

**THE EFFECT OF SERVICE QUALITY ON CUSTOMER  
RETENTION IN THE HOTEL INDUSTRY: THE CASE OF  
ETHIOPIAN SKYLIGHT HOTEL**

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I, Firanbontu Yilma, declare that the work presented in this research thesis is mine, which I completed under the supervision of my advisor. The research project has not been submitted to other higher education institutions for any other reason. I certify that I followed the academic honesty and integrity standard and did not distort, fabricate, or falsify any idea/data/fact/source in my study proposal submission. The source is dually acknowledged. I realize that any violation of academic integrity will result in disciplinary action by the university.

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This is to certify that the statement above made by the MBL candidate under my advisee is legitimate to the best of my knowledge as an adviser. Hence, I attest that the student can submit their research project to the department for further review by examiners.

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**ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE**  
**BUSINESS LEADERSHIP(MBL) PROGRAM**

*The Effect of Service Quality on Customer Retention in The Hotel Industry: The Case of  
Ethiopian Skylight Hotel*

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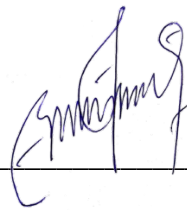
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## LIST OF TABLES

Table 3.1. Reliability results of the Instruments.....	30
Table 4.1. Response Rate .....	32
Table 4.2. Demographic Characteristics of Respondents.....	33
Table 4.3. Descriptive Statistics Result.....	35
Table 4.4. Pearson correlation analysis result .....	37
Table 4.5. Multicollinearity Test.....	38
Table 4.6. Skewness and Kurtosis test result .....	40
Table 4.7. Research Model Summary .....	41
Table 4.8. ANOVA Table.....	42
Table 4.9. Coefficients of the Multiple Regression.....	43

## LIST OF FIGURES

Figure 2-1 Conceptual Framework .....	23
Figure 4.1. Normality Test Histogram.....	39
Figure 4.2: P –P Plot .....	40

## LIST OF ACRONYMS

**TARRE.....Tangibility, Assurance, Reliability, Responsiveness, Empathy**

**SERVQUL.....Service Quality Model**

**TA..... Tangibility**

**RE..... Reliability**

**RL..... Responsiveness**

**AS..... Assurance**

**EM.....Empathy**

**CR..... Customer Retention**

**ST.....Standard Deviation**

**VIF..... Variance Inflation Factor**

**SPSS..... Statistical Package for Social Science**

## Table of Contents

ABSTRACT.....	X
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>1.1. INTRODUCTION</b> .....	<b>1</b>
1.2. BACKGROUND OF THE STUDY .....	1
1.3. BACKGROUND OF THE ORGANIZATION .....	3
1.4. PROBLEM STATEMENT .....	4
1.7. SIGNIFICANCE OF THE STUDY.....	7
1.8. SCOPE OF THE STUDY .....	8
1.10. ORGANIZATION OF THE STUDY .....	9
1.11. DEFINITION OF OPERATIONAL TERMS .....	10
<b>CHAPTER TWO</b> .....	<b>11</b>
<b>LITERATURE REVIEW</b> .....	<b>11</b>
<b>2.1. INTRODUCTION</b> .....	<b>11</b>
2.2. THEORETICAL REVIEW.....	11
2.2.1. CONCEPT AND MEANING OF CUSTOMER RETENTION .....	11
2.2.2. SERVICE QUALITY MODELS .....	14
2.2.3. DIMENSIONS OF SERVICE QUALITY.....	17
2.2.4. CONTRACTS FOR CUSTOMER RETENTION .....	19
2.3. EMPIRICAL REVIEW .....	20
2.4. RESEARCH GAP.....	22
2.5. CONCEPTUAL FRAMEWORK.....	23
2.6. HYPOTHESIS .....	23
<b>CHAPTER THREE</b> .....	<b>24</b>
<b>RESEARCH METHODOLOGY</b> .....	<b>24</b>
<b>3.1. INTRODUCTION</b> .....	<b>24</b>
3.2. RESEARCH APPROACH .....	24
3.3. RESEARCH DESIGN .....	24
3.4. POPULATION AND SAMPLING TECHNIQUE .....	25
3.4.1. TARGET POPULATION .....	25
3.4.2. SAMPLING TECHNIQUE .....	26
3.4.3. SAMPLE SIZE DETERMINATION .....	26
3.5. DATA SOURCE.....	27

3.6.	DATA COLLECTION INSTRUMENT .....	27
3.7.	DATA ANALYSIS METHODS .....	28
3.8.	VALIDITY AND RELIABILITY .....	29
3.8.1.	VALIDITY.....	29
3.8.2.	RELIABILITY.....	29
3.9.	ETHICAL CONSIDERATION .....	31
<b>CHAPTER FOUR:.....</b>		<b>32</b>
<b>DATA ANALYSIS, RESULT, AND DISCUSSION .....</b>		<b>32</b>
4.1.	INTRODUCTION .....	32
4.2.	RESPONSE RATE.....	32
4.3.	PROFILE OF RESPONDENTS .....	33
4.4.	DESCRIPTIVE STATISTICS.....	35
4.5.	CORRELATION ANALYSIS .....	37
4.6.	REGRESSION ANALYSIS .....	38
4.6.1.	Multicollinearity Test .....	38
4.6.2.	Normality Test.....	39
4.6.4.	Model Fit .....	41
4.6.5.	AVOVA Test .....	42
4.7.	HYPOTHESIS TESTING .....	46
4.8.	DISCUSSION .....	46
<b>CHAPTER FIVE .....</b>		<b>48</b>
<b>CONCLUSION AND RECOMMENDATIONS .....</b>		<b>48</b>
5.1.	INTRODUCTION .....	48
5.2.	SUMMARY OF THE FINDINGS .....	48
5.3.	CONCLUSION .....	49
5.4.	RECOMMENDATION .....	51
6.	REFERENCE.....	53
APPENDIX 1 .....		60

## ABSTRACT

*This study investigates the effect of service quality on customer retention in the hotel industry, particularly in the Ethiopian Skylight Hotel. The SERVQUAL model was used to study how the five service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) affect customer retention. A quantitative research approach was employed to acquire quantitative data from hotel customers through a standardized questionnaire. The study population comprised Ethiopian Skylight Hotel customers, and a stratified probability random sampling technique was applied to select a study sample using the Cochran large and unknown sample determination formula. The SERVQUAL model survey questionnaire was divided into three parts, with a total of thirty-three questions distributed to 384 respondents for a response rate of 325 (84.6%). The SPSS version 24 software was used to analyze the collected data by applying descriptive and inferential statistics of Pearson correlation and multiple regression. The analysis result demonstrates that reliability, tangibility, empathy, and responsiveness have significant effects on customer retention. However, assurance has no significance on customer retention. The study's findings provide useful information for Skylight Hotels on how to improve service quality and client retention. The study also makes an important contribution to future research in the study area.*

**Keywords:** Customer Retention, Service Quality, SERVQUL Model, Cochran formula, SPSS

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1. INTRODUCTION**

This chapter presents an overview of the research by incorporating background studies on the research subjects conducted by previous researchers to gain theoretical and empirical findings. This chapter presents an overview of the research by incorporating background studies on the research subjects conducted by previous researchers to gain theoretical and empirical findings. Based on previous findings, the proposed research gap, research questions, and objectives are included. This chapter also addresses the study's scope, limitations, and significance.

### **1.2. BACKGROUND OF THE STUDY**

The international hotel industry's competitiveness underscores the importance of customer retention, which is influenced by various factors. Both Fam (2021) and Pathmanathan (2021) highlight the significance of relationship marketing, service quality, and customer satisfaction in this regard. Cultural differences, particularly in employee-customer interactions, also play a role (Fam, 2021). Furthermore, the integration of technology, particularly social media marketing, is found to improve customer retention (Cheraghalizadeh, 2022). These findings collectively underscore the need for a customer-centric approach, with a focus on relationship marketing, service quality, and the integration of technology to drive customer retention in the international hotel industry.

The hospitality business has grown in importance not just for hotels and service providers, but also for the country and its economy. Several countries rely heavily on tourism to generate foreign currency. According to Nugroho, Kempa, & Wiliater, (2020) study there is severe competition between countries and hotels inside those countries. The World Travel and Tourism Council 2019 report indicated that tourism contributes about 10.4% of global GDP and 10% of total employment globally (Sanjeev G., 2019). Tourism dependency varies per country, with the Maldives contributing 70% and Jordan contributing 19.2%. Hotels play an important role in the tourism supply chain throughout the hospitality industry (Al-Gharaibah, 2020).

Hotels are service-oriented businesses, and clients are the primary source of revenue. Customer retention is crucial to the survival of the hotels. Because most countries have low occupancy rates, most hotels are working hard to keep clients. For example, in 2020 the Jordan Hotel Association reported that until December 2019, the occupancy rate was 33%, implying that over 63% of rooms were empty which the condition increased operational costs while reducing tourism's contribution to the country (Al-Gharaibah).

The hotel industry is one of the largest and most active daily running businesses, with numerous hotel business owners trying to serve and satisfy a wide range of clients with various requirements and interests by delivering great service in all parts of their services. Customers are the primary source of revenue for the organization's growth and market competitiveness (Chim, 2021). The hotel sector is now a well-known industry worldwide, with various services such as restaurants, rooms, spas, swimming pools, and health clubs no longer considered extravagant. Many people consider these services to be essential components of their daily lives. Over the previous two decades, the hotel sector has seen significant transformation from traditional to present conditions (Raja, 2014).

While consumers are the primary source of revenue in the hotel sector, customer retention has been identified as one of the most important variables influencing long-term business, and it is one strategy for retaining current customers while recruiting new ones. Customer retention is the action that a sales organization engages in to reduce customer defections. Successful customer retention begins with an organization's first interaction with a client and continues throughout the relationship. A company's capacity to recruit and keep new consumers is closely tied to how it serves its present customers and the reputation it builds within and across the business environment (Pehlivan, 2015). According to (Han, Shim, Lee, & Kim, 2019) studies, recruiting new consumers might cost up to five times as much as delighting and retaining existing customers.

Since the previous decade, many businesses have viewed client retention as a critical factor in their leadership and advertising decisions. Most customer retention studies argue that maintaining consumers increases profitability, particularly by lowering the cost of obtaining new customers (Poel, Lariviere B., and Vanden D., 2005).

In Ethiopia, the hotel business accounts for 9.4% of the entire GDP and has expanded rapidly during the last two decades. However, various challenges exist, the most notable of which is the quality of service in most hotels (Kifle, 2012). According to several researchers, perceived

service quality influences customer retention. Furthermore, the greater the perceived service quality, the more pleased clients are, which leads to devotion and the likelihood that consumers would return to the hotel and promote it to others (Tefera, 2016).

Regarding the study's implications, this research intends to bridge the understanding of the impact of service quality on customer retention in the hospitality industry, namely hotel businesses, beginning with global patterns and progressing to specific practices at the Ethiopian Skylight Hotel. Furthermore, this research aims to provide insight into the best practices for effective customer retention methods that may be used to boost client loyalty in a rapidly changing hospitality sector.

### **1.3. BACKGROUND OF THE ORGANIZATION**

The study focused on the Ethiopian skylight hotel to explore the impact of service quality on customer retention. Ethiopian Airlines Group, Africa's largest aviation group, declares the grand opening of the continent's biggest hotel, the Ethiopian Skylight Hotel, as it enters its second phase; the first phase opened in January 2019. With the latest expansion, the hotel now provides 1,024 modern guestrooms and numerous suites, comprising fully furnished flats suitable for both long and short-term visits.

Ethiopian Skylight Hotel is located in Africa's diplomatic capital, Addis Ababa, which houses UNECA and AU offices. It is about a 5-minute walk from Addis Ababa Bole International Airport. The hotel is designed to host both business and social gatherings. The hotel also has meeting and event facilities that can accommodate small groups of up to 5000 people; 19 eating and drinking establishments, that include Ethiopian, Italian, Arabian, and Asian restaurants, coffee shops, bars, entertainment venues, and spots for drinks or hand-crafted cocktails with a panoramic view of the airport and city.

The Ethiopian Skylight Hotel, which centers on exquisite design and great services, offers a variety of cozy and modern rooms and suites for guests to select from. All rooms are provided with modern conveniences and vital amenities, such as Wi-Fi connectivity, to ensure that all visitors have a productive and enjoyable stay. Aside from its stunning rooms, the Ethiopian Skylight Hotel provides excellent venues for meetings, parties, and special events. The hotel has the largest hotel ballroom in Addis Ababa, as well as eight completely equipped meeting rooms including innovative audio-visual technology and modern interior design. This mix

allows the hotel to host commercial and social occasions with charm and finesse for its valuable customers.

