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# **Domestic or International Hotels: The Frontrunner of Service Innovation and Customer Choice in Pakistan**

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**Abstract:**

**Purpose** – The purpose of this study is to analyze the factors that measure the preferences of customers for domestic and international hotels operating in Pakistan.

**Design/methodology/approach** – A questionnaire derived from previous studies was completed by 200 hotel-customers in Pakistan. Data is analyzed using SPSS software by employing factor analysis with VERIMEX rotation and multiple regressions.

**Finding** – The results indicate that international hotels have more attributes and are preferred by customers as compare to domestic hotels.

**Practical implication** – The study can be utilized for the enhancement of more efficient market strategy in the hotel industry.

**Originality value** – The study reinforces and refines the body of knowledge relating the service innovation and customer choices for hotel industry in Pakistan. The study also tries to highlight the relative importance of tangible and intangible factors in the hotel sector It may establish useful base for future empirical work in this field, at least in developing countries.

**Paper type** – Research paper

**Keywords:** Customer preference, Service innovation, Hotel attributes, Factor analysis

# **Domestic or International Hotels: The Frontrunner of Service Innovation and Customer Choice in Pakistan**

## **1. Introduction**

Today, the era of intense competition creates a need for manufacturing as well as service organizations to cope with the hyper competitive business environment. The field of hospitality management also stipulates the hotels and restaurants to be more service innovator in order to create a center of attention for a larger share of its customers. Tourism and hotel service industry go side by side. A country having a larger number of tourists must have such type of hotels and restaurants which offer what exactly travelers want. Go and Heung (1995) point out the major and growing role of Asia Pacific in the world's economy. They further identify that this newly created prosperous travel market is expected to offer many opportunities in tourism.

Nature has gifted Pakistan with a bundle of tourist assets. These include mountains, deserts. Archeological sites etc. There is a great opportunity for Pakistan to fully utilize all these potentials by promoting tourism along with apposite accommodation facilities as well. Ministry of tourism Pakistan (2006-7) in a report provides the definition of hotel. "Hotel is an establishment engaged in providing lodging or both lodging and boarding facilities on hire". For five star hotels the definition is as: "There shall be at least 60 bedrooms. At least 20% of the bedrooms shall be single and 5% shall be suites.

Clean linen and curtains of high quality, together with pillows, bedding, blankets and bedcovers shall be supplied to each new guest otherwise change daily. There shall be a well equipped and furnished lounge or lobby, with a space proportionate to the number of the bedrooms, there shall be a well equipped and well stocked bar. A chemically treated swimming pool within the hotel premises with a filtration plant to serve the pool. There shall be at least two restaurants, a dinning room and a round the clock coffee shop. There shall be sufficient parking space for at least 100 cars".

Hotel is one of building block of service sector which can tailor customized service by keeping itself more competitive in its respective industry. Salomon (1994) predicted the expulsion of that hotel which is not able to understand and congregate its customer' service standard, within the period of seven to nine year. The knack to satisfy the customers by providing a dining experience, comprising of both tangible and intangible elements and able to meet or exceed their expectations contain the secret of triumph of any food and beverage establishment (Parasuraman et al., 1985).

Customers are the more influential constituent of a society. They can be regarded as key driver of an economy. Barlow (1996) informed about the vital role of customer choice for hotels in the generation of revenues. By looking into customer perspective, it can be observed that they are also frequently bombarded with the offer of variety of products and services. It is very difficult to choose one best alternative, where every company is in the effort of grasping them by making believable or some times unbelievable claims. Customers never believe in claims, instead they believe in the actions of seller companies. It is the innovation which can hypnotize the customers by its magical influence.

The role of innovation in service is not a hidden aspect and is now overriding the other business sectors. However it cannot be denied that analysis in service innovation research is not enough in contrast with product innovation research (Chesbrough, 2004). By keeping this in mind it can be said that the changing business environment of world has implied the need for hotels to search for new ways to survive and succeed. A little competition can be a healthy thing. It can also be both lavish and appalling if a hotel is not up to par with its competitors or industry changing trends. In light of the existing discussion, this study investigates the choices made by customers regarding hotel selection.

