

# The Mediating Effect of Perceived Value on the Relationship between Service Encounter Quality and Satisfaction: Evidence from Luxury Town Hotels in Kenya

Wanjiku Ng'ang'a. K<sup>1</sup>

School of Business, University of Nairobi, Kenya

Justus M. Munyoki

School of Business, University of Nairobi, Kenya

Francis Kibera

School of Business, University of Nairobi, Kenya

Ganesh P. Pokhariyal

School of Mathematics, University of Nairobi, Kenya

---

## Abstract

The main objective of this study was to determine the mediating effect of perceived value on the relationship between service encounter quality and customer satisfaction. The study was anchored on the value percept theory and the service encounter needs theory. Literature from preceding correlated studies was used to develop a conceptual model and hypotheses which were tested using statistical techniques. The study employed a descriptive cross sectional research design. Sampling was done using stratified random technique and a sample of 376 hotel guests was used in the study; a response of 350 (95%) was attained. A pilot study was conducted and reliability of the research tool was tested using Cronbach alpha test, validity tests were also carried out to check whether the tools measure what they were intended to. Four parametric tests; multi-collinearity, normality, heteroscedasticity and linearity of data were done to check the appropriateness and accuracy of the data. Data analysis was done using descriptive statistics, factor analysis, correlations and regression. Results showed that the influence of service encounter quality on customer satisfaction was partially mediated by perceived value and that there was a direct relationship between service encounter quality and customer satisfaction. Customers expect that a service is performed right without errors the very first time, therefore, the

---

<sup>1</sup> Corresponding author's email: [nganga.wanjiku@gmail.com](mailto:nganga.wanjiku@gmail.com)

hotel management must ensure their staff are competent and that other facilities that enhance guests experience like neatness, timely service, modern fixtures meet guest expectations. It was recommended that policy makers and management of hotels in Kenya should improve on service encounter quality and actively pay attention to guests' expectations. Future research can also be directed at other hotels with lower star ratings as well as the unclassified hotels.

**Keywords:** Perceived value, Satisfaction, Service encounter quality (SEQ), Guest satisfaction, luxury town hotels.

---

Cite this article: Ng'ang'a. K , W., Munyoki , J. M., Kibera, F., & Pokhariyal , G. P. (2020). The Mediating Effect of Perceived Value on the Relationship between Service Encounter Quality and Satisfaction: Evidence from Luxury Town Hotels in Kenya. *International Journal of Management, Accounting and Economics*, 7(1), 1-19.

## Introduction

A service encounter is the customer's actual interaction with the service provider. Victorino, Verma, Bonner, and Wardell (2012) describe a service encounter as that moment of contact when an employee delivers a service to the customer. Service encounters are also referred to as "moments of truth". They are social interactions where customers judge the quality of a service based on their assessment and individual experiences at the point of encounter (Choi & Mattila, 2008). All service encounters provide an opportunity for a firm to create satisfaction. At this point a firm seeks to emphasize the value of its services and to sell the benefits of a long term relationship. A service encounter will directly affect the levels of customer satisfaction and also outline other factors such as customer loyalty, intent to repurchase and the possibility of talking positively about the service (Amudha & Banu, 2008). Service encounters are role performances that involve customers' interaction with others like employees, machines, automated systems and physical facilities. The quality of the interaction at the service encounter is significant since it is at this point that customers judge the quality of the services provided to them.

The hospitality industry has three kinds of service encounters; first are remote encounters which occur without any direct human interaction, such as: booking a hotel room by use of the Internet. Secondly, there can be phone encounters which occur over the telephone. Here, when booking a room or a table, the tone of voice of the customer care representative, employees' knowledge, and proficiency in handling customer matters becomes a vital measure in judging the quality of service. (Zeithaml & Bitner, 2003). Third is the face to face encounter where there is direct interaction between the service provider and a customer. Both verbal and nonverbal cues are visible elements of service quality. Other tangible cues include staff attire, equipment and physical set up.

Customers may participate in service encounters with a firm in a number of ways such as visiting company websites and then navigating through it. The intention could be searching for product information, communicating with customer service staff, and possibly purchasing the product on offer. Service encounter is concerned with service outcome and service delivery whereby the service outcome is what the customer will receive throughout the encounter while service delivery is the manner in which the

outcome is delivered to the customer. These two elements are likely to affect the levels of customer satisfaction (Massad, Heckman & Crowston 2006). A customer will have encounters with different sections of a service firm such as front office personnel, waiters, room service, the ordering department or the billing department. Their evaluation at each point of contact with these different departments is likely to create a general customer perception of satisfaction with the service firm.

