

Article

Research on Impact of Economy Hotel Service Quality on Customer Satisfaction and Customer Loyalty

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Abstract: With the development of tourism, the competition between hotels is becoming fierce. For economy hotels, they need to improve service quality to form a recognizable social reputation for long-term development. Thus, we establish a model to evaluate the impact of economy hotel service quality on customer satisfaction and customer loyalty. The research result shows that the tangibility, reliability, responsiveness, assurance, empathy, and compensation of service quality have a significant positive impact on customer satisfaction and customer loyalty. Reliability has the greatest impact on customer satisfaction and assurance has the greatest impact on customer loyalty. Customer satisfaction has a significant positive impact on customer loyalty. Based on the research results, a series of suggestions are proposed to improve the service of economy hotels, including the innovative design of guest rooms, strengthening employees' service awareness, and the hotel service recovery to continuously attract customers.

Keywords: Economy Hotel, Service Quality, Customer Satisfaction, Customer Loyalty

1. Introduction

With the rapid economic development, people's concept of consumption is changing, and more people travel around. The rapid growth of the tourism industry has promoted the development of the hotel industry. To meet the needs of consumers, the hotel industry continues to improve service quality through gradual standardization and development. In the hotel industry, economy hotels have unique advantages, such as lower prices, more chain hotels, and convenient transportation. They have become the only choice for tourists and business travelers. However, in recent years, their service quality has also been criticized, and customer complaints have been increasing. The facilities of economy hotels cannot compete with those of high-quality hotels so they can only seize the market by improving the service quality. Therefore, improving the service quality level of the hotel and highlighting the service characteristics often determines the success of the economic hotel.

This study aims to analyze the service quality factors affecting customer satisfaction and customer loyalty of the economy hotel and explore how to improve the service quality of economy hotels for securing market competitiveness.

2. Literature Review

2.1. Service Quality

Service quality refers to the characteristics of services to meet certain needs. When evaluating the service quality, customers compare their perceptions and expectations of the service. When the perceptions and expectations are consistent, the service quality becomes satisfactory.

The representative service quality evaluation method is the SERVQUAL evaluation method proposed by Parasuraman et al. (1988) and Bitner (1990). The evaluation is based on the comparison of customers' expectations and perceptions of service quality. SERVQUAL consists of two scales with the same content, including 22 indicators and five dimensions of tangibility, reliability, responsiveness, assurance, and empathy. The first scale requires respondents to answer the expectation of service quality, while the second scale requires them to answer the actual perception. Then, the service quality is measured by the difference between expectation and actual perception.

Cronin and Taylor (1992) proposed the SERVPERF evaluation method in 1992. It has the same dimensions and measurement indicators of SERVQUAL but has different measurement content. It only measures customers' perceptions and does not consider customer expectations. The other difference is that SERVPERF removes the relevant contents of measuring customer expectations of SERVQUAL evaluation method.

2.2. Customer Satisfaction

Cardozo first introduced the concept of customer satisfaction into the field of marketing. He believed that customer satisfaction makes customers buy the organization's products repeatedly. In general, customer satisfaction is a feeling of consumers and an overall attitude formed by customers' perception of products provided by an organization, including services, activities, and processes (Cronin and Taylor, 1992).

2.3. Customer Loyalty

Scholars have studied customer loyalty from different angles and summarized it into "behavior" and "attitude". From the perspective of "behavior", customer loyalty is expressed as the repeated purchase behavior promised by customers for products or services to be measured by purchase quantity, purchase frequency, and other indicators. From the perspective of "attitude", customer loyalty is regarded as a preference and dependence on products and services, which is measured by purchase intention and the degree of preference. Generally speaking, customer loyalty refers to the degree to which customers have feelings for the products or services of an enterprise, form preferences, and repeatedly purchase the products or services for a long time.

2.4. Related Research

Scholars have explored the relationship between service quality and customer satisfaction and loyalty. Parasuraman *et al.*'s empirical research result showed that service quality determines consumer behavior, and there is a positive correlation between service quality and customer loyalty. Bitner (1990) found that customer satisfaction directly affects customer loyalty on service products. Barnes (2002) believed that the basis of loyalty is continuous customer satisfaction, which is not only a behavior, but also a connection in emotion and attitude. In order to enhance customer loyalty, enterprises need to improve the satisfaction of each customer and maintain the level for a long time. Kumar and Lim (2008) studied the impact of age on the perception, satisfaction and loyalty of mobile service, and found that people of different ages have larger differences in perceived economy and emotion, and smaller differences in perceived network quality and settlement service.

