

## THE EFFECT OF CUSTOMER SATISFACTION ON THE PERFORMANCE OF THE SMALL AND MEDIUM- SIZED HOTELS

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### **Abstract**

**Purpose** – To investigate the effect of customer satisfaction dimensions on the SMSHs' performance.

**Design** – A quantitative, self-administered questionnaire was used to derive information from all respondents.

**Approach** – The researchers used a different approach (which included the operational performance, financial (like the traditional approach) and non-financial indicators) compared to the conventional approach for measuring the hotel performance. Customer loyalty was used as a performance measure for assessing the operations of SMSHs from the hotel guests' perspectives.

**Methodology** – A double-respondent method and dual-rating system were used for investigating the influence of various customer satisfaction dimensions on the SMSHs' performance. The two questionnaires were adapted and adopted from the review literature. The questionnaires were distributed to the hotel practitioners and hotel guests in 1-3 star/orchid rated hotels located in four states of Malaysia. The data set comprised of 212 SMSHs and 424 Malaysian hotel guests and the data was analysed using SmartPLS and SPSS.

**Findings** – Customer satisfaction increased with an improvement in five service quality aspects like Core Product, Pricing, Technology, Islamic-Friendly Facilities, and Food and Beverage.

**Originality** – This study has offered an insight into the manner in which the SMSHs allocate resources for improving customer satisfaction. The study also offered many insights into the significance of hotel attributes used by the SMSHs for improving customer satisfaction and SMSHs' performance at the same time.

**Keywords** Hotel performance measures, Customer Satisfaction, Small and Medium-Sized Hotels (SMSHs)

### **INTRODUCTION**

The Malaysian tourism industry significantly contributes to the country's economic growth (Jaafar et al. 2011a). Lodging and accommodation is an important factor in the tourism industry (Rogerson 2013). The Small and Medium-sized Hospitality Organisations (SMHOs) have led to the development of many tourist places (Buhalis and Cooper 1992), while the Small and Medium Budget hotels (SMBHs) helped in the success of the Malaysian tourism sector (Jaafar et al. 2011b; Aziz et al. 2012). Approximately 78% of hotels are SMSHs in Malaysia which is considered as a huge segment in the hospitality and accommodation industry (Department of Statistics 2016).

It is obvious that accommodation expenses are one of the main issues for travelling in the world; SMSHs offer a lower price in comparison with other sectors. While it is expected that this sector will have a better business, it is assumed that the tourists downgrade themselves to cheaper and lower star rated hotels (Saaid 2009). So, the SMSH sector can be a choice for the customer to go for cost reduction. SMSHs (with three-star ratings and below) had a drop of 15% to 20% in revenue to competition and some hoteliers had to sell off their properties due to lack of business in Malaysia (Lim 2019). Further, SMSH sector has not grown perfectly in Malaysia (UKESSAYS 2017). High service quality and enhancing customer satisfaction are often seen as necessary elements to enhance and predict organisational and business performance in the hotel/tourism industry (Dominici and Rosa 2010; Van der Wiele, Boselie and Hesselink 2002). As hotel organisations are customer-driven, customer satisfaction is essential for SMSHs as well (Avcikurt, Altay and Oguzhan Ilban 2011). Hence, in this study, the researchers investigated the Malaysian SMSHs.

Customer satisfaction affects the hotel performance since it improves customer loyalty (Anderson and Sullivan 1993), service/product quality, profitability, increases the reputation and value of the owners (Fornell et al. 2006), reduces costs and price variations (Anderson, Fornell and Rust 1997) and helps the organisations derive a competitive advantage (Garvin 1991).

A few studies investigated the effect of customer satisfaction on the organisational performance in many industries (Mersha and Adlakha 1992; Johnston 1995; Anderson and Mittal 2000; Vickery et al. 2003) and stated that customer satisfaction significantly affected the performance of the hotels (Assaf and Magnini 2012; Sun and Kim 2013; Assaf et al. 2015; Phillips et al. 2015). In this study, the researchers focused on the effect of individual customer satisfaction parameters on the performance of the hotels. Customer satisfaction was a result of two independent factors, i.e., performance-delivery (i.e., service) and functional factors (i.e., food and beverage) (Crotts, Mason and Davis 2009). Identification of these attributes could improve the Malaysian tourism industry (Poon and Low 2005). There is a little general agreement on the details of constituents of customer satisfaction and the way of quantifying it (Gupta, McLaughlin and Gomez 2007). Only one prior study addresses on the relationship between the customer satisfaction parameters and hotels' performance. Kangogo and Manyasi (2013) conducted a study focusing on attributes of the customer satisfaction (length of stay, customer loyalty, repeat sales, referrals, handling of customer complaints, and guest retention) which can influence the performance of hotel industry in Kenya. The similar literature on this topic has been carried out mostly with regard to restaurant from the late 1980s to 2006 (Andaleeb and Conway 2006). The last study was done by Gupta et al. (2007) to quantify the links between customer satisfaction parameters, repeat purchase intentions, and restaurant performance. They found that food presentation, cheerful and friendly staff, and value for money as the customer satisfaction's parameters could bring high performance for the restaurants. Thus, it is evident through considering the past studies, the effect of parameters of customer satisfaction on the hotel performance have not paid attention. Assaf et al. (2015) indicated that customer satisfaction can predict the hotel performance. Till date, none of the studies assessed the effect of various customer satisfaction parameters on the performance of the hotels (Yüksel and Rimmington 1998; Gupta et al. 2007), particularly SMSHs. In this study, the relationship between hotel

performance and customer satisfaction was investigated for three primary reasons; 1) Offering a better insight into this correlation; 2) A lack of information regarding these concepts in the literature; 3) Studying the existing controversies regarding the linkage between customer satisfaction and hotel performance (Assaf et al. 2015). This study investigated the relationship between hotel performance and each customer satisfaction dimension.

