A STUDY OF SERVICE QUALITY DIMENSIONS OF BUDGET HOTELS IN KOTA KINABALU

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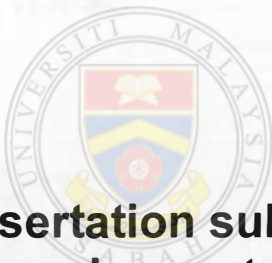## SCHOOL OF BUSINESS AND ECONOMICS
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A STUDY OF SERVICE QUALITY DIMENSIONS OF BUDGET HOTELS IN KOTA KINABALU

FONG YEE SHIN

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DECLARATION

The materials in this dissertation are original except for quotations, excerpts, summaries and references, which have been duly acknowledged.

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ABSTRACT

This study is about service quality dimensions that affect customer satisfaction in budget hotels in Kota Kinabalu.The objective of this study is to investigate the relationship between service quality and customer satisfaction. Besides that, this study also seek to determine whether moderating variables (age, nationality and past experience) will affect the relationship between service quality dimensions and customer satisfaction. The research questions measured based on SERVQUAL model (Parasuraman et.al.,1988).The service quality dimensions include tangibles, reliability, responsiveness, assurance and empathy. A survey was conducted among budget hotel guests that stayed in all 24 budget hotels in Kota Kinabalu. A total of 201 usable questionnaires were collected for this study. This findings confirmed that perceived service quality dimensions have significant positive effect on customer satisfaction in the budget hotels industry in Kota Kinabalu. Eventhough, there is a positive relationship, not all of the five service quality dimensions are significant in their relationships. It is found that reliability, assurance and empathy have significantly influence on customer satisfaction. Interestingly, this study discovered that tangibles and responsiveness are not regarded as significant to determine customer satisfaction. The results also shows that the past experience (moderating variable) has significant relationship between service quality and customer satisfaction whereas age and nationality do not have significant influence on service quality and customer satisfaction. For practitioners, it is worth noting that tangible and responsiveness is not an important service quality dimensions for guests to stay in the budget hotels. Kota Kinabalu is an emerging market for tourism industry. It is suggested that the budget hotels operators need to pay more attentions to emphasize on these significant underlying service quality dimensions as well as past experience to enhance customer satisfaction and customer loyalty; in order to maximize budget hotels profit for the future.

ABSTRAK

KAJIAN TENTANG DIMENSI KUALITI SERVICE TERHADAP KEPUASAN PELANGGAN HOTEL BAJET DI KOTA KINABALU

Kajian mengenai kualiti servis terhadap kepuasan pelanggan hotel bajet di Kota Kinabalu. Objektif kajian ini adalah mengkaji tentang hubungan antara kualiti servis and kepuasan pelanggan. Selain itu, kajian ini juga berhasrat untuk mengenal pasti sama ada umur, kewarganegaraan dan pengalaman lepas mempengaruhi kualiti servis dan kepuasan pelanggan. Soalan soal selidik diukur menggunakan model SERVQUAL (Parasuraman.,1988). Dimensi kualiti servis meliputi benda nyata, kepercayaan, keyakinan, empati dan keprihatinan. Tinjauan telah diadakan di kalangan pelanggan yang telah menggunakan perkhidmatan hotel bajet di semua 24 hotel bajet, Kota Kinabalu. Sebanyak 201 soal selidik telah dikumpulkan bagi tujuan kajian ini. Hasil kajian menunjukkan bahawa dimensi kualiti servis mempunyai hubungan dengan kepuasan pelanggan. Walaupun ada hubungan antara kualiti servis dengan kepuasan pelanggan. Namun, hanya tiga daripada dimensi kualiti servis (kepercayaan, keyakinan dan empati) mempunyai hubungan signifikan terhadap kepuasan pelanggan. Tambahan pula, benda yang nyata dan keprihatinan tidak mempunyai hubungan dengan kualiti servis dan kepuasan pelanggan. Di samping itu, juga didapati pengalaman lepas merangsang hubungan antara kualiti servis dan kepuasan pelanggan sementara umur dan kewarganegaraan tidak mempunyai hubungan dengan kualiti servis dan kepuasan pelanggan. Lantaran itu, kajian ini mencadangkan agar pengelola hotel bajet memberikan tumpuan dalam menitikberatkan dimensi kualiti servis yang dikenal pasti dan pengalaman lepas pelanggan dalam usaha meningkatkan kepuasan pelanggan dan kesetiaan pelanggan di samping mencapai keuntungan pada masa depan.

