



MODERATING EFFECT OF COUNTRY OF RESIDENCE TOWARDS CUSTOMER SATISFACTION AMONG STAR GRADE HOTELS IN SRI LANKA

**W.B.J.A.J. Fernandoⁱ,
Mohd Shukri Ab Yajid,
Ali Khatibi,
S. M. Ferdous Azam**

Graduate School of Management,
Faculty of Business Management and Professional Studies,
Management and Science University (MSU),
Section 13, 40100 Shah Alam, Selangor, Malaysia

Abstract:

The hotel industry, a key stakeholder of tourism industry, plays a crucial role in Sri Lankan economy. The purpose of this research is to determine the relationships between service quality, price fairness and customer satisfaction and to find the moderating effect of country of residence. The target population is international tourists who stayed Sri Lankan star class hotels. The convenience sample technique is applied and sample size is 400. The findings reveal that there is a positive significant relationship between service quality and customer satisfaction, and price fairness and customer satisfaction. The study also confirms that country of residence moderates the relationship between service quality and customer satisfaction but it slightly moderates the relationship between price fairness and customer satisfaction. The hotel managers should aware these findings and communicate them to the employees. They have to implement practices that improve customer satisfaction thereby achieving customer loyalty and profit. Since this study is limited to star class hotels in Sri Lanka. The further study can be conducted for whole hotel industry to comprehend a better picture.

Keywords: service quality, customer satisfaction, price fairness, country of residence

1. Introduction

The tourism sector in which hospitality industry plays a key positions as the Sri Lanka's third foreign currency earner to the country after overseas remittance and textile and apparel exports (Central Bank Annual Report, 2016). Besides that service quality is the

ⁱ Correspondence: email jaustudy@gmail.com

customer's judgment that concerns the gap between perceived service and expected service while customer satisfaction is the immediate reaction of the customer after the consumption (Culiberg, 2010). Customer satisfaction is an aggregate result of observation, assessment, and mental responses to the utilization involvement with an item/service (George & Kumar, 2014; Kant & Jaiswal, 2017). The excellent service quality leads to not only profitability but also employees' enthusiasm and customer retention (Gunarathne, 2014). Sri Lanka hotel industry is bringing down the service quality as an end-result of the extravagance costs and service charges (Wettasingha, 2016). The perceived service quality and loyalty of tourists were significantly influenced by their Nationality and culture (Choi & Chu, 2001). It is required to find out the relationship between service quality and customer satisfaction, and price fairness and customer satisfaction while determining moderating effect of country of residence.

However, there is a knowledge gap in the literature review as very few studies have been conducted in relation to service quality and price fairness in hotel industry in Sri Lanka. It is also notable a limited researches may have been conducted to determine moderator effect of country of residence (destinations of international tourists) as a demographic variable in star grade hotels. This research will be an eye opener to policy makers, academia and hoteliers to understand the perception of international tourists towards the hotel sector. After this introductory section literature review, methodology, results & discussion, and conclusion will follow.

2. Literature Review

Literature review of this paper will capture service quality, price fairness, country of residence and customer satisfaction. Hotel industry that is a key component of tourism industry earns much needed foreign exchanged to Sri Lanka. There are a quite lot of promotions going on attracting tourists. However, it is required to have adequate hotels with a good quality service and fair price structure to attract tourists to the country. It is required to conduct the study to find out customer perception of hotel industry in Sri Lanka. In order to do that it is required to have a theoretical base. This section explains the variables required for the study.

