

**CUSTOMER RETENTION AND LOYALTY AS AN INDICATOR OF SERVICE  
QUALITY IN LUXURY HOTELS**

**Syed Najmus Saqib**

Research Scholar- SLM, Manav Rachna International Institute of Research & Studies,  
Faridabad, Haryana

**Dr. Frahat Mohsin,**

Supervisor- SLM, Manav Rachna International Institute of Research & Studies, Faridabad,  
Haryana

<https://doi.org/10.5281/zenodo.20197046>

**Abstract**

Customer satisfaction, retention, and loyalty depend on providing high-quality service, especially in the hotel industry. Researchers and practitioners agree that service quality is an elusive and abstract concept that is difficult to define and measure. Customer retention is the ultimate goal of all hotels in service-oriented industries such as hospitality. Furthermore, it is increasingly recognized that customer loyalty is more important than customer satisfaction in determining the success of a business. Furthermore, a rise in market competition has created a new challenge due to the increasing sophistication of customer demands. As an indicator of the quality of service in luxury hotels in Delhi, the current study aims to investigate the variables of customer retention and loyalty. An open-ended questionnaire will be used in this study to assess customer retention, customer loyalty, and the quality of service in luxury hotels. As the questions are open-ended, SPSS can be used for text analysis with machine learning. In addition to helping future researchers, the findings of this study can also assist hospitality industry organizations in improving the level of service they provide to their customers.

*Keywords:* customer retention, customer loyalty, service quality, luxury hotels

**1. Introduction**

Providing high-quality service to customers is essential to satisfying, retaining, and creating loyalty. The term service quality is an amalgamation of two different words: service and quality. There is a consensus among researchers and practitioners that service quality is an elusive and abstract concept that is difficult to define and measure. However, there is also no doubt that improvements in quality have numerous benefits and can profoundly impact a business's survival. It is primarily for this reason that there has been extensive research and debate on the subject of service quality and service quality measurement (Hikkerova, 2014). Service quality has been defined primarily in terms of how well the delivered service meets the needs and requirements of the customer; the customer determines quality. For example, a technically perfect service that does not satisfy the customer will not succeed. In order to influence consumer evaluations of the quality of service, a service provider needs to know what consumers think of its quality and how to relate service ideas to the customer's benefit (). Service quality is now widely recognized as a critical indicator of customer satisfaction and

organizational performance. Definitions of service quality often focus on meeting customer needs and requirements. The quality of the service and customer satisfaction are critical for the organisation's survival. Intangibles both, although their precise definition, remains a matter of contention (Thawesaengskulthai, 2019). As a psychological concept, customer satisfaction refers to the pleasure that arises from obtaining what one hopes for and expects when purchasing an appealing product or service. From the standpoint of expectation confirmation, customer satisfaction is defined as the feeling of satisfaction. Customer expectations about a product or service are always present before they purchase or use it. If following the purchase or use of a product or service, the result is equivalent to or better than the expectation; then the expectation has been validated (Margaretha, Wirawan, & Wowor, 2022).

In service-oriented industries such as hospitality, the ultimate goal of all hotels is *customer retention*. There are various definitions of customer retention. Customer retention, for example, may be defined as the ability to retain customers and maintain a customer portfolio. Another definition of customer retention refers to the process of transferring the new customer to the regular customer base and maintaining good relations with them. Thus, customer retention is concerned with maintaining the database of customers and turning them into loyal customers of the organization (Dabija, Bejan & Grant, 2018). *Customer loyalty* is the repeat business process that an individual gives to a brand or company. Alternatively, loyal customers choose a particular company, location, or program over other alternatives. Despite higher prices or stricter policies, some loyal customers continue to choose their preferred choice, regardless of its cost or convenience. It is common for loyal customers to trust that they will receive quality service, so they are willing to spend a few extra dollars to ensure their expectations are met (Qian et.al, 2020). Hospitality managers believe that companies can increase their profits by satisfying their customers alone is not enough since there is no guarantee that satisfied customers will return to purchase. Studies have shown, however, that satisfying a customer is not enough since there is no guarantee that they will return (Vasić, Kilibarda, & Kaurin, 2019). Customers' loyalty is increasingly viewed as more important than customer satisfaction in determining the success of a business enterprise. In addition to the increasing sophistication of customer demands, an increase in market competition has created a new challenge.