Perceived value is a consumer's overall assessment of the quality based on perceptions of what is received and what is given (Ishaq, 2012). It is the difference between perceived benefits and costs and is based on money, quality, benefit, and social attitude. Lin, Sher and Shih (2005) described perceived value from three perspectives: as acquisition value, a service value, and value for money. Acquisition value is based on what the customer gets for what he or she gives. Service value is the quality of service the customer gets for the price paid while value for money is low price. However, value is highly personal and could vary from one customer to the other. High levels of customer value are a consequence of a good product and service and they affect customer satisfaction (Lee, Park, Park, Lee & Kwon, 2005).

The concept of perceived value (Perval) is multi-dimensional. Literature has shown three major dimensions of customer perceived value, namely, functional, emotional, and social (Sanchez, Luis, Rosa & Miguel, 2006). The functional value is viewed as tangibles related to price, service quality and contact personnel. Social value is analyzed as personal beliefs, social integration, as well as opinion and references of relatives and friends. Emotional value is suggested as the non-physical features and may include excellent psychological climate; relaxation and certainty for financial operations security; comfort; reliability and satisfaction; positive emotions and experiences. This multi-dimensional method has been chosen as the base for this research since a single item scale would not capture dimensions of this concept sufficiently.

### *Statement of the problem*

The hospitality industry in Kenya is an important sector and has a positive correlation to performance of the tourism industry. A country cannot attract tourists unless it has good hotels (Mureithi, Morara & Michael, 2009). The focus on the hotel sub-sector is driven by the fact that the sector steers other sectors like agriculture and has a significant contribution to Kenya's GDP. With the increased bargaining power of customers, hotels are appreciating the fact that the key to their triumph will be to develop relationship building marketing efforts mostly through the use of loyalty measures (Gordon, 2006). Customers are one of the greatest assets that a hotel can have because once they are satisfied, they are more likely to revisit the hotels and recommend others to visit (Jones, 2007). Much focus has been placed on the contribution of hotels to economic growth based on revenue and performance disregarding the perceptions and expectations of hotel guests.

### *Research Objectives*

The key objective of this study was to determine the mediating effect of perceived value on the relationship between service encounter quality and customer satisfaction.

### *Research hypotheses*

**H<sub>1</sub>:** The quality of service encounters has a significant influence on customer satisfaction

**H<sub>2</sub>:** Perceived value has a significant mediating impact on the relationship between the service encounter quality and customer satisfaction.

## **Literature Review**

### *Theoretical Perspective*

The current study links the service encounter needs theory and the value percept theory so as to provide explanations on service encounter quality perceived value and customer satisfaction.

The service encounter needs theory (SENT) proposes that the impact of service encounter on an individual is judged based on their psychosocial needs. Factors that are significant to the success of service encounters are a combination of eight psychosocial needs, namely, cognition needs, competency, control needs, need for justice, power, trust, respect, and pleasant relations with others (Bradley, McColl-Kennedy, Sparks, Jimmieson, & Zapf, 2010.) These kinds of needs are common among customers and employees. Service encounters are social encounters that entail dialogue and mutual influence among interacting parties (Homburg & Stock, 2005). Therefore, customers and employees must understand and know their operating environments and circumstances. This involves having information and knowledge that will enable them to explain previous events, understand ongoing activities, foresee future events, and develop strategies to respond accordingly. The customers and employees in the service encounter must work towards minimizing doubt in service delivery, they should not feel oblivious, or confused about what is happening at the service point (Vugt, 2009). This type of need is referred to as cognition need whereby customers have a desire to receive explanations on any service failures.

The value percept theory interprets satisfaction as an emotional response triggered by a cognitive evaluative process (Parker & Mathews, 2001). This means that customers compare something to one's values rather than to an expectation. Customers will search for services that meet their values, needs and wants and this will be the object of their evaluations. The theory assumes that satisfaction is the fulfillment of consumer desires, values, or wants, as opposed to their expectations. Value-percept disparity is the extent to which a product offers the features and performance characteristics needed or desired. One advantage of using this theory is that it emphasizes on values based on customer characteristics rather than on service attributes. Value percept indicates an assessment reflecting the value that customers place on the services rendered based on their experiences, perceptions of service and their personal values (Isac, 2011). Customer satisfaction is increased as the discrepancy between customers' perceived service values and the customer's own values decreases.

### *Service Encounter Quality and Customer Satisfaction*

As the service market place gets to be more competitive, it has become even more important for primary offerings such as physical goods and also services to be good sufficient so as to offer a competitive advantage. Creating a sustainable competitive advantage entails the development and improvement of all components in customer relationship, especially service encounters (Beatson & Coote, 2007). According to Bateson and Hoffman (2010), when service encounters occur frequently and in close successions a relationship between the service providers and customers may emerge. If the customer continues to experience superior interactions with a given service provider, a long term relationship may develop. Therefore, developing value creating service encounters should be one of the key priorities in service firms during service delivery (Hogg & Winkelman, 2003).

