St. MARRY UNIVERSITY

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DEPARTMENT OF MARKETING MANAGEMENT

DETERMINANTS OF CUSTOMER RETENTION IN THE CASE OF CAPITAL HOTEL AND SPA, ADDIS ABABA

A THESIS SUBMITTED TO DEPARTMENT OF MARKETING MANAGEMENT FOR THE PARTIAL FULFILLMENT OF MASTERS OF MARKETING MANAGEMENT (MM)

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ID No: 0435/2015A

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December, 2024

Addis Ababa, ETHIOPIA

Declaration

I declare that this thesis entitled *"Determinants of Customer Retention in The Case Of Capital Hotel and Spa, Addis Ababa"* submitted in partial fulfillment of the requirements for the Degree of Master of Arts Degree in Marketing Management at St. Mary's University is my original work prepared under the guidance and support of the research supervisor. This study has not been previously submitted to any diploma or degree in any college or university. I would like also to confirm that all the sources of materials used in this study are duly acknowledged.

Tesfaye Jegnaw
Student's Name   Signature   Date

Endorsement

This is to certify that the thesis entitled: ***"Determinants of Customer Retention in The Case Of Capital Hotel and Spa, Addis Ababa"*** submitted in partial fulfillment of the requirements for the Degree of Master of Arts Degree in Marketing Management at the School of Graduate Studies, St. Mary's University and is carried out by Tesfaye Jegnaw under my supervision. The assistance and help received during the course of this investigation have been duly acknowledged. Therefore, I recommend it to be accepted as fulfilling the thesis requirements.

Ephrem Assefa (Ph.D)   December 26, 2024
Name of Advisor   Signature   Date

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List of acronyms

- ANOVA - Analysis of Variance
- AU - African Union
- B2B - Business-to-Business
- B2C - Business-to-Consumer
- CEO - Chief Executive Officer
- COMESA - Common Market for Eastern and Southern Africa
- CR - Customer Retention
- EB - E-Business
- HR - Human Resources
- SPSS - Statistical Package for the Social Sciences
- UNECA - United Nations Economic Commission for Africa
- WOM - Word-of-Mouth

Abstract

This study investigates the determinants of customer retention at Capital Hotel and Spa in Addis Ababa. It used a quantitative research approach and employing descriptive and explanatory research designs to capture customer behavior. Data is collected through structured survey questionnaires distributed to a sample of 384 customers who have utilized accommodation and spa services at the hotel. Key variables examined include customer trust in hotel services, service competency, overall customer satisfaction, hotel reputation, and perceived risk associated with the services provided. The survey includes closed-ended questions designed on a five-point Likert scale. Descriptive statistics summarize the data, showing trends and central tendencies among customers' perception. Multiple linear regression analysis was used to examine the determinants of customer retention, evaluating the effect of each variable while controlling for others. The analysis indicates that several predictor variables significantly affect customer retention at Capital Hotel and Spa. Trust has a significant positive effect on customer retention (β = 0.246, p < 0.001), suggesting that higher levels of trust correlate with increased customer loyalty. Competency also shows a significant positive effect on customer retention (β = 0.115, p < 0.001), indicating that perceived staff competency enhances customer loyalty. Satisfaction emerges as the most influential factor, with a strong positive effect on customer retention (β = 0.480, p < 0.001), emphasizing that greater customer satisfaction closely links to higher retention rates. Reputation further contributes positively to retention (β = 0.148, p < 0.001), highlighting that a favorable reputation encourages customers to return. Conversely, risk demonstrates a significant negative effect on customer retention (β = -0.171, p < 0.001), indicating that increased perceived risk associates with decreased customer loyalty. These findings emphasize the importance of promoting trust, competency, satisfaction, and reputation while addressing perceived risks to enhance customer retention. Addressing the identified determinants can improve customer satisfaction and loyalty, ultimately contributing to long-term success in the hospitality sector.

Keywords: *customer retention, Capital Hotel and Spa, customer trust, service competency, customer satisfaction, hotel reputation, perceived risk.*

CHAPTER ONE

1 INTRODUCTION

1.1 Background of the Study

Customer retention is the stage in which a customer is made to be loyal to a company and company provide quality service for uncertain time, rather than other relative competitors. As a result, its impact on financial profitability is highly significant (Mathapati, 2009). Studies have shown that a 5% increase in customer retention can generate a profit growth of 25–95% across a range of industries (Reichheld & Sasser, 1990). In a battle to acquire and retain a customer, customer satisfaction is the key factor. Research asserts that customers' previous favorable experience at a destination is a decisive factor for repeated patronage (Alegre & Cladera, 2006). Companies who better and faster understand the value of retention and work toward that goal make greater profit than those who do not because attracting new customers are more expensive than retaining the existing one (Dominici & Rosa, 2010). Customers are willing to make repeated purchase as long as they receive quality services that their money's worth. These circumstances are the source of competition among hotels, as a result they become motivated to make extra effort to attract and retain customers (Tsedenya, 2014).

Customer retention is an imperative for competitiveness within organizations, with important reflexes in their profitability and income (Dal Bó, Milan, & De Toni, 2017). While some organizations are content with focusing on simply achieving customer satisfaction, gaining and sustaining customer retention constitutes the ultimate aspiration of many contemporary service providers. Loyal customers buy more, are willing to spend more, are easier to reach, and act as enthusiastic advocates for our firms. Predictably, for these and other reasons, 'ultimate' retention has been described as an elusive (and arguably unattainable) corporate objective of the new millennium. Given the widespread acceptance of the causal link between retention and firm performance, it is perhaps not surprising to find that customer retention for brick-and-mortar firms has been linked to antecedent factors ranging from relationship duration, to service reliability, to service scape attributes (Harris & Goode, 2004).

Organizations must fulfill their promises to customers as this will leads to customer satisfaction, customer retention and long-term profitability for the organization. Just as a customer acquisition

strategy aims to increase the customer base, the focus of customer retention is to keep a high proportion of current customers by reducing customer defections (Lombard, 2011). Ahmed & Buttle (2001 as cited in Ali et.al, 2013) state that customer retention is inversely related to customer defection, where a higher retention rate has the same significance as the low defection rate. Therefore, customer retention is a significant concept in hospitality industry particularly in hotel sector that can define its existence (Schulz & Omweri, 2012). Relationship quality is a higher construct comprising trust, commitment, satisfaction and service quality. It is believed that these dimensions of relationship quality can reasonably explain the influence of overall relationship quality on customer retention (Rauyruen & Miller, 2007).

Ethiopia is one of the most desired tourist destinations due to its distinct historical, cultural as well as religious nature (Alelign, 2013). Moreover, the country is the seat of many international organizations such as AU, UNECA and others making the capital, Addis Ababa, the third largest host of diplomatic community in the world (COMESA, 2017). These two facts contribute to the growing demand of accommodation particularly the hotel sector at different levels (Gobena & Gudeta, 2013).

1.2 Statement of the problem

Customer retention (CR) is a critical area of study in the field of relationship marketing that is mainly concerned with keeping customers in the long term (Grönroos, 1997). It is believed that customers are considered as a real asset to firms, the majority of which are facing considerable consumer-base losses (Swanson and Hsu, 2009). CR is essential for all firms in the service sector, especially in the present consumer market, and it will receive a great deal of attention over the next few years (Alshurideh, 2010).

Kotler et al., (2005) noted that, in the past when customers did not have any alternative or better supplier companies were operating on a "leaky bucket" theory of business which is, for a customer a company lost, there will be ten folds of new customers to replace them. Hence, the companies did not worry about fully satisfying their customers. However, although finding new customers remains very important customer retention is a key factor in determining the success of businesses today because there are many competitors and they are always on the lookout to steal customers through better deals (Fluss, 2010).

Companies have now discovered that losing a customer means losing not a single sale, but also a lifetime's worth of purchases and referrals (Kotler et al.2005) that it increases a company's profitability through repeat purchase, reduced cost of attracting new customers as well as credible word of mouth (ibid). Even if the company were to be sold, the acquiring company would have to pay not only for the plant and equipment and the brand name, but also for the delivered customer base, the number and value of the customers who would do business with the new firm (Kotler & Keller, 2005). Thus, working to retain customers makes good economic sense

It is generally thought that customer retention invariably starts with the attraction of the customers to do business with which requires a lot of time, effort, and money. Once it is accomplished it is easier to retain them by making sure that they are satisfied through superior products and services. This is essential because the benefits of keeping customers happy and satisfied overshadow that of having a new customer, product or services (Erinle & Bharathi, 2012). According to (Iruka & Ateke, 2014) Strengthen this, noting though winning new customers is a healthy and profitable business phenomenon, maintaining and retaining existing customers is much healthier and more profitable for the business enterprise. Earlier studies by (Reichheld, 1996; and Reichheld & Sasser, 1990) have shown that a 5% increase in customer retention can generate a profit growth of 25–95%.

Many studies were handled to provide valuable insights into customer retention issues and factors that could influence it. Customer retention, in most cases, is regarded as an indicator of acquisition performance, but factors influencing it have rarely been studied in the hotel industry. According to the work of (Alkitbi and Salloum, 2020) the most common factors that affect customer retention are service quality, satisfaction, trust, and commitment. Moreover, most of the customer retention studies were focused on the banking sector (Abera, 2016; Makonnen, 2016; Rao and Abegaz, 2017; Yilma, 2019), followed by the studies that concerned about retail industry issues (Beyene, 2021; Dagne, 2014; Doni 2021).

Previous studies show a significant link between trust and customer retention (Gounaris, 2005; Mahmoud et al., 2018). Most studies conclude that retention is a consequence of trust and that there is a direct positive relationship between both variables (Rauyruen & Miller, 2007). However other researchers have shown that even though customer satisfaction was assumed to ensure customer retention, many companies have started to notice a high customer defection

despite high satisfaction ratings (Oliver, 1999). The reason behind this is that there is lack of conformity between customers' and managers evaluation of satisfaction (Carol et.al, 2015).

Little research has been done in developing country contexts like Ethiopia, a country, where there are tremendous tourist destinations and tourism and hotel industry is getting huge attention in a recent time. These days, maintaining customer satisfaction and sustaining customers is the most challenging part in a volatile and highly competitive hotel industry. Due to this reason we need to have empirical works thoroughly investigating the determinants of customer retention. In Ethiopia there are hotels with different ratings. This research, however, aimed to study the determinants of customer retention in five-star hotels in Addis Ababa.

1.3 Research Question

1. What is the current level of customer retention at Capital Hotel and Spa?
2. How does customer trust in hotel services affect customer retention?
3. What is the relationship between the competency of hotel services and customer retention?
4. How does customer satisfaction influence customer retention at Capital Hotel and Spa?
5. What role does the reputation of Capital Hotel and Spa play in customer retention?
6. How does perceived risk effect customer retention in the context of Capital Hotel and Spa?

1.4 Objective of the study

1.4.1 General Objective
The general objective of this study was to investigate the determinants of customer retention in the case of Capital hotel and Spa, Addis Ababa

1.4.2 Specific objective
1. To assess the level of customer retention at Capital Hotel and Spa.
2. To analyze the effect of customer trust in hotel services on customer retention at Capital Hotel and Spa
3. To determine the influence of service competency on customer retention at Capital Hotel and Spa
4. To investigate the effect of customer satisfaction on customer retention at Capital Hotel and Spa
5. To test the effect of hotel reputation on customer retention at Capital Hotel and Spa
6. To examine the influence of perceived risk on customer retention at Capital Hotel and Spa

1.6 Significance of the study

This study will make an important contribution to the existing body of knowledge in the area of customer retention and can be used as a reference for those who want to conduct further study in the area especially in the hotel and tourism industry in Ethiopia. Additionally, it will give some highlights about the most prominent dimensions that affect customer retention. The knowledge about these factors helps how companies in the hotel and tourism industry to effectively build competitiveness in winning the heart and minds of a large numbers of customers. The outcome of this study will benefit hotels which strive for excellence and customer acceptance.

1.7 Scope of the study

The conceptual scope of this study focuses on the determinants of customer retention within the hospitality industry, specifically examining factors such as customer trust, service competency, customer satisfaction, hotel reputation, and perceived risk. The aim is to understand how these determinants influence customer retention at Capital Hotel and Spa. Geographically, the study is delimited to Addis Ababa, Ethiopia, targeting customers of Capital Hotel and Spa to allow for a detailed exploration of customer retention dynamics within this specific locale. Methodologically, the research adopts a quantitative approach utilizing descriptive and explanatory research designs. Data were collected through self-administered closed-ended questionnaires distributed to customers, complemented by secondary data from relevant literature and organizational records. The unit of analysis for this study was individual customers of Capital Hotel and Spa who are over the age of 18, allowing for an in-depth analysis of the factors affecting their retention.