Since the hotel industry is highly competitive globally nowadays, customer retention strategies are crucial for sustaining the profitability and growth of every customer-focused business. In Ethiopia, the tourism sector is rapidly expanding, presenting opportunities and challenges for hotels to attract and retain customers. Up on this, the Ethiopian skylight hotel will be the spotlight of this study which aims to investigate the influence of service quality on the customer retention strategy of hotels in the context of Ethiopian.

#### **1.4. PROBLEM STATEMENT**

The service industry encompasses a diverse and complicated range of organizations and businesses. These include national and local government: schools, hospitals, social, security, police, military personnel, transportation, legal, information, and financing; non-profit private services: nonprofit and religious organizations, research foundations, mutual communities, and art foundations; commercial private services: infrastructure, hotels, airlines, designers, restaurants, legal professionals, retailers, recreation, banks, insurance companies, marketing agencies, consulting firms, market research companies (Simon S., & Matthew J., 1993).

The hotel industry is one of the largest and most active daily operating service-providing businesses, with numerous hotel business owners seeking to serve and satisfy a wide range of clients with various requirements and interests by delivering great service in all parts of their products. Customers are the primary source of income for the organization's growth and market competitiveness (Chim Weng Kong, 2021).

The hotel sector is commonly regarded as the world's largest hospitality industry, with numerous clients and employees. Throughout history, several hotels have been constructed or opened to provide the best service possible to their consumers. Although the start of a new hotel is always exciting, most of them do not stay long, particularly in our home nation of Ethiopia, where some begin to fail and are even forced to close their doors. This business failure is the result of business owners failing to implement an effective client retention strategy in tandem with the company's profitability (Khan, 2013).

The hotel industry's performance is dependent on customer retention, which has become the most challenging issue in developing countries such as Ethiopia. Ruqaishi (2023) highlights the

importance of service quality, namely customer happiness and trust, in increasing client loyalty in the hospitality industry. Pathmanathan (2021) emphasizes the importance of personal connections and service quality, whereas Trebicka (2023) finds a positive correlation between economic pricing strategies and customer retention. Adzoyi (2018) emphasizes the importance of client happiness, commitment, and retention in the larger picture of hotel quality. These findings indicate that human connection, service quality, pricing methods, and customer happiness are all important elements in client retention in the hotel sector.

Mohammed (2017) noted how a lack of official written strategy documents/guidelines, service morality, and service delivery manuals, as well as a lack of proper, well-programmed strategy implementation, can impair service quality and the sustainability of the company by reducing customer volume. Studies show that consumer problems in Ethiopia are not addressed scientifically and many hotels, including international-level ones, continue to manage customers conventionally.

According to the study by Abraham (2015), delaying service delivery, misunderstanding the orders, poor customer handling, and penalizing high prices with low quality and unavailability of the wanted services are commonly practiced in many hotels in Ethiopia. Because of these obstacles, considerable disparity between service providers and service users in the hotel industry is observed. Multiple investigators agree that perceived service quality influences customer retention. Furthermore, the greater the perceived service quality, the more delighted customers are, which leads to commitment and the likelihood that consumers will return to the hotel and recommend it to others (Tefera, 2016).

According to the preceding research and outcomes proof, providing high-quality service to clients will generate, satisfy, and retain loyal and valuable customers. Customers are widely recognized as the key agents in the hotel sector, playing a significant part in keeping service providers in business because they are the product's consumers. Customers will always buy high-quality items and services at reasonable costs. According to certain research, customers are willing to pay whatever it takes for high-quality products. As a result, hospitality business owners, particularly hoteliers, must focus on providing excellent services continually to attract new and retain existing clients, cultivate loyal customers, and remain competitive as a top choice in the competitive business market.

In Ethiopia, the hotel business has expanded substantially during the previous two decades. However, there are several obstacles, the most significant of which is the quality of service in

most hotels (Kifle, 2012). Nowadays, the Ethiopian hotel industry is becoming very dynamic and increasingly competitive as a result of the rapid change in customer perceptions and preferences for quality and unique services around the world, and customer retention is critical and key for hotel firms' long-term success in maintaining their competitive advantage, the customer.

Based on the above-stated problems, this study seeks to analyze how the standard of service provided by hotel businesses affects their customer retention strategy. The study aimed to investigate the effect of service quality and customer retention, by using tangibility, reliability, responsiveness, empathy, and assurance, to find out how each aspects affect the customer retention of Ethiopian skylight hotels. As a result, the study looks at how each of the five dimensions helps the hotel retain its customers by matching their expectations and perceptions of quality service.

The majority of studies conducted on the hotel sector by various academics have concentrated on the impact of service quality on customer satisfaction rather than customer retention. This demonstrates that there is a research gap in customer retention that requires further examination. Furthermore, despite Ethiopia's popularity as a tourist destination with a diverse range of hotels of varying quality, little research has been undertaken on service quality and customer retention. Based on this, this study aimed to explore the effect of service quality on customer retention at an Ethiopian skylight hotel enabling the hotel to understand the underlying problem, correct their limitations, and strengthen their position in a highly competitive market.

## **1.5. RESEARCH QUESTION**

According to the problem statement above, this study emphasizes service quality as an independent variable influencing customer retention, the dependent variable. The study proposed five research inquiries to study the cause-and-effect relationship between the independent and the dependent variable using the SERVQUL model.

1. How does the tangibility influence customer retention of Ethiopian Skylight Hotel?
2. What is the effect of responsiveness on retaining guests at the Skylight Hotel?
3. How does reliability affect customer retention at the Skylight Hotel?
4. What is the effect of empathy on retaining guests at the Skylight Hotel?
5. What is the effect of assurance on retaining guests at the Skylight Hotel?

## **1.6. THE RESEARCH OBJECTIVES**

### **The general objective**

The general objective of this study is to investigate the effect of service quality on customer retention in the hotel industry particularly in the case of Ethiopian skylight hotels.

### **The specific objectives**

1. To investigate the effect of tangibility on customer retention at Ethiopian skylight hotels.
2. To evaluate the effect of reliability on customer retention at Ethiopian skylight hotels.
3. To examine the influence of responsiveness on customer retention at skylight hotels.
4. To determine the effect of assurance on customer retention at Ethiopian skylight hotels.
5. To analyze the effect of empathy on customer retention at Ethiopian skylight hotels.

## **1.7. SIGNIFICANCE OF THE STUDY**

The study has both theoretical and practical implications for future researchers. The theoretical significance of this study is that it would support and strengthen previously developed theories or research on customer retention. The study initiative is based on an existing theory with some modifications, which contributes to the following research by demonstrating and providing evidence that customer retention is a serious issue in the hotel industry that requires attention, directing that additional research should be conducted in this area.

The practical significance of this study is that it provides hotel business owners with insights into the real problem of why they are struggling with customer retention issues by providing empirical evidence about the factors that affect the ability of customer retention so that they can improve their customer retention strategy to bring better success to their business as well as increase customer satisfaction by the service they will provide.

Furthermore, because little attention is paid to customer retention and only a few studies have been conducted in the context of Ethiopia, this study could serve as input for future studies on customer retention issues. Finally, the study provides valuable insights for the Ethiopian Skylight Hotel, helping them to boost customer retention while maintaining a competitive edge. The research findings would benefit not only the Ethiopian Skylight Hotel but also other hotels and tourism stakeholders, thereby contributing to the industry's overall growth and sustainability.

## **1.8. SCOPE OF THE STUDY**

The study was conducted on the Ethiopian hotel business, with a particular emphasis on the Ethiopian Skylight Hotel in Addis Ababa. The Skylight Hotel was chosen as a study subject because it is one of Ethiopia's largest international hotels, with both national and international target customers, it is located in the heart of Ethiopia's capital city, Addis Ababa, right in front of Bole International Airport, which is a strategic location from which everyone can easily recognize it, the hotel trades in both national and hard currencies, and the hotel offers room services ranging from standard to luxurious. The hotel also offers several types of branches, conferences, weddings, birthday parties, and fashion show halls, all based on customer needs. The hotel serves an enormous number of customers and staff. Therefore, the provided input from the Skylight Hotel helps in gathering sufficient data for the research.

## **1.9. LIMITATION OF THE STUDY**

The study's limitation is a lack of generalizability since the study focused only on one specific hotel which is Skylight Hotel, the research cannot be generalized to the entire Ethiopian hotels. Another drawback of the study was self-reporting bias which is classified under data collection limitation. Since the researcher collects and reports the data, the report could be biased due to the personal opinion of the researcher. Timewise the research was cross-sectional due to the insufficient time given to complete the research, this could also limit the generalizability of the study. The other limitation was, that limited resources were spent on customer retention in Ethiopia, particularly in skylight hotels, which had an impact on the research causing some methodological errors, such as when selecting the target population and the intended sample for the study, which could increase bias. However, random probability sampling was used to eliminate sample bias. Furthermore, the lack of resources resulted in a fall in the reference numbers, as the majority of hotel industry research focuses on customer satisfaction rather than retention. To overcome this challenge, other similar papers with similar content but completed in other countries but not on Skylight Hotels were used as reference material.

## **1.10. ORGANIZATION OF THE STUDY**

The study is categorized into a total of five sections, each with a particular objective. The first section focuses on the introductory section, which explains the research topic and its significance. It establishes the background for the study and outlines its objectives and research topics. The second chapter dives into the conceptual and theoretical framework, including relevant theories and notions concerning client retention. It also thoroughly reviews empirical studies and previous research that are relevant to the inquiry. Chapter three discusses research methods. It outlines the study's approach and design, as well as the methods utilized to collect data, sample selection, and analysis. Chapter Four is dedicated to data analysis. It presents the conclusions drawn from the given data and interprets the findings using proper quantitative analysis methods. Chapter 5 is the conclusion and recommendations portion. It highlights the study's primary findings, draws data-driven conclusions, and offers recommendations for implementation and future research.

## 1.11. DEFINITION OF OPERATIONAL TERMS

**Customer Retention:** The hotel's ability to maintain relationships with existing customers over time, fostering repeat patronage and loyalty through strategies enhancing satisfaction, and contributing to long-term success (Reichheld, 1996).

**The hospitality industry:** encompasses a wide range of activities such as housing, food and beverage services, event planning, amusement parks, travel companies, tourism, hotels, restaurants, and bars (Hughes, J. C. 2008).

**Service quality:** is defined as the extent to which a service fulfills or exceeds the demands and requirements of consumers, and it is an assessment of how well a service is performed to the client's expectations (Ramya N. 2019).

**Tangibility:** is defined as tangible proof of service, which includes infrastructure, machinery, employees, and communication materials (Parasuraman et al., 1988).

**Reliability:** is the ability to deliver promised services consistently and accurately, which influences consumer trust and satisfaction (Parasuraman et al. 1988).

**Responsiveness:** is the readiness to assist consumers and give prompt service, demonstrating commitment to their requirements (Parasuraman et al. 1988).

**Assurance:** involves employee expertise and civility, as well as their capacity to inspire trust and confidence, including competence, courtesy, credibility, and security (Parasuraman et al., 1988).

**Empathy:** involves giving clients caring and individualized attention, demonstrating the capacity to comprehend and meet their needs. It is the ability to perceive things from the customer's point of view by putting oneself in the shoes of others to grasp customers' pain points (Parasuraman et al., 1988).

**Competitive advantage:** a company's capacity to perform better than rivals in the same business or market as a result of its distinct qualities and resources. Accessibility to natural resources, such as low-cost energy sources, highly skilled labor, location, high entry hurdles, and access to modern technologies and confidential data, are every potential instance (Fombrun & Shanley, 1990).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. INTRODUCTION**

This chapter provides a thorough analysis of current literature related to the research question, which is to examine the determinant factors of customer retention in Ethiopian Skylight Hotels. The literature review will intend to identify previous studies conducted on the research issue, as well as the research gap that exists in the previous research, and then will attempt to address the study's research question by giving both a theoretical and practical foundation.

#### **2.2. THEORETICAL REVIEW**

##### **2.2.1. CONCEPT AND MEANING OF CUSTOMER RETENTION**

Ethiopia's strategic location in the Horn of Africa makes it a popular location for international gatherings and conferences. The number of hotels in the country has expanded dramatically in recent years. While some tourist accommodations are currently accessible at all of the major destinations, both improvements and new developments are ongoing. According to (Tefera, 2016) and (Hailesilassie, 2013), there were only four globally branded and managed hotels with a total of 1012 available rooms, with most of the rated hotels located in Addis Ababa and hotels with fewer than 100 rooms found throughout the country's major towns and historical tourist destinations, as evaluated by online travel brokers. However, the presence of several international organizations in Addis Ababa, including the African Union (AU) and the Economic Commission for Africa (ECA), has increased demand for world-standard hotel accommodations (Ebisa C. and Andualem H., 2013).

