

Perceived Service Quality and Its Relationship with Customer Loyalty in Ethiopian Hotel Industry

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ABSTRACT

Hotel industry as one of the service providers is under growing pressure to demonstrate that their services are customer focused. In this study the SERVPERF model applied to evaluate the perceived service quality of the industry. The main objective of this study was to examine the relationship between perceived service quality and customer loyalty in Ethiopian hotel industry. Quantitative research design was employed in this study to test the developed hypothesis. In order to collect primary data, a self-completed questionnaire was distributed. Primary data was gathered from all those customers' who visited and/or stayed at any of the selected star hotels. 400 questionnaires were distributed and 340 questionnaires were successfully collected and returned and 321 (80.25%) usable questionnaires obtained and ready for data analysis. The collected data was analyzed by using statistical package for social science (SPSS) version 16. The result of this study showed that perceived service quality has strong and significant correlation with customer loyalty in Ethiopian hotel industry. Particularly, tangibility, assurance, empathy, responsiveness and reliability dimensions have positive and significant association with customer loyalty in Ethiopian hotel industry.

Introduction

Ethiopia is one of the African countries that own the maximum number of UNESCO World Heritage Sites in Africa, with ten sites spread throughout the whole country (Ministry of culture and tourism, 2011), and as a result has great potential to build up itself as a tourist destination. Moreover, Ethiopia is a strategically important country in the Horn of Africa for the majority countries and thus, several international meetings and conferences are held in Ethiopia (The Embassy of Japan in Ethiopia, 2008). This generate a huge demand for accommodation at an international standard and even an increase in such a demand

is predicted in the future since the importance of Ethiopia has been mounting and many international organizations have been constantly escalating their institutions and augmenting their employees in Ethiopia.

Now a day's the hotel industry is considered as one of the most important service sectors that can considerably contribute for the development of world economies (Kangogo, Musiega and Manyasi, 2013). Moreover, in many countries hotel industry is a prerequisite for the development and expansion of tourism industry (Mohajerani and Miremadi, 2012). Hotel industry, being one of the service providers are under growing pressure to

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demonstrate that their services are customer focused and continuous performance improvement is being delivered.

In search of competitive advantage, different hotels are placing more focus on service quality provision. In recent years customers are becoming more aware of their expectations and demand higher standards of services. In similar way, hotels are also trying to let know their customers that they are customer focused by writing it bold in their vision and mission statements. If customers perceive the service quality as unsatisfactory, they may be quick to take their businesses elsewhere. Hotels therefore, need to be more responsive to the changing demands and expectations of customers' by providing quality service. Moreover, according to the study of Bagram and Khan (2012) in this competitive world, many profit making organizations seek to make their customers' more loyal. Moreover, competition is the major problem for hospitality industry in today's unstable business environment and the mechanism is to have loyal customer' through profitable relationship with them (Dhillon, 2013).

Need of the Study

Hotel industry is new occurrence in Ethiopia particularly the emergence of well standardized hotels like the establishment of star category hotels. For national and international customers standardized hotels are needed with adequate services. Moreover, nonexistence of well standardized hotels with quality service is the major challenges for the growth of today's hotel industry. Therefore, different studies needed to be conducted independently and in detail in the area of perceived service quality and its relationship with customer loyalty in Ethiopian hotel industry.

Provision of quality services for both domestic and international customers is the basic requirement for the growth of hotel industry. Studying the level of perceived service quality which is provided by Ethiopian star hotels by their customers' is important in different ways. So, the main reason that initiates the researchers to conduct this research is that there are little researches which are conducted on this topic independently and in detail before to indicate the relationship between perceived service quality and customer loyalty in Ethiopia, particularly in hotel industry.

