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## Article

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## **Role of Service Quality and Customer Satisfaction in Firm's Performance: Evidence from Pakistan Hotel Industry**

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### **Abstract**

The purpose of the study is to investigate the effect of customer's satisfaction and service quality towards the hotels' performance by applying SERVQUAL model. The data was collected from the 1429 hotel customers of selected cities of Khyber Pakhtunkhwa (Peshawar, Swat, Chitral, Naran, Abbottabad, Galiat), Punjab (Lahore, Rawalpindi) and the capital city (Islamabad) of Pakistan. The sample of hotels comprised of 10 hotels from each city and 20 customers at each hotel were taken as respondents. The researchers used regression and factor analysis for analyzing the data. The results revealed that service attributes have a significant optimistic effect on customer satisfaction. Moreover, service assurance is found significantly negative predictor of customer satisfaction. Consequences of the study exhibit that constructive connection exists amid expected and actual attributes of service quality and customer satisfaction. The study considered that the hotel customers experience is the key factor in the hospitality industry.

**Keywords:** customer satisfaction, service quality, competitive advantage, SERVQUAL, hospitality industry.

### **1. Introduction**

Nature of service is treated as a primary concern in the accomplishment or disillusionment of a business in a commercial marketplace. Quality is named as the level of magnificence at an adequate cost and the control estimation of inconstancy at a worthy cost. Throughout the years, quality in assembling segment remained the consideration of consumer loyalty center (Lee et al., 2018; Wu, 2012). This move towards benefit division has brought about to some researchers that ponder quality in the administration (Liat et al., 2014; Gummesson, 1991). Among the administration segment, the inn industry is thought to be one of driving contribution to monetary development. This industry also

becomes a motor of work openings and riches creation for families. These industries act as a lynchpin which helps in making the remote exchange and fill the opening in the unbalanced trade attributes (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013).

The monetary winning nation makes the substance of its foundation that includes the vacationers' fascination towards quick monetary development in the created economies, which prompts an expansion in the exterior save of the nation. Notwithstanding, the positive commitment of administration division is incorporating the lodging industry in the financial improvement of a nation relies on the client increment (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013). Like other administration division, the quality capacity in lodging industry additionally possesses urgent position for its aggressiveness. Inn administration needs exhaustive comprehension of clients' needs which will thus empower them to structure the elements of their administration quality likewise. Redress information of client needs is vital in distinguishing clients' desires and coordination for highlights of the administration quality. The achievement of consumer satisfaction in lodging business is pre-essential for the accomplishment of client unwaveringness, improvement and execution (Choi and Chu, 2001). In this manner, a standout amongst the most vital elements influencing administration execution in the inn industry is the change of administration quality, which brings about to the formation of monetary returns and long to a long haul upper hand (Zhang et al., 2011).

Inferable from the criticalness of motel and settlement industry for Pakistan with everything taken into account and Khyber Pakhtunkhwa particularly there is a need mull over the cabin business, and its quality arranged practices to know the dominating level of shopper unwaveringness. The credible data of the customer acknowledgment about the quality being passed on by the hotel business can help the business' organization to devise strategies and begin measures to improve the quality further and overhaul purchaser loyalty's/trust. Research studies in the context of service quality and customer satisfaction are insufficient particularly in Asian Countries (Lee et al., 2018; Amin et al., 2013). The study objective is to minimize the existing research gap by measuring the effect of service quality attributes on customer satisfaction in hotels of Pakistan. This study is vital for the hotel industry and for expanding the potential customers in the hotel industry. Moreover, study comprehends the information of service quality attributes in Pakistan which is beneficial for the hotel management.

## 2. Literature Review

The SERVQUAL has frequently used the instrument in measuring service quality in the hotel business which consists of five dimensions/ variables. While developing this model Parasuraman (1985) initially listed some service related attributes which are summed into following dimensions:

Dimension	Attribute(s)
Tangible	Equipment, Accommodation, staff uniforms
Reliability	Delivery of service
Responsiveness	Readiness for help
Competence	Service execution
Courtesy	Respect
Creditability	Professional honesty, trustworthiness of provider
Security	Safety
Access	Approachability
Communication	Understanding of the communication

Numerous investigations have hypothesized that service quality (SERVQUAL) is a multidimensional construct to measure inn benefit quality (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013). For instance, Akbaba (2006) inspected the administration idea of lodgings in Turkey by separating the want and certified perspective of administration quality in perspective of 29 trademark pointers which were associated with SERVQUAL. The most imperative factor reflecting the general needs of administration quality estimation was unmistakable organizations. Wilkinson and Birmingham (2003) moreover inspected the organization idea of lodgings in Australia. The seven parts were delivered from SERVQUAL, covering style and solace, room quality, interesting offers, quality staff, character, fast organization, and quality sustenance and refreshments.