According to (Walle, 2010) Ethiopia has enormous, unexploited tourism potential. Based on (Henok, Derk, and Dan, 2013) the study of the World Economic Forum's 2013 Travel & Tourism Competitiveness ranking, Ethiopia's position has improved over the previous year. Still, it is ranked 120th out of 140 countries, up from 123 in 2009. Ethiopian tourism is thriving, with an increasing number of tourists visiting various parts of the country. Tourism necessitates a wide range of support services to stimulate activity in several downstream and ancillary industries. As the top hotels reach maximum capacity, significant private investment opportunities emerge in the hotel industry.

Ethiopia's hotel business is rapidly expanding in many regions throughout the country, in the capital city of Addis Ababa, and the number of international standard hotels is increasing. Many studies have also shown that the hospitality business, particularly the hotel industry, is growing increasingly competitive due to various strategies such as product, customer service, and target customer specifications of the firms (Khan, 2013). Different hotels employ various techniques to attract guests from all over the world by giving the greatest product possible to maintain their competitive advantage over their competitors and remain in business. As a result, recruiting as many clients as possible does not help hoteliers stay in business; rather, it is critical to keeping existing customers and building loyal consumers through customer retention strategies.

Customer retention is the phenomenon of repeated purchases of a good or service over a prolonged period. Pyne (2000) defines customer retention as the percentage rate at the start of a period and the number of customers who remain clients at the end of the term. Customer retention is a key factor to consider in hotels since a shortage of customers leads to lesser revenue, which might force the institution to close. Retaining loyal customers for hoteliers is critical and a basic part of keeping the hotels in shape and competitive enough to keep up with changing trends that have affected the hotel business and economic activities (Khan, 2013). Previous studies demonstrated that a 1% increase in client retention can enhance company earnings by 5% (Hawkins & Hoon, 2019).

Customer retention refers to an organization's capacity to keep its customers over a certain length of time, starting with the first contact a company has with a customer and extending throughout the life of a relationship; good retention efforts consider the entire lifecycle. Customers who are loyal to a product or company are more likely to return and make future purchases. A company's ability to attract and retain new customers is determined not only by its goods or services, but also by the way it handles its existing clients, the value it perceives as a consequence of using its offerings, and the reputation it cultivates within and across the business community (Khan, 2013).

Several studies published in hospitality journals have addressed concerns about consumer brand loyalty, but little attention has been given to the significant problem of customer preservation, which is linked to perceived commitment and clients' intention to shift hotels. Reichheld and Sasser (1990) discovered that a 5% increase in client retention led to a 25% to 125% increase in earnings for nine specific service businesses. Long-term clients spend more, refer new customers, take up less of the service supplier's time, and are less price-sensitive. It has been

established that the cost of recruiting fresh clients is seven times higher than that of retaining current clients (Richard & Larry, 1996), hence enhancing retention of clients will result in a profit increase.

Customer retention in the hotel sector is defined as a hotel's capacity to sustain a loyal customer base over time (Veloso, 2023). It is an important part of hotel management since it helps to develop long-term relationships with guests, resulting in greater income and a positive brand image (Alshamsi, 2020). Service quality, customer happiness, trust, and loyalty are all important factors that influence client retention (Alshamsi, 2020). Effective talent management is also important in this context since it can improve the entire visitor experience and help with customer retention (Kravariti, 2021). However, the existence of uncivil client conduct might have a detrimental impact on employee performance, thereby hurting customer retention. As a result, hotels must focus on building a healthy work environment and providing great service to secure client retention.

Service quality is seen as a significant indicator of hotel sector competitiveness (Lewis, 1989). Service quality affects the repurchase intentions of both present and future customers. According to the market study, customers who are dissatisfied with a service will tell at least three others about it (Mukesh. K., Vincent. C, 2018). As a result, it is reasonable to anticipate that poor service will reduce the potential customer base. According to the Technical Assistance Research Project (TARP), recruiting new clients costs around seven times more, and six times as many people hear about a negative experience with customer service than a positive one. Positive referrals can be a highly effective strategy for acquiring new customers. Negative word of mouth can have a significant impact on an organization's reputation and ability to attract new clients. Furthermore, customer service expectations are gradually rising, however, their tolerance for unacceptable service is declining (Pee, Jiang, & Klein, 2018). As a result, customers are more likely to switch to rivals who are perceived to offer superior service.

Many previous studies on service quality have been done on how it is measured across different corporate and public sectors worldwide, particularly in industries like airlines, banking, hotels, and restaurants. In today's tough global economy, customer retention and service quality impact business retention, productivity, and profitability. This makes service quality the key factor to consider when looking at how well a business is meeting customers' expectations and perceived value. Allon and Babich (2020) argued strongly that service quality is critical for

organizations working in the manufacturing, service, and retail sectors as well as for consumers.

Consequently, client retention is essential for the hotel business's profitability and sustainability because it leads to continuous revenue streams, cheaper marketing costs, and positive word-of-mouth (Manorselvi, 2021). Sustainable supply chain methods, including economic, environmental, and social factors, significantly impact consumer happiness and repurchase intentions, ultimately leading to customer retention (Nangpiire, 2024). Trebicka (2023) discovered that high-quality service and smart pricing practices improve client retention in international hotels.

The preceding studies and discoveries demonstrated the importance of customer retention for the hotel industry's success, and as a result, the primary goal of this investigation is to determine how the delivery of quality service can impact customer retention in the Ethiopian Skylight Hotel based on its consumer preferences and perceptions using Parasuraman's SERVQUAL model (1985).

## **2.2.2. SERVICE QUALITY MODELS**

### **I. SERVQUL Model**

The SERVQUL model, established by Parasuraman, Zeithaml, and Berry in 1985, is a popular service quality model that is regularly used and recommended in literature and studies. The concept was built around the discrepancy between what is thought and what is expected of service quality across five categories.

Based on the gap between consumers' expectations and perceptions, Parasuraman et al. (1985) established eleven criteria for assessing inadequacies in their service quality framework: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding, and tangibles. They refined their finding and model in 1988, but the model and theory have remained the same, with the components reduced to five: reliability, responsiveness, assurance (which includes interaction, competence, trustworthiness, courtesy, and security), tangibles, and empathy. They gave the revised model the name SERVQUAL. This model was modified in 1991 and 1994, but its framework and specifications remained unchanged, including the five stipulated measurements.

According to Parasuraman (1985), the differences between expectations and execution across quality dimensions influence service quality. As a result, the service quality gap refers to the difference between customers' expectations and impressions of service. If expectations exceed performance, perceived quality falls short of adequate, leading to disappointment among consumers (Parasuraman et al., 1985; Lewis and Mitchell, 1990). The SERVQUAL technique comprises a questionnaire that evaluates five essential service quality parameters and the expectation and performance of quality service on a five-point Likert scale. The approach or model evaluates service quality using five major factors, measuring the gap. The dimensions represent the major service quality issues that influence consumer perception of the quality of services supplied by an organization. The SERVQUAL model found five important dimensions, which are:

1. **Tangibles** refer to physical structures, assets, and employee appearance.
2. **Reliability** refers to the ability to provide promised services consistently and accurately.
3. **Responsiveness**: Willingness to assist clients and offer fast service.
4. **Assurance** (competence, civility, credibility, and security) refers to employees' knowledge, courtesy, and capacity to build trust.
5. **Empathy** (includes accessibility, interactions, and an awareness of the client): The firm's caring and personalized attention to its customers.

## II. Gronroos Model

The American point of view on service quality is primarily based on Parasuraman et al.'s (1985, 1988) that service quality could be measured using the functional quality dimension, which is made up of five aspects: tangibility, reliability, responsiveness, assurance, and empathy. However, Gronroos (1982, 1990) argued that Parasuraman et al.'s (1985, 1988) framework does not provide a complete picture of service quality since it leaves out other important factors. Based on this discrepancy, Gronroos and Lehtinen (1982, 1990) provided a European perspective on service quality, claiming that the model should include three primary dimensions: technical, functional, and appearance. Numerous studies measured the dimensions using diverse things, such as open-ended questionnaires and in-depth interviews.

The model begins with the idea that service quality is multidimensional, and it is feasible to create a framework that involves recognizing the three components of service excellence (technical, image, and functional) that demonstrate the structure of service quality. Although

theory supports a multidimensional, multi-level model of service quality (Carman, 1990; Dabholkar et al., 1996; McDougall and Levesque, 1994), little effort has been made to construct and empirically evaluate such a framework.

### **III. Multilevel model**

Dabholkar, Thorpe, and Rentz established the multilevel model of service quality in 1996 in response to inconsistencies in SERVQUAL factor reports. The multilevel model advocates restructuring service quality models into three stages (general impressions of service quality, primary measurements, and subdimensions). This methodology was developed to evaluate service quality in retail outlets. Although multilevel has a novel structure, it must be generalizable to a wide range of places and consider the influence of other factors such as the environment and price. Furthermore, there are no distinctive features or variables that distinguish the various subdimensions in this framework.

### **IV. Hierarchical model**

In 2001, Brady and Cronin suggested a new model that combined four models including Parasuraman (1988), Gronroos (1984), Rust and Oliver (1994), and Dabholkar (1996). They strengthened SERVQUAL (Parasuraman, 1988) by determining what it takes to be dependable, responsive, compassionate, assured, and tangible. Brady and Cronin created service quality perception based on client feedback in three measurements: interaction/functional quality, physical environment quality, and outcome/technical quality (Rust and Oliver, 1994). They also value multilayered and multifunctional service quality perspectives (Dabholkar, 1996). Service quality is conceptualized as three fundamental parameters: interaction, environment, and outcome, each with three segments: interaction (attitude, behavior, and expertise), surroundings (ambient conditions, design, and social factors), and the result (waiting time, tangibles, and value). According to Pollack's (2009) presentation, the SERVQUAL assessment did not account for service outcomes; however, Brady and Cronin's approach appears to fill that gap.

### **2.2.3. DIMENSIONS OF SERVICE QUALITY**

#### **Tangibility (TA)**

Tangibility, a component of service quality centered on physical features, is critical in attracting and retaining consumers in the hotel sector by establishing a visually appealing and unforgettable atmosphere that improves the visitor experience. This dimension comprises modern tools, attractive amenities, neat, professional-looking employees, and everything associated with visually pleasing services. The first impression a customer receives when they enter the hotel can have a significant impact on their overall perception and decision to return. A modern, well-kept lobby with a sophisticated design sets the tone for an enjoyable visit. Similarly, clean, elegant rooms with comfortable furnishings and modern facilities help guests rest and enjoy their stay.

Tangibility refers not only to visual appearance but also to guests' sensory experiences, such as pleasant music playing in the background, comfortable textures in the furniture, and the overall environment of the hotel, which fosters a positive feeling and association with the brand, leading to more repeat stays and positive recommendations of the hotel to others. These tangible aspects help guests have a memorable experience, and favorable souvenirs increase their chances of returning for future stays. The hotel's physical appearance, interior design, wall art, table settings, aesthetics, and music all contribute to clients having wonderful memories. Thus, the tangibility dimension plays an important role in attracting and retaining customers by creating remarkable memories with the visible and tangible aspects of the hotel (Parasuraman et al., 1988).

#### **Reliability (RL)**

Reliability is one of five criteria used to evaluate service quality. Reliability refers to a hotel's ability to deliver its promises consistently and accurately to customers. It is a crucial factor because customers want to be confident that the hotel will meet their expectations, and dependability is essential in developing confidence and encouraging guests to return. Reliability in a hotel is characterized as delivering intended services on promises through what the hotel advertises (e.g., amenities, room type, service availability) and what staff deliver to guests, providing consistent customer service through staff knowledgeability, courtesy, and the ability to effectively manage customer requests. Staff must be accurate and timely when

providing customers with check-in/out, housekeeping, room service, bookings, and others for the first time. Furthermore, the hotel should record and store guests' information safely and properly. All of these characteristics add to the hotel's dependability by increasing the trustworthiness of the hotel to its customers promote client retention (Parasuraman et al., 1988).

### **Responsiveness (RE)**

Responsiveness is a key component of excellent service in the hospitality sector, influencing a hotel's capacity to retain visitors. It is a service quality trait that refers to the ability of service providers to assist customers and provide services quickly. This dimension's characteristics involve informing customers on the confidence of service delivery time limits, offering prompt service to clients, being determined to serve customers, and being ready to respond to client needs. It goes beyond simply keeping commitments (reliability) and focuses on how swiftly and willingly hotel employees respond to clients' wants and complaints.