1.8 Definition of Key terms

- **Customer relationship management:** A strategic approach that enables organizations to use internal resources (i.e. Technology, people, and process) to manage the relationship with customers for the whole of their life's cycles, in order to create a competitive advantage and improve an organization's performance (Mohammed & Rashid, 2012).
- **Customer retention:** is the way in which organizations focus their efforts on existing customers in an effort to continue doing business with them (Mostert et al., 2009)
- **Hospitality:** is the act of kindness in welcoming and looking after the basic needs of guests or strangers, mainly in relation to food, drink and accommodation (Chan and Mackenzie, 2013).

- **Service Quality:** is about delivering service excellence that adds customer value which at least meets or exceeds customers' expectation (Brotherton and Wood 2008).

- **Hotel**: A commercial establishment that provides lodging, meals, and other guest services, typically offering various amenities such as room service, housekeeping, and recreational facilities (Sainaghi, 2010).

- **Honesty of Hotel Service**: The degree to which the hotel provides truthful and transparent information regarding its services, pricing, and policies, assessed through customer surveys that measure perceived honesty and trustworthiness (Maitra & Bansal, 2022).

- **Competency of Hotel Service**: The skill level and efficiency of the hotel staff in delivering services, evaluated through customer satisfaction surveys and performance metrics such as response times, service quality ratings, and staff training records (Jeou-Shyan et al., 2011).

- **Customer Satisfaction**: The overall contentment of customers with their experience at the hotel, measured using a standardized satisfaction survey that includes ratings on various aspects of their stay (e.g., cleanliness, amenities, staff friendliness) (Kandampully & Suhartanto, 2000).

- **Reputation:** The perception of the hotel within the community and among past guests, assessed through online reviews, social media sentiment analysis, and reputation scores from travel websites (Lai, 2019).

- **Perceived Risk:** The level of uncertainty customers feel regarding the potential negative outcomes of choosing Capital Hotel and Spa, measured through survey questions that evaluate concerns about safety, service quality, and value for money (Sun, 2014).

1.8 Organizational study

This study is composed of five chapters. The first chapter deals about introduction containing sub topics like background, statement of the problem, objective, scope, hypothesis, and significance. The second chapter contained the review of related literature containing conceptual, theoretical and empirical literature, and research hypotheses. The third chapter discusses about the methodology; research approach, research design, population, sampling design, data sources, data gathering tools, and method of data analysis are part of this chapter. The fourth chapter

presents the data analysis and discussion. The fifth chapter presents the summary, conclusion, and recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter covers characteristics of the service industry the theoretical models as well as frameworks and empirical evidences that are related to the determinants of customer retention in the hotel sector particularly in five-star hotels. The facts and evidences that are incorporated in this section are gathered from books and previous research findings whose themes are related to hotel service and their practices on retaining their existing customers.

2.2. Conceptual review

2.2.1 An overview of the hotel (hospitality) sector

The hospitality sector is a dynamic and service-oriented industry that encompasses a wide range of services aimed at providing comfort and enjoyment to guests. This includes various segments such as hotels, restaurants, travel, and event planning.

One of the primary characteristics of the hospitality sector is its focus on customer service. Unlike product-based industries, hospitality relies heavily on the quality of service provided to customers. The intangible nature of services in hospitality makes customer satisfaction pivotal, as highlighted by Kotler et al. (2017). Another key feature is inseparability, where services are produced and consumed simultaneously. This means that the guest experience is created during their stay, making interactions between staff and guests vital for satisfaction. Additionally, the perishability of hospitality services means that unsold room nights or empty restaurant tables cannot be stored for future use, necessitating effective demand management strategies (Kwortnik & Thompson, 2009).

Variability is also a significant characteristic of the hospitality sector; the quality of service can vary based on factors such as staff performance, customer mood, and environmental conditions. This variability underscores the need for consistent training and quality control to ensure a reliable customer experience (Ladhari, 2009). The hospitality sector plays a crucial role in the global economy, significantly contributing to employment and tourism. According to the World Travel & Tourism Council (WTTC, 2020), the hospitality and tourism industry accounted for approximately 10.4% of global GDP, highlighting its importance.

2.2.2 The Concept of Customer Retention

Ramakrishnan, (2006) defines customer retention as the marketing goal of preventing customers from going to the competitor. Customer retention is the way in which organizations focus their efforts on existing customers in an effort to continue doing business with them (Mostert et al., 2009:120). Hoyer & MacInnis, (2008) strengthen this point stating, customer retention is the most important goal of any marketer in a contemporary business world which requires a continually paying attention to customer intention for the purpose of building customer commitment and retention.

Customer retention is a process that fosters loyalty among customers toward a specific company, encouraging them to repurchase products from that company (Naumann, 1994). Companies primarily benefit from retention through increased profits, reduced costs, and long-term advantages. Retention can significantly boost profits, with estimates suggesting an increase of 5% to 85% (Zeithaml, 1996).

The relationship between customer retention and satisfaction is nonlinear; when customers are satisfied, it often leads to retention, while dissatisfaction can have a substantial negative impact on retention. Retaining customers has a financial impact on companies, based on the premise that acquiring new customers is more expensive than keeping existing ones. New customer acquisition involves various costs, including advertising, operational expenses, and promotions (Reichheld & Sasser, 1990).

Generally, discussion has shifted its focus from pre-sale activity to post-sale activity. Today, more and more companies recognize the importance of retaining current customers by forming relationships with them. This is because in today's marketing environment, due to changing demographics, economic and competitive factors, there are fewer new customers to go around (Kotler et al., 2005). Even if there are few, finding new customers and doing business needs time, effort and money Satisfaction with snowbird experience, destination image and permanent relocation relationship Oliver (1980) defined satisfaction as an evaluative judgment, which is an aftermath of comparing the expectation and perceived performance (Oliver, 1980). In accordance with Oliver's (1980) definition, Chen and Tsai (2007) defined tourist satisfaction as the level of pleasure experienced by the visitor, derived from the extent to which the trip fulfills the visitor's desires, expectations, and needs. When tourists visit a destination, they experience the

destination, judging it based on their perceptions and expectations, which leads to evaluative judgment such as satisfaction or dissatisfaction with the destination (Oh et al., 2007).

2.3 Service Quality and Customer Retention

Akbaba (2006) noted that research in services started to grow in the late 1970s in several parts of the world. Over the past decades, the service sector has become the dominant element of the economy, and the studies revealed that service quality is a prerequisite for success and survival in today's competitive environment; thereby the interest in service quality has increased noticeably (Ghobadian et al., 1994). This is because its positive impact on customer retention and attraction of new customers, positive word-of-mouth, employee satisfaction and commitment, enhanced corporate image, reduced costs, and increased business performance (Berry et al., 1989).

Marketing scholars such as Taylor and Baker, (1994); Zeithaml et al., (2000); Bansal and Taylor, (1999) have also asserted that if practitioners can take actions that result in improved service quality evaluations, they will be rewarded with enhanced customer retention. The rationale for this is that customers are unlikely to return to a service provider that delivers a level of perceived service quality that falls short of the customers' expectations (Zeithaml et al., 2000). Service quality cannot be objectively measured as can manufactured goods and therefore it remains a relatively elusive and abstract construct (Zeithaml et al., 2000). This according to Frochot and Hughes, (2000) is because of their intrinsic nature of heterogeneity, inseparability of production and consumption, perishability and intangibility which happens to also be true in the hospitality service.

Fick and Ritchie, (1991) noted that it is important to be able to define the service quality, identify the dimensions of the service quality as well as their relative importance for customers because competition is increasing and improving the quality of services offered is becoming more vital for the hotel industry, Having knowledge about these areas could help hoteliers in the challenge `of what types of hotel services need improvement in the hotel industry as a whole (Asubonteng et al., 1996) and in their respective hotel

2.4 Retention program and Incentive

True customer retention can be defined as customers' resistance to competitors' offerings (Gundlach et al., 1995) and the persuasive tactics to attract new customers (Dick and Basu, 1994).

Retention to the brand or supplier regardless of whether the type or base, implies undoubtedly one of the strategic assets of the company. If customer retention program used properly, it can be a potential source of additional value for the company, and consequently an essential element competitive advantage. Customers who longer remain with the company are showing higher profits Kotler (1999).

2.4.1 Retention Reward Program

Customers want some benefits for continuing to do business with the same company, especially when they have their choices. Therefore, offering bonuses, discounts and other forms of special attention can not only retain them from going away, but may also be the reason for positive Word-of-mouth (Houlihan and Harvey, 2012). Recently, reward programs became more common instruments for managers to gain customer retention. Additionally, when firms want to maximize customer retention, they may try to use a marketing instrument like a reward program. The aim of a retention reward program is to reward clients for continual purchases so the firms can build customer retention (Yi and Jeon, 2003). Retention reward programs have been defined as the efforts of suppliers to provide the customers with a reward to increase retention incentives (Sharp and Sharp, 1997)

2.4.2 Benefits of Customer Retention

Having a loyal customer gives the company a lot of benefits, which could include, among others D. Aaker (1991). Possibility of reducing of marketing costs - costs of maintaining the satisfaction of existing - loyal customers are less than the cost to acquire new ones. Potential consumer needs motivation to change their existing brand, even if the notes alternative of purchase.

The manufacturer must provide him compelling reasons to buy and use a different brand. It is estimated that the cost of maintaining an existing customer is six times lower than the cost of finding a new one J. Griffin. Increasing the efficiency of commercial activities, for example, by maintaining a high level of sales, the possibility of achieving higher prices, to gain a strong bargaining position against the brokers, or better places in the shop (this benefit is particularly important when introducing new forms / varieties of the product). Attracting new customers - satisfied customers and committed to the brand is a guarantee for a new customer, especially when he considered the purchase involves some risk; make recommendations, they influence the buying decisions. Retention can be equated with the mother of all profitability engines. If loyal customers are happy customers, then it is likely they are unpaid ambassadors for a company,

spreading the word on how wonderful it is to do business with the company. That saves the company real money in reduced customer acquisition costs. Increasing awareness of the brand - by the fact that existing customers have and use of the brand, they increase its brand awareness. Consumers tend to select brands they perceive to be quality brands. This also connects to repeat buying or brand retention. Consumers tend to continue buying brands that reward them with a good experience versus repeating the evaluation process time after time. The creation of significant barriers to entry for competitors - loyal customers are not price sensitive and easier to accept price increases for their preferred brand, they also give the time to react by the company for share rivals, do not resign immediately from the brand but give it time to make improvements, even those that have already applied the competitor.

2.4.3 Retention and Incentive

Loyal customer means has get Satisfaction and Quality service from hotel as they prefer, this one of from different marketing strategies company provide different price and also by negotiation according to customer waiting maybe provide Package, Low price, Coin Card, Using a different incentive for customer , it could be free breakfast and lunch without drink, free Summing , free GYM, free Souna bath , provide Happy hours , provide free birthday ceremony or half price and free Barbecue. provide free or low-price shuttle without taking in and drop off airport   All this factors of waiting and repeating loyal customer.

Capital Hotel and Spa is specialized in the Conference Resort. Thus, the hotel has elegant conference rooms; luxury accommodations; premium dining rooms; dedicated sport Bar; fine restaurants; authentic Ethiopian Cultural Restaurant alongside cultural music and dance performance; deluxe Spa, Gym and swimming pool; and unique Hotel and Management College.

2.5 Theories of customer retention

In exploring the factors influencing customer retention, theories provide an important basis highlighting different aspects of customer behavior and decision-making processes, contributing to a comprehensive understanding of how customers interact with service providers.

Ranaweera & Prabhu, (2003) most of the researches conducted on the factors or determinants of customer retention are from the customers' point of view. This is primarily because several researchers perceive customer retention as the tendency of customers to stay with their services providers, and is therefore viewed as a behavioral factor. Therefore, the frameworks and models illustrating the determinants influencing customer retention from the customers' point of view

will be discussed as follows. According to Boohene et al. (2013), the two main theories Richards (1996) conversion model and Sharma and Patterson's (2000) relationship commitment model will be discussed.

