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Tourism Entrepreneurship

Knowledge and Challenges for a
Sustainable Future

Edited by

Desiderio J. García-Almeida ·
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CHAPTER 5

Service Quality, Reputation and Performance: Prioritisation for Sustainable Growth and Innovation

*Magnus Haukur Asgeirsson
and Thorhallur Orn Gudlaugsson*

INTRODUCTION

The purpose of this chapter is to investigate how reputation and service quality interplay and influence performance regarding customer satisfaction and loyalty. Furthermore, the aim is to provide guidance on how entrepreneurs can prioritise attributes within their organisations for better performance. Therefore it adds to existing theoretical and practical knowledge regarding organisational growth, in line with SDG—9, which deals

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with service innovation, increased efficiency and sustainable growth. When certain attributes are prioritised, funds are generally put to better use and manpower is more organised, which can help sustain economic growth and drive infrastructure innovation.

Research within the hospitality sector has shown that the reputation of a service or organisation can influence customer willingness to use it, and their positive recommendations can also influence other customers to use the service (Uslu Cibere et al., 2020). Research has also suggested that service attributes and the quality of service contribute to customer satisfaction and loyalty within the sector (Anabila et al., 2022). However, little or no research exists within the sector regarding the interplay of reputation and service quality and how that interplay affects performance (*customer satisfaction and loyalty*). Reputation is generally derived from *electronic word of mouth* (E-WOM), and results from such analyses are often used as a parameter to explain satisfaction and loyalty (Boley & Woosnam, 2021; Li & Qi, 2022; Uslu Cibere et al., 2020). Nevertheless, when using E-WOM to reflect on overall performance or service performance, researchers miss the connection to individual responses to their valuation of service attributes. The same applies to much research which explains performance by measuring guest experience through surveys (Attallah, 2015; Hemmington et al., 2018; Tovmasyan, 2020), and which ignores how imperative information on how and if customers would recommend the service, for example, via E-WOM. This study therefore poses the following questions:

1. What is the relationship of service quality and reputation to organisational performance?
2. Which attributes should entrepreneurs prioritise for better performance?

To answer these questions, we introduce a research model called quality, reputation, and performance (QRP), which aims to measure service quality, reputation, and performance simultaneously to get a better grasp of the interplay amongst them. This connection then enables us to prioritise attributes which can increase our understanding of what matters most in explaining the variability in performance.

The results presented in this research are derived from data gathered from a hotel chain in Iceland, where guests were asked to evaluate service, the reputation of the service, their overall satisfaction, and their likelihood to recommend it. The chapter proceeds as follows: First is a theoretical

overview of service quality, reputation, and performance and the interplay amongst them. Secondly, the methods and research model are explained, and finally findings and conclusions are set forth.

LITERATURE REVIEW

This chapter is divided into four sections, which address service quality, reputation, and performance, and how these attributes connect.

Service Quality

Service quality is commonly understood as how well a service meets customer expectations and requirements (Wilson et al., 2021). That means organisations must have a sufficient understanding of customers' expectations of service attributes and where those expectations derive from in order to fulfil them and strive for service quality through positive perception (Crick & Spencer, 2011). Service quality has been shown to have a strong relationship with organisational performance, regardless of how performance is defined: internal as in employee satisfaction and loyalty (Heskett et al., 2008), financial metrics like return on investments (ROI) (Tajeddini, 2010), or as customer satisfaction and loyalty (Anabila et al., 2022). Therefore, service quality is a critical aspect of any service-orientated organisation which strives to positively affect their performance and get ahead of the competitors (Benyoussef Zghidi & Zaiem, 2017).

