Effect of Internal Measures of Service Quality on Business Performance: A Case of Hotel Industry In Penang.

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ABSTRAK

Sejarah industri hotel di Pulau Pinang sudah lama bertapak semenjak terdirinya Hotel E&O pada 120 tahun yang lalu. Sektor perlancongan dan industri hotel dilihat amat berkaitan antara satu sama lain. Industri ini berperanan penting di dalam aktiviti perniagaan dan memberi sumbangan besar kepada sektor ekonomi dan penjana peluang pekerjaan dikebanyakkan negara maju mahupun di negara sedang membangun. Perkhidmatan berkualiti adalah kunci kejayaan kepada kebanyakan industri perkhidmatan. Banyak kajian dan rujukan telah dibuat pada kualiti perkhidmatan tetapi kurang fokus diberikan kepada faktor dalaman terutama dari persepsi pengurusan. Kajian ini memberi fokus bagaimana kualiti dalaman perkhidmatan memberi kesan kepada peningkatan perniagaan dalam industri hotel Malaysia. Pada masa yang sama kajian ini akan cuba mengesahkan kesesuaian model INTQUAL yang telah dibangunkan oleh Caruana dan Pitt (1997). Sejumlah 61 hotel di negeri Pulau Pinang digunakan sebagai data kajian. Maklumbalas diterima adalah sangat seimbang dari hotel bertaraf bintang dengan hotel tidak bertaraf bintang. Kajian ini juga merujuk kepada karya berkaitan persepsi pengurusan dan kepercayaan perkhidmatan yang menjadi sandaran teori rangka kerja kajian, hasilnya empat faktor dikenalpasti mempunyai hubungkait yang kuat antara semua pengukuran yang dikaji iaitu program latihan, persepsi pengguna, latihan integrasi dalaman dan perkhidmatan beretika. Hasil kajian menyokong hipotesis bahawa kualiti dalaman perkhidmatan mempunyai hubungan yang positif dengan tahap peningkatan pencapaian perniagaan hotel. Hasil kajian juga mengesahkan kesesuaian model INTQUAL bagi kajian seumpamanya di Malaysia. Oleh itu, kajian ini membuka peluang kepada pengurusan hotel untuk merancang dan menguji aktiviti dari aspek operasi perniagaan bersandarkan senarai semakan kualiti dalaman pengurusan.

ABSTRACT

Hotel industry in Penang has a long history since the establishment of E&O Hotel 120 years ago in Penang. Hotel industry and tourism sector is to be seen as symbiotic interrelated. They have played a significant role in transformation of business activities that share the bulk of today's economy and also account for most of the growth in new jobs in many developed and developing countries. Service quality is a key factor for success in any service industry. Many studies and researches on service quality have been conducted however, only few on internal factor such as from management perspectives. This study is focused on how internal service quality can affect the performance with the objective to investigate the effect of internal measures of service quality on business performance in Malaysian hotel industry and also to validate the model INTQUAL developed from Caruana and Pitt (1997). Data were gathered from 61 hospitality providers in Penang state. The percentage respondents between star-rated and non-rated star is almost balance. The study adapted the literature on management of expectation and service reliability as underlying theoretical framework and had found four factors that the items are most corresponding to each other namely training programmes, customer expectations, cross-training and ethical services. The study findings supported the hypotheses that there is positive relationship between internal service quality in the hotel and their business performance. It also validate Caruana and Pitt (1997) INTQUAL model in Malaysian perspective. The study open opportunity for the hotel management to plan and test all aspects of their operation activities through internal service quality management check list.

Chapter 1

INTRODUCTION

1.1   Introduction

The service sector has played a significant role in many developed countries. Economies of developing countries such as in Asian have shown an increase in importance of the service sector in their economies. The percentage share of the service sector in GDP ranges from 21% up to 84%. Hong Kong recorded the highest share of 86.5% in 2002 followed by Taiwan and Singapore (refer Table 1.1). In today's economy there is a transformation of business activities that is making the service sector share the bulk of today's economy and also account for most of the growth in new jobs.

Table 1.1
Share of Service Sector in GDP^a (percent) for selected Asian Countries.

COUNTRIES	1980^c(%)	1990(%)	2002(%)	2003(%)
East Asia				
China	21.4	31.3	33.7	33.1
Hong Kong	**63.9**	**74.4**	**86.5**	**84.6**
South Korea	43.7	48.4	55.1	62.2
Taiwan	46.6	54.6	67.1	67.8
Southeast Asia				
Indonesia	31.8	41.5	38.1	39.9
Malaysia	na	44.2	46.4	25.5
Philippines	36.1	43.6	52.8	45.5
Singapore	60.6	67.8	66.6	53.5
Thailand	48.1	50.3	48.5	66.4
Vietnam	26.9	38.6	38.5	46.3
South Asia				
India	36.0	39.7	49.2	51.1
Pakistan	45.5	48.8	53.4	53.4
Sri Lanka	44.0	49.8	53.6	54.7

Source:Key indicators 2004:Education for Global Participation, Vol.34, Asian Development Bank; http://www.adb.org/Documents/Books/KeyIndicators/2004/default.asp, accessed on Feb. 5, 2005

The service industry's success, therefore, can be seen as one of the key components of growth in Asian economies. However in the pursuit for service growth and success much depend on the service performance of the industry. Service performance comes from the quality of the services.

