



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

**THE EFFECT OF SERVICE QUALITY ON HOSPITALITY BUSINESS
PERFORMANCE: A CASE STUDY ON FOUR STAR HOTELS OF ADDIS ABABA**

BY
BETHELHEM TADESSE

JULY, 2020

SMU, ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST MARY'S UNIVERSITY, SCHOOL OF GRADUATE
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BY
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Approved by committee of examiners

Advisor

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Statement of Declaration

I, the undersigned declare that this thesis is my original work, prepared under the guidance of Temesgen Belayneh (PHD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or full to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This thesis has been submitted to St Mary University, school of Graduate Studies for examination with my approval as a university advisor.

Name: _____

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Date: _____

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ABSTRACT

The primary objective of this study is to assess service quality and business performance on the hospitality sector. Dimensions as adopted in SERVQUAL model (tangibility, assurance, responsiveness, empathy & reliability); have been utilized as measurement constructs to assess the level of service quality and business performance. A quantitative method has been applied to analyze the data collected from representatives of Addis Ababa's 4 star hotels. Descriptive statistics such as frequency, mean and correlation analysis techniques were applied to analyze background information of respondents. The respondents' perception on service quality and business performance as well as the relationship of service quality dimensions with financial and non-financial business performance were also analyzed under descriptive statistics. Besides, regression analysis technique was applied to investigate the impacts of service quality dimensions on hospitality business performance. The finding of the study shows that customers are satisfied on tangibility, reliability, and empathy while they are dissatisfied on responsiveness and assurance. The finding on the base of correlation analysis also implies that the relationship between service quality dimensions and business performance have positive and significant relationship between business performance and all service quality dimensions. The finding also confirms the service quality dimensions have an impact on business performance implying that the higher the quality of service, the higher the level of business performance. From this finding, it can be summarized that the hospitality can improve its service by mostly focusing on responsiveness and assurance of service quality dimensions.

Keywords: services, business performance, quality

CHAPTER ONE

1. Introduction

1.1 Background of the Study

Service quality focuses on meeting the customers' needs and necessities and how well the service conveyed matches the customers' expectations of it (Philip and Hazlett, 1997) while satisfaction as Lonial and Zaim, (2000) cited in Oladepo and Abimbola (2014) put it is customer's positive or negative feeling around the esteem that was received after the utilization of thoughts, goods and services. Customer satisfaction is seen as a key differentiator which is evident that numerous market leaders are found to be highly superior-customer-service orientated.

Service quality has been connected to organizational performance in most of the service sectors including tourism, hospitality, healthcare, banking, education, insurance etc., since the past several decades. Whereas service quality has an important role to play in the improvement of customer satisfaction, its direct influence on business performance has been addressed by several researchers (Cheruiyot and Maru, 2013; Tkaczynski, 2013; Solomon et al., 2015 and Izogo and Ogba, 2015). This addressing is based on several reasons including the view that it is not service quality alone which leads to the enhancement in business performance and there are few other predecessors which may promote the business performance as the research construct business execution itself is a multi-dimensional construct.

The need for services has gone with the need for quality service. Individuals have been after getting the leading of the services they require, and being satisfied. Also, everybody without a doubt inquires for the most excellent of transport, education, health, and tourism services that they receive. Hence, quality ought to be paid attention in services to be given (Karahana 2006:18). On the other side, the service given with product or independently of product needs to be of great quality. Service comes before everything. Quality service refers to the beating of insufficient competitors in this respect. In order to extend sales, to enter into new markets, to grow the market share, and all in all to be successful in the market, the product and service quality are needed to be considered together (Taşkın 2005:55).

Performance of service industry is exceptionally much diverse to assess as compared to manufacturing industry. Hotels are in the hospitality services industry and the product delivered are intangible and the level of quality anticipated are very exceptionally based on the perceived level of expectations of the particular customers.

Service quality: “is an assessment with an extraordinary cognitive viewpoint that creates as a result of the comparison of the service (perceived service) quality that a consumer receives with the service quality molded according to the desires of consumer some time recently the purchase.” (Altunışık, et al. 2007:176). Due to the feature of the concept “service”, service quality contrasts from its concept in production businesses (Oral 2005:322). Service quality incorporates both outputs in the end of production process, and the way that service is provided or its form. Since services have abstract quality, service quality has also abstract structure. Subsequently, the term perceived service quality is utilized instead of the term of service quality. Perceived service quality is the result of the contrast of expectations before services with real experience of service and is considered as the difference between the expectations of service receivers and their perception (Avcıkurtve Aymankuy 2006:285). The theoretical structure of services, their utilization in where they are delivered, their other advanced highlights make the definitions of service quality difficult (Özkuş 2007:125).

To guarantee the success and business performance of the service industry, numerous 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 impact of service quality to an organization from management viewpoints are equally important as to service quality from customers' viewpoints (Reynoso and Moores, 1995). There is a need to look into the organization itself in connection to service quality and service industry business performance.

1.2 Statement of the Problem

Paraskevas (2001) have identified substantial studies that were centered on the result of the service i.e., the customer's viewpoint. The essential reason for looking service quality enhancement is the inference that the increment of customer satisfaction can contribute significantly to business performance (Barnes & Cumby, 1995; Berry et al., 1985). Therefore understanding the business performance in connection with quality service is important.

Even though Ethiopia is in development path in different service sectors, still the country suffered from having world class hotel chains in number and providing international service standards. The country also suffered attracting more private hotel owners due to different reasons and the existed hotels do not perform well as per the international hotel standards and these clearly appear that the country does not appreciate the economic contribution from hospitality industry as anticipated. The hospitality industry consists of many different services, including accommodation, restaurants, cafes, and catering. The market for the hotel industry, particularly classified hotels in a developing country like Ethiopia, is closely connected to the tourism industry, because a majority of consumers for the sector come from international tourists (G/Egziabher, 2015).

Additionally, few of the studies used the SERVQUAL model in measuring quality. Further, few have looked to show the link between service quality and business performance. It would therefore be interesting to build on the past studies and apply them in the Ethiopian context. Thus given the role played by the hospitality industry and the relative dearth of studies that examine service quality and business performance in the Ethiopian context, there is need to fill the knowledge gap. The present study will attempt to establish the customer perception of service quality and link the factors to business performance in the hospitality industry.

1.3 Research Questions

1. What is the effect of business performance and each service quality dimension in the hospitality sector?
2. Which service quality dimensions may enhance customer satisfaction in a better way in the hospitality sector?
3. What is the current level of quality of different services provided by the hospitality sector?

1.4 Objectives

1.4.1 General Objective

The general objective of this study is to analyze the relationships of the service quality and business performance dimensions so that the hospitality sector may focus more on those specific dimensions of service quality which have an impact on business performance.

1.4.2 Specific Objective

- To measure the effect of business performance and each service quality dimension in the hospitality sector.
- To identify which service quality dimensions may enhance customer satisfaction in a better way in hospitality sector.
- To assess the current level of quality of different services provided by the hospitality sector.

1.5 Significance of the Study

The study will be beneficial to the Hotel's in Addis Ababa as it will demonstrate the link between service quality and the hospitality industry. This will in turn enable industry practitioners to define quality-related strategies that will enhance customer satisfaction and their competitiveness.

Additionally, the study will be of extraordinary esteem to the government, especially the Ministry of Culture and Tourism as it will help inform policies and the design of incentive schemes towards improving Ethiopia as a tourist destination of choice. The study will inform industry players on quality related practices that improve customer satisfaction, thus the in general goal request.

The study will also be beneficial to the Ethiopian Hotel Association which is tasked with promoting high quality standards within the hospitality industry. It will provide empirical evidence on the customer perceptions on service quality and how this is linked with the industry.

Finally, the study will greatly benefit the academia since it will serve to advance the literature on service quality and will suggest areas for further study.

1.6 Scope of the Study

The main scope of this thesis is to analyze the effect of service quality on the hospitality business performance on four star hotels of Addis Ababa. Its theoretically scope is the quality of service delivery and the effect of business performance on hotel's performance. Since working staffs play an important role to create quality services the research focused on the employees of the hotels. Regarding its geographical scope, the research focused on four star hotels of Addis Ababa, which are found in the central part of Addis Ababa.

1.7 Limitations of the study

The major limitation of this study was the COVID19 CORONA virus pandemic; due to this the respondents were unwilling and most of the organizations were closed. There was an absence or inaccessibility of information, shortage of enough time and finance problems to conduct the study.

1.8 Definition of Terms

Business performance: in the organizational context have different connotations. It could be Operational performance, Organizational performance (Financial and Non-financial), Brand performance, Market performance, Research performance and so on.

Financial business performance: measures are most commonly used performance measures and comprise of three main components: profit margin, return on assets, and return on equity. Performance indicators could be used for financial reports, for monitoring the performance of employees, customer satisfaction, the health safety environment rating and overall equipment effectiveness as well as many other applications.

Non-financial business performance: measures four main components product/service development, market development, competitive profile, and market orientation.

