MEASURING THE MEDIATING ROLE OF CUSTOMER SATISFACTION BETWEEN SERVICE QUALITY AND CUSTOMER LOYALTY IN UAE HOTEL INDUSTRY

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Abstract:
Tourism has become one of the most essential segments of economy for these Asian countries. This study is primarily designed to review the relationship of service quality and customer satisfaction that leads to customer loyalty in UAE hotels. The study focused on the country UAE and in particular UAE’s hotel sector, and attempted to forward more understanding on the subject matter. For this research, primary data were used to identify the impact of customer satisfaction between service quality and customer loyalty. In this study, the sample consists of customers who are available within Dubai city. A total sample size of 300 was adequate for this study. The samples for this study were the customers who stay minimum one night is hotels in. In order to attract new customers, manager must first focus on their existing customers. It is because, to take care the existing customers will maintain their profit rather than to attract new customers that mostly will incur higher cost. Companies need to retain existing customers with effectively satisfy their needs so that the existing customers become loyal with their businesses

Keywords: service quality, customer loyalty, satisfaction, UAE

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1. Introduction

In the past decade, tourism has contributed significantly to the economic development of a large number of Asian countries including UAE, Singapore, Indonesia, Thailand, Hong Kong, Vietnam, Cambodia, Philippines, India, UAE, and Middle East. Due to this growth in the tourism industry, the need for development of adequate hotels and infrastructure has also increased. Thus, service quality has been gathering a lot attention from the researchers because it is very important for a firm’s bottom line (Dahari et al., 2011; Azam et al., 2014; Tham et al., 2017).

Service quality is the art of creating customer satisfaction that enables an organization to survive in the long run (Hafeez & Muhammad, 2012). It helps to retain as well as attract a new customer base that ensures profitability of the organization (Caruana, 2002; Azam & Moha Asri; 2015; Tarofder et al., 2017). As such, it is imperative that organization be established with the objectives of providing a high level of service quality and combining the activities of various functional areas of the business to achieve business success through customer satisfaction (Brady & Cronin, 2001). The reason for this is the significance of businesses operating on strategic business principles. In the world of business, structuring a thriving business approach involves generating the finest strategy that is competitive (Crosby, Evans & Cowles, 1990; Moha Asri & Azam, 2015; Haur et al., 2017).

The current growth of hotel industry in the UAE is based on the future targets (Bagaeen, 2015). The current results in the industry indicate that they are on the right track (Chen, 2009). However, the hotel is not just being seen as a place for staying and eating, but also being seen as a place for community development. Other than that, it also becomes a place for conversation and discussion to those who want to be relaxed in a comfortable environment with their friends (Crosby et al., 1990).

In UAE, hotels become one of the most popular places for people for meeting and discussion (Gissing & Wallace, 2014). Besides, hotels that provide good services with reasonable price and offer a variety of facilities are more popular among the customers (Haque et al., 2014; Masad, 2015). Therefore, it is clear that besides good quality foods, there is also a need for better services that will help to increase customer satisfaction in the future (Crosby et al., 1990; Haur et al., 2017). Hence, there is a need to understand the role of customer satisfaction between service quality and customer loyalty towards hotel industry in UAE.
2. Literature Review

Tourism industry has significantly benefited the UAE towards the improvement of economic reform. Hence, the country needs to ensure that adequate hotels are built to accommodate this growing number of tourists. In this aspect, UAE, as one of the most visited nations in the world, has greatly benefited from the tourism industry. Due to recent increase in the tourists arrivals, the government has prioritise this sector and concentrated on the development of infrastructures to accommodate the tourists coming to UAE. Moreover, this section will be discussing about all the variables considered for the study.