Performance of service industry is very much different to evaluate as compared to manufacturing industry. There is a clear difference between goods and services. Services are intangible in criteria; non-standardization entails the inability of consistency performance, cannot be inventoried, cannot be displayed, physically demonstrated or illustrated (Rust *et al.*, 1994). Tangible goods are produced, sold and consumed. In contrast, services are sold then produced and consumed simultaneously. It is actually the performance is what customers buy.

Therefore service quality is considered as a key factor for success in any service industry. Hotels are in the hospitality services industry and the product delivered are intangible and the level of quality expected are very much based on the perceived level of expectations of the specific customers. In Malaysia, hotel businesses are to cater for business people, leisure travelers and tourists. However there is trend nowadays for the industry to expands further to cater for expatriate and longer stay customers. In Malaysia, the accommodation types range from hotels for business, leisure, resort type to service apartments, motels and other small hotels.

1.2   Background of the Research

To ensure the success and business performance of the service industry, many studies and researches on service quality have been conducted (Fisk *et al.,* 1994). According to Fisk *et al.* (1994) the majority of the studies focus on the external factors such as customer perceived service quality and marketing.

However in today's circumstances with limited resources, organizations are faced with disproportionately more objectives, challenges and opportunities. Therefore it would be fair to assume that organizations need to prioritize and concentrate on relatively more important issues. Issues such as effect of service quality to an organization from management perspectives are equally important as to service quality from customers' perspectives (Reynoso & Moores, 1995). There is a need to look into the organization itself in relation to service quality and service industry business performance. For that reason this research will look into the hotel industry in Penang as a sample for service quality performance. In addition to this, Hemdi *et al.* (2003) has cited that although many studies on hotels have been conducted using Malaysian subjects (for instance, Nasurdin, 2001; Nasurdin & Ramayah, 2003; Hemdi & Nasurdin, 2003), their studies however are more focused from turnover intentions to citizenship behaviors.

This chapter further explores the importance of the service industry in relation to tourism and the hotel industry in Malaysia. The hotel and tourism industry is interrelated, in which the hotel is an important supportive sub-sector of tourism.

1.2.1   Hotel and Tourism Industry

The Malaysian Tourism Promotion Board or Tourism Malaysia has a mission statement which says: "Marketing Malaysia as a destination of excellence and to make the tourism industry a major contribution to the socio-economic of the nation" (Internet accessed on Feb. 2005: Tourism Malaysia). Malaysian tourism industry is one of the key potential growths in Malaysian services economy.

The industry has contributed a significant growth and economic value to the GDP of Malaysia. Malaysian economic report 2004 by the Treasury under Ministry of

Finance reported that the service sector contribution to GDP is projected at RM149,680million for 2005 compared to 2004 at RM141,534million in 2004, an increases of 5.8%. The service sector is the main bulk of share growth followed by the manufacturing sector which is projected at RM84,809million. The hotels, restaurants, wholesale and retail trade account for 25% of the service sector growth. As commented by C.S Tan, The Star business review columnist Sept. 18, 2004 "Malaysia may see a period of moderate growth for a few years, as manufacturing expansion slows down and until new growth sectors in services mature to create a services-led economy". In fact in sectors such as private consumption and services, they have displayed relatively vigorous growth.

Performance of the hotel industry is very significant contribution towards economic growth of the tourism sector. It involves labor-intensive and really a people oriented industry on labor usage. According to International Hotel Association "White Paper on the Global Hospitality Industry", for every hotel room in the world, there is one employee (Feb. 2005: International Hotel Association). The interest in this industry is huge as witnessed in both the public and private sectors. Almost every year Malaysian Hotel Association (MHA) organizes or jointly organizes with Tourism Malaysia and other parties, events and promotions to attract customers locally and abroad with the theme that Malaysia is the destination place of choice for Meetings, Incentives, Conventions and Exhibitions in short MICE (Feb 2005: Tourism Malaysia).

1.2.2 Tourist Arrivals

Statistics from Tourism Malaysia has recorded continued growth in international tourist arrivals from 1999 to 2002. Klang Valley recorded the highest tourist arrivals

followed by Johor and Penang. However in 2003 it recorded a decrease from 13.29million to 10.58million. A monthly hotel survey in 2004 undertaken by DCT Consultancy Sdn. Bhd. (DCT) highlighted that Penang also recorded a decrease of international tourist arrivals of 35.1% in 2003. From table 1.2, we can see that in total Penang visitor arrivals (international & domestic tourist) for year 2002 is 3.22 million compared to 3.42million in 2002, a decrease of 11.6% per cent. Domestic tourists however, have softened the drop in international tourist arrivals to Penang.