Additionally, other research has appeared and cleared up that the characteristics of administration quality components and organization needs, from the customers' perspective, differed depending upon the cabin creates. Choi and Chu (2001) coordinated research on the administration idea of motels in North Ireland. Their focuses were to consider the openings between the want and the perspective of organization quality passed on by two 3-star lodgings using 22 traits of SERVQUAL. The examination revealed that an opening between the customer insight and the customer want of the essential motel that associated add up to quality administration (TQM) was smaller than that of another. TQM drove better execution because of worker strengthening, so the main lodging could fulfill client needs more proficiently. Dolnicar (2002) found that SERVQUAL was a notable instrument, and turned into an appropriate estimation apparatus for the lodging business, one of the administration organizations concentrating on consumer loyalty. Saunders et al. (2009) additionally built up an administration quality assessment scale for the friendliness area. Since this examination considers means

to explore the administration quality desires of business inns' clients subsequently, the audit of writing concentrated on the past inquiries about having center around recognizing and inspecting different measurements of administration quality, particularly concerning the lodging industry. Finds that travelers had the highest expectations for the dimension of "convenience" followed by "assurance," "tangibles," adequacy in service supply," and "understanding and caring." The research also confirmed the SERVQUAL scale is a very useful tool to be adapted for the specific service segments. As per Gronroos (1994), there are three measurements of administration quality, the specialized quality, the capacity quality and the corporate picture. The specialized quality, which includes what the client, is accepting from the administration conveyance. The purchaser can estimate this in a somewhat target way. Functional quality includes the way in which the administration is conveyed. This worries the mental connection between the purchaser and the merchant as is seen in an exceptionally subjective manner and would incorporate components, for example, a) Attitudes and conduct of workers; b) Approachability of administration workforce, c) Accessibility of administration, d) Appearance and identity of workforce, e) Relationship amongst workers, and, f) Interrelationships amongst workers and clients.

### *2.1 Hypotheses Development*

#### *2.1.1 Assurance and Customer Satisfaction*

Research studies reported that service quality attributes, i.e. assurance has a constructive relationship with customer satisfaction (Lee et al., 2018; Liat et al., 2014). In this way, we hypothesize:

- **H<sub>1</sub>:** Expected assurance is a significant predictor of expected customer satisfaction.
- **H<sub>2</sub>:** Actual Assurance is a significant predictor of actual customer satisfaction.

#### *2.1.2 Reliability and Customer Satisfaction*

Research studies reported that service quality attributes, i.e. reliability has a constructive relationship with customer satisfaction (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013). So, we hypothesize:

- **H<sub>3</sub>:** Expected reliability is a significant predictor of actual customer satisfaction.
- **H<sub>4</sub>:** Actual reliability is a significant predictor of expected customer satisfaction.

#### *2.1.3 Tangibility and Customer Satisfaction*

Research studies reported that service quality attributes, i.e. tangibility has a constructive relationship with customer satisfaction (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013). In this way, hypotheses are:

- **H<sub>5</sub>:** Expected tangibility is a significant predictor of expected customer satisfaction.
- **H<sub>6</sub>:** Actual tangibility is a significant predictor of actual customer satisfaction.

#### *2.1.4 Empathy and Customer Satisfaction*

Research studies reported that service quality attributes, i.e. empathy has a constructive relationship with customer satisfaction (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013). So, we hypothesize:

- **H<sub>7</sub>:** Expected empathy is a significant predictor of expected customer satisfaction.
- **H<sub>8</sub>:** Actual empathy is a significant predictor of actual customer satisfaction.

#### 2.1.5 Responsiveness and Customer Satisfaction

Research studies reported that service quality attributes, i.e. empathy has a constructive relationship with customer satisfaction (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013). So, our hypotheses are:

- **H<sub>9</sub>:** Expected responsiveness is a significant predictor of expected customer satisfaction.
- **H<sub>10</sub>:** Actual responsiveness is a significant predictor of actual customer satisfaction.

