



## TOURISM RETAIL IN THE RURAL WESTFJORDS

by

Viktoría Ran Olafsdóttir



MASTER'S THESIS

in Hotel and Tourism Leadership

Norwegian School of Hotel Management

### **Submitted to:**

Professor: Åsa Helen Grahn

Stavanger University

Faculty of Social Sciences

June 15th, 2017



Universitetet  
i Stavanger

**FACULTY OF SOCIAL SCIENCES,  
NORWEGIAN SCHOOL OF HOTEL MANAGEMENT**

## **MASTER'S THESIS**

STUDY PROGRAM:

**MS International Hotel and  
Tourism Leadership**

THESIS IS WRITTEN IN THE FOLLOWING  
SPECIALIZATION/SUBJECT:

**Rural Tourism Retail**

IS THE ASSIGNMENT CONFIDENTIAL? **No**

TITLE:

**Tourism Retail in the Rural Westfjords**

AUTHOR

**Viktoria Ran Olafsdottir**

ADVISOR:

**Åsa Helen Grahn**

Student number:

**235224**

.....

Name:

.....

ACKNOWLEDGE RECEIPT OF 2 BOUND COPIES OF THESIS

Stavanger, ...../..... 2017

Signature administration:.....

## ABSTRACT

**Purpose** - This paper describes global changes leading to the rise of tourism in Iceland, specifically rural tourism in the Westfjords. The aim of this analysis is to measure service quality perceptions of Westfjords' rural retail and explore the difference between local and tourist customers. The ultimate objective is to determine if there is a relation between perceived service quality and purchase intentions, loyalty and behavioral intentions.

**Design/methodology/approach** - The study took place in the Westfjords, but was also conducted online, receiving a total of 253 responses by administering a questionnaire called SERVQUAL, a multidimensional research instrument with 21 items and 3 additional product items. Customers' behavioral intentions were measured by using a questionnaire adapted from Parasuraman et al. (1988), Zeithaml et al. (1996) and Bloemer et al. (1999). A seven point Likert scale was used to measure the expected and perceived service quality, as well as the attitudinal and behavioral loyalty measured by purchase intentions and word-of-mouth communication. Multiple regression analysis was performed to test if there was a statistically significant relation between perceived service quality dimensions and attitudinal loyalty, purchase intentions and word-of-mouth communication. One Way ANOVA and descriptive statistics were applied to analyze the relation between the constructs and the service quality dimensions within different groups to gain an insight to whether this would further impact customer purchase and behavioral intention.

**Findings** - Main findings indicate that there is a difference between local and tourist customers' expectation and perception of service quality. Local expectations and perceptions are revealed to be higher than those of the tourist customers visiting rural retailers in the Westfjords. Three and four-dimensional constructs were used to investigate the relation between perceived service quality dimensions and purchase intentions, loyalty and behavioral intentions. Product (newly added) items appeared to be the most powerful predictor of all constructs and gave the most powerful individual contribution to predicting the loyalty of local customers and behavioral intentions of tourist customers. Regarding the calculated service quality gaps, the highest gap score was between Product assessment expectations and perceptions. However, the lowest gap score was between Empathy expectations and perceptions.

**Conclusion** - Regression analysis revealed that some specific service quality dimensions may be of more importance in predicting customer behavioral intentions towards rural retailers, considering that the Product assessment was a significant predictor while other constructs did not appear to be as statistically significant. More importantly, the findings may support a statistically significant difference between customer groups based on demographic factors (local or tourist). Providing more knowledge about the diverse customer base may be of great importance to rural retailers, striving to increase customer satisfaction of these unique target groups. This study and its recommendations will hopefully shed some light on the rapidly developing industry in relation to service quality of the otherwise unexplored area of Iceland.

## Table of Contents

ABSTRACT .....	3
Table of Contents .....	4
List of Tables .....	7
List of Figures .....	8
FOREWORD .....	9
Chapter 1 Overview of the Study .....	10
1.1 Introduction.....	10
1.2 Background.....	10
1.3 Problem statement .....	12
1.4 Research Questions .....	13
1.5 Research Objectives.....	14
1.6 Justification of Research.....	14
1.7 Purpose of study.....	15
Chapter 2 Tourism, Retail and the Westfjords .....	17
2.1 Worldwide changes and rural tourism.....	17
2.2 Iceland’s demographic profile .....	18
2.3 Tourism in Iceland.....	18
2.4 Tourism in the Westfjords.....	22
2.5 Retail in Iceland and the rural Westfjords.....	23
2.5.1 Retail in Iceland.....	23
2.5.2 Rural Retail in the Westfjords .....	24
2.5.3 Case study of KSH, a local retailer in Westfjords.....	24
Chapter 3 Literature Review .....	27
3.1 Review of Rural Tourism .....	27
3.1.1 Defining Local and Tourist Customer .....	27
3.1.2 Defining Rural Tourism .....	27
3.1.3 Overview of Rural Tourism .....	30
3.2 Review of Service Quality.....	33
3.2.1 The Service Quality Concept.....	33
3.2.2 Service Quality Expectations vs. Perceptions.....	38
3.2.3 Satisfaction .....	40
3.2.4 Perceived Quality vs. Satisfaction .....	41
3.2.5 GAP Model.....	43
3.2.6 SERVQUAL Model.....	46
3.2.7 Why Choosing SERVQUAL.....	50
3.3 Loyalty.....	53
3.3.1 Service Loyalty .....	53

3.3.2 Customer Loyalty .....	54
3.3.3 Service quality perceptions and customer loyalty.....	55
3.4 Behavioral Intentions.....	56
3.5 Retail Service Quality .....	58
3.5.1 Retailing.....	58
3.5.2 Retail and service quality.....	60
3.6 Other Empirical Findings of Conceptual Relevance .....	62
Chapter 4 Conceptual Model .....	71
4.1 Conceptual model of determinants of rural retail loyalty.....	71
4.2 Justification for Proposed Model.....	71
4.3 Proposed Research Model .....	74
4.4 Hypothesis.....	75
Chapter 5 Research Methodology.....	77
5.1 Research Design.....	77
5.2 Population Profile (Demographics).....	78
5.3 Sample .....	78
5.3.1 Unit.....	79
5.3.2 Sampling techniques .....	79
5.3.3 Sample Size .....	80
5.3.4 Questionnaire .....	81
5.4 Data Collection .....	83
5.5 Scale and Measurement.....	84
5.6 Reliability and Validity of Scale .....	85
5.6.1 Item Level Validity (Item scale analysis).....	86
5.6.2 Construct Level Validity .....	86
5.7 Data Analysis Tools .....	87
5.7.1 Descriptive statistics.....	87
5.7.2 Factor Analysis .....	88
5.7.3 T-tests.....	89
5.7.4 Analysis of variance (ANOVA) .....	89
5.7.5 Multiple Regression Analysis .....	90
Chapter 6 Data Analysis & Interpretations.....	94
6.1. Results of Reliability and Validity testing .....	94
6.1.1 Face validity .....	94
6.1.2 Reliability .....	94
6.1.3 Construct Level Validity .....	95
6.2 Results of Descriptive Statistics .....	96
6.2.1 Respondent's demographic profile .....	96

