



# Service quality, customer satisfaction, and customer value: A holistic perspective

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## Abstract

The author proposes and tests an integrative model of service quality, customer value, and customer satisfaction. Using a sample from the luxury segment of the hotel industry, this study provides preliminary results supporting a holistic approach to hospitality customers' post-purchase decision-making process. The model appears to possess practical validity as well as explanatory ability. Implications are discussed and suggestions are developed for both marketers and researchers. © 1999 Elsevier Science Ltd. All rights reserved.

**Keywords:** Price; Perception; Service quality; Customer value; Customer satisfaction; Purchase decision; Word-of-mouth communication

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## 1. Introduction

Recently, the hospitality literature has witnessed growing interest in research on service quality and customer satisfaction. A number of researchers have attempted to apply related theories and methods in the hospitality industry. Bojanic and Rosen (1994), for example, tested the SERVQUAL framework in the restaurant industry, while Saleh and Ryan (1991) applied the same model to the lodging industry. Knutson and colleagues have also attempted to develop a scale for measuring the quality of lodging services (Knutson et al., 1992; Patton et al., 1994). Similarly, Getty and Thompson (1994) proposed a scale to measure lodging service quality. Along with these research efforts, Barsky (1992) and Barsky and Labagh (1992) have attempted to introduce a customer satisfaction research framework, called the *expectancy-disconfirmation* model, into both the hotel and restaurant industry. Oh and colleagues studied

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the behavior of fast-food restaurant customers based on expectancy-disconfirmation theory and provided an extensive, critical review of the service quality and consumer satisfaction literature in an effort to develop suggestions for future applications (Oh and Jeong, 1996; Oh and Parks, 1997).

Although these theory-based research efforts have advanced marketers' understanding of hospitality consumers' purchase behavior, there are continuing demands for refining the theories and methodologies that are suitable to hospitality consumption situations (Oh and Parks, 1997). One way to refine a theory is to consider new variables, within the established framework, that are potentially powerful in explaining as well as predicting consumer behavior. For example, after criticizing the validity of the SERVQUAL model based on contradictory empirical evidence, Cronin and Taylor (1992) contend that marketers need to consider new variables such as customer value to enhance the predictive power of service quality. Ignoring or omitting important variables from the model is also known to cause problems of model misspecification (Bagozzi, 1980).

This study was conducted to assess the role of customer value within the existing service quality and customer satisfaction framework. Focusing primarily on customers' post-purchase decision-making process, this study examined the relationship of customer value with price, perceptions of performance, service quality, customer satisfaction, and intentions to repurchase and to recommend. In this way, the ultimate purpose of this study was to propose an integrated approach to studying and understanding the purchase decision-making process of hospitality consumers. In a recent critical review of the service quality and customer satisfaction literature, Oh and Parks (1997) suggest that studies integrating key variables need to be conducted. The literature of service quality, customer satisfaction, and customer value is first reviewed to develop conceptual foundations for the present study. Next, a model integrating key variables from studies of service quality, customer satisfaction, and customer value is proposed and empirically tested in the lodging industry. The paper concludes with discussions on the study results and suggestions for future research in this area.

## 2. Conceptual background

### 2.1. Service quality

Since Parasuraman et al. (1988) introduced a 22-item scale, called SERVQUAL, for measuring service quality, the model has been widely adopted across industries. The thrust of SERVQUAL lies with its five dimensions of service quality that are accomplished by *indirect* (or *objective*) comparisons between pre-purchase expectations and post-purchase perceptions of company performance. That is, service quality is indicated by, or defined as, the arithmetic differences between customer expectations and perceptions across the 22 measurement items. The 22 difference scores are then reduced to fewer (typically five as required by the original SERVQUAL model) factors or dimensions via factor analysis. The scores representing service quality are

“indirect” in the sense that the researcher(s), not the subjects themselves (i.e., customers), performs the comparison (i.e., subtraction) between expectations and perceptions.