The earlier studies on measurement of customer evaluation of the relationship between perceived service quality and customer loyalty were few for hotel industry, more so in Ethiopian context. Also a number of studies have been conducted on the measurement of the relationship between perceived service quality and customer loyalty of hotels independently. However, evaluating the perceived service quality of each hotel might not give much input unless a study is made at industry level. The present study of hotel industry perceived service quality and its relationship with customer loyalty would help fill the relevant gaps in the literature and advance the study of hotel industry forward. As Ethiopia also becomes business and tourism destination, expectation of foreigners regarding service quality need to be understood in order to reduce the service quality gaps which will help this vital sector to grow.

According to the study of Yabibal (2010) lack of trained man power in the sector and the insufficient tourism infrastructure particularly the shortage of tourist standard hotels are the major constraint for tourism sector in Ethiopia. Moreover, the hotel industry in Ethiopia has been developing very fast but there is still a big room for enhancement when it comes to the quality of

service (Ebisa & Andualem, 2013). Therefore, this study was conducted because service quality dimensions were not tested by using modified SERVPERF model as expected in African developing countries like Ethiopia. Most of the time SERVQUAL model is widely applied to measure the service quality of service rendering organizations in developed countries by using five dimensions.

Review of literature

Perceived service quality

According to the study of Mazumder and Hasan (2014) a lot has to be done in operationalizing hotel service quality. Parasuraman, Zeithaml and Berry (1988) have defined service quality as the ability of the organization to meet or exceed customer expectations. According to these authors, service quality is described as a global judgment or attitude relating to the overall excellence or superiority of the service and it is conceptualized as a consumers' evaluation of overall service quality. Furthermore, according to Gronroos (1984), perceived service quality is defined as the outcome of an evaluation process, whereby consumers compare their expectations with their perceptions. As it is indicated by Shanthakumari & Kannan (2010), both perceptions and expectations of customers are considered as significant factors in measuring the service quality for service providers.

The study of Jain and Gupta (2004) indicated that SERVQUAL and SERVPERF comprise two major service quality measurement scales. Moreover, Nadiri and Hussain (2005) study supports the argument that performance-only measurement (SERVPERF) is the better predictor of service quality. Furthermore, the empirical study of Lee H., Lee Y. and Yoo (2000)

also supports the concept that the performance-based measures of service quality capture more of the variation in service quality than do the difference measures. Moreover, the empirical study of Jain and Gupta (2004) clearly pointed out that in evaluating the validity, reliability, and methodological soundness of service quality scales showed the superiority of the SERVPERF scale. The study of Kumar & Ravindran (2010) also clearly demonstrated that service quality SERVPERF with five dimensions (tangibility, reliability, responsiveness, assurance and empathy) can be used to measure perceived service quality.

Research in service quality has been dominated by the SERVQUAL instrument, based on the so-called gap model (Bloemer, Ruyter and Wetzels, 1999). The main idea in this model is that service quality is a function of the difference scores between expectations and perceptions (P-E). As service quality is a multidimensional concept, the study of Parasuraman, Zeithaml and Berry, (1985) have identified ten requirements useful for customers' evaluation of the quality of services such as reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer and tangibles. In their subsequent work of Parasuraman, Zeithaml and Berry (1988), the authors tested the ten identified dimensions and reduced them to five factors: tangibles, reliability, responsiveness, assurance (combining communication, credibility, security, competence and courtesy) and empathy (combining understanding and knowing the customer with accessibility)

Customer Loyalty

Customer loyalty is explained in the study of Kandampully and Suhartanto (2000) as "customer

who repurchases from the same service provider whenever possible and who continues to recommend or maintains a positive attitude towards the service provider". After important customers' recognized and grouped based on profitability ranks, organizations are expected to create long term partnerships in order to improve customer loyalty (Pitta, Franzak and Fowler, 2006). Therefore, enhanced customer loyalty is essential for today's business organizations.

The most important and comprehensive definition of customer loyalty is given by Oliver (1999), in which customer loyalty is defined as "a deeply held commitment to re-purchase a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior". In addition, according to the study of (Gremler and Brown, 1996) as it is cited in Gremler and Brown (1999) service loyalty can be defined as the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.

