


Figure 4.4: findings on the constructs

## 4.9 Discussion

The findings showed that the developed variables significantly influence customer loyalty. All the five independent variables namely: Trust, commitment, communication, customer focus and knowledge management have strong influences on customer loyalty

Most research findings, as indicated in the review of related literature section; chapter 2; this research also confirms the association between customer relationship management and customer loyalty. Hence, research finding is consistent with those studies. Thus, the effect of the independent variables on customer loyalty in this research is modeled as:

$$CL = .716 + .445 (T) + .378 (CT) + .104 (CN) + .718(CF) + .077 (KM) + .072(\text{std.error})$$

In this particular research customer loyalty has been greatly depend on customer focus with the highest value of .718, followed by trust .445. The contribution of commitment (.378), communication (.104), and knowledge management (.077) though there effect on customer loyalty are significant but very minimal as compared to the other three independent variables. From these it can been clearly seen that customer focus is the most significant factor among the independent variables of customer loyalty used in this research, then trust is the next most significant factor which is again followed by the other three variables.

This research finding was consistent with the most known scholars in the area of customer relationship management). Buttle, (1996) indicated that conflict key customer focus and trust are 'key' elements because they encourage marketers to work at preserving relationship investments by cooperating with exchange partners, resist attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners, and view potentially high risk actions as being prudent because of the belief that their partners will not act opportunistically.

In addition, Similar to this particular study there are researches that concluded trust has a significant effect on customer loyalty. For instance, Macareigne (2009) showed in his finding that trust is one of the key customer relationship marketing dimensions that determined customer loyalty. A study conducted by Yonnas (2014) showed that relationship management and service quality have a great impact on customer loyalty. In this particular research trust was identified as the most influential variable

Similarly, Meskerem (2015) examined the influence of relationship marketing on customer loyalty and the finding showed that relationship marketing and customer loyalty are positively related in Commercial Bank of Ethiopia.

And also Abebaw (2018) studied the effects of customer relationship marketing dimensions on customer retention in Nyala insurance S.Cand as per this research finding trust dimension of CRM was the highest determinant variable.

Again, Kassahun (2016) through his study entitled as the effects of customer relationship marketing on loyalty in the case of Zemen Bank explored that the four elements of customer

relationship management namely: communication, trust, relationship-management and conflict-Handling) demonstrate a positive and significant association with customer loyalty.

Furthermore, Ashagrie (2017) examined the effects of CRM on loyalty by taking trust, commitment, communication and conflict handling and found that all variables except, commitment had a significant effect on customer loyalty. In this study conflict handling with beta coefficient .518 was identified as the highest determinate of customer loyalty.

Most consistently, Data analysis of this study shows that there is positive relationship among the independent variables: Trust, Commitment, Communication, customer focus and knowledge management and the dependent variable customer loyalty.

## **CHAPTER FIVE**

### **5. Summary, Conclusion and Recommendation**

This is the last section of the study which includes basic subsections like the research summary, conclusion, recommendation and further research directions:

#### **5.1 Summary**

The objective of this study was to examine the influence of CRM on customer loyalty. The study adopted descriptive and explanatory research design. Also the study used quantitative research approach and was conducted from May 2021 to December 2021. The sample size was taken from the population of Dashen Bank customers. From this a total of 1.8 million customers, 384 were sampled and the study were conducted in the city of Addis Ababa. Having identified the constructs that are Trust, commitment, communication, customer focus and knowledge management, the researcher had developed and tested the following hypotheses:

- H1: There is a positive and significant relationship between trust and customer loyalty.
- H2: There is a positive and significant relationship between commitment and customer loyalty
- H3: communication has a positive and significant effect on customer loyalty
- H4: Customer focus has a positive and significant effect on customer loyalty
- H5 : There is a positive and significant relationship between knowledge management and customer loyalty

As it has been mention clearly in the analysis section of this study, all developed hypotheses were supported by the research findings. The extent of constructs or CRM dimensions influence on customer loyalty has already presented detail in the previous chapter. In this section of the study, the findings of the respondents are presented in summarized and informative manner.

The respondents were asked to answer the influence of the five independent variables on customer loyalty. The researcher have tested the questionnaires before she goes to the analysis by using the reliability test and the result showed that, the coefficient alpha for this study's

instrument was found to be more than 80% . Since all the dimensions are greater than 70%, it was acceptable for further analysis.

The assessments made on the dimensions were made by analyzing the independent variables and dependent variable by using correlation and regression analysis.

Accordingly, the following correlation and regression analysis results were found. As it is tabulated in the analysis part of this study and the correlation analysis results stated below, all the constructs have strong relationship magnitude with customer loyalty.

### **Results of correlation analysis**

- **Trust and customer loyalty**

Trust and customer loyalty are related with a strong relationship ( $r = 0.853^{**}$ ).