The relationship between customer satisfaction and hotel perceived service has been discussed by many researchers (e.g. Akbaba, 2006; Choi and Chu, 2011; Ekinici and Riley, 2013; Gundersen, Heide, and Olsson, 2015; Markovic, 2014). Most studies emphasize the importance of functional capabilities, decoration, employee behavior, employee service and interaction with customers, rather than technical capabilities, which significantly affect customer satisfaction. Markovic and Jankovic (2013) found that reliability, accessibility and tangibility have a significant impact on overall customer satisfaction in the hotel industry of Croatia. On the other hand, employees' empathy and ability have a positive impact on hotel customer satisfaction. However, when other dimensions are involved, this impact is not statistically significant. Ni and Cai (2021) used text analysis and online review big data to screen and analyze hotel online reviews, constructed an evaluation system of hotel customer perception, and found that facilities, supplies, service attitude and customer service recovery mechanism affect customer experience and satisfaction.

In the hotel industry, service quality improves customer satisfaction and loyalty and establishes a positive image. Mohamad *et al.* (2017) empirically confirmed the mediating role of customer satisfaction between service quality and customer loyalty in the UAE hotel industry. Susanti (2019) also verified the positive impact of service quality on behavioral loyalty through customer satisfaction and attitude loyalty of four-star hotels in East Java. Based on the research results on the impact of service quality on customer loyalty, Kosova and Sinaj (2020) suggested that hotels need to fully understand, respect, and meet customers' service expectations, so as to retain existing customers.

3. Research Design

3.1. Model Building

Based on the literature review on service quality, customer satisfaction, and loyalty, we construct the model of the impact of the service quality of economy hotels on customer satisfaction and loyalty, as shown in Fig. 1.

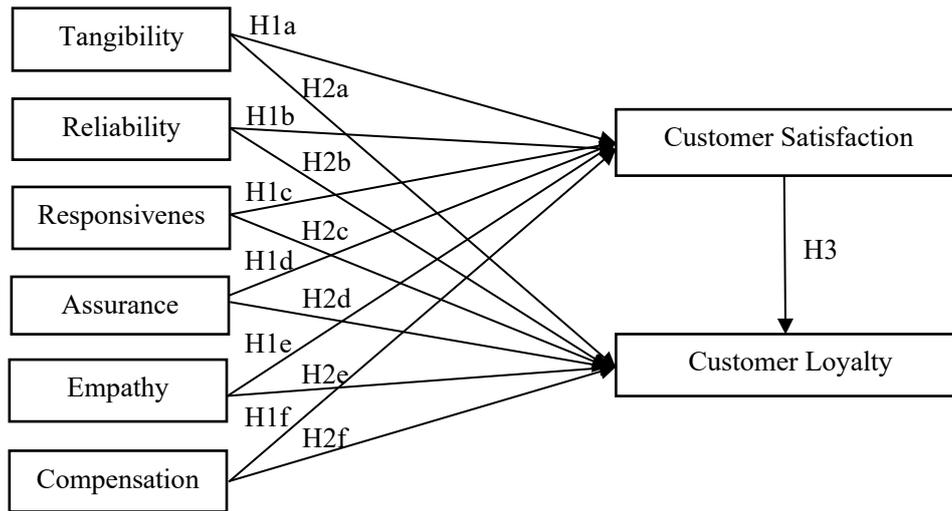


Figure 1. Model of impact of economy hotels service quality on customer satisfaction and customer loyalty.

In the model, the compensatory dimension is added to the five dimensions of the SERVPERF service quality evaluation method. Tangibility refers to the environment, equipment, facilities of economy hotels, and the dress of staff. Reliability refers to the service of economy hotels to fulfill their commitments. Responsiveness means the hotel’s response to customer needs to provide customers with fast and efficient services at any time. Assurance means the training of hotel staff for high professional quality and professional skills to provide satisfactory services to customers. Empathy means hotels’ care and attention to customers of their special needs. Compensatory means how well the hotel staff apologizes to the customer in time and seeks solutions and compensation measures how for service errors and customer complaints. Customer satisfaction refers to the satisfaction with hotel accommodation, professional skills, and overall service. Customer loyalty is customers’ emotional preference for economy hotels to consume and carry out publicity and promotion.

