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The Mediating Role of CRM on the Relationship Between Service Quality and Customer Loyalty: The Case of Capital Hotel and Spa.

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Department of Marketing Management

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DECLARATION

I, Meron Wondimu, hereby declares that this thesis is entitled “The Mediating Role of CRM on the Relationship between Service Quality and Customer Loyalty: The Case of Capital Hotel and Spa.” is my original work prepared under the guidance of my advisor, Dr. Andinet Worku (Ph.D)

This research is presented as a partial requirement for the Master of Arts Degree Award in Marketing Management and it has not been previously submitted to any diploma or degree in any college or university.

I would also like to confirm that all the sources of materials used in this study are properly acknowledged.

Meron Wondimu

July, 2023

ENDORSEMENT

This is to certify that Meron Wondimu carried out her thesis on the topic entitled “The Mediating Role of CRM On the Relationship Between Service Quality and Customer Loyalty: The Case of Capital Hotel and Spa.” under my supervision. This work is original in nature and is suitable for submission for the award of Master of Arts Degree in Marketing Management

Dr. Andinet Worku (Advisor)

Signature

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Meron Wondimu

Abstract

This research paper examines the Mediating Role of CRM On the relationship between Service Quality and Customer Loyalty: The Case of Capital Hotel and Spa. It analyzes the effect of service quality on the customer loyalty in the hotel industry. The significance and importance of Customer relation management in today's hospitality industry competitiveness is paramount in the level of its practice and its possible results.

The author in the research paper used primary data. The questionnaires were administered based on a convenience sampling method and obtained in Capital Hotel and Spa in Addis Ababa, Ethiopia. 270 questionnaires were distributed, and 253 available samples were collected, resulting in a response rate of 94% to all those who chose to participate. Using IBM SPSS and SmartPLS4 the role of customer relation management in between service quality and customer loyalty were identified. Findings indicate that service quality has a positive and direct effect on customer loyalty and customer relationship management. The result also shows that the effect of customer relation management on customer loyalty is positive and significant. In addition, the multiple hierarchical regression analyses showed that the relationship between service quality and customer loyalty is mediated by customer relation management. The results have implications for customer relationship managers and hotel managers who use relationship metrics to predict customer loyalty.

Key words: *Customer Relation Management, Service Quality, Customer Loyalty*

CHAPTER ONE

1. Introduction

1.1 Background of the study

According to Kotler and Armstrong (2017), CRM is the total process of developing & sustaining a relationship with consumers by providing exceptional value, which leads to customer loyalty towards the brand. CRM is the management of specific customer information with the goal of improving customer loyalty (Munandar et al., 2020). According to Hassanien and Dale (2019), many service providers, such as insurance companies and hotels, understand the significance of CRM and its ability to help them retain existing customers, acquire new ones, and maximize their lifetime value.

Alam et al. (2021) stated that all except for customer engagement, CRM components such as customer orientation, customer advocacy, and customer knowledge have a favorable impact on customer loyalty. According to Carrillat et al. (2009), service quality influences purchase intentions & customer loyalty both directly and indirectly via satisfaction. Their research also demonstrated that service quality is critical in a company's pursuit of long-term client connections and customer loyalty. Kheng et al. (2010) also discovered a direct positive relationship between quality elements such as dependability, empathy, and assurance and customer loyalty. Most researches proved that service quality directly and indirectly impacts loyalty (Beerli et al., 2004; Lewis and Soureli, 2006; Caruana, 2002; Jamal and Anastasiadou, 2009).

The hotel industry is one of the major service industries that CRM can benefit from as well as thrive while withstanding the ever growing competitive market. The industry in Ethiopia is developing at an incredible pace. Many star hotels have been built in the capital, Addis Ababa and state cities. The hotels are contributing tremendously for tourists to stay in the country without facing any hospitality challenges. In recognition of this major contribution of the sector, the Ministry of Culture and Tourism has been deploying feasible policies that move the tourism industry a step ahead. It has been developing tourist destinations, preserving heritages, renovating museums and promoting national parks. The Ministry has been executing various activities to make the nation one of the top tourist destinations by 2025. Constructing standard international hotels was among the activities accomplished by the government and private sector too (Ethiopian Herald, June 2022). Ethiopia, especially the capital city, Addis Ababa, hosts continental and international conferences. To accommodate all these workshops and conferences hence modern and standardized hospitality service is required there by the pivotal importance of the hospitality industry as a major economy runner.

The hospitality industry is one of the service industries where the role of CRM is crucial for a hotel's survival. The industry is a significant contributor to the tourism industry and the process of customer relations is coming to be a strict mentality (Rahimi, 2017). Due to racing competition, customer relationship management (CRM) has become even more relevant. CRM in the hotel industry is a process of building & managing advantageous relationships with consumers. In order for a hotel to sustain its market position in the fierce competition yet to come with new entrants in the market.

The significance and importance of CRM in current hospitality industry competitiveness is paramount in the level of its practice and its possible results in the industry. This is mainly

because CRM is one of the most important strategies to achieve competitive advantage as a powerful marketing tool that helps the industry to target potential customers & increase business. as well as analyzing customer behavior and preferences leading to a better understanding of customer needs, wants and expectations.

Thereby ultimately achieving increased advantages by providing quality service to customers, increasing conversions, minimizing costs and retaining customers for future business in today's ever growing competitive world. In Ethiopia the need for hospitality service has increased tremendously since Ethiopia is one of the oldest countries in the world maintaining the position as a tourist attraction. Among the many attractions are Meskel festivities, Addis Ababa Museum, Africa Hall, Selassie(Trinity), Cathedral, Beata Mariam church, eccentric city parks built in the city, etc.

Other main reasons for hospitality service in the capital of Ethiopia Addis Ababa is it's a seat to many international embassies, international organizations and non-Government institutes, Economic commission for Africa (ECA) and the African union contribute to the ever-growing need of quality services from hotels. Therefore, CRM is required for quality assurance of tourist/customer services (Apleni et al., 2017).

This will be accomplished by building a new hotel that will increase the competition in the industry even more so with international chain hotels joining the market. while many studies have gone to state the effect of CRM in the service industry none are available at a local five star level that oversees its role in mediating the relationship between service quality and customer loyalty the study has chosen one of the first five star hotel in Ethiopia Capital hotel and spa were internal documents show that CRM is a mere mercy for the recovery of undesirable service that might cost loyalty of customers to shift to another hotel. As many hotels as there are, it's in the

fingertips of clients to find another property that best suits their needs. This is where the role of CRM in mediating the relationship between service quality and customer loyalty is vital. The findings also have implications for customer relationship & hotel managers who use relationship metrics to predict customer loyalty. Researchers have studied CRM but as far as I know it has not been studied whether CRM mediates the relationship between service quality and loyalty. As a result, this study serves as a springboard for future industry research on the mediation role of CRM. Therefore this study examined if CRM does mediate the relationship between service quality and loyalty.

1.2 Background of the Company

Capital Hotel & Spa is a 5 star hotel specialized in conference resort; having Elegant Conference Rooms along with Luxury Accommodations featuring Premium Dining Rooms, Dedicated Sport Bars, Fine Restaurants, Authentic Ethiopian Cultural Restaurant alongside cultural music & dance performance, Deluxe Spa, Gym and swimming service.

The hotel is located in the capital city Addis Ababa, Ethiopia just minutes away from Bole international airport which is in an accessible location with open main road to/from hotel and ideal location for the city's activities. With many Years of Professional Excellence, the hotel has housed presidents, welcomed leaders & officials, hosted grand meetings & events. All with self-assured elegance that puts people at ease. Safety and security which is acknowledged by the United Nation Department of safety and security (UNDSS) certified by the American Safe Hotels Company as a Safest & Secured Five Star Hotel in Addis Ababa, Ethiopia. With the ultimate goal of making guests feel at home, with ALL-IN-ONE quality service control with

finest Bars & Restaurants, and rich & superior Wellness Center that has deluxe Spa & Gym in-premise.