Based on the well-known characteristics of service—which are intangibility, inseparability, perishability, and variability—it is clear that this is something which is usually consumed at the same time it is performed (Wilson et al., 2021). Measuring service quality can therefore be a complicated task as it entails getting feedback from customers about their experience during or just after service encounters. Gathering data from customers regarding service valuation can be done in different methodical ways (e.g., interviews, focus groups, and questionnaires), depending on the surroundings and aim of the research (Yaoyuneyong et al., 2018). However, questionnaires are the most commonly used method as they are relatively cheap and easy compared with other methods, and can reach many customers simultaneously (William, 2022). One of the best-known measuring tools or methods regarding this are SERVQUAL and SERVPERF, designed and validated in the early 1990s. Both methods consist of the service dimensions of tangibility, reliability, responsiveness, assurance, and

empathy (Cronin Jr & Taylor, 1994; Parasuraman et al., 1985; Shah et al., 2018). For better use in various industries, it is not uncommon to adjust these methods for better fit, as is the case for hospitality research, especially in the accommodation sector. Tools like SERVINN, LODGESERV, HOTLSERV, and the like are often amended but are usually based on the same dimensions (Abdullah et al., 2022; Getty & Getty, 2003).

Reputation

Scholars have not agreed on a single definition of reputation, nor on how it is generally represented and interpreted in research. There seem to be two fundamental differences within the theoretical schools. On one hand, reputation is considered the same as or an extension of an image and is simply a way to measure an image. On the other hand, reputation and image are not the same nor even interrelated (Gotsi & Wilson, 2001). In marketing and service-related theories, reputation is generally considered “a perceptual representation of companies’ past actions and future prospects that describes the firms’ overall appeal to all of its key constituents when compared to other leading rivals” (Fombrun et al., 2000, p 72). Reputation is therefore a valuation of customers’ perceptions of an organisation’s overall performance based on their experience. Based on that, a positive reputation can be seen as an intangible organisational asset which, if well managed, can differentiate a business from competition in the market. Managing reputation has been considered one of the crucial tasks for hospitality organisations, and it is even believed that it will dictate the industry in coming years (Qoura & Khalifa, 2016; Mohammad Shafiee & Tabaeian, 2022).

Measuring reputation in the hospitality sector is generally derived from online reviews (E-WOM) on third-party websites or apps like TripAdvisor, Booking.com, and others, where customers can easily give their opinions, even anonymously, regarding their experience, which can affect future customer decisions (Palácios et al., 2021). Such a vibrant platform with third-party ownership can be problematic for managers to address because the organisation has no control or ownership of the data gathered and because there is no way of comparing service attribute grades with performance indicators such as customer satisfaction or loyalty (González-Rodríguez et al., 2016). This applies especially to smaller firms, and thus entrepreneur and start-ups, where resources and other means of data gathering are often limited; therefore, managers are often reliant on

third-party E-WOM to assess their performance (Domi et al., 2020). Research has shown that when planning purchases recommendations from family, friends, somebody trusted, or the experiences of prior guests can have a great influence on one's choice of brands, products, or services (Kotler et al., 2017; Lai, 2019). In recent years, the discussion of reputation has broadened alongside a shift in focus on social and environmental responsibilities, and customers have increasingly voiced their concerns on the matter using the aforementioned review platforms (Mohammad Shafiee & Tabaeian, 2022). Finally, from a managerial perspective, managing and maintaining the positive reputation of a hotel is believed to be one of the most important tasks (Anagnostopoulou et al., 2019).

Performance

Organisational performance is often described as the ability to reach goals and optimise results. Performance is therefore measured in many ways, depending on those goals, the market situation, the sector, and the organisational strategy. Performance has been categorised in a number of binaries: hard versus soft, internal versus external, and customer-defined versus company-defined standards (Cheah et al., 2019; Heskett et al., 2008; Phan et al., 2021). Hard measurements mean that performance is derived from aspects which can be measured with little or no deviation, such as waiting time, financial records, and so on (Phan et al., 2021; Wilson et al., 2021). Soft metrics are derived from people's perceptions or opinions through, for instance, questionnaires or interviews (Saito et al., 2021; Wilson et al., 2021). Internal metrics adhere to performance indicators for internal use or data gathering to achieve set goals (Grönroos, 2017; Lings, 2004), whilst external indicators are obtained from the market or customers to gain insight on the present state or potential situation (Grönroos, 2006; Li Sa et al., 2020). Company- and customer-defined performance standards address how goals are set and whether they reflect the customer's expectations or needs or only the company's requirements (García et al., 2011; Lavy et al., 2010). It has been claimed that performance measurements such as revenue per available room (REVPAR), average daily rate (ADR), and occupation rate (OR) have been predominant within the hospitality sector (Phan et al., 2021), especially in the practical sense. These types of measurements represent hard (financial), internal (data from internal records), and company-defined standards, whereas guests are generally oblivious to the meaning and importance of those