Table 1.2
Estimated Total Tourist Arrivals for Penang

	2002	**2003**	**(%) change**
Estimated Total Visitor Arrivals	3,425,308	**3,026,619**	**-11.6**
Estimated Domestic Visitor Arrivals	1,640,723	**1,868,869**	
Percentage of Domestic Visitors	*47.9*	*61.7*	**+13.9**
Estimated International Visitor Arrivals	1,784,585	**1,157,750**	
Percentage of International Visitors	*52.1*	*38.3*	*-35.1*

(Source:DCT)

Statistics from Tourism Malaysia indicated that market mix for tourist arrivals for years 2002 and 2003 were dominated by domestic tourists (refer Table 1.3). Despite the drop of total tourist arrival in year 2003, the overall Malaysia's domestic tourist has increased from 47.9% to 61.7% compare to previous year. The increase trends were also demonstrated by tourist arrival from Taiwan and Hong Kong. Table 1.3 and figure 1.1 shows the market mix of tourist arrival in 2003 (compared to 2002).

From the Penang tourist market mix data, it could generally indicate to the hotelier what kind of market's segmentation they have and what type and level of services that always expected by those market segments. In the hotel management

perspective it is wise to assume that their level of services must always align to cater

or even exceed to that specific market expectations.

Table 1.3
Penang Tourist Market Mix, 2002 & 2003

	2002 (in %)	2003 (in %)
Malaysia (Domestic)	47.9	61.7
United Kingdom	8.3	6.2
Singapore	5.7	4.5
Indonesia	5.0	4.5
Japan	5.9	3.7
Australia	4.8	2.6
Middle East	5.3	2.4
Taiwan	1.3	1.7
USA	2.3	1.7
Thailand	2.0	1.7
Hong Kong	1.5	1.6
Netherlands	2.0	1.4
Mainland China	1.7	1.3
Germany	1.2	0.7
Others	5.1	4.3
TOTAL	**100.0**	**100.0**

Note: The market share may increase in percentage but not in absolute number.
(Source:DCT)
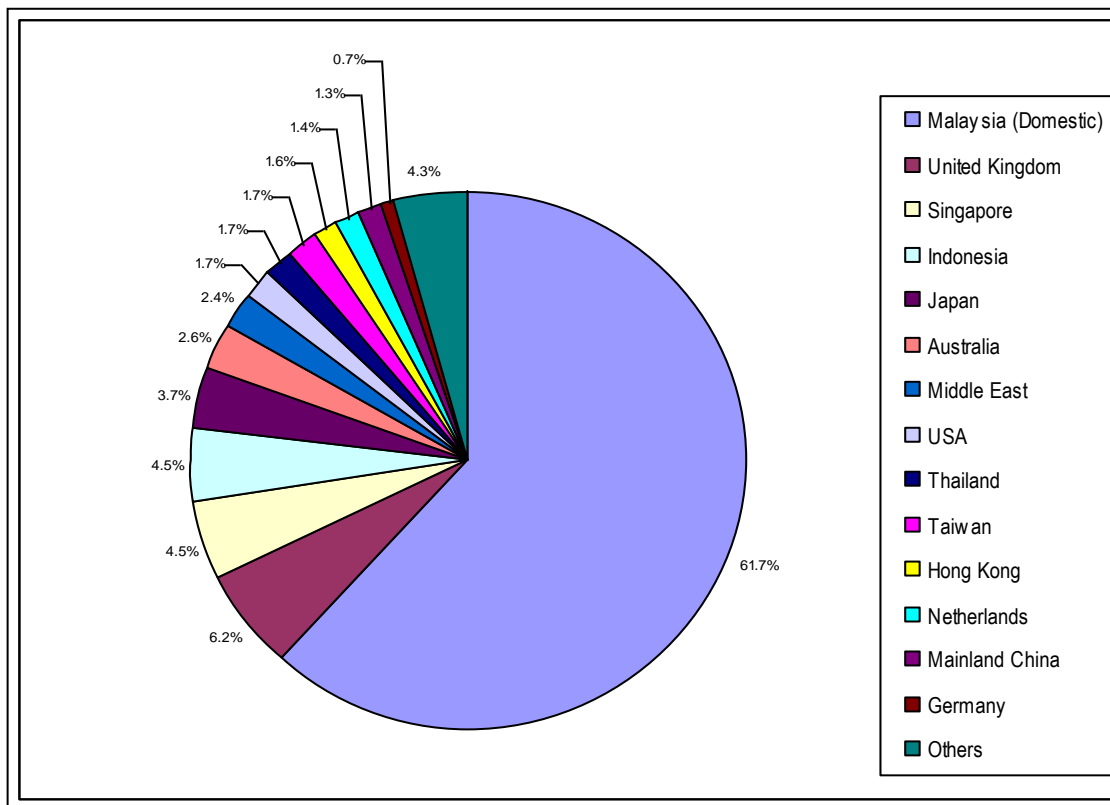
Figure 1.1 : Market Mix of Tourist Arrivals Penang, 2003
(Source: DCT)