Capital Hotel & Spa has 114 rooms of suite, twin standards, king superiors, & king standards. Two special rooms for guests with special needs Each room is set with AC of a high tech fire protection system, bullet proof doors, double glazed windows that are soundproof, Electronic safe box, scale, bathrobes and Special amenities alongside 24 hours room services. 80% of the hotel area is nonsmoking with a designated smoking area and out of the 114 rooms the hotel has 16 smoking rooms are a well-stocked mini-bar

1.3 Statement of the problem

According to Hassanien and Dale (2019) many service providers, such as insurance firms & hotels, recognize the benefits of CRM and its capacity to help them retain existing customers, recruit new ones, and maximize their lifetime value. Many studies on customer satisfaction in hotels have focused on service quality and perceived value(Banki et al., 2016; Fakharyan et al., 2014). Pandey (2012) stated that in recent years, organizations have combined their CRM efforts with knowledge management initiatives, concluding that it plays a significant part in CRM achievement. According to (Ong et al., 2018) the highly difficult competition in the hospitality business focuses on the importance of developing a very excellent relationship with profitable consumers , which is ensured through CRM that leads to brand loyalty. According to Madhovi and Dhliwayo (2017) it is critical for hotel management to deploy CRM, which provides customizable services for clients, ensuring contentment. Thus, the use of CRM in the hotel industry is critical because it is the key to customer satisfaction. Customer loyalty, according to Nyadzayo and Khajehzadeh (2016) is the best metric of success in any business. According to

Madhovi and Dhliwayo (2017) customer loyalty and service quality inside hotels recognized that if there is a higher level of CRM, there will be higher customer loyalty. According to Wali et al. (2016) customer commitment is a valid predictor of customer loyalty & has a favorable effect on customer advocacy behavior. Nevertheless none of the above studies examined CRM'S role in it's mediation effect with the respective variable of either service quality or customer loyalty. Studies have shown that it costs more to sell to a new customer than to an existing customer. Hence, customer satisfaction, profitability, and loyalty are important factors that the hospitality industry must focus on in view of Customer information and interactions. These factors can best be achieved through the implementation of CRM. The challenges of staying in the market and differentiating its position from competitors can be solved by the proper implementation of CRM and its mediation to the variables service quality and customer loyalty. As such CRM and its mediation role to five star hotel in Addis Ababa in the Capital Hotel and spa is taken under this study. In this hotel internal reports are showing CRM is not fully utilized as well as properly implemented. According to Gedyon et al. (2017), customer relationship management is practiced in Ethiopian hotels but has yet to be fully implemented. The problem lies in the root cause of not being given priority as one of the operations that goes on in the hotel. As a five-star hotel the practice is displayed without direct intent of establishing the long-term relationship or their loyalty with customers but merely as a management of quick service recovery that has been caused by undesirable service given to customers thus causing their clients to shift to another hotel that will attend to their desired need.

Most 5 star hotels, often international brands in Addis Ababa, Ethiopia, use CRM programmes that are highly expensive and demand high-tech equipment, making this study very significant to establish the mediation role of CRM and enable Ethiopian hotels compete globally with other

hotels. According to Tirsit (2020), there is a low utilization of CRM automation systems such as computerized and digitized procedures. Zeleke and Kumar (2020) discovered that all CRM indicators (people, technology, process, and strategy) had a positive association with customer satisfaction in their study. Despite the fact that increased emphasis has been paid to the antecedents of customer loyalty, existing literature fails to provide coherent explanations for which characteristics influence customer loyalty (Kumar et al., 2013). More study is needed, in particular, to investigate different mediators and moderators that can play a role in increasing customer loyalty (Kumar et al., 2013).

Although many studies on the impact of CRM on customer loyalty have been conducted in Ethiopia, none, to the best of the authors' knowledge, have investigated the mediation role of CRM and its alleged outcomes of loyalty, which leads to the contribution of this study. As a result, the study looked into CRM's mediation role and the alleged results of customer happiness and loyalty. The result has shown the effect of service quality on customer loyalty through CRM. This study's aim is to assist hotel management in better understanding the true value of CRM and whether it is truly worth the vast sums of money invested in it. Moreover, the study further added the investigation whether there is a relation between CRM mediation and customer loyalty or not. The study offered significant contributions to the growing CRM, customer loyalty literature. It also said whether or not there is fresh empirical proof that CRM has a large direct, indirect, and overall effect on customer loyalty in the Ethiopian local international five-star hotel Capital hotel and spa in Addis Ababa Ethiopia.

1.4 Basic Research Questions

1.4.1 Research question

- Is the relationship between service quality and loyalty mediated by customer relation management?

1.4.2 Specific questions

1. What is the effect of service quality on customer relation management in capital Hotel and Spa?
2. What is the effect of customer relation management on customer loyalty in capital Hotel and spa?
3. Does service quality affect customer loyalty in capital Hotel and Spa?
4. Does customer relation management mediate the relationship between service quality and customer loyalty in capital Hotel and Spa?

1.5 Objective of the Study

1.5.1 General objective

In this ever competing and growing hospitality industry in our country the aim of this study is to examine whether the relationship between service quality and loyalty is mediated by customer relation management.

1.5.2 Specific objective

1. To examine the effect of service quality on customer relation management.
2. To investigate the effect of customer relation management on customer loyalty.
3. to identify whether service quality affects customer loyalty
4. To identify whether customer relation management partially mediates the relationship between service quality and loyalty.

1.6 Definition of terms

Customer relation Management (CRM): It is the process of carefully managing detailed information about individual customers & all customers to maximize customer loyalty (Kotler & Armstrong, 2017)

Customer loyalty: Customer loyalty is a tool to aid with profit seeking, positioning, and expansion of goals (Hayes, 2008).

Service quality; The extent to which the service fulfills the needs or expectations of the customers or conceptualizes it as the overall impression of customers as regards the weakness or excellence of the service.

1.7 Significance of the Study

As the foundation, the background study has iterated the paramount use of the customer relation management in the hospitality industry. As such the Ethiopian hospitality industry is growing as part of the country's direction to make tourism contribute and grow in its economy. to have a sustainable market position and withstand the competition in the industry a proper CRM is the main part of any hotel. The intention of this study lies in addressing the organizational gap when it comes to the proper implementation of customer relation management and whether CRM mediates the relationship between service quality and customer loyalty.

1.7.1 Practical Significance

- To inform managers where the problem lies in the effective implementation of CRM.
- To suggest and identify ways for the hotel to effectively implement CRM
- To properly address the current gap the hotel faces by identifying whether CRM mediates the relationship between service quality and customer loyalty.

1.7.2 Theoretical Significance

This study has a significant contribution to the hospitality industry in Ethiopia, with regards to its contribution to the importance of CRM and its role in mediating the relationship between service quality and customer loyalty for future researchers in the industry.

1.8 Scope of the study

Geographical scope

The study aims to describe and explore the role of CRM mediation in hotel practices through case studies on a single five-star hotel, it is limited to a five-star hotel capital hotel and spa in Addis Ababa, Ethiopia.

Methodological Scope

This study used a descriptive and explanatory survey design, and both primary and secondary data were used in the research. In terms of secondary sources, many publications, books, and journal articles on the subject were included. In terms of primary data a well-designed five-point Likert scale close-ended questionnaire was utilized to collect data from sample respondents in order to meet the research objectives yet only the Customers of the Capital Hotel in Addis Ababa included the study population.

Conceptual Scope

The study contains the role of CRM in mediating, customer loyalty and service quality. However, these aren't the only variables that can be mediated by CRM in the hospitality industry. CRM can have a mediating role in customer satisfaction, perceived value and more that are not in the scope of this study.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

This chapter is concerned with the review of relevant literature, which includes literature on CRM in general, including theoretical and conceptual problems such as definitions and benefits, viewpoints and components, CRM kinds and models, and so on. This chapter, on the other hand, includes material on CRM in hotels and its benefits.

2.1 Review of Theoretical Literature

2.1.1. Customer Relationship Management (CRM)

CRM is a process of managing customer relations in an organized way with the core aim of ensuring that each individual customer always has a positive moment of truth (Ahmad et al., 2012). CRM is an attitude and mind-set which involves the value that one places on a business and its relationship with customers (Roberts-Phelps, 2001). CRM goes beyond the purpose of attracting customers but also retaining them. CRM emphasizes the role of retaining customers (Kanchan & Sharma, 2015).

The significance and importance of CRM in today's hospitality industry competitiveness is paramount in the level of its practice and its possible results in the industry. This is mainly because CRM is one of the most important strategies to achieve competitive advantage. CRM helps manage a company's interactions with customers and prospects, with an aim to improve business relationships. There are four components of customer relationship management; satisfaction, loyalty, profitability, and customer retention. Hence in order to measure CRM these

four components (satisfaction, loyalty, profitability and customer retention) are proof of a successful implementation of CRM (Bose, 2002).

2.1.2. Service quality

The importance of Service quality to companies is that it's a powerful weapon in the company's excellence, especially companies that are engaged in the service sector. These advantages are to fulfill Customer Relationship Management (CRM). Service quality is described as an overall judgment about the level of a service provider's performance (Zeithaml et al., 2006).

According to Zeithaml et al. (2006) the specific dimensions that influence perceived service quality include: (i) *reliability*: providing customers with accurate service the first time round; (ii) *responsiveness*: the employees' willingness and readiness to help the customer, quickly respond to their requests and inform them when the service will be rendered; (iii) *assurance*: the employees' courteous behavior and knowledge of the service firm's products and services; (iv) *empathy*: the employees' understanding of the customer's problems and attempt to execute activities with the customer's best interests in mind; and (v) *tangibles*: the physical cues such as facilities, equipment used and the employees' appearance.

According to Zeithaml et al. (2006) a few alterations have been made to this scale over time, and the measurement tool is known today as SERVQUAL. Its five dimensions are listed below: arranged in order of their relative importance in measuring service quality, Reliability, Responsiveness, Assurance/Confidence, Empathy, and Tangible. Of the five indicators,

1. Reliability: According to Zeithaml et al. (2006) it is the ability to perform the promised service dependably & accurately. Reliability means that the company delivers on its promises-promises about delivery, service provision, problem resolutions and pricing.

2. Responsiveness: According to Zeithaml et al. (2006) it is the willingness to help customers and provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customer's requests, questions, complaints and problems.