1.9 Organization of the Paper

This research has been organized into five chapters. Chapter one contains background of the study, statement of the problem, research questions, objectives, significance, scope of the study, limitations and organization of the paper. Chapter two mainly focus on existing literatures which covers theoretical framework and empirical studies related to the study. Chapter three discusses the methodology employed in the study, including, research design, sample size, sampling technique, data source and collection method, and method of data analysis. Chapter four is about data analysis and discussion of results. Finally, chapter five contains of summary, conclusions and recommendations.

CHAPTER TWO

2. Review of Related Literature

2.1 Theoretical Literature Review

2.1.1 Service

Service as a terminology is taken most often as one category of economic activity (Silvestro and Johnston as cited in Johns, 1998) which categorizes service industries into financial, transport, retail and personal services (Office for National Statistics as cited in Johns, 1998). Service also denotes health service, Civil Service etc. which traditionally developed along bureaucratic lines and are quite distinct from the industrial service sector (Johns, 1998).

Customer service also defined as a series of activities designed to enhance the level of customers' satisfaction which is the feeling a product or service has met customer's expectations (Zeithaml and Bitner as cited in Oladepo and Abimbola 2014). It involves a series of comprehensive activities targeted at the satisfaction of customers and customers' perception of a service or product (Egena as cited Oladepo and Abimbola 2014).

The other issue in relation to service is the contention by Johns (1998) that service as an output has a substantial tangible component in as much as many product have intangible attributes. Customers buy an offering and the value that consist of many components, some of them being activities (service) and some being things (goods). As a consequence, the above scholars argue that traditional division between goods and services is long outdated (Gummesson as cited in Johns, 1998).

The other dimension of service worth looking at is core products versus supplementary services. Many service products consist of a "bundle" that includes a variety of service elements and even some physical goods. A cluster of supplementary services are intended to add value to the core accompanies and most services are secondary to core service. For instance, the core product of the lodging industry is a bed for the night while for airline is flight to destination. In lodging case luxury hotel could offer many additional services to enhance its guests' visit which is either free or carry a charge while airline flight offer meals and baggage which are supplementary services (Lovelok and Wright, 2001).

The other important point in service is Customization versus Standardization Services can be classified according to the degree of customization or standardization involved in service delivery. An important marketing decision is whether all customers should receive the same service or whether service features (and the underlying processes) should be adapted to meet individual requirements. Eye exam will follow standardized procedures; the optometrist's analysis of the results will result in a customized prescription for new contact lenses to correct her vision. Therefore, in customization service will be tailor to meet each customer's specific needs and preferences while standardization reduces variation in service operations and delivery. (Lovelock and Wright, 2001).

2.1.2 Integrated Service Management (the service mix)

According to Lovelock and Wright (1999) When talking approximately strategies to showcase fabricated merchandise, marketers more frequently address four basic essential crucial components: product, price, place (or distribution), and promotion (or communication). Collectively, these four categories are regularly referred to as the "4Ps" of the marketing mix. However, the unmistakable nature of service performances, especially such viewpoints as customer consideration in production and the centrality of the time calculate requires that other crucial components to be included. This drives to the 8ps of service marketing. Integrated service management is: the facilitated arranging and execution of those marketing, operations, and Human resources activities those are essential to a service firm's success. According to them there are 8pionts that makes the integrated service marketing this are:

Product: All components of the service performance that make value for customers. Directors must select the highlights of both the center item and the bundle of supplementary service components encompassing it, with reference to the benefits craved by customers and how well competing products perform (Lovelock and Wright, 1999).

Place: administration choices about when, where, and how to provide services to customers. Conveying product components to customers includes choices on both the place and time of delivery and may include physical or electronic distribution channels (or both), depending on the nature of the service being given (Lovelock and Wright, 1999).

Process: a specific strategy of operations or arrangements of activities, regularly including steps that ought to happen in a characterized arrangement. Making and conveying product components to customers requires the plan and implementation of compelling processes. A plan portrays the strategy and grouping in which service operating framework. Severely planned forms are likely to bother customers because of moderate, bureaucratic, and ineffectual service conveyance. Essentially, destitute forms make it troublesome for front-line staff to do their jobs well, result in less efficiency, and increment the probability of service disappointments (Lovelock and Wright, 1999).

People: customers and employees who are included in service production. Numerous services depend on coordinate, individual interaction between customers and a firm's employees (like getting a hairstyle or eating at a restaurant). The nature of these interactions strongly impacts the customer's recognition of service quality. Customers regularly judge the quality of the service they get to a great extent on their evaluation of the individuals giving the service. Successful service firms commit significant exertion to selecting, training, and persuading their workforce, especially but not exclusively those who are in coordinate contact with customers (Lovelock and Wright, 1999).

Promotion: all communication exercises and motivations planned to construct customer inclination for a particular service or service supplier. No marketing program can succeed without a successful communication program. This component plays three crucial parts: giving required data and exhortation, including target customers of the merits of a particular product, and empowering them to require activity at particular times. In service marketing, much communication is instructive in nature, especially for new customers. Companies ought to educate these customers approximately the benefits of the service, where and when to get it, and how to take part effectively in service processes (Lovelock and Wright, 1999).

Physical evidence: visual or other tangible clues that give proof of service quality. Service firms have to oversee physical proof carefully since it can have a significant effect on quality, customers' impressions. In services with few tangible elements, such as protection, promotion is regularly utilized to make significant image. For occurrence, an umbrella may symbolize assurance, and a fortification, security (Lovelock and Wright, 1999).

Productivity: how efficiently service inputs are changed into yield that includes esteem for customers (Lovelock and Wright, 1999).

Price: consumptions of money, time, and exertion that customers cause in acquiring and consuming services. This component addresses administration of the costs brought about by customers in obtaining benefits from the service product (Lovelock and Wright, 1999).

2.1.3 Concept of Service Quality

General definition of quality reads: "Quality could be an estimation or pointer of scope, i.e. the term for usability of a product or service for meeting particular needs at a certain place and time, when the product or service is confirmed as goods through the process of exchange. Parasuraman, Zeithaml and Berry (1985) and Johnston (1995) defined the service quality in terms of customer satisfaction. "Quality implies accomplishment of evaluated measures and their constant maintenance, i.e. an ongoing process. High-class hotels render the highest standards and highest quality products and service, with the most extensive scope of expensive hotel service. Economy class hotels offer products and service of lower quality, with a restricted scope of less expensive service."

Definition of quality must be driven by customer's demands. Numerous quality definitions available in both domestic and foreign references comply with this attitude. Product quality is the feature that makes it appropriate for use. Moreover, quality is a complex set of features that define its level of appropriateness to the intended purpose. Quality stands for an integral unity of product features. Quality of a product is the measurement of its usefulness, i.e. appropriateness to meet the customer's demands (Mohajerani and Miremadi, 2013). Regardless the definition of quality, the only acceptable quality for the guests is the one that conforms to their expectations.

Service quality concepts have a long history and right since its initiation it is known as what the client's gets out of what he/she is willing to pay (Ducker, 1991). Service quality is additionally considered as the extent to which the needs or expectation of the customers are met with (Butt et al., 2010; Rodrigues et al, 2011; Amjad et al., 2013).

According to Henning-Thurau et al (2001), the service quality is considered fundamental for the success and survival in a competitive environment and this impact the consumer behavior in a decision making process, and also the level of relationship between customer and company and can affect customer's loyalty. Measuring service quality could be a superior way to manage whether the services are great or poor and whether the customers will or are satisfied with it.

Likewise Murasiranwa et al (2010), the hospitality industry has been facing increased number of competitors and a pressure environment, as consequence of the combined effect of the current worldwide economic situation, technological advancement and globalization. The competitive environment in a hospitality industry has modified the way the companies' delivery the quality of service to customers and has made them adopting new reduce the dissonance by seeking information that might confirm its high value (Kotler, 2000).

In terms of measurement, service quality frequently has been conceptualized as the distinction between the perceived and anticipated service (Zeithaml et al., 1996; Kara et al., 2005). Measurement of service quality has been a major issue since the past several years and whereas a group of authors argue that it should be the distinction between the perception and expectation (Bolton and Drew, 1991; Babakus and Boller, 1992; Zhang et al., 2014 and Rauch, 2015) another group argues that perception includes expectation, and hence, perception alone can be a measure of service quality (Cronin and Taylor, 1992 and Brown et al., 1993).

Parasuraman et al., (1988) introduced the SERVQUAL model to measure service quality including 22 items in five dimensions: reliability, tangible, responsiveness, assurance, and empathy. These dimensions have specific service characteristic link to the expectation of customers. The SERVQUAL (Parasuraman et al., 1986) scale was basically developed for the service marketing environment first and then extended to other service sectors. Even though this model as an instrument has been used in various studies across industries, the SERVQUAL has received many criticisms from other scholars (e.g., Cronin and Taylor, 1992; Brown et al., 1993). Several researches have confirmed that SERVQUAL instrument is applicable in tourism industry and hence it is used in this research to measure service quality (Yuan et al., 2005; Shaikh and Khan, 2011; and Dedeoğlu, B.B. and Demirer, 2015).