Here, the researchers have regarded four major factors (star ratings, size, hotel age and location) as the control variables, as they affected the hotel's performance (Kangogo and Manyasi 2013; Sainaghi and Baggio 2014; Kim and Park 2017). Generally, financial measures were used for assessing organisational performance (Assaf et al. 2015). In this study, the researchers used three performance indicators, i.e., organisational, financial and operational indicators (Venkatraman and Ramanujam 1986), which could be an influential strategy compared to the conventional technique used for measuring the firm's performance. This method measured the hotel performance and offered an accurate, complete and comprehensive evaluation.

## **1. LITERATURE REVIEW**

### **1.1. Small and Medium-Sized Hotels Concept**

Though no clear definition of SMSHs (Fiorentino 1995). SMSHs are defined by using the number of employees and rooms in the hospitality industry (Jaafar 2011). Some studies (Buhalis 1995; Buhalis and Main 1998; Ingram et al. 2000) defined the SMSHs as those with a  $\leq 50$  rooms and  $\leq 10$  employees in the lower scope of the market. SMSHs include budget hotels, motels, and backpacker inns and exclude homestay businesses that do not use the star /orchid rating system (Janin, Frew and Gharavi 2012). In the Malaysian context, SMSHs were defined as hotels having a 1-3-star/orchid rating (Jaafar, Abdul Aziz and Sukarno 2012). The Malaysian Tourism Ministry formulated the Orchid Classification Scheme for those hotels which do not have quality or any Star Rating (Ahmad, Ahmad and Salleh 2015). The Orchid classification encompasses accommodations like rest houses, lodging houses, inns, and bed and breakfast hotels that cannot qualify for the other classification (Ministry of Tourism and Culture 2014).

### **1.2. Customer Satisfaction Concept**

Customer satisfaction was based on the assessment of services/ products by customers and if these services fulfilled their expectation (Hunt 1975). Customer satisfaction is based on two paradigms. The traditional expectancy-disconfirmation paradigm refers to the interaction between customer expectations from a service and customer perception after experiencing this service (Zeithaml, Berry and Parasuraman 1988). The other method follows customer perceptions regarding firm performance (Engeset and Heide 1996).

Customer satisfaction enhances service quality (Poon and Low 2005). Ignoring the service attributes may negatively affect customer satisfaction and perception, and lead to negative word-of-mouth publicity (Reichheld and Sasser 1990). Customer satisfaction is

one of the major marketing tools that is used in the service industry, which attracts prospective customers, increases the firm's market position (Luo and Homburg 2007) and improves competition (Sriyam 2010).

## **2. CONCEPTUAL FRAMEWORK AND HYPOTHESIS**

### **2.1. Satisfaction-Hotel Performance Links**

The customer opinions are determined after they have used the service or product, to ensure customer patronage and loyalty (Assaf et al. 2015). Many studies investigated the customer satisfaction in various fields (Anderson and Mittal 2000), like restaurants (Wu and Liang 2009), and manufacturing and service industries (i.e., automobiles, airlines, charter travel, banking, etc.) (Anderson et al. 1994). As customer retention was cost-effective, it improved the business despite using low costs, effort and resources. Thus customer satisfaction could directly/ indirectly influence the SMSHs' performance (Bowen and Chen 2001) in an intensely competitive environment (Sun and Kim 2013).

Earlier studies have investigated the effect of customer satisfaction on the performance of the tourism and hospitality sectors (Denizci and Li 2009) and presented conflicting results (Gursoy and Swanger 2007). Anderson et al. (1994) observed a weak and negative relationship between customer satisfaction and Return On Investment (ROI) in the Swedish service industries, while customer satisfaction and firm profitability showed a negative correlation (Manafi et al. 2011). Heskett et al. (1997) observed a weak relationship between customer loyalty and satisfaction in the chain-profit service. On the other hand, some researchers (Chi and Gursoy 2009; Leo et al. 2009; Assaf et al. 2015) stated that customer satisfaction could positively affect the financial performance, profitability and value of the service industries (i.e., restaurants, hotels and airlines) (Sun and Kim 2013). Assaf and Magnini (2012) noted a link between hotel efficiency and customer satisfaction. Though earlier studies showed contradictory results regarding the relationship between customer satisfaction and firm performance (Assaf et al. 2015), based on the theoretical observations (Anderson et al. 2004), it was assumed that customer satisfaction could positively affect the SMSHs' performance. In addition, the past studies investigated the effect of customer satisfaction dimensions in different features in hotel industry which have been considered by the researchers in the following section. Since measuring customer satisfaction from different aspects of service quality has been mostly considered in the review literature related to hotel and hospitality industry and, it was observed that only few studies proposed evaluating customer satisfaction in terms of attributes of customer satisfaction. While, the procedure of evaluating satisfaction, research instrument, and measures of both customer satisfactions' dimensions (see Gupta, McLaughlin and Gomez 2007; Ramanathan and Ramanathan 2011) and service quality from the company services/products (see Poon and Low 2005) were completely similar, the customer satisfaction' dimensions were used alternatively and interchangeably for the dimensions of service quality in the current study.

H1. Customer satisfaction is positively related to SMSHs' performance.

The following sub-section discussed about the elements being studied in customer satisfaction:

#### 2.1.1. Technology

Technology is a key factor for the service companies to make changes in presenting new services/products to their customer to be valued most. Technology applications can bring customer satisfaction (Bensaou and Earl 1998). Lee, Barker, and Kandampully (2003) focused on finding the influence of technology as one dimension of customer satisfaction on the customer loyalty of hotels. They identified that satisfaction of customers from the hotel technology services can enhance the competitive advantage of the business hotels. According to the above argument, the following hypothesis was conducted:

H1a. Technology, a customer satisfaction dimension, is positively related to the SMSHs'

#### 2.1.2. Islamic-friendly Facilities

Islamic facilities and hospitality have been known as one important element in hotel industry. It is needed to explore the essential attributes that can enhance Islamic concept in hotel industry. Islamic characteristics can increase hotel guests in the future (Zulkharnain and Jamal 2012). In addition, Malaysia is one of the most important destination for Muslim tourists in the world and can provide the Muslims' needs well in Islamic facilities. There was not almost any research on the effect of Islamic facilities as one dimension of customer satisfaction on the hotel performance in the review literature. In this direction, just Weidenfeld (2006) found that the hotels which could satisfy the customers in religious facilities, the customer satisfaction could increase the hotel performance and hotel rates. Razalli et al. (2013) found that Halal certification practices had significant and positive effects on the hotel performance from the hotel employees' views. Halim et al. (2015) identified the importance and performance of Shariah compliant factor could have positive impact on hotel operation. Based on the above discussion, the following hypothesis was developed:

H1b. Islamic-friendly facilities, a customer satisfaction dimension, are positively related to SMSHs' performance.