3. Assurance: According to Zeithaml et al. (2006) it means to inspire trust and confidence. Assurance is defined as employees' knowledge of courtesy and the ability of the firm and its employees to inspire trust and confidence. This dimension is likely to be particularly important for the services that the customers perceive as involving high risk and/or about which they feel uncertain about the ability to evaluate.

4. Empathy: According to Zeithaml et al. (2006) it means to provide caring individualized attention the firm provides its customers. In some countries, it is essential to provide individual attention to show to the customer that the company does best to satisfy his needs. Empathy is an additional plus that the trust and confidence of the customers and at the same time increase the loyalty.

5. Tangibility: According to Zeithaml et al. (2006) since services are tangible, customers derive their perception of service quality by comparing the tangibles associated with these services provided. It is the appearance of the physical facilities, equipment, personnel and communication materials.

2.1.3. Customer loyalty

According to Fittrizal et al. (2020) customer loyalty begins from the customers' assessment of the product/service quality that a customer receives based on the conceptualized expectations in their mind. These expectations arise from products or services that have been received previously (experience) as well as mouth to mouth news that reaches the customers.

According to Sangadji and Sopiah (2013) loyal consumers are an important asset for the company. This can be done if customers are making regular purchases, making purchases in all product/service lines, recommending other products, and showing strength from the attractiveness of similar products from other competitors. There are many metrics to measure customer loyalty among them: net promoter score, customer engagement number, customer retention rate (CRR), repeat purchase rate and customer lifetime value in which NPS is the most popular one.

According to Saleem and Raja (2014) customer loyalty is that customers have the intention to return to the same hotel again, which is behavioral loyalty. They also stated that a loyal customer is the customer who repurchases from the service provider whenever possible and recommends the service to other customers with a good attitude. Nyadzayo and Khajehzadeh (2016) mentioned that the best measure of accomplishment in any company is customer loyalty. Loyal customers will assist the company to decrease marketing costs and increase its market share. Madhovi and Dhlwayo (2017) mentioned that in the past years many researchers while dealing with CRM, customer loyalty and service quality within the hotels recognized that a higher level of CRM leads to higher customer loyalty. Wali,et al., (2016) explained that consumer commitment is a valid predictor of customer loyalty and it positively affects customer advocacy behavior.

Sota et al. (2019) stated that due to the competitive business environment in the hotel industry nowadays, CRM has become a crucial tool that every hotel should use to survive in the market. Hassanien and Dale (2019) said that in order to guarantee customer retention through the use of CRM, there should be a continuous contact from the hotel side to keep customers updated by any new services as they might be interested in these services and stay longer in the hotel. However,

Malonza and Lucy (2016) have argued that in the hotel industry, it is not guaranteed that customers will always come back to the same hotel. Therefore, CRM in hotels focuses on developing strong long-term relationships with each customer to try to keep them coming back regularly; that is to increase their loyalty.

CRM is a powerful marketing tool that helps the industry to target potential customers and increase business. As well as analyzing customer behavior and preferences leading to a better understanding of customer needs, wants and expectations. Ultimately achieving increased profits by serving customers better, increasing conversions, reducing costs and retaining customers for future business in today's ever competitive world. Research shows that when customers consistently receive competent service, their trust levels increase resulting in long-term relationships with the firm (Balaji, 2015). Moreover, commitment is considered a key component in building customer loyalty (Hur et al., 2013). Drawing on these insights, we anticipate that CRM quality affects customer loyalty.

2.2 Empirical Review

Aside from the theoretical background of CRM, numerous empirical studies have established the vitality of customer relation management in the service industry. Having established the above fact, the proper implementation of customer relation management needs to be incorporated while executing the process which are operational, analytical and collaborative systems. Haryandika & Santra (2021) stated that customer loyalty is influenced by CRM and the effect of CRM on customer loyalty was significant. According to Kotler and Armstrong (2017), CRM is the process of carefully managing detailed information about individual customers and all customer “customer touch points” to maximize customer loyalty. Thus, a CRM is how an organization

makes use of the customer data to meet the needs of existing customers better by providing quality service and identifying and serving new ones to earn more profits as well as their loyalty. The study of feasibility by Rahim (2007) on the application and implementation of CRM in the hotel industry concludes the industry is experiencing increased globalization, competition and high customer turnover, increasing cost of customer acquisition and rising customer expectation. From the above discussions we can say that CRM provides a greater influence on customer loyalty. Because of the benefits of client retention, excellence in service quality is a cornerstone to achieving customer loyalty, which is the fundamental goal of commercial organizations (Ehigie, 2006).

2.2.1 Research Hypothesis

As for service quality based on the research result conducted by Yauwerissa and Putra (2021) that service quality has a positive and significant effect on customer loyalty, along with the customer relationship management. This is in line with research by Widiyanto et al. (2021) that states service quality will result in effective implementation of CRM.

H1: There is a positive significant direct effect of Service quality on CRM.

Customer loyalty is a tool to aid with profit seeking, positioning, and expansion of goals (Hayes, 2008). Anderson and Mittal (2000) confirmed the strong association of quality of services and customers' loyalty.

According to Madhovi and Dhliwayo (2017) customer loyalty and service quality within the hotels recognized that a higher level of CRM leads to higher customer loyalty. For hotel managers it is paramount to manage CRM appropriately to get the best out of the many resources

dedicated to it, thus customer-centric practices. Furthermore Wali et al. (2016) explained that CRM is a valid predictor of customer loyalty.

Hollebeek et al. (2019) and Nazir et al. (2014) explained CRM consists of three concepts: customer, relationship and management. Customers are the main target of any organization so the organization should customize their products and services based on the customer's needs which dictates the quality of service. This in turn will create customers that are satisfied and result in a committed client base or the goal for organizations that are loyal customers. thus hypothesize the below.

H2: CRM is positively related to customer loyalty.

H3: Service quality positively affects customer loyalty.

H4: Customer relation management partially and positively mediates service quality and customer loyalty.

2.3 Research Gap

According to Madhovi and Dhliwayo (2017) it is vital for hotel management to implement CRM, which provides clients with customized services, assuring client satisfaction. Thus, CRM is crucial in the hotel industry because it is the key to client satisfaction. According to Nyadzayo and Khajehzadeh (2016) the best gauge of success in any business is customer loyalty. Streamline procedures, and customer-relationship management (CRM) is a strategy for managing a company's interactions with present and prospective customers.

Despite the rising attention on consumer loyalty antecedents, present literature fails to provide cohesive explanations for which qualities promote customer loyalty (Kumar et al. 2013). More research is needed, specifically to evaluate various mediators and moderators that can play a role

in enhancing customer loyalty (Kumar et al. 2013). Chang, Park, and Chaiky (2010) demonstrate that CRM technology increases marketing capabilities by giving useful customer information, allowing both managers and employees to meet specific marketing goals much more successfully. According to (Ong et al. 2018), the highly competitive nature of the hospitality industry emphasizes the need of creating a very good relationship with profitable customers, which is accomplished through CRM activities that lead to brand loyalty.

2.4. Conceptual Framework

CRM helps companies build relevant relationships with customers where there is an easy access and information exchange between the two entities. The main purpose of this is to maintain, retain and improve the relationship by satisfying the needs and wants of customers having met their expectations by providing quality service resulting in customer loyalty. Therefore, this study will oversee the proper implementation of CRM in the consequent outcome of customer loyalty and service quality.

Independent variable

Service quality

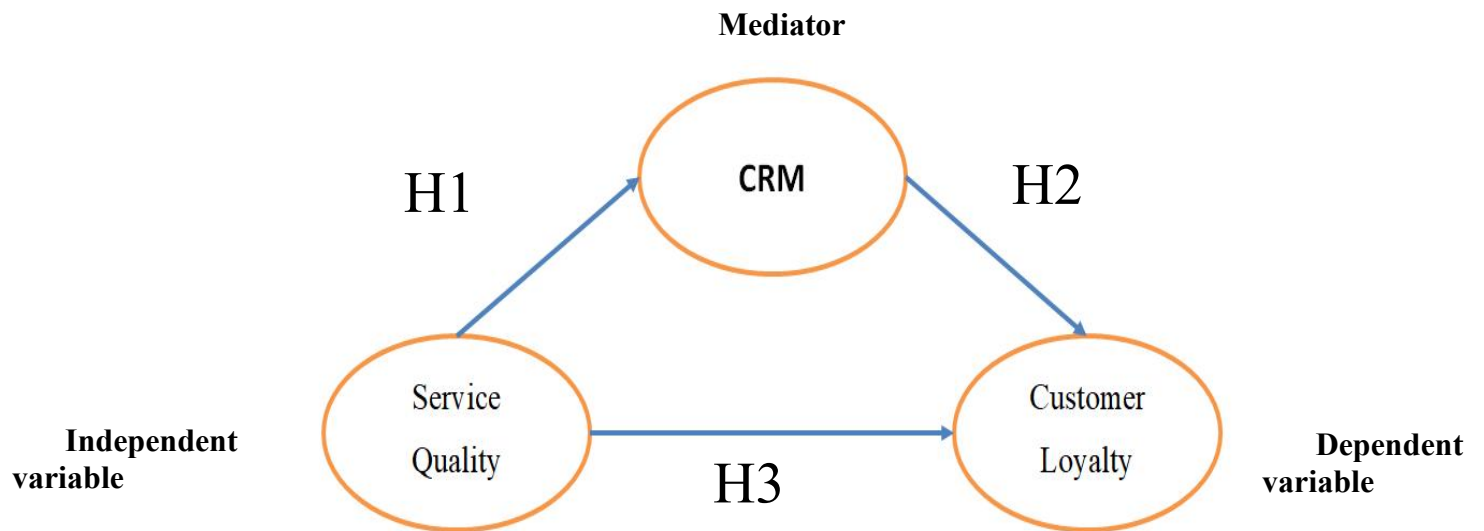
- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangible

Mediator

Customer relation management

Dependent variable

Customer Loyalty



H4 CRM partially and positively mediates the relationship between service quality and customer loyalty

Figure: Conceptual model.