2.5.1 Conversion Model
Richards (1996), provided a conversion model based on the fact that it is not enough to satisfy a customer, as satisfaction alone is not enough to predict customers' behavior. Payne (2006) as cited in Boohene et al. (2013), asserts that although customer satisfaction contributes to make customers committed, the building of committed customers involves more than merely satisfying them. Richards (1996) identified three factors as drivers of commitment. These are level of involvement, attraction of alternatives and the extent of ambivalence.
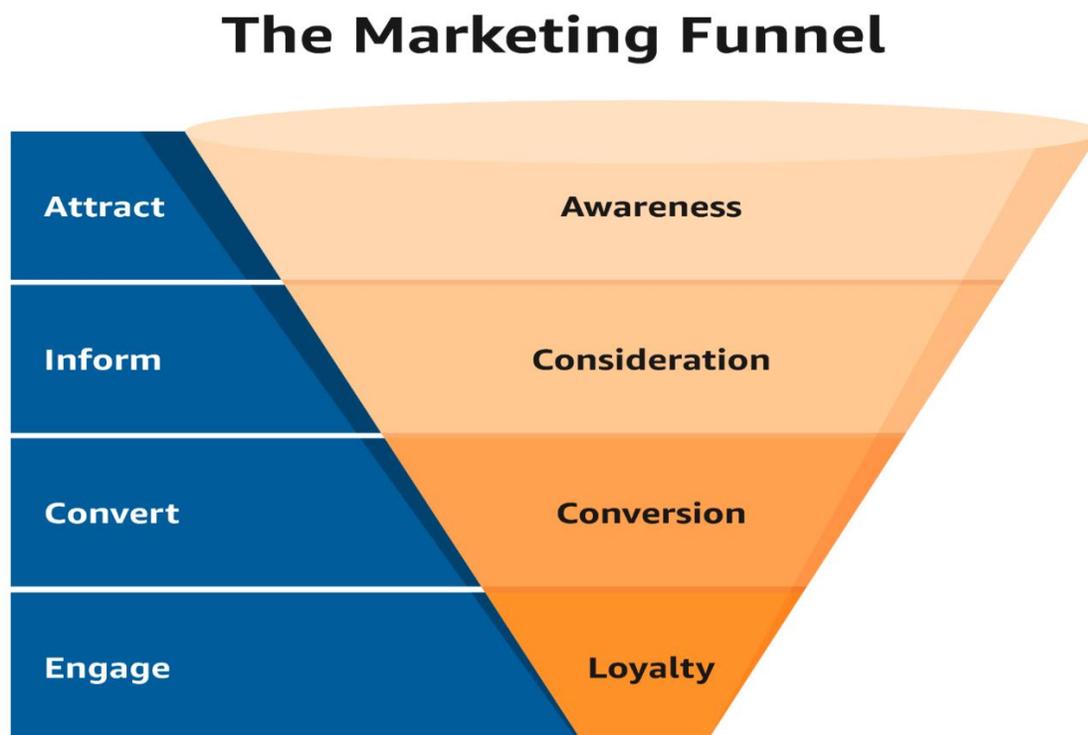

Figure 1: Market Funnel

Source: Adapted from Choe et al., (2017)

2.5.2 Level of Involvement
According to Richards (1996), customs should be involved making in making choice a given situation: the more people are involved in a given choice, the more carefully they will choose and once they have made their choices, they often stick to it. Hence, if a customer is satisfied and

involved, which is the best-case scenario, he/ she will be delighted and most likely be a loyal customer; if the customer is dissatisfied but involved, his/her primary strategy will be to try and repair the relationship rather than seeking other alternatives. On the other hand, if the customer is both dissatisfied and uninvolved, they would not even care about fixing the relationship but simply switch providers.

2.5.3 Attraction of Alternatives
One of the arguments of Richards (1996) is that the more the alternatives attract, the more dissatisfied customers will converse, meaning switch service provider. If the alternatives available are not considered as being good conversion may then be delayed in spite of dissatisfaction. Ibid as cited in Mascareigne (2009), on the other hand if alternatives attract, customers may converse even though they are highly satisfied.

2.5.4 The Extent of Ambivalence
This means uncertainty caused by the range of choices. According to Richards (1996), the advantages as well as the disadvantage of each alternative should be compared and reviewed. Being the state of ambivalence according to the author is when the customer is in a state in which they will wave whether to stay or leave.

2.5.5 Perceived Risk Theory
Perceived risk theory in consumer behavior refers to the idea that consumers make purchase decisions based on their perception of potential negative consequences or uncertainty associated with a product or service, essentially how much "risk" they believe is involved in buying something, which can significantly influence their buying behavior; this perception is often subjective and not necessarily based on objective facts (Mitchell, 1992). Perceived risk theory, introduced by Bauer (1967), explores how individuals assess and respond to uncertainty when making decisions, particularly in the context of consumer behavior. It emphasizes that perceived risk stems from the subjective judgment of potential negative outcomes associated with a decision, rather than the objective probability of those outcomes. This theory has since been expanded to encompass various domains, including marketing, healthcare, and organizational decision-making (Stone & Grønhaug, 1993).

Consumers perceive risk when they believe there is a chance of experiencing negative outcomes after purchasing a product, like financial loss, physical harm, social embarrassment, or functional problems. High perceived risk can lead consumers to gather more information, compare options

carefully, seek trusted recommendations, or even avoid making a purchase altogether (Mitchell, 1999).

According to Cunningham (1967), perceived risk comprises two primary dimensions: uncertainty (the probability of an unfavorable event occurring) and consequence (the severity of the potential loss). These dimensions interact to influence how individuals perceive and respond to risk. For example, a consumer purchasing a high-priced electronic device may weigh the likelihood of product failure (uncertainty) against the financial and functional impact of the failure (consequence). Additionally, Jacoby and Kaplan (1972) identified six specific types of risk that individuals consider in decision-making: financial risk (monetary loss), performance risk (product or service failure), social risk (damage to social status), psychological risk (emotional distress), time risk (wasting time), and physical risk (potential harm to the body). The salience of these risks varies depending on the context and individual preferences.

Perceived risk theory is a critical framework in understanding consumer behavior, particularly in contexts where uncertainty is inherent, such as the hospitality industry. This theory states that consumers evaluate potential risks associated with a purchase decision, which can significantly influence their attitudes and behaviors toward a service or product. The concept of perceived risk encompasses various dimensions, including financial, performance, physical, social, and psychological risks (Rundmo, 1999). Perceived risk theory is widely applied in consumer behavior research, particularly in understanding how it influences purchase decisions. Consumers tend to minimize perceived risk by seeking additional information, relying on trusted brands, or choosing products with warranties (Mitchell, 1999). For example, in online shopping, perceived risks such as financial fraud and privacy breaches often discourage consumers from completing transactions, prompting retailers to implement secure payment systems and transparent return policies (Kim et al., 2008).

2.5.5.1 Strategies for Managing Perceived Risk in Services
Perceived risk is particularly relevant in the service sector due to the intangible, heterogeneous, and perishable nature of services, which often heightens customer uncertainty. Unlike tangible goods, services cannot be physically evaluated before purchase, making trust and risk perception critical in shaping customer behavior (Zeithaml et al., 1985). Effective management of perceived risk is essential for building customer confidence and fostering long-term loyalty in service-based industries such as hospitality, healthcare, financial services, and e-commerce.

1. Building Trust through Brand Reputation

A strong and reputable brand reduces perceived risk by signaling reliability and quality. Service providers can invest in consistent branding and customer-centric practices to build trust. For instance, hotels with recognized brands such as Marriott or Hilton often instill confidence in travelers by offering standardized services worldwide (Kandampully & Suhartanto, 2000).

2. Enhancing Transparency

Clear communication about service processes, terms, and conditions helps to minimize uncertainty. In financial services, for example, detailed explanations of investment risks and benefits can reassure customers, encouraging informed decision-making. Transparent cancellation and refund policies are also crucial, especially in sectors like travel and event management (Pappas, 2016).

3. Leveraging Customer Reviews and Testimonials

Positive customer reviews and testimonials serve as social proof, mitigating perceived risks such as financial loss or poor performance. Platforms like TripAdvisor and Yelp exemplify how user-generated content helps potential customers evaluate service quality and reduce ambiguity (Ariff et al., 2014).

4. Service Guarantees and Refund Policies

Service guarantees act as a risk-reduction mechanism by assuring customers that service providers will rectify issues if expectations are not met. For example, many hotels and online marketplaces like Amazon offer satisfaction guarantees, which ease customer concerns about the consequences of a poor experience (Kotler et al., 2017).

5. Training Employees for Competent Service Delivery

The quality-of-service delivery significantly impacts perceived risk. Well-trained employees can address customer queries confidently, resolve complaints efficiently, and demonstrate professionalism, thereby reducing risks related to service competency. In healthcare, for instance, empathetic communication by doctors and nurses alleviates patient concerns about medical errors (Zeithamil, 1990).

6. **Investing in Technology and Safety Measures**

In high-risk sectors such as transportation and healthcare, leveraging technology to enhance safety and efficiency is critical. Airlines, for example, employ advanced tracking systems and safety protocols to assure passengers of their security. Similarly, hospitals implement rigorous hygiene practices to mitigate risks associated with infections (Kotler et al., 2017).

2.6. Factors affecting customer retention

Customer retention is influenced by several key factors that shape the overall experience and satisfaction of guests in the hospitality industry. Understanding these factors is essential for developing effective marketing strategies and enhancing long-term customer loyalty. The following sections discuss five critical factors affecting customer retention: Customer Trust, Competency of Hotel Service, Customer Satisfaction, Reputation, and Perceived Risk.

2.6.1. Customer Trust

Customer trust, Customer loyalty, Customer retention and Cause-related marketing are very important factors concerning to marketing management (Sarwar, 2012). Trust refers to the confidence and belief that customers have in an organization, expecting it to deliver on its promises (Deutschi, 1958). It serves as a crucial link between customers and companies, extending to the relationships among employees within the organization as well. A high level of trust among individuals in multinational and multicultural organizations fosters productive relationships, ultimately generating long-term benefits for the organizations involved (Leonidou et al., 2008).

Trust is particularly important in e-business, where privacy and security are essential elements in developing customer confidence. Trust is especially vital in the business-to-consumer market, where its development is crucial for successful transactions (Wirtz & Lihotzky, 2003). Additionally, the behavior of in-store salespeople significantly influences the establishment of trustworthy relationships. Effective sales practices enhance customer trust, and salesperson behavior plays a critical role in building that trust (Pappas & Flaherty, 2008).

2.6.2 Competency of Hotel Service

According to Kuruba and Kuruba (2019), human resource competency encompasses knowledge, skills, abilities, and personality traits that directly influence performance. Alcouffe et al. (2008) outline several key aspects of human resource competency: 1) proficiency in computer skills

(Executive Line), 2) a broad understanding of organizational vision, 3) the ability to anticipate the consequences of change, and 4) the capacity to educate others about human resources. In summary, human resource competency refers to an individual's abilities related to knowledge, skills, and personality traits that directly impact performance and help achieve desired goals.

Many firms have adopted the competency framework to enhance the validity of their training systems and to streamline recruitment, assessment, competency development, and performance management (Chung-Herrera et al., 2003;). A comprehensive competency framework enables employers to plan for future development and serves as a valuable reference for designing hospitality curricula. This helps create courses that guide students in identifying suitable career paths and developing relevant competencies (Noe, 2008). Overall, the competency framework is a vital resource for human resource management and educational programs. A clear understanding of professional competencies and their significance can greatly enhance training planning and performance assessments (Lowry and Flohr, 2005).

2.6.3 Customer Satisfaction

Customer satisfaction is defined as the emotional response and appraisal customers have regarding their expectations and experiences (Henning et al., 2000). It can be categorized into two key concepts: cumulative satisfaction, which reflects overall experiences over time, and transaction-specific satisfaction, which pertains to individual interactions (Herrmann & Gustafson, 2002). Oliver (1999) describes satisfaction as a pleasurable state resulting from consumption.

Customer retention is sustained when companies meet customer expectations and nurture long-term relationships that encourage repeat purchases. This concept is often explored in business economics through the lens of relationship marketing, which prioritizes the development and maintenance of customer relationships as a key objective. Numerous studies have shown that managing customer satisfaction is essential for achieving retention. Satisfaction is defined as the overall attitude a customer holds toward a service provider. It encompasses emotional responses related to the discrepancy between customer expectations and actual experiences, including the fulfillment of needs and goals (Alkitbi et al., 2020; Danish et al., 2015).

