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Girish K. Nair

Program Leader, International Hospitality Management, Stenden University, Doha, Qatar

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THE INFLUENCE OF CUSTOMER PERCEPTIONS ON FINANCIAL PERFORMANCE IN HOSPITALITY ORGANIZATIONS: AN EMPIRICAL STUDY

Girish K. Nair

Program Leader, International Hospitality Management, Stenden University, Doha, Qatar

ABSTRACT. The purpose of this study is to develop and empirically test a model that examines the relationship between customer perceptions and financial performance in hospitality organizations. A survey has been undertaken in hospitality organizations with a sample size of 387 based on simple random sampling. Meta-analysis of literature was the basis for developing the metric that included the variables constituting the hypothetical research model. The tool used for data analysis was structural equation modeling with partial least square technique. Results indicate that both the product- and nonproduct-related attributes have positive and significant influence on symbolic benefits and experiential benefits, which in turn positively influence customer satisfaction. Further, customer satisfaction positively influences financial services. The findings suggest that financial service managers should consider treating customers as partners in services on their quest to develop successful new services in hospitality organizations. Reciprocal behavior will foster a positive atmosphere, remove barriers arising from risk, and enable relationships to progress, ultimately improving customer satisfaction and financial performance. There are not many models available that deal with the antecedents of customer satisfaction (in terms of the product- and nonproduct-related attributes and the functional, symbolic, and experiential benefits) and financial performance. This study adds to the body of knowledge in this emerging area.

INTRODUCTION

The influence of customer relationship orientation on financial performance has been a study of interest for the past several years, and the dimensions of these two constructs keeps growing (Sheth & Sisoda, 1999). Several researchers have proved the relationship of these two dimensions, particularly in the context of service industries (Chang & Chen, 1998; Liang, Wang & Farquhar, 2008; Sin, Tse, Yau, Lee, Chow, & Lau, 2000). Owing to the importance of establishing the link between customer relationship and financial performance, groups of researchers have undertaken research in different streams such as establishment of causal relationships, exploration of intervening and moderating variables, strategies

to create customer values, and so forth (Day & Wensley, 1988; Diamantopoulos & Hart, 1993; Greenley, 1995; Jaworski & Kohli, 1993; Liang et al., 2008; Narver & Slater, 1990; Ruekert, 1992). There are also specific studies that are directed toward value addition to the customers (Bolton, Lemon, & Verhoef, 2004; Verhoef, 2003). Motwani and Shrimali (2013) have identified the difference between the customer perception and expectations using the SERVQUAL instrument and suggested appropriate methods to minimize the service quality gap. Customer perception and customer satisfaction have been used interchangeably in research literature and customer perception is directed mainly toward satisfaction. But strictly speaking, customer satisfaction is a subset of

Address correspondence to Girish K. Nair, PhD, Program Leader, International Hospitality Management, Stenden University, Al-Jeleait Street, Bin Omran, P.O. Box: 36037, Doha, Qatar. Email: gknair75@gmail.com

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customer perceptions. The study of the relationship of customer perception and financial performance is important, but the questions often unanswered are “What constitutes customer perception?” and “What are the interrelationships between its components?” So a study of the relationships between the antecedents of customer satisfaction and the investigation of the relationship between customer perceptions and financial performance in the context of hospitality industry are the focus of this study.

LITERATURE REVIEW

Customer satisfaction literature mainly stresses the confirmation-disconfirmation process (Torres & Kline, 2013). In simple terms, customer satisfaction in the context of hotel industry is a customer’s perception about the service or the product with respect to the customer’s expectations (Schiffman and Kanuk, 2010). So, according to this definition, customer satisfaction is a function of the customer’s needs and wants about a particular service or product. If the service or product expectations are met, the customers are satisfied or else they are dissatisfied. Customer perceptions about services received may lead to customer satisfaction if the value-added service is recognized; otherwise, the customer may be dissatisfied if expectations are not met completely. So the past experience(s) of the customer about service received has a bearing on the level of satisfaction the customer experiences in a new situation (Motwani & Shrimali, 2013). Liang et al. (2008) and Wang (2006) opined that it is not possible to predict future consumption behavior without a detailed study on customer perceptions. Although there are several variables influencing repeat purchase intention of the customer, Liang et al. (2008) have identified that loyalty stands out as the most powerful predictor of this intention, followed by commitment, trust, and customer satisfaction. Banker, Potter, and Srinivasan (2000) have identified the relationships between customer satisfaction and financial performance. The studies of Liang