#### 2.3 Theoretical & Conceptual Framework

Based on the review of the related literature the study conceptualized the conduct of research on two tiers framework independent in their structure but reinforcing each other in their outcomes at the response development stage: Firstly the research plans to investigate the effect of service quality towards customer's satisfaction by applying SERVQUAL and Gronroos service quality model. It focuses on the relationship between variables like functional quality, technical quality, internal, external influences, prices corporate image and service quality towards customer's satisfaction. Wherever, customers agreed that they are satisfied and give the reasons for satisfaction as service quality dimension has a significant relationship with service quality and customer satisfaction, then a conclusion is drawn that service quality has a significant relationship with customer satisfaction and with service quality dimensions. And the degree of customer satisfaction leads to the corresponding degree of competitiveness or the competitive advantage in the given industry thereby resulting in brand loyalty and profitability. Keeping in view the input from the review of the literature and analyses of various service quality measurement models, this research presents an adapted SERVQUAL model, which is believed to be more suitable in the context of the hotel industry. It is fundamentally based on the basic SERVQUAL model with some additions as Parasuraman et al. (1993) claimed its adaptability in any service industry. Over and above of the main quality dimensions of Parasuraman et al. (1988), this research adds three more variables; "products," "location" and "waiting time." Products will be looked in the light of variety and quality, which means the different variations of a product-brand that a hotel offers and their state when purchased. Location is about its accessibility and physical environment and waiting time for service delivery. Hence, modified SERVQUAL model with eight dimensions; tangibles, reliability, responsiveness, assurance, empathy, products, location and waiting time. Study based on the legitimacy theory norms and bonds of customers must be constructively ensured for the lasting relation with society. Theory of commitment-trust is also the foundation of the study constructs.

### 3. Research Methodology

#### 3.1 Population

The population frame for the study has been stratified on the bases of geography and the status level of the hotels located in selected cities of Khyber Pakhtunkhwa, Islamabad, and Lahore. However, the hotels included in the population are those who have restaurants and living accommodation both. The sample of the hotel was comprised of 10 hotels at each location and 20 customers at each hotel were investigated as respondents.

#### 3.2 Sample Frame

Initial stratification was based on the geographical basis with the strata of Peshawar, Islamabad, and Lahore. After that, hotels were stratified on the bases of their magnitude and facilities, grouping into two strata, i.e. Group one composed of hotels falling in 5 stars and four stars. Group-2 comprises of all other hotels having a restaurant as well as living rooms for the customers.

**Table 1: Sample Khyber Pakhtunkhwa**

Cities / Location	4-5 Stars Hotels	Others Hotels	Total Hotels	Respondents @ 20 Customers Each Hotel
Peshawar	1	9	10	200
Swat including Kalam	-	10	10	200
Chitral, Garam Chashma,	-	10	10	200
Galiat	-	10	10	200
Naran, Shugran	-	10	10	200
Abbotabad	1	9	10	200
Grand total	2	58	60	1200

**Table 2: Sample from Islamabad & Lahore**

Cities / Location	4-5 Stars Hotels	Others Hotels	Total Hotels	Respondents @ 20 Customers Each Hotel
Islamabad	5	5	10	200
Lahore	2	8	10	200
Grand total	7	13	20	400

#### 3.3 Data Collection

In order to collect the primary data, it is very important to have an appropriate sample size that will help to generate the research outcomes and to ensure the validity of the results (Thomas, 1997). In this regard, 1600 customers were selected and conveniently contacted by the researcher in order to get the questionnaires filled. The researcher selected the respondents of the survey through convenient sampling technique (Wilkinson and Birmingham, 2003). The numbers of constructs in the final questionnaire for this study were adopted from Boon-itt and Rompho (2012) and modified suiting to local settings.

