

The Effect of Relationship Marketing on Customer Loyalty: The Case of Cooperative Bank of Oromia in Nekemte Town

Gudata Abara Chali (Corresponding author)
Wallaga University, Department Of Management
PO box 395, Nekemte, Oromia, Ethiopia
E-mail: gudataa@gmail.com

Abstract

This study investigates the impact of relationship marketing—specifically Customer Relationship Management (CRM) practices—on customer loyalty at the Cooperative Bank of Oromia (CBO) in Nekemte town. Despite the rapid growth of the Ethiopian banking sector, competition for customer retention remains intense. Utilizing a descriptive and explanatory research design, the study collected primary data from 180 respondents (employees and key customers) using structured Likert-scale questionnaires. Data analysis was performed using SPSS version 24, employing descriptive statistics, Pearson correlation, and multiple regression analysis. The findings reveal significant positive correlations between all six studied dimensions—Key Customer Focus, Interaction Management, CRM Organization, Knowledge Management, Technology-based CRM, and IT Integration—with customer loyalty. Regression results ($R^2=0.755$) indicate that CRM practices explain 75.5% of the variance in customer loyalty. Notably, Technology ($\beta=0.337$) and ICT Integration ($\beta=0.320$) emerged as the most potent predictors. The study concludes that while CBO performs moderately in relationship marketing, a technology-driven, customer-centric approach is essential for long-term loyalty. Recommendations include upgrading digital banking infrastructures and enhancing personalized communication frameworks.

Keywords: *Relationship Marketing, Customer Loyalty, Customer Relationship Management (CRM), Cooperative Bank of Oromia, Nekemte.*

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1. Introduction

1.1 Background of the Study

In the contemporary globalized economy, the paradigm of marketing has shifted from transactional exchanges to the cultivation of long-term customer relationships. Customer Relationship Management (CRM) is no longer a luxury but a strategic necessity for survival, particularly in service industries like banking. According to Payan and Frow (2017), CRM involves the creation and improvement of individual relationships to maximize the total lifecycle value of a customer.

In Ethiopia, the banking industry has become increasingly heterogeneous with the entry of new players. For the Cooperative Bank of Oromia (CBO), particularly in economic hubs like Nekemte town, maintaining customer loyalty is critical. Loyalty occurs when customers repeatedly patronize a firm and act as advocates, providing "free advertising" through positive word-of-mouth (Lovelock, 2019).

1.2 Statement of the Problem

Despite the expansion of digital banking in Ethiopia, many institutions still lack a comprehensive CRM philosophy. Preliminary observations at CBO Nekemte branches suggest that while the bank acquires many

customers, the "retention" and "loyalty" phases are hindered by inconsistent service quality and underutilized technology. Literature suggests that customer loyalty is a competitive tool, yet empirical evidence regarding which specific CRM dimensions—knowledge management, interaction, or technology—most influence CBO customers remains scarce. This research seeks to bridge this gap by assessing the effect of six CRM dimensions on customer loyalty in the Nekemte administrative context.

2. Literature Review

2.1 Theoretical Framework

This study is anchored in **Relationship Marketing Theory**, which posits that building trust and commitment is more cost-effective than constant new customer acquisition. The researcher utilizes the model developed by Yim et al. (2019), focusing on four key pillars: Key Customer Focus, CRM Organization, Knowledge Management, and Technology. This is augmented by adding Interaction Management and IT Integration to suit the digital transition in the Ethiopian banking landscape.

2.2 Customer Loyalty

Loyalty is defined as a deeply held commitment to rebuy a product or service consistently in the future (Yim et al., 2018). It encompasses both attitudinal (preference) and behavioral (repeat purchase) aspects. In banking, loyalty is driven by the perceived value of the relationship and the ease of conducting transactions.

3. Research Methodology

3.1 Research Design and Population

The study employed an **Empirical Investigation** using descriptive and explanatory designs. The target population included all clerical employees and key customers across CBO branches in Nekemte. Using Yamane's formula, a sample size of **185** was determined.

3.2 Sampling and Data Analysis

Non-probability purposive and convenience sampling were used to select respondents who possessed high awareness of the bank's CRM practices. Primary data were analyzed via **SPSS version 24**. The regression model was specified as:

$$Y = \beta_0 + \beta_1(KCF) + \beta_2(CRO) + \beta_3(KMT) + \beta_4(TCR) + \beta_5(COM) + \beta_6(ICT) + \epsilon$$

4. Results and Discussion

4.1 Demographic Profile

The respondent base was predominantly male (71.7%), with 71.2% aged between 29 and 50. Notably, 66.7% held a first degree or higher, ensuring that the qualitative perceptions were derived from an informed demographic.

4.2 Correlation Analysis

Significant positive correlations were found between all CRM dimensions and Customer Loyalty ($p < 0.01$).

Table 1: Correlation Matrix

Variables	KCF	COM	CRO	KMT	TCR	ICT	Loyalty
KCF	1	.643**	.547**	.442**	.142	.126	.358**
COM	.643**	1	.331**	.335**	.117	.060	.231**
CRO	.547**	.331**	1	.390**	.070	.028	.320**
KMT	.442**	.335**	.390**	1	.053	.016	.284**
TCR (Tech)	.142	.117	.070	.053	1	.225**	.447**
ICT	.126	.060	.028	.016	.225**	1	.467**
Loyalty	.358**	.231**	.320**	.284**	.447**	.467**	1

Note: Significance at the 0.01 level (two-tailed) for bolded correlations.

The data indicates that **ICT Integration** ($r = 0.467$) and **Technology** ($r = 0.447$) have the strongest associations with customer loyalty in the CBO Nekemte context.

4.3 Regression Analysis

The model summary yielded an R-square of **0.755**, indicating that CRM practices explain approximately 75.5% of the variation in customer loyalty.

Table 2: Regression Coefficients

Variable	Beta (β)	t-value	Sig.
Key Customer Focus	.106	1.357	.017
CRM Organization	.121	1.479	.014
Technology	.337	5.743	.000
ICT Integration	.320	5.053	.000

Note: The results indicate that Technology and ICT Integration have strong, statistically significant associations ($p < .01$) with the outcome.

The findings emphasize that **Technology** and **ICT Integration** are the primary drivers of loyalty. This suggests that in Nekemte, customers value digital ease and mobile application reliability above traditional face-to-face interactions.

5. Conclusion and Recommendations

5.1 Conclusion

The study concludes that relationship marketing is the backbone of customer loyalty for the Cooperative Bank of Oromia. While "Key Customer Focus" provides a foundation, the technical aspects of the relationship—

represented by digital platforms and IT infrastructure—are the true determinants of whether a customer remains loyal. The high R² value confirms that CBO can effectively manage its competitive standing by refining these specific CRM dimensions.

5.2 Recommendations

1. **Technological Investment:** CBO should prioritize the deployment of advanced CRM software and reliable mobile banking features, as technology is the highest predictor of loyalty ($\beta=0.337$).
2. **Personalized Communication:** Enhance Interaction Management by moving beyond generic notifications to personalized financial advice and timely reminders.
3. **Cross-Departmental IT Integration:** Solve the challenge of fragmented data by integrating ICT systems across all departments to ensure a "single view" of the customer.
4. **Reward Loyalists:** Formalize loyalty rewards through the "business architecture" to incentivize repeat patronage.

References

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Notes

Note 1. All findings are specific to the Nekemte town branches of the Cooperative Bank of Oromia.

Note 2. Reliability was confirmed with a Cronbach's Alpha > 0.70 for all constructs.