The service encounter concept has gained increasing attention in services literature (Magnus & Rosengren, 2010). Previously, service provision was largely focused on interpersonal based service encounters (IBSE) but due to technology and innovation, the service industry is facing major challenges. Interpersonal based service encounters are the encounters that occur when the service suppliers continually relate with their customers face-to-face (Lovelock, Wirtz, & Chew, 2009). Sometimes customers interact with the service providers by use of technology through the Internet or automated machines like vending machines these interactions with technology are referred to as technology-based service encounters (TBSE).

The quality of the service offered and the levels of customer satisfaction are significant factors for success of a business. Delivering quality service entails ensuring that there is uniformity in the service offered on regular basis (Weitz & Wensley, 2002). According to Kotler (2007) delivery of quality service is very vital in attracting and retaining customers. This is due to the fact that customers form perceptions of service quality based on the level of satisfaction they experience with a particular business. A guest visiting a hotel will be involved in various service encounters particularly when making a room booking, during check in, when being chaperoned to a room by a porter, when having a meal at the hotel restaurant, requesting for a wake-up call, using in-house services, and during check out (Kandampully, 2002). It is during these encounters that guests receive a clear picture of the hotel's service quality goals and each encounter add value to the guest's total satisfaction and willingness to do business with the hotel in the future. The hotel management should consider each encounter as chance to offer quality services to their guests.

According to Lenka, Suar and Mohapatra (2009), customer satisfaction is a combination of two responses termed as cognitive and affective responses to service encounters. Cognitive responses tend to compare the expectations of the customer to performance of the service while affective response exhumes a feeling of pleasure for the customer. Service encounters must offer value and quality for the assessment of a firm's service delivery process which means that the quality of service is judged at the point of service delivery while satisfaction is a customer's experience with the services. Positive experiences with a service are likely to produce positive responses of pleasure due to

satisfaction. Therefore, the effect of service encounter quality on customer satisfaction needed to be assessed.

### *Service Encounter Quality, Perceived Value and Customer Satisfaction*

The role of value is becoming an increasing concern to customers because it is one of the most powerful forces in today's marketplace. Value is described as a customer's overall appraisal of the service net worth based on benefits sought and costs in acquiring and utilizing the services (Hellier, 2003). The growing realization of the importance of perceived value stems from its dual function. Not only is it influential at the prepurchase phase, but it also affects customer satisfaction, intention to recommend, and return behavior at the post-purchase phase (Parasuraman & Grewal, 2000). Moreover, perceived value assists in creating competitive advantage, as consumers will only purchase products or services they value (Doyle, 2000). When a hotel guest recognizes that the quality of the service bought exceeds their needs, their wants, and their expectations, then, they will be satisfied.

Gummerus (2013) states that value is a complex construct which still needs the attention of researchers since it is the foundation for most marketing decisions. Perceived value as seen in marketing works and publications is analyzed two-fold: as a ratio of the received customer's value and the cost incurred while purchasing the service (Wang et al., 2004). Customer perceived value is a multifaceted concept integrating several value dimensions (Sweeney & Soutar, 2001). Researchers have largely studied the social, functional, and emotional dimensions in different contexts. Functional value dimension symbolizes the quality of the service offered. It is concerned with the extent to which the service is suitable owing to its features, purpose, dependability, application, quality and efficiency. Further, the social and emotional dimensions deal with the emotions and feelings towards products and services. Social value involves interpersonal benefits, individual interactions, trust and commitment, responsiveness and self-image. (Sanchez et al., 2006). As for emotional value it is the extent to which a service creates suitable moods and sentiments for the customer based on aesthetics, desires, entertainment, enjoyment and adventure (Sanchez et al., 2006).

The relationship between perceived value and customer satisfaction has shown that satisfaction results from a customer's perception of value. Perceived value is viewed as a variable that identifies any discrepancies between benefits and sacrifices in the same way that disconfirmation deals with variations in expectations and perceived performance (Kassim, Igau, Harun, & Tahajuddin, 2014.). Perceived value significantly relate to satisfaction (Omar Alam, Aziz, & Nazri, 2011). Several studies have established that customer perceived value has a strong and significant effect on satisfaction. The relationship between perceived value and satisfaction is eminent when a customer waits to receive benefits greater than the cost of each purchase made (Omar et al., 2011.). Satisfaction can therefore be expressed as a function of perceived value. Customer satisfaction post-purchase will be dependent on the level of customer perceived value (Lin, 2003).

