

RELATIONSHIPS BETWEEN SERVICE QUALITY, CUSTOMER SATISFACTION & CUSTOMER LOYALTY IN HOTEL SERVICES

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Abstract

Rendering Service Quality is a key for survival. Hotel industry has a huge potential for growth due to the rich heritage of the country & also the enormous business potential. This study uses secondary data from a survey of Hotel Customers. Based on extensive literature survey, a theoretical model is proposed to relate the Service Quality, Customer Satisfaction & Customer Loyalty. Using convenience sampling, a survey (with a well-defined Questionnaire) was carried out for regular hotel users & Structural Equation Modelling (using IBM SPSS AMOS) was used for investigating the relationship between the latent constructs of the Service Quality, Customer Satisfaction & Customer Loyalty. The study indicated that Service Quality (with its five antecedents) has a significant influence on Customer Satisfaction & in turn, Customer Satisfaction has a significant influence on Customer

Loyalty in Hotel Services. The emerging model can be used for developing necessary managerial strategies for achieving the ultimate objective of Customer Satisfaction & Customer Loyalty.

Keywords: *Services Quality, Customer Satisfaction, Customer Loyalty, Tangibles, Reliability, Responsiveness, Assurance, Empathy, SERVQUAL*

Introduction

Rendering Service Quality is a key for survival. Hotel industry has a huge potential for growth due to the rich heritage of the country & also the enormous business potential. The major players in the organized segment of Indian hotel industry include the Taj Group (34.58%), the Oberoi Group (21.59%), ITC Hotels (20.68%), and others (23.15%) (Dash & Sharma, 2019). Parasuraman et al. (1990) observed that there are few service essentials like: defining service role, communicating service standards, searching for fresh ideas, emphasize service teams & resolving problems. Customers are the sole judge of Service Quality. A company achieves Service Quality by consistently meeting customer expectations. Many errors in Hotel Service operations are one-offs; for example, the housekeeping officer who makes an error creates a serving problem that neither can be foreseen nor corrected ahead of time.

Interestingly enough, such mistakes often can be used to create Customer Satisfaction by recovering the situation in an excellent fashion. Since customer is an integral part of Service Quality, it can be postulated that Service Quality will have a positive impact on Customer Satisfaction & Customer Loyalty. While Service Quality is an attitude relating to the superiority of service, Customer Satisfaction is related to a specific transaction. Cronin and Taylor (1992) reported that Service Quality is an antecedent of Customer Satisfaction in a service organization.

Literature Review

Service Quality

In the book “Delivering Quality Service” the authors Parasuraman et al. (1994a) postulated the five SERVQUAL dimensions as: Tangibles, Reliability, Responsiveness, Assurance, & Empathy. SERVQUAL model developed by Parasuraman et al. (1985) has been utilized by many researchers. Tangibility includes the ambience, etc. Reliability includes the trust customers have on the employees, etc. Responsiveness includes the promptness or helpfulness of staff, etc. Assurance includes credibility of employees, etc. Empathy includes

politeness of staff, etc. The Five Antecedents of Service Quality in the current paper are Tangibles, Reliability, Responsiveness, Assurance & Empathy as postulated by Parasuraman et al.