In the six dimensions of hotel service quality as independent variables, customer satisfaction is taken as intermediary variables, and customer loyalty as dependent variables to verify the impact of the six dimensions of service quality on customer satisfaction, customer loyalty, and the impact of customer satisfaction on customer loyalty in this study. The relationship assumptions between variables are shown in Table 1.

Table 1. Research hypothesis.

No.	Research hypothesis
H1a	Tangibility of service quality has a significant positive impact on customer satisfaction
H1b	Reliability of service quality has a significant positive impact on customer satisfaction
H1c	Responsiveness of service quality has a significant positive impact on customer satisfaction
H1d	Assurance of service quality has a significant positive impact on customer satisfaction
H1e	Empathy of service quality has a significant positive impact on customer satisfaction
H1f	Compensation of service quality has a significant positive impact on customer satisfaction
H2a	Tangibility of service quality has a significant positive impact on customer loyalty
H2b	Reliability of service quality has a significant positive impact on customer loyalty
H2c	Responsiveness of service quality has a significant positive impact on customer loyalty
H2d	Assurance of service quality has a significant positive impact on customer loyalty
H2e	Empathy of service quality has a significant positive impact on customer loyalty
H2f	Compensation of service quality has a significant positive impact on customer loyalty
H3	Customer satisfaction has a significant positive impact on customer loyalty

3.2. Questionnaire Design

The questionnaire design process was divided into two stages. In the first stage, the SERVQUAL scale proposed by Parasuraman, Zeithaml, and Berry (1988) was used as a reference, and the preliminary indicators of the questionnaire are designed in combination with the characteristics of economy hotels. In the second stage, the questionnaire was modified and the indicators of the questionnaire were finally determined through discussion with the managers of economy hotels.

The questionnaire is divided into three parts. The first part is composed of four questions to know personal information: respondents' gender, age, education level, and monthly disposable income. The second part comprises 25 questions asking respondents' evaluation of the service quality of economy hotels in the six dimensions of tangibility, reliability, responsiveness, assurance, empathy, and compensation. The third part comprises three questions asking the respondents' evaluation of satisfaction and loyalty. Except for the first part of personal information, the items are measured by a five-point Likert scale.

3.3. Questionnaire Distribution

The questionnaire was distributed at the hotels including Home, 7 Days Inn, and Super 8, and through a network platform. The collected data were analyzed by SPSS 23.0.

4. Research Results

The questionnaire was collected from March 3rd to March 17th 2021. 280 questionnaires were collected on the network platform and on-site. 69 invalid questionnaires were excluded. The effective recovery rate was 75.36%.

4.1. Descriptive Analysis

The respondents included 103 males (48.8%) and 108 females (51.2%). 150 were from 21 to 30 years old (71.1%), and 31 were between 31 and 40 years old (14.7%). 136 had bachelor's degrees (64.5%). 22.3% of the respondent had an income of RMB 3,001–5,000, and 20.9% had an income of RMB 5,001–10,000.

4.2. Reliability Analysis

Table 2 shows that the Cronbach's α coefficient of each variable is greater than 0.8, indicating that the questionnaire has high reliability.

Table 2. Reliability test result

Variables	Mean	Cronbach's Alpha	Number of items
Tangibility	3.630	0.949	4
Reliability	3.936	0.926	5
Responsiveness	3.765	0.878	4
Assurance	4.030	0.953	4
Empathy	3.368	0.900	5
Compensation	3.723	0.951	3
Customer Satisfaction	3.83	0.983	3
Customer Loyalty	3.693	0.895	3
Overall questionnaire	--	0.967	31

4.3. Validity Analysis

Validity analysis is conducted on service quality, customer satisfaction1, and customer loyalty. The results are shown in Table 3. The KMO values of all variables are greater than 0.7, and the significance is less than 0.001, indicating that the validity is appropriate for factor analysis.

Table 3. KMO and Bartlett's test.

Variable	Service Quality	Customer Satisfaction	Customer Loyalty
KMO sample measurement	0.903	0.619	0.752
Approx. Chi-Square	6,223.639	1,277.932	392.893
Bartlett Sphericity test	df	3	3
	Sig.	0.000	0.000

4.4. Factor Analysis

Service quality was analyzed by principal component analysis, and six factors with eigenvalues greater than 1 were extracted including tangibility, reliability, responsiveness, assurance, empathy, and compensation. The factor loading was rotated orthogonally by the maximum variance method, and the cumulative explanatory variance accounted for 84.52% of the total variance, which shows the six factors reflect most of the information. It is appropriate to extract these six factors. The factor analysis of customer satisfaction and customer loyalty shows that the cumulative explanatory variance accounts for 97.07% and the total variance accounts for 83.55%, respectively, indicating that the structural validity of the questionnaire is significant.