On the basis of customer responses about the attributes of their host hotels the study also finds the service innovator between the two categories of hotels, international and domestic hotel category. In this paper, an insight into service innovation is provided by exploring the hotel preferences of customers between domestic or international hotel in Pakistan. The main objectives of this study are:

- a) Discussion of core aspects of hotel attributes
- b) To scrutinize the relative impact of derived hotel factors on driving the choice of international or domestic hotel by customer.

The scheme of the study is as follows. Section 2 describes the theoretical background of the research area. Mode of data collection and interpretation are discussed in Section 3. Results are discussed in Section 4, while Section 5 concludes the study.

## **2. Theoretical Background**

The product choices made by customers are based on the best match of combination of product traits to their needs (Kotler, 1997). These product traits may be either core traits or attributes that deliver fundamental benefits, or supporting traits that provide additional benefits (Zikmund and d'Amico, 1993; Fuller, 1999). Services comprise a larger share of world's economy but still management of innovation in services sector and their crucial role is not justifiably understood.

Most of researches are based on practices of manufacturing industry but there is clear need to distinguish manufacturing practices from services. The question of applicability of manufacturing or product practices to services is still pending. It is often considered necessary to well define the concept of service. Edvardsson and Olsson (1996) delineate the service concept by regarding it "prototype for service, covering the needs of the customer and the design of the service". According to Gadrey et al. (1995) service innovations are the innovations in processes and in organization for existing service products.

Numerous studies have examined the relationship of different types of innovation with performance. The market-orientation of a firm seems to be positively and significantly associated with the service (Agarwal et al., 2003). Innovations with new and sophisticated technology have been found to result in major competitive advantages (Urban and Hauser, 1993; Crawford, 1994). So it is apparent that implementation of service innovation is important not only from customer perspective but also from economic perspective (Reid and Sandler, 1992).

According to McIntosh and Siggs (2005) the tailored service received at hotels by customers is one of the influential sources of purchase decision. The products offered by Hotel firms consist of tangible and intangible elements that have a matchless combination of production and service (Lockwood 1994). There are various studies of hotel attributes by many researchers that are regarded while making a hotel choice decision. Some of the intangible traits of hotel service are cleanliness (Atkinson, 1988; Knutson, 1988; Saleh and Ryan, 1992), convenient location and accessibility (Rivers et al., 1991; Ananth et al., 1992) comfort, drudgery and well-maintained rooms (Cadotte and Turgeon, 1988) and room facilities such as better lighting, safety features in the bathrooms, easy to handle door knobs, supporting mattresses and chairs (Ruys and Wei, 1998). Along with it food value of a restaurant, convenient parking, as well as interior decor and exterior visuals (Saleh and Ryan, 1992) and timely and chivalrous service quality (Knutson, 1988; Cadotte and Turgeon, 1988) are also main factors.

**Table 1**  
**Pinnacle Attributes of Hotel Choice by Different Researchers**

LeBlanc and Nguyen (1996)	Wilensky and Buttle (1998)	Atkinson (1988)	McIntosh and Siggs (2005)
Physical environment	Personal service	Cleanliness of accommodation	Location and knowledge/culture of host
Corporate identity	Physical attractiveness	Safety and security	Quality
Service personnel	Opportunities for relaxation	Value for money	Uniqueness
Quality of services	Standards of services	Courtesy and helpfulness of staff	Personal touch
Accessibility	Appealing image and value for money		Homely feel

Pakistani hotel industry has experienced a rapid growth during last years. Because of decreasing rigorousness of foreign direct investment world wide, many industries flourished rapidly. Hotel industry is also not an exception. Many international and domestic giant players are in the field. They are also making efforts to become more competitive. Hotel stay is not only limited to foreign travelers like tourists but domestic travelers also. The Foreign and domestic Tourism Survey 2000, conducted by the Ministry of Tourism showed that the rate of stay of foreign

tourists is 34.7 percent while 15 percent is the rate of stay of domestic tourists in hotels (Ministry of tourism 2005-6).