Customer Satisfaction

Customer Satisfaction is a comparison of what did happen in a Service interaction with what a Customer predicted was to happen. Clemes et al. (Michael D. Clemes, 2008) related the concept to Customers Satisfaction and the results supported the relation between Service Quality & Customer Satisfaction. Service Quality & Customer Satisfaction related literature is available in abundance (Bei & Chiao, 2001). There has been divergent definition concerning Customer Satisfaction. For instance, Oliver et al. (Oliver, 1981) projected Customer Satisfaction as “a total psychological state when there is an existed discrepancy between the emerging emotion and expectation and such an expectation is a consumer’s feeling anticipated and accumulated from his or her previous purchases”. Customer Satisfaction is “a feeling which results from a process of evaluating what has been received against what was expected, including the purchase decision itself and the needs and wants to be associated with the purchase”. Boeselie et al. cited in Bakti et al. (2013) recommended Customer Satisfaction as “a positive, effective state resulting from the appraisal of all aspects of a party’s working relationship with another”. Customer Satisfaction is “the Customers’ evaluation of a product or service in terms of whether that product or service has met their needs and expectations”. Customer Satisfaction is a Customer’s perception of fulfilment of needs & expectations. Jones and Sasser (1995) wrote that “achieving Customer Satisfaction is the main goal for most Service firms today”. Increasing Customer Satisfaction has been shown to directly affect companies’ market share, which leads to improved profits, positive recommendation, lower marketing expenditures (Heskett, 2002) and greatly impacts the corporate image and survival. Zeithaml (2000) specified satisfaction as the Customers’ evaluation of a product or service in terms of whether product or service has met their needs and expectations. Other scholars define Customer Satisfaction according to two levels of aggregation: First, as a transaction-specific assessment—an emotional reaction following a disconfirmation experience and second, as an Overall assessment with the organization based on all encounters and experiences with that particular organization (Mary Jo Bitner, 1997). In the current paper, four items of Customer Satisfaction namely; happy experiences, satisfied with the Quality, satisfied with the Overall Services & performance is beyond expectation are determined based on the scales of Anderson and Srinivasan (2003).

Customer Loyalty

Customer Loyalty has been a major topic in service literature for decades. Many researchers have tried to define Customer Loyalty. There are two schools of thoughts in defining Customer Loyalty (Bakti & Sumaedi, 2013). The first school of researchers defines Customer Loyalty as a structure of customer behavior (Neal, 1999), as an actual repurchase action and an actual recommendation action (Sancharan, 2011). The scholars of the second mainstream view Customer Loyalty as customer attitude. Within this perspective, Customer Loyalty encompasses repurchase and recommendation intention (Toll Wallin Andreassan, 1998). Because of good relations with service providers, satisfied customers are more likely to avail services & build long term trust with an organization (Wantara, 2015). Service Quality influences relative attitude and satisfaction with department stores. Fostering favourable relative attitude and getting customers to recommend the product or service holds the key to fostering store loyalty. Some organisations institutionalise customer relationship management to increase Customer Loyalty and customer retention. By personalizing a customer's stay, a hotel can ensure that customers will come back again and again simply by remembering their favourite beverage, pillow or other preferred amenities (Kaushal, 2015).

Ladhari (2009) reported that Service Quality affects Customer Satisfaction & Customer Loyalty, both directly & indirectly. Research suggests that loyal customers are willing to pay a premium to do business with their preferred service providers (Baldinger & Rubinson, 1996). The scale items for Customer Loyalty are; preference of choice (Ribbink, Van & Liljander, 2004), intention to repurchase or retain (Robert M. Morgan, July 1994) or likelihood of future purchases, & positive word-of-mouth (Parasuraman, Zeithaml & Berry, 1994b). Gremler & Brown (1999) considered an extremely loyal customer as one who: (a) repeatedly purchases a good or service over time; (b) really likes the company, saying positive things about the company; and (c) considers the company the first choice to buy services and does not ever consider choosing another company. Service Quality, perceived value and Customer Satisfaction indirectly affect Customer Loyalty through mediation & customer engagement. In this research paper related to Hotels, Customer Loyalty measures were mainly based on the scales of (Zeithaml, 2000). Four items namely; recommend this Hotel to others, choose this Hotel again, desire to be a customer of this Hotel in future, prefer this Hotel to other hotels at any time were selected.

Service Quality, Customer Satisfaction & Customer Loyalty

Allada (Vijaya Kameswari Allada, 2014) has identified a number of Service determinants like convenience, responsiveness, accessibility, confidentiality of information, technological upgrade etc. According to the available academic literature, there is a clear association of Service Quality with Customer Satisfaction (Peter J. Danaher, 1994). Yazdi (2015) has stated that Customer Satisfaction is proportional to the Quality of Service offered. A growing body of empirical works supports the fundamental logic that Customer Satisfaction should positively influence Customer retention (Reibstein, 2002). They asserted that satisfied Customers automatically become loyal Customers, that satisfaction is a leading factor in determining loyalty and that high Customer Satisfaction gives rise to increase in repurchase intention & Customer retention (Richard L. Oliver, 1989). Service Quality helps in increasing the number of Customers. Practicing Service Quality will improve Customer Satisfaction & Customer Loyalty. Therefore, many companies attempt to understand and measure Service Quality indicators (Yazdi, 2015).