The increased domestic tourist arrivals in 2003 in Penang, reinstate the continued importance of domestic tourists to Penang's tourism industry. Tourism Malaysia events promotion such as open houses during festivals, Mega Sales, Fruits fiesta and many other attractions have kept the continuity of domestic tourist growth even though international tourist arrivals to Malaysia is declining except tourist from Taiwan and Hong Kong. Government have showed and recognized the importance of the tourism industry. The hotelier and its management then have to play their roles in order to sustain continues growth of their business, especially in delivering quality service.

1.2.3   Hotel Accommodation Facilities and Occupancy Rate

Despite the decrease in international tourist arrivals the hotel development indicated an increase in the number of newly built hotels. This shows that investors in hotel businesses are still quite optimistic about the positive outlook of the demand in the tourism market. In Malaysia the numbers of hotels recorded in 2002 were 1,878 units with a total supply of 136,542 rooms. In year 2003 there was an increase of 5.9% for newly built hotels, an addition of 5.7% increase in hotel rooms (http://www.tourism.gov.my/statistic/Feb 2005 - Malaysia Hotels & Rooms Supply.htm.).

From the updated list by DCT through their quarterly field survey and verification with the Penang International Hotel Association (PIHA), Penang Hoteliers' Association (PHA), and National Property Information Center (NAPIC), the State of Penang has a total 155 hotels/ service apartments/ hostels/ motels/ guest houses with a total of 13,414 rooms available.

The first SARS (severe acute respiratory syndrome) outbreak in November 16, 2002 in China has required travelers to Asian countries undergo thorough checking at the entry point. This epidemic has significantly caused negative impact on tourism. The figures in year 2003 and year 2002 (refer Table 1.3) showed a significant drop in the number of tourist arrivals especially from western countries.

Malaysian average hotel occupancy is around 57.9% in years 2002 and 53.3% in years 2003. The survey by DCT shows that in Penang the overall hotel occupancy rate is around 49.8% in year 2003 and 53.9% in year 2002 (refer Table 1.4 Penang; Average Hotel Occupancy Rate). However, it quite fair to assume that despite the SARS epidemic the demand for hotel's accommodation in Penang was still commercially attractive. The future of hotel business is quite optimistic even in the risk of external environmental uncertainty.

Table 1.4
Penang; Average Hotel Occupancy Rate

	BEACH HOTELS		CITY HOTELS		TOTAL	
	2002	2003	2002	2003	2002	2003
JANUARY	43.9	46.5	49.0	48.0	47.1	47.4
FEBRUARY	56.7	56.6	49.2	53.5	52.0	54.7
MARCH	51.5	43.4	53.4	49.7	52.7	47.2
1st QUARTER	**50.5**	**48.6**	**50.6**	**50.3**	**50.5**	**49.6**
APRIL	41.0	30.4	46.9	40.4	44.7	36.3
MAY	47.3	25.8	53.6	39.9	51.3	34.1
JUNE	56.4	39.5	54.9	50.9	55.5	46.2
2nd QUARTER	**48.2**	**31.8**	**51.8**	**43.7**	**50.5**	**38.8**
1ST HALF	**49.4**	**40.2**	**51.2**	**47.1**	**50.5**	**44.3**
JULY	63.7	41.1	54.4	53.8	58.0	48.6
AUGUST	72.6	59.6	54.0	57.1	61.1	58.1
SEPTEMBER	55.0	54.4	56.9	56.7	56.2	55.8
3rd QUARTER	**63.9**	**51.7**	**55.1**	**55.8**	**58.4**	**54.1**
OCTOBER	47.6	48.2	56.8	55.0	53.3	52.2
NOVEMBER	49.8	51.2	54.2	54.6	52.6	53.2
DECEMBER	63.9	66.8	62.6	65.3	63.1	65.9
4th QUARTER	**53.6**	**55.4**	**57.9**	**58.3**	**56.3**	**57.1**
OVERALL	**54.1**	**46.7**	**53.8**	**51.9**	**53.9**	**49.8**

	2002	2003
Average Occupancy Rate:	53.9	**49.8**
Average Occupancy Rate for Beach Hotels:	54.1	**46.7**
Average Occupancy Rate for City Hotels:	53.8	**51.9**

(source : DCT)

The statistic on hotel occupancy suggests that the importance of hotel industry to Malaysian economy is increasing. Malaysia's national economy has diversified from the agricultural sector to the manufacturing sector; and now extensively focused on the service sector. Therefore quality service of the hotel industries is very important to be maintained and improved further to ensure continues success in the hospitality businesses. Given these situation service quality is an interesting issues to study.