6.3 Results of Independent Sample T-test .....	99
6.4 Results of Exploratory Factor Analysis .....	102
6.5 Results of Paired Samples T –test .....	110
6.6 Summary .....	113
Chapter 7 Discussion.....	115
7.1 Overview of strengths and weaknesses of the research .....	115
7.2 Theoretical , methodological and management implications of the findings.....	119
7.2.1 Differences between Perception and Expectation in Service Quality .....	119
7.2.2 The Suitability of the SERVQUAL Dimensions to Rural Tourism Retail .....	120
7.2.3 Factors Affecting Customer Loyalty.....	122
7.2.4 Factors Affecting Purchase Intentions and word-of-mouth communication.....	123
7.3 Main Contribution of the Research.....	124
7.3.1 Theoretical.....	124
7.3.2 Managerial Practices & Implications .....	126
Chapter 8 Recommendations and Limitations .....	129
8.1 Recommendations on closing the service quality gaps.....	129
8.1.1 Closing Gap 1 – Manager’s understanding of customer needs and joint communal effort .....	129
8.1.2 Closing Gap 2 - Employee education and training.....	133
8.1.3 Closing Gap 3 – The right personnel.....	135
8.1.4 Closing Gap 4 - Communicate what can be delivered and be aware of competitor’s .....	137
8.1.5 Closing Gap 5 - Influence customer’s expectation and perception by increasing their zone of tolerance .....	139
8.2 Limitations and Future Research .....	142
CONCLUSION.....	146
REFERENCES.....	150
APPENDICIES .....	158
APPENDIX A.....	158
Appendix B.....	160
Appendix C.....	161
Appendix D.....	162
APPENDIX E .....	163

## List of Tables

Table 1 - Iceland's currency earnings grouped by industries 2009-2016 (million ISK).....	20
Table 2 – Comparing numbers of visitors through keflavik airport by nationality, january to march 2016-2017 .....	22
Table 3 - Comparing main export revenues in iceland .....	31
Table 4 - Descriptive statistics.....	97
Table 5 - Demographics of rural tourism community.....	98
Table 6 - Group statistics .....	100
Table 7 - Independent samples test .....	100
Table 8 – Descriptive .....	101
Table 9 - ANOVA.....	101
Table 10 - Multiple Comparisons .....	102
Table 11 - Factor loadings.....	103
Table 12 - expectations do not seem to predict service satisfaction.....	107
Table 13 - Regression estimates for H2a and H2b: Influence of local customers' perceived service quality on service satisfaction outcomes .....	109
Table 14 Regression estimates for H2A and H2b: influence of tourist customers' perceived service quality on service satisfaction outcomes .....	109
Table 15 - Paired samples statistics.....	111
Table 16 - Paired samples test .....	112
Table 17 - Paired samples statistics.....	112
Table 18 - Paired samples test .....	112

## List of Figures

Figure 1 - Visitors through keflavik airport 2010-2016 (visitor per year).....	19
Figure 2 - Increase of visitors in iceland 2015-2016 ( % per month) .....	20
Figure 3 - Visitors by nationality 2015 & 2016 .....	21
Figure 4 - Overnight stays of tourists in the westfjords 1998-2016 (numer of visitors) .....	23
Figure 5 - Gaps Model of Service Quality.....	44
Figure 6 – A modified conceptual model for service quality in rural retail .....	71
Figure 7 - The proposed research model .....	75



## FOREWORD

Living in one of the most rural communities in Europe makes it easy to witness the vast changes that are occurring in our globalizing world. Before, the Westfjords were fully dependent on agriculture and fishery, with hardly any visitors entering the area. Today more than two thirds of the customers in the local stores are tourists. They influence our daily life and offer many benefits. However, tourist behavior varies, as they have different needs and react differently to services offered. Therefore, tourist customers affect the way businesses are operated and demand more managerial attention.

Increasing service quality is said to be one of the most important factors to gain competitive advantage in rural tourism and is therefore of focal attention. This thesis has provided me with a valuable opportunity to explore and better understand the consumer's point of view, both local and tourist customer.

The dedication and encouragement received from my supervisor, Åsa Helen Grahn, was of great value and has provided me with the necessary tenacity and courage to continue the work and overcome certain daunting obstacles during the research process. The expert input from Dr. Vesna Rodić Lukić on the data analysis section was of incredible value and has also provided me with new insight regarding this topic and academic practices in general. Therefore, I would like to thank them both for their kind support and cooperation during this study. In addition, Torvald Øgaard and other professors at the University of Stavanger have also contributed significantly to this study, which I know will be of long term value to me in the future.

I am forever grateful for the answers that I have received from all the survey participants, as well as the support, comments and suggestions during this work. All the above has increased the value of the thesis greatly.

Also, I must mention the caring and unselfish support from my fellow students, Berglind Kristjánsdóttir and Hjörtur Ásbjarnarson, who have always been there for me whenever needed.

Finally, I would like to thank my family, friends and coworkers for all the help provided and the endless patience you have showed me during these past weeks.

Viktoria Ran Olafsdottir

## Chapter 1 Overview of the Study

### 1.1 Introduction

A key aspect of this research is retail service dynamics in a rural tourism community, with a special focus on exploring and gaining insight into the implications of managing the relationship between local and tourist customers in the rural retail and tourism industry.

More specifically, the aim of the study is to gain a better understanding of service quality in rural retail and the differences in the two targeted markets, local and tourist customers, as well as the strategic implications it has on rural community business' sustainability. These implications will be explored with the goal of providing retailers with recommendations on how they can increase service quality and promote successful service delivery to both target groups.

In this research, a study by Hurst, Nihem & Littrell (2009) is used as a main support, as it is seen to be highly relevant to the selected topic with its focus on rural retail in relation to tourism. The intention is not to directly replicate the work of Hurst et al. (2009), but rather to adapt it and expand it into the rural area of the Westfjords in Iceland.

The empirical research by Parasuraman, Zeithaml & Berry (1985 and 1988) offers an especially valuable insight in consumers' perceptions of service quality, which is of special importance in this paper, as well as testing its' relationship to attitudinal loyalty, purchase intentions and word-of-mouth communication.

### 1.2 Background

Nowadays, the retail sector's philosophy often appears to be to maximize profits, create added value and to gain a competitive edge over competitors. According to Vargo & Lusch (2004), businesses became more customer focused in the period 1950-1980 where firms were

expected to focus more on creating satisfied customers. The service-centered views were surpassing the traditional goods-centered views where the customer became an intertwined part of the value-creation process where value was perceived and determined by the consumer (Vargo & Lusch, 2004). Until then, managers were mostly concerned with the tangible production of commodities, but began to realize the importance of fulfilling customer needs.

