

Investigating the Impact of Customer Relationship Marketing Perceived Determinants on Customer Loyalty in Ethiopian Banking Sector

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Abstract

This research was conducted to investigating the customer relationship marketing perceived determinants impact on customer loyalty in Ethiopian banking sector. The researcher used an explanatory research type to conduct research in Nekemte town, Ethiopia. This research considered different CRM perceived dimensions such as trust, commitment, empathy, conflict handling and communication. Data were collected through the five point's likert scales of questionnaires and used mixed research approach. Out of 400 customers 384 (96%) customers were completed and responded and 16 questionnaire left by default. inferential statistical methods, correlation and regression analysis methods were used to analyze the collected data by using SPSS software version20. Research findings indicates that there was a significant relation between customer relationship marketing components including trust, commitment, empathy, conflict handling and communication on customer loyalty Thus, from customers perspective, CRM has a significant influence on customer loyalty in the Commercial Bank of Ethiopia, Nekemte town. Based on the result, researchers recommended that the commercial bank of Ethiopia, Nekemte town better to give high emphasis on remaining variables of relationship marketing to enhance the overall loyalty on the bank.

KEYWORDS: Trust, Commitment, Empathy, Conflict Handling, Communication, Customer, Loyalty, Customer Relationship Marketing.

1.1. Background of the study

Today businesses follow different marketing strategies to survive in the highly competitive world by identifying, Acquiring and Retaining most economically important customers and developing long-lasting relationship with them (Lewis, 2005). In the competitive marketing environment, customer relationship marketing is critical to a company's profitability and long-term success, (Russell, 2000). The term 'Relationship Marketing' was popularized by Berry (1983); he defined relationship marketing as "the process of attracting, maintaining and, in multi-service organizations, enhancing "Customer Relationship." Customer loyalty is defined by Oliver (1999) as "a deeply held commitment to re-buy or repatronize a preferred product or a service. The related literature reveals that marketing has shifted from "Transaction Marketing to "Relationship Marketing" (Lindgreen, 2001). It is claimed by Reichheld and Sasser (1990) that a 5 percent improvement in customer retention can cause an increase in profitability between 25 percent and 85 percent (in terms of net present value) depending

upon the industry. In context, it is very important to empirically investigating the customer relationship marketing perceived determinants impact on customer loyalty, so that organizations can use this type of information at the time of designing a relationship marketing strategy in order to gain a high level of loyalty among their customers (Berry, 2007).

1.2. Statement of the Problem

Private sector banks in Ethiopia showed better performance in customer satisfaction than the Commercial Bank of Ethiopia and compared to the state owned commercial bank they exhibited a much faster pace of growth (Kiyota, 2007).

As the researcher try to refer local published studies in Ethiopia; such as, Tsegay (2011), the effect of customer relationship marketing on customer retention, Mekelle University and Shifera (2011), the impact of relationship marketing on customer loyalty, Addis Ababa University. Therefore, this gives the reason for this research project was conducted to help bridge the literature gap existing. Another most of studies such as, Helen (2014), Meseret (2015), Kassa (2017) and Metasebia (2015) considered only four independent variables (dimensions) such as, trust, commitment, conflict handling and empathy which made them to be less inclusive and they was conducted on both private and public commercial banks, But the researcher motivated to conduct on only commercial bank of Ethiopia, by including communication in this study to bridge the above gaps and to contribute to literature on the effect of customer relationship marketing on customer loyalty, in commercial bank of Ethiopia, specifically Nekemte town.

Furthermore, in Ethiopia, especially in Oromia region; Nekemte town, CBE is highly penetrated to the market through the opening of branches in several places of Nekemte town and woreda. Meanwhile, CBE face high competition from the other service giving sectors such as high competitiveness; high level preliminary expensive and customers switching to other Private Banks. It used different formation of strategies to compete in the highly competitive market but still the problems are not solved. Therefore, to overcome the above mentioned problems a study on the effect of CRM on Customer loyalty with reference to CBE in an emerging market like Nekemte town can be a fruitful empirical work. Hence, the main aim of the researcher was to investigating the customer relationship marketing perceived determinants impact on customer loyalty (trust, commitment, empathy, conflict handling, and communication) on customer loyalty.