1.3   Problem Statement

The research problem is focused on how internal service quality can affect the business performance, particularly in hotel industry. Paraskevas (2001) have identified substantial studies that were focused on the outcome of the service i.e., the customer's perspective. In conjunction with this the study shows that the primary reason for seeking service quality improvement is the inference that the increase of customer satisfaction can contribute significantly to business performance (Barnes & Cumby, 1995; Berry et al., 1985).

Therefore understanding the business performance in relation with quality service is important. However they could be another alternative that important in ensuring service quality from management perspective instead of customer perspective. Service quality measurement model, focus on the internal action on service quality will be great challenge for the management in the quest for quality service. In the case of Penang's hotel industry understanding internal action on service quality is a vital fundamental in ensuring customer satisfaction that contributed to better hotel business performance. In his study on service operation, Gronroos (1990) stated that every service operation comprises internal service

functions which support one another and argue that, if poor internal service exists, the final service to customer will be damaged.

Caruana and Pitt (1997) have developed internal measures for service quality called INTQUAL. The internal measure model INTQUAL, concerns the actions by management in implementing and ensuring the quality service to customers. INTQUAL proved that it is a reliable instrument to measure the service quality delivered and the effect on business performance in large UK service firms (Caruana & Pitt, 1997).

The study offers opportunities to validate the applicability and reinforce the impact of INTQUAL in different environment and setting. The study would apply the same instrument in the Malaysian context in case of the hotel industry and identify if there is a need for further improvement in this matter. Hoteliers and the hospitality managers, internal actions and their standards of service quality perceived may vary. However considering the other factors are constant, hotel business performance should be able to compete successfully if they have a reliable standard of service and actions checklist toward their service quality. In fact studies on industries that embrace quality system certification argues that most common reasons found among studies done so far is that good management practice and monitoring procedures will ensure the success of implementation of quality standards (Chua, Goh & Wan, 2002).

In order to maintain competitiveness and growth of service industries particularly the hotel business, this study emphasizes and focuses on the internal measures of service quality. Since there is no literature review to cover issues on internal service quality in Malaysia, this study is undertaken with the objective of investigating the internal quality service in the Malaysia hotel industry.

1.4   Research Objectives

The beauty of any research is whenever it is being applied in different environments its further contributes to the richness and usefulness of the research findings. The aim of this study is to look at the effect of internal measures of service quality on business performance in Malaysian hotel industry. Internal measure scale (INTQUAL) studied in UK's largest service firms by Caruana and Pitt in 1997 has showed that the instrument reliability exceeds the suggested cut-off point of 0.7 (Nunnally, 1978). Therefore the research is to examine the degree of applicability of INTQUAL as internal measure of service quality and it relation to the hotel performance. The main objectives of the study are as follows:-

1. To study the relationship between internal measure of service quality and business performance in the hotel industry in Malaysia by using internal measure of service quality.

2. To identify applicability of the measurements used by Caruana's study for the internal measure of service quality in Penang's hotel industry.

1.5   Research Question

The study is aimed at addressing the questions in line with the main study objectives. The questions posed are as follows:

1. What is the relationship between service quality as an internal measure and business performance?

2. Are the measurements used by Caruana's study for the internal measure can be applied in Malaysian hotel industry?

1.6   Definitions of Key Terms

The following definition explains the main key terms in relation to this study. The terms will be used all way through the whole study and it is important to be understood in the context of the study.

(1)   **Quality** is synonymous with "superior" or "excellence" a common notion of quality often given by consumers. A first recorded definition of quality as a judgmental criterion by Walter Shewhart, 1931 was defined as a goodness of a product. Also a quality definition on product based criteria says it is a function of a specific, measurable variable and that differences in quality reflect differences in quantity of some product attribute. User-based definition defines quality as fitness for intended use; in other words is it how well the product performs its intended function. Nevertheless in 1978 American National Standards Institute (ANSI) and The American Society for Quality (ASQ) standardize the quality terminology and was defined as "the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs". Late 1980s, many practitioners had begun using better and easier definitions of quality as "Quality is meeting or exceeding customer expectations".

(2) **Service quality** is being understood as a form of attitude. It results from the comparison of expectations with performance. It is defined as satisfaction of customer needs or customer expectations (Richard; Kathryn & Madaleine, 2003).

(3)   **Expectation** is defined as an act or state of expecting or prospect of future good, promise or even value of something expected. Expectations are

desires and wants and are formed on the basis of previous experience with the organization.