and those of Banker et al. (2000) have been based on customer satisfaction, but there is a need to introduce customer perceptions when it comes to the study of their influence on financial performance. Most of the customer perception studies focus mainly on customer satisfaction on services received, but there is also a need to study customer perceptions about issues such as product attributes, symbolic benefits, nonproduct attributes, functional benefits, and experiential benefits.

Service quality has been identified as a critical success factor, mainly because it enhances customer satisfaction and enables organizations to build their competitive advantage, increase financial performance, and increase competitiveness (Al-Hawari, Ward, & Newby, 2009; Arasli, Mehtap-Smadi, & Katircioglu, 2005; Harris & Goode, 2004; Klein, Jiang, & Cheney, 2009; Morgan, Anderson, & Mittal, 2005; Olorunniwo & Hsu, 2006; Rod, Ashill, Shao, & Carruthers, 2008; Verhoef, Francis, & Hoekstra, 2002; Yi, 1990). The service quality literature also suggests that perceived service quality performance is the most powerful predictor of customer satisfaction (Dabholkar, Shepherd, & Thorpe, 2000; Santouridis, Trivellas, & Reklitis, 2009). Han and Baek (2004), through their empirical study, found strong relationships among customer service, customer satisfaction, and customer retention. Pavlou, Liang, and Xue (2007) found that trust is also an essential factor that enables people to build relationships and develop customer satisfaction. Johnson, Bardhi, and Dunn (2008) illustrated that the influence of various dissatisfying parameters such as inefficiency, chaos, incompetence, and isolation reduces customer satisfaction and is mediated by consumer performance ambiguity and consumer trust in technology. Many researchers still believe that the criteria customers use in evaluating service quality and their satisfaction with products or services is still a relatively new area of study (Jayawardhena, 2004; Sohail & Shaikh, 2008), so there is ample scope to explore further.

There are several studies investigating what constitutes customer perceptions and customer

satisfaction. Liang et al. (2008) have found that customer perceptions are based on product attributes, nonproduct attributes, symbolic benefits, functional benefits, and experiential benefits acting as the determinants of customer satisfaction, which in turn, is the contributing factor for financial performance. According to Liang, the customer perception process creates and delivers customer value via functional, symbolic, and experiential benefits. These interrelationships could reveal certain critical issues to be considered in the context of hospitality organizations, and this necessitates a focused study on the determinants of customer satisfaction and their relationships with financial performance.

RESEARCH MODEL AND RESEARCH HYPOTHESES

This research makes use of both qualitative and quantitative research approaches. Qualitative research involves meta-analysis of literature to develop the hypothetical research model. All the variables associated with the study variables were screened using this technique so that the most relevant ones were used to hypothesize the model that links various components of customer satisfaction and financial performance of the hospitality industry. Based on this model, the hypotheses were stated and a metric was developed in the form of a questionnaire in order to collect primary data for the analysis. The quantitative approach deals with the finding of the empirical evidence to support the hypothetical model, which basically makes use of structural equation modeling using the partial least square technique.

A general agreement exists that services comprise a complex bundle of explicit and implicit attributes (Gronroos, 1984; Parasuraman, Berry, & Zeithaml, 1985). Customer satisfaction as a construct has several determinants, one of which is symbolic benefits (Liang et al., 2008). Symbolic benefits could be either through product attributes or even nonproduct attributes. The benefits of product attributes are determinants of whether customers ultimately remain

with or shift from an organization. So, the following two hypotheses have been postulated.

- H_{1a}: Product attributes have significant influence on the symbolic benefits.
- H_{1b}: Product attributes have no significant influence on the symbolic benefits.
- H_{2a}: Nonproduct attributes have significant influence on the symbolic benefits.
- H_{2b}: Nonproduct attributes have no significant influence on the symbolic benefits.