Responsiveness is important in building strong relationships with customers, turning negatives into positives, creating positive word of mouth among customers, and ensuring the bottom line for the success of the hotel in the competitive hospitality industry. Customers may arrive at the hotel with personal, social, or business concerns, which can be triggered by anything. At this time, the hotel personnel should be sensitive to the difficulties and complaints that visitors have about the hotel. When staff is responsive, hotel customers' concerns are addressed, demonstrating to guests that the hotel values their feedback and is devoted to resolving issues quickly. This results in a positive word-of-mouth recommendation and, more likely, the sharing of good experiences with friends, relatives, and coworkers by customers (Parasuraman et al., 1988).

### **Empathy (EM)**

Empathy, a crucial service quality dimension, plays a significant role in unlocking guest loyalty and driving customer retention within the hotel industry. Empathy is beyond simply providing good services, it is about understanding and addressing the unique needs and desires of individual guests. It is concerned with how service providers interact with clients to give them personalized attention. This dimension's qualities include paying close attention to clients, treating customers with care, placing a high value on client preferences, employees recognizing client demands, and having flexible operating hours.

People naturally need connection and understanding, especially in the case of hotels, guests appreciate staff who take the time to acknowledge them as individuals and show genuine treatment. Giving personalized services by understanding guest preferences and anticipating potential concerns for example remembering a guest's coffee preference or addressing a specific dietary restriction demonstrates empathy and makes guests feel valued and cared for creating connections with hotels. One of the reasons customers visit recreation places like hotels is to get good care and treatment in addition to receiving quality services. The provision of special treatment and service with empathy will increase customer satisfaction, loyalty, and retention at the hotel (Parasuraman et al., 1988).

### **Assurance (AS)**

Assurance is another crucial component in service quality that influences client retention in the hotel industry. This dimension's characteristics include employees' capacity to create client trust, make consumers feel safe throughout transactions, be consistently pleasant, and answer customer queries. It is about establishing an environment in which customers feel comfortable, secure, and confident in the hotel's ability to meet their needs. In today's world, where trust is a concern, security and privacy are vital, and customers expect hotels to manage their information and transactions with the greatest care.

Assurance goes a long way toward giving guests peace of mind by prioritizing their safety, security, and well-being. It is also essential for maintaining a loyal customer base by continually displaying trustworthiness and expertise. Guests also want to feel confident that the staff can answer their questions and concerns. To remedy this, hotels should train their employees to provide professional customer service, put guests at rest, and cultivate long-term trust and loyalty to the hotel. Customers' preference for the hotel increases as they feel safe and secure about their transactions and private details with hotel workers (Parasuraman et al., 1988).

### **2.2.4. CONTRACTS FOR CUSTOMER RETENTION**

As service quality is measured using five dimensions: tangibility, reliability, assurance, empathy, and responsiveness; customer retention is also measured using other important metrics. The study used the following constructs to measure customer retention:

**Repeat Purchase Intention** - The frequency and consistency of the customers willing to continuously use and buy the service provided by the hotel over time. This behavior of the

customer implies that the customer is becoming a regular customer, and the hotel is retaining its customers.

**Word-of-mouth referrals** - The likelihood of customers recommending the hotel to friends, family, and other potential customers. It is an important customer promotion of the hotel to others indicating the existence of good retention and attraction of new customers in the hotel.

**Overall Satisfaction** - Customer satisfaction shows that the hotel matched their expectations and perceptions of quality service during their stay. As shown in the literature, satisfied consumers become loyal customers who intend to repurchase and revisit the hotel, as well as spread favorable word of mouth about it.

### **2.3. EMPIRICAL REVIEW**

According to Kotler and Armstrong (2007), higher profits and growth in a company or organization necessitate customer loyalty and retention because keeping current consumers is less expensive than acquiring new customers. Customer loyalty and repurchase intention necessitate complete customer satisfaction. However, contented customers are not usually loyal, whereas trustworthy consumers are satisfied. Customer happiness has several implications, including commitment (Kotler & Armstrong, 2007) and intent to repurchase (Anderson & Sullivan, 1993), which contribute to improved earnings. This piece of research demonstrates that developing and keeping loyal consumers will boost the company's profitability and growth due to its positive intention to repurchase.

The empirical studies of (Bowen & Chen, 2001; Brady & Cronin, 2001; Cronin & Taylor, 1992; Ganguli & Roy, 2011; Parasuraman, Zeithaml, & Berry, 1985; Parasuraman, Zeithaml, and Berry, 1988) demonstrate that service quality is one of the most significant factors and determinants of customer retention, arguing that service quality has a direct and powerful impact on customer satisfaction and loyalty. (Brady & Cronin, 2001) found that excellent service quality enhances company performance such as earnings, market share, client retention, and purchase likelihood. These findings highlight how maintaining good service quality can boost customer happiness and loyalty, as well as ensure repurchase intention.

As defined by El Saghier (2015), the primary distinction between services and things is intangibility and tangibility. However, businesses in the hospitality sector cannot function in a vacuum. Customers visit physical locations to gain access to the services offered by industrial

enterprises. (Ezeokoli & Ayodele, 2014) identified Tangibility as a component of service excellence, along with physical attractiveness, personnel grooming, and architectural design. A hotel with a finely designed lobby is likely to increase the customer's perception of service quality. Thus, the data demonstrated that the physical aspect of excellent service is crucial in deciding client retention based on satisfaction.

Reliability is another crucial factor used to judge service quality in terms of retention. Aburayya (2020) described reliability as the degree to which personnel give accurate information to clients. Each staff member must be knowledgeable of the goods and services offered by the firm. In addition to providing correct information, personnel must handle problems and complaints effectively, without giving the sense that customers are burdens. Personnel must also be able to provide accurate services when first-time clients seek them, as initial perceptions usually determine a customer's decision to repurchase. Alshurideh (2017) and Alketbi (2020) claimed that dependability contributes to positive perceptions of service quality and boosts competitive advantage. This empirical research proved how giving correct information and customer service, as well as appropriate handling of customer concerns by personnel, will improve client retention at the hotel.

Ezeokoli and Ayodele (2014) identified responsiveness as a quality-of-service characteristic that emphasizes the level of attention clients obtain from service providers. Responsiveness refers to an employee's readiness to serve clients and provide prompt assistance, and it ensures that consumers receive the attention they require. Employees in service-providing businesses, such as hotels, should be accessible when required, and feedback from clients should be answered as soon as feasible, as a quick response to client concerns will help the company keep a good rating and reputation. Contemporary firms that fail to respond fast to client complaints usually establish a reputation for poor service quality in the commercial industry as a consequence of a substantial number of customers shifting intentions. This finding explains why employees must pay close attention to reply to client issues swiftly and address their problems at whatever cost to retain consumers, as responsiveness determines the customer's switching intention.

Natalisa (2008) defines assurance as a characteristic of service quality that encompasses ability, civility, and trustworthiness. Company assurance is thought to be capable of providing good security to its clients, protecting customer information confidentiality, and delivering expert services. El Saghier (2015) defines assurance as a service quality component that emphasizes

employees' ability to instill confidence in clients through their understanding of an establishment's goods and services. Employee civility, respect, and politeness all help to create confidence. Staff should also strive to give guests a comfortable and secure atmosphere, ensuring them the quality of service they may anticipate from an organization. Parasuraman et al. (1988) argue that to increase customer satisfaction, employees' services must be credible. Therefore, the studies

Based on Parasuraman et al. (1988) study, compassion as a service quality aspect refers to the customized services that employees provide to customers. When clients visit hotels, they often expect to receive customized attention. Tjiptono (2011) goes on to say that empathy includes ease of relationship, efficient communication, and customer comprehension. Organizations are expected to understand and know their customers, identify specific client desires and requirements, and provide suitable service hours. Employees have to work to understand their client's needs to fulfill their expectations. Satisfying client expectations boosts loyalty and frequent returns to the hotel, which leads to increased business achievement because company empathy is linked to the focus and service supplied to customers. These study findings demonstrate the importance of recognizing daily customers with their unique tastes and services, and additionally creating positive connections with them as well, all of which drive client retention.

#### **2.4. RESEARCH GAP**

The hotel sector is one of the largest tourism industries, with several competitors competing to become the number one option for clients while maintaining long-term profitability and success. However, this study found a research gap in terms of customer retention because most hotel-related research focuses on consumer satisfaction rather than retention. As a result, the study aims to bridge this gap. Furthermore, despite numerous studies conducted by researchers in various countries on the impact of service quality on customer retention in hotels, there remains a research gap in examining the relationship between service quality and customer retention in the Ethiopian context, particularly for Ethiopia's largest five-star Indigenous hotel, the Ethiopian skylight hotel. Thus, this research intended to narrow the study gap by contributing valuable insights.

## 2.5. CONCEPTUAL FRAMEWORK

Independent Variables

Dependent Variable

(Service quality dimensions)

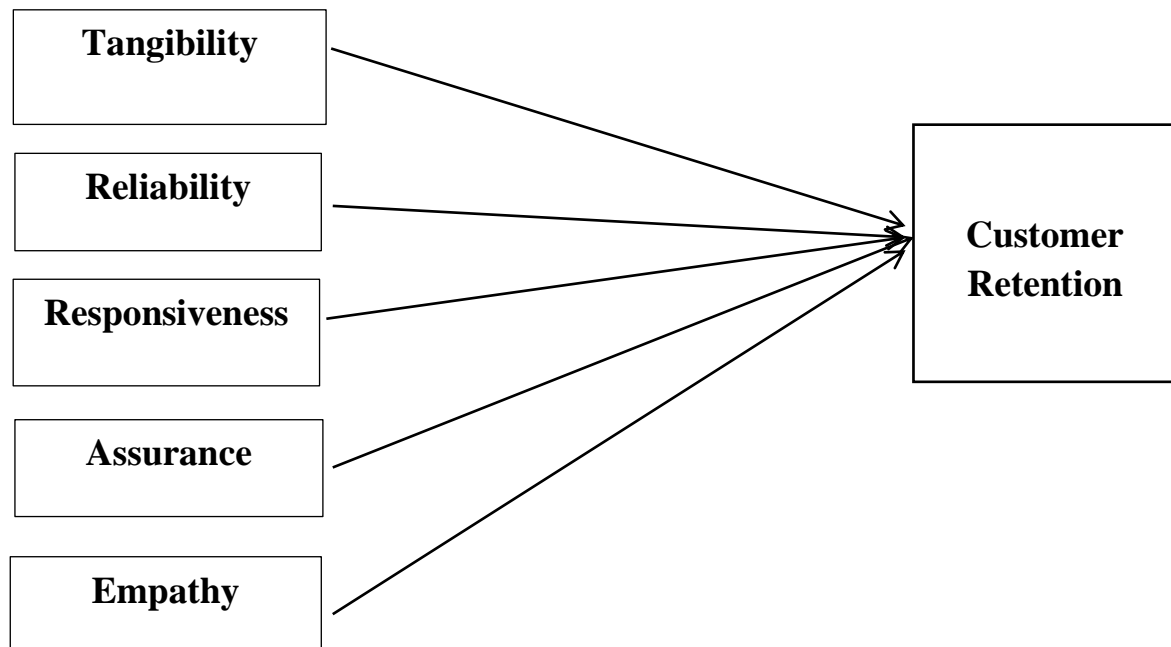


Figure 0-1 Conceptual Framework

Source: (Own-developed from the literature, 2024)

## 2.6. HYPOTHESIS

- H1. Tangibility has a significant and positive effect on customer retention.
- H2. Reliability has a significant and positive effect on customer retention.
- H3. Responsiveness has a significant and positive effect on customer retention.
- H4. Assurance has a significant and positive effect on customer retention.
- H5. Empathy has a significant and positive effect on customer retention.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. INTRODUCTION**

This chapter is intended to review the study's research methodology, which includes all of the significant elements of research, such as the type of research approach and design that will be used, sampling designs based on the study population, sampling techniques and procedures, and sample sizes. This chapter also covers data sources, instruments, techniques, and data analysis tools.

#### **3.2. RESEARCH APPROACH**

Research approaches refer to the various methods for examining and explaining a study and its findings that use figures as a measurement, a descriptive style, or a combination of both, and can be classified as qualitative, quantitative, or mixed-method approaches depending on the type of data searched for (Taherdoost, 2022). This study employs a quantitative research approach. The quantitative strategy was used for this study since it allows the study to assess the information in terms of numerical value and descriptive manner, which improves the induction of research outcomes after the data analysis.

The respondents' demographic data and quantitative data on service quality dimensions and customer retention were collected through survey questionnaires distributed to a selected sample of hotel guests. These quantitative metrics shed light on the statistically significant impact of the various independent factors (tangibility, assurance, reliability, responsiveness, and empathy) on the dependent variable, customer retention.