Source: Own Compilation (2023)

CHAPTER THREE

Research Methodology

3.1 Description of the study area

Addis Ababa, Ethiopia's capital is where high-end international events are held, as well as where tourists come and go looking for lodging. The five-star hotel on which this study is primarily focused is located in Addis Ababa. Capital Hotel and Spa was chosen as the research hotel. The hotel is located in the heart of Addis Ababa, with specific addresses in Urael and Bole Sub-Cities. The hotel was chosen as a model among five-star hotels because it was one of the first five-star local international hotels desired by tourists, multinational enterprises, non-governmental organizations, and embassies.

3.2 Research approach

For this study the researcher has chosen a quantitative research approach rather than a qualitative approach. Quantitative research involves the collection of data so that information can be quantified and subjected to statistical treatment in order to support or refute alternate claims (Creswell, 2017). This approach will offer an in-depth understanding of the research problem and help answer the hypothesis. it will also allow larger sets of data for reliability and validity.

3.3 Research Design

The research design also reflects the purpose of the inquiry, which can be characterized as exploratory, explanatory and descriptive.

Since the purpose of this study is to examine whether CRM mediates the relationship with its described independent and dependent variables the selected designs are both descriptive and explanatory.

Descriptive statistics is used to describe the usefulness of the data set and examine relationships between variables. In order to describe the data, preliminary descriptive statistics such as frequency, percentages, mean scores and standard deviation have been computed.

Explanatory research is conducted in order to identify the extent and nature of cause-and-effect relationships where a regression analysis was used to examine the relationship between the independent variable on the dependent variable.

3.4 Sampling Design

3.4.1 Population of the study

The term population is an entire group of individuals, events or objects that have a common observable characteristic. Population refers to all elements that meet certain criteria for inclusion in a given universe (Luck & Lancaster, 2003). The population will always be the bigger number than the sample size. The population is the whole group of people being studied, in this case the population is all corporate customers of the capital hotel and spa taking the daily maximum number of customers in an average occupancy of 114 rooms, 9 major meeting halls, outlets including bar and restaurants and gym and spa clients, the capital hotel and spa daily average population is 700 guests.

3.4.2 Sampling size

The total population is taken from the Capital hotel and spa. To select a sample of respondents the calculation is done using (Yamane,1973) formula with 95% confidence level as present. Sample size for $\pm 5\%$ precision ,Confidence level is 95%, $P=$ for 700 size of population. Sample size(n) for precision (e) is 5%. therefore $n=254$.

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

$$n = \frac{700}{1 + 700(0.05)^2}$$

$$n = 254$$

Where

n = number of sample size

N = Total number of study population and

e= level of confidence to have in the data or degree of freedom which is 95% apply for this study with 5% error.

3.4.3 Sampling technique

Data were collected through a convenience sampling technique in which respondents were requested to answer a questionnaire in person. Convenience sampling enables researchers to collect data that might otherwise be impossible. The questionnaires were distributed to customers who have booked a stay at Capital Hotel and Spa using a convenience sampling technique.

3.4.4 Sources of Data Collection (Primary, Secondary)

The study used primary data to answer the research questions. Primary data was the main focus by using close-ended questionnaires distributed to respondents in capital hotel and spa. Questionnaires prepared to address major concerns of the inquiry and promote accuracy. The five- point Likert scales were applied to measure responses of respondents questionnaires were collected face to face in the premises of the selected hotel Capital hotel and spa. Secondary data is collected and reviewed from articles and books.

3.5 Data Analysis Methods

To analyze quantitative data statistical methods are used, therefore both descriptive and inferential statistics are applied in this study. Descriptive analysis involves creating tables, charts and summary statistics from raw data. The data were processed using a statistical package for social science (SPSS) for the analysis of means, standard deviations, correlations, coefficient of variables, and analysis of variance (ANOVA) as the output result. Statistical model specification output, and frequency distribution of each independent and dependent variable were included as well.

To test the hypotheses, structural equation modeling (SEM) is performed using the SPSS. Having ensured validity and re- liability of the measurement model, SEM model is estimated in which service quality is the independent variable, CRM the mediator and customer loyalty the dependent variable. SEM, sometimes also called covariance structural analysis or causal modeling, is a combination of regression analysis and confirmatory factor analysis.

3.6. Ethical Considerations

Ethical conduct states that it is the responsibility of the researcher to carefully assess the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimized (Bryman & Bell, 2007).The proprietors of the chosen hotels' customers were asked for their permission to conduct the study, and it was successfully secured. All participants received comprehensive information about the goal and methodology of the study. All participants were asked for their permission. All information gathered during this procedure was kept personal and anonymous and used solely for this specific study.

CHAPTER FOUR

4. Result and Discussion

In this chapter the study reviewed the mediation role of customer relation management. The results of the analysis are presented in the sequence in which they are performed. First, the results of the normality, validity and reliability tests are presented. Second, the regression analysis for Service quality on CRM, effect of CRM on customer loyalty, service quality on customer loyalty are presented. Third, the results of the mediation analysis are presented.

4.1. Validity and reliability analyses

Table 1 shows the revised number of items and Cronbach's alphas for all the variables used in this study.

Table 4.1: Reliability test

	Cronbach's Alpha if Item Deleted	N of Items
Service Quality Reliability	.895	4
Service Quality Responsiveness	.898	4
Service Quality Assurance	.892	4
Service Quality Empathy	.891	7
Service Quality Tangible	.916	4
Customer Loyalty	.816	10
Customer Relation Management	.887	12

Source: Own Compilation

The study reliability was measured by Cronbach's Alpha. A value of 0.70 is recommended executed by Cronbach's alpha coefficient; a generally accepted rule is that 0.6-0.7 indicates an acceptable level of reliability, and 0.8 or greater a very good level. However, values higher than 0.95 are not necessarily good. In fact it's indicative of redundancy (Hulin et al., 2001). The

coefficient of alpha ranges from 0 to 1, with 0.5 indicating mediocre internal consistency reliability and undesirable. The reliability test results also shown in Table 4.1 indicate that all the variables namely service quality, customer relation management and customer loyalty are reliable as their Cronbach's Alpha and Composite Reliability values were all greater than 0.85.

4.2. Descriptive Statistics

After establishing the reliability and validity of the variables, it's time to provide some descriptive statistics for the selected constructs. These include; mean, and standard deviation, were calculated and reported in Table 4.2.

Table 4.2: Descriptive Statistics

	N	Mean	Std. Deviation
Service Quality Reliability	253	4.19	.965
Service Quality Responsiveness	253	4.25	.858
Service Quality Assurance	253	4.18	.915
Service Quality Empathy	253	4.06	.896
Service Quality Tangible	253	4.16	.855
Customer Loyalty	253	4.11	.942
CRM Quality Test	253	4.22	.966
CRM Quality Commitment	253	3.93	.934
Service Quality	253	4.11	.887
Customer Relation Management	253	4.11	.946
Valid N (listwise)	253		

Source: Source: Own Compilation (2023)

The data for service quality shows that 68% of the results were 4.11 plus or minus 0.887 (1 standard deviation away from the mean), 95% of the results were 4.11 plus or minus 0.887 (2 SD away from the mean), and 99.7% of the results were 4.11 plus or minus 0.887 (3 SD away from the mean).

The data for customer relation management shows that 68% of the results were 4.11 plus or minus 0.946 (1 standard deviation away from the mean), 95% of the results were 4.11 plus or

minus 0.946 (2 SD away from the mean), and 99.7% of the results were 4.11 plus or minus 0.946 (3 SD away from the mean).

4.3. Correlation Analysis

Table 4.3: Correlation Analysis

Table 4.3: **. Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

Source: Own Compilation (2023)

Table 4.3 presents inter-correlations among the variables. As expected, significant and positive correlations exist among service quality, customer relation management, and customer loyalty. There is also a positive correlation among the five dimensions of service quality. Service quality and customer relation management were significantly correlated ($r = 0.690$, $p < .001$); service quality and customer loyalty were also significantly correlated ($r = 0.798$, $p < .001$); and customer relation management and customer loyalty were also significantly correlated ($r = .822$, $p < .001$).