In the hospitality industry, a *luxury hotel* is defined as a hotel that offers its guests a luxurious stay. In the case of luxury hotels, there is no set standard (such as a star rating). The term 'luxury' is ~~often~~ used to describe ~~4-or~~ 5-star hotels. The term 'luxury' can therefore be used to describe any type of accommodation. This includes boutique hotels, resorts, and bed and breakfasts (). The current study aims to explore the variables customer retention and loyalty as an indicator of service quality in luxury hotels, in Delhi . That is, this study aims to gather an understanding on the possible connection between the customer retention and customer loyalty with that of service quality. Here, the background of the study will be based on luxury hotels in Mumbai, where the researcher will explore and analyse whether the service quality of luxury hotels can be ascertained based on their customer retention and customer loyalty levels. That is, does it mean that when a luxury hotel has regular customer turnover (of the same customers), it is an indication of superior service quality? Here, it is equally important to highlight that

customer loyalty can often be influenced by favour-some behaviours from the hotel management towards the specific customers, which in turn can ensure customer retention. Therefore, taking all this into consideration, this study will explore whether customer retention and customer royalty can be viewed as indicators of service quality.

## **2. Aim and Objectives**

This part of the review paper states the aim and objective pertaining to the study. The aim of the study is – To explore customer retention and loyalty as an indicators of service quality in luxury hotels.

The objectives are as follows:

- To identify the importance of service quality in luxury hotels
- To explore how customer retention impacts service quality in luxury hotels
- To understand how loyalty is an indicator of service quality in luxury hotels
- To study the interconnection between customer retention, loyalty and service quality
- To examine whether customer retention and loyalty can positively or negatively influence service quality in luxury hotels

## **3. Literature Review**

Al-Rousan and Mohamed (2010) examined customer loyalty, service quality, and their influence on luxury hotels in Jordan. They concluded that measuring customer loyalty was vital for all hotel managers. An inability to recognize the significance of customer satisfaction, especially their emotions, could undermine the effectiveness of customer retention and loyalty. The study also revealed five characteristics of tourism and they are "service quality, tangibility, reliability, responsiveness, assurance and empathy", factors tourists consider when evaluating service quality. According to the findings of this study, tangibility was the most critical factor in predicting tourism service quality evaluation, trailed by empathy, reliability, and responsiveness. Based on the results of the research, assurance has emerged as the most reliable determinant of tourism service quality in relation to the five dimensions. Although the SERVQUAL scale is helpful as a concept, it should also be tailored to the service setting as a result of these findings. Having examined the relationship between service quality and customer satisfaction and retention in Ghana's luxury hotels, Allan (2016) concluded that service quality substantially impacts customer satisfaction. Furthermore, customer satisfaction was positively associated with customer retention. Customer satisfaction and service quality are important determinants of customer retention. Comparatively, in comparison to customer satisfaction, service quality accounts for a considerably smaller difference in this regard. To increase customer satisfaction and retention, luxury hotels must optimize and enhance service quality, in particular, the quality of response component of service quality. Hikkerova (2014) states that loyalty can be fostered by customers experiencing positive and beneficial interactions with the products and services the company regards as having high quality. The

more the company meets customers' expectations, the better the company's customers will be satisfied and loyal. Statistically, improved service quality can contribute to developing more constructive behavioural attitudes and diminishing detrimental ones, according to Ramadania et al. (2018). Providing exceptional service quality has become progressively more important in the hospitality industry. Often, consumers continue to visit indefinitely because they are satisfied with the services, and service quality is a factor that facilitates the achievement of customer satisfaction. A study conducted by Yadav and Rai (2019) examined the moderating effect of customer satisfaction on the relationship between service quality and customer loyalty and concluded that service quality and customer loyalty were interconnected. Customer satisfaction influences the correlation among service quality and customer loyalty, according to the study.

A study by Margaretha, Wirawan, and Wowor (2022) examined the influence of service quality on customer loyalty at five-star hotels in Bali. The results demonstrate that customer loyalty is critical to the long-term viability of the hotel business. It is imperative to demonstrate credibility when dealing with guests by ensuring that they feel assured and trusted that the service provider has the necessary knowledge about manners and security. Assurance refers to three elements, and are, 'competence, capability, and knowledge', as well as courtesy, which is a characteristic that hospitality employees must demonstrate. It is also paramount that credibility is established, which is a matter of customer trust. As a result, it may be possible to suggest ways to enhance the security surrounding the hotel, such as increasing operating hours and patrolling the hotel grounds, so as to increase employee politeness and safety during guest interactions. As well as training employees, the hotel also ensures compliance with applicable regulations by providing them with knowledge, competence, and honesty. Ounsri and Thawesaengskulthai (2019) indicate that guests often assess a service provider's quality based on its quality as their overall perception of the level of the service provided. Generally, service quality consists of comparing what guests expect with their expectations of service quality. Therefore, it is imperative to monitor and evaluate service quality to enhance customer perception of service quality, improve competitive advantage, and significantly impact providing service quality to competitors. For hotels to gain and maintain customer loyalty, they maintain a very high level of service quality to their competitors. Therefore, maintaining a high level of service quality is essential because different consumers have different expectations and desires regarding service quality. It has been shown that consumers tend to stay loyal to a hotel when the overall standard of service is satisfactory to them, according to a study conducted by Cheng and Rashid (2014). As a result of the experiences consumers encounter during their stay at the hotel, their perception of the quality of service is formed, and this influences their perception of the hotel as well. The organization will also reap the benefits from customers whose requirements have been met. By generating customer loyalty, customers are less likely to assess the prices of products with other companies, and high-quality service is delivered. Adeleke and Aminu (2012) argue that companies are entitled to impose higher tariffs for long stays in the same hotel, so repeat business is felt over a long period. Customer satisfaction is a factor that can encourage service providers to achieve customer satisfaction in the hospitality industry because it attracts more consumers, who are more likely to stay longer.