Product benefits and nonproduct benefits have the ability to influence both functional benefits and experiential benefits. Both product-related and nonproduct-related attributes significantly and positively affect experiential benefits and functional benefits, particularly for nonproduct-related attributes. Product attributes also influence functional benefits, and nonproduct attributes influence experiential benefits. It is interesting to note that many researchers have also found that symbolic benefits influence customer satisfaction. In addition, there are theoretical models that relate functional benefits and experiential benefits to customer satisfaction (Liang et al., 2008). These concepts led to the postulation of following hypotheses.

- H_{3a}: Product attributes have significant influence on the experiential benefits.
- H_{3b}: Product attributes have no significant influence on the experiential benefits.
- H_{4a}: Nonproduct attributes have significant influence on the functional benefits.
- H_{4b}: Nonproduct attributes have no significant influence on the functional benefits.
- H_{5a}: Product attributes have significant influence on the functional benefits.
- H_{5b}: Product attributes have no significant influence on the functional benefits.
- H_{6a}: Nonproduct attributes have significant influence on the experiential benefits.
- H_{6b}: Nonproduct attributes have no significant influence on the experiential benefits.

- H_{7a}: Symbolic benefits have significant influence on customer satisfaction.
- H_{7b}: Symbolic benefits have no significant influence on customer satisfaction.
- H_{8a}: Functional benefits have significant influence on customer satisfaction.
- H_{8b}: Functional benefits have no significant influence on customer satisfaction.
- H_{9a}: Experiential benefits have significant influence on customer satisfaction.
- H_{9b}: Experiential benefits have no significant influence on customer satisfaction.

Finally, "Does customer satisfaction influence financial performance?" is a research question. Customer satisfaction is often defined as a judgment based on one or a series of consumer service interactions (Yi, 1990). There are quite a good number of studies that link customer satisfaction to financial performance (Al-Hawari et al., 2009; Arasli et al., 2005). Although many empirical studies have established a positive link between the two, there are evidences that customer satisfaction need not necessarily affect financial performance and this has led to the postulation of the following hypothesis.

- H_{10a}: Customer satisfaction has significant influence on financial performance.
- H_{10b}: Customer satisfaction has no significant influence on financial performance.

The starting point for the model is the attributes related to the product that are linked to its functional benefits. Investment by a firm in customer relationships can be made by various means, including putting staff time into relationship building and marketing communications that might include advertising and sponsorship. There are, therefore, product-related and nonproduct-related methods of investing in relationships. Relationship investment can leverage and deploy customer assets.

METHODOLOGY

Financial performance in the context of this research is a measure of a company's ability to

generate income over a given period of time (Lasher, 2010). The study has considered the various antecedents of financial performance and made an attempt to establish the linkages between the constructs through statistical significance. The following sections discuss the methodological issues in this research.

Sample Characteristics

The respondents of the study were customers from hospitality organizations in Qatar. The sample size of the study is 387 customers chosen based on convenience sampling. Data were collected over a period of six months by meeting the customers in the beaches, parks, supermarkets, and so on, who were visiting Qatar on tourism, business, and several other reasons. A total of 399 responses were collected out of which 12 incomplete responses were discarded. To validate the questionnaire, a pilot study was undertaken with a sample of 35 random customers. Factor reduction and modifications and simplifications of the jargons in the questionnaire were also undertaken through the pilot study. Thus the instrument was validated for content, construct, and criterion validity in the form of a self-administered questionnaire. The 5-point Likert scale was used for collecting the primary data.

Out of the 387 respondents, 88% were male and 12% were female customers. Most of the customers were on business and the remaining were on vacation. The respondents were from various locations across countries such as the United States, the UK, Germany, the United Arab Emirates, India, Pakistan, Malaysia, Singapore, South Africa, and several other countries. The age group was between 28 and 65 years.

