The Effects of Service Quality, Perceived Value and Price Fairness on Hotel Customers' Satisfaction and Loyalty

Cigdem Altin Gumussoy and Berkehan Koseoglu

Abstract—Tourism in Turkey is one of the industries that has a great contribution to the economic growth of Turkey. For the continuity of its contribution, the government and hotels' managers try to find ways to satisfy customers and become loyal ones. This study aims to reveal the determinants of hotel customers' satisfaction and their loyalty. To do this, a research model including service quality, perceived price fairness and perceived value is developed in order to explain customer satisfaction and loyalty. A total of 346 questionnaires were collected from the customers of the hotels in the region of Alanya in Turkey. A SPSS Statistics 20 program was used to test the reliability of the answers and the relationships defined in the research model. The results are as follows: First, customer satisfaction and perceived value are the significant predictors of customer loyalty. Second, perceived value, price fairness and service quality-reliability, assurance and empathy explain customer satisfaction. Third, all the dimension of service quality has an influence on the perception of value with the hotel experiences. This study concludes with the discussion and possible future studies.

Index Terms—Hotel industry, customer loyalty, customer satisfaction, service quality, perceived value, perceived price fairness.

I. INTRODUCTION

Tourism industry considerably contributes to the growth of Turkish economy. According to Turkish Travel Agencies chairman, Turkey expects approximately 42 million tourists and $35-36 billion entry to the economy by year of 2015 [1]. Due to this, competing hotels are seeking ways to increase quality and the value perception by the customers in order to have satisfied and loyal customers.

In the literature, several studies have examined the factors affecting customer loyalty and customer satisfaction [2]-[4]. The main predictors of customer loyalty are customer satisfaction [2], [3] and perceived value [4]. This means that satisfied customers will come to the same hotel in the following visits. Furthermore, customers want to pay less than their expectations for the services received. This increases the value perception and customer loyalty accordingly. Several studies also confirmed the significant effect of service quality [2], [3] and perceived value [5] on customer satisfaction. As the studies reveal, service quality of the hotels is perceived to be an effective element for competitiveness [6]. Furthermore, perceived value becomes significant for customer satisfaction, because customers are willing to pay less for higher quality products [7].

In the current study, with the reference from the literature,

a research model which aims to explain the effects of service quality, perceived value and perceived price fairness on customer loyalty and satisfaction is developed. The research model is tested using data collected from the customers of 4-star hotels in one of the touristic region of Turkey. The findings of the study will guide hotel managers to the specific issues in order to increase customer satisfaction and loyalty. Specifically, the following questions will be answered with the current study:

- *Do customer satisfaction and perceived value explain customer loyalty?*
- *Do specific dimensions of service quality, perceived price fairness and perceived value explain customer satisfaction?*
- *Which dimensions of service quality have significant effects on perceived value?*

In the following section, a research model and its hypotheses are explained with the references from the literature. Then, the data collection process and the methodology are discussed. In third section, the findings of the study are presented. The paper concludes with the discussion and possible future studies.

II. RESEARCH MODEL

The research model is shown in Fig. 1. The relationships defined in the research model are constructed based on the literature about customer loyalty, customer satisfaction, perceived value, perceived price fairness and service quality.
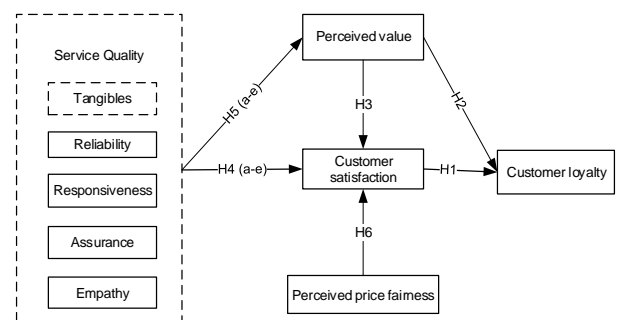

Fig. 1. Research model.

A. Customer Loyalty

Customer loyalty is the repeat purchase of the service [8]. Firms try to hold customers with the services they provide, price policies or the perception about the equal behaviour carried for all customers. However, it is not easy to have loyal customers. It can be considered as a long journey to be achieved with the satisfied customers and the increased value perception. Moreover, the competition in the hotel industry

induces hotel management to prepare loyalty programs for frequent travelers [9].

B. Customer Satisfaction

Customer satisfaction is a "business philosophy which tends to the creation of value for customers, anticipating and managing their expectations, and demonstrating ability and responsibility to satisfy their needs" [10]. Firms try to satisfy their customers in order to achieve customer loyalty. The satisfied customer is expected to come in the following visits to the same place. The significant effect of customer satisfaction on loyalty has been shown in several studies [11]-[13]. Ref. [11] show that customer loyalty to a telecom firm is predicted by perceived value and satisfaction. Ref. [12] reveal that companies should focus on to increase customer satisfaction and value perception in order to have loyal customers. Therefore, we hypothesize the following:

H1: The effect of customer satisfaction on customer loyalty is significant.