Tangibility: The tangible dimensions are the features of physical infrastructure, the equipment available to make the service a delightful experience, the outward show of people providing the service (Sandhu, et al., 2013). (Ahmed, Nawaz, Usman, Shaukat, Ahmad, and Iqbal, 2010) upholds that “Assurance” and “Tangibles” are the most important values of service quality.

Responsiveness: Responsiveness is the willingness to help the customers in case of any problem. Solving the complaints of customers efficiently creates a positive image about the quality of service but if customers are kept waiting, it creates negative impression about the quality of service. Dealing with the customer’s complaints and helping in recovery with professionalism is responsiveness (Parasuraman et al. 1988). Responsiveness accounts for a prompt response to the customers’ needs. Mobile phones users are keen to get a prompt response from the employees regarding their complaints and enquiries (Sandhu, et al., 2013). As company is providing products and services to the customers so for the consequences, company is responsible. It is the responsibility of the company to provide what they are saying.

Reliability: The dimension of reliability requires provision of service accurately and dependably. Sandhu, et al, 2013) found that the dimension of reliability does not reflect significant effect on customers' perception of quality. Completing the services on time and in unfailing manner free of errors and the ability to perform the desired and promised services accurately is reliability (Parasuraman 1988).

Assurance: Assurance is the ability to build trust in customers and showing courtesy every time. It consists of polite behavior of the staff, respect and gratitude to the customers and building confidence in them about the service (Parasuraman 1988). Assurance focuses on the expertise of the employees about the multifaceted knowledge of the service offering, courtesy, and their ability to instill faith and dependence in the service providers' competence. The staff should have the competence to inspire trust and confidence among the customers about the ability of service providers in anticipating and meeting customers' needs (Sandhu, *et al.*, 2013). Offering better warranty terms convey greater assurance to buyers and can result in greater sales (Ahmed, et al., 2010).

Empathy: Empathy is providing extra care and attention to individual customer every time. It means how much the company understands the needs of the customers and with how much care and attention they are deal with (Parasuraman 1988). Empathy necessitates placing customers over and above everything else during the course of staff interaction (Sandhu, et al., 2013). Ahmed et al., (2010) found Empathy factor to have a significant negative relationship with customer satisfaction.

2.1.4 Service Quality Measurement

Service quality measure was maybe firstly presented by Lewis and Booms (1983) as a degree of how well the service level delivered matches the customer's desires. The center of service quality measurement has basically been based on inquiring customers their desires and their perceptions of the service they receive from diverse organizations (Fisk et al., 1994). Gronroos (1984) expressed that the anticipated service and seen service gap is decided by two measurements: to begin with, "technical" quality or what is received by the customer and second, "functional" quality or the method of how the service is delivered. He found functional quality as the foremost basic of all perspectives. Functional quality is concerned with the psychological interaction which happens during the transaction exchange.

Parasuraman, Zeithaml, and Berry (1985) recognized the concept that service quality may be function of the expectation-performance gap and conducted a broad-based exploratory study. They conducted studies in a few industry divisions 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 during 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 additionally commonly called the GAPS model. 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 vital and tangibles least important. Parasuraman et al. (1991) found in their focus group that, irrespective of the kind of service, customers used basically similar criteria in evaluating service quality.

This model conceptualizes the gap between what the customer anticipates by way of service quality from the service suppliers and their assessments of the performance of a specific service supplier. Service quality is presented as a multidimensional construct. In their unique definition Parasuraman et al. (1985) identified ten dimensions of service quality which are reliability,

responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer and tangibles. In their 1988 work these components were condensed into five dimensions (Buttle, 1996).

2.1.5 The Linkage between Service Quality and Business Performance

Empirical studies of service quality have indicated that there is a significant and positive relationship between service quality and business performance assessed based on financial and non-financial indicators (Phillips et al 1983; Zeithaml et al 1996; Zeithaml 2000; Duncan and Elliot 2002). Lewis (1993) argued that successful service quality has a pivotal role on companies' sales, market share, profits and business performance, and successful service quality had led to decreased costs and increased productivity. Rust et al (1995) found that superior service quality helps to generate greater revenues and yield greater profitability. Zeithaml et al (1996) found that service quality has a strong positive effect on respondents' loyalty to the company. Ennew and Binks (1996) found that service quality dimensions, namely; the technical quality, functional quality, and general product characteristics were significantly affected and correctly signed with higher perceived quality and in reducing the potential for customer defection.

Rapert and Wren (1998) found that service quality-based strategy had positively affected short-term increases in both operating income and growth in net revenues. In addition, it would be sustainable in the future. Service quality had a direct impact on both short and long term organizational performance measurements. In the same vein, Chang and Chen (1998) found that there is a positive relationship between service quality and business profitability. Service businesses that give service quality a high strategic priority, they have an advantage of securing medium and long term benefits that confirm continuous improvements, premium prices, better customer value, and customer orientation leading to higher profits. Duncan and Elliott (2002) found that there is a positive relationship between service quality and financial performance in financial service institutions. More recently, Kang and James (2004) found that service quality consists of three dimensions, functional, technical and image. They found that these dimensions affect the perceived quality of service and customer satisfaction. Chumpitaz and Paparoidamis

(2004) found that service quality has positively affected marketing performance. Lai and Cheng (2005) found that quality management and marketing are complementary business approaches for improved performance. Malhotra et al (2005) examined the service quality dimensions in international market contexts. They found that the service quality dimensions were reliability, customer understanding, responsiveness, competence, courtesy, communication, credibility, security, and tangibility. These dimensions were different in international markets due to socio-cultural and economic factors. Jaboun and Khalifa (2005) modified the SERVQUAL dimensions and added two more dimensions that were values and image.

It is worthy to say that the authors of this paper acknowledge the fact that a third dimension of service quality may affect business performance, which is image. However, this argument is defended by Gronroos (1984) when he suggested a model of service quality consisting of three dimensions, namely; functional quality, technical quality, and corporate image. Corporate image was not examined in the study because the majority of empirical studies (e.g., Kang and James 2004; Jaboun and Khalifa 2005; Akroush 2008a) have found and used corporate image as filter or a mediating variable between service quality and business performance. The image may have the role of a filter. If the image of the firm is good in the mind of a given customer, problems with the outcome or the process which this customer may have are, at least to some extent, excused by the image perception. If problems continue to occur, the image will eventually suffer, however. And if the image is considered bad, quality problems are easily perceived worse than they are in reality.

2.2 Empirical Study

2.2.1 Service Quality and Business Performance

Service quality as perceived by customers has made a major impact on a number of measures for corporate success in most firms (Buzzel and Gale 1987). Capon et al. (1990) have reported in their Meta-analysis on 20 studies have found a positive relationship between quality and business performance. In other studies (Berry and Parasuraman, 1991; Edvardsson and Gustavsson, 1990) they have identified the two key components of service quality, namely, the management of customer expectations and service reliability, which also contribute to business performance. The hotel industry is one of the surveys done and reported by Parasuraman et al. (1991). Study on the customer perspective shows that the underlying reason for seeking service quality improvement is the inference that the increase of customer satisfaction can contribute significantly to performance (Barnes & Cumby, 1995; Berry et al., 1985). Another study found the link between service quality and profitability through activities for customer retention (Reichheld and Sasser, 1990).

Among cost and benefit cited by Lewis et al. (1994) in relation to business performance derived from successful service quality were satisfied and retained customers and employees; opportunities for cross-selling; the attraction of new customers; development of customer relationships; increased sales and market shares; enhanced corporate image; reduced costs and increased profit margins and business performance. The service quality measures above suggest that the gap between perceived service and expectation has given rise not only to the construct of service quality but also to that of satisfaction.

According to Caruana and Pitt (1997) like service quality, satisfaction has also been linked to performance. The distinction between satisfaction and quality that is often made is that satisfaction is transaction specific while quality is an overall evaluation of long-term attitude to the service product offering (Bolton & Drew 1991; Boulding et al., 1993; Cronin & Taylor, 1994; Oliver, 1981; Parasuraman et al., 1988). In the literature presented here, consumer satisfaction researchers tend to see customer satisfaction leading to service quality while service quality researchers often conceptualize the opposite relationship. Teas (1993) suggest that these conflicting perspectives could be the result of the overall perception of most service quality

researchers in contrast to the transaction-specific focus of most consumer satisfaction researchers.

2.2.2 Service Quality and Hospitality Industry

Suleket al. (1995) reported an empirical study on the impact of service quality intervention and facility design on firm performance within a regional food retailing chain. The result of the study indicated, in the research context, that the improvement in the customer experience could leverage positively customer satisfaction and firm performance. Danaher and Mattson (1994) studied customer satisfaction evaluation on a hotel conference sender delivery process. The focus is on how underlying quality factors are related to different service encounters (different sender experience stages) of the entire sender experience and how cumulative customer satisfaction levels impact on each other and over time.

Measuring the quality of service in particular service sectors is still a problem (Babakus and Boiler, 1992). Most interpretations of quality of service are customer- centered (Galloway and Veam, 1998), with customer satisfaction being regarded as a function of perceived quality (Anderson and Sullivan, 1993), or perceived quality being a function of customer satisfaction (Parasuramane/ al., 1988). Service quality, as viewed by customers, requires a contrast of what they believe the service should be (expectation) with their opinion of the service they provided (Gronroos, 1984; Parasuramant / al., 1985).