1.3 Research Objectives

1. To describe effect of trust on customers loyalty of commercial bank of Ethiopia,.
2. To find out effect of commitment on customers loyalty of commercial bank of Ethiopia.
3. To examine effect of empathy on customers loyalty of commercial bank of Ethiopia.
4. To identify effect of conflict handling on customer loyalty of commercial bank of Ethiopia.
5. To explain effect of communication on customer loyalty of commercial bank of Ethiopia.

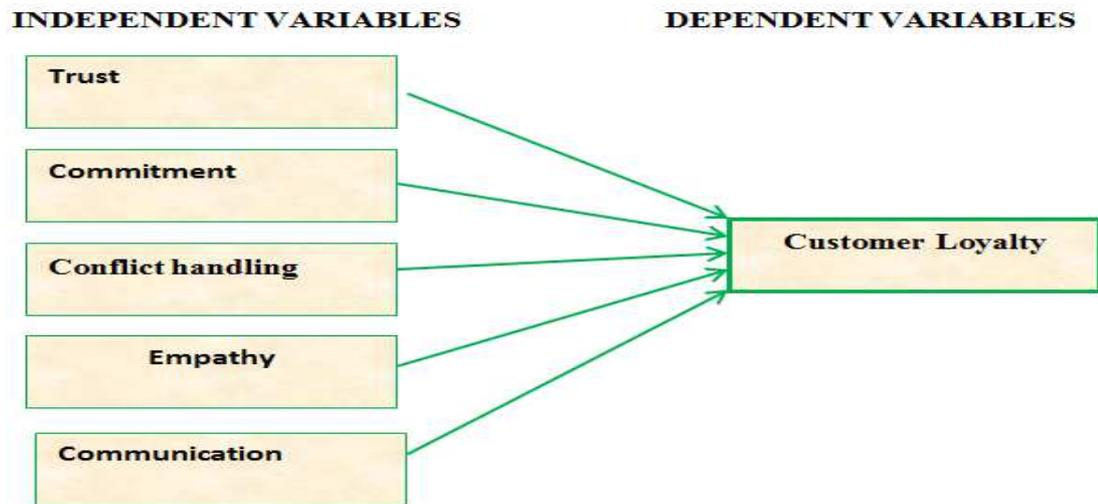
1.4 Reviewed Literature:

According to Doyle P and Stern P (2006), Sheth and Parvatiyar (1995) relationship marketing is a long term continuous series of transactions between parties based on trust focused from customer acquisition to customer retention .Gummesson (2008) reveals in his research, a number of companies are today shaping customer relationship based on building high customer loyalty. Customer Relationship marketing concerns attracting, developing and retaining customer relationship (Berry and Parasuraman 1991). From the study of Relationship marketing and service customers, Ward and Dagger (2007) reported that organizations must undertake Relationship marketing activities at an appropriate level to remain competitive. Relationship marketing forms the bridge between the organization and its customers (Berry, 2002; Hennig-Thurau, 2000). Based on a content analysis of 117 different sources from Relationship marketing literature, Harker (2005) stated that “an organization engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers over time is engaged in relationship marketing”.

Camarero (2007) referred to four types of relationship marketing investments – commitment, trust, values and communication. Expenditures on all forms of Relationship marketing produced positive impacts and outcomes for the organization (Bennett and Barkensjo, 2005). According to Brady & Cronin (2003), the importance of this reliability dimension of trust is that it can't be easily duplicated by competitors. Customer loyalty is considered a vital link and aspiration to organizational success, profit and business performance (Oliver, 1997; Gronroos, 2000). Loyal customers do not only increase the value of the business, but also enable business to maintain costs lower than those associated with attracting new customers (Barroso and Martin, 1999).