#### 4. Analysis

**Table 3 Demographics**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	788	55.1
Female	641	44.9
Total	1429	100.0
<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
17-27 years	823	57.6
28-38 years	151	10.6
39 and above	455	31.8
Total	1429	100.0
<b>Qualification</b>	<b>Frequency</b>	<b>Percent</b>
Pakistani	1401	98.0
Foreigners	28	2.0
Total	1429	100.0
<b>Cities</b>	<b>Frequency</b>	<b>Percent</b>
Peshawar	328	23.0
Abbottabad	346	24.2
SWAT	128	9.0
Galiat	256	17.9
Naran	104	7.3
Chitral	22	1.5
Lahore	100	7.0
Rawalpindi	99	6.9
Islamabad	46	3.2
<b>Total</b>	<b>1429</b>	<b>100.0</b>

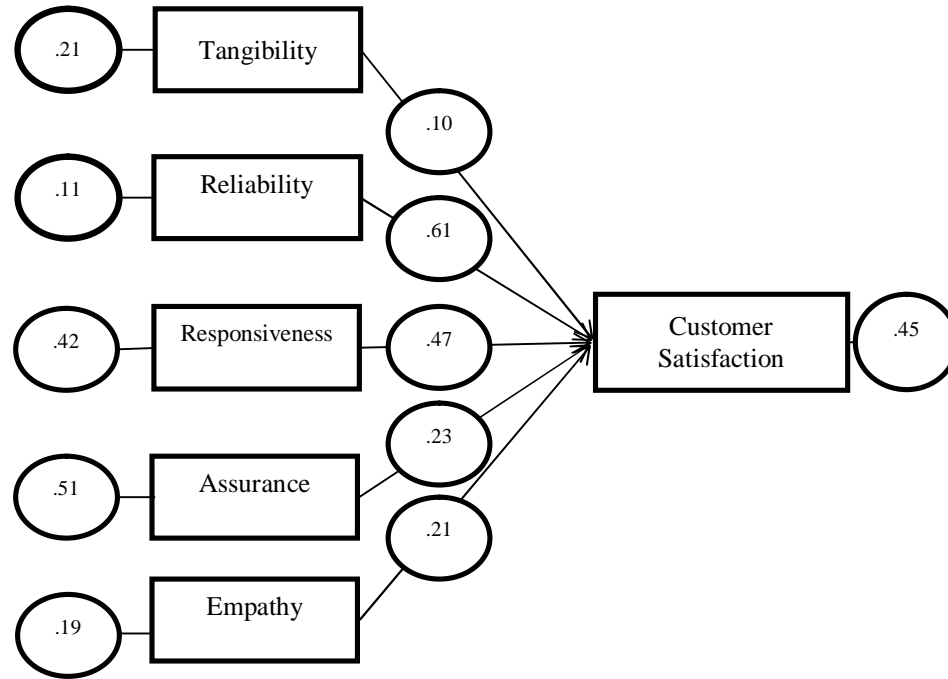
The above-captioned table represents the demographics of the respondents. Total strength of Male respondents was 788 out of 1429 members that represent 55.1% of the total whereas; female represents 641 out of 1429 participants that depict 44.9% of the total sample. Participants with the age of 17-27 years represent 823 out of 1429 members that depict 57.6% of the total sample. From 28-38 years of age, group members represent 151 out of 1429 members that portray 10.6% of the total sample. From 39 and above years of age group members represents 455 out of 1429 members that portray 31.8% of the total sample. Pakistani and foreigners participants were 1401 and 28 out of 1429 members. Furthermore, it represents the percentage of 98% and 2% respectively. In Peshawar, Abbottabad, Swat, Galiat, Naran, Chitral, Lahore, Rawalpindi and Islamabad hotels there were 328, 346, 128, 256, 104, 22, 100, 99 and 46 customers out of 1429 who took part in



the survey with the percentages of 23%, 24.2%, 9%, 17.9%, 7.3%, 1.5%, 7%, 6.9% and 3.2% respectively.

#### 4.1 Validity and Confirmatory Factor Analysis

The result of 5-factor model is as follows:



$\chi^2=15.23$ ,  $df=6$ ,  $P\text{-value}=.018$ ,  $RMSEA=0.074$

**Figure 1: CFA for Model 1**

**Table 4: Goodness of Fit for Overall Model**

Models	NFI	AGFI	RMSEA	GFI	RMR	CFI	$\chi^2/df$
Standard Value (Uslueletal., 2008)	>.9	>.8	<.08	>.9	<.1	>.9	<.3
Model 1	.98	.96	.07	1.0	.004	1.0	2.4
Model 2	1.03	1.0	.06	1.0	.001	1.0	2.1
Model 3	1.0	1.0	.07	1.0	.01	.99	2.8
Model 4	.96	.94	.07	.98	.01	.98	2.5
Model 5 (Full Factor Model)	.92	.97	.07	.94	.01	.96	2.5

Seven aforementioned fit indices, i.e. ( $\chi^2/d.f$ , GFI, AGFI, NNFI, CFI, RMSR, RMSEA) were used for checking the goodness of fit for all alternative models. The result of CFA's analysis exhibits the uniqueness of variables. The result of all the alternative models

depicted that all values have their own significant loadings and all alternative models have a good fit.