While customer satisfaction is a crucial factor, it does not guarantee repurchase; however, it significantly contributes to customer retention. Although many studies have traditionally focused

on customer satisfaction, other factors such as trust and commitment also influence retention Climis, 2016). The Commitment-Trust Theory of Relationship Marketing posits that successful relationship marketing hinges on the interplay of commitment and trust. This theory emphasizes that commitment and trust foster a positive relationship between companies and customers, enhancing efficiency, productivity, and effectiveness. The level of trust between a service provider and a customer is heavily influenced by service quality, which in turn strengthens commitment. Enhancing this commitment is vital, as it leads to a greater willingness to invest in and maintain the relationship with the provider (Ullah, 2015).

High levels of customer satisfaction are linked to increased customer retention and a greater likelihood of repurchase (Anderson, 1998). In marketing literature, customer satisfaction is often measured through indicators such as customer loyalty and repurchase behavior. It contributes to a company's success, enhances customer retention, and fosters long-term competitiveness. Satisfied customers tend to incur lower costs for future transactions, demonstrate higher loyalty, and improve the company's reputation (Fornell & Lehmann, 1994).

Numerous studies indicate a direct relationship between service quality and customer behavior (Reichheld & Sasser, 1990; Anderson & Sullivan, 1990). Customer satisfaction plays a crucial role in shaping repurchase behavior (Taylor & Baker, 1994). Satisfied customers are likely to share their positive experiences with friends and family, further enhancing the company's reputation and profitability (File & Prince, 2002). Additionally, customer satisfaction boosts retention by improving product and service performance. According to Anderson and Mittal (2000), higher customer retention can significantly increase a company's profits.

2.6.4 Reputation
In the competitive hospitality industry, a hotel's reputation plays a critical role in attracting and retaining customers. Reputation encompasses various factors, including the quality of services, customer experiences, online reviews, and brand image. A strong, positive reputation can significantly influence customer retention, while a negative reputation can drive customers away, leading to a decline in business.

The hospitality industry is unique in that customer experiences are highly subjective and personal. Hotels, as service providers, rely heavily on word-of-mouth and online reviews to attract new guests and keep returning ones. Unlike tangible products, the quality of a hotel stay is

largely intangible and cannot be fully evaluated until after the experience. Therefore, potential customers often depend on a hotel's reputation when making booking decisions (Xiang & Gretzel, 2010). Reputation serves as a proxy for quality in the minds of customers. A hotel known for excellent service, clean facilities, and a welcoming atmosphere is likely to have a strong reputation, which in turn can lead to higher customer retention rates. Conversely, a hotel that has a reputation for poor service or unsanitary conditions may struggle to retain customers (Verma, 2017). A positive reputation fosters trust and loyalty among customers. When guests have a memorable and satisfying experience, they are more likely to return to the same hotel in the future. Additionally, they are more inclined to recommend the hotel to others, creating a cycle of positive word-of-mouth that further enhances the hotel's reputation (Ladhari, 2009).

On the flip side, a negative reputation can have devastating effects on customer retention. If a hotel fails to meet guest expectations or consistently receives negative reviews, it risks losing customers to competitors. Once a customer has a negative experience, they are less likely to return to the same hotel. This loss of repeat business can be particularly damaging in an industry where customer loyalty is crucial (Bolton et al., 2000). Unsatisfied customers are more likely to share their negative experiences with others, either in person or online. This can lead to a decline in new bookings and can tarnish the hotel's reputation further (Sparks & Browning, 2011). A hotel's brand image is closely tied to its reputation. If the brand becomes associated with poor service or low standards, it can be challenging to attract new customers and retain existing ones (Harris & Goode, 2004).

2.6.5 Perceived Risk

Consumers' perceptions of the risks associated with potential negative outcomes from consumption have been widely studied in marketing literature (Kim et al., 2008). Perceived risk is typically defined as the subjective assessment of uncertainty regarding the financial, physical, and social consequences of a consumption experience (Lieberman & Stashevsky, 2002). These perceptions have significant behavioral implications and can greatly influence purchasing decisions (Kim et al., 2008).

Perceived risk poses a challenge to effective marketing, as it leads consumers to concentrate on the potential loss of resources (Salam et al., 2003), and feelings of uncertainty can adversely affect purchasing behavior. Inconsistent or conflicting information heightens this uncertainty, making it essential to eliminate or significantly reduce perceived risk to foster customer loyalty

(Mitchell & Harris, 2005). In the restaurant industry, a strong reputation for quality can significantly lower perceived risk, resulting in higher levels of customer loyalty (Lacey et al., 2009).

Perceived risk plays a significant role in customer decision-making processes, particularly in the hospitality industry. It refers to the uncertainty and potential negative outcomes that customers associate with purchasing a service, such as booking a hotel stay. In the context of hotels, perceived risk can stem from various factors, including concerns about service quality, safety, hygiene, and the overall value of the experience. This perception of risk can directly impact customer retention, as guests are less likely to return to a hotel where they experienced high levels of perceived risk (Matzler et al., 2006).

One of the primary sources of perceived risk in the hotel industry is the intangible nature of the service provided. Unlike physical products, hotel services cannot be evaluated before they are consumed. As a result, customers often rely on previous experiences, online reviews, and the hotel's reputation to assess the level of risk involved in their stay. If a guest perceives a high level of risk due to factors such as inconsistent service quality or negative reviews, they may choose not to return to that hotel in the future, thus affecting customer retention (Mitchell & Greatorex, 1993).

2.7. Conceptual framework of the study

A conceptual frame work is defined by Miles & Huberman (1994) as a narrative or graphic Representation that shows the presumed relationship between the dependent and the independent variables which are yet to be empirically proven the framework for the research that the factors of customer retention in the hotel service the independent variable and the customer retention is the dependent variable. The conceptual framework for understanding customer retention in the hospitality industry identifies five key independent variables: customer trust, competency of hotel service, customer satisfaction, reputation, and perceived risk, with customer retention as the dependent variable. Customer trust refers to the confidence and belief customers have in a hotel to deliver on its promises, fostering strong relationships that enhance retention. The competency of hotel service encompasses the knowledge, skills, abilities, and personality traits of staff, which directly influence customer experiences and satisfaction. Customer satisfaction, defined as the emotional response and appraisal of experiences, is crucial for retention, as higher satisfaction levels lead to increased loyalty. A hotel's reputation, shaped by service quality and customer

experiences, significantly impacts its ability to attract and retain customers; reputation encourages repeat business. Perceived risk implies the uncertainty associated with potential negative outcomes—can deter customers from returning.
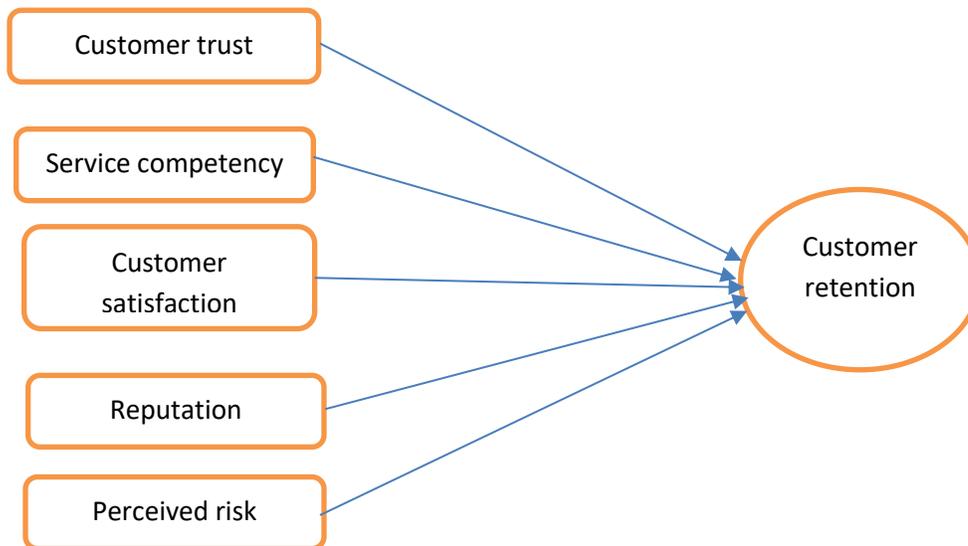
Source

Figure 2: Conceptual Framework

2.8 Research Hypothesis

A hypothesis is often described as an attempt by the researcher to explain the phenomenon of interest and that explanation should involve a prediction about the variables being studied (Marczyk, DeMatteo, & Festinger, 2005). These predictions are then tested by gathering and analyzing data, and the hypotheses can either be supported or refuted on the bases of data. Hypotheses for this research are formulated based on the objective of the research and they are presented below.

2.8.1. The effect of customer trust on customer retention

Trust Theory explores the role of trust in relationships, particularly in service industries. In the context of hospitality, trust is crucial because customers often make significant investments in their experiences. Trust influences customer loyalty, as guests are more likely to return to a hotel or restaurant where they feel confident that their needs will be met. Establishing trust involves

transparency, reliability, and consistent service quality (Mayer et al., 1995). When customers trust a brand, they are more likely to overlook minor issues and remain loyal, making trust a key factor in customer retention. Research indicates that customer trust is a critical factor in building lasting relationships between customers and organizations. Sarwar (2012) stated that trust is essential for customer loyalty and retention, as it fosters confidence in the company's ability to deliver on its promises. Based on this the following hypothesis is formulated.

H1: Customer trust has a positive and significant effect on customer retention.

2.8.2. The effect of competency on customer retention
Competency Theory emphasizes the importance of skills and capabilities in delivering high-quality services. In the hospitality industry, competency relates to the knowledge, skills, and expertise of staff in providing exceptional service. When employees are well-trained and competent, it enhances the overall customer experience, leading to higher satisfaction and loyalty (Boyatzis, 1982; Grant, 1996). Competency also includes the ability to handle customer complaints effectively and provide personalized service, which can significantly influence customer retention. The competency of hotel service is vital for ensuring customer satisfaction and loyalty. Kuruba and Kuruba (2019) note that human resource competency, encompassing knowledge and skills, directly influences performance and customer experiences. A comprehensive competency framework helps organizations enhance service quality, leading to improved customer retention (Chung-Herrera et al., 2003).

H2: Competency has a positive and significant effect on customer retention.

2.8.3. The effect of customer satisfaction on customer retention
Expectancy-Disconfirmation Theory posits that customer satisfaction is determined by the gap between expected and perceived service quality. When customers have high expectations and those expectations are met or exceeded, it leads to positive disconfirmation and increased satisfaction. Conversely, if expectations are not met, dissatisfaction occurs (Oliver, 1980). In hospitality, managing customer expectations through marketing and delivering on promises is vital for ensuring positive experiences, as satisfied customers are more likely to return. Customer satisfaction is widely recognized as a key driver of retention. According to Alkitbi et al. (2020), satisfaction reflects the fulfillment of customer expectations and experiences, which is crucial for fostering repeat business. Anderson (1998) further supports this by linking high levels

of customer satisfaction to increased retention and repurchase likelihood, emphasizing its role in long-term customer relationships.

H2: Customer satisfaction a positive and significant effect on customer retention.

2.8.4. The effect of the hotel's reputation on customer retention

Reputation Management Theory focuses on how a company's reputation affects customer perceptions and behaviors. A strong reputation can enhance customer trust and loyalty, making customers more likely to return (Fombrun & Shanley, 1990). In the hospitality sector, reputation is influenced by customer reviews, word-of-mouth, and brand image. Businesses that actively manage their reputations by delivering high-quality services and addressing customer feedback are more likely to foster trust and satisfaction, leading to improved retention rates. A hotel's reputation significantly influences customer retention, as it shapes perceptions of service quality. Xiang and Gretzel (2010) argue that a strong reputation is essential in the hospitality industry, where customer experiences are subjective and heavily influenced by word-of-mouth and online reviews.

H3: Hotel reputation has a positive and significant effect on customer retention.