1.5 Research Gap:

Service quality does also have a direct implication towards customer loyalty in relationship marketing for banking sectors (Parasuraman et al., 1988). Hunt and Morgan (1994) further argue that commitment and trust must not be mutually exclusive to produce effective, efficient and productive relationship. Singh (1980) study conducted in Delhi does not support the hypothesis that advertising influences brand loyalty. The researcher brought out that only 11 families out of total 102 were found to be loyal to their brands because of the brands being advertised. Even advertising as a source of information was mentioned by only 45% of the families surveyed. Mittal (2008) studied whether managers of public and private sector banks believe that their banks are relationship centric or not.



Source (Hunt et al., 2006)

1.6 Research Design

To accomplish the objectives of the study both qualitative and quantitative research approaches were used as it enabled to respond and support triangulate evidences. The researchers were used cross sectional design because the data collected at one point in a time to compare the effectiveness of customer relationship marketing on customer loyalty. Cross sectional design is a study in which various segments of population are sampled at a single point in a time (Zikmend, 2003). Based on the purpose, the study was explanatory and descriptive in nature.

1.7 Target population and Sampling Size

Target population was the group of customers of commercial bank of Ethiopia, Nekemte town. The sample frame of this study was 153600. The researcher used Krejcie and Morgan (1970), Chon(1969) to calculate the sample size at the confidence level of **95%** and precision level of **+or -5%**. The number of sample size that should be obtained shall be counted, greater than or equal to **384** to represent to the population. The researchers used Convenience sampling technique.

$$\text{Necessary Sample Size} = (Z\text{-score})^2 * \text{StdDev} * (1 - \text{StdDev}) / (\text{margin of error})^2$$

$$n = ((1.96)^2 \times 0.5(0.5)) / (0.05)^2$$

$$n = (3.8416 \times 0.25) / 0.0025$$

$$n = 0.9604 / 0.0025$$

$$n = 384.16$$

n=384 respondents **Source:**

www.qualtrics.com

1.8 Data Source and Collection Procedures

The study was used both primary and secondary data as its sources of information. Primary data was collected based on structured questionnaires. The questionnaire was consisting of two parts. Part one was prepared to gather general information about the respondents' demographical details and for how many time the customer using the bank's services. Part two was prepared to ask respondents to answer relationship marketing and customer loyalty questions. Secondary data was collected from related journals, past researches, and related books.

1.9 Reliability test

The Cronbach's alpha is used in this study to assess the internal consistency of the research instrument. On base of Reliability test for the instruments it was found that for Trust Cronbach's Alpha=.984, number of items, 8; Commitment Cronbach's Alpha =.985, number of items, 8; Empathy Cronbach's Alpha =.971, number of items, 6; Conflict Handling Cronbach's Alpha =.988, number of items, 6; Communication Cronbach's Alpha =.990, number of items, 8; and Customer Loyalty Cronbach's Alpha =.987and, number of items, 6. All of relationship customer relationship marketing dimension the coefficient alpha for this study's instrument was found to be above 0.971, which is much higher than the threshold value of 0.65. Therefore, the scale is considered to be reliable (Nunnaly, 1978).

1.10 Data Analysis and Presentation

After collecting the data through questionnaire, the process of analysis was done using statistical tools like regression and correlation models. Regression analysis was used to know by how much the independent variable i.e. relationship marketing (the five dimensions) explains or influences the dependent variable which is customer loyalty. Correlation analysis was conducted to measure the strength of the association between relationship marketing dimensions and customer loyalty. Data analysis was performed by using SPSS software version 20.

1.11 Model Specification

The regression model was done in the form of: $- Y = \alpha + \beta_1X_1 + \beta_2X_2 + \dots + \beta_nX_n + \epsilon_i$
 Eq.1

Where, **Y** is dependent variable:-variable which is affected by other variables or explained by the independent variables, **α** is an intercept, where the regression line crosses the y axis **β1...βn** are the coefficient of the independent variables **X1** to **Xn**. Substituting both dependent and independent variables in equation 1 above, we have the following equation specifically, for this study the expression is appropriate:

$$CR = \alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \epsilon_i \text{-----} (2)$$

Where, **β1** is the partial slope for **x1** on **y** and indicates the change in **y** for one unit change in **x1**, controlling **x2** **B5** is the same thing