## Methodology

This study adopted a descriptive cross sectional research design, which seeks to determine how, when and what causes a certain phenomenon. The study targeted 376 randomly selected hotel guests. These were resident guests who had spent at least one night at the hotel. A 5-point Likert type questionnaire was used to get the respondents level of agreement with specific statements related to the three main study variables namely, perceived value, service encounter and satisfaction. Two research assistants were used to collect the data. Validity and reliability was done by first issuing the questionnaires to some guests and checking their responses. The questions were also thoroughly checked to ensure that they were correct, before doing the final study. Descriptive analysis including factor analysis, and regression analysis were used to analyze the data.

## Study findings

### *Descriptive analysis*

A sample of 367 guests was drawn from the population using stratified random sampling technique. The research instruments were sent to all the 21 town hotels in Kenya and a total of 350 questionnaires were correctly filled in and returned. This represented a 95% response rate which indicated exactness and accuracy as is required in research.

Most of the respondents who stayed at the hotels were on vacation (47%) while the others were on business trips (40%) as seen in the table below

Table 1: Purpose of visit

Purpose	Frequency	Percent
Vacation	166	47.4
Business/ meeting	142	40.6
Conference	42	12.0
Total	350	100.0

When guests make repeat visits it could mean that they treasure the hotel. The services offered could be superior and this enhances loyalty. This study sought to identify how many times a guest has frequented the hotel as this is likely to affect their levels of satisfaction.

Table 2: Number of times the respondents had visited the Hotel

Frequency of visits	Frequency	Percent
Once	101	28.9
Twice	216	61.7
Three times	22	6.3
Four times	6	1.7
more than five times	5	1.4
Total	350	100.0

Table 2 shows that among the respondents in the entire sample, 61.7 % of the respondents had visited the hotel twice, followed by 28.9% who visited the hotel once. The study established that only 9.4% had visited the hotel more than two times. This means that the overwhelming majority of guests are willing to explore and try out new experiences. The recent mushrooming of town hotels and international brands in Kenya could be the reason why most guests have been to those hotels just once or twice.

### *Correlation Analysis*

Correlation was used to ascertain the relationships amongst the independent variables and consequently assist in tests for multicollinearity. When correlations are greater 0.90 it is a signal that the variables could be evaluating similar things (Tabachnick & Fidell, 2013). Table 3 presents the correlation coefficients between study variables. The highest correlation coefficient in the study was that of perceived value and customer satisfaction with  $r=0.741$ ,  $p<0.05$ . The correlation between service encounter quality and customer satisfaction was affirmative and significant ( $r=0.634$ ,  $p<0.05$ ).

Table 3: Correlation

Variables	Statistic	Customer satisfaction	Quality of service	Perceived value
Customer satisfaction	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	350		
Service encounter quality	Pearson Correlation	.634**	1	
	Sig. (2-tailed)	.000		
	N	350	350	
Perceived value	Pearson Correlation	.741**	.554**	1
	Sig. (2-tailed)	.000	.000	
	N	350	350	350

The study found that correlations among all the study variables were  $< 0.90$  implying that the variables had different measures of distinct variables hence they were all utilized in the study.

### *Hypothesis Testing*

The first study objective sought to establish the relationships between service encounter quality and satisfaction of hotel guests in Kenya. A number of factors namely core service, people, servicescape, service blueprint, price, place and promotion were identified from literature to measure second order service encounter quality construct. The respondents were asked to rate the extent to which items measuring service encounter quality affect their level of satisfaction. The factors were refined through exploratory factor analysis (EFA). The retained items under service encounter were assessed for reliability and validity. SEQ was computed using the principal component analysis



algorithm while normality for service encounter quality construct was confirmed through the Shapiro-Wilk test, that compared the scores of the study population to a set of scores that were normally distributed. Since the results were not significant at  $p < .05$ , the data was assumed to be normally distributed. To determine the SEQ and customer satisfaction relationship, the following hypothesis was tested.

**H<sub>1</sub>**: There is a statistically significant relationship between the service encounter quality and customer satisfaction.

To test the above hypothesis, linear regression analysis was used. The F and t statistics were also determined for the various indicators of service encounter.

#### 4.a. Model Summary

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	SE of the Estimate
1	.634a	0.402	0.4	0.32164

- a. Predictors: (Constant), Service Encounter Quality(SEQ)
- b. Dependent variable: Customer Satisfaction
- c. SE: Standard Error

The R<sup>2</sup> for the regression model between service encounter quality and satisfaction of hotel guests in Kenya was 0.402 meaning that service encounter quality of explains 40.2 % variation in the satisfaction of hotel guests. The remaining variation is explained by the error term.