(4)   **Hotel** in this study context refers to a commercial establishment that provides accommodation and meals to travelers and tourists. For purposes of this study the focus on hotels covers hotel under the Concepts, definitions and Classifications For Tourism Organization Technical Manuals, 1995 that says "Hotel industry refers to hotels, motels, roadside inns, beach hotels and apartment hotels and similar establishments providing services, including more than daily bed making and cleaning of the room and sanitary facilities

(5)   **Tourism** is the business of providing services for people on holiday, for example hotels, restaurants, and sightseeing trips. However for the purpose of the study tourism industry and hotels is to be seen as symbiotic interrelated such as a pair of direct needs of each other. Tourism supply hotels with the necessary guests and hotels ensure that people who travel or visit have a place to spend the night, leisure and conducting business activities such as meeting, seminars and convention and exhibition.

1.7   Significance of the Study

Many studies have been conducted on SERVQUAL and those studies emphasize the customer side (Fisk *et al.,* 1994; Sureshchandar, *et al.,* 2001; Teas, 1993; Zairi, 2000; Bungsu, 2004, Yahya, 2001). However study on the management side is relatively low compare to customer side (Bolton & Drew, 1991; Boulding, Kalra, Staelin & Zeithaml, 1993; Brown & Swartz, 1989; Parasuraman, Zeithaml, & Berry, 1985).

Parasuraman et al. (1985; 1988) developed SERVQUAL; an instrument that purports to measure the gap between expected service and perceived service in

different industries. However to deliver to customer expectations, management needs to ensure how the service quality is delivered. The study of INTQUAL offers an alternative for ensuring service quality in the management perspective.

The study is very significant to the Hotelier and Hospitality Managers. It seek to contribute further to knowledge concerning service quality and business performance. The development of internal measures of service quality will provide a benchmark results that enable managers to assess their organization service quality without the need for external customer surveys.

INTQUAL has not yet been applied and tested for its relevance and reliability in the Malaysian context. Therefore such study in Malaysian context is indeed a timely attempt for measures of service quality and the effect on business performance.

1.8   Organization of Remaining Chapters

Chapter 1 provides an overview of this study as an introduction. The purpose and the research objectives have been put forth to lead the direction of this study. The importance of this study is addressed to provide readers the rationale for conducting the study. The remainder of the study is organized in another 4 chapters. Chapter 2 provides reviews of the previous research. Literature review on the dependent variables and the independent variables are presented. Its underlay the foundation for this study and contributes to development of the theoretical framework. This chapter links all variables' relationship in a theoretical framework. Hypotheses are then developed on the relationship of the discussed variables. Chapter 3 illustrates the methodology applied in this study which encompasses the samples collected, measurements, and the statistical analysis. Next, Chapter 4 presents the results of the statistical analysis for the data collected and the findings summarized from the

analysis. Finally, Chapter 5 provides discussions and implications of this study's findings. It also highlights the limitations of this study and proposes some suggestions for future research. Lastly, the conclusions will put forward the research on wrap up.

<center>**Chapter 2**</center>

<center>**LITERATURE REVIEW**</center>

2.1 Introduction

This chapter reviews the relevant literatures that form the basis of this study. It constitutes a review of the background of the service quality studies, service quality model SERVQUAL developed by Parasuraman *et al.* (1985;1988), advantages and disadvantages of SERVQUAL model, review of internal measure of service quality INTQUAL developed by Caruana and Pitt (1997), service quality from management perspective and the business performance of the firms. Next, this chapter depicts the theoretical framework of this study and the formulation of hypotheses. Finally, it provides a summary of the chapter discussion and an overview of the subsequent chapter.

Quality concept can be viewed in various perspectives in order to fully appreciate the role it plays in the many parts of business organization. In manufacturing, quality is defined simply as product conformation to specifications. In services, evaluating the level of quality is much more elusive. Quality specifications for services come from multiple simultaneous sources, including the company and the individual customers (Richard *et al.*, 2003). Haksever *et al.* (2000) and Garvin (1988) have reviewed the various definitions and they identified that quality definition can be categorized in the following perspective:-

(a) As a ***transcendent view*** whereby quality is innate excellence and can be recognized only through experience.

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(b) ***Product-based*** definition looks at measurable quantities to define quality. Length of useful life for goods or length of time before a service is provided for services.

(c) ***User- based*** definition is used to describe quality from an individual consumer's perspective. In other words quality depending on who defines it, thus it is based on the premise that "quality is in eyes of the beholder".

(d) ***Manufacturing-based*** definition views quality as an outcome of engineering and production processes.

(e) ***Value-based*** defines quality as a balance between conformance or performance and an acceptable price to the customer.

The five fundamental characteristics shows that service differs from goods. According to Parasuraman *et al,*(1985), they differ in terms of how they are produced, consumed, and evaluated. Services characteristics encompass the intangible; it involves the concept of inseparability, heterogeneity of the variation inconsistency from one service transaction top the next, and the finally the perishability character.