A number of researchers have criticized the SERVQUAL approach. Two criticisms are notable. One, charged by Peter et al. (1993) and Brown et al. (1993), relates to the indirect difference score approach. According to them, the difference score approach causes poor reliability and problems of variance restriction associated with the component scores. Brown et al. (1993) observed that difference scores produced theoretically poorer reliabilities than their component scores. Restricted variance was also another natural outcome of taking a difference between two direct measures, undermining the predictive validity of the model. Although Johns (1981) proposed a method of calculating the index of measurement reliability for a set of difference scores (see Parasuraman et al., 1994a, for an empirical application), the difference score approach was still discouraged.

A second criticism regards the measurement of expectations. Teas (1993a, b) argued that the SERVQUAL scale of expectations induce several different types of expectations; the subjects are not able to differentiate among different types of expectations when they provide evaluations. Some examples of elicited expectations include ideal, minimum tolerable, and product- or brand-normative expectations. Thus, typical aggregate analyses of data involving consumer expectations are susceptible to both reliability and validity problems. The concerns in measuring expectations are topics for ongoing debates among researchers. Note, however, that measurement of performance perceptions has not undergone the same criticisms.

## 2.2. Customer satisfaction

Oliver (1981) introduced the expectancy-disconfirmation model for studies of customer satisfaction in the retail and service industry. Expectancy-disconfirmation theory posits that customers form their satisfaction with a target product or service as a result of *subjective* (or *direct*) comparisons between their expectations and perceptions. Customers are directly asked to provide their perceptions or evaluations of the comparisons, using a “worse than/better than expected” scale. The resulting perceptions are conceptualized as a psychological construct called “subjective disconfirmation”. The expectancy-disconfirmation model asserts that customer satisfaction is a direct function of subjective disconfirmation. That is, the size and direction of disconfirmation determine, in part, the level of satisfaction. When “confirmation” occurs, customers are believed to remain neither satisfied nor dissatisfied. Both expectations and perceptions also have been found to influence customer satisfaction and subjective disconfirmation under various circumstances (Churchill and Surprenant, 1982).

The expectancy-disconfirmation model differs from SERVQUAL in several fundamental aspects. First, it attempts to *explain* and *theorize* a consumption process, whereas SERVQUAL purports to *describe* (or “merely measure perceived service quality at a given point in time, regardless of the process ...,” Parasuraman et al., 1994b, p.112) perceived service quality. Second, The expectancy model measures

disconfirmation *directly* (i.e., subjectively), whereas SERVQUAL does it *indirectly* (i.e., arithmetically). Although the two models pursue different measurement methods, their conceptual thesis is virtually identical. Nevertheless, the subjectively measured disconfirmation is specified as a disconfirmation construct in the expectancy model, but the arithmetically derived disconfirmation becomes perceived service quality in SERVQUAL. While the distinction between these two constructs is not clear, Oliver (1997) suggested a potential integration of the two constructs within the expectancy-disconfirmation framework. Another notable difference between the expectancy and SERVQUAL models is in the key criterion variables. Customer satisfaction is the ultimate criterion variable in the expectancy model, while SERVQUAL targets service quality as its core variable. Oh and Parks (1997) provide a further elaboration on differences between the two models.

Similar to the case of SERVQUAL, researchers have questioned the validity of expectation measures associated with the expectancy-disconfirmation model. Miller (1977) found that when asked of expectations, customers elicited several different kinds of expectations. These included expectations of *ideal*, *minimum*, *predicted*, and *normative* performance. Therefore, depending upon the type of expectations measured, the strength of its relationship with other constructs in the model has often differed significantly. Unlike SERVQUAL's objective comparison approach, however, the subjective comparison (i.e., disconfirmation) method of the expectancy model has demonstrated its role in consumer decision making and resulted in general acceptance by marketing researchers.