4.4. Normality Test

Table 4.4: Normality Test

Construct	Skewness	Kurtosis	Remark
SQR	-1.295	1.258	Normality assumption attained
SQRS	-1.188	.975	
SQA	-1.269	1.576	
SQE	-.952	.674	
SQT	-.893	.247	
CL	-1.092	.812	
CRMQ	-1.247	1.075	
CRMQC	-.985	.899	

Source: Own Compilation (2023)

The normality test (Table 4.4) is one of the first steps in ensuring that the data gathered is suitable for statistical data analysis. In terms of measuring normality, researchers (Hair et al., 2017) recommended using two values to measure the shape of data distribution: Skewness and kurtosis. The values for Kurtosis between -2 to +2 and Skewness between -7 and +7 are considered acceptable in order to prove normal distribution (Byrne, 2016). The results of the normality test in Table 4.4 show that the values of Skewness & kurtosis for the constructs of the model were within the specified range.

4.5 Assumptions of Regression Analysis

4.5.1. Linearity Analysis

The p values for the coefficients indicate whether these relationships are statistically significant or not. Table 5 shows that all the independent variables linearity is significant with p values less than 0.05.

Table 4.5.1: Linearity Analysis

ANOVA Table						
CL * SQ	Linearity	142.299	1	142.299	471.88	.000
	Deviation from Linearity	6.59	3	2.197	7.285	.000
CL * CRM	Linearity	151.125	1	151.125	551.319	.000
	Deviation from Linearity	4.571	3	1.524	5.558	0.001

Source: Own Compilation (2023)

4.5.2. Multicollinearity Analysis

According to Jim (2023) one way to detect multicollinearity is by using a metric known as the variance inflation factor (VIF), which measures the correlation and strength of correlation between the predictor variables in a regression model. According to Jim (2023) a VIF value of 1 indicates there is no correlation between a given predictor variable and any other predictor variables in the model. He also explained that A VIF value between 1 and 5 indicates moderate correlation between a given predictor variable and other predictor variables in the model, but this is often not severe enough to require attention. A value greater than 5 indicates potentially severe correlation between a given predictor variable and other predictor variables in the model (Jim, 2023). In this case, the coefficient estimates and p-values in the regression output are likely unreliable.

Table 4.5.2: Multicollinearity Analysis

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	SQR	0.339	2.953
	SQRS	0.356	2.807
	SQA	0.298	3.361
	SQE	0.318	3.143
	SQT	0.488	2.051
	SQ	0.524	1.909
	CRM	0.524	1.909
a Dependent Variable: CL			

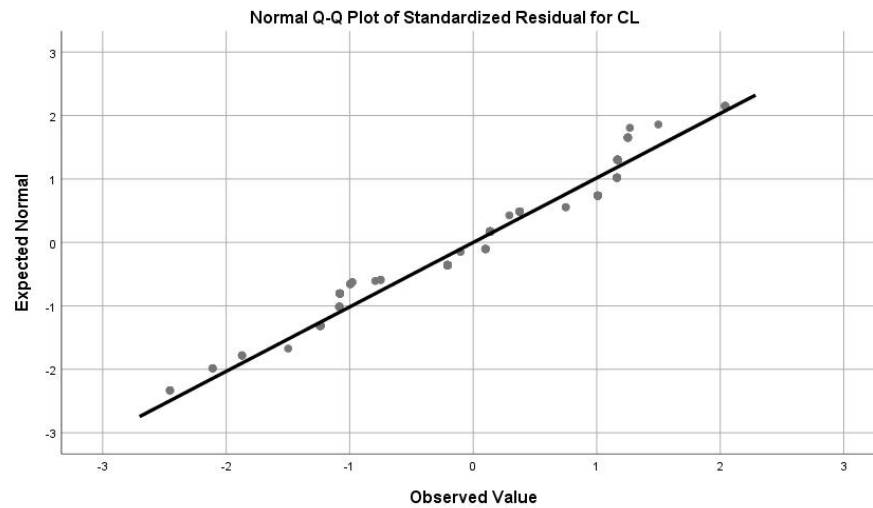
Source: Own Compilation (2023)

Table 4.5.2 shows that none of the VIF values for the predictor variables are greater than 5 or equal to 1. All the values are in between 1 and 5 and tolerance is greater than 0.1, which indicates that multicollinearity will not be a problem in the regression model.

4.5.4. Homoscedasticity Analysis

According to Jarque and Berta (1980) homoscedasticity describes how the error term is the same across the values of the independent variables. The residual term in homoscedasticity is constant across data, indicating that the variance is constant (Jarque and Berta, 1980).

Figure 2: Homoscedasticity



Source: Own Compilation (2023)

Figure 2 shows that the residuals plotted on the graph, corresponding to each predicted value, formed a region of the slim area around the regression line. Therefore, we can decide that the residual variance is constant across the values of the independent variables and the assumption of homoscedasticity has been attained.

4.5.5. Autocorrelation Analysis

According to SAP (2016), the Durbin-Watson statistic lies in the range 0-4 and a value of 2 or nearly 2 indicates that there is no first-order autocorrelation. SAP (2016), also stated that an acceptable range for autocorrelation is 1.50 - 2.50. When the value of Durbin-Watson is less than 1.50, it shows the presence of positive autocorrelation and small successive error differences. Durbin-Watson is high (greater than 2.50) when successive error differences are considerable; this implies the presence of negative autocorrelation. Negative autocorrelation is not particularly common (SAP, 2016).

Table 4.5.5: Autocorrelation

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.881 ^a	0.777	0.775	0.447	1.862
a. Predictors: (Constant), CRM, SQ					
b. Dependent Variable: CL					

Source: Own Source (2023)

As shown in table 7, the Durbin-Watson statistic value is 1.86 and this can be considered as normal. Any DW value closer to 2 or in between 1.5 and 2 is acceptable (SAP, 2016).

4.6 Regression Analysis

Regression analysis, according to SAP (2016), is a sophisticated statistical tool that allows researchers to investigate the relationship between two or more variables of interest. I used regression analysis in order to test the hypotheses of the study.

Table 4.6.1 Regression Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.881 ^a	0.777	0.775	0.447
a. Predictors: (Constant), CRM, SQ				

Source: Source: Own Compilation (2023)

The result shows that the R-Square value is 0.777, indicating that the independent variable namely service quality and the mediator customer relation management can affect the dependent variable customer loyalty by as much as 77.7%. This means that service quality and the mediator

customer relation management significantly influence customer loyalty. The $R^2=0.777$; taken as a set, the predictors or the independent variables account for 77.7% of the variance in customer loyalty.

Table 4.6.2: ANOVA

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	173.796	2	86.898	435.534	.000 ^b
	Residual	49.88	250	0.2		
	Total	223.676	252			
a. Dependent Variable: CL						
b. Predictors: (Constant), CRM, SQ						

Source: Own Compilation (2023)

The significance value which is indicated in this is at .000 which is a good P value. This model also shows a good significance between the model factors. Table 4.6.2

shows that the value of F is 435.534, which reaches significance with a p-value of $.000 < 0.05$ (5%) significance level. This means there is a statistically significant difference between the means of the different levels of the variables.

Service Quality on CRM

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.09	0.205		5.322	.000
	SQ	0.736	0.049	0.69	15.104	.000
a. Dependent Variable: CRM						

Source: Own Compilation (2023)

To test hypothesis 1, i.e., whether SQ has a positive effect on CRM, a regression analysis was done. The result of the analysis is indicated on Table 4.6.3, we can see that the effect of Service Quality on Customer Relation Management is significant (p-value 0.000). SQ has a substantial positive direct effect on CRM by 0.736, which means increasing SQ by one unit will increase CL by 73.6% of a unit thus H1 is supported.

4.6.2. The direct effect of CRM on Customer loyalty

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.071	0.141		0.508	0.612
	CRM	0.516	0.041	0.518	12.564	.000
a. Dependent Variable: CL						

To test hypothesis 2, whether CRM has a positive effect on CL, as shown in the table we can see that the effect of Customer Relation Management on Customer Loyalty is significant (p-value 0.000). CRM has a substantial positive direct effect on CL by 0.516, which means increasing CRM by one unit will increase CL by 51.6% of a unit thus H2 is supported.

4.6.3. Service Quality on Customer Loyalty

Table 4.6.5: Unstandardized Coefficients Beta and Std. Error for SQ and CL.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.634	0.17		3.732	.000
	SQ	0.847	0.04	0.798	20.95	.000
a. Dependent Variable: CL						

Source: Own Compilation (2023)

To test hypothesis 3, i.e., whether SQ has a positive effect on CL, a regression analysis was done. The result of the analysis is shown on Table 4.6.5., we can see that the effect of Service Quality on Customer Loyalty is significant (p-value 0.000). SQ has a substantial positive direct effect on CL by 0.847, which means increasing SQ by one unit will increase CL by 84.7% of a unit thus H3 is supported.

4.6.4. The direct effect of SQ and CRM on CL

Table 4.6.6: Unstandardized Coefficients Beta and Std. Error for SQ and CRM on CL.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.071	0.141		0.508	0.612
	SQ	0.467	0.044	0.44	10.66	.000
	CRM	0.516	0.041	0.518	12.564	.000
a. Dependent Variable: CL						

Source: Own Compilation (2023)

On Table 4.6.6 we can see that the effect of Service Quality and customer relation management on Customer Loyalty is significant (p-value 0.000). SQ and CRM has a substantial positive direct effect on CL by 0.467 and 0.516 respectively. Which means increasing SQ by one unit will increase CL by 46.7% and means increasing CRM by one unit will increase CL by 51.6% of a unit thus H1 and H2 is supported. Sota et al. (2019) stated that due to the competitive business environment in the hotel industry nowadays, CRM has become a crucial tool that every hotel should use to survive in the market. However, as can be seen when testing hypothesis 3, the beta value of SQ was .847 but when we add the mediator to the model the beta value of SQ is reduced to .467 this suggests a partial mediating effect because the p value is significant when the mediator is entered in to the model. This is explained in detail next.