#### **3.3. RESEARCH DESIGN**

Research methodology is a strategy or framework for conducting a research study. It comprises developing an overarching strategy and methods for gathering and evaluating data to address research inquiries or test hypotheses. Research designs are classified according to their application (pure and applied), objective (descriptive, explanatory, exploratory, and correlational), and information sought (qualitative and quantitative) (Taherdoost, 2022). The current study employed descriptive and explanatory research. The explanatory or causal research approach is used because the research aims to examine the causal relationship between

the independent (TARRE) and dependent variables (CR). Therefore, this approach met the study's objective by collecting relevant primary and secondary data to explain the causal relationship.

The descriptive method used to identify and describe the factors that influence client retention by entailing the standardized Likert scale close-ended questionnaire with five scale agreement to a wide group of hotel guests to collect data on their perceptions, preferences, and experiences during their hotel stay and the result of the data was analyzed using descriptive and inferential analysis by the latest version of SPSS software. Integrating both descriptive and explanatory components results in a comprehensive understanding of the elements and allows for detailed insights and practical recommendations for hotel management and lastly enables the generalization of the findings into the large population.

In terms of time, research is classified into cross-sectional and longitudinal studies based on how long it takes to finish the research. In the case of this study, the research has applied one-time research. Cross-sectional research is chosen because it is limited to a particular period, has no intention of capturing the change process through continuous investigation, and is the simplest to administer regarding the shorter time given to complete the research.

### **3.4.POPULATION AND SAMPLING TECHNIQUE**

#### **3.4.1. TARGET POPULATION**

The target audience is the specific group of people for whom the study will conduct research and draw conclusions (Barnsbee, 2018). The target population is an entire population that investigators want to study and analyze. A sampling frame is then derived from the desired population. Before the research can begin, the population to be studied must be identified and agreed upon.

The target population comprises both domestic and international guests who have stayed at the hotel by the time of data collection. This includes individuals from various demographics, including leisure and business travelers, as well as family, solo, and group travelers. The target population also encompasses individuals who have visited the hotel's facilities such as restaurants, bars, rooms, spas, gyms, swimming pools, and conference halls. By including a diverse range of guests and visitors, the research captures comprehensive insights into the influence of service quality on customer retention at the Ethiopian Skylight Hotel.

### 3.4.2. SAMPLING TECHNIQUE

Sampling is the process of selecting an individual from a larger population. The sample data is used to make inferences about the population. The more relevant the sample is to the general population, the more valid the conclusions and adaptability of the findings will be. Sampling techniques are broadly grouped into two types: probability sampling methods, which use random sampling to give each sample an equal chance, and non-probability sampling techniques, which do not use random sampling (Alvi, 2016).

This study applied a probability sampling technique to select samples from the target population. A stratified random sampling technique was used to classify local and international customers into strata and then participants are selected from each stratum guaranteeing that each individual has an equal opportunity to take part in the investigation. This sampling strategy strikes a balance between sample representatives and practicality, hence facilitating the study.

### 3.4.3. SAMPLE SIZE DETERMINATION

Sekaran (2005) defined population as a collection of individuals, occurrences, or objects that are relevant that the researcher wants to investigate, and the sample size for the actual experiment will be drawn from the entire population. As a result, the target population for this study is the Ethiopian Skylight Hotel's local and foreign customers. The hotel industry's sampling procedure is difficult to identify. Because it is difficult to ascertain the precise population that will be studied due to the enormous number of hotel customers, the number of samples for the study is calculated employing the Cochran (1963) proportional adjustment procedure for an unidentified population. The Cochran formula calculates the appropriate sample size (n) for a big population assuming a 95% confidence level. The sample size is determined as follows:

$$No = \frac{Z^2 \cdot p \cdot q}{e^2}$$

**Where:** N: sample size (x)

Z: confidence level (95%, Z= 1.96)

P: standard deviation of the estimated proportion

e: margin of error (0.05)

$$N = \frac{(1.96)^2 \times (0.5) \times (0.5)}{(0.05)^2}$$

$$N = 384.16 \approx 384$$

Based on the Cochran large sample size formula, the adopted and modified close-ended SERVQUAL model questionnaire of 33 questions was distributed to 384 samples randomly to obtain the desired result.

### **3.5.DATA SOURCE**

The data sources are niches or collections of sources from which the researcher could acquire relevant data for the investigation. In research sources of data are categorized into primary and secondary data sources. The primary data sources include interviews, surveys, questionnaires, focus group talks, checklist observations, and experiments. Secondary data sources include previous research and publications, reports, journal articles, and pertinent books (Aransiola, 2024).

This study employed primary data sources acquired through survey questionnaires distributed to hotel customers to gain firsthand insights into their expectations and views of aspects such as the hotel's tangibility, reliability, responsiveness, assurance, and empathy. Furthermore, observational studies conducted within the hotel premises supplement the data by directly examining the hotel's physical features and technological usage.

### **3.6.DATA COLLECTION INSTRUMENT**

A data collection instrument is a method or group of tools used in a research project to help the researcher gather data from respondents (Willson & Miller, 2014). Tools for gathering information are unique to each study since they are designed and selected based on the purpose of the research and the type of data needed. The instruments employed include surveys, questionnaires, interviews, observation checklists, focus group guides, and experimental protocols. In the context of this study, a survey questionnaire was used to collect the necessary quantitative data, which was then analyzed using the version 24 SPSS software.

A standardized SERVQUAL model questionnaire, adapted and modified from the studies of Buttle (1996), Williams (1998), and Tefera (2016), was used to gather quantitative data on customers' perceptions and hotel service offerings to investigate the impact of various aspects of service quality (TARRE) on customer retention. To collect a variety of replies and ideas, a 5-point Likert scale closed-ended questionnaire (strongly agree, agree, neutral, disagree, and strongly disagree) was used.

The questionnaire employed to collect data is shown in Appendix 1 of the study paper. The questionnaire contains 33 questions, comprising seven separate demographic information questions and 26 objective inquiries on the study's primary factors, which were sent to 384 respondents to acquire the desired results. Chapter 4 of the study document goes into detail about the kind of questions answered based on the results gathered.

### **3.7.DATA ANALYSIS METHODS**

The quantitative data acquired from the study was analyzed descriptively and inferentially. The descriptive analysis, together with mean, variance, and standard deviation, is used to characterize the characteristics of the data and evaluate the study hypothesis. Furthermore, the descriptive analysis gave a detailed examination of the data acquired from the respondents' demographic characteristics.

The inferential analysis employs a correlation and multiple regression model to examine the interactions or closeness that exists between each variable identified in this study and the impact of each independent variable on the dependent variable to determine the importance of each independent variable on the dependent variable. Regression analysis is a statistical instrument for investigating the correlations among independent and dependent variables to determine their cause-and-effect relationship (Sykes, 1993). The correlation coefficient (r or R) measures the proximity of two variables, making it useful for investigating the relationship between both dependent and independent variables (Senthilnathan, 2019). Version 24 of the SPSS data analysis software was used to obtain regression and correlation analysis results. The multiple regression model was computed as follows:

$$CR = B0 + B1X1 + B2X2 + B3X3 + B4X4 + B5X5 + e$$

**Where:** EE= Customer Retention

$\beta_1$  = Tangibility dimension of service quality

$\beta_2$  = Reliability dimension of service quality

$\beta_3$  = Responsiveness dimension of service quality

$\beta_4$  = Assurance dimension of service quality

$\beta_5$  = Empathy dimension of service quality

e = error term,

$\beta_0$  = constant, term

X1, X2, X3, X4, and X5 are coefficients.

### **3.8.VALIDITY AND RELIABILITY**

#### **3.8.1. VALIDITY**

Validity refers to the amount to which a study thoroughly evaluates what it seeks to measure, as well as the trustworthiness of its conclusions. To verify validity, several methods were implemented. To begin, the validity of constructs was maintained by utilizing well-established measurement instruments and guaranteeing the variables chosen were relevant to the research objectives. Content legitimacy was guaranteed by meticulously analyzing current literature and talking with experts in the field to ensure that all key elements influencing customer retention were effectively covered. Finally, face validity was taken care of by prior testing survey instruments on a pilot sample of hotel visitors to verify that the questions were straightforward, relevant, and simple to understand. Through these metrics, the research intends to support the validity of its outcomes, offering accurate insights into determining factors of customer retention at the Ethiopian Skylight Hotel.

#### **3.8.2. RELIABILITY**

To ensure reliability in this investigation, Cronbach's alpha coefficients larger than 0.7 will be employed for all measuring scales. This will be accomplished by intensive evaluation and verification of survey tools and questionnaire items before data collection. Pilot testing will be carried out with a sample of hotel customers to assess the scales' internal consistency and identify any elements that may need to be refined or removed. Furthermore, data acquired throughout the primary trial will be closely evaluated for consistency and completeness to reduce measurement mistakes. By keeping to strong dependability standards, the research

seeks to assure the robustness and consistency of its findings on the determinants of customer retention at the Ethiopian Skylight Hotel.

### **Reliability Of Instruments Test Result**

Reliability refers to the overall constancy of an indicator or variable. These measures/variables are considered dependable if they generate consistent findings under controlled conditions. The accuracy of the measures is acceptable when the consequent Alpha Cronbach value is 0.7 or above.

*Table 3.1. Reliability results of the Instruments*

<b>Reliability Statistics</b>		
	<b>Cronbach's Alpha</b>	<b>N of Items</b>
<b>Tangibility</b>	0.788	6
<b>Reliability</b>	0.837	6
<b>Responsiveness</b>	0.747	3
<b>Assurance</b>	0.884	3
<b>Empathy</b>	0.841	4
<b>Customer Retention</b>	0.759	4

Source: own survey, 2024

Table 3.1. displays the reliability of the research equipment or data collection technique. To collect data from Skylight Hotel customers, the SERVQUL model questionnaire of 26 questions was distributed. To understand the level of agreement of the respondents to the proposed question, a 5-scale Likert scale questionnaire with descending order of agreement from strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5) was prepared. The reliability of the questionnaire was tested by using the Cronbach Alpha reliability model. The instrument is said to be reliable if the Cronbach alpha of each variable accounts for 0.7 and above.

According to the result obtained from the reliability test, the Cronbach Alpha score of each measure is (0.788) for tangibility, (0.837) for reliability, (0.747) for responsiveness, (0.884) for assurance, (0.841) for empathy, and (0.759) for customer retention with a total of 26 questions.

According to the result above, the Cronbach alpha of each variable is above 0.7, an acceptable range. It is concluded that the research instrument is reliable for this study, and as well future studies can employ or repeat this tool while studying the issue related to service quality and customer retention.

### **3.9.ETHICAL CONSIDERATION**

Ethical considerations are critical in this study. First, all participants were provided informed permission, ensuring that they understood the study's aim, their rights as individuals, and how the information they provided has been managed and protected. Respondents' anonymity and privacy were strictly safeguarded during the entirety of the study, with data published in a summary to avoid identifying individual responses. Furthermore, steps have been taken to reduce any potential injury or discomfort for individuals, and they will be able to cancel their participation in the study at any moment without penalty. Finally, ethical authorization was obtained from appropriate institutional review committees to ensure that the investigation follows recognized ethical principles and standards. These ethical issues strive to promote integrity and respect for the rights of all participants involved in the study.

## CHAPTER FOUR:

### DATA ANALYSIS, RESULT, AND DISCUSSION

#### 4.1.INTRODUCTION

This chapter provides the analysis of the data collected through a questionnaire survey with chosen Ethiopian skylight hotel respondents. The chapter presents the results of descriptive analysis and regression analysis. The findings are evaluated and explored further in the study's discussion section, using information received from respondents and evidence from the literature to back them up. Finally, the chapter is organized as follows: demographic information about the respondents followed by an analysis and presentation of the outcome of data acquired via questionnaire.

#### 4.2.RESPONSE RATE

This study sought to investigate the influence of service quality on keeping customers in the Ethiopian hotel industry, with a focus on Ethiopian skylight hotels. Data was collected from customers. To do this, the study used Cochran's large sample size determination, with 384 people randomly chosen to complete the questionnaire. As a consequence, 384 questionnaires were distributed and 325 were returned or answered, for an 84.6% response rate. As stated by Mugenda (1999), a 50% response rate is adequate, 60% is beneficial, and 70% or higher qualifies as very good, making a 91% response rate excellent. As a result, this study received a very high approval rate.

*Table 4.1. Response Rate*

Target population	Total distributed questionnaire	Total returned questionnaire	Not responded	Response rate
384	384	325	59	84.6%

Source: own survey, 2024

### 4.3.PROFILE OF RESPONDENTS

The intended information for this study was gathered from customers of the Ethiopian Skylight Hotel and their demographic factors were examined regarding the variable under this research. To obtain the general information of the respondents, the selected respondents were asked about their age, gender, occupation, nationality, continent, primary reason for staying, and frequency of their hotel visit at Skylight Hotel. The results obtained from the structured questionnaire are presented in Table 4.2.