metrics. Although such measurements are important, service-related theory states that organisations should focus on performance metrics which are customer-defined and obtained from their expectations and experience, therefore soft and external. If done well, other performance indicators will follow suit in the long term (Grönroos, 2017; Gummesson & Grönroos, 2012; Heskett et al., 2008; Wilson et al., 2021). Recommendation or guest promotion has been used as an indicator of performance in terms of customer loyalty via net promoter score (NPS) and has been cited as “the one number organisations need to grow or prosper” (Reichheld, 2003). Despite that, due to the complexity of evaluating performance, it has been argued that researchers should treat it lightly when explained with one single parameter such as NPS (Hayes, 2013).

Integration Among the Variables of the QRP Model

Reputation, service quality, and performance are interrelated in many ways. Firstly, it is believed that reputation, along with, for example, past experience with the same or a similar company and advertisements, plays a significant role in building customers’ expectations of service provision (Tovmasyan, 2020; Zeithaml et al., 1993). Secondly, service quality has proven to have a positive relationship with reputation and image, resulting in positive or negative E-WOM, depending on the outcome of service, (Abd-El-Salam et al., 2013; Tripathi, 2018). Thirdly, however performance is defined (e.g., financial metrics or customer satisfaction and loyalty), both reputation and service quality are believed to play a key part in optimising performance and pushing for better results (Anabila et al., 2022; Guðlaugsson et al., 2021; Hall & Lee, 2014; Phan et al., 2021). Finally, performance, categorised as customer satisfaction and/or loyalty, has shown to influence internal performance of an organisation through e.g., employees’ job satisfaction and how committed they are to the organisation. That might have a positive effect on service performance as well as reputation (Deng & Pierskalla, 2018; Susskind et al., 2018).

METHOD

This chapter provides an overview of how the research was designed, how the data was gathered, and who participated in the study.

Research Design

The instrument used was based on a questionnaire (see Table 5.1 for questions) which featured 55 questions in total. Of those, 19 questions measured service quality derived from three pillars. Firstly, SERVQUAL-based questionnaires retrieved from various scholarly articles aimed at service quality in hotels and accommodations. Secondly, service attributes that are utilised internally by the hotel chain aimed at guests' valuation of service. Thirdly, attributes from online review sites such as Booking.com and TripAdvisor were also used in creating the questionnaire. By utilising a broad foundation in creating the questionnaire, opportunities arise to connect findings to different sources and can therefore be more meaningful in comparison. Questions related to reputation were allocated from two different methods, for a total of 13 questions. On the one hand, where participants are asked to fill in a hypothetical review (star rating 1–5) based on their experience, mirroring online reviews on third-party websites, such as Booking.com, TripAdvisor, and Google, and on the hotel website. On the other hand, where participants are asked, based on their experience, to evaluate the hotel's overall reputation as well as its reputation regarding social and environmental responsibility. Performance was based on four questions concerning overall satisfaction, willingness to recommend, if they would use the hotel again, and if starting the journey

Table 5.1 Questions, Alpha, Mean, and Standard Deviation

| <i>Number</i> | <i>Text</i> | <i>Mean</i> | <i>Std</i> |
|---|--|-------------|------------|
| Service Quality, Cronbach's Alpha = 0,95 | | | |
| 1 | This hotel has up to date equipment | 4.24 | 0.93 |
| 2 | This hotel's physical facilities are visually appealing | 4.13 | 0.96 |
| 3 | This hotel has hygienic bathrooms and toilets. | 4.58 | 0.85 |
| 4 | This hotel has hygienic bathrooms and toilets. | 4.63 | 0.78 |
| 5 | This hotel provides timely and accurate check-in and check-out procedures. | 4.65 | 0.82 |
| 6 | This hotels on-line presence and information was clear and up to date | 4.34 | 1.03 |
| 7 | This hotel offers quality breakfast. | 4.38 | 1.03 |
| 8 | The hotel employees are well dressed and appear neat. | 4.71 | 0.67 |
| 9 | The hotel employees perform service accurately upon arrival. | 4.71 | 0.74 |
| 10 | The hotel employees perform service at the promised time. | 4.71 | 0.76 |