**Table 2**  
**Statistical Highlights of Hospitality Industry (2006-2007 Vs 2007-2008)**

Components	Years		% Change
	2006-2007	2007-2008	
Private Sector hotels/ Motels			
➤ Hotels/Motels	1605	1729	7.7
➤ Rooms	37590	4019	7.8

*Source: Ministry of tourism 2007-08*

### 3. Mode of Data Collection

#### 3.1 Sample and Sampling Procedure

The main objective of this study is to examine whether there is any difference of evaluation of domestic and international five stars hotels operating in Pakistan. The areas of focus are general hotel outlook attributes, staff service attributes, guest room attributes, front office services and general amenities. Each of these constructs is further expanded into attributes. For this study, the representative sample of 250 travelers, regard less of their nationality in three densely populated cities of Pakistan was selected. A total of 200 valid responses were received from the sample of 250 hotel guests. The sample was carefully drawn at random to maximize responses to the survey.

According to Barsky (1996) through surveys and focus groups, customers can suggest not only service problems, but their potential solutions also. The respondents were approached in arrival lounge of airport, and at few famous visiting places of these cities. Those respondents who had



checked out of hotel were also approached with the help of hotel employees. Ten five star hotels were selected for this study. Of those five were domestic and five were international hotels.<sup>1</sup>

### **3.2 The Instrument**

A self administered questionnaire was used for the collection of data from the representative sample of customers of hotels in three cities of Pakistan. The questionnaire comprises three sections. The first section detains the demographic profile of respondents. The second section measures customer's perception of the host hotel attributes through out their stay. These attributes were selected for designing questionnaire after the review of literature. The third section was about the customer's choice whether they would like to stay again in this host hotel or would like to switch to another hotel. It was required from the respondents to rate the host hotel attribute and the choice of their next stay on a five point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Respondents were asked to write the name of host hotel. After checking the profile of hotels, domestic and international hotels were differentiated. Results of responses of domestic and international guests were separately analyzed and conclusion is drawn by comparing them.

### **4. Empirical Findings**

Statistical Package for social science software was used to analyze the data. The respondents were asked to indicate which factors they found in their host hotel. The 33 hotel traits were factor analyzed. Principle component factor analysis VARIMAX rotation was used. VARIMAX rotation was conducted to allow a grouping of 33 hotel attribute variables to identify the underlying factors that explain the variance of the attributes. Cronbach's alpha which is a coefficient of reliability (or consistency) was used for assessment of internal reliability.

The application of regression analysis was to assess the hotel attributes contribute to the choice of customers between domestic or international hotel. Multiple regression analysis was used to predict the variability of dependent variable based on its covariance with all independent variables. It deals with the third part of questionnaire in which customers are asked whether they

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<sup>1</sup> International Hotel is the hotel which operates in more than one country, while domestic hotel is the hotel which operates only in one country.

would prefer this hotel in next stay or would like to switch (customer choice). The scores of hotel attributes were taken as independent and customer choice about hotel stay is taken as dependent variable.

#### **4.1 Demographic Profile of Respondents**

The demographic profile of the respondents does not reveal a balanced picture between males and females. In particular 78 % of the respondents were males, while 22% were females. Similarly out of these 200 respondents, 25% were of the age of above 55, 45 % were of the age of between 35-54 years and 30% were of the age of between 18-34 years. The vast majority of the respondents have the income above fifty thousand (55%), 30 % have the income range between 25000-50000 PKR while the remaining 15% have income less than 25000 PKR.

The education profile of the respondents show that highest proportion of the respondents (50%) have the degree of above college level, while 43% have education of college level and the remaining & % have the education of high school level. The trip rate of respondents show that majority of the respondents (63%) experience 1-5 trips per year, 30% experience 7-9% trips per year and the remaining 7 % experience more then 9 % trips. In particular out of 200(250) respondents, 65 were of the guests of domestic hotel while 135 were of the guests of international hotels.