*Table 4.2. Demographic Characteristics of Respondents*

<b>Characteristics</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>	Male	198	60.9
	Female	127	39.1
<b>Age group</b>	18-28	66	20.3
	29-39	61	18.8
	40-48	108	33.2
	Above 49	90	27.7
<b>Nationality of respondent</b>	Local customers	115	35.4
	Foreign customers	210	64.6
<b>Continent of the respondent</b>	Africa	115	35.4
	Asia	104	32.0
	North America	41	12.6
	South America	36	11.1
	Europe	29	8.9
<b>The primary purpose of hotel staying</b>	Vacation	108	33.2
	Business	55	16.9
	Event	117	36.0
	Others	45	13.8

<b>Frequency of hotel visit</b>	Very Often	128	39.4
	Often	99	30.5
	Sometimes	62	19.1
	Rarely	36	11.1
<b>Occupation</b>	Student	60	18.5
	Business Owner	119	36.6
	Government Employee	101	31.1
	Others	45	13.8

Source: own survey, 2024

Table 4.2 summarizes the demographic data analysis findings. The gender composition of respondents reveals that of the total 325 participants, 198 (61%) are males and 127 (39%) are female. The age distribution of the respondents' responses shows that the bulk of respondents are between the ages of 40 and 48 (33.2%), followed by those over 49 (27.7%), then those between 18 and 28 (20.3%), and finally those between 29 and 39 (18.8%). In terms of nationality, the bulk of the respondents (210, 64.6%) are foreigners, with the remaining 115 (35.4%) from Ethiopia. In terms of continent, the bulk of responders (115, 35.4%) come from Africa, followed by Asia (104, 32%), North America (41, 12.6%), and South America 36 (11.1%), Europe 29 (8.9%) and none from the rest continents.

Regarding the occupation of the participants, the majority of them 119 (36.6%) are business owners, 101 (31.1%) are government employees, 60 (18.1%) are students, and the rest 45 (13.8%) lie under other categories. Based on the respondent frequency of their hotel visit, the result shows that 128 (39.4%) of the respondents visit the hotel very often, 99 (30.5%) often, 62 (19.1%) sometimes and the rest 36 (11.1%) visited the hotel rarely. As the result of the primary reason of the respondents to visit the hotel, the majority of the respondents are the ones who visit the hotel for event purposes which accounts for 117 (36%), 108 (33.2%) for vacation, 55(16.9%) for business, and 45 (13.8%) for other purpose.

The demographic characteristics included in this study are related to customer retention. The descriptive study results suggest that the majority of the clients are foreigners, primarily Asians, who frequent the hotel for events and vacations. This suggests that the hotel has a stronger capacity to attract and keep international guests, as well as that the hotel is particularly ideal

for recreation and many types of events. Because it is close to Bole International Airport, international travelers will have no trouble finding a comfortable place to stay.

A large percentage of guests are between the ages of 40 and 48, with some older than 49, indicating a more mature consumer base who can identify their needs and preferences. Despite this, targeting the younger age group may allow the hotel to readily develop its client base because they have a better ability to promote the hotel quickly. In general, Skylight Hotel has a varied and international customer base with a wide range of age groups, occupations, and visit intentions, presenting an opportunity to enhance its service quality strategy to better meet the needs and preferences of different customer segments to enhance customer retention.

#### 4.4. DESCRIPTIVE STATISTICS

*Table 4.3. Descriptive Statistics Result*

<b>Descriptive Statistics</b>			
	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Tangibility</b>	325	4.3940	.28471
<b>Reliability</b>	325	4.3965	.19036
<b>Responsiveness</b>	325	4.4079	.29122
<b>Assurance</b>	325	4.4415	.30712
<b>Empathy</b>	325	4.3281	.32867
<b>Customer Retention</b>	325	4.5614	.27919

Source: own survey, 2024

The descriptive statistics table 4.3 provides the general result of the central tendency and variability of the key variables in the study. N describes the total sample size utilized for the data collection of the study indicating the data was collected from a total of 325 respondents. The mean values illustrate the average score of each variable obtained from the respondents. Five independent and one independent variable were included in the study. The table 4.3. describes the mean value of each construct one by one. The mean values for the service quality dimensions are all in the medium to high range, with Empathy being the lowest with a 4.3281 mean and Assurance being the highest with a 4.4415 mean.

The mean value of tangibility is 4.3940, suggesting that the customers perceived the tangible dimensions of service quality such as physical facilities, equipment, and staff appearance to be quite positive and above average. This result indicates that the Skylight Hotel has done a great job in fulfilling the tangible aspects of its service to meet its customers' expectations.

The reliability aspect of service quality scores a mean value of 4.3965. This value explains that the customers perceived that the hotel provides reliable and consistent delivery of the promised service at the promised time. The mean value result indicates that the hotel perceives a positive response toward its provision of dependable and consistent service.

Responsiveness scores 4.4079 suggesting that the customers felt the service provider was responsive to their needs and requests whenever necessary. This result explains how quickly and willingly the hotel staff responds to customer requests and needs. Assurance scores the mean value of 4.4415 demonstrating, on average, that the customers had confidence and trust in the service provider's competence and ability to provide the service. The demonstration of the result shows the hotel works seriously on trustworthiness and building strong confidence in its customers.

Empathy scores a slightly lower mean value of 4.3281 when compared to the other four independent variables. This value suggests that, on average, the customers perceived the service provider to be slightly less empathetic or caring in their approach. As a result, the hotel needs a slight improvement in providing empathy aspect of the service quality. The mean value of a dependent variable, customer retention is 4.5614 and it indicates that, on average, the customers were likely to return to the hotel for future stays and recommend the hotel to other people. The result shows that most of the respondents respond with an important level of agreement.

Empathy scores the highest standard deviation of 0.32867 and reliability scores the lowest standard deviation of 0.19036 indicating the degree of consistency in the responses among 325 respondents. The low SD across all variables shows the responses were grouped around mean values explaining the important level of agreement among customers.

The descriptive statistics suggest that the customers had a positive perception of the service provider, with the tangibility, reliability, responsiveness, assurance, and customer retention aspects scoring above average. The lower score for empathy suggests that there may be room for improvement in the service provider's ability to demonstrate a more empathetic and caring approach towards their customers.

#### 4.5. CORRELATION ANALYSIS

Table 4.4. Pearson correlation analysis result

CORRELATIONS							
		Tangibi lity	Reliab ility	Responsi veness	Assura nce	Emp athy	Customer retention
<b>Tangibility</b>	Pearson Correlation	1					
	Sig. (2- tailed)						
<b>Reliability</b>	Pearson Correlation	.119*	1				
	Sig. (2- tailed)	.032					
<b>Responsiveness</b>	Pearson Correlation	.086	.038	1			
	Sig. (2- tailed)	.124	.496				
<b>Assurance</b>	Pearson Correlation	.071	.114*	.098	1		
	Sig. (2- tailed)	.201	.041	.078			
<b>Empathy</b>	Pearson Correlation	.139*	.124*	-.111*	-.068	1	
	Sig. (2- tailed)	.012	.025	.046	.222		
<b>Customer Retention</b>	Pearson Correlation	.280**	.292**	.118*	.089	.196**	1
	Sig. (2- tailed)	.000	.000	.034	.110	.000	
	N	325	325	325	325	325	325
*. Correlation is significant at the 0.05 level (2-tailed).							
**. Correlation is significant at the 0.01 level (2-tailed).							

Source: own survey, 2024

The Pearson correlation table provides insights into the relationships between the different service quality dimensions and customer retention in the context of Ethiopian skylight hotels. The result from Table 4.4 shows that tangibility ( $r = 0.280$ ,  $p < 0.01$ ), responsiveness ( $r = 0.118$ ,  $p < 0.05$ ), empathy ( $r = 0.196$ ,  $p < 0.01$ ), reliability ( $r = 0.292$ ,  $p < 0.01$ ) has a correlation with customer retention and assurance has no correlation with customer retention.

#### 4.6. REGRESSION ANALYSIS

This study used a multiple regression model to determine the causal association between service quality and customer retention. This regression analysis determines whether or not there is a significant link between the independent and dependent variables.

##### 4.6.1. Multicollinearity Test

The regression model's multicollinearity test calculates the tolerance and variance inflation factor (VIF) for each predictor or independent variable. The goal of running a multicollinearity test before a regression test is to have a better understanding of the independent variable's correlation. If the predictor is strongly correlated, the multicollinearity issue will influence the regression test; therefore, predictors should not be attached. A tolerance value close to one indicates less multicollinearity. The VIF number goes from 1 to 10, and a VIF greater than 5 implies strong multicollinearity, which could be problematic in the regression model.

Table 4.5. Multicollinearity Test

Coefficients <sup>a</sup>			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Tangibility	.957	1.045
	Reliability	.960	1.042
	Responsiveness	.969	1.032
	Assurance	.969	1.032
	Empathy	.947	1.056
a. Dependent Variable: Customer Retention			

Source: own survey, 2024

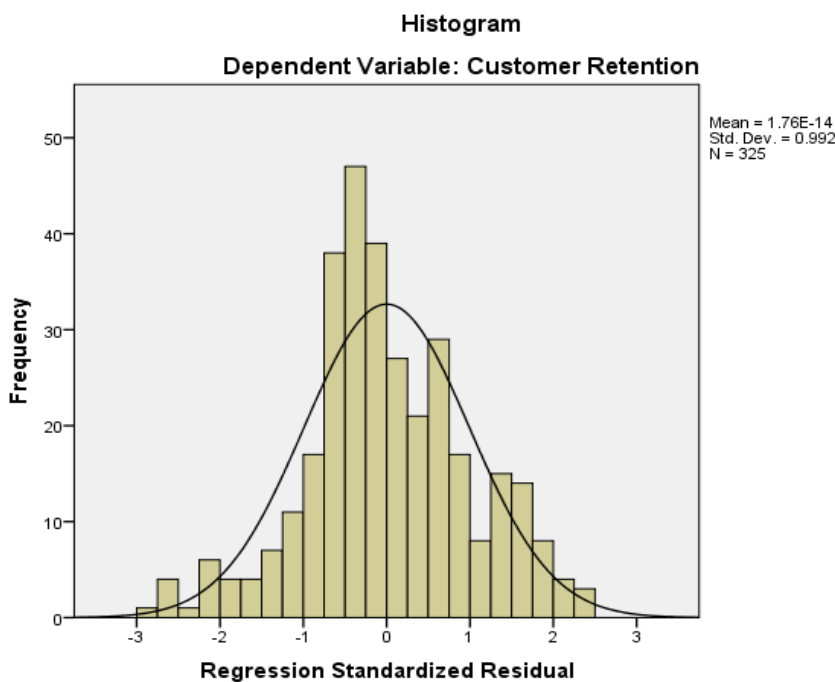
Table 4.5 shows that the Tolerance values for all predictor variables (Tangibility, Reliability, Responsiveness, Assurance, and Empathy) are greater than 0.1, indicating that there is no significant multicollinearity among the predictors, and the VIF values for all predictor variables are less than 5, indicating that there is no detrimental multicollinearity.

In conclusion, the findings indicate that the predictor variables in the regression model are not highly associated with one another, and there is no significant multicollinearity. This implies that the independent impacts of each service quality dimension (TARRE) on the dependent variable (Customer Retention) can be confidently predicted in the model without multicollinearity difficulties, allowing for a more precise assessment of the individual impact of each service quality dimension on customer retention.

#### 4.6.2. Normality Test

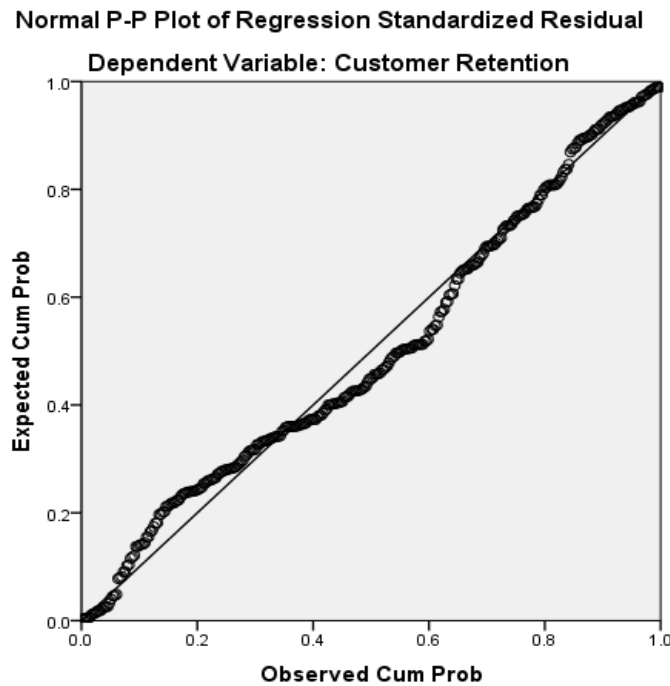
A test of normality is performed to see if the error term is regularly distributed. Histograms and normal probability plots are used in this case for visual inspection. Figure 4.1 indicates that the residual is normally distributed using a histogram, but Figure 4.2 indicates that the residual is normally distributed using a P-P plot. As a result, the histogram is bell-shaped, and the p-p plot diagram shows that the residue is normally distributed around the mean with slight dispersion.