### 2.3. Customer value

Customer value can be broadly defined as “the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given” (Zeithaml, 1988, p. 14). A number of researchers have investigated the role of customer value in consumption contexts. For example, Zeithaml (1988) provided evidence supporting an influential role of value in consumers' purchase decision making. According to the means-end model proposed by Zeithaml (1988), perceived value is a direct antecedent of a purchase decision and a direct consequence of perceived service quality. Dodds et al. (1991) conceptualized perceived value as a tradeoff between perceived quality and perceived psychological as well as monetary sacrifice (also see Dodds and Monroe, 1985; Monroe and Chapman, 1987; Teas and Agarwal, 1997). Their model shows that perceived value is a direct antecedent of consumer purchase intention. More recently, Woodruff (1997) laid out a customer value hierarchy model in which customer value was viewed as a hierarchically structured construct at levels of consumption goals, consequences, and attributes. According to Woodruff, customer value resides in every stage of customers' expectancy-disconfirmation process. Slater (1997) and Parasuraman (1997) provided support for the role of customer value in understanding consumer behavior.

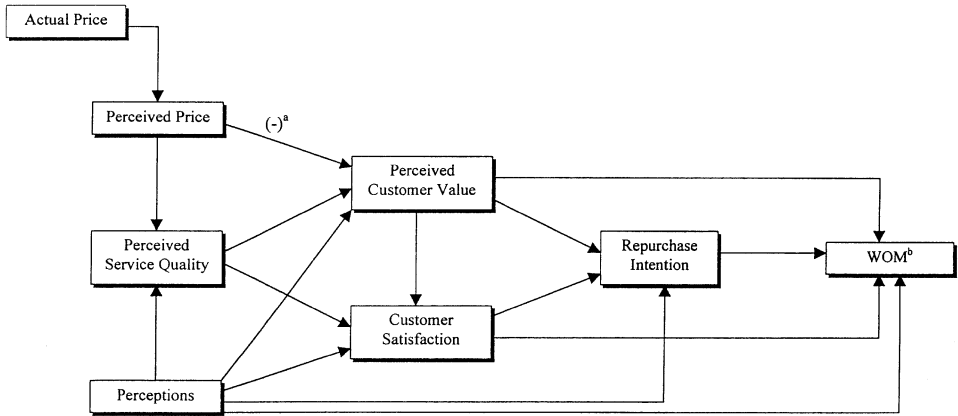
Recently, the hospitality literature has reported research on customer value. Based on economic value and consumer behavior theories, Jayanti and Ghosh (1996) formulated perceived value as a direct consequence of perceived quality as well as of

price-based transaction and acquisition utilities. A subsequent investigation of their hypotheses in the hotel industry supported the role of value for understanding hospitality customers. Bojanic (1996) also examined the relationship of customer value with price, quality, and satisfaction. However, Bojanic's empirical tests of the relationships in four lodging market segments produced somewhat mixed results.

### **3. Research model**

Despite the numerous attempts at theorizing the role of value within the context of consumer decision making, researchers have shown divergent viewpoints on the value process. The antecedents and consequences of customer value perceptions often differed across studies (e.g., Dodds et al., 1991; Woodruff, 1997). Ambiguity in the definition of customer value is another critical subject for extensive studies. Moreover, few studies have simultaneously considered customer value with variables that have been found to be important to explaining consumers' product evaluations. For example, perceived performance and satisfaction and their relationship with customer value, (re)purchase intention, and word-of-mouth communication have been ignored in previous value-based research. Therefore, this study was an attempt to test a model considering these omitted, but important, variables and relationships within a single framework. Of critical concern to this study was a preliminary integration of diversified views on the consumer purchase decision-making process that are reflected in the models of service quality, customer satisfaction, and customer value.

Fig. 1 presents a proposed model, focused mainly on the post-purchase decision process. Arrows in the model indicate causal directions. Several important features are as follows. First, the proposed model incorporated the key variables discussed above such as perceptions, service quality, consumer satisfaction, and customer value. In addition, intentions to repurchase and to recommend to others were included in the model, as was the effects of actual and perceived prices (Dodds et al., 1991; Dodds and Monroe, 1985; Monroe and Chapman, 1987). Second, the model tentatively excluded the expectations construct for several reasons discussed earlier: (a) its measurement has been problematic (Teas, 1993b); (b) a simultaneous consideration of expectations, perceptions, and service quality may cause multicollinearity as reflected in the SERVQUAL approach (Oh and Parks, 1997); and (c) the present study focuses on a transaction-specific post-purchase decision-making process that does not include a longitudinal process of attitude change (i.e., the revision process of expectations). Third, to avoid potential redundancy in conceptualizing subjective and objective disconfirmation constructs, the proposed model included only a subjective measure of disconfirmation in the name of perceived service quality. As discussed earlier, inclusion of both objective and subjective disconfirmation concepts in the same model could cause conceptual redundancy. Another point to note is that repurchase intention is modeled as a direct consequence of perceptions, value, and satisfaction. Finally, word-of-mouth (WOM) communication intention is conceptualized as a direct, combined function of perceptions, value, satisfaction, and repurchase intention.