The test of the mediation effect of CRM on the relationship between SQ and CL is done using the four-step method summarized by Hayes (2013) but originally developed by Baron and Kenny (1986).

First, the independent variable of this study, that is, service quality must affect the dependent variable customer loyalty.

Second, the independent variable service quality must be related to CRM (i.e., the mediator)

Third, the mediator CRM must significantly affect customer loyalty - the dependent variable.

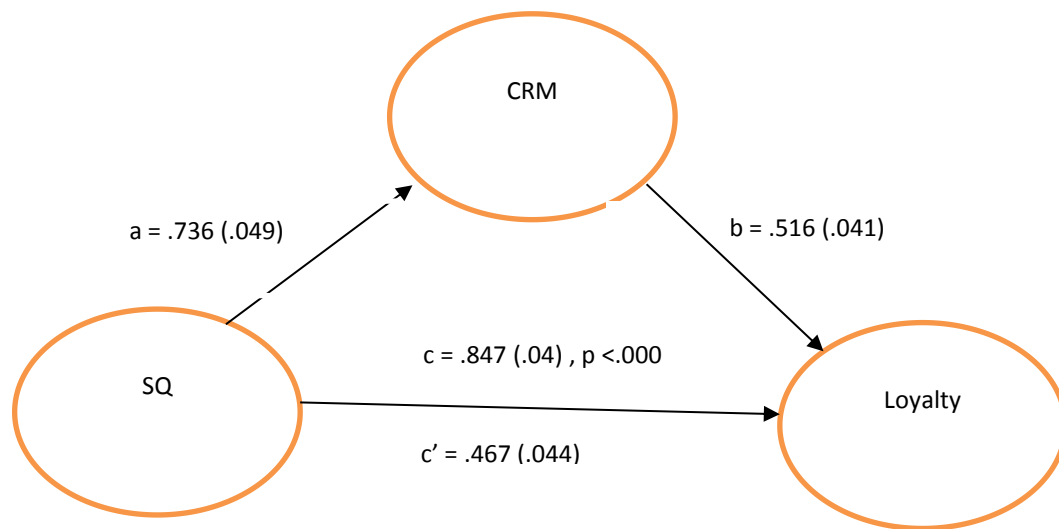
Finally, when both the mediator and the independent variable are entered into the model, the effect of Service Quality on CL must be no longer significant (in the case of full mediation) OR its beta value reduced (partial mediation). The last two steps were performed simultaneously.

As can be seen in the previous tests of the hypotheses all conditions for mediation were fulfilled.

That is SQ has a significant effect on CL (see table Table 4.6.5). SQ has a significant effect on CRM (see table 4.6.3). Third, when both mediator and SQ are entered in the model the beta value of SQ was reduced from .847 to .467 though the p value is significant this suggests partial mediation and offers support to H4.

To further test the mediation effect of CRM on the relationship between SQ and CL a Sobel test was also carried out. According to Preacher (2020), the Sobel test investigates if including a mediator (M) in the regression analysis significantly diminishes the effect of the independent variable (X) on the dependent variable (Y). The result of the Sobel's test statistic = 9.646, SE = .039, $P < .001$) suggests that customer relationship management mediates the influence of service quality on customer loyalty. This provides further support to hypothesis 4.

Figure 3: Summary of regression coefficients for mediation analysis.



Source: Own Compilation (2023)

4.7. Mediation Analysis

Structural model

In mediation analysis, our goal is to test if there is any statistical significance for the indirect effect and estimate the point effect using the Unstandardized Coefficient Beta and Standard Error for paths A and B.

The first portion of mediation analysis results includes an overview of the mediation analysis, including the variables of Service Quality, Customer Relationship Management, and Customer Loyalty, as well as the model utilized and the sample size.

H4: CRM partially mediates the relationship between SQ AND CL

According to the table (4.7), there is a significant indirect effect of Service Quality on Customer Loyalty through CRM ($t = 10.2905$, $p < .000$). The total direct effect of Service Quality on Customer Loyalty with the inclusion of the mediator was still significant ($t = 20.9502$, $p < .000$). This result suggests that CRM partially mediates the relationship between SQ and CL supporting H4. The direct, indirect, and total effects between the predictor variable SQ (P-value = 0.000) and the outcome variable CL are significant (P-value 0.05). The route analysis below displays the path coefficient, standard error, t-value, p-value & whether the effect is significant or not.

Table 4.7.: Path Analysis and the Justification of Research Hypotheses

Direct effect of SQ on CL						
Effect	Se	T	P	Significance	LLCI	ULCI
0.4674	0.0438	10.6597	.000 0	S	.3810	.5537
Indirect effect(s) of SQ on CL through CRM						
Effect	Se	T	P	Significance		
0.3801	0.0414	10.2905	.000 0	S	.2983	.4596
Total effect of SQ on CL						
Effect	Se	T	P	Significance		
0.8475	0.0405	20.9502	.000 0	S	.7678	.9272

Source: Own Compilation (2023)

According to the table (4.7), SQ has a significant positive direct influence on CL by 0.4674, which implies that increasing SQ by one unit increases customer loyalty by 46.7% of a unit, indicating that H3 is supported. SQ has a significant effect on CL via CRM by 0.3801, which implies that increasing SQ by one unit increases customer loyalty via CRM by 33.8%, implying that H4 is supported.

4.7.1 Regression Weights

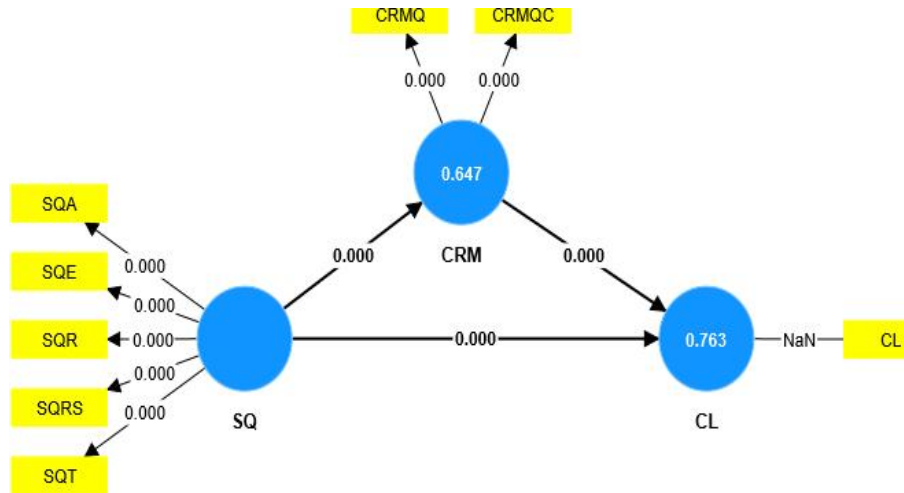
Table 4.7.1: Regression Weights

			Estimate	S.E.	C.R.	P	Label
CRM	<---	SQ	.736	.049	15.134	***	
CL	<---	SQ	.467	.044	10.702	***	
CL	<---	CRM	.516	.041	12.614	***	

Source: Own Compilation (2023)

The hypothesis testing results in Table 4.8 and Figure 5 demonstrated that the Service Quality construct had a substantial direct positive effect on the customer loyalty process since ($es = 0.47$, $P < 0.001$, 95% confidence interval for), confirming the third hypothesis. Furthermore, the CRM construct has had a significant direct beneficial effect on customer loyalty since ($es = 0.52$, $P < 0.001$, 95% confidence range), confirming the second hypothesis. Furthermore, the concept of service quality has had a substantial direct beneficial effect on customer relationship management since ($es = 0.74$, $P < 0.01$, 95% confidence interval), confirming the first hypothesis.