C. Perceived Value

Perceived value is the difference between the money paid for the service/product and the amount he/she is actually want to pay [7]. Guests of the luxury hotels perceive satisfaction as the value received for the price of lodging [14]. In the literature it has been shown that perceived value is a significant predictor of both customer satisfaction and customer loyalty [7, 8]. Ref. [7] indicated that customers want to pay less for higher qualities in order to increase their value perception. Ref. [8] asserted that customer loyalty can be predicted by both customer commitment and satisfaction, and perceived value and service quality improves customer satisfaction in the tourism industry. Therefore, we hypothesize the followings:

H2: The effect of perceived value on customer loyalty is significant.

H3: The effect of perceived value on customer satisfaction is significant.

D. Service Quality

Service quality is measured with multiple dimensions and each dimension may influence the overall assessment of service quality from the customers' perspective. Customers expect a certain level of service before real interaction with the system. After having served, customers define service level according to the difference between the actual experience and the expectations with the system [15]. Parasuraman et al. [15] divide service quality into five lower level dimensions: tangibles, reliability, responsiveness, assurance and empathy and develop items to define the dimensions. This instrument is called SERVQUAL and used widely to measure service quality level. Tangibles refer to "physical facilities, equipment, and appearance of personnel"; reliability is the "ability to perform the promised service dependably and accurately"; responsiveness is the "willingness to help customers and provide prompt service"; assurance is the "knowledge and courtesy of employees and their ability to inspire trust and confidence"; and lastly empathy is "caring, individualized attention the firm provides to its customers." [15]. Ref [16] later define service quality with a performance-based measure and develop SERVPERF instrument with the same dimensions of SERVQUAL. In the current study, performance-based service quality measurement (SERVPERF) is used due to its ease of use. Furthermore, several studies in the literature also demonstrated the applicability of both SERVQUAL and SERVPERF instrument e.g. [17].

In the current study, it is expected that as the quality of services improves, there will be more satisfied customers. This expectation has been verified in the literature [6], [8], [18], [19]. Therefore, we hypothesize the following:

H4 (a-e): The effect of service quality (a-tangibles, b-reliability, c-responsiveness, d-assurance, e-empathy) on customer satisfaction is significant.

Furthermore, customers want to pay less for higher quality products. If customers get higher quality services with less payment, the value perception of the customers will also enhance. The relation between the service quality and perceived value has been verified in several studies [7], [12], [11]. Ref. [7] found that customer satisfaction in mobile value added services is predicted by both quality of service and value perception. Ref. [11] found that service quality of a telecom sector influences perceived value positively, which in turn affects customer satisfaction positively. Therefore, we hypothesize the following:

H5 (a-e): The effect of service quality (a-tangibles, b-reliability, c-responsiveness, d-assurance, e-empathy) on perceived value is significant.

E. Perceived Price Fairness

Price fairness "involves a comparison of a price or procedure with a pertinent standard, reference, or norm". Several factors can be the reason for the perception of price fairness such as the actual price fairness, information about the price, previous experiences and general knowledge about the service provider [20]. It is reasonable to expect that the perception about the price fairness improves the satisfaction with the service. Several studies also confirmed the significant effect of perceived price fairness on customer satisfaction [21]-[23]. Therefore, we hypothesize the following:

H6: The effect of perceived price fairness on customer satisfaction is significant.

III. METHODOLOGY

A survey methodology was used to collect data. A total of 612 questionnaires were collected from the customers of the hotels in Alanya, which is the one of the attractive touristic place for tourists. Some of the questionnaires were discarded due to their incompleteness. Furthermore, some of the respondents answered the question, which was intentionally left blank. At last, 346 questionnaires were used for the analysis.

In the first part, demographic questions about the customers were asked. The tourists come from different nations including Germany, Russian, Finland, Turkey, Holland, Poland and England. A high percentage of the respondents are from Germany (29%). The age ranges from 45-54 is 28%. Most of them have an undergraduate degree (43%). Only 4% of the customers use hotels first time as an accommodation option. 86% of them have hotel experiences more than 3 times. The details of the demographics are given

in Table I.