- **Commitment and customer loyalty**

The construct commitment and customer loyalty have a strong relationship ( $r = 0.864^{**}$ ).

- **Communication and customer loyalty**

The independent variable, communication has a strong relationship with dependent variable, customer loyalty ( $r = 0.763^{**}$ ).

- **Customer focus and customer loyalty**

Similarly, one of the CRM dimension, customer focus and customer loyalty are correlated with a strong relationship ( $r = 0.892^{**}$ ).

- **Knowledge management and customer loyalty**

Finally, the construct knowledge management and customer loyalty have a strong relationship ( $r = 0.768^{**}$ ).

In addition to checking the degree of association between variables, the five constructs were also examined their extent of explanation to customer loyalty jointly using multiple regression analysis, but before the researcher has made the regression analysis, the independent variables were tested Multicollinearity. As per the VIF results all variables correlation coefficients is less than 10. Hence, Multicollinearity does not exist in these data.



In this research the determinant factors affecting customer loyalty are thoroughly analyzed. The relationship strength and dimensions between CRM and customer loyalty were identified. These factors, which are considered as a major component in most literatures, were: Trust, commitment, communication and key customer focus. Customer focus has been found central to customer loyalty.

This variable, customer focus found in this study as the strongest association and determinant factor on customer loyalty. Thus, customer focus has been identified as a major constituent to predict customer loyalty; that is; customer loyalty can be explained in terms of customer focus as per this research finding, followed by trust, commitment, communication and knowledge management respectively.

Then after as the multiple regressions analysis shows below and depicted in the tables of the previous chapter all independent variables explain the dependent variable with different extent.

The Multiple regression analysis result showed that:

- ✓ All the five constructs jointly explain 85.81 % of customer loyalty
- ✓ Customer loyalty were explained by customer focus, trust, commitment, communication and knowledge management, individually with .718, .455, .378, .104 and .077 respectively

## **5.2 Conclusions**

This study examined the effect of customer relationship management on customer loyalty in the case of Dashen bank by using trust, commitment, communication, customer focus and knowledge management as determinants of customer loyalty. Based on the empirical research findings in this study, it can be concluded that customer relationship management has positive and significant effect on customer loyalty and customer loyalty is affected by the above mentioned determinants.

Therefore, as per this research finding it can be conclude that:

- ✓ All the independent variables used in this study have positive and significant association with customer loyalty. Customer focus is the most influential factor to the existence of customer loyalty.
- ✓ Trust is the next most important factor which can predict Customer loyalty, followed by commitment, Communication, and knowledge management.

### **5.3 Recommendations**

After a thorough analysis of the sample survey, which was considered relatively large sample size, major correlation and regression analysis were computed. The developed hypothesis has been tested and all alternate hypotheses were supported with the research findings. Existence of multi-co linearity and multiple linear regressions were checked but found none. The assumptions made to use statistics have also been tested, and those assumptions were evaluated and found valid to proceed.

All the factors used in this research are determined to have positive and strong association with customer loyalty. Although the data is collected only from Dashen Bank S.C, the finding of this empirical study can be generalized to those Banks operating in the Ethiopia as well. This is because the form of operation in the banking industry is the same and relatively large sample data was considered for this study; also data was collected from all part of Addis Ababa city.

Hence, Commercial banks in Ethiopia generally and Dashen Bank specifically, are highly recommended to:

- ✓ Built trust with their business customers; that is, the bank should maintain trust which shall result statistically significant role in the determination of customer loyalty. Hence, the bank should build its reputation, and need to be reliable to create confidence on integrity. Banks should make their policies and practices clear to their business customers. They also have to fulfill its obligations to its customers. Banks shall be consistent in providing quality service, and the company data about their customer should be kept safe.

- ✓ Exert the maximum effort to show their determination toward relationship commitment generally with those selected business customers. Accordingly, the company should apply the right policy and practices in place, and should offers personalized services to meet its customers' need. The company should also need to be flexible enough whenever there is a service change. Banks also need to be flexible in serving its customers' needs and also need to update their services regularly.
- ✓ Should have a clear communication path to follow during service provision; that is the bank should provide timely, accurate and trustworthy information at all time. The bank should also provide early notice whenever there is any change with regard to policy in general.
- ✓ Should have a well designed customer focus strategy that can benefit both the bank and the Business customers in the long run. While all customers are given adequate concern in satisfying their needs, higher emphasis shall be given to the corporate level customers as they fetch to the banks bigger and sustainable financial return.

#### **5.4 Future Research Directions**

Because of time and finance constraint, the study has limited to Dashen Bank S.C However, there are other commercial bank in the banking industry. Therefore, other researchers are recommended to include and conduct a research on those commercial banks.