Questionnaire and Measures

This study employed a self-administered and structured questionnaire, with most of the questions developed through meta-analysis of the literature. Meta-analysis is basically a research procedure in which all the literature relevant to the study is scanned, and most variables of interest are separated and scanned for association with other variables so that a

TABLE 1. Descriptions of Service Quality Dimensions and Sample Items

Dimension	Description	Sample Item
1. Product attributes	They describe the nature of the product.	The rooms are spacious.
2. Nonproduct attributes	They describe the attributes not directly connected to the main product.	The location is convenient for several reasons.
3. Symbolic benefits	The way in which the product relates to their self image.	The ambience suits my lifestyle.
4. Functional benefits	Intrinsic advantages such as desire for financial gain, safety concerns, planning, and value-added services.	I feel very safe in this place.
5. Experiential benefits	How it feels to use the product or service or convenience or positive experiences with the firm or its representatives.	I have some special encounters with the personnel, which is quite a positive experience.
6. Customer satisfaction	Complete set of explicit and implicit attributes of the product/service that makes the customer feel that the product/service is worth the money paid.	I am completely satisfied with the services I have received in this hotel.
7. Financial performance	Increase in earnings, reduce cash flow volatility, and increase cash flow residual value, thus potentially increasing firm value.	I have observed that the place has been adding value continuously.

relation can be established among these variables of study. This would be of particular use when developing a metric for measurement. Even though standard metrics were available for some of the dimensions of the study, because this study was especially oriented toward the three variables of research interest, the questions needed rephrasing to suit the purpose, and hence, validation was carried out. One expert evaluated the questionnaire, which then was pretested with five respondents. On the basis of the comments and evaluations from both the expert and the five respondents, some questions were reworked for the sake of improving the clarity, readability, and understandability of the questionnaire.

The questionnaire thus developed had two separate sections, the first collecting the demographic details (age, gender, level of education, nationality, and income) of the respondents (not revealed because they were

insignificant), and the second, collecting the primary data for the research. There were four to six questions for each of the dimensions of study, but through factor reduction they were reduced to two each, which adequately extracted the variance. A sample item for each of the dimensions (latent variable of study) is given in [Table 1](#).

DISCUSSION OF RESULTS

Measurement Model

The skewness and kurtosis values indicate the normality of the distribution ([Table 2](#)). This study used the following criteria to assess the psychometric properties of each reflective construct: average variances extracted (AVE), item loadings' significance, and discriminant validity. The reliability of the study in terms of internal consistency is acceptable in terms of

TABLE 2. Descriptive Statistics

	N Statistic	Range Statistic	Min. Statistic	Max. Statistic	Mean Statistic	Std. Deviation Statistic	Skewness		Kurtosis	
							Statistic	Std. Error	Statistic	Std. Error
VAR	387	3.00	2.00	5.00	3.6460	0.68761	-0.417	0.124	0.108	.247
Valid N (list-wise)	387									

Note. VAR = Variables in SPSS.

TABLE 3. Reliability of the Study

	AVE	Composite Reliability	R Square	Cronbach's Alpha
1. Experiential benefit	0.7181	0.835	0.4007	0.6215
2. Financial performance	0.7911	0.8834	0.4365	0.7363
3. Functional benefits	0.7452	0.8540	0.2779	0.6583
4. Nonproduct attributes	0.7579	0.8621	–	0.6845
5. Product attributes	0.6960	0.8204	–	0.5684
6. Customer satisfaction	0.6931	0.8185	0.4904	0.5602
7. Symbolic benefits	0.7837	0.8787	0.4399	0.7241

TABLE 4. Correlation Matrix

	Experiential benefits	Financial performance	Functional benefits	Nonproduct related attributes	Product related attributes	Satisfaction	Symbolic benefits
1. EB	0.8474						
2. FIP	0.5024	0.8894					
3. FB	0.4621	0.4722	0.8633				
4. NP	0.5305	0.5298	0.4698	0.8706			
5. PR	0.5787	0.5968	0.4567	0.5451	0.8343		
6. SA	0.6142	0.6607	0.5022	0.462	0.6	0.8325	
7. SB	0.5293	0.5047	0.5688	0.5138	0.6317	0.5906	0.8853

Note. EB = experiential benefit, FIP = financial performance, FB = financial benefits, NP = nonproduct related attributes, PR = product related attributes, SA = customer satisfaction, SB = symbolic benefits.