(continued)

Table 5.1 (continued)

| <i>Number</i> | <i>Text</i> | <i>Mean</i> | <i>Std</i> |
|---|---|-------------|------------|
| 11 | The hotel employees appear to be well trained and knowledgeable. | 4.61 | 0.82 |
| 12 | The hotel employees have good communication skills | 4.66 | 0.78 |
| 13 | The hotel employees are helpful, friendly, and courteous. | 4.70 | 0.76 |
| 14 | The hotel employees give special attention to guests. | 4.47 | 0.88 |
| 15 | The hotel employees deliver excellent service to guests. | 4.60 | 0.74 |
| 16 | My room was comfortable, relaxing, and welcoming. | 4.19 | 1.02 |
| 17 | My bed was comfortable and clean (mattress, pillow, sheets and covers) | 4.63 | 0.75 |
| 18 | My room offered a variety of basic products (soap, shampoo, towels, toilet paper...) | 4.58 | 0.83 |
| 19 | My room equipment was in working order (lighting, toilet, kettle, fridge, TV) | 4.52 | 0.93 |
| Reputation, Cronbach's Alpha = 0,91 | | | |
| 20a | Hypothetical review—Employees | 4.61 | 0.85 |
| 20b | Hypothetical review—Location | 4.65 | 0.74 |
| 20c | Hypothetical review—Cleanliness | 4.68 | 0.72 |
| 20d | Hypothetical review—Value for money | 3.98 | 1.05 |
| 20e | Hypothetical review—Comfort | 4.27 | 0.97 |
| 20f | Hypothetical review—Facilities | 4.21 | 0.92 |
| 20g | Hypothetical review—Environmental focus | 4.37 | 0.92 |
| 20h | Hypothetical review—Social responsibility | 4.41 | 0.96 |
| 20i | Hypothetical review—Room comfort and quality | 4.18 | 0.99 |
| 20j | Hypothetical review—Service performance | 4.55 | 0.89 |
| 25 | I believe that this hotel has a positive overall reputation | 4.51 | 0.79 |
| 26 | I believe that this hotel has a good reputation in terms of social responsibility. | 4.37 | 1.00 |
| 27 | I believe that this hotel has a good reputation in terms of environmental responsibility. | 4.34 | 0.96 |
| Performance, Cronbach's Alpha = 0,98 | | | |
| 22* | How likely are you to recommend this hotel? | 8.19 | 2.5 |
| 23* | How likely would you be to select the same hotel, If you were starting your journey now? | 7.99 | 2.8 |
| 24* | How likely would you be to select this hotel again, if you were travelling to Iceland | 7.89 | 2.8 |
| 28* | Overall satisfaction with your stay at this hotel | 8.30 | 2.3 |

*Questions on 11 point scale (0–10)

now, would they use the same facilities. This was following the guidelines of Hayes (2013). Other questions not used for the study results involved the importance of service attributes and participants' background information.

Sample

The population of interest consisted of guests who stayed at any of the nine hotels in June 2023, and they were contacted by email, using the hotel database. A total of 6200 guests were offered to participate, via email that 2740 guests opened. Of those, 602 opened the survey link, and 412 began answering but dropped out, leaving 319 valid responses that are the bases for the findings in this research. Of the participants, 40.6% were male, 56.5% female, 0.3% defined gender in a different way, and 2.5% chose not to say. The age of the respondents was relatively high, with 77.7% 46 years old or older and 34.6% 66 years old or older. Most of the respondents (75.8%) were visiting Iceland for the first time, but 9.1% of the sample had visited Iceland on more than two previous occasions. Most travelled for leisure (80%), and they stayed at several different hotels within the chain for an average of three or four nights. The largest group of participants came from the US (44%), followed by Canada (10%), Nordic countries (10%), Great Britain (9%) and Germany (4%). Other participants were mostly from Europe, but also from Australia, Japan, Brazil, and other countries.