In the 70's, Kotler (1973, p. 48) published a scientific article pointing out that "Buyers respond to the *total product*" including the "services, warranties, packaging, advertising, financing, pleasantries, images and other features that accompany the product." Kotler (1973) explored and discussed the many dimensions influencing consumer behavior, buying behavior and its effect on retailing.

Even though modern researchers understand the importance of a customer value perception, the focus of today's manager often seems to be on marketing techniques, while neglecting the possibility that consumers are willing to pay more for good service and experiences (Lusch, Vargo, & O'Brien, 2007). Bendapudi and Leone (2003) point out that "customers are increasingly becoming involved in the co-production of many services" as cited by Lusch et al. (2007, p.12). They also stress the importance of leveraging employees as their service role is considerable. Retailer's competitive edge and service orientation often depends on employees' special knowledge, skills and direct customer relation (Lusch et al., 2007).

However, changes are taking place as a larger proportion of the customer base might be tourist customers. So is tourism changing retail industry? What about retail in rural areas? Are the traditional rural co-ops evolving towards more service orientation with increased emphasis on service quality? Or are they trying to apply the same service with an 'one size fits all' approach, both local and tourist customers?

### 1.3 Problem statement

The GDP revenues of Iceland have changed dramatically in the past five years. A significant breakthrough took place in 2015 when the tourism industry surpassed all other industries, and became the largest revenue contributor for the first time. The tourism industry then contributed 31% to Iceland's total revenues, whereas the fishing industry provided 22,3% (Iceland Statistics, 2016). Traditionally, the fishing industry is seen to be the backbone of all Icelandic industries and the tourism has been of much lesser value and still is not taken seriously enough.

The increased centralization in Iceland has caused a negative downsizing effect in traditional industries and shrunk economies in many rural communities, such as the Westfjords.

However, the tourism industry is growing rapidly and rural communities are taking their first steps in developing a strategy to better exploit the opportunities at the tip of their fingers; that is creating jobs and services, increasing their revenues from tourism and hospitality services.

Rural retail and its developing relationship with the tourism industry will be a primary aim of this study. In the past, the retail industry has traditionally served the surrounding communities. The growing competition of larger retail-chains located in the capital is forcing rural retail to seek for new markets. Tourism seems to provide a lifeline to the rural retail businesses, but in order to survive they should adapt fast to the unique needs of the seasonal travelers. Concurrently they should continue serving the loyal local customers efficiently too.

So how can different customers be served efficiently? Service quality is a critical component of customer perception about offered services. In other words, customer perceive services in terms of quality offered and how satisfied they are with the overall experience. This is why it is very important to satisfy customer expectations with excellent service quality provided by

employees. In addition, it may enhance the competitiveness of the retailer, as a happy customer is more likely to return and buy more of the same services (Zeithaml, Parasuraman & Berry, 1990).

#### 1.4 Research Questions

It is important to determine what key factors influence the customer's perception of the retail service quality in the rural context, and whether there are differences in the perception of local and tourist customers.

The key research questions of this study are:

- 1) Is there a difference between local and tourist customers' perception of service quality in rural tourism context?
- 2) Is there a relationship between service quality perceptions and local customers' and tourist customers' attitudinal loyalty, purchase intentions and word-of-mouth communication?

This study will explore the service quality dimensions and how well they fit the rural retail in the Westfjords. A special attention will be given to finding whether there are any differences in the service quality perceptions of local customers and tourist customers and explore if it influences their future behavior. The findings may help retailers to evaluate and improve their service quality performance in the future.

The research questions will be systematically answered to fulfill the purpose of the study.

Specific hypotheses will be designed accordingly and presented in Chapter 4.

## 1.5 Research Objectives

In the rapidly expanding tourism sector in Iceland and the highly competitive retail market it has become a matter of survival that the retailers adapt to the economic changing market and rise to the challenges of a new market opportunities. The objective of the research is to investigate the demographic characteristics of customers and their relationship with perceived service quality in rural retail, as well as their predictive ability of future behavior.

The research objectives are listed as following:

- To analyze the demographic profile of customers, visiting rural retailers in the Westfjords.
- To identify the service quality gap between the expected and the perceived service quality among the rural retail services in the Westfjords.
- To determine which service quality dimensions are seen to be of most importance to the different customer groups.
- To examine if there is a relationship between the perceived service quality of rural retail customers, and their loyalty and behavioral intentions.

## 1.6 Justification of Research

This research may be of value to retailers or tourism services practitioners in the Westfjords or other similar rural tourism areas. The findings could also provide a valuable insight or advance knowledge of a topic that has limited previous research at this location. The study may be of certain significance to managers wanting to increase their knowledge and understanding about service quality, which can guide them further in improving the service quality performance of their businesses. The five SERVQUAL dimensions (Tangibility,

Reliability, Responsiveness, Assurance and Empathy) may all be important. But in an increasingly competitive industry, managers want to know how to become more effective. With ever limited resources, it may be very helpful to determine where they should be putting their strategic focus in order to improve their service quality and improve customer satisfaction to respond to the changing market as quickly as possible.

A positive service quality perception, retention and the loyalty of local customer is very important to rural retailers. However, the same goes for the tourist customers. Even if the tourist customer may not be likely to return as often, or may even be a one-time visitor, he/she may nonetheless spread the word of good service quality impacting the retailer's reputation and hence the likeliness of new customers wanting to visit the area.

### 1.7 Purpose of study

In the Westfjords, it is important to increase the sustainability of rural retail and tourism, as it currently depends on highly customized services to a tiny local market and a 12-week marathon during the high-peak tourism season. Retailers must provide service that suits both different segments by meeting the local and tourist customers' expectations at the same time. Yet, the retail industry needs to be much more service orientated and innovative to "capitalize on the experiences, attractions, and natural amenities present in the community" (Hurst et al., 2009, p. 512).

Still, managing and providing services to suit the traditional lifestyle of the local and the multinational of tourist customers is a complex task, both in the sense of meeting customer needs and expectations, as well as their satisfaction. This calls for a deeper understanding of the differences between these two segments and their preferences in relation to their retail experiences, with special emphasis on rural communities.

This study could be of importance to the growing tourism retail business in rural areas in general, not just Iceland, as a deeper understanding of the segments may assist and encourage retail businesses to respond effectively and efficiently to the preferences of the market, increasing customer satisfaction and potentially increasing the success of rural tourism retailing. Success could positively affect business outcomes in many different ways, e.g. increased customer satisfaction, increased turnover and even reduce employee turnover (Hurst et al, 2009).