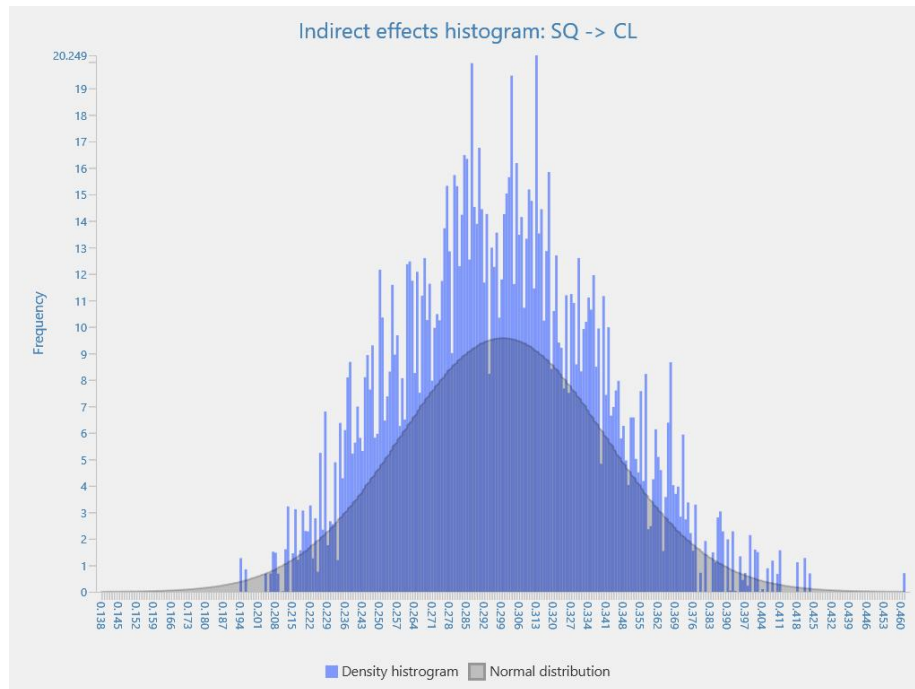
Figure 4: Mediation Significance Results



Source: Own Compilation (2023)

Figure 4 shows that all the variables are significant with $P < 0.001$, 95% confidence interval. It is clearly shown that service quality and customer relation management significantly affects customer loyalty. The $R^2=0.763$; taken as a set, the predictors or the independent variables and the mediator account for 76.3% of the variance in customer loyalty.

Chart 1: Indirect effect of SQ on CL



Source: Own Source (2023)

Chart 1 shows the indirect effect of service quality on customer loyalty. It shows that Service Quality indirectly affects customer loyalty through customer relation management.

4.7.2 Effect Size (F2)

The f^2 effect size quantifies how big of an influence the endogenous construct will have if an exogenous construct is removed from the model. According to (Hair et al., 2017), a construct has a minor effect if its f^2 value is between 0.02 and 0.14, a medium effect if its f^2 value is between 0.15 and 0.34, and a large effect if its f^2 value is 0.35. A construct with a f^2 of 0.02 indicates that it has no influence on the endogenous construct.

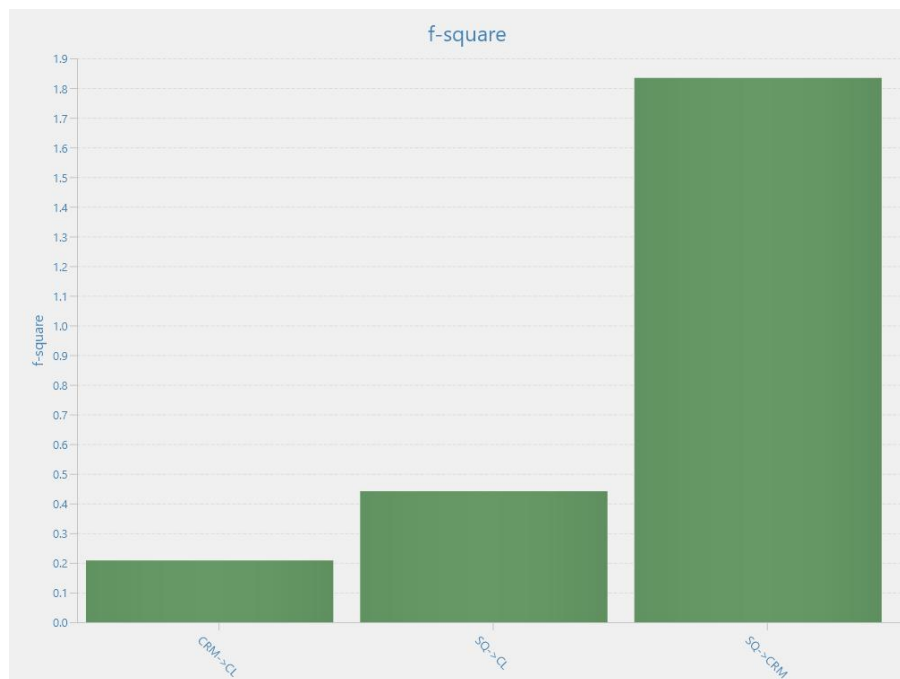
Table 4.7.2: f^2 Effect Size

Relationship	f-Square	Remark
SQ->CRM	1.834	Acceptable
SQ->CL	0.442	Acceptable
CRM->CL	0.208	Acceptable

Source: Own Compilation (2023)

Table 4.7.2 and figure 5 presents the f^2 effect size of the constructs. The results illustrate that Service Quality with $f^2 = 0.442$ has a large effect on customer loyalty and Customer Relation Management with $f^2 = 0.208$ has a large effect on customer loyalty.

Figure 5: Effect Size



Source: Own Compilation (2023)

Indirect Effects

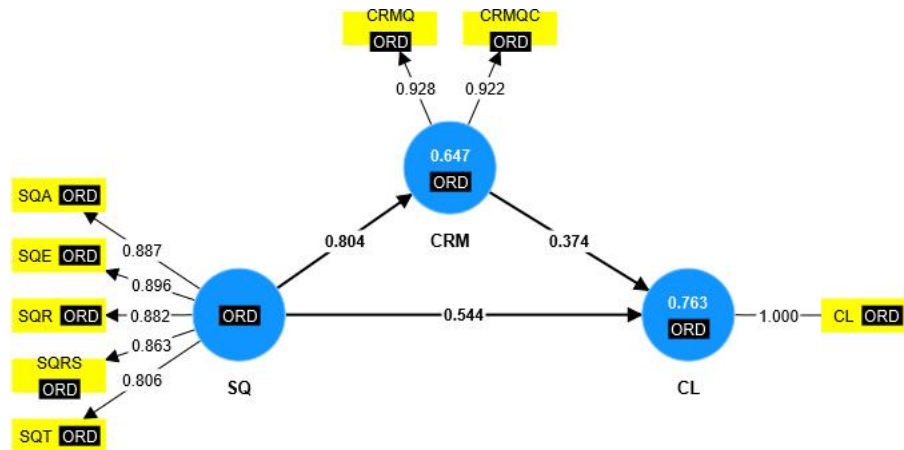
Table 4.7.3: Indirect effects

	Specific indirect effects
SQ -> CRM -> CL	0.301

Source: Own Compilation (2023)

Table 4.7.3 shows the positive indirect effect of service quality on customer loyalty.

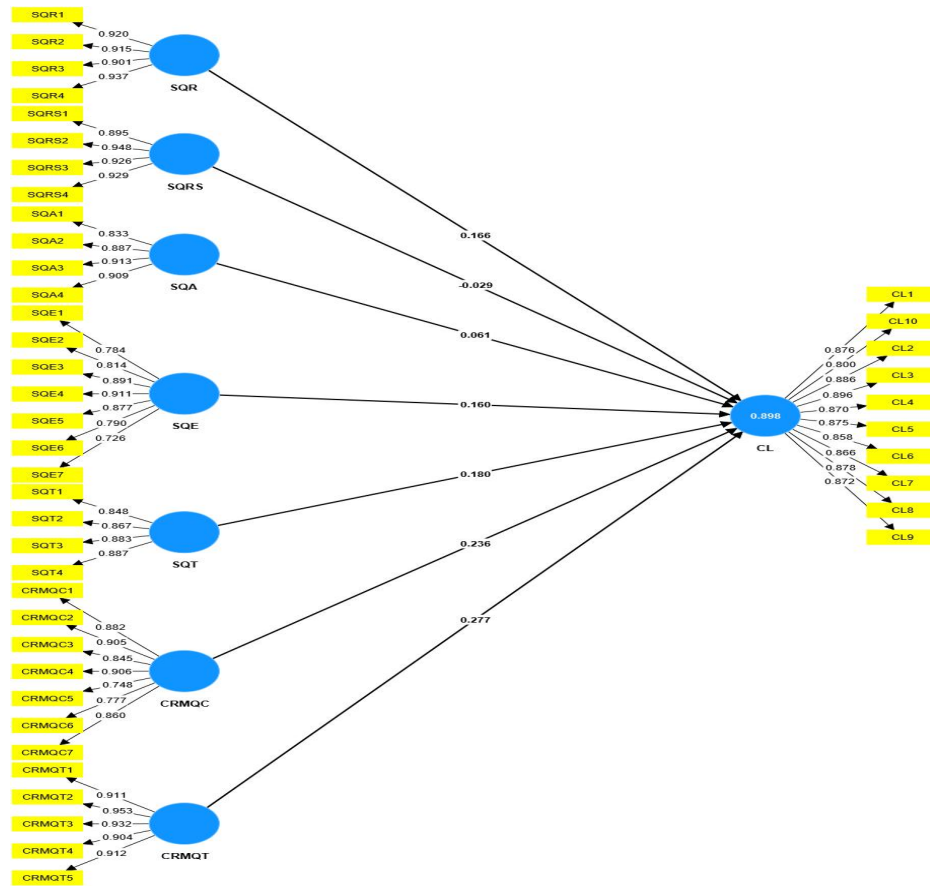
Figure 6: Structural Equation Modeling



Source: Own Compilation (2023)

Table 4.7.3 and figure 6 shows that service quality has an indirect positive effect ($\beta = 0.380$, $P < 0.001$, 95% confidence interval) on customer loyalty and it is supported by point effect in figure 3 with $\beta = 0.7977$, $P < 0.001$, 95% confidence interval.