2.1 Service Quality

The quality is one of requirements that customers look for when they accept an offer (Solomon, 2009). Quality interprets as zero defects what is presented in Japanese philosophy (Jain & Gupta, 2004; Adil et al., 2013). A portrayal of "Value" which nearly identifies with the setting of this exploration that wrangles about quality as the 'elements of an offer' that satisfies client necessities and brings consumer satisfaction (Juran & Godfrey, 1999). According to Wyckoff (1992) service quality is the degree of excellence when it comes to achieve the customer's satisfaction. Service quality joins the idea of meeting and surpassing the desires of the customer and this has been developing in fame since its beginning in the late 1970s (Antony et al., 2006). Service

quality is so intangible to the point that object estimation is unimaginable; the challenge lies generally in overseeing appearances and observations (Harvey, 1998; AbuKhalifeh & Som, 2012). Largely, clients' judge service quality and overall, the definition for service quality depends on clients' impression of how well a service meets or surpasses their desires. In spite of the challenges in assessing quality, service quality might be the main way clients can pick one service over another (Debasish & Dey, 2015; Gupta, 2017). Parasuraman et al. (1985; 1988) built up a SERVQUAL display which measures the perceived service quality as a contrast between clients' desires or fancies and their view of what is conveyed in light of the five measurements of service quality, specifically: Reliability, Responsiveness, Assurance, Empathy, and Tangibles. These measurements catch the key components of service quality and they are otherwise called SERVQUAL measurements. But (Cronin & Taylor, 1992) eliminated the "expectation" component from SERVQUAL model and made SERVPERF scale which solely measures the "performance" to evaluate service quality (Minh et al., 2015). There is a significant positive correlation between service quality and price (Murphy, 2018). Service quality and customer satisfaction is interwoven. Customer satisfaction or dissatisfaction is dependent on the service is received from organization. If customer is dissatisfied with poor service that will lead to customer turn over. This concept is also applicable to hotel industry. It is requirement in hotel industry to provide outstanding service which can lead to customer attraction (Gupta, 2017).

2.2 Price Fairness

In the service sector, perceived price is playing noteworthy role in choice making. Customers' perception of price has been considered through price perception (Varki & Colgate, 2001; Munnukka, 2005; Tan & Jia, 2010), price fairness perception (Bolton et al., 2003) and price equity (Bolton & Lemon, 2003). Price is a vital component in customers' buying; therefore, it has a big impact on customers' decisions concerning service (Herrmann et al., 2007). The central role of price as a buying element as well as in post-buying procedures is well known (Matzler, 2006). 50% of customers switched as a result of poor price perception compared to competitors (Keaveney, 1995; Awan & Chen, 2016). Price that is extrinsic signal of quality is a vital predecessor of customer satisfaction due to the fact that customers are dependent on price (Kaura, et al., 2015). Price has a significant impact on customer satisfaction in service industries (Singh & Sirdeshmukh, 2000). There is a significant relationship between perceived price and customer satisfaction in eatery industry (Han & Ryu, 2009). Jiang and Rosenbloom (2005) have also proved empirically that price perception has a positive influence on customer satisfaction and behavioural intent. If the fairness of the price provided by the service provider is perceived by customer, the customer will gradually develop positive feeling towards service provider. These feelings will result into behavioral. It is also found that price has a significant impact on customer satisfaction and loyalty (Yieh et al., 2007).

2.3 Country of Residence

In dictionary form, the country of residence is the place a person resides with an idea to stay there permanently. The people follow the culture of their resident country. The perceived service quality and satisfaction of tourists are significantly influenced by their Nationality and culture (Choi & Chu, 2001)

2.4 Customer Satisfaction

Satisfaction can be characterized by the quality of services perceived by client through the examination between client desire of service execution and genuine execution (Hoffman & Bateson, 2011). It is otherwise called the far reaching appraisal of customers to services given by companies. The service accomplishes consumer satisfaction by meeting the client needs and offering the vital services (Lenka et al., 2009). Satisfaction is an attitude, which forms due to experience obtained after consumption of a product or a service (Lovelock & Wirtz, 2011). Satisfaction is a definite level of customer desire related with the accomplishment of customer consumption requirements, which, forms through evaluation of the characteristics or features of the product or the service or the product itself (Pratminingsih et al., 2018). According to Kotler and Keller (2012), satisfaction is the feeling of desire or anger of a person due to a comparison of the perceived performance of a product or a service to his expectation. Customer will be satisfied if perceived performance exceeds or matches. In case of failure to fulfill the expectation of customer, he will be dissatisfied or unhappy. Customers' dissatisfaction can be considered as a measurement of ineffectiveness and inefficiency of a service provider (Pratminingsih, 2018). Customer satisfaction is normally very vital in all parts of any economy and in service sector where there are no tangible products. Customer care makes a big impact in hotel industry. The attitude and behavior of customers are quite different to understand and predict. Customer satisfaction makes any organization competitive; however, it requires continuous progress as customers' desires are always varying. So hotels are required to be sensitive to new development and to upgrade their standards as customers like to be satisfied and overjoyed (Hill et al., 2007).