Note: Arrows indicate hypothesized causal effects.

<sup>a</sup> The hypothesized relationship is negative; all the other causal paths are hypothesized to be positive.

<sup>b</sup> Word-of-mouth communication intention.

Fig. 1. A proposed model of service quality, customer value, and customer satisfaction.

Except for the causal path from perceived price to customer value, all the other paths are hypothesized to be positive and significant. In their formulation of a customer value model, Dodds and Monroe (1985), Dodds et al. (1991), and Monroe and Chapman (1987) hypothesized: (a) actual price has a positive relationship with perceived price; (b) perceived sacrifice (operationalized as perceived price in this study) has an inverse relationship with perceived customer value; (c) perceived price is positively related to perceived service quality; (d) perceived service quality is positively related to perceived value; and (e) perceived value has a positive relationship with (re)purchase intention. These hypothesized relationships have been supported empirically in product purchase situations. Hence, the present study retains these hypotheses in the proposed model.

Perceptions of company performance were found to exert a positive influence on perceived service quality, satisfaction, repurchase intention, and WOM (Oh and Parks, 1997). Oh and Parks (1997) also provided a review supporting a positive relationship among satisfaction, repurchase intention, and WOM. Bojanic (1996) found a strong positive association between customer value and satisfaction in four lodging markets segmented by price. Fornell et al. (1996) also supports a positive influence of perceived value on customer satisfaction. It is axiomatic that these variables are all positively related reflecting marketers' efforts to deliver high service quality and customer value that will lead to market retention. Perceived value is expected to explain both repurchase intention and WOM directly, in addition to its influence on WOM through customer satisfaction and repurchase intention (Dodds and Monroe, 1985; Dodds et al., 1991; Monroe and Chapman, 1987; Fornell et al., 1996; Teas and Agarwal, 1997). Finally, although previous studies have not separated

between repurchase intention and intention to recommend, this study hypothesizes that customers will develop stronger intention to recommend the product/service to others when they intend to repurchase the product/service.

## 4. Methodology

### 4.1. Sample and data

This study collected data from customers to two large luxury hotels located in a northeastern US city. A total of 3451 guests were contacted over a four-week study period. During the study period, all guests were contacted after excluding such special customer groups as invited travelers and international group travelers who were believed to cause response bias for the purposes of the present study. Of the 3451 guests contacted, 550 participated in the study, resulting in a response rate of 15.9%. The 550 respondents produced a total of 545 usable response sets.

### 4.2. Measures

All variables were based on the subjects' self-report. This study used room rates, paid by the subjects and expressed in a US dollar amount, as the surrogate measure of actual price. Perceived price was measured using a 6-point "1-very low/6-very high" scale by asking how the subject perceived the overall price at the hotel. The subjects rated overall service quality by using a 6-point scale anchored with "1-much worse than expected" and "6-much better than expected" (Oliver, 1981). This subjective measure of service quality was a result of a conceptual synthesis between SERVQUAL's definition of service quality and the expectancy model's subjective disconfirmation. Parasuraman et al.'s (1994a) recent work is suggestive of measuring service quality more directly, and Hartline and Ferrell (1996) also supported a similar measurement practice. For the perceptions measure, the average value of eight measurement items was used. The eight measurement items were selected as a result of both a literature review (Knutson, 1988; Lewis and Pizam, 1981; Saleh and Ryan, 1991) and discussions with the management staff of the two cooperating hotels. They were guestroom cleanliness, check-in speed, knowledgeable employees, cleanliness of lobby areas, guestroom quietness, security and safety, employee friendliness, and guestroom items in working order. Customer value was measured as a form of subjective trade-off by asking the subjects, "For your stay at XYZ hotel, please describe the overall value you received for the price you paid". The scale for measuring customer value was anchored with "1-much worse than expected" and "6-much better than expected." Woodruff (1997) proposed this direct approach for measuring customer value. The subjects provided the level of their overall satisfaction on a 6-point "1-very unsatisfied/6-very satisfied" scale. Finally, a likelihood scale anchored with "1-very unlikely/6-very likely" was used to measure the subjects' intention to repurchase and to recommend the hotel to others (i.e., WOM).