#### 4.b Analysis of Variance

Model 1		Sum of squares	df	Mean Square	F	Sig.
	Regression	24.18	1	24.18	233.73	.000b
	Residual	36.001	348	0.103		
	Total	60.181	349			

- a. Predictors: (constant), Service encounter quality
- b. Dependent variable: Customer satisfaction

The regression model was a good fit as indicated by a significant F statistic ( $F=233.73$ ,  $p=0.00$ ) as shown in Table 4.30b. This means that the model was statistically significant at  $\alpha = 0.05$  and this explained the linear relationship between service encounter quality and customer satisfaction.

#### 4.c. Regression Coefficients

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	1.639	0.093		17.677	.000
Service encounter quality	0.466	0.03	0.634	15.288	.000

a. Dependent Variable: Customer satisfaction; Level of significance,  $\alpha = 0.05$

The resultant simple linear regression model that can predict the level of satisfaction for an improvement in the quality of service encounter can be expressed as:

$$CS = 1.639 + 0.466 SEQ$$

Where:

CS=Customer Satisfaction

SEQ=Service Encounter Quality

The standardized coefficient for service encounter quality was 0.634 meaning that a unit increase in the quality of service encounter leads to a 63.4% increase in the satisfaction of hotel guests in Kenya. The t-statistic for service encounter quality coefficient was significant at 5% level of significance ( $t=15.288, p<0.05$ ). On the basis of these statistics, the study concludes that there is significant positive relationship between service encounter quality and satisfaction of hotel guests in Kenya. Hence the results of the support the hypothesis one.

#### *Mediating effect of Perceived Value on SEQ and Customer Satisfaction*

The second objective sought to evaluate the mediating effect of perceived value on service encounter quality and customer satisfaction relationship among hotel guests in Kenya. The hypothesis formulated from the research objective was:

**H<sub>2</sub>:** Perceived value has a statistically significant mediating effect on the relationship between service encounter quality and customer satisfaction

To assess the mediating effect perceived value (Perval) was regressed on service encounter quality and customer satisfaction while controlling the effect of Perval to determine the value of  $R^2$  and the coefficients for service encounter quality. According to Shaver (2005), when  $R^2$  is statistically insignificant, it implies full mediation otherwise it would mean partial mediation. The procedure followed in testing the mediation effect was as presented in Table 5a Regression was used to examine the above hypothesis that perceived value mediates the effect of service encounter quality and customer satisfaction. Results indicated that service encounter quality was a significant predictor

of customer satisfaction and that perceived value was a significant predictor of customer satisfaction. These results support the mediation hypothesis.

### 5a. Model Summary

Regression of Service Encounter Quality on Customer Satisfaction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.634a	.402	.400	.32164

a. Predictors: (Constant), SEQ

### 5b. Analysis of Variance

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.180	1	24.180	233.730	.000b
	Residual	36.001	348	.103		
	Total	60.181	349			

a. Dependent Variable: Customer Satisfaction  
 b. Predictors: (Constant), SEQ

### 5c. Regression Coefficients

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.639	.093		17.677	.000
	SEQ	.466	.030	.634	15.288	.000

a. Dependent Variable: Customer Satisfaction

The results in Table 5a show that SEQ explains 40 % of the variation in customer satisfaction ( $R^2 = .402$ ). The Table 5b infers that the relationship between SEQ and customer satisfaction is positive and statistically significant at  $P\text{-value} = .000$ ;  $F = 233.73$ . Regression analysis of perceived value and service encounter quality (SEQ) was conducted, here, SEQ was considered as the independent variable and perceived value as the dependent variable. The summary of the results is presented in Table 5c.

## Step Two

### 6a. Model Summary

Regression of Perceived Value on Service Encounter Quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.554a	.307	.305	.47145

a. Predictors: (Constant), Perval

### 6b. Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.209	1	34.209	153.910	.000b
	Residual	77.350	348	.222		
	Total	111.559	349			

Dependent Variable: SEQ  
 Predictors: (Constant), Perval

### 6c. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.410	.210		1.954	.052
	Perval	.871	.070	.554	12.406	.000

a. Dependent Variable: SEQ

The results in Table 6a indicate that SEQ explains 30% of the variation in customer satisfaction ( $R^2 = .307$ ). These outcomes reveal that the relationship between SEQ and perceived value is positive and statistically significant at  $\alpha = .05$  ( $F = 153.91$ ,  $p\text{-value} = .000$ ). This shows that SEQ could predict the perceived value dimension that affects satisfaction of the hotel guests. The beta coefficient also indicates that there was a statistically significant linear association between perceived value and service encounter quality that was identified at ( $\beta = .554$ ,  $p = .000$ ). In the final mediation step the dependent variable (customer satisfaction) was regressed on perceived value to identify the beta coefficient for path (b) and to determine the level of significance. The results are presented in Table 6c