TABLE 5. Factor Loadings

	Experiential benefits	Financial performance	Functional benefits	Nonproduct related attributes	Product related attributes	Satisfaction	Symbolic benefits
EB1	0.9116						
EB2	0.7779						
FIP1		0.8978					
FIP2		0.8810					
FB1			0.8720				
FB2			0.8544				
NP1				0.9019			
NP2				0.8381			
PR1					0.8764		
PR2					0.7899		
SA1						0.8652	
SA2						0.7986	
SB1							0.8916
SB2							0.8789

Note. EB = experiential benefit, FIP = financial performance, FB = financial benefits, NP = nonproduct related attributes, PR = product related attributes, SA = customer satisfaction, SB = symbolic benefits, 1 = hypothesis has significant influence, 2 = hypothesis has no significant influence.

Cronbach's alpha (>0.6 ; Table 3). The R^2 is adequately high (>0.3 ; acceptable >0.1 ; Table 3). The convergent validity in terms of

composite reliability is also considerably high (>0.8 ; Table 3). Further, discriminant validity of the data is also proved through AVE (>0.7), and

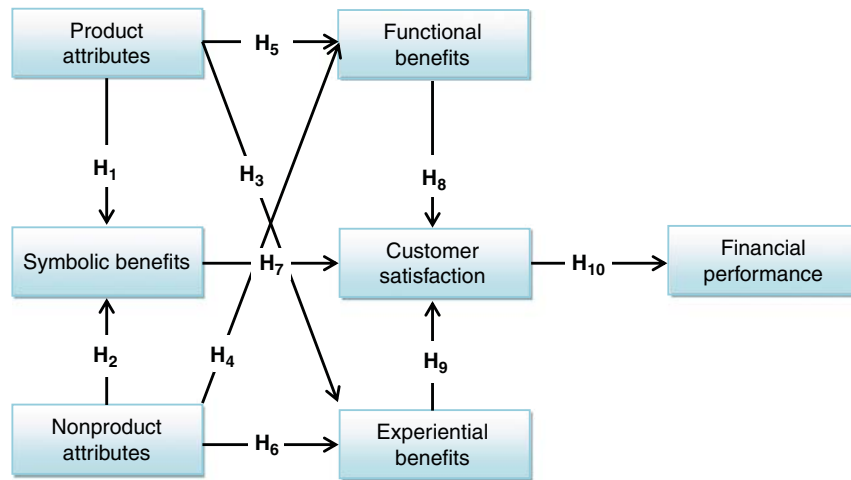


FIGURE 1. The hypothetical research model.