The conceptualization of service quality has its roots in the expectancy disconfirmation theory (Collier and Bienstock, 2006), so the evaluation of service quality results from comparing the perception of service received to prior expectations of what that service should provide (Choi et al.,2004) . Today the internet has become a critical channel for the sale of most goods and services (Zeithaml et al., 2002; Teo, 2006), but the traditional service quality dimensions cannot directly be applied to internet retailing, because they represent a different and unique service delivery process.

Examining the quality of service at small, medium and large hotels in Scotland, (Briggs et al. 2007) notes major inconsistencies in quality of service performance across the sector. Furthermore, the study suggests that most customers are not in fact excessively demanding and satisfied with a personal service that represents value for money and provides exact information. The main difference between outstanding and poor service for them is the lack of personal interaction and the manner in which workers deal with their grievances (Briggs et al., 2007). Considering the Irish hotel industry, (Keating and Harrington, 2003) their study suggests that many professional programmers struggle due to lack of engagement on the part of senior and middle managers and front-line employees. The authors further suggest that the management of quality in contemporary hospitality organizations is lacking in involvement, communication and teamwork dimensions.

2.2.3 Service Quality and Customer Satisfaction

Quality in a service business has become a measure of the extent to which the service provided meets the customer's expectations. Companies have found that in order to increase profits and market share, they should pay much attention to service quality. Service quality has become a key strategic factor for companies to differentiate their products and services from other competitors by using service quality. Many researchers recommend that customer's access service quality by comparing what they feel a seller should offer and compare it against the seller's actual service performance (Gronroos, 1982) and the importance of quality to firms and customers is unequivocal because of its benefits contributing to market share and return on investment (Parasuraman et al, 1988).

According to Henning-Thurau et al (2001), the service quality is considered essential for the success and survival in a competitive environment and this influence the consumer behavior in a decision making process, and also the level of relationship between customer and company and can impact customer's loyalty. Measuring service quality is a better way to dictate whether the services are good or bad and whether the customers will or are satisfied with it.

Likewise, Murasiranwa et al (2010), the hospitality industry has been facing increased number of competitors and a pressure environment, as a consequence of the combined effect of the current worldwide economic situation, technological advancement and globalization. The competitive environment in a hospitality industry has modified the way the companies' delivery the quality of service to customers and has made them adopting new approaches to maximize the customer satisfaction based in a service quality.

Furthermore, the players in the hospitality industry, precisely the hotel has been directed the efforts to change the way they act in this industry, focusing in understand customer's needs and set out strategies to meet or exceed these needs. The way they have found to achieve this strategy is to raise the attention to service quality from the customer's perspective (Al Khattab and Aldehayyat, 2011).

2.3 Conceptual Framework

The following figure shows customized conceptual framework that explains the role of service quality dimensions on the development of hospitality business performance.

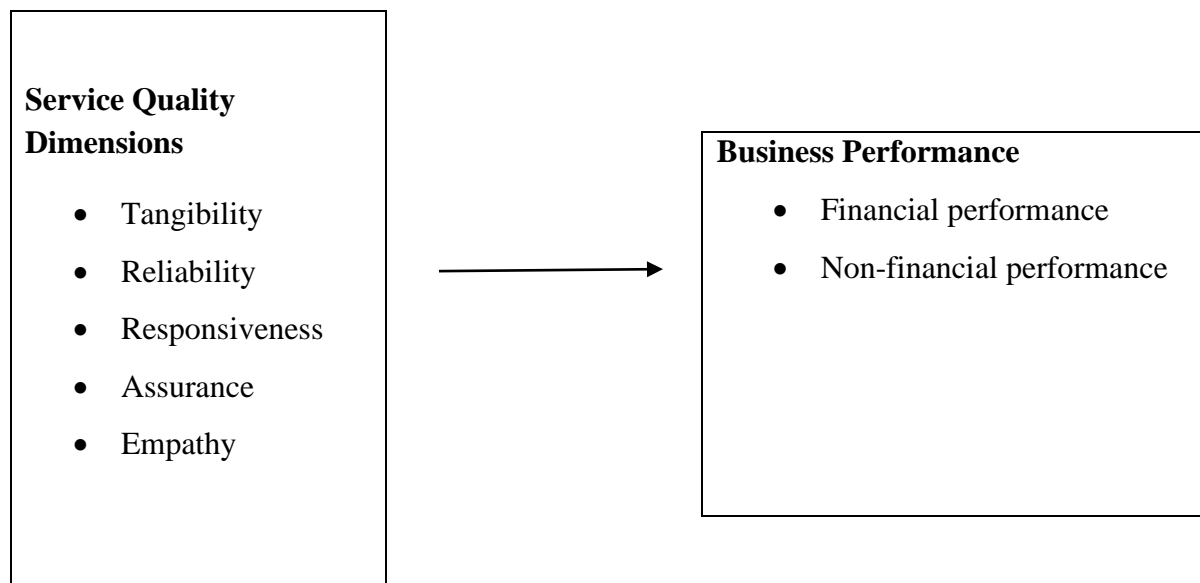


Figure 2.1 Conceptual Framework

Source: Extracted from Review of Related Literature

2.4 Hypothesis of the Study

To find the relationship between business performance and service quality, it is necessary to hypothesize the relationship among service quality dimensions, perceptions of business. Where:

- H1: Tangible component physical appearances, facilities and, staff appearance and equipment's have a positive effect on business performance.
- H2: Reliability component the ability of delivering the service as promised with consistency and accuracy have a positive effect on business performance.
- H3: Responsiveness component the staff's willing to help, guide, and provide punctual and quick services to customer have a positive effect on business performance.
- H4: Assurance component employee's knowledge, politeness and ability to inspire trust have a positive effect on business performance.
- H5: Empathy component caring and personal attentions provided by the company to the customers have a positive effect on business performance.

CHAPTER THREE

3. Research Methodology

3.1 Research Design

The research objective is to clearly show the level of service quality and business performance of the hospitality industry. To this effect, both descriptive and explanatory research methods have been applied for the study using quantitative research approach to analyze data collected as a sample. Descriptive study design is appropriate for it enables the researcher to describe the existing situation of service quality and business performance in line to the service quality dimensions. The study has also used explanatory study design to explain and understand the relationship between the variables.

3.2 Sources and Methods of Data Collection

For this study both qualitative and quantitative data from primary and secondary source has been used. The primary data was collected through close ended questionnaires from representatives of Addis Ababa's 4 star hotels. Moreover, In order to address all research objectives and research questions exhaustive a desk review of all available documentation books, journals, and financial statement, research documents was retrieved along with information from stakeholders.

3.3 Population of the Study

Bryman et al (2003), describe a study population as the whole group that the research focuses on. In this study, the population from which a sample was drawn consisted of Addis Ababa's four star hotels. The target population for this study consisted of Employees (management and staffs), and owners of the hospitality industry.

3.4 Sampling and Sampling Techniques

Stratified random sampling was employed to collect information from different segments of customers. This technique was preferred, because it minimizes bias when dealing segmented populations. With this technique, the sampling frame can be organized into relatively strata before selecting elements for the sample. According to Janet (2006), this technique increases the probability that the final sample will be representative in terms of the stratified groups which are the customer segmentations. The sample size has been determined quantitatively using Solvin's formula which is presented below. This formula assumes the confidence level of 95%.

$$n = \frac{N}{1 + Ne^2}$$

Where: N=Population size (198)

n= sample size

e= margin of error (degree of accuracy) (0.05)

$$n = \frac{198}{1 + (40)(0.05^2)}$$

On the base of the above formula; the sample size of this research is 180.

3.5 Method of Data Analysis

The researcher objective is to clearly show the quality and the business performance on the hospitality industry. To this effect, both descriptive and explanatory research design has been applied for the study using quantitative research approach to analyze data collected as a sample. Correlation analysis was also performed to analyze whether there is relation between each item of the five service quality dimension and business performance, correlation analysis technique was used to check whether or not service quality dimensions and business performance have relations.

3.6 Reliability, Validity and Ethical considerations

3.6.1 Validity

The validity guarantees that the constraints measure what they claim to measure. In other words, construct validity guarantees whether service dimensions could measure the predefined dependent variables or not. In this respect, distinctive theories and empirical studies have been assessed to guarantee their validity in the literature survey portion of this paper.

3.6.2 Reliability

This quality criterion of the research refers to the consistency of a measure of a concept. This quality addresses the question whether a study's finding is repeatable (Bryman and Bell, 2007). In this analysis Cronbach's alpha is used to determine the internal consistency instrument of the reliability (questionnaire). The Cronbach's alpha is a reliability metric used to calculate a test's internal consistency. The internal consistency of the item becomes stronger as the result reaches 1 which means all products calculate the same attribute, i.e. above all quality of service and satisfaction of customers.

3.6.3 Ethical considerations

All the information was treated and kept secretly with high privacy without revelation of the respondent's identity. No information was changed or adjusted, thus the information is presented as collected and the same with the literatures collected for the purpose of this study. The questionnaire was anonymous and high level of confidentiality was considered. The information gathered through questionnaire has been utilized exclusively for this research whose objective is for an academic purpose.