#### 2.1.3. Supplementary Hotel Facilities

All service providers try to provide a good experience for their customers, with maintaining customer loyalty and stimulating future purchase. In the tourism and hospitality industry, the managers should endeavor to provide different services in order to gain success and better performance. Bell and Zemke (1990) described that customer satisfaction from supplementary services can gain competitive advantage for the firms. Naipaul and Parsa (2000) found that satisfaction of customers from supplementary facilities could enhance the performance of tourism organizations. There was not found any studies related to the effect of supplementary hotel facilities as one aspect of customer satisfaction on the hotel performance. In sport industry, it was found that supplementary facilities could enhance customer loyalty (Walsman et al. 2014). Based on the above rationale, the following hypothesis was developed:

H1c. Supplementary hotel facilities, a customer satisfaction dimension, are positively related to SMSHs' performance.

#### 2.1.4. Staff Service Quality

Quality of staff can be regarded as one of the important aspects which can affect the hotel performance. Staff service quality can have influence on the customers' views of hotel service quality (Gazzoli, Hancer and Kim 2013). Chand (2010) identified that customer satisfaction from staff quality can affect hotel performance and improving service quality of hotels. Choi and Chu (2001) found that customer satisfaction from high staff service quality can influence the customer loyalty. Based on the above discussion, the following hypothesis was conducted:

H1d. Staff service quality, a customer satisfaction dimension, is positively related to SMSHs' performance.

#### 2.1.5. Pricing

Pricing is an important key to attract the customers to purchase a service/product. Companies use different pricing strategies to achieve a successful business and to gain their objective. Pricing has been considered as one of the significant dimension which can meet customer satisfaction (Chan and Wong 2006). In some studies, value for money was used in terms of pricing alternatively. Ramanathan and Ramanathan (2011) found that value for money was a critical attribute of customer satisfaction which could influence the customer loyalty positively. Base on the above argument, the following hypothesis was developed:

H1e. Pricing, a customer satisfaction dimension, is positively related to SMSHs' performance.

#### 2.1.6. Core Product

Core product is the key reason that customers purchase a service/product and it can meet the primary needs of customers (Frow, Ngo and Payne 2014). Bruhn and Grund (2000) found that satisfaction from core product/service is critical for customer loyalty and economic success. Kandampully and Promsivapallop (2006) proposed that customer satisfaction from core service/products can increase competitive advantage of the firms. According to the above discussion, the following hypothesis was developed:

H1f. Core product, a customer satisfaction dimension, is positively related to SMSHs' performance.

#### 2.1.7. Customer Service

Customer service focuses on some strategies to meet customers' satisfaction. In fact, the companies can reach their objectives efficiently through considering this concept as one basic and key component of the customer satisfaction (Wagenheim and Reurink 1991). Foley et al. (2010) reported that how satisfaction customer service lead to the success of

the companies. Ramanathan and Ramanathan (2011) highlighted that customer service as a satisfier could influence positively the customer loyalty in the hotels. Based on the above argument, the following hypothesis was developed:

H1g. Customer service, a dimension of customer satisfaction, is positively related to the SMSHs' performance.

#### 2.1.8. Location

Location has a key role in the success of the business because it can entice a considerable number of customers into the business (Craig 1984). Location of the hotels can be regarded as an important factor which can lead to more room occupancy (Jeffrey and Barden 2000). Jekanowski, Binkley and Eales (2001) described that location is one of the customers' preferences which can lead to more purchasing in fast food outlets. In commercial airline industry, satisfaction of customers from the location had a positive link with customer loyalty (Ostrowski, O'Brien and Gordon 1993). Based on the above rationale, the following hypothesis was developed:

H1h. Location, a dimension of customer satisfaction, is positively related to the SMSHs' performance.

#### 2.1.9. Marketing Tools

Varadarajan and Jayachandran (1999) indicated the role of marketing in gaining the competitive advantage of the companies. Performance of the firms is the result of using appropriate marketing strategies (Merrilees, Rundle-Thiele and Lye 2011). Kim, Han and Lee (2001) examined the effect of hotel guests' satisfaction from hotel marketing activities and found the significant influences of them on increasing repeat purchase from the hotels and word of mouth of the customers. Turkoz and Akyol (2008) explained the effect of customer satisfaction from marketing strategies on five star hotel performance. According to the above rationale, the following hypothesis was developed:

H1i. Marketing tools, customer satisfaction dimension, are positively related to the SMSHs' performance.

#### 2.1.10. Food and Beverage

Food and beverage are considered as a factor which affect the hotel image and a good resource for hotel profitability (Riley 2000). Sharma and Upneja (2005) emphasized the influence of significant effect of food and beverage on the hotel performance. Heung (2000) found that high satisfaction level of customers from availability of food and beverage had a positive reflection on the customer retention to the same hotels. Kandampully and Suhartanto (2003) found that customer satisfaction from food and beverage of the hotel had a significant effect on customer retention. Ramanathan and Ramanathan (2011) recognized that quality of food as a satisfier could influence positively the customer loyalty in the hotels. Based on the above explanation, the following hypothesis was developed:

H1j. Food and beverage, a dimension of customer satisfaction, are positively related to the SMSHs' performance.