2.8.5. The effect of perceived risk on customer retention

Perceived Risk Theory addresses the uncertainties and potential negative outcomes customers associate with making purchasing decisions. In hospitality, perceived risks can relate to service quality, safety, and value for money. High levels of perceived risk can discourage customers from returning (Bauer, 1960). To mitigate perceived risks, businesses must communicate effectively, provide guarantees, and ensure consistent service quality. Perceived risk is a critical factor affecting customer decision-making and retention. Kim et al. (2008) highlights that consumers' perceptions of risk can significantly influence their purchasing decisions, with lower perceived risk fostering greater loyalty.

H5: Perceived risk has a negative and significant effect on customer retention.

CHAPTER THREE

3. METHODOLOGY OF THE RESEARCH

3.1 Introduction

This chapter deals with the research methodology that will be implemented to achieve the objectives of the study. Research approach and design, population of the study, sampling design and sampling techniques, source and instruments of data collection, procedure of data collection and method of data analysis will be discussed. In addition to the above points, the validity and reliability test of the research and ethical considerations are also addressed.

3.2. Description of the Study Organization

According to the Ethiopian Ministry of Tourism data, there are 142 star rated-hotels in Addis Ababa in 2024. Out of these 9 hotels are in the five-star category. Capital Hotel and Spa is one of the few finest Five Star Hotels in the capital city Addis Ababa-Ethiopia. Located just minutes away from Bole International Airport, Capital Hotel and Spa are a great accessible place with open main road to and from different parts of the city; thus, the hotel is an ideal location for the activities happening in Addis Ababa. Capital Hotel & Spa has 114 rooms of suite, twin standard, king superior & king standard types.

Studying the various determinant factors that affect customer retention is of particular importance in the service sector, especially in the hotel industry. With current drive towards globalization of business it is essential to understand the international generalizability of research findings. A great deal of research work has been done in the area of service quality, customer satisfaction, customer relation management, different marketing mixes, and customer retention. It is necessary to expand understanding on the area of customer retention as well. Therefore, this research is intended to investigate factors that really determine customer retention in the hotel service industry.

3.3. Research Design

Research design is a general plan for empirical research aimed at answering research questions or testing specific hypotheses. Research can be classified as descriptive, explanatory and exploratory depending on the particular reason that the inquiry tries to address. The study utilized a quantitative research approach with and through descriptive and explanatory research designs. A survey design provides a quantitative or numeric description of trends, attitudes, or

opinions of a population by studying a sample of that population. According to Kotari (2004) Descriptive research includes surveys and fact-finding inquiries of different kinds. From sample results, the researcher generalizes or makes claims about the population (Creswell & Plano, 2007).

3.4. Population of the Study

Selecting participants is one of the most important aspects of planning and designing a research study. The manner in which individuals are selected to participate, and the way those participants are subsequently assigned to groups within the study, has a dramatic effect on the types of conclusions that can be drawn from the research study (Marczyk, et al., 2005). To have a broad understanding about the issue under investigation, the total population for the purpose of this study was included all individuals (over the age of 18) who are customers of Capital five-star hotel and spa services in Addis Ababa. In addition to this, the study focused on those domestic and international customers who have used accommodation and other services for over a night within the specified time frame.

3.4.1. Sampling Techniques

To draw inferences about the population, we need to have knowledge about the population and use appropriate sampling technique that helps to get representative sample. The researcher used both probability and non-probability sampling techniques to select the target population. Specifically, to clearly define and easily identify the research participants mentioned above, the study adopted a blend of simple random sampling and convenient sampling techniques. Since the total number of population is not defined the study will employ Cochran's (1977) sample size determination formula. Cochran (1977) developed a formula to calculate a representative sample for proportions when the population is infinite.

Using a confidence level of 95% and a margin of error of 5%, the following parameters were applied:

Confidence Level (Z): 1.96

Estimated Proportion (p): 0.5 (to ensure maximum variability)

Margin of Error (e): 0.05

n = (Zα/2)2 p (1-p)

$$e^2$$

$$n = \frac{(1.96)^2 * 0.5(1-0.5)}{(0.05)^2} = 384$$

Accordingly, a total of 384 users were selected.

3.5. Sources of Data

In this study the researcher used primary data source which was obtained through structured survey questionnaires as it has been duly suggested by Cooper and Emory (1995), a self-administrated closed-ended questionnaire was used for its elevated importance of practicability and easiness in filling out to capture first-hand responses from respondents. Secondary data refers to information that has already been collected by other sources for purposes different from those of this current research. In this study, secondary data included findings from previous research, industry reports, academic journals, and organizational records.

3.6 Procedure of Data Collection

Approaching research participants and gathering the necessary data with a high response rate is not an easy task. It requires a well-established approach. Participants should be convinced and approached in such a way that instruments are attractive and easily understandable. Their anonymity should also be kept confidential. In so doing, having well-articulated data gathering procedure is very important and can serve as a road map. The courses of action that were considered in collecting data for this research are outlined below.

Firstly, all the standardized instruments used to measure the constructs were contextualized; meaning made easily understood for participants. The questionnaire was translated in to Amharic for local customers to avoid language barrier and facilitate easily understanding.

3.7. Measurement of Variables

The primary data was gathered through Questionnaire survey which is a research instrument consisting of a set of questions intended to capture responses from respondents in a standardized manner. Questions in the questionnaire were structured. Structured questions are also known as closed-ended questions that ask respondents to select an answer from a given set of choices (Jonker & Pennink, 2010) that require the respondent to choose from limited number of prelisted

responses or scale points. These types of questions require less thought and effort on the part of the respondent (Hair, Bush and Ortinau's, 2003).

The survey questionnaire contained two parts. The first was about demographic profile of respondents, while the second part contains the determinant factors (independent variables) and customer retention (dependent variable) in the hotel industry. It is developed in a five point likert-scale with a probable response alternatives ranging from strongly disagree to strongly agree; with values assigned 1- Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree and 5- Strongly agree, was distributed and collected so as to get first hand data from respondents which were used to measure how strong the determinants influence the retention of customers.

3.8 Validity and Reliability

3.8.1. Validity
Validity is the issue of whether or not a pointer (or set of indicators) that's formulated to evaluate a concept measure that concept. Validity is a very important and useful concept in all forms of research methodology. There are four distinct types of validity: internal validity, external validity, constructs validity, and statistical conclusion validity, that interact to control for and minimize the impact of a wide variety of extraneous factors that can confound a study and reduce the accuracy of its conclusions. As much as possible the researcher ensured the different types of validity of the measurements used for the research.

3.8.2 Reliability
Reliability is the degree to which the degree of an instrument is reliable or tried and true. In case a multiple-item build degree is managed to respondents, the degree to which respondents comparably rate those things may be a reflection of inner consistency. This reliability can be evaluated in terms of average inter-item correlation, normal item to total correlation, or more commonly, Cronbach alpha. To test the internal reliability, most researchers utilize Cronbach's alpha, which calculates theaverage of all split-half reliability coefficients. This research used the Cronbach's alpha of internal reliability. Cronbach alpha reliability coefficient ordinarily ranges between 0 and 1. The closer Cronbach's alpha coefficient is to 1 meaning that the more prominent internal consistency of the things within the scale.

Table 1: Reliability Test

S.No	Variables	Number of Likert scale items	Reliability coefficient (Cronbach alpha value)	Source
1	Customer retention	5	.709	Bó et al., 2018
2	Trust	5	.739	Curras-Perez et al., 2017
3	Competency	6	.778	Lai et al., 2022
4	Customer satisfaction	5	.765	Chakraborty and Sengupta, 2014.
5	Hotel reputation	4	.823	Jayantha and Geetha, 2014
6	Perceived risk	4	.728	Curras-Perez et al., 2017

3.10. Methods of Data Analysis

After gathering the necessary data, checking the completeness of the respondents' response were made. Data screening, editing, and coding are some of the major activities to be performed. Both descriptive and inferential data analysis methods were performed to give meaning for the collected data with the aid of SPSS. Descriptive statistics were employed to summarize and present key features of the quantitative data collected through the structured questionnaire with a 5-point Likert scale. This included measures such as mean, standard deviation, and frequency distributions, providing an overview of the central tendencies and variations in the dataset.

Additionally, inferential statistics were utilized to draw conclusions and make inferences about the larger population based on the sample data. Multiple linear regression analysis was employed to further explore the relationships between multiple independent variables and the dependent variable.

3.11. Ethical Consideration

The study was conducted based on the understanding of volunteer customers. All responses will be kept anonymous. The researcher has invited the respondents to take an interest within the research upon distributing the questionnaires. All respondents were informed that all data will be given on a voluntary premise and will be utilized for research purposes only. Names were not required to reveal on the data collection forms so that protection and secrecy is ensured.

Chapter Four

Results and Discussion

4.1 Introduction

This chapter presents the findings of the study on factors influencing customer retention at Capital Hotel and Spa, beginning with demographic information about the sample population and descriptive statistics for each study variable. It presents correlation results among the variables and conducts a regression assumptions test to ensure model validity, followed by a presentation of the regression analysis results and discussion.

A total of 384 questionnaires were distributed, and all were returned, resulting in a response rate of 100%. This exceptional rate was achieved due to the researcher's diligent follow-up efforts, both in person and via phone.

4.2 Demographic Characteristics of the Respondents

Among the 384 participants, majority were male, comprising 64.1%, while females accounted for 35.9%. In terms of age distribution, the majority of respondents fell within the 41-50 age group, representing 60.4%. This is followed by those aged 31-40, who made up 24.5%, indicating that middle-aged individuals are the primary customer groups engaging with the hotel. Conversely, younger respondents aged 18-30 were minimal, constituting only 2.1%, while those aged 51 and above accounted for 13%. Regarding education, the highest level of attainment among respondents was a First Degree, with 53.4% falling into this category. This was followed by Diploma holders at 21.6%, and those with Masters and above at 15.6%, while individuals with a high school education and below represented 9.4%. Regarding occupation, the largest group comprised employee in NGO at 39.3%, closely followed by self-employed at 35.2%. Employees from private companies made up 22.7%, while government employees were the least represented at 2.9%.

Table 2: Demographic information of survey respondents

Variable	Responses	Frequency	Percent
Gender of the respondent	Female	138	35.9
	Male	246	64.1
Age of the respondent	18-30	8	2.1
	31-40	94	24.5
	41-50	232	60.4
	51 and above	50	13
	Total	384	100
The highest educational level of the respondent	High school education and below	36	9.4
	Diploma	83	21.6
	First Degree	205	53.4
	Masters and above	60	15.6
	Total	384	100
Occupation of the respondent	Government Employee	11	2.9
	Private Company	87	22.7
	NGO Employee	151	39.3
	Self-Employed	135	35.2
	Total	384	100

Source: Own survey data (2024)

4.3 Descriptive Analysis

In order to interpret mean values, the student researcher adopted criterion which is mostly used for interpreting attitudinal data (Anthony M. Wanjohi and Purity S., 2021). According to the standard, for data measured on five points Likert scale items, mean values are interpreted as follows: mean values from 1.0-2.4 (negative/ low attitude), 2.5-3.4 (neutral/moderate attitude) and 3.5-5.0 (positive/high attitude).

4.3.1 Trust

According to the interpretation standards, an aggregate mean value of 3.128 falls within the neutral/moderate attitude range (2.5 - 3.4) implying that respondents generally hold a neutral stance regarding their trust in Capital Hotel and Spa. The aggregate standard deviation of 1.04 indicates a moderate level of variability in responses among participants. This variability shows that while some respondents express strong trust in certain aspects of the hotel, others have significant concerns, particularly regarding transparency and reliability.

A strong majority expressed confidence in the hotel's ability to deliver promised services, reflected in a mean score of 4.82, indicating a high level of trust in the quality of services

provided. However, perceptions of transparency were less favorable, with the statement regarding Capital Hotel and Spa's maintenance of a high level of transparency receiving a mean score of 2.87. This score suggests that a significant portion of customers feels the hotel could improve its openness in communications and operations. Trust in the honesty and reliability of the staff also scored low, with a mean of 2.69, indicating potential concerns about staff integrity, which could negatively impact customer satisfaction and retention. Additionally, when asked about the hotel's ability to handle issues during their stay, the mean score was 2.68, reflecting a lack of confidence in the hotel's problem-solving capabilities. Similarly, the statement regarding the hotel's reputation for fairness garnered a mean score of 2.58, showing that many customers do not perceive the hotel as equitable in its dealings.

According to the results, while there is a strong trust in service delivery, significant concerns exist regarding transparency, staff reliability, and the hotel's ability to manage customer issues.