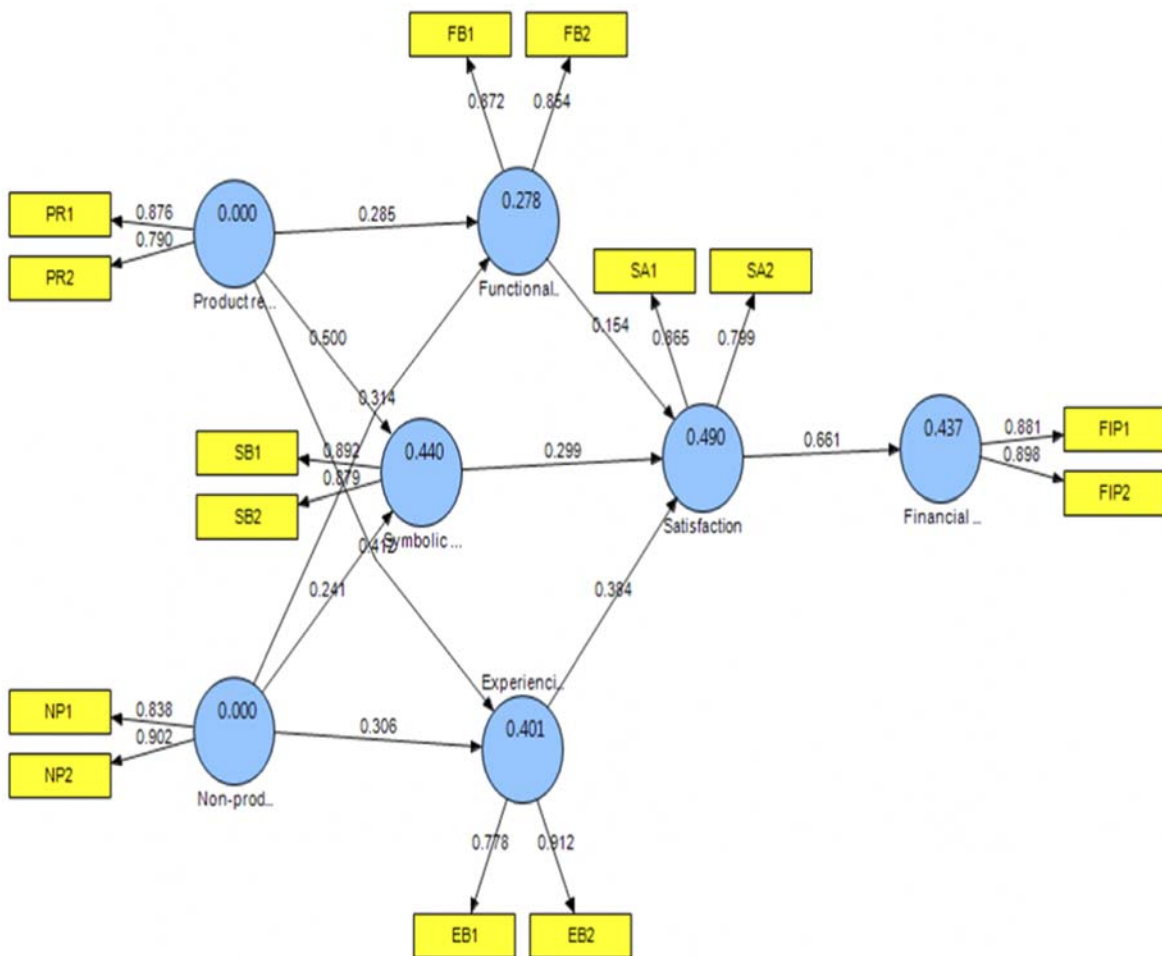


FIGURE 2. Path coefficients and factor loading.

TABLE 6. The t-Values of the Dimensions

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)	Hypothesis
PR → SB (H ₁)	0.5002	0.4973	0.0876	0.0876	5.7115	Supported
NP → SB (H ₂)	0.2411	0.2566	0.0972	0.0972	2.4805	Supported
PR → EB (H ₃)	0.4119	0.4095	0.0885	0.0885	4.6541	Supported
NP → FB (H ₄)	0.3142	0.3257	0.1038	0.1038	3.0265	Supported
PR → FB (H ₅)	0.2854	0.2814	0.1	0.1	2.8547	Supported
NP → EB (H ₆)	0.306	0.3171	0.0989	0.0989	3.0927	Supported
SB → SA (H ₇)	0.2994	0.2927	0.1043	0.1043	2.8714	Supported
FB → SA (H ₈)	0.1543	0.1649	0.1041	0.1041	1.4826	Unsupported
EB → SA (H ₉)	0.3844	0.3841	0.0811	0.0811	4.7394	Supported
SA → FIP (H ₁₀)	0.6607	0.6695	0.0509	0.0509	12.9902	Supported

Note. EB = experiential benefit, FIP = financial performance, FB = financial benefits, NP = nonproduct related attributes, PR = product related attributes, SA = customer satisfaction, SB = symbolic benefits, → = relationship, H1–H10 = hypothesis testing.

the square root of AVE for each construct was greater than the correlation between the construct and any other construct (Table 4).

Finally, the factor loading above 0.8 demonstrates the content validity of the indicator variables of the study (Table 5).