Data Analysis

Descriptive statistics were used to examine the average score for questions used in the research as well as for the factors developed using a factor analysis. To examine the model, a multiple regression analysis was conducted and correlation between the independent variables.

FINDINGS

This section describes the results from the statistical analyses. The findings from the factor analysis are described first, followed by the findings from the regression analysis. The hypothesised model can be seen in Fig. 5.1. The model QRP describes, as before mentioned, the interplay between quality, reputation, and performance and is based on Gudlaugsson et al. (2021) from other service industries.

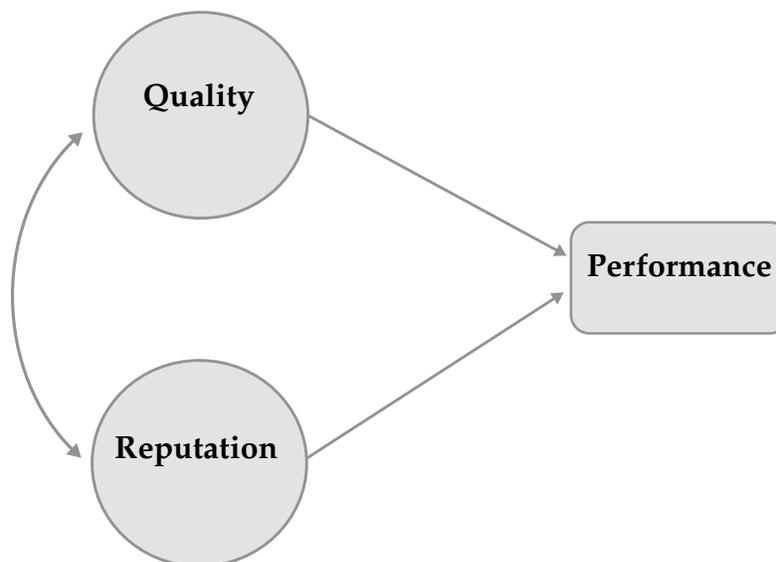


Fig. 5.1 Hypothesised model

As can be seen in Fig. 5.1, it is suggested that both quality and reputation have relationship with performance, and furthermore that quality and reputation have relationships with each other.

The survey questions used for this research were subjected to a principal component analysis (PCA) conducted in SPSS. Prior to the PCA, the data's suitability for factor analysis was assessed. Inspection of the correlation matrix revealed the presence of many coefficient values of 0.3 or higher. The Kaiser–Meyer–Olin value exceeded the recommended value of 0.6 (Kaiser 1970, 1974), and Bartlett's (1954) test of sphericity reached statistical significance, supporting the factorability of the correlation matrix. The PCA revealed the presence of three components with eigenvalues exceeding 1, namely, quality, reputation, and performance. The three-component model is presented in Fig. 5.2.

As can be seen in Fig. 5.2, questions 1–19 were loaded on quality, questions 20a–j and 25–27 on reputation, and questions 22–24 and 28 on performance.

On Table 5.1, questions used in this research are set forth along with average score and standard deviation. 36 questions were used in this research: 19 to measure quality, 13 to measure reputation, and 4 to measure performance. The questions which evaluate service quality and reputation are based on the well-known SERVQUAL measurement tool as well as other well-known measurement tools from the hospitality industry, such as SERVINN, LODGESERV, and HOTLSERV. The questions