Current Research

Research Gap

Research papers on hotels have investigated the perception of customers on Service Quality. Hotel literature also shows evidence of a study related to Customer Satisfaction. However, a comprehensive Model that established the interrelation between Service Quality, Customer Satisfaction & Customer Loyalty for Hotels is not available in the Indian Context to the best of our knowledge.

Research Objective

The current research paper attempts to establish the interrelation between Service Quality, Customer Satisfaction & Customer Loyalty for Hotel Services in Mumbai. The following are the Research Questions (Fig. 1):

- Is there a relationship between Service Quality and Customer Satisfaction?
- Does Customer Satisfaction have a positive and significant influence on Customer Loyalty?

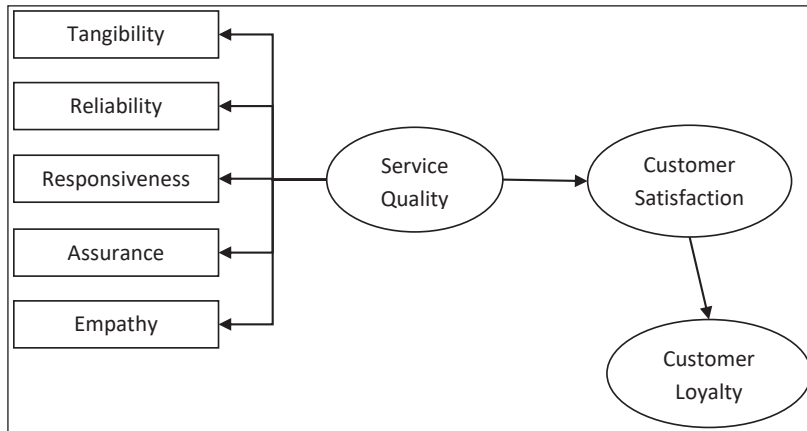


Fig. 1: Research Framework – Service Quality, Customer Satisfaction and Customer Loyalty

Research Hypothesis

Based on above research framework, following hypothesis were framed.

H1: Service Quality significantly influences Customer Satisfaction.

H2: Customer Satisfaction significantly influences Customer Loyalty.

Sample Selection

Six Hundred & thirty-eight responses of hotel customers (ranging from three-star up to five star deluxe in Mumbai & Other Metropolitan cities) using self-administered or self-reported instruments. Questionnaire were distributed through executive education participants at School of Business Management. Respondents were identified amongst regular users using Convenience Sampling. Due to high levels of missing data (exceeding 5%), some of the responses that were incomplete & inadequate were eliminated. Three hundred and eighty seven valid respondents (from a total of 638) were used for analysis. In the 387 valid responses, there were eight variables with 1 - 6 missing values which were replaced by the mean values for continuous scale. The respondents demographic comprises of 66% male and 34% female, 82% travelling for business purpose & 18% were travelling for holiday & leisure.

Variables and Indicators

The current research considers five latent variables (antecedents) Tangibles, Reliability, Responsiveness, Assurance & Empathy of Service Quality & two other important latent variables: Customer Satisfaction and Customer Loyalty. The latent variables cannot be measured directly & are referred as unobserved variables. Therefore, we use indicators to represent them which are referred as observed variable (Scott MacLean, K. G. (1998)).