CHAPTER FOUR

4. Data Presentation, Analysis and Interpretation

In this chapter of the research, data presentation and analysis is made based on collected data. In doing so, the response rate of distributed questionnaire is assessed and afterwards the data presentation and analysis will be followed.

4.1 Characteristics of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	female	63	35.0	35.0	35.0
	male	117	65.0	65.0	100.0
	Total	180	100.0	100.0	
Age	18-25	23	12.8	12.8	12.8
	26-35	73	40.6	40.6	53.3
	36-45	55	30.6	30.6	83.9
	46-55	29	16.1	16.1	100.0
	Total	180	100.0	100.0	
Marital status	single	72	40.0	40.0	40.0
	married	19	10.6	10.6	50.6
	divorced	62	34.4	34.4	85.0
	separated	27	15.0	15.0	100.0
	Total	180	100.0	100.0	
Educational background	diploma	37	20.6	20.6	20.6
	under graduated	99	55.0	55.0	75.6
	post graduated	19	10.6	10.6	86.1
	PHD	25	13.9	13.9	100.0
	Total	180	100.0	100.0	

Table 4.1 Characteristics of Respondents

As shown in table 4.1 above, it can be observed that majority of the respondents happen to be male in this research (65%) and in the age group of 26-35 years (40%) followed by the age group of 36-45 years (30%). Most of the respondents are single (40%) followed by divorced (35%). The majority of the respondents are under graduates (55%), followed by Diploma holders (20%). So, by and large, it is evident that the respondents are qualified and have the required experience in the utilizing the services of hotels and there is a fair distribution of respondents across the cross section of the society.

4.2 Service Quality

4.2.1 Tangibility

		Frequency	Percent	Valid Percent	Cumulative Percent
Physical facilities are visually appealing	strongly agree	150	83.3	83.3	83.3
	agree	20	11.1	11.1	94.4
	neutral	10	5.6	5.6	100.0
	Total	180	100.0	100.0	
Employees neat appearance	strongly agree	110	61.1	61.1	61.1
	agree	47	26.1	26.1	87.2
	neutral	23	12.8	12.8	100.0
	Total	180	100.0	100.0	
Visually appealing of materials	agree	94	52.2	52.2	52.2
	neutral	13	7.2	7.2	59.4
	disagree	73	40.6	40.6	100.0
Importance of principles for its success	strongly agree	127	70.6	70.6	70.6
	agree	53	29.4	29.4	100.0
	agree	53	29.4	29.4	100.0
	Total	180	100.0	100.0	

Table 4.2 Tangibility

As shown in table 4.2 above, 83.3% of the respondents strongly agreed, 13.8% agreed and 5.5% of the respondents were neutral to the statement physical facilities at hotels are visually appealing. This implies that physical facilities at hotels are visually appealing.

The table above, shows that 61.1% of the respondents strongly agree, 26.1% of the respondents agree, 12.7% were neutral and that employees of hotels are neat in appearance. This implies that employees of hotels are neat in appearance.

As shown in the table above, it shows that 52.2% of the respondents agreed, 6.6% were neutral, 41.1% of the respondents disagreed to the statement materials associated with the service (such as pamphlets or brochures) are visually appealing in hotels. This implies that materials associated with the service are visually appealing in hotels.

The table above 4.2, number 4 shows that 70.5% of the respondents strongly agreed, and 53% of the respondents are agreed that principles of the hotel are very important for its success. This implies that for the success of a hotel the principles are very important.

4.2.2 Reliability

		Frequency	Percent	Valid Percent	Cumulative Percent
Service delivery of time	agree	125	69.4	69.4	69.4
	neutral	55	30.6	30.6	100.0
	Total	180	100.0	100.0	
Problem solving	agree	87	48.3	48.3	48.3
	neutral	37	20.6	20.6	68.9
	strongly disagree	56	31.1	31.1	100.0
	Total	180	100.0	100.0	
Error free records	agree	43	23.9	23.9	23.9
	neutral	90	50.0	50.0	73.9
	strongly disagree	47	26.1	26.1	100.0
	disagree				

Total	180	100.0	100.0
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Table 4.3 Reliability

As shown in table above, it shows that 69.4% of the respondents agreed, and 30.6% of the respondents were neutral to the statement hotels will provide their services at the time they promise to do so. This implies that employees of hotels meet their service delivery time.

The table 4.4 above, shows that 48.3% of the respondents agree, 54% of the respondents agree, 21.1% were neutral and 30.5% of the respondents strongly disagreed that when customers have a problem; hotels show a sincere interest in solving it. This statement is controversial. It shows that customers who are faced with some problems had help from hotels but it also implies that some hotels are not reliable on this aspect.

As shown in the table 4.3 above, number 3 shows that 22.2% of the respondents agreed, 51.1% were neutral and 32% of the respondents strongly disagreed to the statement hotels do insist on error-free records. This implies that hotels are not reliable on insisting error free records.

4.2.3 Responsiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Service performance time	neutral	25	13.9	13.9	13.9
	disagree	110	61.1	61.1	75.0
	strongly disagree	45	25.0	25.0	100.0
	Total	180	100.0	100.0	
Prompt service	agree	55	30.6	30.6	30.6
	neutral	80	44.4	44.4	75.0
	disagree	45	25.0	25.0	100.0
	Total	180	100.0	100.0	
Willingness to help	agree	104	57.8	57.8	57.8
	neutral	23	12.8	12.8	70.6
	strongly	53	29.4	29.4	100.0

	disagree				
	Total	180	100.0	100.0	
Responding time	neutral	14	7.8	7.8	7.8
	disagree	88	48.9	48.9	56.7
	strongly disagree	78	43.3	43.3	100.0
	Total	180	100.0	100.0	

Table 4.4 Responsiveness

As shown in the above table, 13.8% of the respondents were neutral, 61.1% disagreed, and 25% of the respondents strongly disagreed to the statement employees of hotels will tell customers exactly when services will be performed. This shows that the communication gap between the customers and the employees about the service performance time.

The above table 4.4 shows that 30.5% of the respondents agree, 44.4% were neutral and 25% of the respondents disagreed that employees of hotels will give prompt service to customers. This implies that there is a delay in giving an immediate service to the customers. This shows that a lack of responsiveness.

As shown in the table 4.4 above 57.7% of the respondents agreed, 12.2% were neutral and 30% of the respondents strongly disagreed to the statement employees of hotels are always willing to help customers. This implies that employees of hotels are usually willing to help customers but it also shows that there is a gap in the willingness.

The above table shows that 7.7% of the respondents were neutral, 48% disagree and 43.3% of the respondents strongly disagreed that employees of hotels are never be too busy to respond to customer requests and responds with minimum possible time. This implies that there is a lack of responding with minimum possible time for customer's requests.

4.2.4 Assurance

		Frequency	Percent	Valid Percent	Cumulative Percent
Generating Confidence	agree	95	52.8	52.8	52.8
	neutral	27	15.0	15.0	67.8
	strongly disagree	58	32.2	32.2	100.0
	Total	180	100.0	100.0	
Safety while transaction	agree	91	50.6	50.6	50.6
	neutral	89	49.4	49.4	100.0
	Total	180	100.0	100.0	
Knowledge of employees	agree	54	30.0	30.0	30.0
	neutral	32	17.8	17.8	47.8
	disagree	80	44.4	44.4	92.2
	strongly disagree	14	7.8	7.8	100.0
	Total	180	100.0	100.0	
Building confidence	neutral	24	13.3	13.3	13.3
	disagree	88	48.9	48.9	62.2
	strongly disagree	68	37.8	37.8	100.0
	Total	180	100.0	100.0	

Table 4.5 Assurance

As shown in table 4.5 above 52.7% of the respondents agreed, 15% were neutral and 32.2% of the respondents strongly disagreed to the statement the behavior of employees of hotels generate confidence in customers. This implies that customers have a great confidence in the employees of hotels.

The table 4.5 above shows that 50.6% of the respondents agreed, and 49.4% were neutral to the statement customers of hotels feel safe in their transactions. This implies that customers feel safe while making a transaction in hotels but it also implies that there is lack of assurance during transaction.

As shown in the above table 30% of the respondents agreed, 17.7% were neutral, 44.4% of the respondents disagreed and 7.7% of the respondents strongly disagreed to the statement employees of hotels have the knowledge to answer customer questions. This implies that employees of hotels have lack the knowledge to answer customer questions.

The above table shows that 13.3% of the respondents are neutral, 48.8% disagreed and 37.7% of the respondents strongly disagreed that employees of hotels build confidence in the customers for their extended support. This implies that employees of hotels do not build confidence in the customers for their extended support.