4.5. Correlation Analysis

Pearson correlation coefficient is used to measure the dependency between variables. Table 4 shows that the Pearson correlation coefficients of tangibility, reliability, responsiveness, assurance, empathy, and compensation with customer satisfaction and customer loyalty are greater than 0. The *P* values are significant at the level of 0.01, indicating that there is a positive correlation between the six dimensions of service quality, customer satisfaction, and customer loyalty. At the same time, there is also a significant positive correlation between customer satisfaction and customer loyalty ($P < 0.01$).

Table 4. Correlation analysis of each variable.

	Tangibility	Reliability	Responsiveness	Assurance	Empathy	Compensation	Customer Satisfaction	Customer Loyalty
Tangibility	1							
Reliability	0.513**	1						
Responsiveness	0.654**	0.557**	1					
Assurance	0.531**	0.542**	0.520**	1				
Empathy	0.630**	0.444**	0.685**	0.425**	1			
Compensation	0.559**	0.554**	0.550**	0.521**	0.596**	1		
Customer Satisfaction	0.558**	0.541**	0.628**	0.634**	0.627**	0.612**	1	
Customer Loyalty	0.583**	0.526**	0.524**	0.540**	0.602**	0.597**	0.781**	1

Note: n = 211, *** Indicates $P < 0.01$, ** indicates $P < 0.05$, * indicates $P < 0.1$.

4.6. Regression Analysis

In order to further study the impact of service quality of economy hotels on customer satisfaction and customer loyalty, linear regression analysis is used to transform the impact relationship between various variables into a statistical model. The results are shown in Table 5.

Table 5. Regression analysis of variables.

Variables	Model 1	Model 2	Model 3
	Customer Satisfaction	Customer Loyalty	Customer Loyalty
Constant	3.156 (.000)	1.136 (.000)	-11.963 (.000)
Tangibility	0.261** (5.883)	0.280** (5.836)	
Reliability	0.409** (9.238)	0.304** (6.345)	
Responsiveness	0.231** (5.216)	0.292** (6.092)	
Assurance	0.353** (7.958)	0.370** (7.877)	
Empathy	0.307** (6.912)	0.193** (4.031)	
Compensation	0.300** (6.760)	0.306** (6.369)	
Customer Satisfaction			0.850** (23.328)
F	50.661	38.383	326.592
R ²	0.598	0.530	0.610
Adjusted R ²	0.587	0.516	0.608

The data analysis results of model 1 show that tangibility ($\beta = 0.261, P < 0.05$), reliability ($\beta = 0.409, P < 0.05$), responsiveness ($\beta = 0.231, P < 0.05$), assurance ($\beta = 0.353, P < 0.05$), empathy ($\beta = 0.307, P < 0.05$) and compensatory ($\beta = 0.300, P < 0.05$) had a significant positive impact on customer satisfaction, supporting H1a, H1b, H1c, H1d, H1e, and H1f.

The data analysis results of model 2 show that tangibility ($\beta = 0.280, P < 0.05$), reliability ($\beta = 0.304, P < 0.05$), responsiveness ($\beta = 0.292, P < 0.05$), assurance ($\beta = 0.370, P < 0.05$), empathy ($\beta = 0.193, P < 0.05$) and compensatory ($\beta = 0.306, P < 0.05$) has a significant positive impact on customer loyalty, which verifies H2a, H2b, H2c, H2d, H2e, and h2f.

The data analysis results of model 3 show that customer satisfaction ($\beta = 0.850, P < 0.05$) had a significant positive impact on customer loyalty, and H3 is verified.

5. Conclusions and Suggestions

5.1. Conclusions

We explore the impact of economy hotel service quality on customer satisfaction and customer loyalty to propose a research model based on a literature review and a questionnaire survey by considering industry characteristics and using SPSS 23.0. The research result shows that the tangibility, reliability, responsiveness, assurance, empathy, and compensation of service quality have a significant impact on customer satisfaction and customer loyalty. Reliability has the greatest impact on customer satisfaction and assurance has the greatest impact on customer loyalty. Customer satisfaction has a significant impact on customer loyalty.