**Figure 4.1. Normality Test Histogram**



Source: own survey, 2024

**Figure 4.2: P –P Plot**



Source: own survey, 2024

**4.6.3. Skewness and Kurtosis Test**

*Table 4.6. Skewness and Kurtosis test result*

Descriptive Statistics							
	N	Mean	Std.	Skewness		Kurtosis	
				Statistic	Std. Error	Statistic	Std. Error
<b>Tangibility</b>	325	4.3940	.28471	-.644	.135	.696	.270
<b>Reliability</b>	325	4.3965	.19036	-1.984	.135	7.409	.270
<b>Responsiveness</b>	325	4.4079	.29122	-1.039	.135	3.647	.270
<b>Assurance</b>	325	4.4415	.30712	-.249	.135	.151	.270
<b>Empathy</b>	325	4.3281	.32867	-.900	.135	7.154	.270
<b>Customer Retention</b>	325	4.5614	.27919	-.203	.135	-.416	.270

Source: own survey, 2024

The mean scores for all the service quality dimensions and customer retention are above 4.0 on a 5-point scale, indicating high levels of perceived quality and customer retention. The standard

deviations are relatively low, ranging from 0.19036 for Reliability to 0.32867 for Empathy. This suggests the data points are clustered closely around the respective means, indicating a low degree of variability in the responses. The skewness values are mostly negative, indicating the distributions are skewed to the left, with longer left tails. This suggests the data is concentrated on the higher end of the scale. The degree of skewness varies, with Reliability showing the most pronounced left skew. The kurtosis values vary, with some dimensions showing leptokurtic (heavy-tailed) distributions, such as Reliability and Empathy, and others showing platykurtic (light-tailed) distributions, such as Tangibility and Customer Retention. This indicates the data has different levels of peaked Ness compared to a normal distribution.

#### 4.6.4. Model Fit

Table 4.7. Research Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.420 <sup>a</sup>	.176	.164	.25534
a. Predictors: (Constant), Empathy, Assurance, Responsiveness, Reliability, Tangibility				
b. Dependent Variable: Customer Retention				

Source: own survey, 2024

Table 4.6 describes the study model summary (R-square) that explains the extent to which the independent variable explains the dependent variable and provides essential details about the regression model's overall fit and prediction capability. The R-value is 0.420, indicating a moderately positive relationship between the predictor and result, given that the value ranges from 0 to 1. A higher number indicates a stronger direct connection between the predictors and the result. The R-square score of 0.176 shows that the independent variables studied in this research explain 17.6% of the variability in the dependent variable (customer retention) meaning there is a need for further study to discover the rest of the variability.

It is challenging to believe that the model developed from the study sample adequately represents the total population. One way to know is through cross-validation (Adjusted R2). Adjusted R-Square illustrates the amount of variation in the customer retention variable that would be addressed if the model was created from the population from where the sample was drawn. The result from Table 4.6 shows that the adjusted R2 is 0.164, which is lower than the

R-squared value meaning the independent variables explain 16.4% variability of the dependent variables if the model was created from population rather than from samples.

Finally, the Model Summary results show that the regression model, which uses the five service quality indicators as predictors, accounts for approximately 17.6% of the variation in customer retention. The estimate's tiny standard error indicates that the model fits the data well. As a result, the regression model has moderate explanatory power and offers valuable insights into the association between service quality and customer retention.

#### 4.6.5. AVOVA Test

Table 4.8. ANOVA Table

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.456	5	.891	13.670	.000 <sup>b</sup>
	Residual	20.799	319	.065		
	Total	25.255	324			
a. Dependent Variable: Customer Retention						
b. Predictors: (Constant), Empathy, Assurance, Responsiveness, Reliability, Tangibility						

Source: own survey, 2024

Table 4.7 illustrates the study's ANOVA (Analysis of Variance) and describes the collective effect that the independent variables have on dependent variables. The results suggest an F-value of 13.670. The F-value is used to determine the overall significance of a regression and the value runs from 0 to infinity, with values near zero indicating that the regression model is less significant, and higher values indicating greater relevance. As a result, with an f-value of 13.670, this study's regression model is considered significant.

The p-value is 0.000, indicating that the combined effect of the independent factors on the dependent variable is highly significant at the 99% confidence level. In general, the regression model fits the data effectively, and service quality variables jointly have a significant impact on customer retention. This supports the notion that the model usually looks well-fitted.

#### 4.6.6. Multiple Regression Analysis

Table 4.9. The coefficients of the Multiple Regression

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.910	.472		1.930	.000
	Tangibility	.215	.051	.219	4.214	.000
	Reliability	.350	.076	.239	4.599	.000
	Responsiveness	.098	.049	.102	1.977	.049
	Assurance	.042	.047	.046	.900	.369
	Empathy	.127	.044	.150	2.873	.004

a. Dependent Variable: Customer Retention

Source: own survey, 2024

The standardized beta coefficient section displays the contribution of each variable to the model. The beta weight is the average increase in the dependent variable whenever the independent variable increases by one standard deviation (all other independent variables remain constant). The other variables are constant, so they are easy to compare. The following model is defined using the regression equation's standardized coefficients (Beta) for the independent variables.

$$CR = B0 + B1X1 + B2X2 + B3X3 + B4X4 + B5X5 + e$$

$$CR = 0.910 + 0.219 (TA) + 0.239 (RL) + 0.102 (RE) + 0.046 (AS) + 0.150 (EM) + 0.472$$

As seen in Table 4.9, all of the independent factors except for assurance in the preceding regression equation have a significant impact on customer retention. Even if the predictors have a significant effect on the dependent variable, their strength varies by variable. Therefore, the significance degree and the direction of each variable's influence on the dependent variable will be addressed in the following sections.

The constant term (Constant) has a beta value of 0.910, which represents the anticipated outcome of Customer Retention when other independent variables are zero. The standardized coefficients (Beta) value allows for a comparison of the relative importance of each predictor variable in the predictive model. The t-values and p-values (sig.) show the statistical significance of each coefficient. A larger relative t-value and a lower p-value indicate that the independent variable has a significant effect on the dependent variable. A lower t-value and a higher p-value, on the other hand, indicate that the independent variable has a smaller effect on the outcome variable. Table 4.7 shows the results based on the information provided above.

### **I. Reliability and customer retention**

Reliability has a standardized beta of 0.239 and a significance level of 0.000, suggesting that the regression coefficient is statically relevant at the 95% level. This finding demonstrates that the reliability dimension has a significant and positive impact on customer retention, implying that an increase in one unit of standard deviation of reliability results in a 23.9% increase in customer retention. The results illustrate that the customers discovered the skylight hotel, that the hotel offered the promised service on time, provided correct details about the services, and preserved their records accurately so that they are not required to recall themselves every single time they visit the hotel.

### **II. Tangibility and customer retention**

The tangibility possesses a standardized beta of 0.219 and p-value) of 0.000. This finding suggests that tangibility has a significant impact on customer retention, with a unit increase of standard deviation in tangibility resulting in a 21.9% increase in customer retention while maintaining all other variables constant. Therefore, tangibility has a significant and positive effect on customer retention. This result explains that consumers responded to the high level of consensus on the attractiveness and cleanliness of the hotel environment, as well as the professional appearance of the workers, and the fairly priced hotel service rates, which met their expectations throughout their stay.

### **III. Empathy and customer retention**

Empathy exhibits a standard coefficient of 0.150 and a p-value of 0.004, suggesting that the regression coefficient is statically significant at the 95% level. The findings revealed that a one-unit increase in the standard deviation of empathy is connected with a 15% increase in customer retention, assuming all other variables remain equal. As a result, empathy has a significant and

positive effect on customer retention. The study's findings imply that customers acknowledged that the hotel provides good customer service, has convenient operating hours for all clients, and that the workers have their customers' best interests in mind, therefore providing service with empathy.

#### **IV. Responsiveness and customer retention**

Responsiveness has a significant and positive effect on customer retention, with a standardized regression coefficient beta of 0.102. Having all other variables fixed, a unit increase in the standard deviation of responsiveness results in a 10.2% increase in customer retention. The p-value for responsiveness is 0.049, which is below the cutoff value for a statistically significant coefficient of 0.05, implying a significant impact on customer retention. The findings suggest that responsiveness has a significant and positive impact on customer retention by demonstrating the customers have acknowledged the dedication and willingness of hotel employees to assist with their problems on time and deliver prompt service.

#### **V. Assurance and customer retention**

According to the multiple regression analysis results in Table 4.8, the assurance component of service quality has no significant effect on customer retention. The reason is that assurance has a p-value of 0.369, which is bigger than the usual significance level of 0.05, indicating no significance at all.

In conclusion, the regression analysis shows that reliability, tangibility, empathy, and responsiveness have a significant and positive effect on customer retention. In contrast, assurance does not have a significant impact on client retention.

#### 4.7. HYPOTHESIS TESTING

NO	HYPOTHESIS	RESULT	DECISION
H1	<i>Tangibility has a significant and positive effect on customer retention.</i>	A significant and positive effect	H1 is Supported
H1	<i>Reliability has a significant and positive effect on customer retention.</i>	A significant and positive effect	H1 is Supported
H3	<i>Responsiveness has a significant and positive effect on customer retention.</i>	A significant and positive effect	H1 is Supported
H4	<i>Empathy has a significant and positive effect on customer retention.</i>	A significant and positive effect	H1 is Supported
H5	<i>Assurance has a significant and positive effect on customer retention.</i>	No significance	H1 is not Supported

#### 4.8.DISCUSSION

The results of Tables 4.4 and 4.8 show the following degree of connection, as well as the impact of the independent variables on the dependent variable. Tangibility, reliability, responsiveness, and empathy have a significant and positive on customer retention. This shows that elegant interior decor and a clean environment in the hotel, as well as presenting accurate information about the hotel to clients and delivering empathetic service, all play a vital role in hotel visitor retention. In addition, the result implies that when the hotel is dependable and immediately answers customers' demands and concerns with a higher level of empathy from hotel employees, the consequence will result in a rise in customer retention of the hotel. However, the findings show that assurance has no significant impact on customer retention.

The current study's findings suggest that the hotel does not need to address the five elements of service quality (TARRE) separately because they are interconnected and contribute to an increase in hotel customer retention. Focusing primarily on one or a few areas while ignoring others will not result in the attraction and retention of hotel guests. To maximize customer

retention, which is the hotel's long-term goal, managers must work hard to align all five service quality criteria with the client's expectations and perception of exceptional hotel services.

As a result, providing quality service in terms of creating appealing and memorable physical attributes, providing reliable hotel information to customers, providing good customer service by hotel staff, and trustworthiness, politeness, and empathy of the employee would assist the hotel in developing a positive and strong long-term relationship with its customers, resulting in increased customer return and repurchase intentions. Venetis (2004) underlines the importance of service quality in developing long-term relationships; by doing so, Ethiopian Skylight Hotel will retain its existing customers while boosting its clientele through customer promotion or hotel recommendations to other guests. As a result, the hotel will ensure its long-term economic sustainability and financial viability in the competitive hotel business by preserving its most valuable assets and sources.

A study on the effect of service quality on customer loyalty and retention in star-rated Ethiopian hotels found that customers valued the services provided by star-rated hotels, implying that reliability, responsiveness, empathy, and tangibility have a significant impact on customer retention. This outcome confirms the current study, which found a substantial effect of reliability, tangibility, empathy, and responsiveness on customer retention at the Skylight Hotel.

According to the study results, assurance has no meaningful effect on customer retention. The possible reason could be that the presence of a stronger influence from other dimensions renders the assurance factor negligible in the regression model. The existence of collinearity with other predictors may overshadow the importance of assurance. In Table 4.5 of the multicollinearity test, responsiveness and assurance have the same tolerance (0.969) and VIF (1.032). As a result, this could be one of the reasons why assurance is insignificant. Another explanation could be measurement concerning the integrity, precision, and representation of the data obtained for variable assurance, resulting in an insignificant perception of certainty in the analyses. The last argument could be that the connection between assurance and customer retention is influenced by other moderating variables that are not examined in this study. As a result, more research is needed to analyze and comprehend the true source of the assurance aspect's insignificance, as well as to reach a single standard agreement.