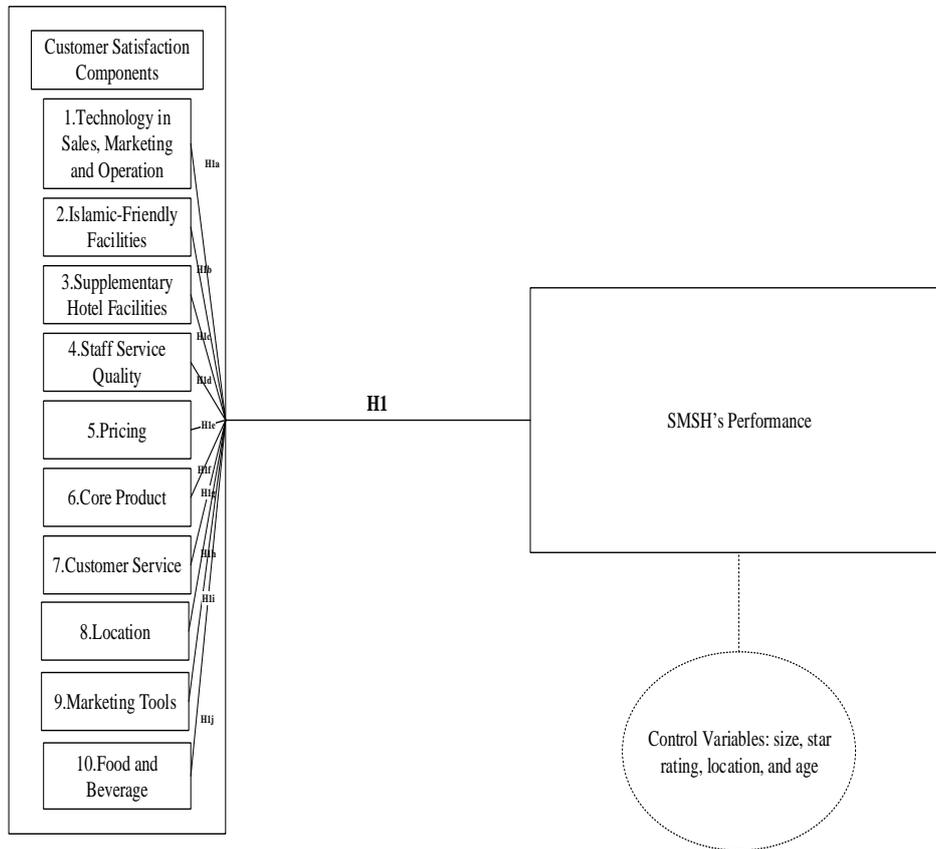
### **3. METHODOLOGY**

#### **3.1. Population and Sample**

The population of this study was included 458 (1-3 star/orchid) rated hotels in four states of Malaysia. The target population comprises hotel practitioners and guests who visited the hotels. The sample of guests were extracted from the customers who stayed at least one night in the hotels. The sample size in the study consisted of 748 hotel guests and 374 hotel practitioners from the 1-3 star/ orchid rated hotels in four Malaysian states of Selangor, Kuala Lumpur, Melaka, and Pahang. These states were chosen based on three factors, i.e., Average Occupancy Rate (AOR), Number of hotel guests, and Number of budget hotels in 2013. The researchers collected a list of licensed and registered SMSHs which operated in these states from the Ministry of Tourism and Culture (MOTAC) website.

They used a double-respondent method and dual-rating system for investigating the influence of various customer satisfaction dimensions on the SMSHs' performance. Dataset one includes hotel practitioners (i.e., managers or operators) who agreed to participate, while Dataset two included two hotel guests from each hotel regarded in Dataset one, for the period ranging between 10<sup>th</sup> April and 30<sup>th</sup> October 2016. As the hotel managers were aware of all regulations and hotel policies, they were requested to fill the questionnaires. Two different self-administered questionnaires were developed for the two types of respondents. The responses of the hotel managers were evaluated for determining the SMSHs' performance, using a Likert scale, ranging between 1 (greatly decreased) and 5 (greatly increased), while the responses of the hotel guests were evaluated for measuring their satisfaction levels, using a 5-point Likert scale (1=very dissatisfied to 5=very satisfied). Out of the two sets, 212 and 424 respective questionnaires could be used for data analysis, which showed a satisfactory response rate of 56.6% (Churchill and Iacobucci 2006). Fig. 1 describes the conceptual framework model which highlighted the empirical relationship between the various customer satisfaction dimensions and SMSHs' performance. Control variable included the star rating, hotel size, hotel age and location.

Figure 1: **Conceptual Framework: The Relationship Between Customer Satisfaction Dimensions and SMHSs' Performance.**



Source: Own literature search

### 3.2. The Measurement Items

The measures used in the study were derived from the published studies and were modified to suit this study context. Table 1 presents the sources and explanations of all measurement instruments. Customer satisfaction dimensions were collected from earlier hospitality-related studies. These included 43 hotel attributes that were categorised into 10 classes, like Staff Service Quality (Choi and Chu 2001), Pricing, Customer Service, Core Product, Location (Brotherton 2004a), Marketing Tools, Food and Beverage (Brotherton 2004b), Islamic-Friendly Facilities, Supplementary Hotel Facilities (Xue and Cox 2008), and Technology in Sales, Marketing, and Operations (Avcikurt et al. 2011). Hotel guests had to rate their probability of revisiting the hotel (Choi and Chu 2001) using a 5-point Likert scale (1= most unlikely to 5= most likely), which was a non-financial measure of the hotel performance. The researchers also considered the demographic variables and travel characteristics of the hotel guests.

The researchers measured the SMSHS' performance using a different instrument (Gupta and Govindarajan 1984; Jogaratnam and Tse 2004). The hotel performance was measured using three main Key Performance Indicators (KPIs) (Jogaratnam and Tse 2004), i.e., financial KPIs with six elements of profitability (Zeglat 2008), liquidity, Average Daily Rate (ADR), Food and Beverage revenue, net profit (Wadongo et al. 2010) and ROI (Tajeddini and Trueman 2012); non-financial KPIs with two elements of market share growth/ sales (Avci et al. 2011), and customer loyalty (determined by hotel guests) (Choi and Chu 2001); and the operational KPIs with two elements of Revenue Per Available Room (RevPAR) and hotel occupancy rate (Zeglat and Zigan 2014). The questionnaire included the demographic and hotel characteristics of all respondents.

