



EFFECT OF SERVICE QUALITY ON CUSTOMER LOYALTY: A STUDY OF HOTELS IN ETHIOPIA

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ABSTRACT

Fulfilling customers' expectations is important to prove their loyalty in the market. Therefore, this study is conducted to examine the effect of service quality on customer loyalty at selected Hotels in Hawassa, Ethiopia. The study employed an explanatory research design with a quantitative research approach. The required data were collected from 185 hotel customers by using a convenient sampling technique. The data collected through questionnaire were analyzed using both descriptive (Mean and SD) and inferential statistics (correlation and multiple linear regression) with the help of SPSS software version 26. The findings of the study showed that hotel customers become loyal when hotel employees respond to their requests as expected when hotel employees become active to make customers feel and secure in their transactions when hotel employees give customers individual attention and understand customers' specific needs when employees caring individual attention to customers by having the best interests at heart and having enough attention to the newcomers. Therefore, the study concludes that service quality has a positive and significant effect on customer loyalty. That means service quality variables such as tangibility, responsiveness; reliability, assurance, and empathy have a positive influence on customer loyalty.

Keywords: Assurance, Empathy, Loyalty, Reliability, Responsiveness, Tangibility

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1. INTRODUCTION

Service quality is becoming one of the foremost important aspects in the field of services. Customers are now more aware of the level of the service they get which has led the organization to give more attention to the level of the service they provide to their customers to get loyal customers. Therefore, understanding customers' expectations is crucial in the service industry. Managers should endeavor to carry out initial market surveys to find out what the market needs are. This should also give an insight into the market characteristics (Joudeh & Dandis, 2018).

Globally, service quality plays an important role in a different service environment. The hotel industry, in particular, and all businesses whose service depends on building long-term relationships need to concentrate on maintaining customer loyalty. In this respect, loyalty is highly influenced by service quality. As such, hotels often invest in managing their relationships with customers and maintaining quality to make sure that customers whose loyalty is within the short term will still be loyal in the long-term (Kushwah & Agrawal, 2014).

It is virtually impossible for a business to survive without building customer satisfaction and brand loyalty. Providing a good quality service is believed to be very important to increase the number of customers from time to time, and encourage repetition of the same customers because service quality has become a strategic tool for measuring business performance in today's dynamic environment (Iddrisu, Noonib, Fiankoc, & Mensahd, 2015).

The conceptualization of customer loyalty has grown over the years (Ladhari, Ladhari, & Morales, 2011). But, in developing countries like Ethiopia, service providers would not put their endeavor in differentiating them from competitors. Therefore, customers are more prone to switch to other competitors at almost zero cost. Therefore, it is important to match customers' expectations to prove their loyalty in the market (Iddrisu, et al., 2015). However, previous studies have been given less attention to address the effect of service quality on customer loyalty. Literature in the study area was scanty and researches were carried out to investigate the effect of service quality on customer satisfaction rather than the effect of service quality on customer loyalty. Therefore, the researcher examined the effect of service quality on customer loyalty at selected Hotels in Hawassa, Ethiopia.

2. LITERATURE REVIEW

2.1. Customer Loyalty

The conceptualization of customer loyalty has evolved over the years. Customer loyalty is defined as customer's repeated patronage over a certain period of time (Ladhari, Ladhari, & Morales, 2011). Further, Ou et al. (2011) defined loyalty as a held commitment to re-buy or re-patronize a preferred product consistently in the future. Customer loyalty occurs when customers feel satisfied about a specific product or service. Loyal customers keep purchasing the company's products constantly. They also provide the company with high ratings, and positive reviews. They also spread a positive word of mouth about the service and the service provider (Kumar, & Advani, 2005). According to Iddrisu (2011), loyal customers are more likely to recommend purchasing the service in front of their friends and their family members. Iddrisu (2011) suggest that customer loyalty is achieved when the company meets and exceeds customer expectations in a constant manner. Iddrisu (2011) indicates that customer loyalty can be realized by offering a product of high quality along with providing customers with coupons, free offers, extended warranties, and low interest rates. The company should offer these incentives to make their customers feel pleased and happy. Such feelings shall

participate in developing a sense of loyalty within customers and make them keep purchasing the service.