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CHAPTER 1

INTRODUCTION

1.1   Overview

Tourism Malaysia's Advertising Division Director, Azizan Noordin said at the recently opening of a seminar on "Budget Tourism: Investment Opportunities and Potentials" ceremony 2007. (Daily Express, 2007)

> *"In year 2006, tourism industry earned RM36.27 billion and has been placing the country top three revenue generators. The booming tourism industry will stimulating the growth of budget hotels, with budget hotels should captured at least RM6 billion to RM8 billion worth of business out of the projected revenue of RM44.5 billion for year 2007."*

This is in accordance with the argument of Cai *et al.*, (1995) which stated that tourism expenditures positively contribute to the growth of local market businesses in retailing, restaurants, accommodation, transportation and entertainment. Tourism is identified as one of the key sector to attain Vision 2020 due to its significant contribution to the state coffer (Sabah Tourism Master Plan, 1996). The booming tourism industry stimulates the growth of the retailing, lodging, restaurant, arts and entertainment sectors.

In Sabah, due to its comparatively small population, the local hotel industry heavily relies on the tourism sector for its survival. Table 1.1 illustrates the increase in tourists arrival in Sabah between year 2001 to year 2006.

Generally, there has been an increasing trend in term of tourists arrival in Sabah. Moreover, Malaysian government has designated 2007 as the "Visit Malaysia Year" will bring about a rapid demand for hotel accommodation and its supporting activities.

Table 1.1 : A Statistical Review Of Tourists Arrivals In Sabah From Year 2001-2006

Year	Number Of Tourists Arrivals
2001	918,523
2002	1,107,356
2003	1,251,454
2004	1,773,271
2005	1,828,771
2006	1,844,872

Source: Sabah Tourism Board (STB)

As tourism industry in Malaysia continues to grow, hotels need to improve its service quality in order to gain customer loyalty and provide quality services. According to Sabah Tourism Board (STB), from year 2005 untill year 2006 (January to September), repeat foreign visitors to Sabah is more than 40 per cent. Therefore, with stiff competition and comparisons made by tourists between local and international hotels, the key to a hotel's survival is its ability to cater hotel services to the changing needs and life styles of the ever demanding customers as stated by Fiorentino (1995)

Meanwhile, hotel operators in Kota Kinabalu had managed to maintain theirs high average occupancy rates (AOR) of more than 70 per cent from year 2005 to 2006 (January to September). Hence, it is vital for hotel operators not only to maintain, but also to improve their quality of service in order to stay competitive, as stated by Datuk Verus Aman Sham, Vice President of Malaysia Budget Hotel Sabah Association, 2007:

The budget hotels industry in Sabah, especially in Kota Kinabalu has grown steadily which has resulted in over construction of budget hotels and increased competition among budget hotels... Budget hotel operators have to realize the importance of service improvements that can be converted to a competitive advantage.

1.2   Problem Statement

According to Hung *et.al.* (2003), excellent customer service and high customer satisfaction have become major concerns for operators in service industries such as in hotel industry. Therefore, the interest in assessing service quality has gained a broader attention. Previous research works had focused extensively on developing scales to measure service quality as stated by Harris-Walker (2002). Given the importance of service quality and its relationship to customer satisfaction (Buttle, 1996; Caruana, 2002; Oh, 1999; Parasuraman *et al.* 1985, 1988), there is a need to clearly identify the dimensions of service quality in the hotel industry.