The researchers used four control variables, i.e., location (Sainaghi and Baggio 2014), based on the subjective geographic area (Urtasun and Gutierrez 2006), 1-3 star/orchid rating (Sainaghi and Baggio 2014), operational age of the hotel (Tajeddini and Trueman 2012), and size (Kim and Park 2017), based on the number of hotel rooms and employees (SME Corp. Malaysia 2017). Control variables were used to avoid non casual relationships between variables (Tajeddini and Trueman 2012) and control variables are used in most studies with the performance topic (Assaf et al. 2015). Four control variables were used to control the influence which is generated by some variables on hotel performance (Sainaghi and Baggio 2014). In addition, study on the hotels' size, age, location, and category differences helps to understand whether the customer satisfaction's dimensions associated with the hotels' different characteristics play a role in the hotel performance. Knowing whether hotels' characteristics emphasize more or less performance is the foundation for practical and research issues. These differences will influence other hotel stakeholders' strategies to help the firm adopt more appropriate service facilities to meet customers' satisfaction within their operations.

**Table 1: The Resources of Attributes of Hotels' Service within Hotel Industry**

The Resources of Adapted Hotel Attributes			
Dimensions	References of Dimensions	Number of Items for each Dimension	References of Items
1.Technology	Avcikurt, Altay and Oguzhan Ilban (2011)	3	Sotiriadis (2017)
2.Islamic-Friendly Facilities	-	4	Halim, Marzuki, Hilmi, Ali, and Ishak (2015); Mohsin, Ramli and Alkhulayfi (2016)
3.Supplementary Hotel Facilities	Xue and Cox (2008)	6	Darini and Khozaei (2016); Lai and Hitchcock (2016); Olya and Gazi (2018); Ukpabi, Olaleye, Mogaji and Karjaluoto (2018)
4.Staff Service Quality	Choi and Chu (2001)	3	Darini and Khozaei (2016); Lai and Hitchcock (2016); Yasmin, Sarkar and Sohail (2016)

The Resources of Adapted Hotel Attributes			
Dimensions	References of Dimensions	Number of Items for each Dimension	References of Items
5.Pricing	Brotherton (2004a)	4	Goswami and Sarma, (2011); Barreda, Bilgihan, Nusair and Okumus (2016); Lai and Hitchcock (2016); Rahimi and Kozak (2017)
6.Core Product	Brotherton (2004a)	6	Xiang, Schwartz and Uysal (2015); Lai and Hitchcock (2016); Xu and Li (2016)
7.Customer Service	Brotherton (2004a)	6	Halim et al. (2015); Lu, Berchoux, Marek and Chen (2015); Darini and Khozaei (2016); Lai and Hitchcock (2016)
8.Location	Brotherton (2004a)	4	Halim et al. (2015); Darini and Khozaei (2016)
9.Marketing Tools	Brotherton (2004b)	3	Law and Ng (2011); Masiero and Law (2016)
10.Food and Beverage	Brotherton (2004b)	4	Halim et al. (2015); Lu et al. (2015); Darini and Khozaei (2016)

Source: Own literature search

#### 4. DATA ANALYSIS AND DISCUSSION

For analysing the data, the researchers used SPSS and SmartPLS software. Step one included descriptive statistics. Results showed that 69.3% of the hotel managers were male, while 40% of them were aged between 31 and 40 years. 60.8% of practitioners were married. A high percentage of them were Chinese. The hotel practitioners had a variable amount of work experience (average of  $\approx 9$  years) and showed a high SD (SD=6.76).

Table 2: Demographic Variable of Hotel Practitioners

Variable	Level	Frequency	Percent	Mean	SD
<b>Gender</b>	Male	147	69.3		
	Female	65	30.7		
	<b>Total</b>	212	100.0		
<b>Age</b>	Under 30 years	51	24.1		
	31-40 years	84	39.6		
	41-45 years	39	18.4		
	46-50 years	22	10.4		
	51-55 years	7	3.3		
	56 years and above	9	4.2		
	<b>Total</b>	212	100.0		
<b>Marital Status</b>	Married	129	60.8		
	Single	63	29.7		
	Divorced	16	7.5		
	Widow/widower	4	1.9		
	<b>Total</b>	212	100.0		

Variable	Level	Frequency	Percent	Mean	SD
<b>Ethnic Group</b>	Malay	51	24.1		
	Indian	54	25.5		
	Chinese	97	45.8		
	Others	10	4.7		
	<b>Total</b>	212	100.0		
<b>Education</b>	Primary school	1	0.5		
	Secondary school	24	11.3		
	Diploma	87	41.0		
	Bachelor degree	91	42.9		
	Postgraduate diploma	9	4.2		
	<b>Total</b>	212	100.0		
<b>Work Experience</b>				8.85	6.76

Source: Own tabulation

A majority of the hotel guests were male, aged between 21 and 30 years (33%) and Malaysian (62.26%). >70% of the guests were Asians. 50% of the guests stayed for one night (Table 3).

Table 3: Profile of Hotel Guests

Variable	Level	Frequency	Percent
<b>Gender</b>	Male	267	62.97
	Female	157	37.03
	<b>Total</b>	424	100.00
<b>Age</b>	20 or below	43	10.14
	21-30	140	33.02
	31-40	117	27.59
	41-50	76	17.92
	51-60	33	7.78
	61 or above	15	3.54
	<b>Total</b>	424	100.00
<b>Country of Residence</b>	Malaysia	264	62.26
	China	11	2.59
	Taiwan	2	0.47
	Japan	6	1.42
	Middle East	14	3.30
	America	6	1.42
	Europe	24	5.66
	Australia/ New Zealand	17	4.01
	Others	80	18.87
	<b>Total</b>	424	100.00
<b>Night Spent</b>	1 night	196	46.23
	2-3 nights	165	38.92
	4-5 nights	26	6.13
	6-7 nights	17	4.01
	> 7nights	20	4.72
	<b>Total</b>	424	100.00