### Step Three

#### 7a. Model Summary

Regressing customer satisfaction on perceived value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741a	.549	.548	.27915

a. Predictors: (Constant), Perval

#### 7b Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.064	1	33.064	424.323	.000b
	Residual	27.117	348	.078		
	Total	60.181	349			

a. Dependent Variable: Customer Satisfaction  
 b. Predictors: (Constant), Perval

### 7c. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.493	.124		3.973	.000
	Perval	.857	.042	.741	20.599	.000

a. Dependent Variable: Customer Satisfaction

The results in Table 7a show that SEQ explains 54.9% of the variation in customer loyalty ( $R^2 = .549$ ). The overall model results indicate that the linkage between perceived value and customer satisfaction is affirmative and is statistically significant at  $\alpha = .05$  ( $F = 424.32$ ,  $p\text{-value} = .000$ ). This means that perceived value outcome can be predicted by SEQ constructs. Additionally, the regression coefficient also indicates that there was a statistically significant linear association between perceived value and SEQ measured at ( $\beta = .741$ ,  $p\text{-value} = .000$ ). Further, customer satisfaction was regressed on service encounter quality and perceived value to assess if there was a substantial change in the relationship between these variables. These effects are shown in Table 7c.

### 8a. Model Summary

#### Regression of Customer Satisfaction on SEQ and Perceived Value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.634a	.402	.400	.32164	.402	233.730	1	348	.000
2	.788b	.621	.619	.25625	.220	201.279	1	347	.000

a. Predictors: (Constant), SEQ  
 b. Predictors: (Constant), SEQ, Perval

### 8b. Analysis of Variance

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.180	1	24.180	233.730	.000b
	Residual	36.001	348	.103		
	Total	60.181	349			
2	Regression	37.397	2	18.698	284.762	.000c
	Residual	22.785	347	.066		
	Total	60.181	349			

a. Dependent Variable: Customer satisfaction  
 b. Predictors: (Constant), SEQ  
 c. Predictors: (Constant), SEQ, Perval

### 8c. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.639	.093		17.677	.000
	Qserv	.466	.030	.634	15.288	.000
2	(Constant)	.396	.115		3.458	.001
	SEQ	.237	.029	.322	8.123	.000
	Perval	.650	.046	.563	14.187	.000

a. Dependent Variable: Customer Satisfaction

The Table 8, indicates that service encounter quality significantly contributes to customer satisfaction at 62%, R square change .621; p-value = .000. The results show that the change explained by perceived value is significant (F=233.73, p-value=.000). Further, results indicate that the regression coefficients for SEQ, increased from .322 to .563 (F=284.76, P-value= .000) when perceived value was included in the regression model. This suggests a partial mediating effect of perceived value on satisfaction.

### 9a. Model Summary

Regression results of SEQ, Perceived Value and Customer satisfaction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.741a	.549	.548	.27915	.549	424.323	1	348	.000
2	.788b	.621	.619	.25625	.072	65.976	1	347	.000

a. Predictors: (Constant), Perval  
 b. Predictors: (Constant), Perval, SEQ

The model summary in Table 9a on perceived value and customer satisfaction shows that the coefficient of determination  $R^2$  in the first model one was .548 which means that the dimensions of perceived value; functional, emotional and social value explained 54.8% of the variations in customer satisfaction, with 45.2% of the variation being unexplained. Successively, when SEQ dimensions of core service, people, servicescape, service blueprint, price, place and promotion are included into in model two, results show an increase in  $R^2$  to .621. This is a good fit indicating that the model would explain 62% of the variation in customer satisfaction, leaving 38% of the variation unexplained.

The analysis of variance (ANOVA) was used to assess the overall significance of the regression model. The F-value was 424.323 and the P-value was .000. While in model 2, F-value was 284.762, and the P-value was .000. This is an indication that the two models one and two were significant with p-values =.000 at  $\alpha = .05$  levels of significance.