2.1 Service Quality

According to McAlexander et al. (1994), service quality is an integral and vital element towards the success of an organization. Ojo (2010), states that service quality’s impact on the outcomes of the service process such as loyalty, relationship, satisfaction, image and trust has made it very popular among scholars. Zeithaml and Bitner (2003), agrees that consumers’ judgment of the service encounter is directly proportional to the level of services provided. Service quality is different from product quality as the former is tangible while the latter is intangible (Mohamed & Ahmadani, 2011). Service quality refers to the excellence of service (David & Baker, 2013). The underlying theory if service quality is the quality of service is subject to the expectation and perception of customers (Grzinic, 2007). As we know customer service quality is very important, but when it comes to service quality, when both sellers and buyers are present face-to-face, the question lies in how to assess service quality. The concepts of service or service quality are luring increased attention in recent years as it has the ability to improve operational efficiency and profitability (Cronin, 2003; Zeithaml, 2000; Liu et al., 2017). Service quality is critical to customers’ sense of loyalty to re-patronage them. Nonetheless, retaining customers through customer satisfaction via superior service quality remains a challenging on-going task. Service quality is not as obvious as how it seems (Ding, Hu and Sheng, 2011). A plethora of studies have studied on its dimensions, measures and attributes. In view of the importance of business in recent years with the growing number of customers embracing the concept of the Internet, companies have started to realize the need to increase the performance of their service. Such area has become the hot topic for many researchers to further development the scale for service quality.

Perceptions of service quality in the hotel industry are formed when guests experience affective aspects and attitudinal changes during their stay. Put it differently,
they will have certain preconceived notions pertaining to the hotel services in pursuant to the experiences that entail this notion brought through post-purchase experience (Xu & Chan, 2010). The relationship between customer satisfaction and perception regarding hotel service has been discussed widely (e.g. Akbaba, 2006; Choi & Chu, 2011; Ekinci & Riley, 2013; Gundersen, Heide & Olsson, 2015; Markovic, 2014). Most studies stress the importance of functional capability such as decoration, staff’s behaviour; staff service and interaction with the customer rather than a centre’s technical capability for maintain other function of a hotel.

2.2 Customer Loyalty

Even though, there is imitation of products with the same brand name but with lower quality, the customer loyalty will still be higher (Moha Asri et al., 2014a; Moha Asri et al., 2014b; Ullah et al., 2014). This is because of the mind-set and perception towards the products. Furthermore, recommendations or oral communication is also important tools to determine customer satisfaction. This is because, consumer will inform others about the characteristics and other good side of the products. This is due to the past experienced and this will lead them to retain with the product. Basically, customers that have good experience will encourage others to purchase it in order to share the experience. Moreover, there is a correlation among customer perceptions, behavioral intentions and customer behaviour (Karna et al., 2009; Lierop & El-Geneidy, 2016). Besides that, focusing on share of spending and customer loyalty can lead to value added to the firm rather than focusing on the customer loyalty alone. Besides that, every industry has different type of services (Akhbar & Parvez, 2009). Therefore, it requires different level of customer satisfaction and expectation.

Zeithaml et al (1996) stated that high level of customer satisfaction may affect the customers’ loyalty positively. Gibson (2009) stated that customer satisfaction can be divided into two types. They are transaction specific satisfaction and non-transactional satisfaction. Transaction specific refers to the customer’s satisfaction after the service has been delivered. On the other hand, non-transactional satisfaction is the combination of all previous transaction-specific satisfaction (Felix, 2017). Since mobile cellular service is used by the customers on a daily basis, the customers’ satisfaction for this service can be categorized as non-transactional satisfaction (Deng et al., 2010). Santouridis and Trivellas (2010) noted that customer loyalty is usually described as number of repeat purchases. Customer loyalty is also sometimes described as repeat purchases from the same merchant over a specific period of time. Customer loyalty is the primary objective of customer satisfaction measurement. Loyal customers are less likely to be swayed by negative news or information about the services (Deng et al., 2010). Therefore, it can be
concluded that retaining existing customers is crucial for mobile cellular service providers. Higher customer satisfaction will lead to higher customer loyalty and eventually better bottom line for the organization.