#### 4.2 Multiple Regression Model

##### 4.2.1 Regression Analysis between Actual Quality Services Attributes and Actual Customer Satisfaction

$$ACS = \beta_0 + \beta_1(AT) + \beta_2(AR) + \beta_3(A Res) + \beta_4(AA) + \beta_5(AE) + \varepsilon \quad (1)$$

**Table 5: Coefficients**

Unstd. Coefficients			Std. Coefficients		
Model	B	Std. Error	Beta	T	Sig
(Constant)	-.703	.154		-4.57	.000
Actual Tangibility	.081	.032	.073	2.51	.012
Actual Reliability	.225	.029	.225	7.75	.000
Actual Responsiveness	.300	.028	.242	10.59	.000
Actual Assurance	.147	.027	.125	5.37	.000
Actual Empathy	.274	.029	.226	9.35	.000
<b>a. DV: Actual CS R<sup>2</sup>=.32, F=137.2, Sig=.000</b>					

Regression analysis between actual quality services attributes and actual customer satisfaction was conducted. The consequences exhibits that actual quality with all the facets constructive significant predictors of actual customer satisfaction with value of (tangibility ( $\beta=.073$ ,  $t=2$ ,  $Sig=.01$ ), reliability ( $\beta=.22$ ,  $t=7$ ,  $Sig=.00$ ), responsiveness ( $\beta=.24$ ,  $t=10$ ,  $Sig=.00$ ), assurance ( $\beta=.12$ ,  $t=5$ ,  $Sig=.00$ ) and empathy ( $\beta=.22$ ,  $t=9$ ,  $Sig=.00$ ). Consequences exhibit actual service quality attributes is constructive predictors of actual customer satisfaction. The result of the study is consistent with the previous studies of (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013; Saunders & Thornhill, 2007; Zhang et al., 2011; Akibaba, 2005).

##### 4.2.2 Regression Analysis between Expected Quality Service Attributes and Expected Customer Satisfaction

$$ECS = \beta_0 + \beta_1(ET) + \beta_2(ER) + \beta_3(E Res) + \beta_4(EA) + \beta_5(EE) + \varepsilon \quad (2)$$

**Table 6: Coefficients**

Unstd. Coefficients			Std. Coefficients		
Model	B	Std. Error	Beta	T	Sig.
(Constant)	2.591	.108		23.9	.000
Expected Tangibility	.247	.018	.334	13.7	.000
Expected Reliability	.050	.021	.086	2.43	.015
Expected Responsiveness	.187	.028	.267	6.66	.000
Expected Assurance	-.241	.025	-.319	-9.73	.000
Expected Empathy	.049	.021	.060	2.31	.021
<b>a. DV: Expected CS <math>R^2=.31</math>, <math>F=72</math>, <math>Sig=.000</math></b>					

Regression analysis between expected quality services attributes and expected customer satisfaction was conducted. The consequences exhibits that expected quality with all the facets constructive significant predictors of expected customer satisfaction with value of (tangibility ( $\beta=.33$ ,  $t=13$ ,  $Sig=.00$ ), reliability ( $\beta=.08$ ,  $t=2$ ,  $Sig=.01$ ), responsiveness ( $\beta=.26$ ,  $t=6$ ,  $Sig=.00$ ), assurance ( $\beta=-.31$ ,  $t=-9$ ,  $Sig=.00$ ) and empathy ( $\beta=.06$ ,  $t=2$ ,  $Sig=.02$ ). Consequences exhibit actual service quality attributes has constructive predictors of actual customer satisfaction. The result of the study is consistent with the previous studies of (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013; Saunders et al., 2009; Zhang et al., 2011; Akibaba, 2005).