9b. ANOVA for Perceived Value and Customer Satisfaction

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.064	1	33.064	424.323	.000b
	Residual	27.117	348	.078		
	Total	60.181	349			
2	Regression	37.397	2	18.698	284.762	.000c
	Residual	22.785	347	.066		
	Total	60.181	349			

a. Dependent Variable: Customer satisfaction

b. Predictors: (Constant), Perval

c. Predictors: (Constant), Perval, SEQ

9c Regression Coefficients for SEQ, Perval and Customer Satisfaction

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.493	.124		3.973	.000
	Perval	.857	.042	.741	20.599	.000
2	(Constant)	.396	.115		3.458	.001
	Perval	.650	.046	.563	14.187	.000
	SEQ	.237	.029	.322	8.123	.000

a. Dependent Variable: Customer Satisfaction

The Beta coefficients of the mediation model show a significant connection between SEQ, perval and customer satisfaction where Beta=.563, pvalue=.000 at  $\alpha = .05$  levels of significance. This shows that perceived value (mediator) had a statistically significant influence on customer satisfaction (dependent variable) with  $R^2 = 54.9\%$  and P-value=.000. Afterwards with mediation, the results improved to 62% of its variation ( $R^2 = .621$ ). The standardized regression coefficient value of the computed scores of service quality was Beta=.322, F=424.323; and significance level of p-value=.000. The Beta coefficient was statistically significant with p-value=.000, meaning that perceived value had a significant mediating effect.

Therefore, the study supported the hypothesis H<sub>2</sub> that perceived value has a statistically significant mediating effect service encounter quality and customer satisfaction. The resulting multiple regression equation is:

$$CS = .396 + .563PV + .322SEQ$$

Where:

CS=Customer Satisfaction

SEQ=Service Encounter Quality

PV=Perceived Value

## **Discussion**

The study results established that service encounter quality has a direct and statistically significant influence on customer satisfaction of hotel guests in Kenya. An increase in the quality of service encounters results in an increase in the levels of customer satisfaction. Additionally, perceived value had a significant partial mediating influence on the relationship between SEQ and customer satisfaction. A unit increase in the importance of perceived value supports the relationship between the service encounter quality and customer satisfaction. The research hypotheses were all supported, indicating that service encounter quality and perceived value have a significant influence on customer satisfaction as per the linear relationships.

The results obtained from the tests of the study hypotheses concluded that the impact of SEQ on customer satisfaction was direct and partially mediated by perceived value. The two influences are positive and statistically significant ( $p < 0.05$ ). The factors of perceived value that were important to the study were offering exceptional hotel experiences worth the money that the guests had invested, providing activities that make guest stay enjoyable and comfortable. In addition, customer satisfaction measures were brand preference, repurchase intention, advocacy, trust and loyalty. Further, SEQ had a positive, statistically significant and direct impact on customer satisfaction ( $p < 0.05$ ). This indicates that any improvements on the SEQ construct on the basis of core service, price, people, process, physical evidence, promotions and place have direct but varying impacts on customer satisfaction.

## **Implications of the study**

This study contributes to better management of hotels, identifying which evaluation criteria used by guests is more strongly correlated with overall satisfaction. These findings provide hotel managers with an understanding of guest's expectations and perceptions of hotel performance. Since the key factor in enhancing service encounter quality was process, hotels should make all attempts to use modern facilities and technologies to design ideal processes that can enhance customer experiences. The hotels can also select, educate, train and motivate the right and qualified employees in order to give the best services to customers. Establishing a marketing mix management system and monitoring it with the intention of satisfying the customers could also create value for the business.

## **Recommendations**

This study makes an important contribution in the understanding of the effect of service encounter quality on customer satisfaction. However, consumer behaviour is influenced by many more factors other than those discussed in this study. Inclusion of the others in one integrated study may offer additional enlightenment and explanations in regards to the quality of service encounters, customer expectations, perceptions and satisfaction in the hotel subsector.