As defined by Ariff et al., (2013), loyalty is defined as the readiness of the customer to repurchase the product and sustain the relationship with the organization. Increasing the satisfaction of loyal customers is paramount, according to the researcher. Several studies have shown that customer satisfaction has a significant and positive impact on customer loyalty. Customers with a positive experience may not inevitably remain loyal to the organization. Customers who are loyal to the company are, however, satisfied with its services. According to Alzoubi et al. (2021), quality service has been identified as a critical factor for guests in the hotel industry. Therefore, managers should identify service quality dimensions that are most relevant to the guests. Hotel management can improve customer satisfaction and loyalty by recruiting highly qualified staff and providing them with training and guidance through both internal and external sources. Hotel management needs to improve communication with guests so that they can better understand guests' expectations and perceptions of services provided by the hotel from the guest's perspective. As a result, guests should be able to demonstrate their empathy and receive prompt responses to enhance their experience and loyalty, resulting in greater satisfaction. Additionally, service quality should be consistent to make customers feel confident and reassured, which is essential to gaining their loyalty and satisfaction. Sharma and Srivastava (2018) investigated the relationship between customer satisfaction and service quality in the hotel industry. As they noted, it is of paramount significance that a hotel comprehends and recognizes the needs of its customers. Their needs are addressed with a comprehensive, personalized service. Customer satisfaction is highly dependent on quality service. Using this study, it is suggested that the SERVQUAL methodology is appropriate for use within the hotel industry. This is because SERVQUAL measures customer satisfaction according to five criteria: 'assurance, empathy, reliability, and tangibility, enabling' hoteliers to enhance their service offerings.

#### **4. Hypotheses**

##### Hypothesis 1

H0: There is a link between customer retention and customer loyalty

H1: There exists no link between customer retention and customer loyalty

##### Hypothesis 2:

H0: Customer retention and customer loyalty contribute towards service quality in luxury hotels

H1: Customer retention and customer loyalty does not contribute towards service quality in luxury hotels

##### Hypothesis 3:

H0: Customer retention, customer loyalty and service quality are interlinked

H1: Customer retention, customer loyalty and service quality are not interlinked

## **5. Conclusion**

The development of tourism has led to the establishment of numerous hotels by many hospitality industry professionals. Providing the highest quality of service is essential to the hotel's purpose of accommodating travellers from different countries. The reason for this is that customers who have stayed at the hotel will not choose to visit another hotel in the future. Customer satisfaction with the hotel's services is the only requirement for this to occur. In order for a company to succeed, quality service is an integral and vital component. As well, service quality is the focus of the research, which indicates the perception of five basic dimensions of services, which are reliability, responsiveness, and tangibility. These dimensions, and tangibility, have already been examined by a number of researchers. Providing exemplary service to customers is essential to maintaining customer satisfaction. By emphasizing customer satisfaction, companies can improve loyalty and establish a favourable image of themselves. A satisfied customer will strive to obtain services that satisfy their needs and wants. Those who receive what they expect from a hotel stay are most likely to be pleased with their experience. A long-term customer has a higher purchasing power, promotes new customers, consumes less of the service provider's time, and is less sensitive to pricing, making the cost of retaining customers lower than the cost of attracting new customers. By increasing customer retention, profit growth and company value will be achieved. A variety of factors may influence customer retention, including service quality, trust, and satisfaction. A hotel manager must be aware of the factors that influence customer retention in order to improve levels of customer retention. There is no doubt that customer satisfaction and customer loyalty are positively correlated with the quality of the service after an extensive examination.

## **6. Future directions**

As a result of good service quality, hotel management can maintain a good level of rapport with its customers. Customer satisfaction enhances revenue, which in turn leads to better revenue streams and fewer losses, as well as happier employees and guests, as well. A key goal of hospitality is to provide guests with a comfortable environment while away from home. The literary exploration indicates that quality service has a positive impact on customer retention. As a result of the research, empathy and responsiveness have been found to be the primary factors determining customer retention, preceded by tangibility and assurance. In addition, customer loyalty has been recognized as one of the primary factors influencing the success of a hotel or any business organisation for that matter. Therefore, luxury hotels must focus on improving their services to ensure customer retention and customer loyalty.