The importance of service quality in hotels has been recognized (Callan, 1989; Callan and Kyndt, 2001; Danaher and Mattsson, 1994 and Saleh and Ryan, 1992) but literature shows a lack of empirical evidence in the budget hotels. Also, it is not sure that service quality dimensions in the international hotels are the same as the budget hotels. Therefore, the aim of this research is to identify the significance of service quality dimensions that impact guest satisfactions in budget hotels.

It is known that service quality has been seen as critical for budget hotel operators classified as Small Medium Enterprise (SME) to position themselves strongly in a competitive environment. According to Gemmel *et al.* (1995), "to survive in the next decade it become increasingly important for managers to manage their resources", whereby the attention will focus on issues of quality management and concepts of improving effectiveness of service quality. In fact, according to Fiorentino (1995), some

of the service quality problems identified were the complaints about staff attitude, slow service as well as inadequate communication between management and customers. Thus, there are important dimensions for hotel operators to assess and examine hotel guests' perception of service quality and identify ways to improve their service quality.

There are rising needs in measuring the customer satisfaction in budget hotels in Kota Kinabalu due to the rapid growth in this sector. Therefore, this study aims to further investigate and answer the questions on whether service quality dimensions such as tangibles, reliability, responsiveness, assurance and empathy affect the customer's satisfaction and which dimensions have significant differences in budget hotels. Besides this, this study incorporates the moderating factors namely age, nationality and past experience in order to investigate to what extent the moderators affect the relationship between the independent variables (five dimensions) and dependent variable (customer satisfaction).

The focus of this study is given on the service quality dimensions that has been proposed by Parasuraman et.al, 1988. Although, pricing may be also a determinant for customer satisfaction. Prior research in the hospitality industry postulates that price plays an important role in consumers' quality perceptions (Lewis & Shoemaker, 1997; Oh, 2000). It is noted that price is not regard as a service quality in the SERVQUAL model. Thus, pricing is not include as a independent variable relations customer satisfaction.

This research is conducted based on a questionnaire developed by Parasuraman et.al, (1988). The research questions are:

1)   What are the service quality dimensions that influence a customer satisfaction in staying in budget hotels?

2)   To what extent the independent variables (tangibles, reliability, responsiveness, assurance and empathy) influence customer satisfaction?

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3) To what extent moderators affect the relationship between independent variables (tangibles, reliability, responsiveness, assurance and empathy) and dependent variable (customer satisfaction)?

1.3   Research Objectives

In consideration of the importance of the service quality in budget hotel industry that impacts significantly to the performance of the budget hotel industry, the research is being carried out to fulfill the following objectives:

1.   To identify the service quality dimensions for budget hotels that influence customer satisfaction.

2.   To investigate the relationship between service quality and customer satisfaction in budget hotels.

3.   To determine whether age, nationality and past experience will affect the relationship between service quality dimensions and customer satisfaction in budget hotels.

4.   To make recommendations for the budget hotel operators to improve their service quality dimensions that affect customer satisfaction and be able to target their customers more effectively.

1.4   The significance of the study

The research aims to understand what are the service quality dimensions that takes into consideration for guests to stay in budget hotels. This study also assess the level of guests satisfaction in budget hotels. This study is significant because it would impact on future improvement of service quality to the budget hotels' guests. The finding will benefit the budget hotel operator to develop and improve their service and facilities to fulfill customer satisfaction.

1.5   Scope of Study

This study focuses on all 24 budget hotels in Kota Kinabalu and a total of 240 respondents who had stayed in the respective budget hotels in Kota Kinabalu. This study incorporates five independent variables of service quality dimensions to determine the dependent variable, which is customer satisfaction. The service quality dimensions are measured based on SERVQUAL model (Parasuraman *et.al.*1988). The dimensions include tangibles, reliability, responsiveness, assurance, empathy and tangibles. The moderator variables to be used in this study are age, nationality and past experience. It is assumed that age, nationality and past experience will influence the relationship between service quality dimensions and the customer satisfaction.