2.5 Conceptual Framework and Hypothesis

This conceptual framework is based on the above mentioned literature review.

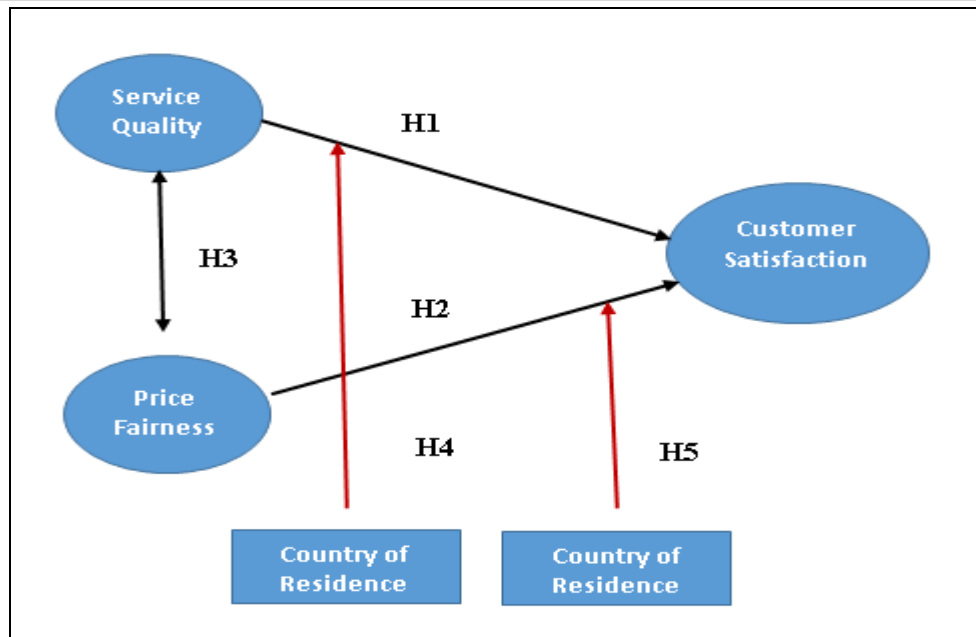


Figure 1: Conceptual Framework

The following hypotheses are to be tested in the study based on the literature review.

H1: There is a significant relationship between service quality and customer satisfaction in star class hotels in Sri Lanka.

H2: There is a significant relationship between price fairness and customer satisfaction in star class hotels in Sri Lanka.

H3: There is a reciprocal relationship between service quality and price fairness in star class hotels in Sri Lanka.

H4: Country of residence moderates the relationship between service quality and customer satisfaction in star class hotels in Sri Lanka.

H5: Country of residence moderates the relationship between price fairness and customer satisfaction in star class hotels in Sri Lanka.

3. Methodology

The study is based literature support, thus it is a deductive research. The study is mainly based on primary data. The population is international tourists who stayed at star class hotels in Sri Lanka. The convenience sample method is applied as sample frame is unknown. The main data collection point was Bandanayake international airport Sri Lanka. The sample consists of 400 that is highly adequate for the study. The data was collected via a structural questionnaire. The online link of the questionnaire was shared to the passengers who were waiting for departures after assessing their stay of hotels.