Among other literature, this study will rely on earlier study conducted by Hurst et al., (2009, p. 512) which “specifically address local resident and tourism customers’ expectations for retail service, their perceived post-service satisfaction (i.e. perceptions), and their projected shopping outcome behaviors based on perceived service quality.”

Several papers have explored the retail services and service quality, but less attention has been given to the rural tourism. Mentioned topic is of special interest for this paper, as retail services in the rural area are highly dependent on the tourism season for survival. An increased efficiency and effectiveness is critically needed for continued existence of these rural units. The findings of this study will hopefully contribute to a deeper theoretical understanding of rural tourism service dynamics, not just for the author but also for other rural businesses and even some local academics.



## Chapter 2 Tourism, Retail and the Westfjords

This chapter will briefly describe the global changes leading to increased rural tourism, the rise of tourism in Iceland, as well as the rural tourism in the Westfjords. A short overview will be provided on the rural retail services of Iceland, although very little information is available as it remains an under-researched academic field. However, this section will hopefully shed some light on this rapidly developing industry that will then be explored even further in relation to service quality in an otherwise unexplored rural area of Iceland. The aim is to provide a better understanding of the demographic structure and development affecting the two focus groups of this study, local and tourist customers of rural retail.

### 2.1 Worldwide changes and rural tourism

The intensification of rural tourism may stem from many different changes in people's lives. Globalization has led to many changes affecting how and where people live. It has also changed people's disposable income and leisure time. Transportation networks have improved immensely as well as people's ability to travel around the globe. In addition, technology improvements and the flow of information have catapulted in the last decades (George, Mair, & Reid, 2009).

At the same time the population is being more centralized into urban or metropolitan areas where work may feel highly mechanized, fast paced and highly individualistic. Described lifestyle may lead to lost identity or lack of cultural attachment. According to Urry (1995) and Schouten (1996), these changes may lead to people's increased desire to escape and search for the meaning of life (as cited in George et al., 2009, p. 7). Therefore, people may look for ways to escape the stressful repetitive ordinary urban life and seek to travel to rural areas in order to reconnect and satisfy the need for simpler life (George et al., 2009).

## 2.2 Iceland's demographic profile

Iceland is a Scandinavian island, quite distant from other countries, located just below the Arctic circle in the North Atlantic Ocean. Iceland's population was estimated to be 335.878 in July 2016, with a median age of 36,3 years, and 40% of the nation being aged from 25 to 54 years. The population growth rate was estimated to be 1,17% in 2016. The urban population is 94,1% of the total population and the urbanization rate is 1,25%. Therefore, less than 6% of the population resides in rural areas. Reykjavik is the capital of the country with roughly 184,000 inhabitants (CIA World Factbook, 2016).

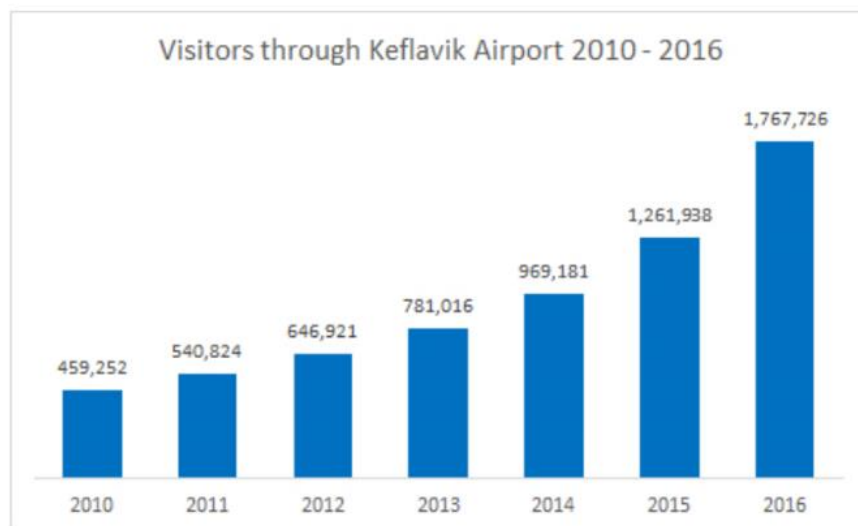
Iceland has a small open economy, with plentiful raw materials, renewable energy, and an unique natural environment, with unspoiled wilderness, active volcanos, large glaciers, hot springs and colorful culture, that seem increasingly attractive to today's tourists. Iceland's main challenges are the rapidly growing and highly seasonal tourist arrivals, which are putting an increased pressure on the infrastructure and general services created for a population of only 300, 000. In addition, major challenge related to sustainability issues is the management and control of tourists visiting the fragile ecosystems and the pristine wilderness (OECD, 2014, p. 12).

## 2.3 Tourism in Iceland

As mentioned before, the currency earnings made in tourism industry surpassed the traditional fishing industry in 2013. In 2014, the tourism industry earned 304 billion Icelandic Krona (ISK) in comparison to the fishing industry 244 billion ISK (Icelandic Travel Industry Association, 2017). In March 2015, Landsbankinn Statistics controversially estimated that Iceland's currency earnings from tourism would be around 430 billion ISK in the year 2017 with approximately 1,5 million visitor arrivals (Hagfræðideild Landsbankans, 2015).

Many Icelanders were highly skeptical of this estimate and wondered if it could become reality. However, Landsbankinn's estimate turned out to be too modest. A year earlier than estimated, the number of visitors in 2016 was thought to have surpassed 1,8 million, with a total of 1,7 million arrivals in Keflavik Airport alone. Then arrivals from other airports, ferries and cruisers had yet to be counted. The average growth of foreign visitors passing through Keflavik Airport was approximately 25,4% between 2010 and 2016. Yet, the biggest growth took place within just one year, were the greatest number of visitors to this date was in 2016, with a whopping 40% more than only a year earlier (Icelandic Tourist Board, 2017a), see **Figure 1** (Icelandic Tourist Board, 2017b).

FIGURE 1 - VISITORS THROUGH KEFLAVIK AIRPORT 2010-2016 (VISITOR PER YEAR)



Furthermore, Landsbankinn's estimate of the 430 billion ISK currency earnings for 2017 was in fact surpassed in 2016, when 458 billion ISK were earned, see **Table 1** (Icelandic Travel Industry Association, 2017).