2.3 Customer Satisfaction

The management that focuses on customer satisfaction can improve loyalty and at the same time it will help in building positive image of their company (Felix, 2017; Kheng et al., 2010). In contrast, the management that ignores the customer satisfaction will bring to negative image of their company as long as will bring to losses in their profit (Hafeez & Muhammad, 2012). To maintain the customer satisfaction is not only in term of bringing good quality of products but also include serve a good service in service’s company (Akbar & Parvez, 2009; Lierop & El-Geneidy, 2016). To increase customer satisfaction not only build positive image of the company and increased profit, but also customer satisfaction also important in order to compete with competitors (Gilbert et al., 201). It will help them to develop competitive advantage. Most customer will be looking for good company rather than stay on bad company. Customer will always find something that only will satisfy their needs and wants (Li & Green, 2011). It is that, customer have their purchasing power. They have their power to choose which company they like. So that, in order to compete to other company that offer the same products, marketer must look for something that will maintain customer satisfaction. Customer will spend more if company can offer good satisfaction and will decline their consumption on company that gives them bad satisfaction (Hafeez & Muhammad, 2012; Lierop & El-Geneidy, 2016).

Expectation is another indicator that can be used to measure customer satisfaction (Sephton, 2013). The product quality, services, price and other tools play a vital role to determine customer satisfaction and if those tools meet the customer expectation, the loyalty rate will be higher. Every customer has their own expectation towards a product or services depending on the environment, taste, preference, purchasing power and so on (Voon, 2011). Besides that, customer will buy over and over again and loyal with the products or services if it is worthy for them. It means customer will only pay what they think worth to buy. Moreover, the value that the customers get from the product is also play an important role. When the value is lesser from the expectation, the customers may have the intention to change to other products or services. It is a natural behaviour of human being to retain with the same products or services for a certain period. Besides that, brand preference also reflects the customer satisfaction (Bond & Fink, 2003; Felix, 2017). This is because branded products have
better quality. Based on the literature review, the following hypotheses are to be tested in this study.

H1: There is a significant positive impact of service quality on customer satisfaction in UAE hotels.

H2: There is a significant positive impact of customer satisfaction on customer loyalty in UAE hotels.

H3: There is a significant positive impact of service quality on customer loyalty in UAE hotels.

H4: There is a significant positive impact of service quality on customer loyalty mediated by customer satisfaction in UAE hotels.

2. Methodology

For this study, a deductive research approach is deemed to be more appropriate as the identification of key concepts is derived from the existing theory. This study is also casual in nature; which is aimed at discovering the causal relationships between service quality and customer satisfaction in the UAE hotels. This study has employed survey method for data collection where a larger population can be covered in a shorter time. For this research, primary data were used to identify the impact of customer satisfaction between service quality and customer loyalty. In this study, the sample consists of customers who are available within Dubai city. A total sample size of 300 was adequate for this study. The samples for this study were the customers who stay minimum one night is hotels in.

3. Results and Discussion

A total of 500 questionnaires were randomly distributed among the respondents who were staying in different hotels within Dubai, UAE. The process took approximately three months which started in the second quarter of June until the first week of September, 2016. All of the questionnaires were administered by the researcher and were collected on the same day it was distributed. From total questionnaires which were distributed, it was found that 397 were returned out of which only 339 were found valid for further analysis. This gives a total 67.8% response rate which is considered very good as suggested by Hair et al. (2016).

EFA was conducted in order to find interrelationships that exist between sets of variables (Pallant, 2007). This study also looked into the KMO and Barlett’s Test of
Sphericity value (Pallant, 2007). The KMO value achieved in this study is .841 with a significant level of 0.000. The outcomes of the tests are shown below in table 1.