Variable	Level	Frequency	Percent
<b>Ethnic Group</b>	Malay	165	38.92
	Chinese	102	24.06
	Indian	35	8.25
	Others	122	28.77
<b>Total</b>		424	100.00

Source: Own tabulation

#### 4.1. The Measurement, Outer, Model

The researchers evaluated the measurement model using composite reliability for assessing the internal consistency and the individual indicator reliability, while convergent validity was determined using the Average Variance Extracted (AVE). They used the HTMT (Hetrotrait-Monotrait ratio of correlation) process for assessing discriminant validity (Henseler et al. 2015). Results indicated that Composite Reliabilities (CR) ranged between 0.835 and 0.942, indicating that the values were significant ( $\geq 0.7$ ) (Hair et al. 2010). Adequate internal consistency reliability was noted between all constructs (Table 3). Convergent validity was based on CR, factor loadings, and AVE (Hair Jr. et al. 2014). Table 4 showed that the loadings for all items were  $> 0.5$  (Hair et al. 2010). AVE values ranged between 0.517 and 0.802, with a significant convergent validity ( $\geq 0.5$ ) (Fornell and Larcker 1981).

Table 4: Result of Convergent Validity

Variable	Item	Loading	Cronbach's Alpha	CR	AVE
<b>Core Product</b>	CS23	0.887	0.88	0.912	0.677
	CS24	0.695			
	CS25	0.869			
	CS26	0.816			
	CS27	0.833			
<b>Customer Service</b>	CS28	0.855	0.87	0.905	0.62
	CS29	0.582			
	CS30	0.635			
	CS31	0.864			
	CS32	0.851			
	CS33	0.88			
<b>Food and Beverage</b>	CS41	0.779	0.917	0.942	0.802
	CS42	0.959			
	CS43	0.919			
	CS44	0.915			
<b>Islamic-Friendly Facilities</b>	CS5	0.845	0.815	0.877	0.642
	CS6	0.713			
	CS7	0.845			
	CS8	0.795			

Variable	Item	Loading	Cronbach's Alpha	CR	AVE
<b>Location</b>	CS34	0.803	0.759	0.846	0.586
	CS35	0.55			
	CS36	0.82			
	CS37	0.851			
<b>Supplementary Facilities</b>	CS10	0.67	0.766	0.842	0.517
	CS12	0.74			
	CS13	0.809			
	CS14	0.69			
	CS9	0.677			
<b>Staff Service Quality</b>	CS15	0.798	0.73	0.835	0.63
	CS16	0.876			
	CS17	0.695			
<b>Marketing Tools</b>	CS38	0.842	0.828	0.897	0.745
	CS39	0.936			
	CS40	0.806			
<b>Technology</b>	CS3	0.776	0.881	0.918	0.739
	CS4	0.843			
	CS2	0.934			
	CS1	0.878			
<b>Pricing</b>	CS18	0.892	0.782	0.873	0.697
	CS19	0.86			
	CS21	0.746			
<b>Performance</b>	PERF1	0.799	0.903	0.92	0.537
	PERF2	0.567			
	PERF3	0.766			
	PERF4	0.649			
	PERF5	0.758			
	PERF6	0.826			
	PERF7	0.782			
	PERF8	0.683			
	PERF9	0.808			
	CL	0.641			

PERF is abbreviated for performance. CS is abbreviated for customer satisfaction. CLS is abbreviated for customer loyalty.

Source: Own tabulation

Table 5 presented the discriminant validity results. According to Hair et al. (2010), if the HTMT value ranged between 0.85 and 0.90, the constructs were distinctive. Table 5 showed that the maximal HTMT value was 0.81, i.e., <0.85, indicating that there was no discriminant issue amongst the constructs. This model displayed satisfactory convergent and discriminant validity (Chin 1998).

**Table 5: Correlation of Latent Constructs and Discriminant Validity (HTMT)**

	1	2	3	4	5	6	7	8	9	10	11
<b>1. Core Product</b>											
<b>2. Customer Service</b>	0.73										
<b>3. Foods - Beverages</b>	0.45	0.50									
<b>4. Islamic-Friendly</b>	0.42	0.33	0.62								
<b>5. KPI</b>	0.64	0.50	0.53	0.51							
<b>6. Location</b>	0.21	0.27	0.24	0.18	0.19						
<b>7. Marketing Tools</b>	0.67	0.49	0.58	0.49	0.52	0.25					
<b>8. Pricing</b>	0.69	0.62	0.50	0.38	0.65	0.16	0.76				
<b>9. Staff Service Quality</b>	0.51	0.80	0.49	0.30	0.46	0.26	0.47	0.57			
<b>10. Supplementary</b>	0.68	0.57	0.59	0.59	0.54	0.21	0.70	0.65	0.63		
<b>11. Technology</b>	0.62	0.40	0.38	0.36	0.58	0.21	0.81	0.60	0.38	0.59	

Source: Own tabulation

#### 4.2. Structural Model

R<sup>2</sup> value presented a variance in the dependent variables, explained using the independent variables (Chin 1998). A moderate R<sup>2</sup> value of 0.524 was noted for SMSHs' performance, indicating that 52.4% of the hotel performance was explained by customer satisfaction (Table 6). An important aspect of a structural model is its capability to determine the predictive relevance of the model. The results revealed that the Q<sup>2</sup> value of hotel performance with value (0.253) is larger than zero, endorsing that the independent construct has predictive relevance for dependent construct under consideration in this study (Hair, Ringle and Sarstedt 2011).

**Table 6: Predictive Relevance**

	R Square	R Square Adjusted	Q <sup>2</sup>
Performance	0.547	0.524	0.253

Source: Own tabulation

The researchers tested the structural model for determining the link between the variables and hypotheses. The results supported the H1a, H1b, H1e, H1f, and H1j hypotheses, while H1c, H1d, H1g, H1h, and H1i could not be supported (Table 7 and Figure 2).