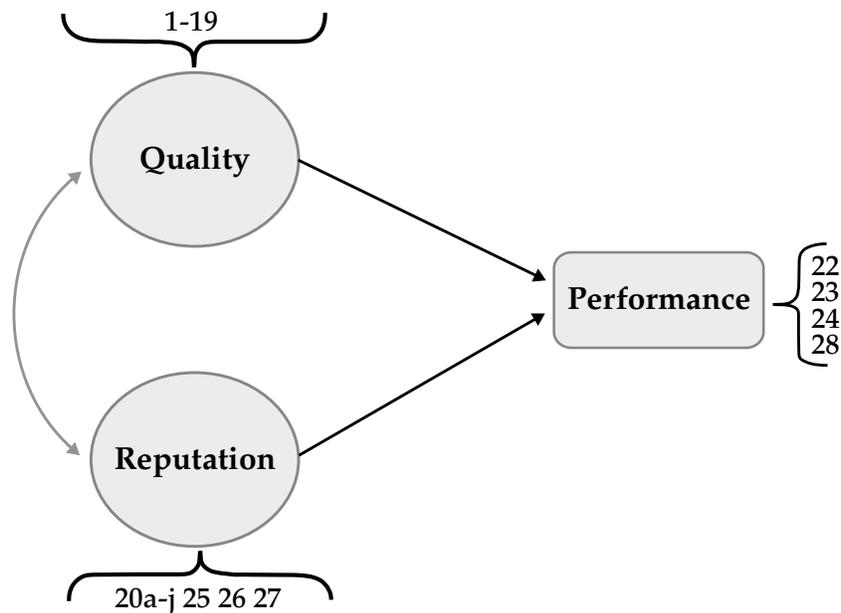


Fig. 5.2 Three-component model

which measure performance are based on the NPS tools developed by Reichheld (2003) as well as questions from Hayes (2013) for measuring loyalty.

As can be seen in Table 5.1, questions 1–19 adhere to service quality attributes, 20a–j and 25–27 relate to reputation, and 22–24, and 28 measure performance. A five-point Likert scale was used in all the questions, except for performance which was measured on an 11-point scale. The scores were overall high, which might suggest that guests were happy with their accommodation and service.

A multiple regression was used to test the model. The correlation between the independent variables (quality and reputation) was lower than 0.7, the Tolerance exceeded 0.1, Variance inflation factor (VIF), which is just the inverse of the Tolerance value (1 divided by Tolerance), was lower than 10, the Mahalanobis Distance (MAH) was sufficient (lower than 16.27), as well as Cook's Distance (lower than 1). The findings are presented in Fig. 5.3.

As seen in Fig. 5.3, the model explained (R^2) 57% of the variability in performance, of which reputation ($\beta = 0.51$; $P^2 = 0.14$) has a stronger unique contribution to explaining the variability than service quality ($\beta = 0.31$; $P^2 = 0.05$). The two independent variables are both important when predicting organisational performance, although reputation has a greater unique contribution than service quality.

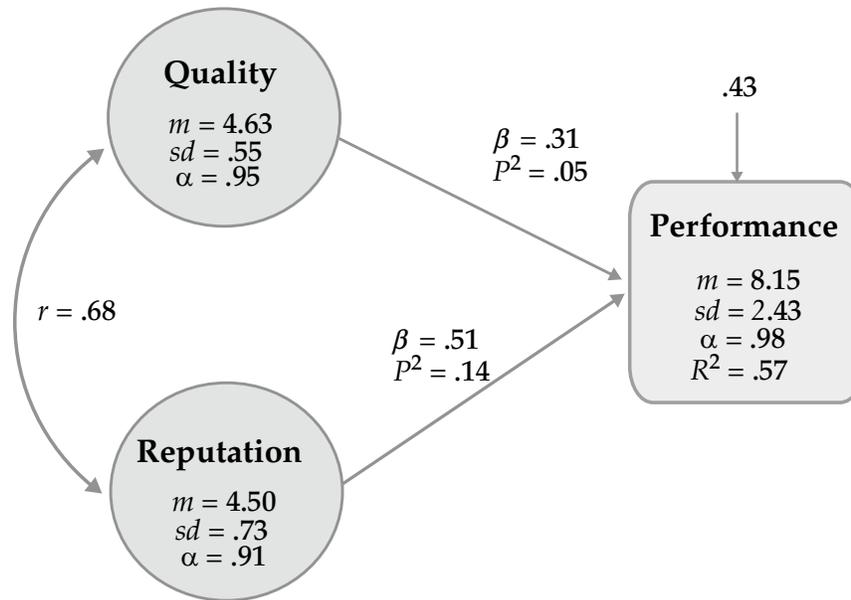


Fig. 5.3 QRP model based on multiple regression method and correlation

DISCUSSION AND CONCLUSIONS

The purpose of this study was to investigate how reputation and service quality are related to performance with regard to customer satisfaction and loyalty. Furthermore, the aim was to provide guidance on how entrepreneurs can prioritise attributes within their organisations for better performance.