Service Quality

Statements selected for the antecedents of Service Quality, Customer Satisfaction & Customer Loyalty were modified from earlier studies done by the Authors (Kachwala et al. 2015, 2017 & 2018). Multiple indicators (observed variables) were identified from the literature for the Five antecedents of Service Quality: Tangibles, Reliability, Responsiveness, Assurance & Empathy {as listed in Annexure 1 (Operational Definition of the terms)}:

Customer Satisfaction & Customer Loyalty

The two other important latent variables; Customer Satisfaction & Customer Loyalty are each measured by four indicators (observed variables) as listed below {Annexure 1 (Operational Definition of the terms)}:

- *Customer Satisfaction*: Pleased experiences with the Hotel, gratified with the quality of the Rooms, Happy with the overall services offered, the performance is beyond expectation.
- *Customer Loyalty*: Recommend this Hotel to others, choose this Hotel again, like to be a customer of this Hotel in future, prefer this Hotel to other Hotels at any time.

Measurement Scale Validation

Statements selected for the antecedents of Service Quality, Customer Satisfaction & Customer Loyalty were modified from earlier studies done by the Authors (Kachwala et al., 2015, 2017 & 2018). Wong and Sohal (Amy Wong, 2003) have used different studies to similarly develop the factors of Service Quality, Customer Satisfaction and Customer Loyalty.

Construct Validity & Reliability Assessment

Reliability Testing was employed using Cronbach alpha (Lai & Chen, 2010); (Tari, Molina & Castejon, 2007); (Hair, Black, Babin, Anderson & Tatham, 2006). Few of the scales items were removed from their constructs. The Table 1 shows that Cronbach alpha value exceed the cut-off value or meets the requirements.

Table 1: Reliability of Scale

Variable	Cronbach's Alpha	Final No. of Scale Items
Tangibles (Facilities) - TAN	0.735	5
Reliability - REL	0.721	5
Responsiveness (Timeliness) - RES	0.680	3
Assurance - ASS	0.741	5
Empathy - EMP	0.752	4
Customer Satisfaction - CS	0.617	4
Customer Loyalty - CL	0.698	4
Service Quality - SQ (Higher Order)	0.910	5

The validity was checked by the loading of scale items on to its construct. Table 2 shows the loading and average variance extracted. In all cases the loading was above 0.6. (Lai & Chen, 2010); (Tari, Molina & Castejon, 2007); (Hair, Black, Babin, Anderson & Tatham, 2006); (Lai & Chen, 2010; Tari et al., 2007).

Table 2: Validation of Scale

Variable	Loading Range Component Matrix	ESSL % Variance
Tangibles (Facilities) - TAN	0.631-0.756	48.59
Reliability - REL	0.627-0.730	47.53
Responsiveness (Timeliness) – RES	0.643-0.778	52.51
Assurance - ASS	0.612-0.740	49.38
Empathy - EMP	0.715-0.791	57.59
Customer Satisfaction - CS	0.602-0.730	46.59
Customer Loyalty - CL	0.663-0.773	52.49
Service Quality - SQ (Higher Order)	0.809-0.894	73.93

Model Fitting and Hypotheses Testing

A path model was prepared in AMOS and using the data, it was tested for the following two equations:

Equation 1: Regression of Customer Satisfaction on Service Quality

$$CS = \beta_{11} + \beta_{12} * SQ$$

Equation 2: Regression of Customer Loyalty on Customer Satisfaction

$$CL = \beta_{21} + \beta_{22} * CS$$

Service Quality (SQ) was modelled as second order reflective construct with TAN, REL, RES, ASS, and EMP as scale items. These five scale items were considered as first-order construct with their respective scale items as per Table 1.

Model Fitting

The model fit parameter for the above model was ensured as shown in Table 3.

Table 3: Model Fit Parameters

Measure	Threshold Required	Actual Obtained
Chi-square/df	< 3	2.796
CFI	> 0.95 Great; > 0.90 Normally; > 0.80 Sometime acceptable	0.844
GFI	> 0.95	0.843
AGFI	> 0.80	0.817
RMSE	< 0.05 good; < 0.10 moderate	0.068

From the Table 3 it can be concluded that model fit was ensured. Accordingly, regression estimate was analysed.