#### **4.2 Factor analysis results**

Factor analysis with Orthogonal VARIMEX rotated factor matrix was applied. Orthogonal VARIMEX rotation is done because of the independency of factors. Five factors of 29 (original 33) attributes were extracted with a variance of 69.8 percent of enlightened variance (international hotel factors and domestic 62.3). These five factors were defined by 29 attributes. The values of factor loading analysis in the table clearly indicate the correlation of each variable with the factor ( $< 0.5$ ).The value of alpha (0.91) indicates the reliability of basic research. The variables of each factor, their eigenvalue, and variance are given in the table III.

**Table 3**  
**Factor Analysis of Hotel Attributes**

Hotel Factor and attributes	Factor Loading		Variance %		Factor mean		Ranking	
	I	D	I	D	I	D	I	D
<b>Staff Service Attributes (Alpha = 0.83)</b>			40.4	39.6	5.99	5.80	1	1
Staff gives prompt service to the patrons	0.97	0.94					1	1
Staff gives you individualized attention	0.87	0.80					2	2
Staff is never too busy to respond.	0.82	0.81					3	3
Neat appearance of staff (uniform, grooming)	0.79	0.69					4	4
The staff understands the specific needs.	0.67	0.54					5	5
hotel staff fulfill the promises	0.55	0.50					6	6
<b>Front Office Services (Alpha = 0.78)</b>			9.6	7.2	5.06	4.98	2	2
Employees at this hotel are gracious.	0.80	0.76					1	1
Alacrity of check in and check out	0.78	0.71					2	2
Thoughtful consideration of repeat guest	0.67	0.65					3	3
Reasonable price and occasional discounts.	0.62	0.60					4	4
Professional information desk is available.	0.59	0.57					5	5
Medical staff is available in need	0.56	0.54					6	6
Currency exchange facility is available	0.54	0.53					7	7
Effective dealing of complaints.	0.53	0.50					8	8
<b>Guest Room attributes (Alpha = 0.72)</b>			7.9	5.6	4.01	5.12	3	3
Cleanliness of rooms is properly maintained.	0.79	0.74					1	1
Room has comfort of bed/pillow.	0.75	0.75					2	2
Room has a quiet atmosphere.	0.69	0.64					3	3
Room has all the complimentary items (TV ,AC and refrigerator)	0.65	0.63					4	4
Internet and Fax facility is available.	0.57	0.53					5	5
Rooms are Sound proofed.	0.53	0.51					6	6
<b>General Hotel Outlook Attributes (Alpha = 0.76)</b>			6.1	5.2	3.51	4.72	4	4
Modern looking equipment, e.g. dining facility, crockery, cutlery, etc.	0.71	0.70					1	1
The physical facilities, e.g. buildings, signs, dining room décor, lighting, carpet, etc are visually appealing	0.69	0.66					2	2
Materials associated with the service, e.g. pamphlets, statements, serviettes are visually appealing in the hotel	0.63	0.61					3	3
<b>General amenities (Alpha = 0.68)</b>			5.8	4.8	5.68	5.63	5	5
Efficient Laundry service is available	0.62	0.60					1	1
Quick Room service is available	0.60	0.58					2	2
Efficient and confidential Postal mail service is available	0.57	0.56					3	3
Sophisticated Health & Recreational facilities are available	0.54	0.53					4	4
Convention and banquet rooms with all the latest audiovisual equipment are available.	0.54	0.52					5	5
Complimentary undercover parking is available	0.52	0.50					6	6
Total Scale reliability (Cronbach's Alpha )	0.91	0.87						

**Notes:**

I: International hotel attributes

D: Domestic hotel attributes

EV: Eigenvalue

Scale: 1= strongly disagree and 5=strongly agree

### 4.3 Frequency Results

The frequency responses results (are reported in Table 4) for the third part of questionnaire show that domestic hotel's customers (52.3%) have less choice or preference trend as compare to international hotel's customers (91.1%). Similarly, the same preference trend is tried to measure by another question. The results of the second question also shows that percentage of switching to another hotel is higher (86.1%) among domestic hotel's customer, while 14% is among international hotel's customers. The frequency responses seem to be directly related with hotel attributes. Customer's perception or presence or absence of hotel attributes has very significant influence on customer's choice or decision about the hotels.