The Link Between Service Quality and Customer Loyalty

The study results of Mei, Dean and White (1999) demonstrated that there is strong relationship between service quality evaluation and intention to recommend the hotel; which is one dimension of customer loyalty. The finding of Malik, Yaqoob and Aslam (2012), shows that service quality is positively and significantly correlated with customer loyalty in hotel industry. In addition, a research conducted by Poku, Zakari and Soali (2013), pointed out that hotels face the challenge

of meeting and exceeding their customers' expectations through high quality service delivery in order to ensure customer loyalty which is the bedrock of any business. The research findings of Zeithaml, Berry and Parasuraman (1996) also reported that there is strong association between overall service quality and service loyalty across multiple companies.

Five dimensions of service quality (tangibility, responsiveness, reliability, assurance and empathy) have positive correlation with customer loyalty (Arvin and Andisheh, 2013). That means when the service quality is perceived to be rewarding, customers report a high level of loyalty. Moreover, the study of Javalgi and Moberg (1997) also revealed that in today's dynamic global environment, every organization is searching for innovative ways to achieve competitive advantage, enhance customer loyalty, and improve efficiency without sacrificing quality of service. However, in the study of Cronin and Taylor (1992), service quality did not appear to have a significant positive effect on intentions to purchase again.

The research findings of Mak, Sim and Jones (2005) indicated that improved service quality of hotels as perceived by the consumers' lead to higher customer loyalty. Based on structural equation modeling analysis the study findings of Kim, Holland and Han (2013) indicated that service quality has significant relationship with destination loyalty. It is also more evident that there is a positive relationship between perceived service quality and customer behavioral intention in hotel industry (Pandey and Joshi, 2010). The research findings of Khuong, Ngan and Phuong (2015) proved that empathy, assurance and tangibility dimension of service quality affected guest loyalty directly and indirectly whereas reliability and responsiveness did not significantly predict guests' loyalty in 3-5 star hotels.

Objective of The Study

The main objective of this study was to examine the relationship between perceived service quality and customer loyalty in Ethiopian Hotel industry. Specifically, this study aimed to describe the nature of relationship between service quality dimensions and customer loyalty in Ethiopian hotel industry.

Hypothesis of The Study

This study has the following hypothesis.

H1: Perceived service quality will have positive and significant relationship with customer loyalty in Ethiopian hotel industry.

H1a: Tangibility dimension will have positive and significant relationship with customer loyalty in Ethiopian hotel industry.

H1b: Empathy dimension will have positive and significant relationship with customer loyalty in Ethiopian hotel industry.

H1c: Responsiveness dimension will have positive and significant relationship with customer loyalty in Ethiopian hotel industry.

H1d: Reliability dimension will have positive and significant relationship with customer loyalty in Ethiopian hotel industry.

H1e: Assurance dimension will have positive and significant relationship with customer loyalty in Ethiopian hotel industry.

Research Methodology

Primary data was gathered from all those customers' who visited the hotel at least once and/or stayed at 3-star, 4-star, and 5-star hotels by using convenience sampling approach. Specifically, five 5-star hotels, six 4-star hotels and eight 3-star hotels were selected randomly from the entire population of star hotels. In this study five dimensions of perceived service quality such as reliability, responsiveness, assurance, empathy and tangibility were used. This is supported by the study of Rousan, Ramzi and Mohamed (2010), in which five service quality dimensions, namely, tangibility, reliability, responsiveness, assurance and empathy was used and all dimensions comprise the criteria customers' use to evaluate the service quality of star hotels.