4.2.5 Empathy

		Frequency	Percent	Valid Percent	Cumulative Percent
Individual attention	strongly agree	150	83.3	83.3	83.3
	agree	20	11.1	11.1	94.4
	neutral	10	5.6	5.6	100.0
	Total	180	100.0	100.0	
Convenient operating hours	strongly agree	103	57.2	57.2	57.2
	agree	77	42.8	42.8	100.0
	Total	180	100.0	100.0	
Personal attention	agree	55	30.6	30.6	30.6
	neutral	35	19.4	19.4	50.0
	disagree	90	50.0	50.0	100.0
	Total	180	100.0	100.0	
Understands	agree	20	11.1	11.1	11.1

specific needs	neutral	14	7.8	7.8	18.9
	disagree	146	81.1	81.1	100.0
	Total	180	100.0	100.0	

Table 4.6 Empathy

As shown in the above table it shows that 83.3% of the respondents strongly agreed, 11.1% agreed and 5.5% of the respondents were neutral to the statement hotels give to customer's individual attention. This implies that customer's individual attention is mate by employees of hotels.

The above table 4.6 shows that 57.2% of the respondents strongly agree, and 42.7% of the respondents agreed that hotels have operating hours convenient to all their customers. This implies that customers are not inconvenient with the operating hours of hotels.

As shown in the above table 4.6, 30.5% of the respondents agreed, 19.4% were neutral and 50% of the respondents disagreed to the statement hotels have employees who give customers personal attention. This implies that employees do not give customers personal attention but it also shows that there are some who shows empathy to the customers' needs.

The table 4.6 above shows that 11.2% of the respondents agreed, 7.7% of the respondents is neutral and 81.1% of the respondents disagreed that employees of hotels understand the specific needs of their customers. This implies that there is a lack with employees of hotels in understanding the specific needs of their customers.

4.3 Business Performance

4.3.1 Financial Performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Service quality will increase revenue	strongly agree	150	83.3	83.3	83.3
	agree	30	16.7	16.7	100.0
	Total	180	100.0	100.0	
Service quality will increase net profit	strongly agree	145	80.6	80.6	80.6
	agree	27	15.0	15.0	95.6
	neutral	8	4.4	4.4	100.0
	Total	180	100.0	100.0	
Enhancement of financial performance	agree	130	72.2	72.2	72.2
	neutral	25	13.9	13.9	86.1
	strongly disagree	25	13.9	13.9	100.0
	Total	180	100.0	100.0	
Assets of hotel will improve	agree	67	37.2	37.2	37.2
	neutral	15	8.3	8.3	45.6
	disagree	98	54.4	54.4	100.0
	Total	180	100.0	100.0	

Table 4.7 Financial business performance

As shown in the above table 4.7, it shows that 83.3% of the respondents strongly agreed, and 16.7% agreed to the statement with service quality; revenue of hotel will improve. This implies that revenue's of hotels will increase with providing better service quality.

The table above shows that 80.6% of the respondents strongly agree, 15% of the respondents agree, and 4.4% were neutral that the better the service quality the higher the net profits. This implies that with great service quality the profits of hotels will increase.

As shown in the table 4.7 above, shows that 72.2% of the respondents agreed, 13.9% were neutral and 13.9% of the respondents strongly disagreed to the statement service quality has the ability to enhance financial performance of the hotel. This implies that service quality has a major role in enhancing financial performance of the hotel.

In the table 4.7 above, it shows that 37.2% of the respondents agreed, 8.3% of the respondents are neutral and 54.4% of the respondents disagreed that with better service quality assets of the hotel will improve. This implies that by proving great service quality the assets of hotels will not improve.

4.3.2 Non Financial Performance

		Frequency	Percent	Valid Percent	Cumulative Percent
New product or service development	strongly agree	155	86.1	86.1	86.1
	agree	25	13.9	13.9	100.0
	Total	180	100.0	100.0	
Market development	strongly agree	135	75.0	75.0	75.0
	agree	37	20.6	20.6	95.6
	neutral	8	4.4	4.4	100.0
	Total	180	100.0	100.0	
Develop competitive profile	strongly agree	106	58.9	58.9	58.9
	agree	74	41.1	41.1	100.0
	Total	180	100.0	100.0	
Better market orientation	strongly agree	46	25.6	25.6	25.6
	agree	120	66.7	66.7	92.2
	neutral	14	7.8	7.8	100.0
	Total	180	100.0	100.0	

Table 4.8 Non-financial business performance

As shown in the above table 4.8, it shows that 86.1% of the respondents strongly agreed, and 13.9% agreed that better service quality can enhance new product/service development. This implies that the development of new product/service quality can be enhanced with better service quality.

The table above, number 2 shows that 75% of the respondents strongly agree, 20.6% of the respondents agree, and 4.4% were neutral to the statement better service quality leads to market development. This implies that better service quality have a major role in developing the market segment.

As shown in the table 4.8 above, it shows that 58.9% of the respondents strongly agreed, and 41.1% agreed to the statement higher service quality provides a capacity to develop a competitive profile. This implies that the competitive profile have the capacity to develop with great service quality.

The table above shows that 25.6% of the respondents strongly agreed, 66.7% agreed and 7.8% of the respondents were neutral to the statement higher service quality provides better market orientation. This implies that the market orientation perspectives can be developed by providing a better service quality.

4.4 Reliability Test

Dimensions	Cronbach's Alpha Value	Number of Items
Tangibility	0.881	4
Reliability	0.890	3
Responsiveness	0.894	4
Assurance	0.894	4
Empathy	0.776	4
Overall scale reliability	0.973	19

Table 4.9 Cronbach's Alpha Value (Reliability Analysis)

Cronbach Alpha coefficient can be between 0 and 1. As a number approach to 1 the internal consistency of the items get stronger implying that all items measure the same variable (quality and satisfaction). Further supporting this statement, (Bass and Avolio; 1993) confirm that the instruments can be accepted as a reliable when reliability coefficient is greater than 0.5.

Accordingly, the overall reliability of the scale is acceptable as its coefficient (0.973) is greater than 0.5. Moreover, the scale consistency of each dimensions are also acceptable for the reliability coefficient of tangibility, reliability, responsiveness, assurance and empathy are of value 0.881, 0.890, 0.894, 0.894 and 0.776 respectively which are more than 0.5 and closer to 1.

4.5 Descriptive Statistics

	N	Mean	Std. Deviation
Tangibility	180	1.7319	.59855
Reliability	180	2.9148	.92226
Responsiveness	180	3.6056	.76542
Assurance	180	3.2889	.81314
Empathy	180	2.3861	.50990
Financial	180	2.0319	.61296
Non-financial	180	1.4167	.40510

Table 4.10 Customers perspective on service quality dimensions and business performance

The above table shows respondents perception towards service quality dimensions, financial business performance and non financial business performance. As clearly seen in the above table, the perception of respondents on responsiveness is 3.6. In terms of mean score which is better than other service quality dimensions. On the other hand, assurance has moderate perception with mean score of 3.3. However, respondent's perception on tangibility, reliability and empathy are relatively the least perceived value from the services quality dimensions with mean score of 1.8, 2.9 and 2.4 respectively.

The mean perception of the customers on the responsiveness is good (3.6) which shows that the customers are being informed the exact time of service delivery, the employees of the service provider are willing and quick in their response to customers queries and performed better as compared to the other dimensions. Similarly, the service quality perception of respondents on assurance rated as good (3.3) and is the second better dimension which means building confidence in customers, making a safe place for their transaction. However, the perception of respondents to service quality dimension on tangibility (1.8), reliability (2.9) and empathy (2.4) are comparatively the least. While tangibility reflects the attractiveness of the service provider's physical facilities and deployment of modern equipment, empathy as a dimension measures the state of knowing the best interest of the clients and reliability reflects doing the promised thing on time, solving problems. And also the mean perception of respondents with financial business performance and non financial business performance is low with a mean value of 2.03 and 1.42 respectively.

4.6 Correlation Analysis

	Tangibility	Reliability	Responsiveness	Assurance	Empathy	Finical	Non financial
Tangibility	1	.927	.932	.925	.858	.934	.947
Reliability	.927	1	.966	.924	.844	.884	.894
Responsiveness	.932	.966	1	.950	.913	.881	.912
Assurance	.925	.924	.950	1	.943	.856	.883
Empathy	.858	.844	.913	.943	1	.846	.882
Finical	.934	.884	.881	.856	.846	1	.951
Non financial	.947	.894	.912	.883	.882	.951	1

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4.11 Correlation; relationship among service quality dimensions and business performance

As it can be seen from the above table, all service quality dimensions, tangibility, reliability, responsiveness, assurance and empathy have positive relationship with financial and non financial business performance though the magnitude of the relationship differ among service quality dimensions.

All the service quality dimensions; tangibility, reliability, responsiveness, assurance and empathy have a high coefficient value of 0.934, 0.884, 0.881, 0.856, and 0.846 respectively showing the existence of significant and strong relationship with financial business performance. And also all the dimensions; tangibility, reliability, responsiveness, assurance and empathy have a high coefficient value of 0.947, 0.894, 0.912, 0.883, and 0.882 respectively showing the existence of significant and strong relationship with non-financial business performance.

The implication of the analysis result is that the better the quality of service with all service quality dimensions, the higher the level of both financial and non-financial business performance. The result also shows that, financial business performance and non- financial

business performance have both positive and significant relationship with a correlation coefficient value of 0.951.