In general, service quality is more difficult to evaluate for services than for goods. First, service quality is based on consumer perceptions of the outcome of the service. For example, most teenagers will readily see that evaluating the quality of medical or legal care is more difficult than evaluating the quality of a set of cellular phones. Secondly, is how the service was performed. The fact that thousands of individuals can attend a concert and leave with varying levels of service quality evaluations indicates that service quality is based on individual perceptions. Thirdly, service quality perceptions result from a comparison of what was expected to what was received. If we are asking movie-goers how many were disappointed with a
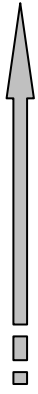
movie they watched. Often this disappointment occurs because they were lead to have high expectations.

2.2 Background of Service Quality Study

As the evolution of quality service, many definitions attempt to describe what constitutes quality service. Two main proponents dominating the quality definition are that quality can be defined only by customers and occurs when an organization supplies goods or services to a specification that satisfies the customer needs. Secondly, they defined quality as the satisfaction of customer expectations (Richard; Kathryn & Madaleine, 2003).

Rust, *et al.* (1994) explained that customer satisfaction and delight are both strongly influenced by customer expectations and that the term expectations as used by behavior researchers is not as precise as the usage by mathematicians, which is "what is likely to happen, on average". Table 2.2 shows the array of "expectations" that reflect what might, could, will, should, or better not happen..

Table 2.2
Expectations Hierarchy

	Ideal	What would happen under the best of circumstances and is useful as a barometer of excellence
	Should Expectation	What the customer feels he or she deserves from the transaction.
	Will Expectation	Average level of quality that is predicted based on all known information.
	Minimally Acceptable	The threshold at which mere satisfaction is achieved. It is between high will expectation and low will expectation.
	Worst Possible	The worst outcome that can be imagined.

Source: adapted from R.T. Rust, A.J. Zahorik, and T.L. Keiningham, Return on Quality (1994).

When someone says that the "service exceeded my expectations," what they generally mean is that the service was better than they had predicted it would be (Rust

et al., 1994). For that reason service quality often occurs during service delivery, usually in an interaction between the customer and the service provider. It is generally agreed that comparing "predicted service" to "perceived service" develops customer satisfaction evaluations. Customer satisfaction is a result of quality service.

The desired service is an ideal expectation that reflects what customers actually want, compared with predicted service, which is likely to occur. Comparing desired service expectation to perceived service received results in a measure of perceived service superiority. In contrast, adequate service is a minimum tolerable expectation and reflects the level of service the customer is willing to accept. Comparing adequate service with perceived service produces a measure of perceived service adequacy.

Expectation of what is likely to occur by a customer is what the customer predicts of the service. Satisfaction occurs once the predicted service meet perceived service. An organization that could predict the customer expected service may likely be able to provide the desired service at the adequate level or even more.

Customer satisfaction drives by service performance and it's resulted from the quality of the services. Berry and Parasuraman (1991) have summarized that the product for marketing quality services is the service performance. It is actually the performance is what customers buy. Therefore service quality is something each customer expects and something they value when they purchase a service. In the case of a hotel as hospitality providers the customer satisfaction is a result of service performance. Since the product delivered is intangible and the levels of quality expected are varies and very much based on the perceived level of expectations of the specific customers. In the study by Yahya (2001) in higher Malaysian educational institution, Bashah (2003) in banking and Bungsu (2004) in automobile industry

showed that there are differences between customers' perceptions and expectations and its level of differences varies among industries. Siddik (1996) have identify gaps in hotel service quality delivery and the study prove that there is no different on overall customer perception and overall perception of the hotelier. However King (1997) ascertains in airline industry customer has higher expectation compare to their perception. Their highest expectation is on reliability and no significant different were found between customer profile and their expectation and perception factors.

The important role played by expectations in customers' evaluation of services has been acknowledged in the service quality literature (e.g., Bolton & Drew, 1991; Boulding, Kalra, Staelin & Zeithaml, 1993; Brown & Swartz, 1989; Parasuraman, Zeithaml & Berry, 1985) and in customer satisfaction / dissatisfaction literature (e.g., Cadotte, Woodruff & Jenkins 1987; Oliver, 1980; Tse & Wilton, 1988; Woodruff, Clemons, Schumann, Gardial & Burns, 1991). Researchers generally agree that expectations serve as reference points in customers' assessment of service performance. However, there is debate about how best to incorporate expectations into service quality measurement (Babakus & Boler 1992; Brown, Churchill & Peter, 1993; Carman 1990) and the empirical usefulness of expectations in terms of their explanatory power (Cronin & Tylor, 1992).

2.3   Service Quality Measurement

Service quality measure was perhaps firstly introduced by Lewis and Booms (1983) as a measure of how well the service level delivered matches the customer's expectations. The focus of service quality measurement has principally been based on asking customers their expectations and their perceptions of the service they receive from different organizations (Fisk *et al*., 1994). Gronroos (1984) stated that the

expected service and perceived service gap is determined by two dimensions: first, "technical" quality or what is received by the customer and second, "functional" quality or the process of how the service is delivered. He found functional quality as the most critical of all aspects. Functional quality is concerned with the psychological interaction which occurs during the exchange transaction.