The perception only measurement which is modified SERVPERF model was used to evaluate the perceived service quality of hotels. Four dimensions of customer loyalty such as word of mouth communication, purchase intention, price sensitivity, and complaining behavior was included to measure customer loyalty (Zeithaml, Berry and Parasuraman, 1996). After permission was obtained from star hotel managers, 400 questionnaires were distributed to star hotel customers'. Of these 400 distributed questionnaires, 340 questionnaires were successfully collected and returned. Out of distributed questionnaires, 321 (80.25%) usable questionnaires obtained and ready for data analysis. Therefore, results and discussions are based on 321 customers' responses. Statistical package for social science (SPSS) version 16 used to analyze the collected data.

Results and discussions

Results of Demographic Factors

The following tables showed some of the demographic factors of questionnaire respondents.

Table 1: Purpose of visiting and Nationality customers Cross tabulation

		Nationality customers		Total	
		Local	Foreigners		
Purpose of visiting	Business Travel	Count	1	25	26
		% within Purpose of visiting	3.8%	96.2%	100.0%
		% of Total	.3%	7.8%	8.1%
	Tourist	Count	14	1	15
		% within Purpose of visiting	93.3%	6.7%	100.0%
		% of Total	4.4%	.3%	4.7%
	Training and conference Participation	Count	35	35	70
		% within Purpose of visiting	50.0%	50.0%	100.0%
		% of Total	10.9%	10.9%	21.8%
	Entertainment and leisure	Count	100	93	193
		% within Purpose of visiting	51.8%	48.2%	100.0%
		% of Total	31.2%	29.0%	60.1%
	Game and family matters	Count	13	4	17
		% within Purpose of visiting	76.5%	23.5%	100.0%
		% of Total	4.0%	1.2%	5.3%
Total		Count	163	158	321
		% within Purpose of visiting	50.8%	49.2%	100.0%
		% of Total	50.8%	49.2%	100.0%

Main Findings

Pearson correlation test was conducted to know the degree of relationship between independent variables i.e. perceived service quality and customer loyalty.

Correlation Analysis between Service Quality Dimensions and Customer Loyalty

The degree of relationship between these variables is shown in the following table. As it is demonstrated in the table, there is significant correlation between service quality dimensions (reliability, responsiveness, assurance, empathy and tangibility) and customer loyalty with $p < 0.01$. As it is indicated on the table the correlation between reliability and customer loyalty is 0.268 with $p < 0.01$. The highest relationship is found between tangibility dimension and customer loyalty (0.828) and the lowest correlation is found between reliability and customer loyalty (.470). Moreover, assurance, empathy and responsiveness have 0.771, 0.760 and 0.646 correlation respectively with customer loyalty. As it is shown on the following table, all correlations between service quality dimensions and customer loyalty are significant at 0.00 which is $p < 0.01$.

Table 2: Correlation result between service quality dimensions and customer loyalty

		Responsiveness	Assurance	Empathy	Tangibility	Reliability	Customer Loyalty
Responsiveness	Pearson Correlation	1	.620**	.557**	.614**	.311**	.646**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	321	321	321	321	321	321
Assurance	Pearson Correlation	.620**	1	.664**	.647**	.221**	.771**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	321	321	321	321	321	321
Empathy	Pearson Correlation	.557**	.664**	1	.722**	.205**	.760**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	321	321	321	321	321	321
Tangibility	Pearson Correlation	.614**	.647**	.722**	1	.331**	.828**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	321	321	321	321	321	321
Reliability	Pearson Correlation	.311**	.221**	.205**	.331**	1	.470**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	321	321	321	321	321	321
Customer Loyalty	Pearson Correlation	.646**	.771**	.760**	.828**	.470**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	321	321	321	321	321	321

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

Correlation analysis between overall service quality and Customer loyalty

As it is shown on the following table there is positive and significant correlation between overall service quality and customer loyalty (0.857).