In general, the study on the effect of service quality aspects on customer retention in skylight hotels has met its purpose by investigating the customer's expectations and perceptions of the hotel service and determining the impact of the outcome on the customer retention technique.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.1. INTRODUCTION

This chapter presents the study's results and recommendations. The conclusion provides a summary of the research by spotlighting the important sections and summarizing the results acquired from data analysis. The recommendations section highlights the study's key findings for future academics, hotels, and concerned stakeholders.

#### 5.2. SUMMARY OF THE FINDINGS

This study investigates the effect of five service quality components on customer retention in a hotel: reliability, tangibility, empathy, responsiveness, and assurance. Multiple regression was used to assess the extent to which the independent variables of service quality influence customer retention in skylight hotels, and the major findings are presented below.

The study's four independent variables (tangibility, reliability, empathy, and responsiveness) are all positive and significant predictors of customer retention, considering 79% of the variation. However, their contribution to the variance varies depending on the standard coefficient (beta) values. Unfortunately, Table 4.8 shows that insurance has no effect on customer retention at Skylight Hotel.

#### **The key findings of the study are:**

- Service quality reliability has a significant and positive effect on customer retention, with a beta of 0.350 and a p-value of 0.000.
- The hotel's physical look has a significant and positive effect on customer retention, with a beta of 0.215 and a significant level of 0.000.
- Empathy, the ability to recognize and manage customer needs, has a significant and positive influence on customer retention (beta = 0.127, significance = 0.004).
- The hotel's responsiveness to customer problems has also a significant and positive influence on customer retention (beta = 0.098, significance = 0.049).
- Table 4.8's multiple regression analysis shows that the assurance which relates to customer trust and confidence in the hotel, has no significant impact on customer retention.

In summary, according to the findings, hotels should prioritize delivering dependable, clean, and compassionate service to retain consumers. While responsiveness is crucial, it has a lesser effect than the other three variables. However, the assurance dimension has no significance, and the reasons for this demand additional research. The study also emphasizes the interdependence of these five factors, which contribute to overall customer retention. Focusing on one or two components while ignoring the rest is unlikely to be beneficial.

### **5.3. CONCLUSION**

The goal of this study is to look into the effect of service quality on customer retention in Ethiopian skylight holes. To that end, the study begins with an overview of hotel company customer retention and its obstacles, as well as service quality and its dimensions, to explore how each impacts customer retention. Subsequently, the association between service quality dimensions and client retention was investigated by determining the influence of each variable on the dependent variable (CR).

The study's objective is to look into the influence of service quality on customer retention techniques in Ethiopian skylight hotels using five distinct characteristics (tangibility, reliability, responsiveness, assurance, and empathy). Data was gathered from local and international hotel guests in a variety of departments (restaurant, bar, gym, room, swimming pool, conference hall, and spa). Because the population was large and unknown, the Cochran large sample size selection standardized formula was adopted to select 384 samples from a large number of hotel guests.

The study adopted a quantitative research technique, collecting data from skylight hotels using a survey questionnaire. The SERVQUAL approach standardized an open-ended questionnaire by including the respondents' demographic information, with a total of 33 questions dispersed among them. Of the 384 questionnaires issued, 325 were returned, resulting in an 84.6% response rate. The acquired data was loaded into the SPSS software and analyzed using descriptive (mean and standard deviation) and inferential statistics (multiple regression model).

The analysis results are detailed in Chapter 4 of the paper, which includes tables, figures, and word-for-word narrations. The major conclusion of the study reveals that the data instrument was trustworthy in gathering the intended data, as indicated in Table 3.1. The descriptive statistics results suggest that most Ethiopian skylight hotel clients are foreigners when compared to local customers, that the majority of respondents were male, and that the age range

of customers was 40 to 48. Africa and Asia had the highest scores among the seven continents in terms of hotel visit frequency. The majority of the respondents were business owners and government officials, and their primary motivation for staying in the hotel was mostly for events and vacation purposes.

Referring to the regression analysis results; Table 4.5 demonstrates that the model has modest explanatory power yet offers useful insights into the effect of service quality on customer retention. The findings of the multiple regression analysis based on the regression coefficient revealed that service quality has a substantial effect on customer retention at Ethiopian Skylight Hotels. Out of the five dimensions of service quality (TARRE), reliability, tangibility, responsiveness, and empathy have a significant impact on customer retention. In contrast, assurance has no significance on customer retention.

According to the result obtained from direct observation of the skylight hotel, the environment is observed to be clean and attractive, the employees are well dressed, polite, charming, and treat customers in professional manners, the hotel provides a variety of services like bar, restaurant, room, gym, spa, and other many services with fair price. The hotel kept a tablet on the front desk to record and save the customer's preferences on their arrival at the gate which helps to recognize customers easily the next time they visit the hotel.

It is observed that the Skylight Hotel has a well-prepared customer retention plan document based on a global review and the Net Promoter Index. They also have a tracking mechanism in place, similar to Guest Pro and Review Pro, for client retention in the hotel. Both are online platforms where customer preferences and experiences are logged and kept for future use to detect regular and repeat hotel customers.

The hotel works extensively with customer promoters to recruit new customers. Then, they have a customer preference conserving system on a tablet at the front desk where regular customers can enter their special preferences for any service they intend to use, and this system assists the hotel in keeping their customer record for the next time they visit the hotel so that employees can easily recognize them with their personal preferences. Furthermore, it is noted that the hotel provides comprehensive training for personnel to recognize customers and deliver individualized service. However, Skylight Hotel is an independent hotel, unlike Sheraton, Hilton, Raddison, and Marriott hotels. The hotel does not currently provide a reward program for clients, but they are working toward it.

Based on the results, the Skylight Hotel should focus on tangibility and reliability areas of service quality to retain more clients than they do now. The hotel should prioritize maintaining high-quality facilities and keeping staff responsive to guests' demands. To maintain a positive and trustworthy relationship with its customers, the hotel must also re-evaluate and improve the responsiveness and empathy components of service quality. By addressing these results and performing additional research, the Ethiopian Skylight Hotel leverages service quality to improve client retention and long-term success.

#### **5.4. RECOMMENDATION**

Based on the findings of the study, which is obtained from descriptive and inferential analysis, the study recommends the skylight hotel some areas of improvement to achieve long-term customer retention goals and also gives important insight for future research in the study area. Some of the recommendations of current research are indicated as follows.

##### **RECOMMENDATION FOR SKYLIGHT HOTEL**

- The study recommends that skylight hotels prioritize maintaining high-quality and up-to-date physical facilities in the hotel, as well as monitoring whether hotel staff always provides timely, reliable, and promised information to customers.
- The study recommends that the hotel should re-evaluate and improve its empathy and responsiveness approaches to better align with customer preferences and increase customer retention rates by reviewing staff training on providing excellent service and employee recognition of hotel guests, improving service protocols, and gathering more comprehensive customer feedback.
- The skylight hotel should create well-organized customer retention strategy documents by clearly identifying the objectives and goals that will serve as a baseline for implementing and evaluating customer retention practices for the hotel to be sustainable and effective in the competitive market.
- The study recommends that the hotel should also establish customer loyalty programs and offer a variety of reward systems to attract and keep frequent consumers with tangible methods to help them track whether or not they are sustaining their clients.
- The hotel should look into the possible causes of the insignificance of the assurance component of service quality on customer retention and look for ways to solve the problem

at the source and align assurance with tangibility, reliability, empathy, and responsiveness to improve the hotel's customer retention rate.

### **SUGGESTION FOR FURTHER STUDIES**

- To undergo this study data was collected only from Ethiopian skylight hotels. This limits the generalizability of the findings to other hotels. Therefore, to increase the generalizability of the study, further research involving other hotels, especially the five-star hotels that have the status of skylight hotels, is suggested.
- The study model result explained that the regression model, which uses the five service quality factors as predictors, explains approximately 17.6% of the variation in customer retention, the rest is unexplained 82.4 % of the variance needs further investigation that incorporates other variables that were not included in the current study. Therefore, further research is recommended to identify the other variables that could impact customer retention.
- Further research is recommended to understand why the assurance dimension of service quality has no significance on customer retention, even if it is one of the aspects of service quality, to address the possible areas of improvement. Therefore, by using this research as an input other researchers should study customer retention in Ethiopia hotels deeply.

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**APPENDIX 1**  
**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF COMMERCE**  
**MASTER OF BUSINESS LEADERSHIP PROGRAM**

**Questionnaire to be distributed to the Customers of Ethiopian Skylight Hotel.**

**Dear Respondents,**

I am a master's student in business leadership at Addis Ababa University's School of Commerce. I would like to express my heartfelt gratitude for your kind time and honest, timely responses to my questions.

This questionnaire was created as part of an academic effort to collect data for a thesis paper titled "The Effect of Service Quality on Customer Retention in the Ethiopian Hotel Industry: The Case of Ethiopian Skylight Hotel" to fulfill Addis Ababa University's requirement for awarding a Master of Business Leadership degree. The questionnaire will take about 15-20 minutes to complete, and your honest answers to each question are critical to the success of this study. The information obtained through this questionnaire will be maintained strictly confidential and used for no other reason. As a result, I respectfully request that respondents provide open and honest information.

**NB:**

- It is not necessary to write your name.
- Try to address all the questions given below.
- For the closed-ended questions use the (√) mark for your choice in the given box  
Contact.

Address If you have any queries, please do not hesitate to contact me I am available at your convenience at (Mobile: +251941580763) Email: firayilma6@gmail.com

**Thank you for your cooperation!**

## PART 1. DEMOGRAPHIC INFORMATION

**INSTRUCTION:** Please use the (√) mark for your choice in the given box

### 1. Gender

Male:                       Female:

### 2. Age group

- I. 18-28:
- II. 29-39:
- III. 40-48:
- IV. Above 49:

### 3. Nationality of respondent

Ethiopia/local:                       Foreigner:

### 4. From where did you come to the Ethiopian Skylight Hotel?

- 1. Africa:
- 2. Asia:
- 3. N. America:
- 4. S. America:
- 5. Antarctica:
- 6. Australia:
- 7. Europe:

### 5. What is your primary reason for your hotel stay?

Vacation:       Business:       Event:       Others:

**6. How frequently do you come to the Ethiopian Skylight Hotel?**

- 1. Very Often:
- 2. Often:
- 3. Sometimes:
- 4. Rarely:

**7. What is your occupation?**

Student:  Business owner:  Government employee:  Other:

**PART 2: QUESTIONS DIRECTLY RELATED WITH THE STUDY**

2.1. Here under the questions about service quality dimensions Tangibility (TA), Reliability (RL), Responsiveness (RE), Assurance (AS), and Empathy (EM), you are kindly requested to put “√” mark on the box that represents your degree of agreement.

**1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree**

Table 2. A SERVQUAL Model Questionnaire from the Perspective of Customer Expectations.

No.	STATEMENTS	LIKERT SCALE				
		5	4	3	2	1
<b>TANGIBILITY</b>						
1.	The hotel has up-to-date equipment.					
2.	The physical facilities (building structure, front office, pool, restaurant, bar, restroom, hotel rooms, and lights) are hygienic, clean, and visually appealing.					
3.	The employees are well-dressed and appear neat.					
4.	The physical environment is neat and clean.					

5.	The cost of the services is reasonable.					
6.	The hotel has a variety of services.					
<b>RELIABILITY</b>						
7.	The hotel provides service at the promised time.					
8.	The hotel pays sincere attention to the customer's concerns.					
9.	The hotel provides the services as promised.					
10.	The hotel provides accurate information about the services.					
11.	The hotel keeps its customer's records accurately.					
12.	The hotel has great brand standards.					
<b>RESPONSIVENESS</b>						
13.	Employees provide prompt service to the customers.					
14.	Employees are always willing to help the customers.					
15.	Employees are never too busy to respond the customers' requests.					
<b>ASSURANCE</b>						
16.	Customers feel safe in their transactions with employees.					
17.	Employees are polite to the customer.					
18.	Employees know how to answer the customers' questions.					
<b>EMPATHY</b>						
19.	The hotel gives individual attention to the customers.					

20.	The operating hours of the hotel are convenient.					
21.	Employees give customers personalized service.					
22.	Employees have their customers' best interests at heart.					
<b>Customer retention</b>						
23.	I am satisfied with the service delivery at the hotel.					
24.	The hotel meets my expectations every time I visit the hotel.					
25.	I would like to visit the hotel again.					
26.	I would recommend the hotel to other customers.					

**Source;** Adapted and modified from Buttle (1996), Williams (1998), and Tefera and Govendar (2016):<https://doi.org/10.1177/21582440231195952>

**Thank you for your cooperation!**