## **References**

- Al-Rousan, M. R., & Mohamed, B. (2010). Customer loyalty and the impacts of service quality: The case of five star hotels in Jordan. *International journal of human and social sciences*, 5(13), 886-892.
- Allan, M. M. (2016). The relationship between service quality and customer satisfaction and retention in Ghana's Luxury Hotels. *IUP Journal of Marketing Management*, 15(4), 60.
- Margaretha, F., Wirawan, S. E., & Wowor, W. (2022). The Influence of Service Quality Toward Customer Loyalty at Five-star Hotel in Bali. *International Journal of Social and Management Studies*, 3(2), 175-186.
- Hikkerova, L. (2014). Loyalty Programs: a study case in the Hospitality Industry. *International Journal of Business*, 16(2), 150–164.
- amadania, R., Theresia, M., & Sadalia, I. (2018). The Determinants of Customer Loyalty for Telecommunication Provider. *Journal of Research in Business, Economics and Management*, 10(3).  
[https://www.researchgate.net/publication/323599944\\_The\\_Determinants\\_of\\_Customer\\_Loyalty\\_for\\_Telecommunication\\_Provider](https://www.researchgate.net/publication/323599944_The_Determinants_of_Customer_Loyalty_for_Telecommunication_Provider)
- Ounsri, K., & Thawesaengskulthai, N. (2019). Hotel Service Quality Factors Among Different Cultures. *International Conference on Industrial Engineering and Applications (ICIEA)*, 306–312. <https://doi.org/10.1109/IEA.2019.8715145>
- Adeleke, A., & Aminu, S. A. (2012). The Determinants of Customer Loyalty in Nigeria's GSM Market. *International Journal of Business and Social Science*, 3(14).  
[https://www.researchgate.net/profile/Suraju-Aminu/publication/326391325\\_The\\_Determinants\\_of\\_Customer\\_Loyalty\\_in\\_Nigeria's\\_GSM\\_Market/links/5b497360aca272c6093f7a8e/The-Determinants-of-Customer-Loyalty-in-Nigerias-GSM-Market.pdf](https://www.researchgate.net/profile/Suraju-Aminu/publication/326391325_The_Determinants_of_Customer_Loyalty_in_Nigeria's_GSM_Market/links/5b497360aca272c6093f7a8e/The-Determinants-of-Customer-Loyalty-in-Nigerias-GSM-Market.pdf)
- Cheng, B. L., & Rashid, Z. A. (2014). Service Quality and the Mediating Effect of Corporate Image on the Relationship between Customer Satisfaction and Customer Loyalty in the Malaysian Hotel Industry. *Gadjah Mada International Journal of Business*, 15(2), 99–112. <https://doi.org/10.22146/gamaijb.5474>
- Ariff, M. S. M., Yun, L. O., Zakuan, N., & Ismail, K. (2013). The Impacts of Service Quality and Customer Satisfaction on Customer Loyalty in Internet Banking. *Procedia - Social and Behavioral Sciences*, 81, 469–473. <https://doi.org/10.1016/j.sbspro.2013.06.462>
- Alzoubi, H. M., Vij, M., Vij, A., & Hanaysha, J. R. (2021). What leads guests to satisfaction and loyalty in UAE five-star hotels? AHP analysis to service quality dimensions. *ENLIGHTENING TOURISM. A PATHMAKING JOURNAL*, 11(1), 102-135.
- Yadav, M. K., & Rai, A. K. (2019). An assessment of the mediating effect of customer satisfaction on the relationship between service quality and customer loyalty. *IUP Journal of Marketing Management*, 18(3), 7-23.
- Sharma, S., & Srivastava, S. (2018). Relationship between service quality and customer satisfaction in hotel industry. *TRJ Tourism Research Journal*, 2(1), 42-49.
- Vasić, N., Kilibarda, M., & Kaurin, T. (2019). The influence of online shopping determinants on customer satisfaction in the Serbian market. *Journal of theoretical and applied electronic commerce research*, 14(2), 70-89.

Qian, J., Law, R., Wei, J., Shen, H., & Sun, Y. (2020). Hotels' self-positioned image versus customers' perceived image: a case study of a boutique luxury hotel in Hong Kong. *Tourism Review*.

Dabija, D. C., Bejan, B. M., & Grant, D. B. (2018). The impact of consumer green behaviour on green loyalty among retail formats. *Moravian geographical reports*.