4.7 Assumptions Testing in Regressions

4.7.1 Normality Distribution Test

Descriptives			Statistic	Std. Error
	Mean		1.7243	.03750
	95% Confidence Interval for Mean	Lower Bound	1.6503	
		Upper Bound	1.7983	
	5% Trimmed Mean		1.6813	
	Median		1.6250	
busi	Variance		.253	
	Std. Deviation		.50308	
	Minimum		1.25	
	Maximum		3.00	
	Range		1.75	
	Interquartile Range		.72	
	Skewness		1.170	.181
	Kurtosis		.406	.360

Table 4.12 Skewness and Kurtosis Test

As shown in the above table the skewness vale is between -1.96 and 1.96, which implies the distribution is approximately symmetric. And also the kurtosis value is also acceptable which is between -1, and1.

4.7.2 Multicollinearity Test Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 tangibility	.035	1.036
reliability	.047	1.049
responsiveness	.033	1.034
assurance	.048	1.050
Empathy	.079	1.086

a. Dependent Variable: business performance

Table 4.13 Multicollinearity Test

As shown in the above table the tolerance value for each independent variable was not less than 0.10, showing that the assumption of multicollinearity was not violated. Variance-inflation factor (VIF) has also been checked and values are found smaller, which is well below the cut-off 10, as shown in the table above. The VIF value also supported that multicollinearity is not a problem. In general, the two tests indicated that the predictors don't significantly correlate each other and hence, the assumption has been met.

4.8 Regression Analysis

In order to examine the extent to which service quality and its dimensions can predict business performance, linear regression analysis was computed. To test the composite level of impact that any dimension of the independent variables has upon the business performance, regression was used and the impact captured by F and p value. The model summary table provides model which specifies business performance as a function of service quality dimensions.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.972 ^a	.945	.943	.12019

a. Predictors: (Constant), Empathy, Reliability, tangibility, assurance, responsiveness

In the regression model, the service quality dimensions have the strongest correlation with business performance. The *R* value represents the simple correlation which is 0.972, which indicates a high degree of correlation. The *R*² value shows how much of the dependent can be explained by the independent variable. In this finding, R square of the model is .945 which entails that 94.5% of the variation in the dependent variable i.e. business performance is accounted for by this model which is quite good.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.790	5	8.558	592.448	.000 ^b
	Residual	2.513	174	.014		
	Total	45.303	179			

a. Dependent Variable: Business Performance

b. Predictors: (Constant), Empathy, reliability, tangibility, assurance, responsiveness

The table above provides the ANOVA test of the model which species business performance as a function of tangibility, reliability, responsiveness, assurance, and empathy. ANOVA tells overall goodness of fit of the model. The significance value of F statistics is 0.000 which is less than 0.05 showing that there is relatively significant relationship between the dependent and independent variables.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.306	.069		4.410	.000
Tangibility	.767	.046	.912	16.563	.000
Reliability	.254	.045	.466	5.677	.000
Responsiveness	.204	.065	.311	3.152	.002
Assurance	.457	.050	.739	9.083	.000
Empathy	.666	.063	.675	10.633	.000

a. Dependent Variable: Business Performance

Table 4.14 Regression Analysis of service quality dimensions and business performance

The table shows that from the service quality dimension tangibility, reliability, and empathy have positive impact on dependent variable as confirmed by the coefficient β . On the other hand, responsiveness and assurance have a negative impact on business performance. The above analysis accepts the claim that there is a significant and positive relationship of tangibility (P=.000), reliability (P=.000), responsiveness (p=.002), and assurance (p=.000) and empathy (P=.000) with business performance.

4.9 Discussions

The inspiration behind this examination is to investigate the connection between service quality and business performance. In the literature review survey segment of the paper five measurements (Tangibility, Reliability, Responsiveness, Assurance and Empathy) of service quality are distinguished. In this examination, having learning on these regions would offer assistance to managers to address the difficulty of improving service quality in managing the hospitality industry. The discoveries of this investigation demonstrate that the most critical factor in foreseeing service quality assessment were tangibility, reliability and empathy.

The study revealed that there was significant relationship between reliability and business performance with beta value of 0.588 and the p value 0.000 which was higher than 0.05. The discoveries did not agree with Safwan et al. (2010) who argued that reliability shows the service provider's capacity to perform services in a dependable and accurate manner. It is not also consistent with the conclusion that being reliable is an exceptionally important quality to have especially in the hospitality industry (Ghost & Gnanadhas, 2011). Customers may frame a negative perception about the firm and will switch to a competitor without moment contemplations (Sakhaei et al., 2014).

Similarly descriptive results revealed that 69 percent of the respondents agree that indeed employees of hotels tell customers exactly when services will be performed. The discoveries agree with Timothy (2012) who argued that the steps taken to keep customers informed when problems occur can strengthen or harm the relationship. Keeping customers well educated of what is going on can have enduring impacts on the relationship. By letting customers work out their problems and not being proactive, organizations miss an opportunity to strengthen customer relationships (Armstrong, 2012). If the customer gets the understanding that organizations are working hard, trying to fix the problem, then the customer will feel well taken care of and feels that they are getting their money worth (Ramzi,2010).

Additionally 49 percent of the respondents agreed that employee's hotels will show a sincere interest in solving a problem. The findings affirm that indeed customers expect that organizations will treat them in a consistent way and that organizations will do what is needed to solve a problem. By acting in accordance with these wants, organizations provide the customer with a sense of viewing it as company that gives customer priority .This builds loyalty. Customers will view the service provider as being competent enough to offer the service. The customer will not be satisfied if he or she does feel that the services offered mostly unreliable. It brings doubt about the competence of the service provider (Ramzi, 2010). The service that the employees provide and the relationships they build are vital to success of customer satisfaction which leads to business development. The employees need to understand, believe in and be proud of the organization they are a part of. This will lead them to serving their customers promptly (Al-Rousan & Mohamed, 2010).

The study revealed that there was a negative relationship between hotels responsiveness to customers and business performance with a beta of -0.311 and a p value of 0.02. These findings show that there is a gap in providing service in a timely manner, which is highly appreciated by customers. Good service providers understand this aspect (Iqbal et al., 2010). Besides, firms that esteem productivity pay consideration to the services that they offer and use this advantage to keep off competitors (Karim & Chowdhury, 2014). Customers look for hotels that willingly help them in their interest. Customer satisfaction may be achieved in the hospitality sector when the service provider is willing to assist its customers when required Akbaba (2009) also stated that responsiveness is positively related to customer satisfaction and customers can refer others if satisfied. Key perspectives beneath responsiveness incorporate keeping customers informed as to when services will be performed; prompt service to customers, readiness to assist customers and willingness to respond to customers request (Armstrong, 2012).

Majority of the respondents (83%) indicated that hotels give to customer's individual attention. Also 57 percent of respondents strongly agree and 43% agreed that hotels have convenient operating hours. 81 percent of the respondents disagree that employees of hotels understand the specific needs of customers. Here it doesn't mean that the whole service delivery is perfect. The response of 67% of respondents is about expectations. Under a circumstance in which hotels are fulfilling their promise customers could not complain. But they might not be satisfied. What is clear here is that the hotels have failed to fulfill understanding.

Various previous researchers have underlined that most of the disappointed customers with an organization prefer to stay away. Even they do not want to exchange views with employees of that organization. An organization that has faced dissatisfaction from its customers could learn that its performance is not in a good condition. Customer satisfaction assessment should be based on all utilize of services by the customer who does not have rejection experiences.

It was established that majority (83%) of the respondents indicated that the hotels physical facilities at hotels are visually appealing. Moreover, 70% of the respondents reported that principles of hotels are very important for its success. 61 % of respondents they are satisfied with the employee's neat appearance in hotels. This means the hotel is tangible in respect to its service delivery on the customer's satisfaction. Regarding materials associated with the service, majority of the respondents (52%) said that they are satisfied. Generally, the majority of respondents were satisfied with the tangibility of Addis Ababa's four star hotels.

Needless to mention, customer satisfaction is a frequently used term in academic affairs of business as it represents how products and services provided by an organization meet the needs of customers. It is the result of their needs and expectations which influence interaction with service providers and other customers. In turn, the quality of this interaction impacts customer decisions to come again for the service, their loyalty and the willingness of the customers to share to other potential customers and finally to impart useful information about the service quality and delivery.

Regular customers of hotels might face problem to continuously get information and update themselves in getting the hotels service. Yet, compared to other dimensions of the hotels service, almost close to half are saying that they do not have information about its service probably newly introduced service packages. Presumably, customers who do not rely on internet service have tended to respond that they are not keeping informed about service delivery. Even if it is not the hotels shortcoming in accessing information, when customers fail to update themselves about hotels service it could ultimately affect its performance. Thus, it could be advisable to consider giving adequate orientation about newly introduced services that might reach customers through the internet.

The issue of business performance is a manifestation of the hospitality sectors ability to attract and maintain relationship with customers and in building the relationship over time. It is equivalent to satisfaction with the hotels products and services. Some studies relate customer satisfaction to qualitative and quantitative elements of the service and consider it as a correlation between customer satisfaction, business performance, and perceived customer service performance expectations. Respondents (50.6%) said that they are satisfied with making customers feel safe in their transactions. The same amount of respondents reported that employees of the hotels generate confidence in customers. Thirty percent of them also said that employees of hotels have the knowledge to answer customer's questions. Generally, around three fourth of the customers are satisfied with the accuracy of the hotels service delivery.