## References

- Amudha, R., & Banu, C.V. (2008). Service environment planning. *Cauvery Research Journal*, Vol 1, Issue 2.
- Beatson, A., Lee, N., & Coote, L. (2007). Self-Service Technology and the Service Encounter, *Service Industries Journal*, 27(1), 70-89.
- Bradley, G. L., McColl-Kennedy, J. R., Sparks, B. A., Jimmieson, N. L., & Zapf, D. (2010). Service encounter needs theory: A dyadic, psychosocial approach to understanding service encounters. *Emotions and organizational dynamism*, 6,(4)
- Choi, S., & Mattila, A. S. (2008). Perceived controllability and service expectations: Influences on customer reactions following service failure. *Journal of Business Research*, 61(1), 24-30.
- Gummesson, E. (2004). Return on relationships (ROR): the value of relationship marketing and CRM in business-to-business contexts. *Journal of Business & Industrial Marketing*, 19(2), 136-148.
- Homburg, C., & Stock, R. M. (2005). Exploring the conditions under which salesperson work satisfaction can lead to customer satisfaction. *Psychology & Marketing*, 22(5), 393-420.
- Hogg, G., Laing, A., & Winkelman, D. (2003). The Professional Service Encounter in the Age of the Internet: An Exploratory Study. *Journal of Services Marketing*, 17(4-5), 476-49.
- Isac, F. L. (2011) Antecedents of Services Consumer Satisfaction Mirroring Individual Differences. *Journal of Economics and Business Research*, No. 1. pp. 160-165
- Ishaq, M.I. (2012), Perceived value, service quality, corporate Image and customer loyalty: Empirical assessment from Pakistan. *Serbian Journal of Management*, 7 (1) (2012) 25 – 36
- Kandampully, J., & Hu, H. (2007). Do hoteliers need to manage image to retain loyal customers? *International Journal of Contemporary Hospitality Management*, 19(6), 435-443.
- Kassim, A.W.M., Igau, O.A., Harun, A., Tahajuddin, S. (2014), Mediating effect of customer satisfaction on perceived product quality, perceived value and their relation to brand loyalty. *International Journal of Research in Management & Business Studies (IJRMBS)*, 1(2), 13-18
- Kotler, P. (2007). *Marketing in the public sector*: Pearson Education, India.
- Lee, Y. K., Park, K. H., Park, D. W., Lee, K. A., & Kwon, Y. J. (2005). The relative impact of service quality on service value, customer satisfaction and customer

- loyalty in Korean family restaurant context. *International Journal of Hospitality & Tourism Administration*, 6(1), 27-51.
- Lin, C. (2003), The role of customer perceived value in generating customer satisfaction: An e-business perspective. *Journal of Research in Marketing & Entrepreneurship*, 5(1), 25-39.
- Lin, C. H., Sher, P. J., & Shih, H. U. (2005). Past progress and future directions in conceptualizing customer perceived value. *International Journal of Service Industry Management*, 16(4), 318-336.
- Lovelock, C., & Wirtz, J. (2009). *Services Marketing: People, Technology, Strategy* (7th ed.). New Jersey: Pearson Prentice Hall.
- Massad, N., Heckman, R., and Crowston, K., (2006) Customer satisfaction with electronic service encounters *International Journal of Electronic Commerce*, Vol. 10, No. 4, pp. 73–104
- Magnus, S., & Rosengren, S. (2010). The Happy Versus Unhappy Service Worker in the Service Encounter: Assessing the Impact on Customer Satisfaction. *Journal of Retailing and Consumer Services*, 17(2), 161–169.
- Mureithi, S., Morara, M. & Michael, B. (2009). Management of Business Challenges among Small & Micro Enterprises, Nairobi-Kenya, *KCA Journal of Business Management*, 2(1), 19-31
- Mureithi, S., Morara, M. & Michael, B. (2009). Management of Business Challenges among Small & Micro Enterprises, Nairobi-Kenya, *KCA Journal of Business Management*, 2(1), 19-31
- Omar, N.A., Alam, S.S., Aziz, N.A., Nazri, M.A. (2011), Retail loyalty programs in Malaysia: The relationship of equity, value, satisfaction, trust and loyalty among cardholders. *Journal of Business Economic and Management*, 12(2), 332-352.
- Parasuraman, A., & Grewal, D. (2000). The impact of technology on the quality-value-loyalty chain: a research agenda. *Journal of the academy of marketing science*, 28(1), 168-174.
- Parker, C. & Mathews, B.P. (2001) Customer satisfaction: contrasting academic and consumers' interpretations. *Marketing Intelligence & Planning*., Vol. 19, p. 38-44
- Sanchez, J., Luis, C., Rosa, M. R., & Miguel, A. M. (2006). Perceived value of the purchase of a tourism product. *Tourism Management*, 27(3), 394-409.
- Shaver, J.M. (2005). Testing for Mediating Variables in Management Research: Concerns, Implications, and Alternative Strategies. *Journal of Management*, 31 (3), 330-353.



- Victorino, L., Verma, R., Bonner, B.L., & Wardell, D.G. (2012), Can customers detect script usage in service encounters? An experimental video analysis, *Journal of Service Research*, Vol. 15No. 4, pp. 390-400.
- Vugt, V. M. (2009). Averting the tragedy of the commons: Using social psychological science to protect the environment. *Current Directions in Psychological Science*, 18,169-173.
- Wang, Y., & Pearson, T. E. (2002). Measuring personal service quality: an analysis of hotels in the Peoples Republic of China. *International Journal of Hospitality & Tourism Administration*, 3(2), 3
- Weitz, B. & Wensley, R. (2002). *Handbook of Marketing*, London: Sage Publications.