2.2. Service Quality

Service quality is a major component of competitiveness and it has incepted much interest in researchers and academicians as it has been difficult to quantify and define service quality (Dabholkar, 2015). According to Hu et al. (2009), high service quality level can attract customers. Ryu et al. (2012) state that satisfied customers benefits the service provider through spreading a positive word-of-mouth and become loyal. Service quality is considered an important tool for a firm's struggle to differentiate itself from its competitors (Ladhari, 2008). The relevance of service quality to companies is emphasized here especially the fact that it offers a competitive advantage to companies that strive to improve it and hence bring customer loyalty. Ghysin et al. (2008) points out that by defining service quality, companies were able to deliver services with higher quality level presumably resulting in increased customer satisfaction.

In this study, service quality can be defined as the difference between customer's expectation for service performance prior to the service encounter and their perception of the service received. Customer's expectation serves as a foundation for evaluating service quality because, quality is high when performance exceeds expectation and quality is low when performance does not meet their expectation (Asubonteng, 1996). Expectation is viewed in service quality literature as desires or wants of consumer i.e., what they feel a service provider should offer rather than would offer (Parasuraman et al., 1988). Perceived service is the outcome of the consumer's view of the service dimensions, which are both technical and functional in nature (Gronroos, 1984).

Negi (2009) suggests that customer-perceived service quality has been given increased attention in recent years, due to its specific contribution to business competitiveness and developing satisfied customers. This makes service quality a very important construct to understand by firms by knowing how to measure it and making necessary improvements in its dimensions where appropriate especially in areas where gaps between expectations and perceptions are wide.

The most popular model used for evaluation of service quality is SERVQUAL, a well-known scale developed by Parasuraman et al. (1985, 1988). The attributes of (Parasuraman et al., 1985), were: tangibles, reliability, responsiveness, competency, courtesy, assurance, credibility, security, access, and understanding. Parasuraman et al. (1988) later reduced these ten dimensions into five by using a factor analysis. Based on the five dimensions, a 22-item survey instrument for measuring service quality has been developed. These five dimensions are: Tangibles - Physical facilities, equipment and appearance of personnel. Reliability - Ability to perform the promised service dependably and accurately. Responsiveness - Willingness to help customers and provide prompt service. Assurance (including competence, courtesy, credibility and security) - Knowledge and courtesy of employees and their ability to inspire trust and confidence. Empathy (including access, communication, understanding the customer) - Caring and individualized attention that the firm provides to its customers. Although there has been criticism from some other researchers to SERVQUAL instrument (Johnston, 1995), yet SERVQUAL is the instrument most utilized for its confirmatory factor analyses in most cases. Thus, up to date, SERVQUAL has proven to be a parsimonious model that has been used in various service organizations and industries to measure service quality (Chaniotakis & Lympelopoulou, 2009).

2.3. Conceptual Framework

Based on the review of related literature, the linkage between selected independent variables (reliability, tangibility, responsiveness, empathy, and assurance) and customer loyalty are presented in Figure 2.1. The conceptual framework constructed by modifying different literatures to suit the purpose of this study.