TABLE 1 - ICELAND'S CURRENCY EARNINGS GROUPED BY INDUSTRIES 2009-2016 (MILLION ISK)

<b>Iceland's currency earnings grouped by industries 2009-2016, million ISK</b>								
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Fishing	208.624	220.495	251.611	268.684	272.494	244.150	264.722	232.134
Agriculture	7.741	8.993	9.897	12.280	13.167	11.518	13.406	16.924
<b>Tourism</b>	<b>155.522</b>	<b>162.828</b>	<b>196.497</b>	<b>239.544</b>	<b>276.635</b>	<b>304.637</b>	<b>369.536</b>	<b>458.002</b>
Aluminum	187.517	241.226	256.921	246.975	235.322	233.260	257.435	198.326
Other Manufacturing	66.226	75.250	85.225	90.251	78.761	81.093	78.274	75.956
Other products	30.747	15.069	16.473	14.840	10.973	20.480	12.428	14.002
Other transportation and services	135.396	145.691	149.393	140.695	160.581	173.182	193.117	193.926
<b>TOTAL</b>	<b>791.773</b>	<b>869.551</b>	<b>966.017</b>	<b>1.013.268</b>	<b>1.047.934</b>	<b>1.068.320</b>	<b>1.188.918</b>	<b>1.189.270</b>

Source: Statistics Iceland; as cited by Icelandic Travel Industry Association, 2017.

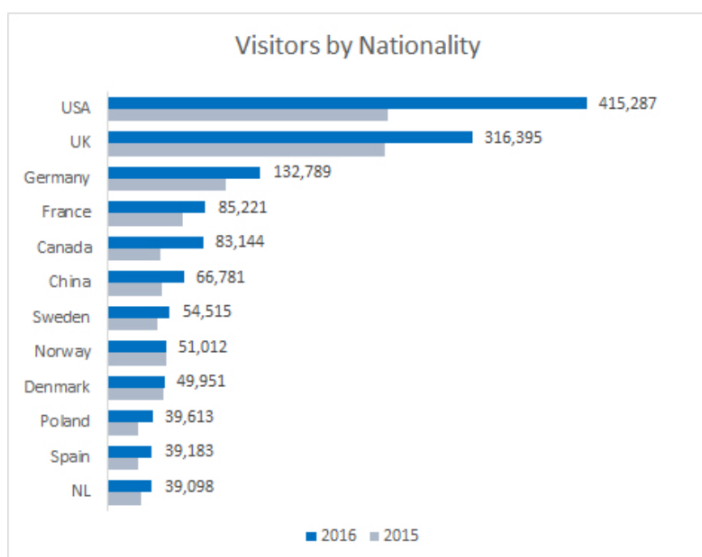
Not only did the number of visitors increase, but as can be seen in the following graphs, the “increase was between 30–40% in five of the year’s months, or in March, April, May, June and July. The increase exceeded 40% in five months of the year and was proportionately the greatest in the latter part of the year, or 76.1% in December, 61.4% in November and 59.79% in October” (Icelandic Tourist Board, 2017b). In other words, the biggest increase of visitors was in off-season periods of the year, see **Figure 2** (Icelandic Tourist Board, 2017b).

FIGURE 2 - INCREASE OF VISITORS IN ICELAND 2015-2016 ( % PER MONTH)



Most visitors came from the USA, UK, Germany, France, Canada and China and changes in the growth of different nationalities is portrayed in **Figure 3** (Icelandic Tourist Board, 2017b).

**FIGURE 3 - VISITORS BY NATIONALITY 2015 & 2016**



The first three months of 2017 indicate an even more increase with the average growth of 53,7% of the main nationalities in tourism. One of Iceland’s tourism strategies is to combat tourism seasonality and the newest statistics indicate that some nationalities are more willing than ever before to visit Iceland during the off season (January- March), see **Table 2** (Icelandic Tourist Board, 2017b). “The proportional increase outside the peak season, however, has been the greatest over the winter months (January–March/November–December), as 31.1% of visitors came during the winter in 2016” whereas winter arrivals were only 23% in 2010 (Icelandic Tourist Board, 2016).

**TABLE 2 – COMPARING NUMBERS OF VISITORS THROUGH KEFLAVIK AIRPORT BY NATIONALITY, JANUARY TO MARCH 2016-2017**

	2016	2017	Increase/decrease	
			No.	%
Canada	5.781	16.474	10.693	185,0
China	11.156	20.889	9.733	87,2
Denmark	7.089	7.878	789	11,1
Finland	2.174	2.441	267	12,3
France	10.597	17.033	6.436	60,7
Germany	13.100	22.460	9.360	71,5
Italy	2.296	6.311	4.015	174,9
Japan	7.085	8.792	1.707	24,1
Netherlands	5.570	9.844	4.274	76,7
Norway	7.174	7.045	-129	-1,8
Poland	3.814	9.125	5.311	139,3
Russia	494	1.271	777	157,3
Spain	3.018	8.632	5.614	186,0
Sweden	6.110	7.277	1.167	19,1
Switzerland	2.661	3.574	913	34,3
United Kingdom	107.174	124.365	17.191	16,0
USA	54.354	102.900	48.546	89,3
Other	44.462	75.837	31.375	70,6
<b>Total</b>	<b>294.109</b>	<b>452.148</b>	<b>158.039</b>	<b>53,7</b>

## 2.4 Tourism in the Westfjords

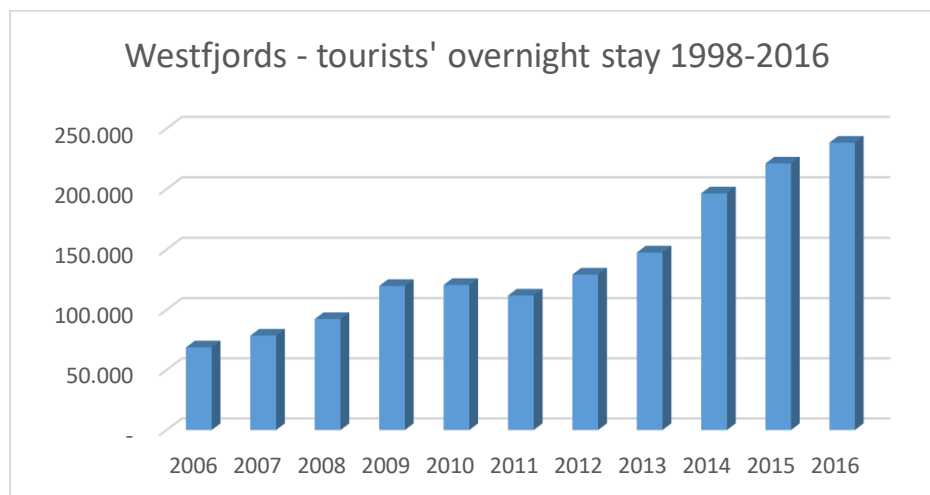
This paper focuses on the rural parts of Iceland, the Westfjords, which is also considered its best kept secret. The isolation of this part of the country has preserved the region's magical wilderness and a variety of Arctic wildlife through the centuries. The Westfjords peninsula has a population of only 6.885 (Statistics Iceland, 2017a). Large parts of the area are totally unpopulated, with steep cliffs that host “nearly half of the world's population of some bird species” (Visit Iceland, 2017).