### 5. Discussion and Findings

This research was based on quantitative research technique and investigated the impact of actual and expected hospitality industry service quality attributes, i.e. service (tangibility, reliability, and responsiveness, assurance, and empathy and customer satisfaction). The data was collected from the 1429 hotel customers of Peshawar, Swat, Chitral, Naran, Abbottabad and Galiat cities of Khyber Pakhtunkhwa, (KPK), Lahore and Rawalpindi (Punjab) and Islamabad capital city Pakistan. The questionnaire was used for the data collection. The multiple regression analysis was performed to check out the effect of independent variables on dependent variables. Initially, researchers checked out the assumption of the multiple regression and found that data was normally distributed, there exist no multicollinearity, no heteroskedasticity and no autocorrelation in the data. The researcher measures the effect of actual quality service attributes and actual customer satisfaction. The value of regression analysis was depicted, an overall regression model was found significant valid and fit. The values of regression coefficients, i.e. actual service tangibility, reliability, responsiveness, assurance, and empathy demonstrated that actual service tangibility, reliability, responsiveness, assurance, and empathy has a significant positive effect on actual customer satisfaction. The result of the study is

consistent with the previous studies of (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013; Saunders et al., 2009; Zhang et al., 2011; Akibaba, 2005).

Secondly, researcher measures the effect of expected quality service attributes and expected customer satisfaction. The values of regression coefficients, i.e. expected service tangibility, reliability, responsiveness, assurance, and empathy demonstrated that expected service tangibility, reliability, responsiveness and empathy has a significant positive effect on expected customer satisfaction. The result of the study is consistent with the previous studies of (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013; Saunders et al., 2009; Zhang et al., 2011; Akibaba, 2005; Sohrabi et al., 2012). Moreover, service assurance is found as a significant negative predictor of expected customer services. The result of the study was consistent with the previous study of (Lee et al., 2018; Liat et al., 2014; Amin et al., 2013; Zhang et al., 2011; Akibaba, 2005). This research study reveals that there exists a significant positive relationship between actual and expected service quality attributes and customer satisfaction. The study considered that hotel customers experience is the key factor in the hospitality industry. Customers who perceive positive experience to express positive intention revisit the place again and also recommend others to visit the same destination. Similarly, positive experience of the customers increases the level of satisfaction which reduces the number of customer's complaints in the hospitality industry. Likewise, customers will not perceive positive experience unless the customers feel that service is better and greater than the money paid. Finally, it is found that service quality attributes, i.e. tangibility, reliability, responsiveness, assurance, and empathy has a significant effect on customer satisfaction level and this in return increase the customer loyalty which ultimately effects on hospitality Industry. Consequently, hotel industry increases their whole profit and there is a radical change in the economy.

## **6. Study Contribution**

This study contributes towards hotel and service sector industry regarding giving a) an understanding of SERVQUAL attributes, b) rationality of customer satisfaction, and c) dynamics of SERVQUAL attributes intervention towards consumer satisfaction. The marketing managers, marketing scholars, and all the stakeholders of hospitality industry will get benefit from the understanding of vital quality service attributes intervention towards customer satisfaction in Pakistan.

## **7. Recommendations**

Services such as online booking, customer care, and online car hire services should be availed online to improve the quality of customer service. Suggestion box should be strategically put at points where customers can note them. Set up an effective communication channel. The hotel management should regularly conduct audits in order to ensure accountability in the use of hotel resources. Establish an effective information management system. Allow for employees participation in strategic planning.

## 8. Limitations

There are certain limitations of this study. First and the primary limitation is that this research study is cross-sectional in nature. The second major limitation is the small sample size which is selected only from hotels of KPK, Pakistan. Although many of the obtained results are significant but the relationships or associations between some of the variables are highly correlated, contradict to the previous studies due to the effects of small samples size on the power of the test. Therefore, conclusions are very difficult to extract from the results which are obtained in the study. In future, detailed research should be conducted by incorporating large sample size. The third limitation is the unavailability of the literature encompassing the variables of the study.

## 9. Futures Areas for Researchers

The areas for additional and further researches are, an in-depth examination of more private and public organizations to grasp some of the other factors contributing towards the service quality. In future, the present hypotheses should be studied in numerous samples from different organizations of Pakistan on a longitudinal basis. In future, some moderation and mediating variables should also be incorporated.

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