TABLE I: DEMOGRAPHICS OF HOTEL CUSTOMERS

Gender (%)	
Female: 51	
Male: 49	
Education level (%)	**Age (%)**
High school: 33	18-25years: 14
Vocational high school: 18	25-34years: 16
Undergraduate degree: 43	35-44 years: 21
Graduate degree: 6	45-54 years: 28
	More than 55 years: 21
Nationality (%)	**Hotel experience (%)**
Germany: 29	First time: 4
Russia: 20	Two times: 10
Finland: 18	3-10 times: 46
Turkey: 10	10-20 times: 25
Poland: 8	More than 20: 15
England: 5	
Holland: 4	
Others: 6	

The second part of the questionnaire includes question that define the constructs of the research model. The items of the questionnaire are from the literature on customer satisfaction, service quality, perceived value and perceived price fairness [24, 21, 25]. A five-point Likert scale (1: strongly disagree…5: Strongly agree) was used to measure the constructs. The items, their corresponding constructs and the references are given in Appendix.

IV. RESULTS

In the analysis, SPSS Statistics 20 was used. First, the reliability of the constructs are tested using Cronbach's alpha values. As seen in Table II, all the values surpass the threshold value of 0.60.

TABLE II: RELIABILITY OF THE VARIABLES

Variable	Cronbach's alpha	Average
Customer loyalty	0.81	3.07
Customer satisfaction	0.74	3.60
Perceived value	0.76	3.47
Perceived price fairness	0.71	3.42
SQ-Tangibles	0.70	3.56
SQ-Reliability	0.80	3.49
SQ-Responsiveness	0.69	3.52
SQ-Assurance	0.70	3.54
SQ-Empathy	0.77	3.51

A stepwise regression was used in the analysis to understand the determinants of customer loyalty, customer satisfaction and perceived value. The results of the regression analysis are given in Fig. 2. In particular, this study yielded a regression function for customer loyalty with an $R^2=0.24$. According to the results, customer loyalty is predicted by customer satisfaction and perceived value. Among the factors, the effect of value perception is stronger than customer satisfaction.

The other result of the regression analysis is that a high percentage of customer satisfaction ($R^2= 0.61$) is predicted by perceived value, perceived price fairness and the service quality (reliability, assurance, empathy). Whereas the effects of tangibles and responsiveness are insignificant.

Furthermore, all the dimension of the service quality have significant effects on perceived value. The explanation rate of perceived value is 57%. The relatively high R^2 value indicates that service quality can explain most of the variance in perceived value.
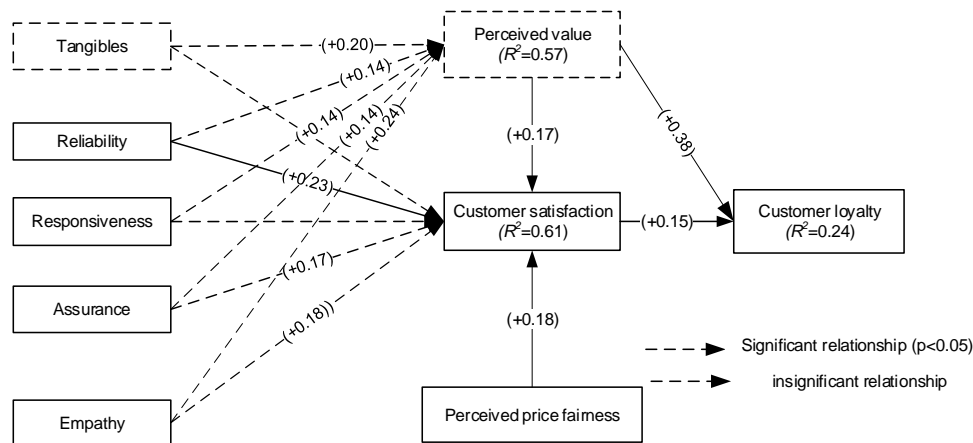

Fig. 2. Results of the regression analysis.

V. CONCLUSION AND FURTHER STUDIES

The aim of the current study is to reveal the effects of service quality, value perception and perceived price fairness on the satisfaction and loyalty of hotel customers. A theoretical model is constructed based on the findings in the literature. To analyze the relationships defined in the research model, a survey methodology was used. A total of 346 hotel customers in the Alanya region of Turkey answered the questionnaires. SPSS Statistics 20 was used for the analysis.

According to the results, nearly all relationships defined in the research model are significant. Only the effects of tangibles and responsiveness on customer satisfaction are insignificant.

The results revealed that both customer satisfaction and perceived value explain customer loyalty. This finding is similar to the findings in the literature [13], [5]. Ref. [13] revealed that in the food tourism, revisit intention is affected by customer satisfaction and perceived value. However, the higher effect of customer satisfaction reveal that for loyal customers, satisfied customers is necessary. Ref. [5] found

that customer loyalty can be achieved with higher service level and satisfied customers. Whereas, service quality in the hospitality industry is the strongest predictor of perceived value, which later explains customer satisfaction.