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</th>
<th>.841</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approx. Chi-Square</td>
<td>6.011E3</td>
</tr>
<tr>
<td>Bartlett’s Test of Sphericity</td>
<td>df</td>
</tr>
<tr>
<td></td>
<td>561</td>
</tr>
<tr>
<td></td>
<td>Sig.</td>
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<td></td>
<td>.000</td>
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</tbody>
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A total of 3 components were extracted that successfully attained eigenvalues higher than one as recommended by Pallant (2007). In total, all the three components altogether explained 66.191%. Finally, SEM was employed to identify the structural relationships between the factors and to test hypotheses for this study. A series of goodness-of-fit indexes that reflect the fitness of the model were used. According to Hair et al. (2010), any study using SEM in modelling the constructs should consider at least three fit indices from each category of fit model.

Under this index, a proposed model has been compared with the null model holding the assumption that no relationship exists between the respected measures. Figure 1

![Figure 1: Modified Structural Model](image-url)
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Illustrates the Goodness of Fit Indexes (GOF) values that have been attained from the SEM model for this study. The model shows that it has achieve the required GFI value in the goodness of fit indices for meeting the fitness criteria [Incremental fit (CFI) = .967, (GFI) = .943; Parsimonious fit (CMINDF) = 2.915; and Absolute fit (RMSEA) = .052)]. All the values required for the model fit was found to be within the required fitness parameter.

Table 2: Hypothesis Testing

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satisfaction</td>
<td>0.451</td>
<td>0.508</td>
<td>1.203</td>
<td>***</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.778</td>
<td>0.365</td>
<td>2.132</td>
<td>***</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.384</td>
<td>0.381</td>
<td>1.008</td>
<td>***</td>
</tr>
</tbody>
</table>

H1: There is a significant positive impact of service quality on customer satisfaction in UAE hotels.

In Figure 1, it can be seen that the path coefficient between service quality and customer satisfaction is positive 0.45. This means that when service quality goes up by 1 standard deviation, customer satisfaction goes up by 0.45 standard deviations. Thus, this study confirms that the relationship between service quality and customer satisfaction is statistically significant (the value of the path coefficient is more than 0.451). This also indicates that service quality significantly influence customer satisfaction in UAE hotels. The finding is also identical with past findings (e.g. Akbaba, 2006; Choi & Chu, 2011; Ekinci & Riley, 2013; Gundersen et al., 2015; Xu & Chan, 2010). According to them, perceptions of service quality in the hotel industry are formed when guests experience affective aspects and attitudinal changes during their stay. Hence, they will have certain pre conceived notions pertaining to the hotel services in pursuant to the experiences that entail this notion brought through post purchase experience.

H2: There is a significant positive impact of customer satisfaction on customer loyalty in UAE hotels.

In Figure 1, it can also be seen that the path coefficient between customer satisfaction and customer loyalty is positive 0.38. This means that when customer satisfaction goes up by 1 standard deviation, customer loyalty goes up by 0.38 standard deviations. Thus, this study confirms that the relationship between customer satisfaction and customer loyalty is statistically significant (the value of the path coefficient is more than 0.384). This also indicates that customer satisfaction significantly influence customer loyalty in UAE hotels. The finding is also identical with past findings (Akhbar & Parvez, 2009; Bond & Fink, 2003; Gilbert & Veloutsou, 2006; Hafeez & Muhammad,
According to them, customer satisfaction is very important to the success of hotel marketing because it influences the choice of hotel and the decision of the customers to return to the same hotel. As such, if a hotel provides better services that satisfy the needs of the customer, it is likely that the customer will continue to use the services.

**H3: There is a significant positive impact of service quality on customer loyalty in UAE hotels.**

In Figure 1, it can also be seen that the path coefficient between service quality and customer loyalty is positive 0.78. This means that when service quality goes up by 1 standard deviation, customer loyalty goes up by 0.78 standard deviations. Thus, this study confirms that the relationship between service quality and customer loyalty is statistically significant (the value of the path coefficient is more than 0.778). This also indicates that service quality significantly influence customer loyalty in UAE hotels.