Furthermore, this research is limited itself only on the five variables namely: Trust, commitment, communication, customer focus and knowledge management. Nevertheless, there might be other factors. Hence, other researchers are recommended to include other factors which are not covered in this study.

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## **APPENDIX**



## Appendix 1

### Research Instrument

**Saint Mary's University**  
**School of Graduate Studies**  
**Department of Management**

#### Questionnaire

Dear respondent, I would like to thank you for taking your time to fill the questionnaire. The purpose of this research is to study the effect of customer relationship management on customer loyalty in banking industry. This survey is designed as part of my work for a Masters of Art in business administration at Saint Mary's University. All the information has been kept confidential and used **strictly** for academic purposes only.

#### Instruction:

Please, mark using either () , () , or () selection method based on your convenience in the appropriate box for your choice. Please, also make sure that your choice is visible.

#### Part I. General Information

1. How old are you? (Please, write your age in terms of years only). \_\_\_\_\_ (Years).

2. What is your maximum education level?

- |  |                                  |                                    |
|--|----------------------------------|------------------------------------|
| <input type="checkbox"/> Elementary School             | <input type="checkbox"/> Diploma | <input type="checkbox"/> Doctoral  |
| <input type="checkbox"/> High School                   | <input type="checkbox"/> Degree  | <input type="checkbox"/> Professor |
| <input type="checkbox"/> Vocational School Certificate | <input type="checkbox"/> Masters | <input type="checkbox"/> Other     |

3. What is your gender?

- Male  
 Female

4. How long have you been doing business with the bank? \_\_\_\_\_ (Years)

## Part II: Elements of Customer Relationship Management

Please answer each statement below by putting a circle around the number or mark ((☑), (☒), or (☐)) that best reflects your degree of agreement or disagreement with each statement.

### Key:

**1 = SD: Strongly Disagree**

**2 = D: Dis Agree,**

**3 = N: Neutral,**

**4 = A: Agree,**

**5 = SA: Strongly Agree,**

<b>1. Trust</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
1.1 The bank is very concern with security for my transactions.	1	2	3	4	5
1.2 My bank words and promises are reliable.	1	2	3	4	5
1.3 I have a confidence on the service quality of the bank.	1	2	3	4	5
1.4 Employees of the bank are trustworthy.	1	2	3	4	5
1.5 My bank fulfills its obligations to me.	1	2	3	4	5
1.6 The bank is always honest to me.	1	2	3	4	5
1.7 I am certain that I will get refund when error occurs.	1	2	3	4	5
1.8 The bank is consistent in providing quality service.	1	2	3	4	5
<b>2. Commitment</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
2.1. The bank always promises to provide good and fair banking practice.	1	2	3	4	5
2.2. My bank offers personalized services to meet my needs.	1	2	3	4	5
2.3. The Bank's commitment to its customers is always focus on providing easy and speedy procedures.	1	2	3	4	5
2.4. My relationship with the bank is one that I really care about.	1	2	3	4	5
2.5. My bank is flexible in serving my needs.	1	2	3	4	5
2.6. My relationship with the bank is worth my effort to continue.	1	2	3	4	5
<b>3. Customer focus</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>

3.1. My bank provides me customized banking services	1	2	3	4	5
3.2. The bank strives to constantly surprise and delights me as key customer.	1	2	3	4	5
3.3. The bank tries to strengthen the emotional bonds with key customers.	1	2	3	4	5
3.4. Employees of the bank understand my specific needs	1	2	3	4	5
3.5. The bank asks me about my feeling towards their responses for the service.	1	2	3	4	5
<b>4. Communication</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
4.1. My bank provides timely and trustworthy information.	1	2	3	4	5
4.2. My bank provides information if there are new banking services.	1	2	3	4	5
4.3. Information provided by my bank is always accurate.	1	2	3	4	5
4.4. My bank provides early notice whenever there is change during policy renewal (change in policy or interest rate change).	1	2	3	4	5
<b>5. Knowledge management</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
5.1. The bank takes customer feedback seriously and replies to them.	1	2	3	4	5
5.2. The bank has effective customer recovery strategies including guarantees for service failures	1	2	3	4	5
5.3. The bank has a well-developed privacy policy to ensure confidentiality of data collected from customers	1	2	3	4	5
5.4. The bank has differential reward systems that reward customers based upon their profit/ revenue contribution.	1	2	3	4	5

### **Part III Customer Loyalty**

Please, also indicate your agreement or disagreement level for the next statements, using the same method of selection as the previous section, concerning your interest to continue doing business with the bank.

<b>6. Customer Loyalty</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
6.1. I consider myself to be loyal to this Bank	1	2	3	4	5
6.2. I say positive things about the this bank to others	1	2	3	4	5
6.3 I will consider this bank for banking service in the next few years	1	2	3	4	5
6.4. I consider this bank as first choice for banking service	1	2	3	4	5

**Thank you again for your participation in this research.**