CL – Customer loyalty-dependent variable

X1- Trust

- X2 – Commitment
- X3 – Empathy
- X4 – Conflict handling
- X5- Communication
- εI - Error term

1.12 PRESENTATION, ANALYSIS AND INTERPRETATION OF THE DATA

Table 1: Descriptive Analysis of Customer relationship marketing Dimensions

Statistics		Trust	Commitment	Empathy	Conflict Handling	Communication	Customer Loyalty
N	Valid	384	384	384	384	384	384
	Missing	0	0	0	0	0	0
Mean		3.9450	3.9875	3.9567	3.5600	3.5171	4.2250
Std. Deviation		.24290	.25218	.27435	.25985	.35373	.09935
Variance		.059	.064	.075	.068	.125	.010
Skewness		1.494	1.540	.952	-.620	.140	2.056
Std. Error of		.752	.752	.845	.845	.794	.845
Kurtosis		3.435	3.031	-.257	-1.313	-.709	4.465
Std. Error of Kurtosis		1.481	1.481	1.741	1.741	1.587	1.741
Range		.82	.78	.72	.64	.99	.27

Source: Own Survey result, SPSS (2020)

Table1. Shows that customer descriptive analysis of customer relationship marketing dimensions indicates trust has a value of mean =3.9450 and Standard Deviation =.24290, commitment mean=3.9875 and Standard Deviation =.25218, empathy mean =3.9567 and SD=.27435, conflict handling mean =3.5600 and Standard Deviation =.25985, communication mean =3.5171 and Standard Deviation =.35373 and customer loyalty mean =4.2250and Standard Deviation =.09935. The finding showed descriptive analysis of customer relationship marketing dimensions. The commitment dimension rated maximum customer relationship dimensions the banks focused while conflict handling was the least rated among customers CBE less focused of relationship marketing

1.12.1 Ranking Perceived effect on Relationship Marketing Dimension Factors: In order to analyze differences in the impact of relationship marketing dimension factors based on customers’ perception of different factors, a ranking table was produced showing the weighted mean score of each dimension.

Table 2: Ranking perceived effect Relationship Marketing Dimension Factors

Descriptive Statistics			
	Mean	Std. Deviation	Rank
Trust	3.95	1.267	3
Commitment	3.99	1.213	1
Empathy	3.96	1.224	2

Conflict Handling	3.54	1.395	5
Communication	3.78	1.277	4

Source: Own Survey result, SPS (2020)

In terms of overall factor weighted means relationship marketing indicated: Table 2: presents findings with respect to relative impact on relationship marketing dimension factors. The top two dimensions that found in the listing were “commitment” (mean= 3.99) and “empathy”(mean= 3.96) two dimensions ranked highly by the respondents as factors influence their relationship marketing with the bank. The “trust” (mean= 3.95) customer loyalty dimension was rated as the third most decisive factor influencing customers to stay with their customer bank. The “communication” (mean=3.78), and “conflict handling” (mean = 3.54) ranked fourth and fifth least important by the customers for their long relationship with the branch. It is interesting that the determinants of the relationship marketing related to the conflict handling are not that highly ranked as expected by CBE. The “commitment” is the only determinant that is highly ranked by most of the respondents that also leads to the conclusion that the respondents consider the influential factors to relationship marketing.

1.12.2 Correlation Analysis between CRM Dimensions and Customers’ Loyalty

Table 3: Correlation Analysis between CRM Dimensions and Customers’ Loyalty

CRM Dimensions		Loyalty
Trust	Pearson Correlation	.901**
	Sig. (2-tailed)	.000
Commitment	Pearson Correlation	.906**
	Sig. (2-tailed)	.000
Empathy	Pearson Correlation	.896**
	Sig. (2-tailed)	.000
Conflict Handling	Pearson Correlation	.842**
	Sig. (2-tailed)	.000
Communication	Pearson Correlation	.863**
	Sig. (2-tailed)	.000
N	384	
**. Correlation is significant at the 0.01 level (2-tailed).		