#### *4.3. Survey administration*

The self-administered questionnaire was distributed to each selected guestroom with the target guest's full name and room number appearing on the envelope. The hotels' security staff delivered the questionnaire between 7:00 and 9:00 p.m. everyday during the four-week study period. The hotels' front desk management assisted in avoiding potential "double deliveries" and assuring that the subjects had stayed at the hotel at least one night before they received the questionnaire. No follow-up was made due to situational difficulties arising from this on-site survey. Subjects returned their completed survey to either the hotel's main lobby reception desk or the reception desk located on a different floor in the hotel. All subjects were offered an incentive of a 30-min long distance calling card when they returned the survey.

#### *4.4. Analysis*

The proposed model in Fig. 1 was path analyzed via Maximum Likelihood estimator of LISREL 8 by using the variance-covariance matrix of the measured variables as input (Joreskog and Sorbom, 1993). This path analysis technique enables estimating simultaneously multiple regression equations in a single framework. Notably, all direct and indirect relationships in the model are estimated simultaneously, and thus, the method allows all the interrelationships among the variables to be assessed in the same decision context.

### **5. Findings**

The 545 subjects included 359 (66%) males, 398 (73%) business travelers, 118 (22%) vacationers, and 29 (5%) traveling for other purposes. The majority of the subjects (81%) were transient customers staying at the hotel for fewer than four nights. Eighty percent of the subjects (429) were aged between 25 and 54, and another 17% (91) were 55 years old or older. An annual household income for 29% of guests was under \$75,000; 62% of guests reported an annual household income of more than \$75,000; and the rest did not report their income.

Because the response rate (15.9%) was rather low, efforts were made to check for potential non-response bias. First, managers (General Manager and TQM staff) of the cooperating hotels were asked to review the sample profile. Their review confirmed that although the household income level was slightly higher than expected, the overall sample profile matched closely the general guest profile of the two hotels. Second, the descriptive results of this study were compared to those of previous management reports on the level of the 15 individual measurement items (eight performance perception items plus seven items each measuring the rest of the variables in the proposed model; see Table 1). The previous management reports were based on the quarterly guest satisfaction survey conducted by the hotels. For this comparison, an internal consultant of the hotels reviewed the results and, as a result, found no substantial departures between the two reports.

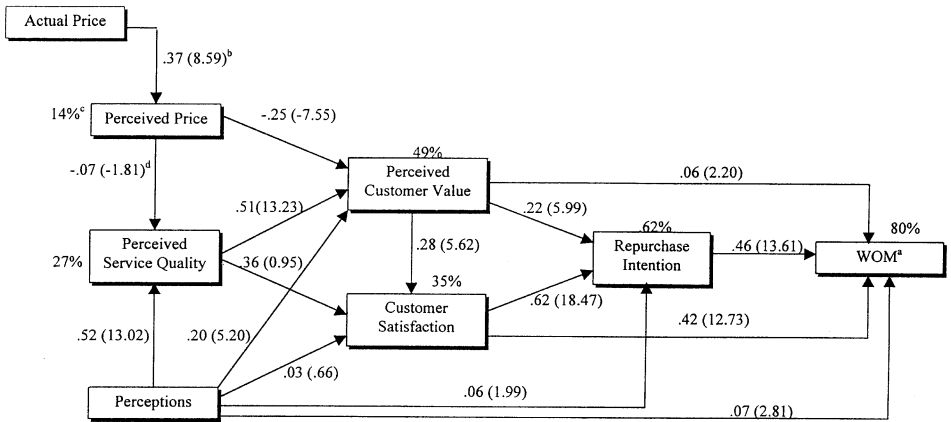
Table 1  
Descriptive results of the model variables