4. Results and Discussion

The online link of the questionnaire was shared to 538 departing passengers who stayed in star class hotels in Sri Lanka. The data collection process had taken from March 2018 to May 2018. All the questionnaires were personally administered by researcher as researcher is working at the airport. There were 444 questionnaires received. 400 responses were retained after removing extreme values and missing values. 400 responses were used for data analysis. This provides 74.34% response rate which is a very good according to Hair et al. (2010). The reliability test was conducted via SPSS 21 and results are tabulated below.

Table 1: Reliability Test

Construct Name	No of Initial items	No of final items	Cronbach's α
Service Quality	05	05	0.877
Price Fairness	05	05	0.868
Customer Satisfaction	06	06	0.916

Table 1 shows Cronbach's α values for all constructs are higher than 0.7. The adequate value of Cronbach alpha (α) is 0.7 or higher (Cronbach, 1951; Nunnally, 1978). Thus, reliability of construct is achieved. The Exploratory Factor Analysis (EFA) was conducted giving attention to KMO value. The following table depicts the outcome.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.945
Bartlett's Test of Sphericity	Approx. Chi-Square	4117.518
	df	120
	Sig.	0.000

Table 2 shows that KMO value is higher than 0.5 in fact it is 0.945 and Bartlett's Test of Sphericity is significant. KMO value takes maximum 1 and minimum 0. Any value beyond 0.9 is considered to be excellent. However any value above 0.5 is acceptable (Field, 2009). The threshold value of Bartlett's test of sphericity is less than 0.5 (George & Mallery, 2014). Thus, sample adequacy is achieved.

Finally, SEM was conducted to test the hypotheses formed and to find the relationships between constructs. As far as SEM is concerned, there are several fitness indexes that show how model fits to the data set. Although there is no agreement between researchers which model fit indexes should be used there are three categories of model fit indexes namely absolute fit, incremental fit, and parsimonious fit (Awang, 2012). It is recommended to take minimum one model fit index from each category (Hair et al., 1995; Hair et al., 2010; Holmes-Smith, 2006). The following graph shows the structural model.