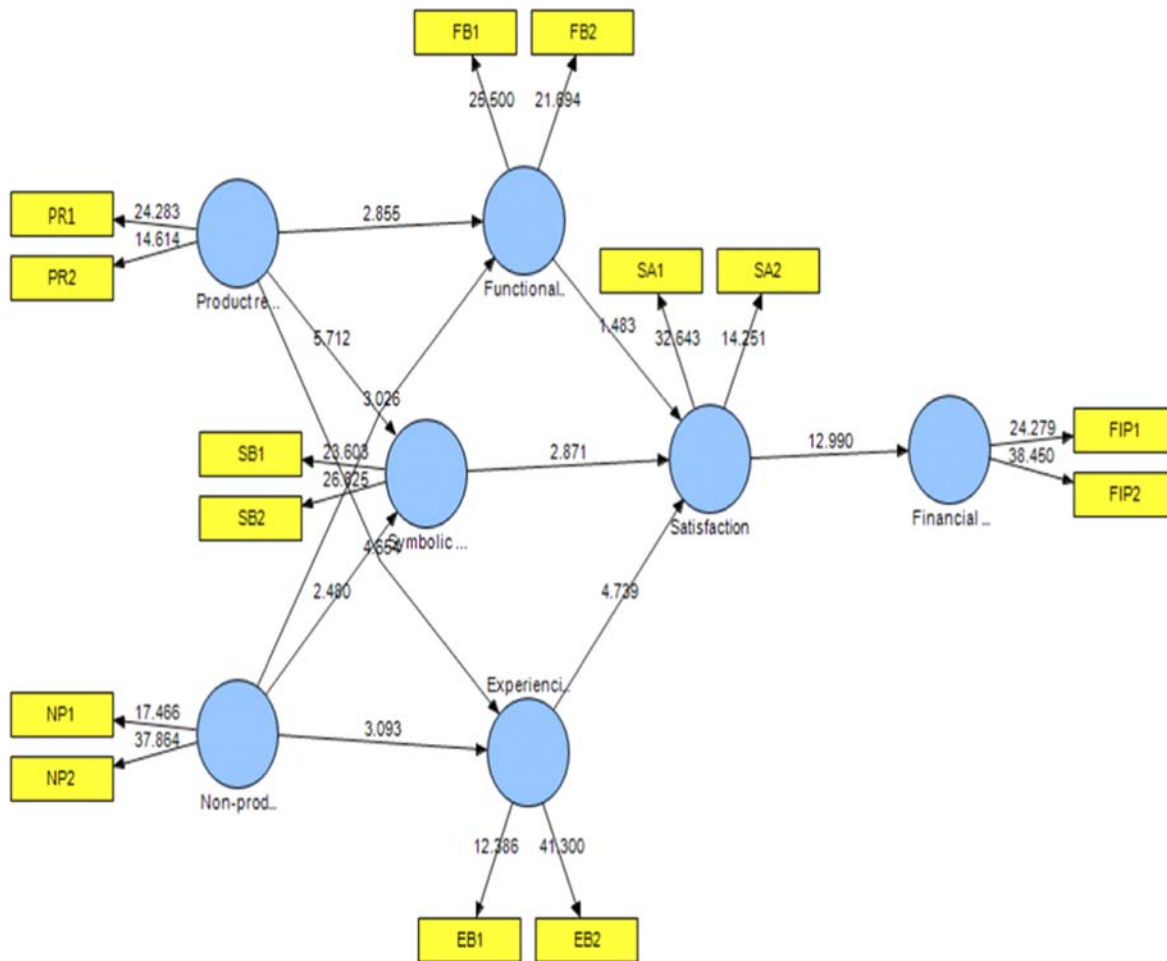


FIGURE 3. The t-values of the model.

Structural Model

The hypothesized model contains five exogenous latent constructs and two endogenous latent constructs, as shown in Figure 1, which are designed to test 10 hypotheses formulated based on the contemporary research literature. The iterative process of testing for convergent and discriminant validity of the model suggested combining several items and deleting several items with low factor loadings. The hypothesized model with path coefficient and the explanatory power (R^2) for each dependent construct is displayed in Figure 2. Although path coefficients show the strength of the relationship between the two latent variables, the t -values (Table 6) are indicative of the significance of relationships that enable hypotheses testing. The t -values are also shown in Figure 3.