| Variable                         | Mean   | Standard deviation |
|----------------------------------|--------|--------------------|
| Room rate                        | 190.32 | 50.66              |
| Perceived price                  | 3.92   | 0.80               |
| Service quality                  | 4.43   | 0.95               |
| Perceptions of performance       | 4.94   | 0.63               |
| Guestroom cleanliness            | 5.20   | 0.89               |
| Cleanliness of lobby areas       | 5.18   | 0.78               |
| Security and safety              | 5.16   | 0.79               |
| Employee friendliness            | 5.04   | 0.92               |
| Check-in speed                   | 4.95   | 1.00               |
| Knowledgeable employees          | 4.78   | 0.93               |
| Guestroom items in working order | 4.66   | 1.20               |
| Guestroom quietness              | 4.53   | 1.25               |
| Perceived value                  | 4.16   | 0.97               |
| Customer satisfaction            | 5.06   | 0.90               |
| Repurchase intention             | 4.98   | 1.11               |
| Word-of-mouth intention          | 4.91   | 1.15               |

Descriptive results appear in Table 1. Included in the table are the mean and standard deviation of each variable used in the proposed model. Except for room rate, all the other variables have a value range from 1 to 6. The range of per-night room rate was from \$120 (rounded up from \$119.95) to \$350 (rounded up from \$349.95). One subject who reported a paid room rate of \$50 was excluded from the analysis as managers suggested that the rate be for a complementary room. The internal consistency reliability of the eight items comprising the subjects' performance perceptions was 0.80.

The results of path analysis appear in Fig. 2. Anchored on each causal path are the standardized regression coefficient and its *t*-value. The amount of variance explained for each variable is expressed in percentage. As shown in the goodness-of-fit indexes, the proposed model demonstrates an excellent fit (Joreskog and Sorbom, 1993). Examination of the residual matrix showed no sign of over- or under-estimation, and further examination of the estimated individual parameter showed no sign of an improper solution for the proposed model (Bagozzi and Yi, 1988).

Except for two causal paths, all the other hypothesized relationships appeared to be statistically significant ( $p < 0.05$ ,  $t$ -value  $> |1.96|$ ). Fourteen of the sixteen relationships were in the hypothesized direction and they were statistically significant. Notably, perceived service quality, customer value, and customer satisfaction appeared to have important relationships in customers' decision process. They were directly or indirectly related to repurchase as well as positive WOM communication intentions. In addition, price exerted a negative influence on perceived value through



Note: <sup>a</sup> Word-of-mouth communication intention.

<sup>b</sup> Standardized regression coefficient with its t-value in parenthesis.

<sup>c</sup> The amount of variance explained (i.e., R<sup>2</sup>).

<sup>d</sup> Statistically insignificant ( $p > .05$ ); all the other parameters are significant ( $p < .05$ ).

$\chi^2(12) = 16.45$  ( $p \cong .17$ ); GFI = .99; AGFI = .97; CFI = 1.00; TLI = .99; RMSEA = .028.

Fig. 2. Results of the path analysis of the proposed model.

perceived price. Perceptions affected service quality, perceived value, repurchase intention, and WOM intention both directly and indirectly.

The two insignificant paths were: (a) the relationship of perceived price with perceived service quality and (b) the relationship of perception with customer satisfaction. Although perceived price was hypothesized to have a positive relationship with perceived quality, the analysis results showed a null relationship. Similarly, the hypothesized positive relationship of perceptions with satisfaction was not supported in this study. Perceptions were shown to influence customer satisfaction only through perceived service quality and perceived value.