Source: Own Survey result, SPSS (2020)

As Table 3 reveals trust dimension and customers’ loyalty are related with strong relationship ($r = .901^{**}$). This is a significant positive correlation between trust dimension and customers’ loyalty. Which means the more the bank enhances the level of

trust provision, the more customers are loyal to CBE. Table 3 shows; the correlation coefficient for commitment and customers' loyalty is $r=.906^{**}$. A result shows the very high significant correlation is between commitment and customers' loyalty levels. Table 3 also indicates; empathy dimensions had significant positive relationship ($r =.896^{**}$, $p < 0.01$) with customers' loyalty from measure of Pearson correlation analysis. The positive correlations weight for customers' loyalty shows that as empathy dimensions enhanced by the bank the more customers' become loyal to CBE. The result reveals a strong significant positive correlation relationship between conflict handling of dimension relationship marketing and customers' loyalty. This means that changes in one variable are strongly correlated with changes in the second variable. Pearson's $r = .842^{**}$. The finding revealed the more the bank enhances the level of conflict handling, the more customers are loyal to CBE. As the resultant Pearson correlation coefficient, $r = .863^{**}$, and that it is statistically significant ($p = 0.001$). There is a significant positive correlation between communication dimension and customers' loyalty. Which means the more the bank enhances the level of communication dimension provided, the more customer are loyal.

1.12.3 Multiple regression analysis of Relationship marketing and customers' loyalty

Table 4: ANOVA

ANOVA ^a								
Model		Sum of Squares	df	Mean Square	R	R Square	F	Sig.
1	Regression	344.485	5	68.897	.910	.828	365.011	.000 ^b
	Residual	71.349	378	.189				
	Total	415.833	383					

Dependent Variable: Loyalty
 b. Predictors: (Constant), Communication, Commitment, Conflict Handling, Trust, Empathy

Source: Own Survey result, SPSS (2020)

Table 5: Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.210	.080		15.144	.000
	Trust	.218	.107	.265	2.030	.043
	Commitment	.674	.140	.785	4.799	.000
	Empathy	.127	.142	.150	.895	.012
	Conflict Handling	.144	.054	.193	2.663	.008
	Communication	.142	.081	.174	1.753	.021

a. Dependent Variable: Loyalty

The equation becomes Customers' loyalty = 1.210 + .218*Trust + .674*Commitment + .127*Empathy + .144* Conflict Handling + .142* Communication

Source: Own Survey result, SPSS (2020)

The ANOVA table shows fitness of the model, the combination of the variables is significant in predicting the dependent variable. The $R=.910a$, which shows the multiple correlation coefficient, while $R^2=.828$. R-Square of .828 was obtained indicating that all five relationship marketing practices jointly determine 82.8% of customer loyalty. The beta coefficient tells you how strongly is the independent variable associated with the dependent variable. It is equal to the correlation coefficient between the 2 variables. Trust ($\beta = .218$), Commitment ($\beta = .218$) Empathy ($\beta = .127$) Conflict Handling ($\beta = .144$) and Communication ($\beta = .142$) are statistically significant, $p < .01$. Hence, these are the variables that positively affect the customer loyalty in providing the needed items for its operations. This shows that the dependent variable is 82.8% explained by the independent variable in the model. The findings also revealed that all the dimensions have significant relationship with customer loyalty with ($p < 0.05$) hence they constitute the major determinants of customer loyalty in Commercial Banks in study area.

Conclusions

The “commitment” is the only determinant that is highly ranked by most of the respondents that also leads to the conclusion that the respondents consider the influential factors to relationship marketing. The commercial banks of Nekemte town better to give high emphasis on remaining variables of relationship marketing to enhance the overall loyalty on the bank. Commercial bank of Ethiopia, Nekemte town should consider offering some shares with small amounts to their loyal customers, according to their level of participation, experience, loyalty and other factors to develop belongings on the mind of customers. This is eventually helpful in developing strong trust, commitment, empathy with the Banks and resolve and protect potential and actual conflicts. More efforts are needed to improve the level of trust by the continuous development of the services and benefits, training of employees to perform the service effectively, being consistent in providing quality services; fulfill the obligations to the customers, keeping a close eye to the customer transaction.

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