**Table 4**  
**Frequency Table of Customer Preference on the Basis of Hotel Attributes**

Customer Choice of hotel stay	Frequency		Percentage	
	N =135/200	N = 65/200	N =135/200	N = 65/200
	International Hotel Customers	Domestic Hotel Customers	International Hotel Customers	Domestic Hotel Customers
Would like to stay in the same hotel in next visit	123	34	91.1%	52.3%
Would like to switch to another hotel	19	56	14.0%	86.1%

The estimates show that in Pakistan customers/guest prefer international hotels as compared to domestic hotels. The reason for it is those attributes of hotel which attract customers. Customers always like to pay less but want to get more. Similarly they want to fully utilize the paid price of products or services. Income is the variable which also affects the choice but this variable is considered constant in this study. The reason of domestic hotel for being remaining behind the international hotels could be their weak staff area or weak financial area then international hotels. A number of reasons can be deducted on the basis of these results. The three sample cities are densely populated and because of presence of airports they also have a large number of visitors. According to the results guests are more likely to emphasize the efficiency of staff service and front office services. On the basis of these tangible and intangible attributes customer make choices of switching to another hotel or staying in the current hotel. According to Burton (1990) because of high competitiveness and homogeneity of services and facilities of hotels, the alternatives have an important role in customer's future purchase behavior. Service innovator is

considered the international hotel category because they have more attributes and similarly attract more customers than domestic hotels.

#### 4.5 Regression Analysis

To examine the goodness of fit of the regression analysis, for domestic and international hotel guest responses, correlation coefficient (R), coefficients of determination ( $R^2$ ) are given in Table IV. The value of R for domestic hotel's guests is 0.6513 indicating its overall positive choice with five hotel attributes. Similarly the value of R for international hotel guest is 0.8113 which also indicates a positive trend. But comparatively the result of international hotel guest is high than domestic hotel guest data results. The value of ( $R^2$ ) indicates that in case of domestic hotel 61% of the variation of customer's choice is explained by five factors. Similarly the value of ( $R^2$ ) in case of international hotel indicates explanation of 67% variation by five factors.

**Table 5**  
**Regression Analysis Results for Attributes of**  
**Domestic/International Hotel and Customer's Choices**

<b>Domestic Hotel Customers</b>	<b>Values</b>
Goodness of Fit	
Multiple R	0.6513
R-square	0.6153
Adjusted R-square	0.5231
Standard Error	0.607
Observations	65
<b>International Hotel Customers</b>	
Goodness of Fit	
Multiple R	0.8113
R-square	0.6716
Adjusted R-square	0.5653
Standard Error	01.080
Observations	135

***Dependent variable:** choice/preference of hotel (domestic or international) depicted by frequency of preferences of same hotel in next stay*

***Independent Variable:** five factors (29 of 33 attributes) of host hotel identified by customer*

#### 5. Conclusion

The study tried to identify the factors and attributes of hotel (domestic and international) operating in Pakistan and on the basis of these attributes the preference of customers is tried to be measured. The results of both domestic and international hotel guest's responses are compared.

The international hotels appear to have more attributes and hence attract more customers. Hence they can be said the winner of service innovation. As the Pakistani government's investment friendly policies have engrossed foreign potential investors so there is a strong need for focusing full attention to building more world class hotels in the country, which is only achievable if problems of hotel industry are taken care of. This potential industry is the victim of unfair tax system. However it is time for government to come forward and to collaborate with private sector for endorsement of trade and tourist activity as there are very few four and five stars hotels of international standards in Pakistan.

Many dimensions of the study can be treated but in this study the focus was limited. However, the findings can be reviewed both from academic and industrial standpoint. The research reveals the preferences of hotels by potential number of customers. In this research only hotel attribute's side are discussed, however the choices or preferences can be measured in terms of behavioral or personality aspects of customers also. The research can be taken as feed back by domestic hotels and can also be extended in order to remove their major discrepancies. Regardless of being domestic or international both are facing same law and order situation in this country and a major difference should not be present in competition.

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