The proposed model explained a substantial amount of variance in key variables. Specifically, the model explained about 80% of variance in WOM and 62% of variance in repurchase intention. The model also accounted for about 49 and 35% of variance in perceived value and customer satisfaction, respectively. Actual price explained about 14% of variance in perceived price, while performance perceptions explained about 27% of variance in service quality. A goodness-of-fit index that can evaluate the practical significance of the variance explained by the model, with particular emphasis on the issue of potential overfitting, was calculated following the formula recommended by Bagozzi et al. (1991). The resulting noncentralized fit index (NCNFI) was 0.998, demonstrating a high practical significance of the proposed model. Bagozzi et al. (1991) suggested that a model with an NCNFI index of greater than 0.90 be practically meaningful.

## 6. Discussion

The integrated model seems to be tenable in studying lodging customers' purchase decision process. In addition to an excellent fit, the model possesses a high practical significance as shown in the NCNFI statistic. Furthermore, the model exhibits a substantial explanatory power as indicated by the amount of variance explained in most key variables. The hospitality literature to date has not provided conceptual and empirical studies considering simultaneously service quality, perceived value, customer satisfaction, and repurchase intention (Oh and Parks, 1997). Thus, the results of this study provide preliminary evidence that an integrated approach is indeed a potential avenue for future service quality and customer satisfaction research in the hospitality industry.

The role of perceived value in customers' post-purchase decision-making process is evident. The results show that perceived value is an immediate antecedent to customer satisfaction and repurchase intention. It also affects WOM directly and indirectly through customer satisfaction and repurchase intention. Analysis indicates that perceived value is determined not only by the trade-off between price and service quality but also as a result of the direct and indirect influence of performance perceptions. These results implicate that the conventional models of customer value as well as service quality and customer satisfaction need to be refined.

As hypothesized, perceived price was found to exert a significant negative influence on perceived customer value. Although a number of researchers have hypothesized a negative influence of perceived price on perceived value, Bojanic (1996) reported a significant positive effect in the luxury segment of the lodging industry. While Bojanic (1996) suspected potential measurement problems with the data he used for this anti-theoretical finding, this study provides empirical evidence supporting a negative relationship between perceived price and value. This finding is important because it has critical strategic implications for the industry.

This study found that the effect of perceived price on service quality was marginal and in a negative direction. This finding is somewhat contradictory to Dodds et al.'s (1991) finding that showed a significant positive effect. A close examination of the two results provides a plausible reason for the discrepancy. Dodds et al., for example, operationalized perceived quality as a direct measure of "how good or bad" product quality was. This study, however, measured *disconfirmed* service quality using a "better than/worse than expected" scale. This disconfirmation scale could invoke the effects of expectations in service quality judgments. Here, expectations, as a comparison standard, could strongly counteract the subject's judgments about service quality per se. Another possibility is that perceived price captured a sense of sacrifice rather than merely reflecting the actual price. If it happened indeed, the insignificant relationship is comparable to what Dodds et al. (1991) and Monroe and Chapman (1987) hypothesized. This latter reasoning is quite possible in that actual price accounted for only 14% of variance in perceived price.

Finally, the role of performance perceptions is noteworthy. Although previous research on customer value has ignored perceptions, this study provides evidence supporting the significant relationships of perceptions with other variables.

Perceptions were found to directly affect service quality, customer value, repurchase intention, and WOM intention in a positive direction. Nevertheless, the direct effect of perceptions on customer satisfaction was not significant. This finding differs from previous expectancy-disconfirmation studies (Churchill and Surprenant, 1982; Oliver, 1981). Note, however, that previous expectancy-disconfirmation studies did not consider customer value simultaneously with perceptions. Perhaps customer value, coupled with service quality, could completely mediate the effect of perceptions on customer satisfaction.

## **7. Implications and suggestions**

### *7.1. Summary*

This study offers several important findings that can be summarized as follows: (a) the proposed, integrated model may be a useful framework for understanding consumer decision processes as well as evaluating company performance more completely; (b) in particular, customer value is an important variable (or construct) to be considered in service quality and consumer satisfaction studies or vice versa; (c) service quality and customer value in combination may completely mediate perceptions toward customer satisfaction; (d) perceived price has a negative impact on customer value, unlike the finding reported by Bojanic (1996); and (e) perceived price was found to have no relationship with perceived service quality.