Table 3: Perception on Customer Trust

Item	Mean	Std. Dev.
I trust Capital Hotel and Spa to deliver the services they promise.	4.82	0.713
Capital Hotel and Spa maintains a high level of transparency with its customers.	2.87	1.234
I believe the staff at Capital Hotel and Spa is honest and reliable.	2.69	1.103
I trust Capital Hotel and Spa to handle any issues I might face during my stay.	2.68	1.148
Capital hotel has a reputation for being fair in its relations with users	2.58	1.003
Aggregate	**3.128**	**1.04**

4.3.2 Competency

The aggregate mean score for service competence is 3.91, is within the range of 3.5 to 5.0, indicating a positive to high attitude among respondents regarding the service competence

provided by the hotel. The aggregate standard deviation of 0.940 indicates a moderate level of variability in responses.

The findings on service competence at Capital Hotel and Spa indicate a generally positive perception of the staff's skills and the quality of services provided. A mean score of 4.33 reflects that customers perceive the staff as highly skilled and competent in their roles, instilling confidence in their abilities, which is critical for enhancing overall guest satisfaction. The efficiency of the services offered also garnered a favorable response, with a mean score of 4.05, suggesting that the hotel meets customer expectations in terms of promptness and effectiveness.

Professionalism among the staff is another strong point, as evidenced by a mean score of 4.05 for the statement that the professionalism of the staff encourages return visits. However, perceptions regarding the quality of services exceeding expectations were slightly lower, with a mean score of 3.95. Although many respondents agreed, there remains a segment of customers who feel that the services could improve to fully meet their expectations. The hotel's experience in marketing its services received a mean score of 3.50, indicating a mixed perception; while some respondents expressed agreement, a substantial number remained neutral, highlighting the potential for improvement in how the hotel promotes its offerings. Finally, the statement regarding the availability of necessary resources for successful operations scored a mean of 3.56, indicating that while many customers believe the hotel is adequately resourced, a significant portion still have concerns about resource adequacy.

Table 4: Perception on Service Competence

Item	Mean	Std. Dev.
The staff at Capital Hotel and Spa are highly skilled and competent in their jobs.	4.33	0.806
The services provided by Capital Hotel and Spa are efficient.	4.05	0.976
The professionalism of the staff makes me want to return to Capital Hotel and Spa.	4.05	0.965
The quality of services provided by Capital Hotel and Spa exceeds my expectations.	3.95	1.013

Capital hotel has sufficient experience in marketing the services they offer	3.5	0.986
Capital hotel has all the resources necessary to perform their activities successfully	3.56	0.895
Aggregate	**3.91**	**0.940**

4.3.3 Satisfaction

According to the interpretation criteria established by Wanjohi and Purity (2021) for a five-point Likert scale, this aggregate mean value (3.642) is within the range of 3.5 to 5.0, indicating a positive attitude among respondents towards their overall satisfaction with the hotel.

The satisfaction with the experience at Capital Hotel and Spa is reflected in a mean score of 3.83, indicating a positive attitude among respondents. A majority expressed strong agreement with their satisfaction, while a significant number remained neutral. In terms of service expectations, the mean score of 3.75 indicating that the services provided generally meet customer expectations, with some respondents indicating strong agreement. However, the presence of those who disagreed shows areas of service delivery that could be improved to enhance overall satisfaction.

The influence of satisfaction on the decision to return to the hotel scored a mean of 3.58, demonstrating that many respondents recognize the impact of their satisfaction on their likelihood of returning. This underscores the importance of continuous improvement in service quality, as satisfied customers are more inclined to revisit. Respondents also expressed mixed feelings about the adaptability of services to user needs, reflected in a mean score of 3.47. The data indicates that some customers feel the hotel may not fully fit to their specific needs and preferences. The perception of whether feedback is valued and acted upon received a mean score of 3.58, indicating that many respondents feel their feedback is appreciated. While this is a positive indicator, the presence of those who strongly disagreed shows a need for improved communication and responsiveness regarding customer feedback.

Table 5: Perception on Satisfaction

Item	Mean	Std. Dev.
I am highly satisfied with the overall experience at Capital Hotel and Spa.	3.83	0.9
The services provided at Capital Hotel and Spa consistently meet my expectations.	3.75	0.994
My satisfaction with the services at Capital Hotel and Spa influences my decision to return.	3.58	0.982
Capital hotel offers services adapted to their user's needs	3.47	1.011
I feel that my feedback is valued and acted upon at Capital Hotel and Spa.	3.58	1.024
Aggregate	**3.642**	**0.982**

4.3.4 Reputation

The aggregate mean of 4.185 is within the range of 3.5 to 5.0, showing a high attitude towards the hotel's reputation. The mean SD of 0.735 indicated slight variability in the responses.

The analysis of reputation for Capital Hotel and Spa reveals a predominantly positive perception among respondents, indicating that the hotel is well-regarded within the hospitality industry. The statement "Capital Hotel and Spa has a strong reputation in the hospitality industry" received a mean score of 4.55, reflecting a positive attitude toward the hotel. Additionally, when asked whether they choose Capital Hotel and Spa because of its positive reputation, the mean score was 4.31, suggesting that the hotel's reputation significantly influences customer decisions. However, the statement regarding the impact of Capital Hotel and Spa's reputation for quality on return decisions scored lower, with a mean of 3.51, indicating that while reputation is important, there may be room for improvement in translating this reputation into customer loyalty. The reassurance provided by the hotel's reputation regarding service consistency received a mean score of 4.37, further emphasizing the role of reputation in enhancing customer confidence in the services offered.

Table 6: Perception on Reputation

Item	Mean	Std. Dev.
Capital Hotel and Spa has a strong reputation in the hospitality industry.	4.55	0.498
I choose Capital Hotel and Spa because of its positive reputation.	4.31	0.788
Capital Hotel and Spa's reputation for quality influences my decision to return.	3.51	1.024
The reputation of Capital Hotel and Spa reassures me of the consistency of their services.	4.37	0.633
Aggregate	**4.185**	**0.735**

4.3.5 Risk

The aggregate mean score for perceived risk at Capital Hotel and Spa is 2.18 (SD=0.93) indicated a low attitude towards the perceived risk associated with the hotel.

For the risk results, the statement "I feel confident in the safety and security measures provided by Capital Hotel and Spa" received a mean score of 1.69, indicating a negative attitude among respondents. This highlights a critical area of concern that could deter potential guests. Additionally, when asked about concerns regarding the quality of services, the mean score was 2.29, reflecting a neutral to low attitude, with a significant number of customers expressing doubts about service reliability. The statement regarding concerns about service quality affecting the decision to stay yielded a mean score of 2.38, further emphasizing the need to address these issues, as many respondents indicated they were not confident in the service quality. These findings imply the importance of improving safety measures and service quality to enhance customer confidence and encourage repeat visits.

Table 7: Perception on Perceived Risk

Item	Mean	Std. Dev.
I feel confident in the safety and security measures provided by Capital Hotel and Spa.	1.69	0.683
I have no concerns about the quality of services at Capital Hotel and Spa.	2.29	1.084

I believe there is little risk in choosing Capital Hotel and Spa for future stays.	2.35	0.98
Concerns about service quality affect my decision to stay at Capital Hotel and Spa.	2.38	0.973
Aggregate	**2.18**	**0.93**

4.3.6 Customer Retention

The aggregate mean score for customer retention is 3.72, which falls within the range of 3.5 to 5.0, indicating a positive attitude among customers towards the hotel and the SD of 0.896 indicates a moderate level of variability in the responses.

The customer retention results for Capital Hotel and Spa reflect a generally positive sentiment among guests, particularly regarding their willingness to return. Respondents frequently indicated that they stay at the hotel when visiting Addis Ababa, resulting in a mean score of 4.9, which demonstrates strong loyalty and preference among its clientele. Additionally, when asked about their future usage of the hotel's services, the mean score was 3.61, indicating a solid intention to continue patronizing the hotel, although there remains room for improvement in converting neutral responses into stronger commitments. The willingness to recommend Capital Hotel and Spa to others received a mean score of 3.51, suggesting that many guests are satisfied enough to endorse the hotel, which is essential for attracting new customers through word-of-mouth. However, the loyalty comparison to other hotels scored lower, with a mean of 3.38, revealing some uncertainty regarding brand loyalty relative to competitors. Furthermore, the consistency in meeting expectations was rated at a mean of 3.2, indicating that while many guests are generally satisfied, there are expectations that may not be consistently met.

Table 8: Customer Retention

Item	Mean	Std. Dev.
I frequently stay at Capital Hotel and Spa when I visit Addis Ababa.	4.9	0.344
I plan to continue using the services of Capital Hotel and Spa in the future.	3.61	1.026

I would recommend Capital Hotel and Spa to others.	3.51	0.975
I feel loyal to Capital Hotel and Spa compared to other hotels.	3.38	1.09
Capital Hotel and Spa meets my expectations consistently.	3.2	1.048
Aggregate	**3.72**	**0.896**

4.4 Inferential Analysis

4.4.1 Correlation

The correlation results reveal significant relationships between various independent variables and customer retention at Capital Hotel and Spa. Pearson correlation (r) is used to measure the degree of association between variables and its coefficient ranges between 0 and 1.

Satisfaction showed the strongest positive correlation with retention, with a coefficient of ($r = 0.806$, $p < 0.001$), indicating that higher levels of customer satisfaction are closely associated with increased likelihood of repeat visits. Trust also plays a key role, exhibiting a strong positive correlation of ($r = 0.626$, $p < 0.001$), indicating that enhancing trust can significantly increase customer loyalty. Reputation is another important factor, showing a positive correlation ($r = 0.555$, $p < 0.001$), reflecting that a strong reputation positively influences customers' decisions to return. Competency, while still positively correlated, has a lower coefficient of ($r = 0.460$, $p < 0.001$), indicating that perceived staff competency contributes to retention but to a lesser extent than the other factors. In contrast, risk exhibits a significant negative correlation with retention at ($r = -0.671$, $p < 0.001$), implying that as perceived risk increases, the likelihood of retaining customers decreases sharply.

Table 9: Correlation Analysis Results

Correlations

		Retention	Trust	Competency	Satisfaction	Reputation	Risk
Retention	Pearson Correlation	1					
	Sig. (2-tailed)						
Trust	Pearson Correlation	.626**	1				
	Sig. (2-tailed)	.000					
Competency	Pearson Correlation	.460**	.336**	1			
	Sig. (2-tailed)	.000	.000				
Satisfaction	Pearson Correlation	.806**	.438**	.393**	1		
	Sig. (2-tailed)	.000	.000	.000			
Reputation	Pearson Correlation	.555**	.351**	.202**	.468**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
Risk	Pearson Correlation	-.671**	-.465**	-.261**	-.609**	-.426**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	384	384	384	384	384	384

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

Source: Own survey data (2024)

4.4.2 Regression Analysis
Before running the regression model, the student researcher has initially tested to data to fulfill the basic assumptions of classical linear regression analysis. These assumption tests are normality, linearity, homoscedasticity, multicollinearity and autocorrelation tests.

4.4.2.1 Assumption Test
Normality of the Error Term Distribution
Normality refers to the shape of a normal distribution of the matric variable (Roberts, 2006). For variables with normal distribution, the values of skewness and kurtosis are zero, and any value other than zero indicated deviation from normality (Hair, 2010) . Skewness indicates the symmetry of the distribution. A value of zero indicates symmetry, while positive and negative values indicate right and left skew, respectively. Kurtosis measures how much the peak of a distribution differs from a normal distribution. Positive values indicate a more pointed distribution, while negative values indicate a flatter distribution. Table 10 shows that all variables have acceptable skewness statistics for normality (-1.0 to +1.0). The skewness and kurtosis values are between the acceptable ranges. Despite this, the data still meets the assumption of normality for multiple regression.