Regression Estimates

Model Parameters

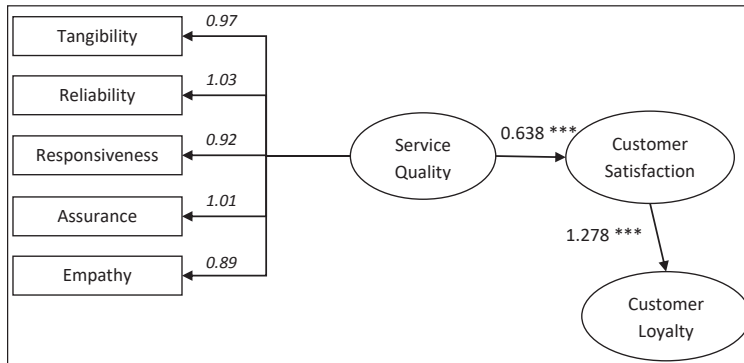


Fig. 2: Research Framework – Regression Estimates

Notes

- *Italicize* value for Service Quality to its Five Aspects are the standardized estimates.
- The SQ → CS: unstandardized estimate is significant at < 0.001.
- The CS → CL: unstandardized estimate is significant at < 0.001.

Findings and Discussion

From the above results, it can be concluded that:

H1: Service Quality significantly influences Customer Satisfaction.

H2: Customer Satisfaction significantly influences Customer Loyalty.

The findings of the current study support the view that Service Quality consists of five dimensions. A study by Arora and Narula (2018) reports that Service Quality is dependent on many factors and Service Quality has positive impact on Customer Satisfaction. The current study also found that relationship between Service Quality and Customer Satisfaction is significant and positive. Similar results were observed by Torun (2019) for the data collected from tourism customers of various hotels in Antalya province to show that the satisfaction of hotel customers is influenced by the quality of the service they receive. Madar (2017) has exemplified that improvement of Customer Satisfaction is a result of improving the quality of hotel services.

This study also indicates that Customer Satisfaction leads to Customer Loyalty (the relationship is both significant and positive). Study by Madhavan and George (2017) for hotels in Al Buraimi, Oman indicates that all

dimensions of Service Quality significantly impact guest satisfaction which in turn significantly influences guest loyalty.

Data from customers of leading fast food franchise enterprises in Taiwan indicated that Service Quality positively influences Customer Satisfaction and Customer Loyalty through Customer Satisfaction (Liu, Weng-Kun, Lee & Hung, 2017). The study on Kaohsiung Port in Taiwan suggested that Kaohsiung Port should concentrate on improving its Service Quality to enhance Customer Satisfaction and Customer Loyalty (Chang & Thai, 2016). Huang, Lee and Chen (2019) found that Service Quality positively impacts Customer Satisfaction, Customer Satisfaction positively impacts Customer Loyalty in the business-to-business (B2B) technology service industry. The Ghanaian telecommunication industry study revealed that Service Quality significantly influences both Customer Satisfaction and brand loyalty and also that Customer Satisfaction significantly influences brand loyalty (Amoako, George, Dzogbenuku, Doe & Joshua, 2016). The research by Gong and Yi (2018) validated the cross-national applicability of a Service Quality model in five Asian countries: China, Hong Kong, Japan, South Korea, and Singapore. The findings show that overall Service Quality has a positive influence on Customer Satisfaction, which in turn leads to Customer Loyalty. The study by Setó-Pamies (2012) in travel agency sector found that Customer Loyalty depends on the customer's degree of satisfaction and trust. In turn, satisfaction is influenced by Service Quality based on Service Quality scale. Venkateswarlu et al. (2015) in the study of hospitals indicated significant positive impact of Service Quality on Customer Satisfaction & Customer Loyalty.