Although the Westfjords are one of the least visited regions of Iceland, the overnight stays there have grown considerably in the past years, growing from 120.652 in 2010 to 196.364 in

2014. This 63% growth mainly consists of international tourists (Markaðstofa Vestfjarða, Atvinnuþróunarfélag Vestfjarða og Ferðamálasamtök Vestfjarða, 2016, p. 8).

The number of overnight stays in the Westfjords continued to grow and was reported to be 238.242 at the end of 2016, as seen in **Figure 4** (Statistics Iceland, 2017c).

**FIGURE 4 - OVERNIGHT STAYS OF TOURISTS IN THE WESTFJORDS 1998-2016 (NUMBER OF VISITORS)**



Despite the growth in number of visitors, Westfjords' market-share of overnight stays in Iceland is only a tiny 3,6%. So what does the future entail for the tourism in the Westfjords, assuming it will at least maintain its current market-share? Estimates made by Westfjords' governmental agencies in 2014 indicated that if the number of overnight visitors continues to grow in direct relation to the number of tourists visiting Iceland, then the overnight stays may reach around 400.000 in 2020 (Markaðstofa Vestfjarða et al., 2016, p. 29).

## 2.5 Retail in Iceland and the rural Westfjords

### 2.5.1 Retail in Iceland

SVTH is a Federation of Trade & Services in Iceland and represents a countrywide federation of companies in commerce and services, both private retailers and cooperative enterprises.

There are currently “more than 1.600 registered companies in the sectors covered by SVTH

with employees exceeding 40 thousand totally. The actual SVTH membership consists of some 300 companies” (Federation of Trade and Services, 2017).

To this date, the Icelandic retail industry may not have responded strategically to the rapidly growing number of tourist customers by providing empirical research, academic publications or professional training regarding these changes. So far, more focus has been put on development in the field of logistics, e-commerce, IT and telecommunication services. In fact, retail and shopping is yet to be classified as a tourist activity in most Icelandic publications (Landsbankinn, 2014).

### 2.5.2 Rural Retail in the Westfjords

As indicated above, the availability of information on regional retail services is highly limited. Little or no published research can be found for the Westfjords area or even Iceland in general. More information can be found on tourism expenditure, although a lot of this information is based on self-reported estimates derived from tourist surveys in airports. According to a tourist survey made by Statistics Iceland (as cited in Markaðstofa Vestfjarða et al., 2016, p. 28) tourists are estimated to spend around 1.2 billion in accommodation and restaurants in the Westfjords, and another 2 billion in businesses and derivative services elsewhere in the Westfjords’ economy. However, no specific empirical research has taken place to distinguish travel customers from local customers in Westfjords’ other retail or tourism services (Markaðstofa Vestfjarða et al., 2016).

### 2.5.3 Case study of KSH, a local retailer in Westfjords

In order to gain an insight into local retail, interviews were conducted in Kaupfélag Steingrímsfjarðar Hólmavík (KSH), the largest retailer in the Strandir area of the Westfjords. A descriptive summary of the responses from four managers is provided in this section,



following the responses from additional nine employees provided in **Appendix A**, which will also be covered later in the Discussion chapter. A total of 13 people were interviewed.

KSH is the key retailer in the area, with relatively small direct local retail competition in this category. However, recently the road system was improved drastically, making the distances to other towns shorter with two other small retail stores within 80 km distance.

KSH is the second oldest retail store in Iceland, founded in 1898. The business started as a local co-op and has remained locally owned ever since (119 years). The local owners or members of KSH are a highly diversified group of people, such as fishermen, bankers, farmers, teachers, tourism workers, housewives, forest workers, general workers and other.

KSH operates three retail stores, in three different villages: Hólmavík, Drangsnæs and Norðurfjörður and the population of these communities is approximately 500, 100 and 30 individuals. These retail units may therefore be some of the most rural retail operations in the world.

The main emphasis of the KSH services is providing groceries and other products for daily use, but it also provides farming, fishing and builder hardware, large appliances and animal feed, it has an operating alcohol store, post office and is selling oil products for vehicles, ships and other machinery.

KSH has operated with a negative return on investment in the past six years, which can be related to the increased competitiveness of the retail market, increased transportation cost, higher merchandise cost, more expensive and complex inventory control systems, and increased labour cost. KSH has gone from having approximately 10 winter and 15 summer employees in the year 2000, to 20 winter and 40 summer employees in 2016.

KSH managers consider tourism to be a highly labor intensive service industry requiring a rapid increase of seasonal staff, since a large part of the permanent staff prefers to take a

vacation during the peak tourism season. This is said to cause some service quality problems during the high-peak season, as the best qualified and trained people are on holiday during the biggest workload period. Therefore, the high-season customers get served by the younger, less experienced and less qualified employees.

KSH is considered to be operated far from its full capacity, despite the rapid growth of tourist visitors in the area. The management has yet to form a suitable and sustainable managerial strategy that will reap the full benefit of the growing number of customers, whilst maintaining high service quality provided to the good old local customers at the same time as responding to the service quality requirements of a new target group, the tourist customer.

## Chapter 3 Literature Review

The following section provides a literature review of service quality and related constructs in the rural retail and rural tourism context. Firstly, this will involve the review of tourism in the rural context. Secondly, the service quality concept will be described in relation to the expectation and perception paradigm with a review of the GAP and SERVQUAL models, theories and their applicability to this study. A review will then be provided on the relevant theoretical and empirical literature on service quality and its relationship with loyalty and behavioral intentions.

### 3.1 Review of Rural Tourism

#### 3.1.1 Defining Local and Tourist Customer

To begin with, it is important to understand many different terms discussed in this paper. The Web Finance Inc. (2017) defines a *customer* to be a person “that receives or consumes products (goods or services) and has the ability to choose between different products and suppliers.” The Cambridge University Press (2017) describes a *local* to be “a person who lives in the particular small area that you are talking about.” The OECD (2015, p. 1) defines *tourist* to be “Any person who travels to a country other than that in which s/he has his/her usual residence but outside his/her usual environment for a period not exceeding 12 months... and who stay at least one night in a collective or private accommodation in the country visited.”

#### 3.1.2 Defining Rural Tourism

As cited by Maestro, Gallego & Requejo (2007) and Loureiro & González (2008), the academic community has given rural tourism an increased attention (Björk, 2000; Díaz Martín & Vázquez Casielles, 1998; Fleischer & Pizam, 1997; Frochot, 2005; Gascón Linares,

1993; Getz & Carlsen, 2000; Oppermann, 1996; Reichel, Lowengart, & Milman, 2000; Sharpley, 2002; Valdés Peláez, 1996; Yagüe Perales, 2002; Frochot, 2005; Gilbert, 1989; Greffe, 1994; Page & Getz, 1997; Sharpley & Sharpley, 1997). Yet the term itself requires clarification since it lacks consensus and generally accepted definition. Even if several operational definitions can be found, they do not seem consistent across countries (Maestro et al., 2007; Albacete-Sáez, Fuentes-Fuentes, & Lloréns-Montes, 2007; Loureiro & González, 2008).