1.6   Key Concepts

For the purpose of this study, the following terms need to be further clarified to avoid confusion and on what it means in the context of this study.

1.6.1   Budget Hotel

Budget hotels concept still lack an established definition and it is difficult to fit them into existing categories. Moreover, there is not yet a single, fully comprehensive "budget hotel' definition. The following are some of the main definitions given so far.

Gilbert and Arnold (1989), pointed out that budget hotels refer to limited service lodging establishment offering the benefit of good value for money in standardized modern accommodation: quality is as good as three or four star hotels and rates are 25% to 30% cheaper.

Senior and Morphew (1990) defined budget hotels as accommodation units that have been developed for short stay travelers on low budgets.

Fiorentino (1995) described budget hotels as a new generation of hotels, mainly small and all with limited facilities and no frills price.

According to Poorani and Smith (1995), budget hotels refer to budget conscious travelers, clean comfortable rooms, free coffee in the morning, and room rates they can live with.

Brotherton and Shaw (1996) stated that a budget hotel as simple room, clean with a nearby restaurant, a rooms-only operation, with room rate 25 to 50 per cent lower than those of mid- range hotels and offering 150 rooms or fewer.

According to Vallen and Rande (1997), budget hotels offer all the recognized hotel chains, competitive room rates through particular design and management: low construction costs and low operating costs.

Brotherton (2004) proffered budget hotels as easily accessible, extensive geographic coverage of hotel network, centralize reservation system, strongly branded, standardized unit of construction, fixed, or promotionally variable room rates, relatively limited service and high rate for money.

1.6.2 Budget Hotel in Malaysia

Budget hotel classification system in western literature is not compatible with local context. Furthermore, Fiorentino, (1995) stated that it is difficult to define budget hotel in United Kingdom due to the various grading schemes (AA, RAC, ETB and etc). According to the Ministry of Tourism Malaysia (1999), budget hotels in Malaysia refer to the type of orchid rating from 1 orchid, 2 orchid and 3 orchid. The Orchid Classification Scheme has been formulated to accommodate those hotels which do not qualify for any Star Rating. The orchid rating is awarded to tourist accommodation premises with basic facilities with include good, safe and clean accommodation and friendly hospitality atmosphere. It is only applicable to premises with at least ten lettable rooms. The

budget hotel scheme classifies bed and breakfasts, inns, boarding houses, rest houses and lodging houses.

According to Vice President of Malaysian Budget Hotel Association Sabah (2007), Datuk Verus Aman Sham, the general definition of budget hotels in Malaysia refer to value for money, clean comfortable rooms and affordable room rates. Most of the budget hotels are small and medium enterprise (SME), typically family owned and run by themselves.

The average budget hotel has 10 rooms and above and the price rate is between RM20 and RM100. Most of the budget hotel operators employed a maximum of 20 people or fewer. Besides that, a budget hotel provides basic facilities required by the Ministry of Tourism Malaysia. The three categories consist of cleanliness and hygiene standard, services reception area and bedroom requirements. In cleanliness and hygiene standard category, toilets or bathrooms for ladies and gentlemen must have clear labels and the size of a toilet and bathroom must meet 2 square meters. In services reception area category, budget hotels must have a proper reception area with at least one staff in charge. In bedroom requirements category, a budget hotel provides beds with clean linen blankets, clean pillows and mattresses, waste basket and hangers for clothes. Table 1.2 summarizes the Characteristics of budget hotels in Malaysia.