Implications of the Study

Theoretical Implication

The research observation Customer's perception of Service Quality significantly influences Customer Satisfaction is in line with the few studies conducted in Bank (Chen & Chen, 2007); in dry cleaning and fast food industry (Cronin & Taylor, 1992); in energy industries (Ibanez, Hartmann & Calvo, 2006); in airline industry (Clemes, Gan, Kao & Choong, 2008); and in public transport study, (Wen, Lawrence & Cheng, 2005). Ajzen (1991) argued that Satisfied Customers may not use the Hotel Services because these Customers have multiple other options for the Hotel Service, mainly through internet channel where many things related to Hotel Services are accessible. It can, therefore, be argued that Customers could recognize Service Quality as a hygiene factor (Prajojo & Sohal, 2004). Therefore, providing Service Quality does not guarantee the re-use of Hotel Services. However, in the absence of Service Quality, Customers will certainly not re-use the Hotel Services.

The finding of this research is that Hotel Customer Satisfaction is related to perception of Service Quality. However many researchers like Parasuraman, Zeithaml and Berry (1994b), Voss, Parasuraman and Grewal (1998), Bei and Chiao (2001), have indicated that Customer Satisfaction is not dependent on Service Quality alone. Hotel administration needs to recognize personal & other factors that can affect Hotel Customer Satisfaction (Zeithaml & Bitner, 2003).

Conclusions

Many studies were conducted for Hotel User's Satisfaction and how this construct is related to perception of Service Quality. In the current study, the researchers have incorporated the antecedents of Service Quality in addition to the relationship between Customer Satisfaction and Customer Loyalty. The study also found that Service Quality has a direct influence on Customer Satisfaction and also Customer Satisfaction Influences Customer Loyalty.

Limitations & Scope for Future Research

First limitation is that the respondents of this study were selected only from one city (Mumbai). However, the findings can be generalized as they are in line with few other studies with similar research objectives. The second limitation is the nature of the cross-sectional data that were collected during the period January 2019 to July 2019. The research findings relate to the current status of Customer's insight of Service Quality, Customer Satisfaction and Customer Loyalty. It is recommended to carry out similar studies with larger respondent profile, longitudinal study and involving more Hotels in multiple cities.

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Annexure 1 (Operational Definition of the Terms)

The dimensions defined in the Model “Service Quality – Customer Satisfaction – Customer Loyalty” for Hotels are as follows:

(1) Tangibles (Facilities):

1. Appearance of physical facilities, equipment etc.
2. Classy & Comfortable ambient conditions such as temperature etc.
3. Well-dressed personnel (neat, clean & professional appearance).
4. Visually appealing and clean facilities.
5. Physical layout of equipment & other furnishings/facilities.
6. Proper housekeeping.

(2) Reliability:

1. Service provider’s ability to display a positive moment of truth.
2. The interest the service provider shows in solving customer problem.
3. The right delivery of service first time & every time.
4. The ability to perform the promised service dependably and accurately.
5. The ability to provide error free records, bills & other transaction documents.

(3) Responsiveness (Timeliness):

1. Ability to communicate provision of services.
2. Willingness to help customers at all times.

3. Providing prompt and timely service.
4. Availability of service provider at the time he is required (accommodating & anticipating).

(4) Assurance:

1. Politeness, respect, consideration, and friendliness of contact personnel (procedural skill & convivial skill).
2. Possession of the required skills and knowledge to perform the service, and offer helpful suggestions.
3. Trustworthiness, believability, and honesty of the service provider.
4. Freedom from danger, risks, or doubt. Feeling of delight & satisfaction.
5. Ability for actions whenever a critical incident takes place & the degree to which the organization succeeds in bringing the condition back to normality to the satisfaction of the customer.

(5) Empathy:

1. Caring, individualized attention the firm provides its customers. Resolving amicably customer's problems (tactful during service recovery).
2. Approachability and ease of contact.
3. Keeping customers informed in language they can understand and listening to them.
4. Making the effort to know customers and their specific needs. Keeping the customers' best interest at heart.

(6) Customer Satisfaction:

1. Pleased experiences with the Hotel.
2. Gratified with the quality of the Rooms.
3. Happy with the overall services offered.
4. The performance is beyond expectation.

(7) Customer Loyalty:

1. I will highly recommend this Hotel to others.
2. If I could decide again, I would choose this Hotel again.
3. I would like to be a customer of this Hotel in future.
4. I will prefer this Hotel to other Hotels at any time.