The finding is also identical with past findings (e.g. Akhtar & Zaheer, 2014; Bagaeen, 2015; Baker, 2013; Gissing & Wallace, 2014; Grzinic, 2007; Masad, 2015; Parasuraman, 1985; Roopchund & Boojhawon, 2014). Where the authors mentioned that the quality of service provided would lead to customer loyalty and customer loyalty.

**H4: There is a significant positive impact of service quality on customer loyalty mediated by customer satisfaction in UAE hotels.**

According to Byrne (2016) and Hair et al. (2010), before testing the mediation between the constructs, the researchers first need to check if all the relationships among the constructs are statistically significant (Service Quality → Customer Satisfaction, Service Quality → Customer Loyalty, and Customer Satisfaction → Customer Loyalty). If all the relationship is statistically significant, then it can be assumed that there is a partial mediation occurs. Besides, if the relationship between IV and DV is not statistically significant, but the relationship between IV and MV and MV and DV is statistically significant, then it can be assumed that there is a full mediation occurs. However, if the relationship between IV and DV is statistically significant, but the relationship between IV and MV and MV and DV is not statistically significant, then it can be assumed that there is no mediation effect occurs in the relationship.

In Figure 1, it can also be seen that the path coefficient between service quality and customer satisfaction is positive 0.45. It can also be seen that the path coefficient between service quality and customer loyalty is also positive 0.78. Finally, the path coefficient between customer satisfaction and customer loyalty is also positive 0.38. It means, all the paths are positive and statistically significant. Thus, it confirms a partial mediation. Therefore, no further tests are required. Consequently, this study accepts the
Hypothesis H4 that is a significant positive impact of service quality on customer loyalty mediated by customer satisfaction in UAE hotels.

4. Conclusion

This study was primarily designed to review the relationship of service quality and customer satisfaction that leads to customer loyalty in UAE hotels. The study focused on the country UAE and in particular UAE’s hotel sector. As such, the study has appraised UAE’s business environment and its management application activities. The proper appraisal of businesses operating in UAE requires a comprehensive assessment of human resources and supporting management framework. The adoption of proper management strategy is a critical component to a hotel business and essential for the long-term success. Thus, this study has attempted to forward more understanding on the subject matter.

It is important to note that for any service industry, customer satisfaction is very important to the success of the business entity because it influences the choice and the decision of the customers to return to the same services. Hence, hotels should realize that maintaining customer satisfaction is not only in term of bringing good quality of products but also to provide a good service which will ultimately build positive image of the company and increased profit. Therefore, some parts of company need to care about and quickly correct before maintains customer satisfaction and loyalty to maintain high profit.

Besides, in order to attract new customers, manager must first focus on their existing customers. It is because, to take care the existing customers will maintain their profit rather than to attract new customers that mostly will incur higher cost. Companies need to retain existing customers with effectively satisfy their needs so that the existing customers become loyal with their businesses.

Finally, to conclude with, the 21st century, the period of knowledge economy, have seen businesses changing their core concentration towards focusing more than ever on their customers not just as a trend but as a reliable and continuing market-base. Customer satisfaction have attracted and drawn hotels and all the service industries to be capable of dealing with customers in a better way and supporting them with best possible services to sustain in this competitive business world. Through that point, it shows that service quality have impact on customer satisfaction and customer loyalty in the UAE hotel industry context. Thus, these factors coming to the picture such as tangible, reliability, responsiveness, assurance, empathy which are the dimensions of service quality. Therefore, if most of the customers have good experience, this will lead
to positive perception towards the services that have been provided by the hotels. The most important with regards to the service quality is that the hotel should not forget to provide the service attributes that is promised to the customers. Hence, through providing good services, the perception of customer can be changed positively towards revisit intention and once the positive perception has been developed, the loyalty can be seen more effective and definitely it would effect on customer return intention.

References


assess the customer satisfaction level of the Oregon HIDTA ISC alan - Chris Gibson-1.pdf


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