Figure 7: Structural Model Equation (Path coefficient)



Source: Own Compilation (2023)

The results in Figure 7 showed that Customer Relation Management Quality Trust construct yielded a significant direct positive effect on Customer Loyalty ($\beta = 0.277$, $P < 0.001$, 95% CI), followed by Customer Relation Management Commitment construct with a significant direct positive effect on Customer Loyalty ($\beta = 0.236$, $P < 0.001$, 95% CI). Moreover, Service Quality Tangible, Service Quality Responsiveness and Service Quality Empathy constructs yielded a significant direct positive effect on Customer Loyalty.

4. 8 Summary of Hypothesis Test

<i>Type</i>	<i>Hypothesis</i>	<i>Results</i>	<i>Reasons</i>
H1:	<i>There is a positive significant direct effect of Service quality on CRM.</i>	<i>Supported</i>	<i>B=0.74 p<0.05, P-Value =0.0000</i>
H2:	<i>CRM is positively related to customer loyalty.</i>	<i>Supported</i>	<i>B=0.52 p<0.05, P-Value =0.000</i>
H3:	<i>Service quality is positively related to customer loyalty.</i>	<i>Supported</i>	<i>B=0.467, p<0.05, P-Value =0.000</i>
H4:	<i>Customer relation management partially and positively mediates service quality and customer loyalty.</i>	<i>Supported</i>	<i>B=0.38 p<0.05, P-Value =0.000</i>

4.9. Discussion

The data indicate that SQ has a direct and positive effect on CRM. Service quality has a direct and significant impact on client loyalty. Customer loyalty, which is the primary purpose of commercial organizations, is built on excellence in service quality (Ehigie, 2006). According to the findings, service quality and customer service management have a considerable positive direct impact on customer loyalty.

The most crucial parameter in this situation is the p-value, which is less than 0.05, thus we can conclude that the indirect effect of service quality on customer loyalty via customer relationship management is statistically significant (p-value 0.05). Customer loyalty and service quality inside hotels, according to Madhovi and Dhliwayo (2017), have recognized that a higher level of CRM leads to higher customer loyalty. The sobel test is also calculated to estimate the indirect effect of customer loyalty on customer loyalty via customer relationship management. This test also demonstrated that customer relationship management serves as a bridge between service quality and client loyalty. The service quality impact demonstrates that the influence of service quality on customer loyalty is mediated in part by customer relation management.

CHAPTER FIVE

CHAPTER FIVE

5. Conclusion, Recommendation and Future Direction

5.1. Conclusion

The goal of this section is to discuss the findings in the context of the current study. This study experimentally analyzes the mediating influence of customer relationship management on customer loyalty. It investigates the direct impact of service quality as well as the indirect impact of service quality via customer relationship management on customer loyalty at the Capital Hotel and Spa in Addis Ababa, Ethiopia. 270 questionnaires were sent, and 253 valid samples were obtained, yielding a 94% response rate from those who volunteered to participate.

Using the available literature on the given constructs, a list of four hypotheses were generated in order to obtain answers to study questions. All of the hypotheses developed and incorporated into the framework were derived from prior literature and established inferences for future research. SPSS, SmartPLS4, and were used to analyze the data and evaluate the hypotheses. The findings on the context of capital hotel and spa customer's indicated that Service Quality has a significant and positive impact on both customer loyalty and customer relationship management. Because the independent predictor factors were found to have a substantial effect on the dependent variable, all hypotheses proposed in this study were supported.

Finally, the researcher was able to validate the four hypotheses at the hotel; the findings show for the customer's of capital hotel and spa service quality has a bigger impact on customer loyalty to the hotel. It also implies that customer relationship management both fully and partially mediates customer loyalty.

It can be concluded for the customers of capital hotel and spa, service quality had everything to do with the being loyal to the brand consequently improving their relationship to the hotel resulting in their repeated business with the hotel all to the while customer relation management mediating customer loyalty.

5.2. Recommendation

On the basis of the above conclusion, the report presents several critical recommendations to hotel management. For starters, the study discovered that service quality influences both customer relationship management and customer loyalty. This finding is significant because, according to the study's participants, successful execution of the marketing discipline's cornerstone is feasible through service quality. The management of the capital hotel and spa ought to focus on the quality of service delivered to the clients as findings imply Customer loyalty and customer relationships are attained through quality of service. as a service providing entity surviving in a competitive market several things can be performed to enhance service quality such as, being a reliable property by being dependable, prone to new technology that promotes superiority from competitors, constantly renovating making the hotel desirable even with new entrants are joining the market, provide tailor made service where customers get a personalized service specific to their need. This will ultimately make the hotel the go to brand among competitors, accomplishing the loyalty of customers there by profiting from the business and thus withstanding the high competition. The regression equations that indicate that service quality influences customer loyalty strongly support this. As a result, hotel organizations would benefit from focusing on service quality and customer relationship management.

5.3. Future Research Directions

Future research could test the effect of customer satisfaction on customer loyalty and if it is mediated by customer relation management. In addition, future research could also examine if service quality has an effect on digital market orientation and if this effect is mediated by customer relation management in the hotel industry.

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Appendix II: Questionnaire

Addis Ababa University College of Commerce Marketing Management Post Graduate Program
in Master of Marketing Management

Questionnaire to be filled by Capital hotel and spa customers.

Dear Responder,

This questionnaire is designed to collect data about “**The mediating role of CRM on the relationship between service quality and customer loyalty; the case of Capital hotel and spa**”. The information provided through this questionnaire will be used as primary data in the case study I am to conduct, as a partial fulfillment of the requirements for the degree of Master of Marketing Management.

Confidentiality

This research is conducted only for the academic purpose authorized by Addis Ababa University School of Commerce. The collected data is not disposable for any entity. the unanimity of responders identity will remain at all times. kindly take a few minutes to complete the questionnaire.

Instructions

1. you do not need to right your name
2. For any information or questions please use the below address

Researcher: Meron Wondimu

phone: +251-925 229396

E-mail: merwond55@gmail.com

Thank you

PART I: personal Information

Note: Please mark “X” in the box to indicate your choice.

1. Gender Male Female
2. Age below 20 41-50 years old
 20-30 years old 51-60 years old
 31-40 Years old above 60 years old
3. Educational background (choose more than one if necessary).
 Below Diploma Master’s Degree
 Diploma PHD
 Degree

If you choose ‘**other**’ please write _____

Part II. Study Variables

Customer relationship management on service quality and customer loyalty

Please rate the extent to which you perceive the company’s practices by ticking “√” the appropriate number against each statement. There are no right or wrong answers.

Score Level - Strongly Agreed (SA)=5, Agreed (A)=4, Neither agreed or disagreed (N)=3, Disagreed (DA)=2, and Strongly disagreed (SDA)=1

Items	SD A	D A	N	A	SA
Service Quality-Reliability	1	2	3	4	5
The hotel performs the promised service dependably and accurately					
The services provided by the hotel are available when requested or needed					
The hotel delivers on its promise in problem resolutions					
The hotel delivers on its promise in service provisions					

Service Quality- Responsiveness					
The hotel is willing to help and provide prompt service					
The hotel deals with customers requests promptly and attentively					
The hotel is flexible in the ability to customize service to customer needs					
The hotel's responsiveness to customers needing assistance is prompt.					
Service Quality- Assurance/confidence					
The hotel inspires confidence and trust with in employees knowledge and courtesy					
I trust the employees of the hotel to make the necessary communication about the type of service I desire.					
I trust in the employees to deliver the type of service I requested					
The link between hotel personnel and customer is built on confidence					
Service quality-Empathy					
The hotel provides personalized attention to customers					
All requirements made to the hotel were met with its provided service					
Individual attention is given to customer by hotel service providers					
I trust the hotel cares about my individual requests and needs					
The hotel has customers' best interests at heart.					
Employees of the hotel understand the specific needs of customers.					
The hotel has operating hours that are convenient to all its customers.					
Service Quality-Tangible					

The hotel has a satisfying facility, personnel and communication materials					
I was satisfied with the equipment provided by the hotel					
the outlets of the hotel were up to my standard					
The physical layout of the hotel serves my expectation					
Customer Loyalty					
I will likely recommend the services of the hotel					
I will likely continue using the services of capital hotel and spa					
The product and services of the hotel is convenient to needs					
my Expectation in terms of product quality and feature were met					
I was satisfied with the service provided to me					
I have been assisted with questions and complaints					
I have received the value for the money paid					
My expectation was exceeded in the delivery of service					
I consider myself to be highly loyal to the hotel.					
This hotel is my first choice					
CRM quality–Trust:					
The hotel is trustworthy					
The hotel is always honest and truthful to its customers					
The hotel has high integrity					
I have great confidence in the hotel					

Overall, the hotel can be trusted completely.					
CRM quality–Commitment					
I'm very committed to the relationship with the hotel.					
My relationship with the hotel is very important to me.					
The hotel is committed to its relationships with customers.					
The dealership is willing to invest in maintaining relationships with its customers.					
The hotel always keep me in touch with their new updates through the use of technology					
The hotel uses technology system to track my opinion and feedback					
The hotel is willing to invest in maintaining a relationship with the customer and tailor their stay					