Table 7: List of Testing Hypotheses and Relative Path

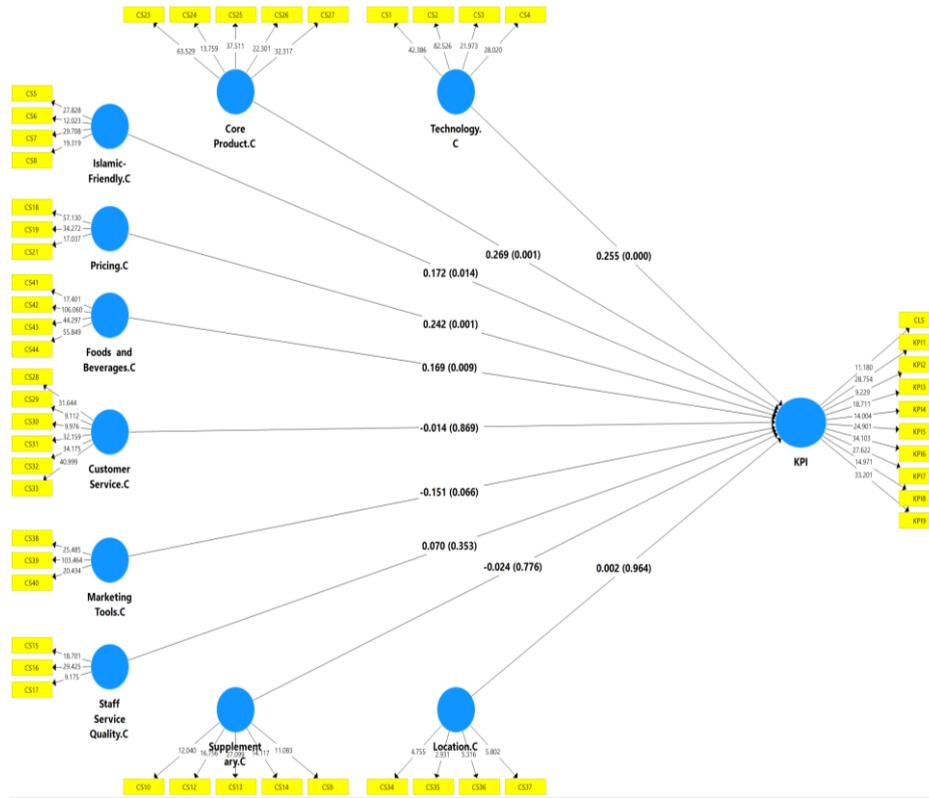
	beta	SE	T value	P Values	Decision
<b>Core Product -&gt; PERF</b>	0.269	0.084	3.193*	0.001	Supported
<b>Customer Service -&gt; PERF</b>	-0.014	0.084	0.166	0.869	Not supported
<b>Food and Beverage -&gt; PERF</b>	0.169	0.065	2.6*	0.009	Supported
<b>Islamic Facilities -&gt; PERF</b>	0.172	0.07	2.454*	0.014	Supported
<b>Location -&gt; PERF</b>	0.002	0.049	0.045	0.964	Not supported
<b>Marketing Tools -&gt; PERF</b>	-0.151	0.082	1.84	0.066	Not supported
<b>Pricing -&gt; PERF</b>	0.242	0.072	3.38*	0.001	Supported
<b>Staff Service Quality -&gt; PERF</b>	0.07	0.075	0.93	0.353	Not supported
<b>Supplementary Facilities-&gt; PERF</b>	-0.024	0.085	0.285	0.776	Not supported
<b>Technology -&gt; PERF</b>	0.255	0.065	3.938*	<0.001	Supported

\*significant at 0.05 level; PERF is abbreviated for performance.

Source: Own tabulation

Results showed that 5 customer satisfaction dimensions, i.e., *Core Product* ( $\beta=0.26$ ;  $t=3.19$ ), *Technology* ( $\beta=0.25$ ;  $t=3.93$ ), *Pricing* ( $\beta=0.24$ ;  $t=3.38$ ), *Islamic-Friendly Facilities* ( $\beta=0.17$ ;  $t=2.45$ ), and *Food and Beverage* ( $\beta=0.16$ ;  $t=2.6$ ) showed a strong positive effect on the performance of the SMSHs'.

Figure 2: Structural Model



Source: Own tabulation

The control variables (age, size, location, and hotel category) showed no effect on the SMSHs' performance (Table 8). Further, size of the hotels was determined based on the number of rooms and employees according to the definition of SMEs in the service sectors by the SME Corp. Malaysia (2017). Since both, the number of staff and employees were considered as a control variable which can determine the size of the hotel, the significant influence of number of staff could not be concerned on the hotel performance. A possible explanation is given for all control variables. It is evident that SMSHs in Malaysia are in an intensive environment and this trend is still going on (Kaur 2018). Thus, most of the hotels are placed very close to other hotels and customers have a variety of options to choose their hotels, it is obvious that all hotels can have very similar opportunity and conditions in attracting tourists, doing their business, and getting profitability. Thus, it is normal that control variables including location, category, size, and age of SMSHs have no influence on their performance.

Table 8: Correlation Between Control Variables and Hotel Performance

Control variable	Hotel Performance	
	r	p value
<b>Hotel Location</b>	-0.029	0.675
<b>Star Rating</b>	-0.06	0.42
<b>Number of Staff</b>	0.167*	0.01
<b>Number of Bedrooms</b>	0.07	0.33
<b>Years of Operation</b>	-0.08	0.24

Source: Own tabulation

Core Product showed the highest correlation with the SMSHs' performance. Similar results were noted by Tracey and Leng (2001), who observed that the product quality affected the performance of the manufacturing firms. The quality of the Core Product encourages the customer to purchase the product regularly.

Technology also showed a positive effect on the SMSHs' performance, similar to an earlier study (Vickery et al. 2003). Technology offers good opportunities for the strategic and operational management of the SMSHs (Gilbert et al. 1999). An increasing technology usage improved the development of strategic alliances, distribution systems, and improved the interactions between the partners and customers. The customers and shareholders hold high regard for the firms that used technology (Thomas et al., 1997). Pricing also showed a positive and significant effect on the SMSHs' performance. Earlier studies also showed a positive effect of pricing on profitability and customer loyalty (Choi and Chu 2001; Gupta et al. 2007).