Most of the respondents (51%) are confident that they are comfortable with the safety of their transactions. This could be an indicator of sense of ownership or belongingness. If they do not have fear as regards the transaction they conduct with hotels there is no reason for the customers to look for another hotel service. There is high possibility that such customers could stay with the hotel for long. Loyalty is highly linked with safety of transaction. If they feel that they are safe they are willing to maintain their relationship with the hotel. The issue of trust is not questionable here.

CHAPTER FIVE

5. Summary, Conclusion and Recommendation

5.1 Summary

Assessing the overall of service quality and business performance in the hospitality sector is the main objective of the study by investigating the impact of service quality dimensions on business performance. To this effect hypothesis were developed to investigate how service quality dimensions can affect the level of business performance.

For this study both qualitative and quantitative data from primary and secondary source has been used. The primary data was collected through close ended questionnaires from the customers and hotel representatives. Descriptive statistics like frequency mean, and Pearson correlation analysis techniques were applied to analyze background information of respondents, respondents' perception on service quality and business performance as well as relationship between service quality dimensions and business performance. In addition, regression analysis technique was applied to investigate impacts of service quality dimensions business performance and also to test the research hypothesis.

The descriptive analysis conducted with the aim of investigating customers' perception on service quality dimensions, financial and non financial business performance. On the base of the finding of mean value of all the dimensions of service quality responsiveness is better followed by assurance with a mean score value of 3.60, and 3.28 respectively. Reliability, empathy, and tangibility are relatively the least perceived value of 2.91, 2.38 and 1.73 respectively. The mean value of perceived financial and non financial business performance is 2.03 and 1.41 respectively.

Correlation coefficient statistics shows that all the service quality dimensions; tangibility, reliability, responsiveness, assurance and empathy a positive and significant relationship with financial business performance with coefficient value of 0.934, 0.884, 0.881, 0.856, and 0.846 respectively. Also, positive and strong relationship was revealed between service quality dimensions and non financial business performance. In this regard, all the service quality dimensions tangibility, reliability, responsiveness, assurance and empathy have higher relationship with non financial business performance having coefficient value of 0.947, 0.894, 0.912, 0.883, and 0.882 respectively.

Multiple regression analysis were undertaken to investigate the impacts of each service quality dimensions on the business performance on the hospitality industry. The result confirmed that all of the service quality dimensions tangibility, reliability, responsiveness, assurance and empathy have a positive impact on the business performance with $p < 0.05$ though their degree of impact varies among the services quality dimensions.

All the service quality dimensions, tangibility, reliability, responsiveness, assurance and empathy service quality dimension have strongest impact on business performance with β value 0.912, 0.466, 0.311, 0.739 and 0.675 respectively.

Besides, as the R square value shows the degree to which overall service quality (dependent variable) is explained by the model (services quality dimensions) which includes tangibility, reliability, responsiveness, assurance and empathy, the aggregate impact of which is (R square value) 0.94. This implies that business performance is impacted or explained by all service quality dimensions to the extent of 94%.

5.2 Conclusion

Evidences entail that service quality is an excellent procedure for improving business performance level to the organization in today's competitive environment. This study examined the perception of service quality of provided to customers in four star hotels found in Addis Ababa and the relative contrasts connected with the different determinants of service quality utilizing the SERVQUAL model.

According to the correlation analysis all service quality dimensions: tangibility, reliability, responsiveness, assurance and empathy have a positive and significance relationship towards financial non-financial business performance. This means that delivering a service with high quality will lead to a higher business performance.

Regarding the impact analysis, it is found out that all of the service quality dimensions; tangibility, reliability, responsiveness, assurance and empathy have significant impact on hospitality business performance but with varying degrees. In conclusion, focusing on responsiveness and assurance is necessary to fill the gap that the regression analysis showed which would bring value addition to the customer satisfaction and ultimately secure better level of business performance.

Majority of the respondents were satisfied with the service provided by Addis Ababa's four star hotels. The mean score of service quality that is an average of overall service quality dimensions indicates that customers somewhat agree that the hotels deliver premium quality services to satisfy their diversified needs in order to improve their satisfaction level. In addition, tangibility, reliability and empathy service quality dimensions were found to be higher compared to other dimensions in four start hotels.

Generally, tangibility and empathy has the most critical effect on hospitality business performance. Tangibility has the slightest noteworthy effect on hospitality services; responsiveness and assurance don't have an impact on business performance. Efficient tangibility has enabled hotels to be aware of customer's needs for new services and plan to make them available. The study concludes that indeed there is a strong relationship between hotels tangibility and business performance, meaning that hotels tangibility is also a key contributor to business performance in the hospitality industry.

From the study findings, empathy is the other contributing factor for hospitality business performance. From the study findings it was found out that giving individual and personal attention to customers, understanding the specific needs of the customers and having a convenient operation hours have a high return on customer satisfaction and are able to attract a large pool of potential customers which leads to increasing the level of business performance.

5.3 Recommendations

Based on the findings of the study, the following recommendations were made:

- In the service delivery process, four star hotels are not as responsive as the customers require. The company has to revisit its service delivery to be prompt to customers query. It is also necessary in hotels to establish mechanism to make information easily availability to its customers
- The hospitality industry has to be equipped with necessary modern equipment and amenities which directly helps to improve service quality as statistical value of tangibility is modest
- It is necessary to give attention to individual customer interest and requirement. As clearly indicated in quality dimension of empathy, hotels have to know the best interest of its customer and attempt to address it.
- The owners of the hotels or the top level of managers should maintain the service attribute of tangibility at the acceptable level, because different type of customer usually has a variety of their preference. The physical appearance like facilities at excellent hotels should be visually appealing, materials in excellent hotels should be neat in appearance and the front office area must be attractive and appealing.
- The marketers must understand and determine the factors i.e. premium service quality that enhances the level of business performance in the hospitality sector. Frequent surveys must be conducted to get information from the customers regarding their perceptions, expectations and suggestions to improve the service quality.
- Out of the service quality tangibility, reliability and empathy have a strong impact on the business performance level, so these factors must be the core of the strategy that is aiming at enhancing business performance

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APPENDIX
ST. MARY’S UNIVERSITY
SCHOOL GRADUATE STUDIES
FACULTY OF BUSINESS

Dear All,

My name is Bethelhem Tadesse; I am a graduating student at St. Mary’s University School of graduate studies; Department of General Management MBA- Program. Currently I am conducting a research study on “The Impact of Service Quality on Hospitality Business Performance: A Case Study on 4star Hotels in Addis Ababa” in partial fulfillment of the Requirements for the Degree of Master of Business Administration.

Your genuine response is highly valuable for the study and there are no identified risks from participation in the survey. The survey is anonymous. Participation is completely voluntary.

Dear all, this questionnaire is intended to gather information about Impact of Service Quality on Hospitality Business Performance. The information that you provide in this questionnaire will be kept confidential and be used for academic purpose only.

Please respond the following statements by ticking a box

SECTION A: Basic Demographic Questions

1. Gender

A. Male B. female

2. Age

A.18-25 B 26-35 C.36-45 D.46-55 E. >56

3. Marital status

A. Single B. Married C. Divorced D. Separated

4. Educational background

A. Diploma B. under graduated C. Post graduated D. PHD

SECTION B: Study Related Questions

	Strongly agree	agree	Neither agree nor disagree	Strongly disagree	disagree
A. Service Quality					
1. Tangibility					
The physical facilities at hotels are visually appealing					
Employees of hotels are neat in appearance					
Materials associated with the service (such as pamphlets or brochures) are visually appealing in hotels					
Principles of the hotel are very important for its success					
2. Reliability					

Hotels will provide their services at the time they promise to do so					
When customers have a problem; hotels show a sincere interest in solving it					
Hotels do insist on error-free records					
3. Responsiveness					
Employees of hotels will tell customers exactly when services will be performed					
Employees of hotels will give prompt service to customers					
Employees of hotels are always willing to help customers					
Employees of hotels are never be too busy to respond to customer requests and responds with minimum possible time					
4. Assurance					
The behavior of employees of hotels generate confidence in customers					
Customers of hotels feel safe in their transactions					
Employees of hotels have the knowledge to answer customer questions					
Employees of hotels build confidence in the customers for their extended support					
5. Empathy					
Hotels give to customers individual attention					
Hotels have operating hours convenient to all their customers					

Hotels have employees who give customers personal attention					
The employees of hotels understand the specific needs of their customers					
B. Business Performance					
1. Financial Performance					
With service quality revenue of hotel will improve					
The better the service quality the higher the net profits					
Service quality has the ability to enhance financial performance of the hotel					
With better service quality assets of the hotel will improve					
2. Non-financial Performance					
Better service quality can enhance new product/service development					
Better service quality leads to market development					
Higher service quality provides a capacity to develop a competitive profile					
Higher service quality provides better market orientation					