5.2. Suggestions

5.2.1. Training Employees

Among the service quality dimensions that affect the customer loyalty of economic hotels, assurance has the greatest impact. Customer loyalty increases by 0.370 units with the increase of every unit of assurance. In this survey, the customer's evaluation value of the reliability dimension is 4.030, ranking first among the six dimensions of service quality. Assurance best reflects the service core competitiveness of economical hotels. To ensure that employees have sufficient professional knowledge and provide stable and high-quality services, economy hotels need to continuously carry out business training for employees and strengthen the skill training of employees. It is necessary to carry out a series of service skill training for employees' work content to improve work efficiency. The quality training of employees needs to be offered for training for employees' psychological quality, working attitude and working habits to enhance the psychological quality of hotel employees, ease their pressure resistance, face customers with a professional service attitude, and provide more high-quality services.

5.2.2. Hotel Service Remedy Mechanism

The compensatory dimension of service quality of economical hotels has the second-largest impact on customer loyalty. For each unit level of compensation, customer satisfaction increases by 0.306-unit level. In this research, the customer's evaluation value of the responsiveness dimension is 3.723, ranked fourth among the six dimensions. This indicates that there is still a large room for improvement in compensation. The important way to improve the compensation is to have the complaint channels and remedial measures. The hotel needs to establish diversified 24-hour complaint channels, including 24-hour hotline telephone complaints, network complaints, and letter complaints. After receiving complaints, the relevant personnel of hotels needs to pay attention to and carefully analyze the causes of customers' complaints, communicate and apologize with customers at the first time, discuss remedial solutions to solve problems, carry out secondary remedial measures when necessary, and give customers appropriate material and spiritual compensation to minimize customers' dissatisfaction.

5.2.3. Principle of Service

The reliability of service quality has the third-largest impact on customer loyalty. Every unit level of reliability increases, customer loyalty increases by 0.304 units. The evaluation of the tangible dimension is 4.936, ranked second among the six dimensions. The hotel's commitment to customers makes customers expect hotel services. If the hotel fails to provide the promised service, it causes customer dissatisfaction. Then, customers think that the hotel is unreliable. Therefore, the hotel needs to fulfill the commitments to customers promptly for the services in place before customers leave and ask customers about their feelings about hotel services.

5.2.4. Employees' Service Awareness

The responsiveness of service quality ranks fourth in the impact on customer loyalty. For each unit level of responsiveness, customer loyalty increases by 0.292 units. The customer's evaluation of the responsiveness dimension is 3.765, ranked third in the six dimensions. The way to improve responsiveness is to respond to customer needs quickly. First, the concept of "customer first" needs to be emphasized. In the service process, employees need to uphold the purpose of "customer first" and provide warm and thoughtful service. Second, services need to be provided on time. When customers need service and encounter problems, quick and effective corresponding services are required for customers to actively help customers. In addition, economy hotels need to improve the staffing to ensure that there are sufficient personnel to serve customers even when they are busy.

5.2.5. Innovative Design of Guest Rooms

The impact of the tangibility of service quality on customer loyalty ranks fifth. Every unit level of tangibility increase, customer loyalty increases by 0.280 units. The customer's evaluation of the tangibility dimension is 3.630, ranked the penultimate of the six dimensions of service quality, which means that there is also room for improvement of tangibility. Many economy hotels ignore the decoration style and layout of the hotel, and most of the decoration has no characteristics or even outdated. In order to make the hotel more attractive, we consider abandoning the original old design and stereotyped layout to decorate each room into different styles or themes for consumers. It not only avoids homogenization, but also attracts customers, making the customers feel that the value for money is better.

5.2.6. Focusing on Customer

Empathy dimension is the lowest evaluated dimension among the six dimensions of service quality, with a score of 3.368 and an impact on customer loyalty of 0.193. That is, if the economy increases by one-unit level, customer loyalty increases by 0.193-unit level. Empathy reflects the hotel's understanding of the needs of customers. Focusing on customers is the central concept of empathy. Employees of economy hotels need to look at problems from the perspective of customers and provide services and help. At the same time, personalized services need to be increased to fully reflect humanistic care in the service process. For example, birthday wishes and small gifts can be sent on customers' birthdays so that customers feel warm intentions of the hotel, which improves their loyalty to the hotel.

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