Table 3: Correlation result between overall service quality and customer loyalty

		Customer Loyalty	Overall Service Quality
Customer Loyalty	Pearson Correlation	1	.857**
	Sig. (2-tailed)		.000
	N	321	321
Overall Service Quality	Pearson Correlation	.857**	1
	Sig. (2-tailed)	.000	
	N	321	321

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

Discussions

Perceived Service Quality and Customer Loyalty

The first hypothesis of this study was that there is a positive and significant relationship between perceived service quality and customer loyalty in Ethiopian hotel industry. In order to test this hypothesis correlation analysis was run on SPSS and the result showed that there is positive and significant association between perceived service quality and customer loyalty (0.857) with $p < 0.01$ in Ethiopian hotel industry. This result is supported by the findings of Moutinho, Albayrak and Caber (2011) in which satisfied customers are likely to behave positively (recommend, repurchase) at the post-purchase stage if they have a positive perception of service quality they experienced. Similar result was also reported by Liao (2012) in which service quality has significant correlation with customer loyalty.

The result of this research was similar with other findings. The finding of Malik, Yaqoob and Aslam (2012), showed that Service Quality is positively and significantly correlated with customer loyalty in hotel industry. Moreover, the result of Mei, Dean and White (1999) demonstrated that there is strong and significant relationship between service quality evaluation and intention to recommend the hotel. Additionally, Zeithaml, Berry and Parasuraman (1996) also reported that there is strong association between overall service quality and service loyalty across multiple companies. The research findings of Mak, Sim and Jones (2005) also indicated that improved service quality of hotels as perceived by the consumers' lead to higher customer loyalty.

Five dimensions of service quality (tangibility, assurance, empathy, responsiveness and reliability) have positive and significant correlation with customer loyalty in Ethiopian hotel industry with correlation of 0.828, 0.771, 0.760, 0.646 and

0.470 with $p < 0.01$ respectively. This result is supported by the study of (Arvin and Andisheh, 2013) that indicates all dimensions have positive relationship with customer loyalty. Moreover, the study findings of Kim, Holland and Han (2013) indicated that service quality has significant relationship with destination loyalty. Furthermore, it is also more evident that there is a positive relationship between perceived service quality and customer behavioral intention in hotel industry (Pandey and Joshi, 2010).

Conclusions and Implications

Based on this study it is concluded that service quality has positive and significant relationship with customer loyalty in Ethiopian hotel industry. Moreover, all dimensions of service quality have positive and significant correlation with customer loyalty in which tangibility, assurance, empathy and responsiveness have the highest correlation respectively. The result of this study clearly indicated that service quality has positive and strong relationship with customer loyalty in Ethiopian hotel industry. Therefore, the Ethiopian hotel industry should give greater attention to improve tangibility, assurance, empathy and responsiveness dimensions so as to enhance the overall service quality of the industry. Moreover, hotel industry employees and management are expected to improve service quality provision since customer loyalty was highly related with service quality dimensions than other factors in Ethiopian hotel industry environment.

Nowadays, it is basic to form enduring partnerships with customers' through identifying and meeting their needs when companies provide related products like hotels (Aksu, 2006). Moreover, as it is indicated by the study of Malik, Yaqoob and Aslam (2012) it is not only enough

to retain customers but also attract new customers' and try to make them loyal is a very significant one. Moreover, as it is indicated on the study of Selvakumar and Vikkraman (2011), the better the products or services quality as perceived by customers the higher their level of responsiveness and finally brand loyalty formed (Selvakumar and Vikkraman 2011). Hence, customer loyalty of hotel industry can be improved by providing superior service quality for customers'.

Tangibility dimension (infrastructure) of hotels needed to be highly improved so as to enhance customer loyalty. Additionally, assurance (customer interface) of hotels has to be upgraded to achieve customer loyalty on the part of consumers'. The paper added value to the previous researches in different ways. First, this study clearly indicated that perceived service quality has significant relationship with customer loyalty in hotel industry. Second, the five dimensions of perceived service quality have also significant correlation with customer loyalty. Therefore, for the improvement of hotel industry customer loyalty, managers are expected to enhance overall perceived service quality and its dimensions.

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