### *7.2. Managerial implications*

Practical implications are clear. Marketers of the luxury lodging industry must consider improving not only service quality and customer satisfaction but also perceived customer value in their offerings. Ignoring customer value may cause lowered customer satisfaction and reduced repeat business. Moreover, marketers who are trying to understand their customers must measure customer value along with other variables because it plays a vital role in explaining customers' decision behavior. In essence, companies' efforts for improving service quality and customer satisfaction should be conducted holistically including value enhancement. The proposed model provides directions and targets for customer-oriented company efforts. For example, firms cannot enhance customer value by focusing only on company performance and/or service quality. While continuing performance and quality improvement efforts, marketers need to execute competitive pricing. This study, and the studies reviewed earlier, generally found that high pricing affects adversely customers' value perceptions that will, in turn, weaken satisfaction and intentions to repurchase and to recommend. Thus, price, room rates in particular, may be an important factor determining a long run market share in the luxury segment of the lodging industry.

Marketers may be interested in applying the proposed model. The next step is then to develop a set of measurement items that are strategically important or of marketing

focus to the company. Also, the chosen items should well reflect dimensions of company performance so that customer evaluations can be meaningful to the management. The selected set of items may then be operationalized to measure perceptions, service quality, and customer value. It is recommended, however, that marketers measure overall satisfaction rather than item-specific satisfaction. Once collected, data are likely to have high diagnostic values even in descriptive statistics. Marketers may take one step further to reanalyze and refine the proposed model so that it can fit the company's products and services. Company- or brand-specific modifications of the model are deemed particularly important for firms operating in international locations. A refined model can become a tool to guide the company's future marketing efforts.

### 7.3. *Suggestions for future research*

Several issues, associated with the limitations inherent in this study, await further research. First of all, the proposed model should receive more rigorous tests in two directions. One is that each model construct or variable should be measured with multiple items. For example, service quality is known to have multidimensional facets. Although the literature does not clearly suggest ways of determining the number of measurement items for each construct, Churchill (1979) recommend that multi-item measurement be used whenever possible. Single-item measurement approach does not allow opportunities to assess the reliability of the construct as well as the overall model. This study used single-item *overall* measurement for most variables, as the primary focus of the study was to provide initial evidence for an integrated approach to service quality and customer satisfaction research.

Another way to improve the model's validity is to replicate the proposed model with different hospitality products and services. Clearly, the results of this study have limited generalizability in that only two luxury hotels were studied. Although this study provided encouraging preliminary results, additional studies are needed to evaluate the model's stability and applicability across different market segments, products, and industries. Replications are necessary particularly because the results of this study failed to support the two causal relationships hypothesized on the basis of previous studies.

Second, research to better conceptualize the variables of the model is critical. The literature to date does not provide a clear definition of most variables used in this study (see, for example, Iacobucci et al., 1994; Woodruff, 1997). In particular, perceived value, service quality, and customer satisfaction are not clearly defined in related literatures, and this definitional issue, coupled with measurement issues, is a topic for continuing debate among researchers. It is equally desirable that further conceptual work be conducted with particular emphasis on the nature of hospitality services.

Third, although this study proposed an integrated approach to service quality and customer satisfaction, the proposed model may lack the merit of parsimony in terms of convenience and research costs. It is particularly true in the case that all model

variables should be measured with multiple items, as discussed above. It is also practically difficult to model simultaneously all the variables with multiple items. Thus, additional conceptual work is needed to achieve a more manageable, substantive measurement model. One possibility is to synthesize the concepts of service quality and perceptions, as the two variables seem to possess similar psychometric properties in actual measurement.

Finally, as Dodds et al. (1991) and Zeithaml (1988) suggested, researchers may want to consider perceived sacrifice as an additional explanatory variable. Perceived sacrifice is likely to mediate perceived price toward perceived value and capture, beyond mere financial sacrifice, risks associated with purchase decisions as well as psychological investment in the purchase. Note, however, that most previous studies that included perceived sacrifice focused on consumers' pre-purchase decision making process. Thus, it may be difficult, both experimentally and empirically, to incorporate perceived sacrifice into the proposed model of a post-purchase decision process.

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