One example is North Dakota (USA) considered a rural state in 2008 “with an estimated population of around 640 000 (US Census Bureau, 2010)...[with] approximately 6.1 million overnight visitors...(Longwoods International, 2009)” (as cited in Phillips, Wolfe, Hodur, & Leistriz, 2013, p. 93).

In comparison, the Reykjavík area (the capital of Iceland) is considered urban with a population of 216.653 in April 2017 and with over 3,4 million overnight visits in 2016. The urban area of Iceland seems much smaller than the rural area of North Dakota in the USA. Furthermore, this study focuses on the Westfjords, which is considered rural on the Icelandic scale, with a tiny population of only 6.870 inhabitants and receiving only 238.000 overnight visitors in 2016 (Statistics Iceland, 2017a; Icelandic Statistics, 2017b).

Another interesting parallel can be drawn by comparing budgets. The North Dakota State Tourism office budget of USD 2,9 million (Phillips, Wolfe, Hodur, & Leistriz, 2013) is considerably large in comparison with the meagre Westfjords’ budget of less than USD 120.000 (D. Jóhannsdóttir at Visit Westfjords, personal communication, May 18, 2017). Yet the North Dakota budget is considered small on a U.S. scale as the “Travel Industry Association of America report showed the North Dakota State Tourism office budget as ranking 48th out of 50 states (TIA, 2007)...[which was] significantly less than that of the

surrounding states of Minnesota (\$10.5m), Montana (\$9.5m) and South Dakota (\$9.3m)” (as cited in Phillips et al., 2013, p. 93). The above comparison gives an indication of the complexity in defining the term *rural* area, as it involves a measurement that seems to be relative to the size of each country’s population and non-urban areas.

Furthermore, the understanding of the term may also vary depending on the sector it applies to, such as hospitality, retail, agriculture, ecotourism, or other. „The modern rural tourism context includes a variety of typologies, such as green tourism or ecotourism, agrotourism, adventure tourism, outdoor sport tourism, and cultural tourism“ that all have a very unique approach to rural tourism and thereby a diverse understanding of the term (Maestro et al, 2007, p. 951).

Interestingly, a Portuguese legislation (Dec.-Lei n°54/2002), defines *rural tourism* as “combination of paid activities and services provided in rural areas, in establishments with family character...aiming at offering a complete and diversified tourism product in rural areas... so as to preserve, restore and value the regions’ architectonic, historical, natural and landscape heritage” (as cited in Loureiro, 2010, p. 396).

Furthermore, OECD (1994) defines rural tourism “as tourism taking place in the countryside” and that “rurality is the central and unique selling point in the rural tourism package” (as cited in Loureiro & González, 2008, p. 117). Additionally, in the hospitality sector or the lodging market specifically, rural tourism is seen to be “lodgings with a small number of beds and a set of possible activities such as appreciating landscape, eating and drinking regional food and wine, visiting regional fairs, or learning how to make handicrafts“ (Loureiro, 2014, p. 5).

The tourists themselves may have yet another perspective on rural tourism where the term is seen to represent destinations that provide a “nature-related activities free from pollution and mass development” (Albacete-Sáez et al., 2007, p. 46).

### 3.1.3 Overview of Rural Tourism

#### 3.1.3.1 The Increase of Rural Tourism

According to Loureiro and González (2008) tourism activity in developed countries has grown considerably since the 1970s and rural tourism has even been one of the most common trends in most European countries. Similar to Iceland, the “rural tourism in Spain has only experienced considerable growth over the last 20 years—much later than most of Europe” (Loureiro & González, 2008, p. 118). However, large investments in Spain are mostly from European Union aids, whereas the rural regions of Iceland have barely received any investments or international funding (Loureiro & González, 2008; D. Jóhannsdóttir at Visit Westfjords, personal communication, 18. May 2017).

Nevertheless, “rural tourism is a development tool of rural areas, frequently economically and socially depressed (Gannon, 1994; Greffe, 1994; Page & Getz, 1997; National Institute of Statistics Portugal [INE], 2007)” (as cited in Loureiro, 2010, p. 397). As the traditional industries of the rural areas decline (e.g. agriculture, mining and fisheries), “tourism has been identified as an alternative form for economic growth and regional development in many rural areas. The positive economic impacts of rural tourism has been long researched (Fleischer and Felsenstein, 2000; Gartner, 2004; Cawley and Gillmor, 2008)” (as cited in Phillips et al., 2013, p. 93).

Tourism provides rural areas with an opportunity to diversify their economies and to become less reliant on diminishing industries that depend heavily on weather conditions and market fluctuations (such as fishery and farming). Rural tourism may have the ability to provide growth that sustains rural population by creating small tourism businesses, creating more job opportunities, increasing employment and social welfare (Phillips et al., 2013; Albacete-Sáez et al., 2007). Burns and Holden (1995) believed tourism would become one of the largest

global export industries and in addition Weaver and Oppermann (2000) observed that tourism had become a “global economic giant representing about 6 per cent of the global economy and creating approximately 200 million jobs worldwide during the later decades of the twentieth century” (as cited in Al-Rousan, Ramzi & Mohamed, 2010, p. 886). Furthermore, Goeldner and Ritchie (2003) “projected that global travel and tourism would generate US\$7.0 trillion in economic activity and 260 million jobs by 2011” (as cited in Al-Rousan et al., 2010, p. 886).

The rapid increase can be confirmed by looking at the development of the tourism industry in Iceland. Statistics provided by OECD (2017) report that the Icelandic trade export in travel services grew by astonishing 27,3% in just one year. From 1.070 million USD in 2013 to 1.362 million USD in 2014 (OECD, 2017). As seen in **Table 3**, export revenues from tourism exceeded the traditional industries in the year 2015 and continue to increase rapidly (Statistics Iceland, 2017c).

TABLE 3 - COMPARING MAIN EXPORT REVENUES IN ICELAND

Comparing specific export industries 2013-2016	2013	2014	2015	2016 (Jan-Sept)
<b>Fishery export</b>	272.459	243.956	264.665	176.446
<b>Manufacturing export</b>	309.140	309.990	331.060	204.313
<b>Tourism</b>	276.635	304.637	<b>369.536</b>	<b>374.087</b>

### 3.1.3.2 Strategy for Rural Tourism

The interest “is growing amongst both academics and politicians in understanding the rural tourism phenomenon, particularly since rural tourism is oftentimes viewed as a development tool of rural areas, which are economically and socially depressed (e.g., Kastenholz, 2005; Page and Getz, 1997)” (as cited by Loureiro & Kastenholz, 2011, p. 575). Yet limited strategies seem to be available that have been developed specifically for the rural tourism,

and the research on the special characteristics of rural tourism might also be lacking. Likely reason is limited funding for research of these rural areas.