The only hypothesis rejected is the one that connects functional benefits to customer satisfaction. This is a strong revelation to the policy makers of hospitality organizations. As such, the functional benefits might be several, from logistics to comfort items. They are mainly infrastructure related, and service providers should note that hospitality is beyond the infrastructure. This appears to be a surprising revelation of the study because intrinsic advantages such as desire for financial gain, safety concerns, planning, and value-added services cannot be ignored by service providers. However, customers have not considered these issues to have a statistically significant influence on customer satisfaction. It has to be noted that the hypothesis testing does not mean that influence of functional benefits on customer satisfaction does not exist at all, instead, it just indicates that its influence is not significant. One of the reasons for this result could be the fact that the functional benefits are relatively not the major concerns of the guests in the hotels under consideration in comparison to the other aspects considered in this research. In the rest of the cases, the theoretical model developed through various former researches is supported well in this empirical study, which

gives several managerial implications, discussed in the next section.

IMPLICATIONS FOR MANAGERS AND HOSPITALITY FINANCE EDUCATORS

Both the product attributes and nonproduct attributes have significant influence on the symbolic benefits (H_1 and H_2). Because symbolic benefits are the antecedents of customer satisfaction, product attributes indirectly influence customer satisfaction. In the service literature, Oliver (1980) explained that customer satisfaction entails the full meeting of customer expectation of the products and services. If the perceived performance matches or even exceeds customers' expectations of services, they are satisfied. If it does not, they are dissatisfied (de Wulf, 2003). In the real world, unsatisfied customers tend to create negative word-of-mouth and convey their negative impression(s) to other potential customers (Lewis, 1991; Newman, 2001; Caruana, 2002). So, hospitality organizations need to constantly benchmark their products against the best in the trade and keep themselves constantly upgraded with the latest product-related attributes. Product- and nonproduct-related attributes also influence the functional benefits (H_4 and H_5). However, this influence is perhaps not as important as the previous because the functional benefits do not significantly influence customer satisfaction. Product- and nonproduct-related benefits also have significant influence on experiential benefits (H_3 and H_6). Because experiential benefits significantly influence customer satisfaction (H_9), once again it gives a direct implication that the hospitality industry cannot afford to ignore both product- and nonproduct-related benefits. Further, experiential benefits also need to be considered seriously if an organization intends to improve customer satisfaction. So, the direct conclusion that can be drawn through the research is that the path of product and nonproduct benefits influencing the symbolic benefits and experiential benefits of customers of the hospitality industry need to be looked at in greater detail by managers than

the path through functional benefits. This is because these two benefits significantly contribute to customer satisfaction.

Hospitality finance educators should consider the study of customer perception and customer expectation as a part of their curriculum and consider the influence of these two aspects on the financial performance of the hospitality industry. When this knowledge is imparted to the hospitality industry managers "in the making," the service quality of the hospitality industry will improve, which is clearly indicated by the hypotheses-testing results of this research.

CONCLUSIONS

This research has revealed that customer satisfaction has a significant influence on financial performance in the context of hospitality organizations. This is applicable to almost all organizations; sometimes there could be a possibility that when a product is newly introduced and the demand exceeds supply, and hence, despite the growing number of unsatisfied customers, the organization may have an increase in its financial performance. However, because the hospitality industry is a mature business in this globalized era, stiff competition has made it completely customer driven, and in that sense customer satisfaction drives financial performance.

This study opens new scope to research further by considering the moderating effects of the intermediate variables. Additional variables such as trust, commitment, and loyalty of customers may be added to the model as the intervening variables.

AUTHOR NOTE

Dr. Girish K. Nair is working as a Program Leader of International Hospitality Management at Stenden University, Doha, Qatar. He has more than 14 years of teaching, training, research and administrative experience. His research interest areas are Finance & Economics, Sustainability, Strategic Management,

TQM, Hospitality & Tourism Management, and International Business. He has contributed more than 25 research papers at national/international levels at various journals, seminars, and conferences. He has chaired sessions at international conferences. He is also reviewing research papers for some journals. He is an International Examiner for PhD of Bharathiar University.

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