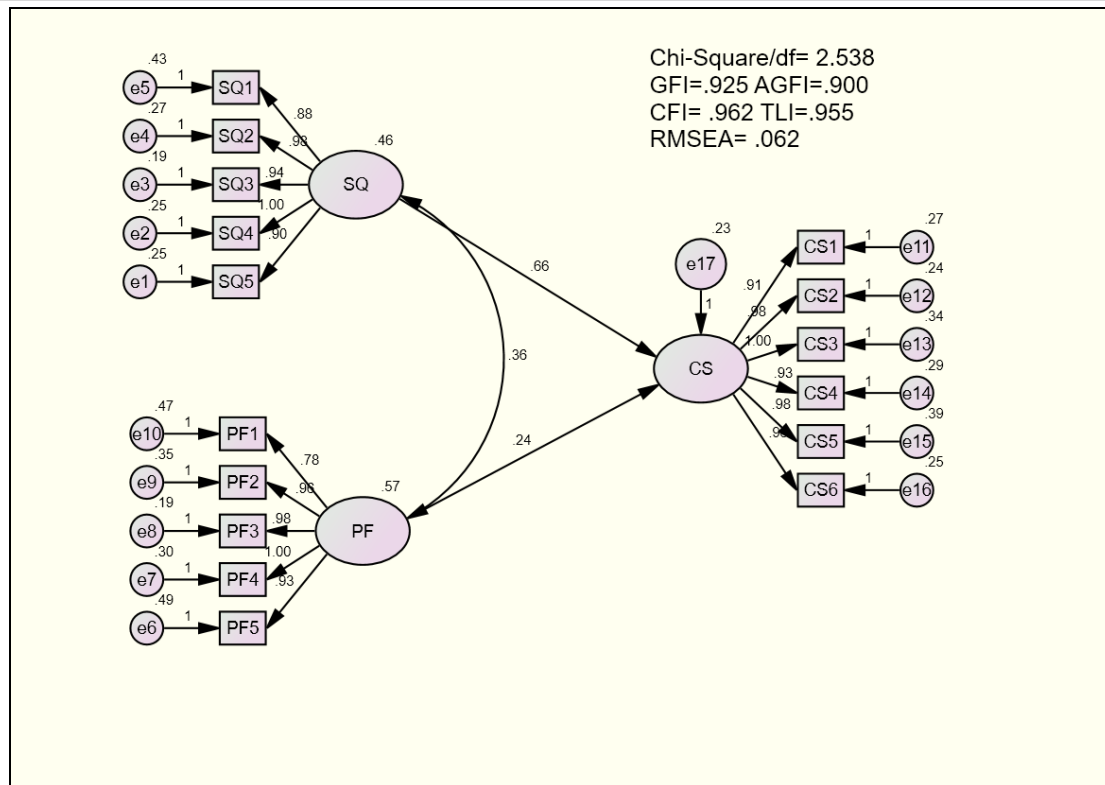


Figure 2: Structural Model

Figure 2 shows that the Goodness of Fit Indexes (GOF) values of structural model. The incremental fit is achieved via CFI and GFI values which are more than cut of value 0.9. Parsimonious fit is achieved via CMINDF which is less than cut off value 5. The absolute fit is achieved via RMSEA which is less than cut off value 0.08. The hypothesis test can be done as the model fit was achieved. The following table shows the linear relationship and reciprocal relationship between constructs.

Table 3: Hypothesis Testing

			Estimate	S.E.	C.R.	P
Customer Satisfaction	<-	Service Quality	0.657	0.078	8.395	***
Customer Satisfaction	<-	Price Fairness	0.237	0.064	3.683	***
Service quality	<-->	Price Fairness	0.365	0.039	9.459	***

The outcomes of Table 3 can be used to test linear hypotheses and reciprocal relationship that were formed in the study.

H1: There is a significant relationship between service quality and customer satisfaction in star class hotels in Sri Lanka.

According to the outcome, the actual regression coefficient (beta value) is 0.657. This means that when service quality goes up by 01 unit, customer satisfaction goes up by 0.657 unit. The regression weight estimates has a standard error (SE) of 0.078. Critical Ratio (CR) value which is obtained by dividing beta (0.657) by SE (0.078) is 8.395. This implies that the regression weights estimates is having 8.395 above zero. The p-value

(0.000) indicates level of significance for regression weights at 95% confidence level. It is the probability of achieving CR 8.395 in absolute value is less than 0.05. It can be concluded that the relationship between service quality and customer satisfaction is significant as regression weights for service quality in the forecast of customer satisfaction is significantly different from zero at the 0.05 level via two tailed test. This result coincides with findings of following studies. There is a positive association between service quality and customer satisfaction in Indian hotels (Gupta, 2017). Customer satisfaction is predicted by service quality (Sudin, 2011). Perceived service quality is a factor of customer satisfaction (Zeithaml et al., 2006).

H2: There is a significant relationship between price fairness and customer satisfaction in star class hotels in Sri Lanka.

According to the outcome, the actual regression coefficient (beta value) is 0.237. This means that when price fairness goes up by 01 unit, customer satisfaction goes up by 0.237 unit. The regression weight estimates has a standard error (SE) of 0.064. Critical Ratio (CR) value which is obtained by dividing beta (0.237) by SE (0.064) is 3.683. This implies that the regression weights estimates is having 3.683 above zero. The p-value (0.000) indicates level of significance for regression weights at 95% confidence level. It is the probability of achieving CR 3.683 in absolute value is less than 0.05. It can be concluded that the relationship between price fairness and customer satisfaction is significant as regression weights for price fairness in the forecast of customer satisfaction is significantly different from zero at the 0.05 level via two tailed test. This result coincides with findings of following studies. Price is a vital factor of customer satisfaction (Kaura et al., 2015). Price has a significant impact on customer satisfaction in service industry (Singh & Sirdeshmukh, 2000). Perceived price fairness is found to be having impact on customer satisfaction and loyalty (Martin-Consuegra et al., 2007).