Table 10: Skewness and Kurtosis

|	SD	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
Retention	0.69505	-0.545	0.125	0.154	0.248
Trust	0.68549	0.734	0.125	0.632	0.248
Competency	0.63711	-0.729	0.125	1.055	0.248
Satisfaction	0.65666	-0.291	0.125	-0.488	0.248
Reputation	0.50527	-0.484	0.125	-0.081	0.248
Risk	0.62796	0.545	0.125	0.476	0.248
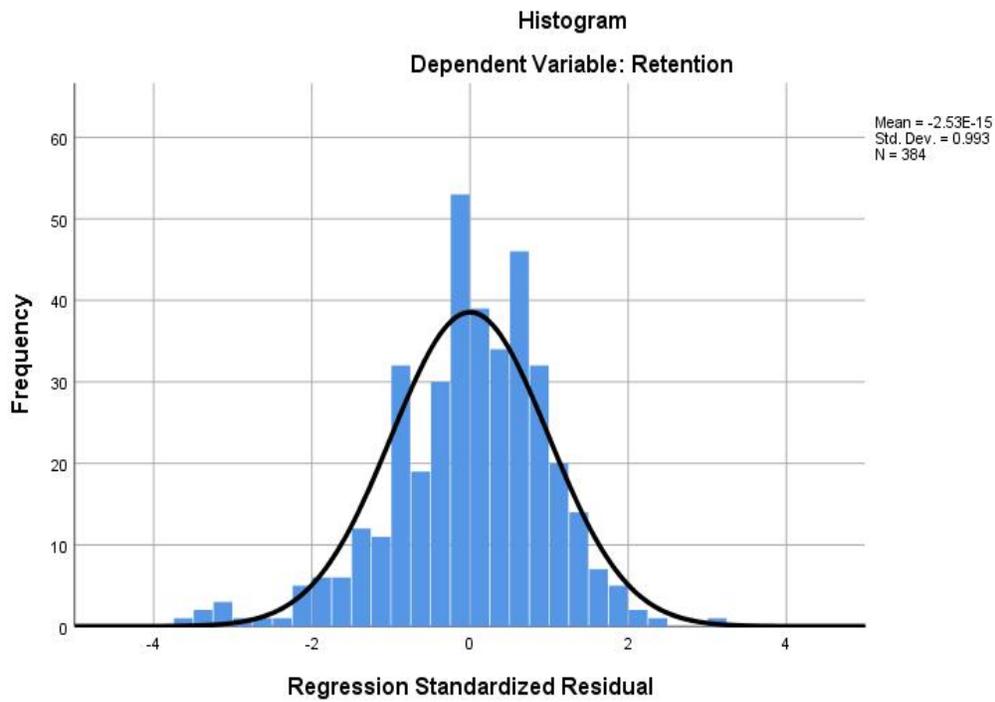
Figure 3: Histogram for test of normality

Multicollinearity

The study checked for multicollinearity among independent variables using SPSS 26 and no multicollinearity problem was detected in the data. Tolerance values were less than 1 and Variance Inflation Factor VIF values were around 1.00 and not more than 2.0, indicating no multicollinearity.

Table 11: Multicollinearity test results

Model	Collinearity Statistics	
	Tolerance	VIF
Trust	.704	1.421
Competency	.812	1.232
Satisfaction	.521	1.920
Reputation	.735	1.360
Risk	.566	1.768

Source: Analysis of survey data using SPSS data, 2024

Heteroscedasticity

The Heteroscedastic assumption can easily be checked using scatterplots or residual plots: plots of the residuals vs. either the predicted values of the dependent variable or against (one of) the independent variable(s) (Hoekstra et al., 2014). The scatter plots of standardized residuals versus the fitted values for the regression models were visually inspected in figure 3. This shows that the data has no heteroscedasticity problem, and the assumption is met.
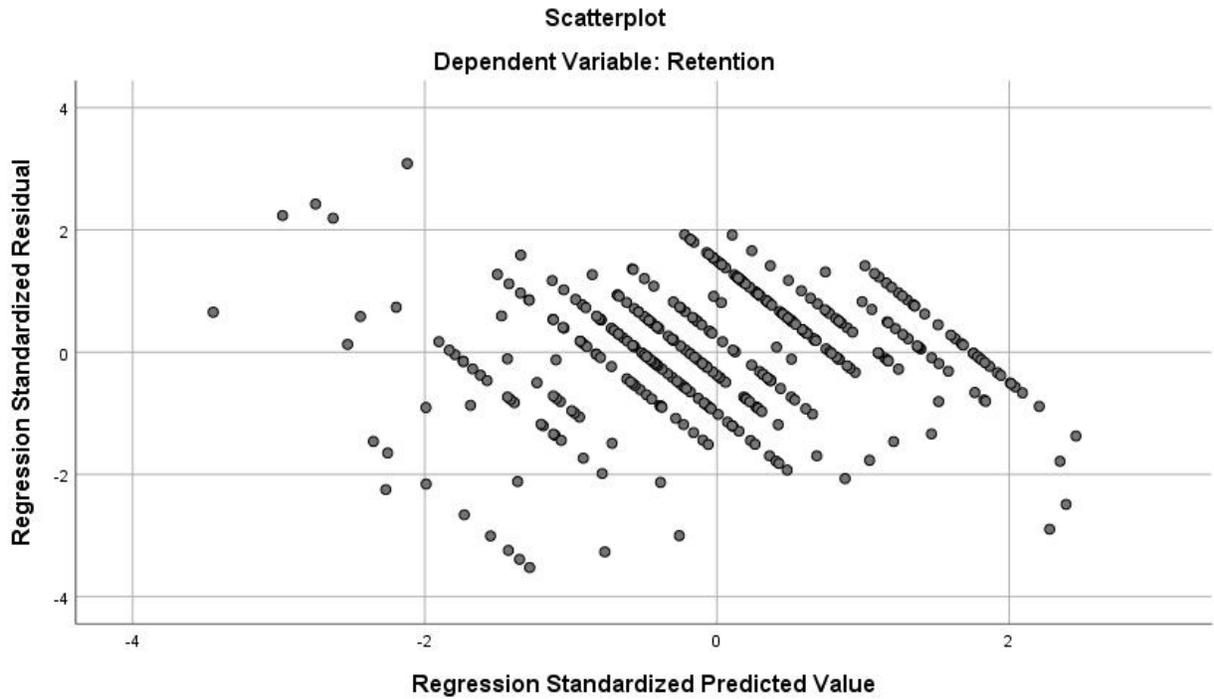
Figure 4: Scatter plot test for Heteroscedastic

4.4.2.2 Model Results

The model summary indicates a strong overall relationship between the independent variables (Risk, Competency, Reputation, Trust, and Satisfaction) and the dependent variable (Retention), with an R value of 0.889. This shows a high level of correlation between the predictors and retention. The R^2 value of 0.790 indicates that approximately 79% of the variance in retention can be explained by these five predictors, which is a substantial proportion.

The ANOVA table further supports the significance of the model, with the F statistic of 284.858 (p < 0.001) indicating that the regression model is statistically significant.

Table 12: Regression Model Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.889ᵃ	.790	.787	.32041	1.901

a. Predictors: (Constant), Risk, Competency, Reputation, Trust, Satisfaction

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b. Dependent Variable: Customer Retention

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	146.219	5	29.244	284.858	.000[b]
	Residual	38.806	378	.103		
	Total	185.025	383			

a. Dependent Variable: Customer Retention

b. Predictors: (Constant), Risk, Competency, Reputation, Trust, Satisfaction

The regression analysis results indicate that several predictor variables significantly affect customer retention at Capital Hotel and Spa. Trust has a significant positive effect on customer retention (β = 0.246, $p < 0.001$), indicating that higher levels of trust correlate with increased customer loyalty. Therefore, it can be inferred that a one percent increase in customer trust leads to a 24.6 percent increase in customer retention rate. Similarly, employee competency also shows a significant positive effect on customer retention (β = 0.115, $p < 0.001$), showing that perceived staff competency enhances customer loyalty. From this, it can be inferred that a one percent increase in employee competency leads to a 11.5 percent increase in customer retention rate.

Customer satisfaction emerges as the most influential factor, with a strong positive effect on customer retention (β = 0.480, $p < 0.001$), emphasizing that greater customer satisfaction is closely linked to higher customer retention rates. Therefore, it can be deduced that a one percent increase in customer satisfaction leads to a 48 percent increase in customer retention rate.

Moreover, hotel reputation further contributes positively to customer retention (β = 0.148, $p < 0.001$), indicating that a favorable reputation encourages customers to return. This indicates that a one percent increase in the hotel's reputation leads to a 14.8 percent increase in customer retention rate. Conversely, perceived risk demonstrates a significant negative effect on customer retention (β = -0.171, $p < 0.001$), indicating that increased perceived risk is associated with a decrease in customer loyalty. This indicates that a one percent increase in perceived risk leads to a 17.1 percent decrease in customer retention rate. These findings collectively emphasize the importance of increasing trust, competency, satisfaction, and reputation while addressing perceived risks to enhance customer retention.

Table 13: Regression Coefficient

| Model | Unstandardized Coefficients | | Standardized Coefficients | | |
	B	Std. Error	Beta	t	Sig.
(Constant)	.165	.234		.703	.482
Trust	.249	.028	.246	8.750	.000
Competency	.125	.029	.115	4.383	.000
Satisfaction	.508	.035	.480	14.694	.000
Reputation	.204	.038	.148	5.398	.000
Perceived Risk	-.190	.035	-.171	-5.473	.000

Source: Own survey data (2024)

Based on the above regression coefficients, the linear regression equation for predicting customer retention can be formulated as follows:

Retention=0.165+0.249*Trust+0.125*Competency+0.508*Satisfaction+0.204*Reputation−0.190*Perceived Risk

4.5 Discussion

The study found that trust significantly influences customer retention at Capital Hotel and Spa, with a positive relationship indicated by a beta coefficient of 0.246 (p < 0.001). This finding supports the hypothesis that customer trust has a positive and significant effect on retention. Previous research, such as Sarwar (2012), emphasizes that trust is essential for customer loyalty and retention, fostering confidence in the company's ability to deliver on its promises. Trust in hotel services, particularly regarding front-line employees, is crucial for building service trust, which in turn influences customer loyalty (Joviando, 2022; Xu, 2022). Moreover, trust enhances customer satisfaction, directly linked to retention (Shidiq and Lin, 2024). The results of this study reinforce the notion that trust is a foundational element in customer retention, suggesting that hotels should prioritize building trust through staff training and transparent communication to enhance customer loyalty.

Employee competency also emerged as a significant predictor of customer retention, with a beta coefficient of 0.115 (p < 0.001). This supports the hypothesis that competency positively affects customer retention. Previous literature highlights the importance of service competency in ensuring customer satisfaction and loyalty. Kuruba and Kuruba (2019) note that human resource competency, encompassing knowledge and skills, directly influences performance and customer experiences. High service quality leads to increased customer satisfaction, which mediates the

relationship between service quality and customer loyalty (Kuo et al., 2013). The current findings emphasize the need for hotels to invest in staff training and development to ensure high service quality, ultimately enhancing customer loyalty.

Satisfaction was identified as the most influential factor affecting retention, with a beta coefficient of 0.480 ($p < 0.001$). This finding validates the hypothesis that customer satisfaction has a positive and significant effect on retention. Previous research supports this conclusion, with Alkitbi et al. (2020) stating that satisfaction reflects the fulfillment of customer expectations and experiences, which is crucial for fostering repeat business. Customer satisfaction is a direct predictor of customer retention, as satisfied customers are more likely to remain loyal (El-Adly, 2019; Ojo, 2024). The current study corroborates these findings, highlighting satisfaction's role as a critical mediator in the customer retention process. This underscores the importance of enhancing customer experiences to boost satisfaction levels, leading to increased loyalty.

Reputation positively influences retention, with a beta coefficient of 0.148 ($p < 0.001$), supporting the hypothesis that hotel reputation has a significant effect on customer retention. Previous research, including the work of Xiang and Gretzel (2010), argues that a strong reputation is essential in the hospitality industry, where customer experiences are subjective and heavily influenced by word-of-mouth and online reviews. A strong corporate reputation enhances customer loyalty and retention, built through service quality, corporate social responsibility, and customer satisfaction (Latif et al., 2020; O'Connor and Assaker, 2022). The current findings align with this literature, indicating that a favorable reputation significantly contributes to customer retention. This reinforces the need for hotels to maintain high service standards and engage in corporate social responsibility initiatives to bolster their reputation and encourage repeat business.