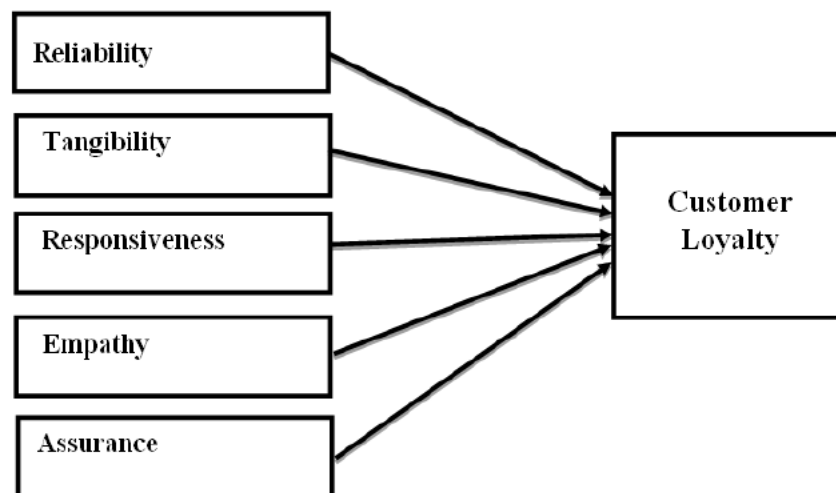


Figure 2.1: Conceptual framework of the study

Source: Adapted from Kheng, Mahamad, and Ramayah (2010)

Hypothesis

- Ho₁: Reliability has no significant effect on customer loyalty in the hotel industry.
- Ho₂: Tangibility has no significant effect on customer loyalty in the hotel industry.
- Ho₃: Responsiveness has no significant effect on customer loyalty in the hotel industry.
- Ho₄: Empathy has no significant effect on customer loyalty in the hotel industry.
- Ho₅: Assurance has no significant effect on customer loyalty in the hotel industry.

3. RESEARCH METHODOLOGY

Explanatory type of research design was used to address the objectives of the study because explanatory research design helped the researcher to examine the effect of the independent variables (reliability, tangibility, responsiveness, empathy, and assurance) on the dependent variable (customer loyalty). The population of this study was the number of hotel customers in Hawassa city. Since the number of population of the study is unknown, the formula developed by Cochran (1977) was found to be appropriate for determining the sample size. Therefore, 384 hotel customers were determined as the total sample size of the study.

$$n = \frac{Z_{\alpha/2}^2 p(1-p)}{e^2}$$

- Where**
- n = The desired sample size
 - Z = The statistics for the level of confidence (1.96)
 - p = The proportion of hotel customers (50%)
 - e = Marginal error between the population and sample size (5%)

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

$$n \approx 384$$

In order to select the individual respondents, convenience sampling technique was used. Therefore, the researcher collected the data based on the types of customers until the estimated sample size fulfills. Because, convenience sampling was used when there is no sampling frame (Jupp, 2006). This study employed closed ended questionnaire as an instrument for data collection. A five-point scale, ranging from strongly disagree to strongly agree was used in designing the questions. The data collected through questionnaire was coded, entered, cleaned and analyzed using Statistical Package for Social Science (SPSS) software Version 26. The data were analyzed using descriptive statistics such as mean and SD, Furthermore, inferential statistics such as correlation and multiple linear regression was applied.

4. RESEULT AND INTERPRETATION

4.1. Descriptive Summary of Study Variables

The main variables of the study were prepared and collected using a Likert scale questions. To make the analysis of likert scale questions easy, the researcher used the rule that was proposed by Al-Sayaad, Rabea and Samrah (2006) based on the mean score range. Accordingly, the ranges of values were presented as disagreeing if the mean score is between 1.00 and 2.60, neutral if the mean score is between 2.60 and 3.40 and agree if the mean score is above 3.4. Based on these classifications the interpretations of all Likert scale items such tangibility, reliability, responsiveness, assurance, empathy, and loyalty were presented as follows:

Table 4.1: *Descriptive Summary of Study Variables*

Variables	Minimum	Maximum	Mean	Std. Deviation
Tangibility	2.25	5.00	4.08	0.53
Reliability	2.40	4.80	3.71	0.48
Responsiveness	1.50	5.00	3.61	0.72
Assurance	2.00	5.00	3.56	0.61
Empathy	2.20	4.80	3.61	0.53
Loyalty	2.80	4.40	3.70	0.34

The results of Table 4.1 presented the summary of study variables. Accordingly, sampled hotel customers were tended to the idea of agreement on tangibility ($M = 4.08$, $SD = 0.53$), reliability ($M = 3.71$, $SD = 0.48$), responsiveness ($M = 3.61$, $SD = 0.72$), assurance ($M = 3.56$, $SD = 0.61$), empathy ($M = 3.61$, $SD = 0.53$), and loyalty ($M = 3.70$, $SD = 0.34$). On the other hand, they had neutral response on product features ($M = 3.14$, $SD = .520$) and brand name ($M = 3.06$, $SD = .613$). This indicated that sampled customers were agreed on the tangibility, reliability, responsiveness, assurance, and empathy of selected hotels in Hawassa city. As a result, hotel customers in the study area have loyal.