Parasuraman, Zeithaml, and Berry (1985) recognized the idea that service quality is a function of the expectation-performance gap and conducted a broad-based exploratory study. They conducted studies in several industry sectors to develop and refine service quality measurement. Qualitative research by Parasuraman, Zeithaml and Berry (1985) enabled them to construct a service quality model consisting of five gaps. Further empirical works (Parasuraman, Zeithaml & Berry, 1988) resulted in a 22 item instrument, called SERVQUAL, to measure customer perceptions of service quality. SERVQUAL is a multiple-item instrument to quantify customers' global assessment of a company's service quality. This model is also commonly known as the GAPS model. Factor analysis by Parasuraman, Zeithaml and Berry (1988) revealed that they are five dimensions of service quality. The scale measurement involved expectation-perception gap scores along five dimensions of service quality model namely (Parasuraman et al,. 1985):-

1. **Reliability**

   Reliability involves consistency of performance and dependability. It means that the firm performs the service right the first time and that it honors its promises. Specifically, it involves accuracy in billing, keeping records correctly, and performing the service at the designated time.

2. Responsiveness

Responsiveness means the willingness or readiness of employees to provide service. It involves timeliness of service including mailing a transaction slip immediately, calling customer back quickly, and giving prompt service.

3. Assurance

This dimension relates to the knowledge, competence, and courtesy or service employees and their ability to convey trust and confidence. It means possession of required skills and knowledge to perform the service. Courtesy involves politeness, respect, consideration, and friendliness of contact personnel. It also includes trustworthiness, credibility, and honesty of service employees.

4. Empathy

The caring and individualized attention provided to customers includes the approachability and ease of contact with the service providers and their efforts to understand the customers' needs.

5. Tangibles

Tangibles include the physical evidence of the service, such as physical facilities, appearance of service providers, tools or equipment used to provide the service, physical presentation of the service, and other customers in the service facility.

The above generalized criteria are closely related to the role of employee performance. Therefore customers' perception of service quality is heavily dependent on the performance of the contact personnel. Parasuraman, et al.(1988) found that the five general dimensions imply that consumers evaluate the service performance on the basis of expectancy-disconfirmation paradigm.

Zeithaml; Parasuraman; and Berry (1990) had asked more than 1,900 customers across five different service companies to allocate 100 points among the five service quality dimension, they rated the relative importance as follows: reliability 32%; responsiveness 22%; assurance 19%; empathy 16%; and tangibles 11%. The customers feedback consistently rated reliability being seen as most important and tangibles least important. Parasuraman *et al.*(1991) found in their focus group that, regardless of the type of service, customers used basically similar criteria in evaluating service quality.

2.4   SERVQUAL Model

The model conceptualizes service quality on the basis of the differences between customers' expectations with respect to the five dimensions and their perceptions of what was actually delivered. According to Parasuraman et al. (1985), the differences shortfall is the major hurdles in attempting to deliver a service which customers would perceive as being of high quality. The authors define service quality in terms of this gap, and conceptualise it as a function of the other four gaps, which are internal to the firm.

.   The shortfall can be broadly group into two areas. First, the service quality short-fall perceived by customers and secondly the short-fall within the service provider's organization.

Service quality within the service provider appears in four Gaps, namely:-

a)   **Gap 1** appeared when the management fails to identify what the customer needs are, and what levels of performance on those features are needed to deliver high quality services. These were resulted of limited marketing research orientation, inadequate upward communication from contact

personnel to management or inaccuracy of messages as too many levels of management separating contact personnel from top managers.

b) **Gap 2** is the difference between management's perception of customer expectations and service quality specifications. Factors lead to gap 2 might be from resource constraints; market conditions; or management indifference. Strategies for reducing Gap 2 include top management commitment, development of service quality goals, standardization of tasks, and addressing feasibility of customer expectations.

c) **Gap 3** is the difference between service quality specifications and delivery of those specifications. Causes of Gap 3 include employees being uncertain about the specifications, do not have the skills to perform the specifications, or are unwilling to perform the specifications. Strategies for reducing Gap 3 include enhancing teamwork, ensuring employee-job fit, ensuring technology-job fit, providing employees with perceived control, developing a supervisory control system, reducing role conflict, and reducing role ambiguity.

d) **Gap 4:** service delivery-external communications gap, occurred in the form of exaggerated promises or the absence of information about service delivery aspects intended to serve customers well. The effect is on customer perceptions of service quality as the service quality delivery is lesser than expectation. An organization need to increase horizontal communication and avoid the propensity to over promise.

e) The gap in service quality by customer perception appears in gap 5: Factors influence service quality in customer perspective is the different between expected service and perceived service gap. The gap perceived whether high