To answer the first research question: *What is the relationship of service quality and reputation with organisational performance?*, a linear regression and correlation showed the interplay of quality and reputation attributes to be correlated ($r = 0.68$), where 0.0 means not correlated at all, and 1.0 means perfectly correlated, or the same factor. At the risk of those factors being statistically the same, this correlation should preferably not exceed 0.7 unless there is a substantial argument for that. Showing this strong correlation is in line with the fact that quality and reputation are linked (Tovmasyan, 2020; Tripathi, 2018), but through this data, it can be statistically understood to what degree these attributes are interconnected. Standalone reputation explains 14% ($P^2 = 0.14$) of the variance in performance and quality 5% ($P^2 = 0.05$). However, the interplay of reputation and quality gives the model a summary that explains 57% ($R^2 = 0.57$) of the variance in performance. That means that because of their interplay, reputation and quality together explain far more than they do individually.

Since results showed that the model explained 57% ($r = 0.57$) of the variation in performance, this also indicates that 43% of the variation in performance can be explained by factors other than those discussed here. The model thus had certain strengths, but Pallant (2020) has posited that it is common for the explanation ratio (R -square) in peer-reviewed academic papers to be lower than 45%. Kline (2005) has argued, however, that in the physical sciences, the value is often higher than 50%, but regarding assessing the attitude of individuals, as in this research, it is lower. Obviously, other factors contribute to guests' satisfaction and loyalty, which are out of scope when measuring specific attributes; some of these include loyalty programmes, the mood and situations of participants whilst answering, how participants recall the service instance, the mutual understanding of questions, or something else completely different (Schellings, 2011; Wilson et al., 2021).

The second research question was: *What attributes should entrepreneurs prioritise for better performance?* Reputation shows a stronger connection to performance and a stronger influence on the variance of performance than quality does. Therefore, the simple answer would be for entrepreneurs to focus more on reputation for better performance in terms of customer satisfaction and loyalty. This is in line with Anagnostopoulou et al. (2019), who claim that maintaining and managing reputation is the most important factor for hotel managers to adhere to for better performance. The strong online presence of third-party websites and apps, where previous guests can share their views and experience, also underscores this as guests are likely to follow such recommendations, especially if they have no prior experience themselves (Hall & Lee, 2014; Kotler et al., 2017; Lai, 2019). This is not that simple, however, because of the strong relation ($r = 0.68$) between reputation and service quality, for example, how recommendations from previous guests will, for better or worse, influence guests' expectations and perceptions of service (Crick & Spencer, 2011; Wilson et al., 2021) and, as mentioned, how reputation influences service quality. Thus, it is difficult to answer the question about prioritisation, and it is therefore recommended for entrepreneurs to keep a close eye on both quality and reputation. Further research and data analysis are recommended to determine distinguishing factors which can be prioritised for better decision-making. With regard to the theoretical contribution, having done this work on the connection and effect of service quality, reputation, and performance, we are one step closer to understanding the degree of this interplay and its importance. We have also added to both

theoretical and practical knowledge in tourism, by assessing those components' contributions to organisational growth and prosperity, therefore guidance towards SDG—9 on how utilise and prioritise resources towards more sustainable and innovative organisations.

However, more research is needed to fully grasp this concept. The QRP model, used here for the first time in hospitality, has been tested in other service industries (e.g., banking). Interestingly, the findings here are contradictory, being almost opposite to previous research in banking. In the previous findings the quality had much more explanatory power than reputation in terms of the variance of performance (Guðlaugsson et al., 2021). Although using a relatively small data set ($n = 319$) in this research, this raises many questions about the nature and structure of hospitality and whether or how the sector differentiates from other service sectors; this, however, needs to be investigated further. Despite that, the authors believe it is important that entrepreneurs look at both aspects, service quality and reputational attributes, when planning and or developing new services. Furthermore, it is imperative for practitioners to fully understand the interplay and connectivity between service quality, reputation, and performance. Not only how service quality and reputation positively affect performance, but also how positive performance in customer satisfaction and loyalty can, in the long run, influence greater service quality and reputation of the organisation.

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