Perceived risk negatively affects customer retention, with a beta coefficient of -0.171 ($p < 0.001$), confirming the hypothesis that perceived risk has a negative and significant effect on customer retention. This finding indicates that increased perceived risk is associated with decreased customer loyalty. Previous research, such as that by Kim et al. (2008), highlights that consumers' perceptions of risk can significantly influence their purchasing decisions, with lower perceived risk fostering greater loyalty. Additionally, perceived risk can moderate the relationship between trust and satisfaction, amplifying the impact of trust on satisfaction and retention (Currás-Pérez et al., 2017). The negative impact of perceived risk on retention emphasizes the importance of

managing customer perceptions of risk, suggesting that hotels need to actively address and reduce perceived risks through clear communication and enhanced security measures.

Table 14: Summary of Hypothesis Test

Hypothesis	Result	Decision
H1: Customer trust has a positive and significant effect on customer retention.	$\beta = 0.246$, p $<$ 0.001	Supported
H2: Competency has a positive and significant effect on customer retention.	$\beta = 0.115$, p $<$ 0.001	Supported
H2: Customer satisfaction a positive and significant effect on customer retention.	$\beta = 0.480$, p $<$ 0.001	Supported
H3: Hotel reputation has a positive and significant effect on customer retention.	$\beta = 0.148$, p $<$ 0.001	Supported
H5: Perceived risk has a negative and significant effect on customer retention.	$\beta = -0.171$, p $<$ 0.001	Supported

Chapter Five

Summary, Conclusion and Recommendations

5.1 Summary

This study aimed to investigate the factors influencing customer retention in the case of Capital Hotel and Spa. The general objective is to explore various determinants of customer retention, while specific objectives include assessing customer retention levels, analyzing the effects of trust, service competency, customer satisfaction, reputation, and perceived risk on customer retention. To achieve these objectives, a quantitative research approach was employed, utilizing descriptive and explanatory research designs. The study population consisted of individuals over the age of 18 who had utilized the services of Capital Hotel and Spa, including both domestic and international customers. A sample size of 384 participants was determined using Cochran's sample size formula. Data was primarily collected through structured survey questionnaires, ensuring ease of use and understanding for respondents. The questionnaire was translated into Amharic to fit to local customers, thereby enhancing the response rate and data quality.

The analysis of the collected data involved both descriptive and inferential statistics, with the aid of SPSS software (version 26). Descriptive statistics provided a summary of key features, while inferential statistics, including multiple linear regression analysis, were used to explore relationships between independent variables and customer retention.

The descriptive analysis reveals varying levels of customer perceptions regarding trust at Capital Hotel and Spa. A significant majority expressed confidence in the hotel's ability to deliver services, achieving a high mean score of 4.82. However, concerns about transparency and staff reliability were evident, with mean scores of 2.87 and 2.69, respectively, indicating that many customers feel the hotel could improve in these areas. The findings on staff competency at Capital Hotel and Spa are predominantly positive, with 90.6% of respondents agreeing that the staff are skilled, reflected in a mean score of 4.33. The efficiency of services also received favorable feedback, with a mean score of 4.05, indicating that customers are satisfied with prompt service. Professionalism among staff was another highlight, contributing to the likelihood of return visits. However, perceptions regarding service quality exceeding expectations were slightly lower at 3.95, revealing room for improvement.

Customer satisfaction at Capital Hotel and Spa is moderately positive, with a mean score of 3.83. While a significant portion of respondents felt that services generally met their expectations, indicated by a mean score of 3.75, there remains a notable percentage expressing dissatisfaction. The influence of satisfaction on return intentions scored a mean of 3.58, emphasizing its importance for customer loyalty. Additionally, while many respondents felt their feedback was valued, as shown by a mean score of 3.58, some expressed the need for better communication regarding their input. The analysis of reputation indicates that Capital Hotel and Spa enjoys a strong standing within the hospitality industry, with a mean score of 4.55 for its overall reputation. A significant number of respondents chose the hotel based on its positive reputation, reflected in a mean score of 4.31. The reassurance provided by the hotel's reputation regarding service consistency scored well at 4.37, reinforcing the importance of maintaining a positive reputation to enhance customer confidence.

The findings regarding perceived risk highlight significant concerns among customers at Capital Hotel and Spa. The mean score for confidence in safety and security measures was alarmingly low at 1.69, with 43.8% of respondents strongly disagreeing with the statement. Concerns about service quality also surfaced, with a mean score of 2.29, indicating doubts about reliability. Additionally, the impact of service quality concerns on customers' decisions to stay was reflected in a mean score of 2.38, emphasizing the need for the hotel to address these issues to enhance customer confidence and encourage repeat visits.

The inferential analysis shows significant correlations between independent variables and customer retention at Capital Hotel and Spa. Satisfaction demonstrated the strongest positive correlation with retention ($r = 0.806$, $p < 0.001$), indicating that higher satisfaction levels lead to increased likelihood of repeat visits. Trust also showed a strong positive correlation ($r = 0.626$, $p < 0.001$), suggesting that enhancing trust can significantly boost customer loyalty. Reputation ($r = 0.555$, $p < 0.001$) and competency ($r = 0.460$, $p < 0.001$) also positively influenced retention, but to a lesser extent. Conversely, perceived risk exhibited a significant negative correlation ($r = -0.671$, $p < 0.001$), indicating that as perceived risk increases, customer retention decreases sharply.

5.2 Conclusion

The interplay of trust, competency, satisfaction, reputation, and perceived risk plays a key role in customer retention within the hospitality industry. Trust is fundamental, as it fosters loyalty by ensuring customers feel confident that their needs will be met, allowing them to overlook minor issues. Competency emphasizes the importance of staff skills and capabilities in delivering exceptional service, which enhances customer experiences and satisfaction. Customer satisfaction arises when actual service quality meets or exceeds expectations, making satisfied customers more likely to return. Reputation implies how a strong reputation, shaped by customer reviews and word-of-mouth, boosts trust and loyalty, further driving retention. Conversely, perceived risk introduces uncertainties that can deter repeat business; thus, effectively managing these risks through clear communication and consistent service quality is essential.

The findings of this study showed that customer satisfaction is the most influential predictor of retention, showing the critical need for the hotel to prioritize service quality and customer experiences. Additionally, trust in the hotel's services and staff, along with a positive reputation, are essential elements that contribute to customer loyalty. Conversely, perceived risks negatively impact retention, indicating that addressing safety and service reliability concerns is vital for enhancing customer confidence. The study emphasizes the interconnectedness of these factors in shaping customer retention. Focusing on improving trust, enhancing staff competency, and enhancing a strong reputation, Capital Hotel and Spa can create a more loyal customer base. Addressing perceived risks will further strengthen this relationship, ultimately leading to increased customer retention. The understandings gained from this study findings provide a valuable roadmap for the hotel to implement strategies that enhance customer loyalty and ensure long-term success in a competitive hospitality market.

5.3 Recommendations

The results indicated a strong positive correlation between trust and retention, indicating that higher trust leads to increased loyalty. Competency also significantly impacts retention, confirming the importance of effective service delivery. Conversely, the negative correlation between perceived risk shows the need to address customer concerns. Additionally, a positive correlation exists between reputation and retention, emphasizing the importance of a strong public image. Customer satisfaction has the strongest positive correlation with retention,

indicating that meeting customer expectations is critical for enhancing loyalty. Based on these findings, the following recommendations are made to the Capital Hotel and Spa.

1. Capital Hotel and Spa should enhance trust and transparency by implementing regular updates about hotel policies and services, ensuring customers are well-informed. They should also train staff to communicate openly and reliably with guests, particularly in addressing concerns and problem-solving.

2. The hotel should improve service quality and adaptability by investing in continuous training programs for staff to exceed customer expectations. They should gather and act on customer feedback to tailor services more effectively and enhance the marketing of their offerings to ensure guests are aware of all available resources.

3. Capital Hotel and Spa should address perceived risks by conducting a thorough review of safety and security measures and communicating these protocols clearly to guests to build customer confidence.

4. The hotel should leverage its strong reputation through ensuring that service quality consistently meets or exceeds the expectations set by their reputation and regularly monitor customer perceptions to make necessary adjustments.

5. Capital Hotel and Spa should improve customer satisfaction through providing personalized services and loyalty programs. They should regularly follow up with guests after their stays to gather feedback and create a culture that values and acts upon customer perceptions.

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Appendix
Questionnaire

St. Mary's University

School of Graduate Studies

Department of Marketing Management

Dear respondents,

This study entitled *"**Determinants of customer retention in the case of Capital Hotel and Spa, Addis Ababa"** is conducted in partial fulfillment for the requirements of MA Degree in Marketing Management at St. Mary's University. This questionnaire is prepared to gather pertinent data for the study purpose. Please be informed that the information you are going to provide will only be used for the study purpose, and will be kept confidential. Moreover, your participation in the study is fully on a voluntary basis. Therefore, you are kindly requested to provide your responses to different questions below. Thank you in advance for your willingness to spare some 15 minutes to participate in this study.

General Instruction: - Circle your response or indicate "√" in the box beneath for closed-ended questions among the provided alternatives. You don't need to write your name.

Section I: Demographic profile of respondents

Instruction: Circle your response against any response that applies to you.

1. Your Occupation category:
    a. Government Employee
    b. Private Company

c. NGO Employee
        d. Self-Employed
        e. Other, please specify _____
    2. Your sex:
        a. Male
        b. Female
    3. Your level of education
        a. Doctorate degree (PhD)
        b. Master's degree
        c. Bachelor's degree
        d. Diploma
        e. High school completed (grade 9-12)

Section II: Factors affecting customer retention at Capital Hotel and Spa

Please indicate the degree of your agreement/disagreement with the following statements associated with the factors affecting customer retention by ticking on your choice.   (Use the following scale: 1: Strongly disagree, 2: Disagree, 3: Neutral, 4: Agree, 5: Strongly agree

S.No	Statements (item)	1	2	3	4	5
A.	**Customer trust**					
1.	I trust Capital Hotel and Spa to deliver the services they promise.					
2.	Capital Hotel and Spa maintains a high level of transparency with its customers.					
3.	I believe the staff at Capital Hotel and Spa is honest and reliable					
4.	I trust Capital Hotel and Spa to handle any issues I might face during my stay					
5.	Capital hotel has a reputation for being fair in its relations with users					
B.	**Service competency**	1	2	3	4	5
1.	The staffs at Capital Hotel and Spa are highly skilled and competent in their jobs.					
2.	The services provided by Capital Hotel and Spa are efficient					
3.	The professionalism of the staff makes me want to return to Capital Hotel and Spa					
4.	The quality of services provided by Capital Hotel and Spa exceeds my expectations.					
5.	Capital hotel has sufficient experience in marketing the					

			1	2	3	4	5
		services they offer					
	6.	Capital hotel has all the resources necessary to perform their activities successfully					
C.		**Customer satisfaction**	1	2	3	4	5
	1.	I am highly satisfied with the overall experience at Capital Hotel and Spa					
	2.	The services provided at Capital Hotel and Spa consistently meet my expectations					
	3.	My satisfaction with the services at Capital Hotel and Spa influences my decision to return					
	4.	Capital hotel offers services adapted to their user's needs					
	5.	I feel that my feedback is valued and acted upon at Capital Hotel and Spa					
D.		**Hotel reputation**	1	2	3	4	5
	1.	Capital Hotel and Spa has a strong reputation in the hospitality industry					
	2.	I choose Capital Hotel and Spa because of its positive reputation					
	3.	Capital Hotel and Spa's reputation for quality influences my decision to return					
	4.	The reputation of Capital Hotel and Spa reassures me of the consistency of their services.					
E.		**Perceived risk**	1	2	3	4	5
	1.	I feel confident in the safety and security measures provided by Capital Hotel and Spa					
	2.	I have no concerns about the quality of services at Capital Hotel and Spa					
	3.	I believe there is little risk in choosing Capital Hotel and Spa for future stays					
	4.	Concerns about service quality affect my decision to stay at Capital Hotel and Spa					

Section III: Customer retention

Please indicate the degree of your agreement/disagreement with the following statements associated with the four traits of customer retention by ticking on your choice.   (Use the following scale: 1: Strongly disagree, 2: Disagree, 3: Neutral, 4: Agree, 5: Strongly agree

S.No	Statements (item)	1	2	3	4	5
A	**Customer retention**					
1	I frequently stay at Capital Hotel and Spa when I visit Addis Ababa					
2	I plan to continue using the services of Capital Hotel and Spa in the future.					
3	I would recommend Capital Hotel and Spa to others					
4	I feel loyal to Capital Hotel and Spa compared to other hotels					
5	Capital Hotel and Spa meets my expectations consistently.					