Currently, the customers are cautious with regards to spending money (Sellers and Berlin 1991) and demand fair prices and a higher quality of products/services (Power et al. 1991; Choi and Chu 2001). Pricing plays a vital role in customer retention and post-purchase satisfaction (Jiang and Rosenbloom 2005).

Islamic-Friendly Facilities also positively affected the SMSHs' performance, similar to the earlier studies (Jumli et al. 2018), as it increased customer retention (Eid 2015). Malaysian hotels were the first to offer Islamic facilities, as Muslims formed the majority of the Malaysian population (Salleh et al. 2014). Islamic facilities helped the Muslim guests to carry out their religious commitments (Hashim et al. 2006).

Food and Beverage significantly affected the SMSHs' performance and increased customer retention (Choi and Chu 2001; Kandampully and Suhartanto 2003). Results showed that the small hotel owners tend to eliminate the Food and Beverage operations in their hotels (Boone 1997). Food and Beverage improved the SMSHs' profitability (Sharma and Upneja 2005; Rutherford and O'Fallon 2007) and increased the competitive advantage of the hotels.

## **5. CONCLUSION REMARKS**

### **5.1. Theoretical and Managerial Implications for Practitioners**

Here, the researchers have investigated the effect of traditional customer satisfaction-based factors on the SMSHs' performance. Results showed that the different customer satisfaction dimensions could significantly and positively affect the SMSH operations. The link between the SMSH performance and customer satisfaction changed when the researchers considered the individual customer satisfaction dimensions, instead of considering it as an individual and general concept. By investigating every dimension of customer satisfaction, the researchers determined which dimension showed the maximal effect on the SMSHs' performance.

This study has presented many results which could assist the SMSH practitioners. Level of customer satisfaction has been known as one of the most important element for the success of the hospitality and tourism companies (Chi and Gursoy 2009). Thus, this study indicates that the higher level of customer satisfaction can lead to better performance of SMSHs. This study determined to what extent each of the dimensions of customer satisfaction influence the SMSHs' performance in four states of Malaysia. The findings revealed that the Core Product as the first dimension of customer satisfaction had positive effect on the SMSH performance in this study. This was followed by Pricing, Islamic-Friendly Facilities, Technology, and Food and Beverage. Based on the results of the analyses, it is recommended that owners/managers in SMHS sector should focus on enhance and retain the significant dimensions of customer satisfaction since this element can at last bring good outcomes for hotel businesses, such as high profitability, success, a good competitive advantage, positive word of mouth, and customer loyalty. Consequently, knowing how dimensions of satisfaction are measured by the customers can be useful for enhancing the hotel performance in SMSH sector. By obtaining the superior elements of customer satisfaction, this can contribute to the SMSH managers to reach authentic report which can have benefits to improve hotel services and enhance hotel success on a desirable way. It can help SMSH managers to find how the related dimensions of customer satisfaction predict SMSH performance. This technique can give the various marketing options to the SMSH mangers which has effective potential benefits for the hotel success.

The results stated that the SMSH managers should allocate better and improved services and resources to the customer satisfaction dimensions which showed the highest effect. On the other hand, they must either eliminate or decrease the resources allocated to the dimensions which showed a little-to-no effect on the SMSH performance. All resources must be developed for increasing customer satisfaction and profitability. Hence, the SMSH practitioners need to allocate better resources and strategies, better management activities for improving the limitations noted in their hotel services. In this study, the researchers noted that the SMSH management does not invest equally in all the different hotel services. The results of the study could help the SMSH managers determine the various dimensions that would improve customer satisfaction based on their stay, and thereafter make efforts for maintaining the stronger parameters and improving the weaker factors. The results of this study suggest that customer satisfaction is a key factor to enhance the SMSHs' success and a good element for development. In addition, the

SMSH managers can address the customer satisfaction and the performance through identifying the strengths and weaknesses of hotel operation and try to improve the service quality to increase hotel success and business benefits.

Based on the literature review and findings, the customer satisfaction positively influence the hotel performance (Kangogo and Manyasi 2013). Hence, this study can contribute to the body of theoretical knowledge with respect to relationship between customer satisfaction and performance of hotels in SMSH sector. This study would contribute to determine the paradigms and allocate appropriate resources, by improving, modifying, changing or switching the services for improving customer satisfaction and SMSH performance. The findings of this study also contribute to offer many insights into the significance of hotel attributes used by the SMSHs for improving customer satisfaction. The present study also presented a set of criteria which help in measuring the performance of the hotels.

## **5.2. Conclusion**

This study improved the earlier customer satisfaction model as it assessed the effect of the various customer satisfaction dimensions on the SMSHs' performance. The results confirmed the theoretical assumptions related to the relationship between firm performance and customer satisfaction. Results indicated that 5 dimensions, i.e., Core Product, Pricing, Islamic-Friendly Facilities, Technology, and Food and Beverage could significantly and positively affect the hotel performance. This was the first report which established the linkage between the various attributes of the hotel service quality using an integrated model. This study determined the attributes which showed the maximal effect on hotel performance and customer satisfaction. The researchers have investigated the direct and significant effect of every customer satisfaction dimension on the SMSHs' performance by assessing the contradictory literature.

## **6. LIMITATIONS AND FUTURE RESEARCH**

In this study, the researchers only focused on four Malaysian states. In future, the studies need to increase their sample size, cover a larger geographical area and investigate different hotel types (luxury hotels). Furthermore, in future, the researchers must investigate different regions which offer similar tourism products and services in related competitive market conditions like Singapore, Thailand and Cambodia. Here, the researchers only determined customer satisfaction levels with regards to the hotel services and attributes. A comparative analysis must be carried out for determining the effect of various customer satisfaction dimensions based on the perspectives of the various types of hotel guests, for example, the Western or Asian travellers.

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