H3: There is a reciprocal relationship between service quality and price fairness in star class hotels in Sri Lanka.

According to the outcome, the covariance coefficient is 0.365. The covariance estimates has a standard error (SE) of 0.039. Critical Ratio (CR) value which is obtained by dividing covariance coefficient (0.365) by SE (0.039) is 9.459. This implies that the covariance coefficient estimates is having 9.459 above zero. The p-value (0.000) indicates level of significance for covariance at 95% confidence level. It is the probability of achieving CR 9.459 in absolute value is less than 0.05. It can be concluded that the reciprocal relationship between service quality and price fairness is significant as the reciprocal relationship between service quality and price fairness is significantly different from zero at the 0.05 level via two tailed test. This result confirms the finding of Murphy (2018) as he finds that there is a positive significant correlation between service quality and price. A limited no of researches have been considered the reciprocal correlation between service quality and price thus, finding in this study can be taken as new knowledge to Sri Lankan star grade hotels.

The moderating effect of country of residence was conducted by diving responses into two groups namely European consisting of 215 responses and non-European consisting of 185 responses. The following table shows the achievement of chi-square differences.

Table 4: chi-square difference in the path of service quality to customer satisfaction

Path Name	Chi-Square
Europe Constrained	171.303
Europe Unconstrained	166.704
Chi-Square Diff	4.599
Non Europe Constrained	162.333
Non Europe Unconstrained	159.184
Chi-Square Difference	3.149

Table 5: chi-square difference in the path of price fairness to customer satisfaction

Path Name	Chi-Square
Europe Constrained	212.667
Europe Unconstrained	166.704
Chi-Square Diff	45.963
Non Europe Constrained	197.278
Non Europe Unconstrained	159.184
Chi-Square Difference	38.094

If chi-square difference between constrained and unconstrained path is more than 3.84 then the moderating effect is effective for that path (Awang, 2012). Table 4 shows that chi-square difference between constrained and unconstrained model for Europeans are greater than 3.84 but it is near to 3.84 for Non-Europeans. Therefore, country of residence may slightly moderate the relationship between service quality and customer satisfaction. Table 5 shows that chi-square difference between constrained and unconstrained model for Europeans are greater than 3.84 so as to Non-Europeans. Therefore, country of residence moderates the relationship between price fairness and customer satisfaction. A limited no of researches have taken country of residence as a moderating variable however the most of studies have taken gender as a moderating variable. Findings in this study can be taken as new knowledge to Sri Lankan star grade hotels.

5. Conclusion and managerial implication

This study was focused on finding relationship between service quality and customer satisfaction, and price fairness and customer satisfaction. The research further investigated moderating effect of country of residence. This study was aimed at star class hotels in Sri Lanka which is very vital components of foreign currency earning to the country. It is quite important that owners, managers and employees aware about customers thinking pattern and their responses towards key service marketing concepts

so that they will be able to make policies, programmes, procedures and standards for the hotels.

The findings revealed that there is a positive significant relationship between service quality and customer satisfaction. Hence, it is important aspect to maintain a good service quality to satisfy the customers. The findings also revealed that that there is a positive significant relationship between price fairness and customer satisfaction. Hence, it is also important aspect to maintain a fair price mechanism to satisfy the customers. The customer satisfaction leads to customer loyalty which leads to profit. The findings also revealed that the moderating effect of country of residence. Hence, it is noteworthy to know that people from different culture behave differently. Their perceived values and thinking pattern can be different. Hence, relevant authorities of hotels should be able to adjust according the requirement of people from different parts of the world.

Finally, it is noteworthy to understand service quality antecedents namely tangibility, reliability, responsiveness, assurance, empathy which are the dimensions of service quality and the importance of customer satisfaction. The industry is becoming very competitive in order to remain with the business it is required to have extra ordinary effort. A good service quality, a fair price structure and satisfied customer will definitely provide a good competitive advantage for the hotel.

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