Another result revealed that customer satisfaction is predicted by perceived value, perceived price fairness, and service quality (reliability, assurance and empathy). Among the factors, reliability has the highest effect on customer satisfaction. Similar to our findings, Al-Refaie [2] found that in order to increase customer satisfaction and customer loyalty subsequently, companies should focus on the quality provided with the services. On the other hand, in the current study, the service dimensions of tangibles and responsiveness have insignificant effects on customer satisfaction. In contrast to our findings, Fakharyan et al. [3] found that service atmospheric factor which includes the décor of the hotel, atmosphere of the room, feeling to be at home positively influences customer satisfaction [3]. This difference may be explained with the fact that the data for the current study was collected from the customers of four-star hotels in Turkey. The customers who comes to the four-star hotels know and accept the standards and generally do not encounter with unexpected events. On the other hand, Fakharyan et al. [3] conducted study with a sample of hotel guests in the area of Tehran. In this area, the place standards for tangibles may not be determined or achieved as desired [3].

The last finding of the study is that service quality has a positive significant effect on perceived value with its all dimensions. This finding is in line with the findings of Banki et al. [4]. In that study, a high percentage of perceived value is predicted by service quality. They offered that in order to achieve the desired service level, hotel managers should monitor the service provided to the customers.

This study proposes a research model that identifies the significant predictors of customer satisfaction and loyalty in hotel industry. As a further study, we have some recommendations about this subject. First, by collecting additional data, this model can be used as a reference model to analyze the differences among different groups such as different cultures. Second, customer loyalty constitutes lower level dimensions such as word-of-mouth, continued intention to come. As a further study, factors affecting specific dimensions of customer loyalty may be analyzed. Third, the findings of the current study reveal that service quality is the significant predictor of customer satisfaction and perceived value. As a further study, the determinants of service quality such as human resource practices and employee satisfaction can be included to the research model in order to reveal their effects on satisfaction and loyalty of the customers.

APPENDIX A- RESEARCH MODEL CONSTRUCTS, ITEMS AND REFERENCES

Customer loyalty [25]
CLOY1 "I am loyal to this hotel"
CLOY2 "I am really dedicated to this hotel"
CLOY3 "I identify myself with this hotel"
CLOY4 "I will not go to any other hotel but this one"

Customer satisfaction [24]
CSAT1 "Overall, I am satisfied with the hotel service"
CSAT2 "Satisfied with the decision to visit this hotel"
CSAT3 "My choice of this hotel is a wise idea"

CSAT4 "I will say positive things about this hotel"

Price fairness [21]
PF1 "I paid a fair price for the holiday package"
PF2 "A situation where whether it is fair that two customers made a holiday in same hotel but have paid different prices"
PF3 "I consider the hotel's pricing policy as fair"
PF4 "I consider the hotel's pricing policy as ethical"
PF5 "I consider the hotel's pricing policy as acceptable"

Perceived value [25]
PV1 "I have a huge saving from staying at this hotel"
PV2 "I really appreciate the free breakfast included in this hotel stay"
PV3 "This hotel has the best value for great services"
PV4 "I got the best room rate than any of the other hotels in the area"
PV5 "This is a first-class hotel at the best rate possible"
PV6 "I value the discount rate/room upgrades at this hotel"

Service Quality-Tangibles [24]
SQT1 "The hotel has modern looking equipment"
SQT2 "The hotel's physical facilities are visually appealing"
SQT3 "The hotel's employees are neat-appearing"
SQT4 "Materials associated with the service are visually appealing at the hotel"

Service Quality- Reliability [24]
SQR1 "When the hotel promises to do something by a certain time, it does so"
SQR2 "When you have a problem, the hotel shows sincere interest in solving"
SQR3 "The hotel performs the service right the first time"
SQR4 "The hotel provides its services at the time it promises to do so"
SQR5 "Employees of the hotel tell you exactly when services will be performed"
SQR6 "The hotel insists on error-free records"

Service Quality-Responsiveness [24]
SQRES1 "Employees of the hotel are never too busy to respond to your requests"
SQRES2 "Employees of the hotel give you prompt service"
SQRES3 "Employees of the hotel are always willing to help you"

Service Quality-Assurance [24]
SQA1 "The behaviour of employees of the hotel instils confidence in customers"
SQA2 "Employees of the hotel are consistently courteous with you"
SQA3 "Employees of the hotel have the knowledge to answer your questions"
SQA4 "The hotel has operating hours convenient to all its customers"

Service Quality-Empathy [24]
SQE1 "Employees of the hotel have the knowledge to answer your questions"
SQE2 "The hotel has employees who give you personal attention"
SQE3 "The hotel has your best interest at heart"
SQE4 "Employees of the hotel understand your specific needs"
SQE5 "The hotel has employees who are competent"

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