4.2. The Relationship between Study Variables

The possible values of correlation coefficients range from -1 (a perfect negative relationship) to $+1$ (a perfect positive relationship) or a direct relationship between two variables. A value of 0 indicates no linear relationship between two variables (Kothari, 2012). Likewise, Bhattacharjee (2012) further classified the strength of correlation between $\pm .81$ and ± 1.00 as

very strong, between $\pm.61$ and $\pm .80$ as strong, between $\pm.41$ and $\pm.60$ as moderate, between $\pm.21$ and $\pm.40$ as weak, and between $\pm.00$ and $\pm.20$ as none. In this section, the independent variables were analyzed one by one using correlation analysis to identify their relationship with the dependent variable. For this purpose, independent variables such as tangibility, reliability, responsiveness, assurance, and empathy were tested their degree of relationship with customer loyalty before conducting the regression analysis. Therefore, Table 4.1 shows the correlation between customer loyalty and independent variables (tangibility, reliability, responsiveness, assurance, and empathy) of the study.

Table 4.2: Correlation Analysis Result

Independent variables	Correlations	Loyalty
Tangibility	r-value	.430 **
	p-value	.000
Reliability	r-value	.397 **
	p-value	.000
Responsiveness	r-value	.563 **
	p-value	.000
Assurance	r-value	.646 **
	p-value	.000
Empathy	r-value	.4076 **
	p-value	.000

The results of Table 4.2 presented the correlation analysis and it shows that tangibility has a positive and statistically significant association with hotel customers loyalty ($r = 0.430$, $p < 0.01$). In the same manner, reliability has a positive and statistically significant relationship with hotel customers loyalty ($r = 0.397$, $p < 0.01$). Likewise, responsiveness has a positive and statistically significant relationship with hotel customers' loyalty ($r = 0.563$, $p < 0.01$). Similarly, assurance has a positive and statistically significant relationship with hotel customers loyalty ($r = 0.646$, $p < .01$). Finally, empathy has a positive and statistically significant relationship with hotel customers' loyalty ($r = 0.407$, $p < .01$). The result implies that except for reliability all the independent variables have a moderate and strong relationship to loyalty.

4.3. Effect of Service Quality on Customer Loyalty

The main assumptions of linear regression analysis such as multicollinearity and normality test were made for identifying misspecification of data before analyzing the regression.

Table 4.3: Multicollinearity Test among Independent Variables

Independent variables	Collinearity Statistics	
	Tolerance	VIF
Tangibility	.934	1.070
Reliability	.901	1.109
Responsiveness	.886	1.129
Assurance	.774	1.292
Empathy	.953	1.050

The problem of multicollinearity is checked by Tolerance and Variance Inflation Factor (VIF). A tolerance of $>.10$ and a VIF < 10 are considered as good enough to minimize the

effect of multicollinearity (Miller & Whicker, 1999). Thus, the result implies that the regression model is not affected by higher correlation between two independent variables.