Table 1.2: Characteristics of Budget Hotels in Malaysia

Characteristic	Unit
Small Medium Enterprise (SME)	Family -owned and run by family members
Room Rates	RM20-RM100
Number of Rooms	10 or above

Number of employees	20 people or fewer

1.6.3   Orchid Rating

The name "Orchid" has been chosen because Orchid belongs to the largest family of flowering plants with near limitless varieties, found throughout Malaysia. Budget hotels also encompass the biggest percentage of tourist accommodation premises in Malaysia and are found all over the country. Guests staying in budget hotel awarded with Orchid rating can be assured of satisfaction and value for money. The Ministry of Tourism Malaysia firmly believes that Orchid rated hotels sought after by budget conscious tourists as just like orchids being sought by orchid lovers. Ministry of Tourism Malaysia, (2001).

The criteria assessment of orchid rating of 1 orchid, 2 orchid and 3 orchid as presented in Table 1.3.

Table 1.3 : Application and Criteria of The Orchid Classification Scheme

Category	1 Orchid	2 Orchid	3 Orchid
Cleanliness and hygiene standard Sanitary Installation or toilets (minimum size of a toilet and bathroom is 2 square meter).	- At least 1 common bathroom and toilet for every 8 occupants or 2 for every 9 to 20 occupants.	- At least 1 common bathroom and toilet for every 1-7 occupants	Individual bathroom and toilet in every room
	Toilets or bathrooms for ladies and gentlemen with clear labels.	Separate toilets or bathrooms for ladies or gentlemen with clear labels.	Complete with wash basin, shower or bath tub and small pail.
	Toiletries are not required	Toiletries are not required	Towels and basic toiletries (soap and shampoo) are required.

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Facilities and services -Reception Area	Proper reception area with at least 1 staff in charge	Proper reception area with a suitable main entrance. At least 1 staff in charge.	A comfortable reception area with tables and chairs. A suitable main entrance with at least 1 staff in charge.
Bedroom requirements-furniture	1. Beds with clean linen blankets, clean pillows and mattresses.	1. Beds with clean linen blankets, clean pillows and mattresses	1. Beds with clean linen blankets, clean pillows and mattresses
	2. Waste basket	2. Waste basket	2.Waste basket
	3. Hanger for clothes	3. Cupboard with hanger	3.Cupboard with hanger
		4. Night table	4.One table with one chair

Source: Ministry of Tourism Malaysia, (2001)

1.6.4 Perceived service quality

This study used definition by Parasuraman *et al*, (1985) defined service quality as the ability of the organization to meet or exceed customer expectations. Customer expectations refer to the desires and wants of consumer of what they feel a service provider should offer rather than would offer.

The comparison that customers make between their expectations about a service and their perception of the way the service has been performed in SERVQUAL model developed by Parasuraman *et al*, (1985) consist of five dimensions which includes reliability, responsiveness, assurance, empathy and tangibles. Reliability refers to the ability to perform the promised service dependably and accurately. Responsiveness refers to the willingness to help customers and provide prompt service. Assurance refers

to the employees' "know-how" and courtesy, and their ability to inspire trust and confidence. Empathy refers to the individualized attention given to customers. Tangibles refers to the appearance of physical facilities, equipment, personnel, and written materials.

1.6.5 Customer Satisfaction

According to Parasuraman *et al.* (1994) and Teas (1993), overall customer satisfaction is based on all previous experiences with service provider. Tse and Wilton (1988), defined that customer satisfaction as the consumer's response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product or service as perceived after its consumption.

1.7   Summary and organization of Study

In order to theoretically and methodological explain the research, the other information following Chapter 1 included in this dissertation is as follow:

Chapter 2 reviews the concepts and synthesis of the studies done by previous researchers, academician etc. This study examines previous researcher's discussion and the type of theory and concepts that have been previously used as well as arguments and discussion on service quality. It hoped to clarify the roles of each service quality dimensions of budget hotel and provide useful information for the hotel operators to improve service quality in the future. Therefore, readers will have more information on what has been done in this particular field. Chapter 2 also formulates the research questions, objectives and theoretical framework.