The other important diagnostic test conducted in this paper is the normality assumption. Normality test is used to determine whether a data set is modeled for normal distribution or not. The Histogram result is presented as follows:

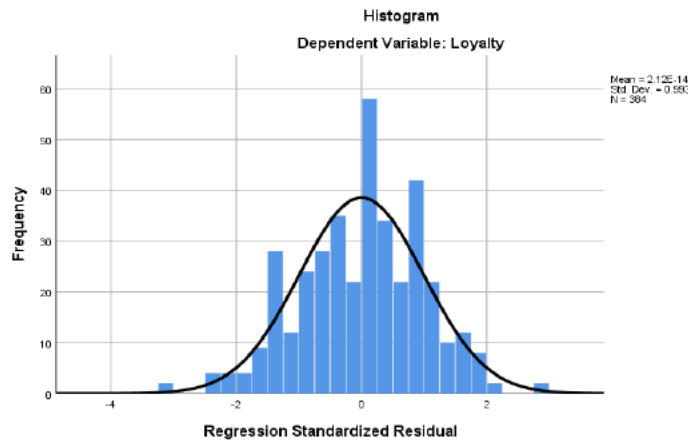


Figure 4.2: Frequency Distribution of Standardized Residual

The Normality test on Figure 4.1 shows the frequency distribution of the standardized residuals compared to a normal distribution. Although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the histogram is bell shaped which lead to infer that the residual (disturbance or errors) are normally distributed. Thus, violations of the normally assumption is not a serious problem.

Table 4.4: Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	SE	Beta			
1	(Constant)	.104	.093		1.122	.263
	Tangibility	.208	.014	.327	14.797	.000
	Reliability	.157	.016	.224	9.939	.000
	Responsiveness	.223	.011	.471	20.761	.000
	Assurance	.171	.013	.310	12.769	.000
	Empathy	.207	.014	.325	14.861	.000
	F-test	362.79				
	Sig	0.000				
	R	0.910				
	Adjusted R Square	0.828				

Note: B= Unstandardized regression coefficient (Estimate), Std.Error = Standard Error, Dependent variable = Customer loyalty

The result of the R-value of the model as per Table 4.4 was 0.91 which shows the highest degree of relationship between independent and dependent variables. The adjusted R2 value of the regression model was 0.828, indicating that 82.8% of the variance in customer loyalty was accounted for by tangibility, reliability, responsiveness, assurance, and empathy. The

results of the F-test indicated that the regression model itself is statistically significant ($F=362.79$, $p < 0.01$).

The results of the multiple linear regression analysis indicated that among five variables that were included in the model, all variables such as tangibility, reliability, responsiveness, assurance, and empathy were found to be a significant factor that determines the loyalty of customers in the hotel industry.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Customer loyalty in the study area was affected by service quality. Availability of conducive rooms, beds, and toilets, employees dressing style, hotel's physical facilities, and adequacy of the service in the hotel have a significant effect on customer loyalty. In the same manner, providing quality service at promised time to do so, show sincere interest in the presence of problem, and keeping records accurately have a significant effect on customer loyalty. Besides, giving prompt service, always ready and willing to help customers, and never too busy to respond to customer request have significant effect on customer loyalty. Likewise, employees' confidence, making customers feel and secure in their transaction, appropriate behavior of the concerned staff, and employees knowledge to answer customer's question affects the customer loyalty positively and significantly. Also, empathy factors such as give customers' individual attention, convenient operating hours to all customers, understand customers' specific need, giving and caring individual attention to customers by having best interests at heart and having enough attention to the new comers even have a significant effect on customer loyalty.

5.2. Recommendations

Based on the major findings of the study, the following recommendations are forwarded.

- Tangibility is found to be a factor that affects the customer loyalty. Therefore, the management body of hotels in Hawassa city should consider fulfilling the right equipment for hotels.
- Reliability is found to be a factor that influences the customer loyalty. Therefore, the hotel employees should assess customers' perception, respect their voice, and make hotel services more responsive to customer's needs and expectations.
- Responsiveness affects the customers' loyalty in the study area. Therefore, the hotel management should give much focus on the areas of giving consistent service to customers. The consistency of service quality can be achieved with clear quality standards and continuous training for employees.
- Assurance was found to be a factor that affects the customer loyalty. Therefore, the hotels management should create safety and confidence on customers regarding the risk minimizing techniques applied by physicians during treatment
- Empathy has significant effect on customer loyalty. Therefore, the hotel employees should give attention for individual customers and willing to help them. Hotel managers should also follow up the actions of hotel employees for their ability to give attention to individual customers and willingness to help them.

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