According to Loureiro and González (2008, p. 118) the rural tourism service provider is often seen as “a farmer with a low educational level or with another profession” whereas the potential customer is “educated and relatively affluent” and the difference in these profiles is “considered as one of the most important barriers to the development of rural tourism.” This means that the less educated service provider in the rural area has to adapt to the highly strategic and competitive tourism industry which is “dominated by communication and promotion techniques (Gannon, 1994)” (as cited in Loureiro & González, 2008, p. 118).

Rural tourism is seen to be the answer to the damages of mass tourism and increased environmental awareness. As mentioned before, a key strategy for developing rural tourism is to improve the quality of services offered. Sustainable growth of rural tourism is not in gaining as many tourists as possible, but much rather in targeting a highly valuable market segment that is searching for something unique and is willing to pay higher price for new experiences or inspiring relaxation in a rural setting (Fuentes Garcia, 1995; Tyrväunen et al., 2001; as cited in Albacete-Sáez et al., 2007, p. 46).

### 3.1.3.3 Rural Tourism and Service Quality

As discussed by Vazquez-Illá (2000) cited by González, Comesaña & Brea (2007, p.153), the limited research and lack of specific information about the rural tourism sector can cause serious issues. Fragmentation and poor professional management is said to characterize the industry, which hinders the application of appropriate strategies. Perceived quality is thought to significantly influence customer choice or preference. Therefore, the rural tourism industry requires professional information about “competitive strategies that focus on offering the best



possible service quality and ensuring customer satisfaction“ (González, Comesaña & Brea, 2007, p. 153).

In order to further promote tourism in rural environment, coordinated actions by all the actors involved are required. Public bodies should accept the responsibility and generate resources to encourage, build and maintain the infrastructure at destinations, as well as public services, natural and cultural conservation. However, tourism companies themselves “are responsible for offering quality services that meet tourists’ expectations regarding the rural world“ (Albacete-Sáez et al., 2007, p.57).

Albacete-Sáez et al. (2007) also point out that the private initiatives must be coordinated, for the effort of the whole rural destination to be perceived as high quality. One company’s effort may not be sufficient to meet customer’s expectations, as the customer evaluates the experience on a more holistic basis for the entire destination.

## 3.2 Review of Service Quality

### 3.2.1 The Service Quality Concept

In the past, researchers have suggested a broad variety of models in the service and marketing literature where service quality was a focal point. These researchers often linked service quality with other constructs “such as customer satisfaction, complaining behavior, customer loyalty, and consumer behavioral intentions (e.g. Baker and Crompton, 2000; Bloemer et al., 1999; Caruan, 2002; Cronin and Taylor, 1992; Spreng and Mckoy, 1996; Spreng and Chiou, 2002; Tian-Cole et al., 2002) (as cited in Alexandris, Kouthouris & Meligdis, 2006, p. 417).

According to Parasuraman et al. (1985) there is a key difference between service quality and goods quality based on the unique characteristics of service which makes it hard to measure. In addition, service quality requires the exchange of communication and consumer involvement (Grönroos, 1984).

To begin with, this paper focuses on service quality as Asubonteng, McCleary & Swan (1996, p. 64) defined it: “the difference between customers’ expectations for service performance prior to the service encounter and their perceptions of the service received.”

Parasuraman, Zeithaml and Berry (1988) described *service quality* to be the customer’s overall judgement of the service basing it on the difference between the customer’s expectation and the evaluation of the performed service. They stated that “delivering superior service quality appears to be a prerequisite for success, if not survival, of all businesses in the 1980s and beyond” (Parasuraman et al., 1988, p.13).

Therefore, delivering high quality service to customers in many businesses is seen to be the critical factor in evaluating company performance. Hence “service-quality measurement has become the main subject of several empirical and conceptual studies” (Atilgan, Akinci & Aksoy, 2003, p. 412). Service quality can be seen to be of high importance to service managers as customers evaluate service quality as the result of their satisfaction level, which is thought to affect the likeliness of repurchase and thereby the success of businesses. As cited by Seth, Deshmukh, & Vrat (2005, p. 913), service quality has become a major area of attention as managers in most industries have realized “its strong impact on business performance, lower costs, customer satisfaction, customer loyalty and profitability (Leonard and Sasser, 1982; Cronin and Taylor, 1992; Gammie, 1992; Hallowell, 1996; Chang and Chen, 1998; Gummesson, 1998; Lasser et al., 2000; Silvestro and Cross, 2000; Newman, 2001; Sureshchander et al., 2002; Guru, 2003 etc).” Decades long work has produced a

“continued research on the definition, modeling, measurement, data collection procedure, data analysis etc., issues of service quality” (Seth et al., 2005, p. 913).

Thus, what is service quality? Researchers such as Grönroos (1993), Patterson and Johnson (1993), Anderson and Fornell (1994), Rust and Oliver (1994), and Taylor and Baker (1994), have shared many different in-depth views on the concept and contributed to definition of the constructs (as cited in Bloemer, Ruyter & Wetzels, 1999, p.1082).

“It is important for management to understand what service quality consists of, its definition, and how it can be measured. If management is to take action to improve quality, a clear conception of quality is of great value” (Asubonteng et al., 1996, p. 63). Despite this and throughout the years, the concept *service quality* has been extensively used in various scientific disciplines and has been discussed in different ways far and wide in the literature.

Although the overall meaning and definitions of the concept seem to be to a certain extent agreed upon in the literature, the approach in which it could be measured and managed in various contexts seems to be multiplex.

Many authors discussing service quality (Bitner 1990; Bolton and Drew 1991; Cronin and Taylor 1992; Oliver 1993; Patterson and Johnson 1993), see it as a „long-term attitude” (as cited in Cronin & Taylor, 1994, p. 126). Yet, the term service quality actually consists of two parts. Grönroos (1984) describes *service* as an intangible behavioral activity or process, indicating an interaction between customer and employee to provide a solution to a problem or to satisfy a need. Whereas Parasuraman et al. (1985) point out that the term *quality* is in the eye of the beholder or the customer, who measures or evaluates the performance of a product or service.

In a study made by Parasuraman et al. (1985), they described their exploratory investigation of quality that they conducted in four service businesses with the aim to develop a model of

service quality. They stress the importance of understanding the difference between goods quality and service quality and that there are three specific “characteristics of services—intangibility, heterogeneity, and inseparability” (Parasuraman et al., 1985, p. 42).

### **Intangibility**

Most services are intangible and entail performances rather than objects, which is why it is hard to produce specific quality standards or specifications for service providers.

“Most services cannot be counted, measured, inventoried, tested, and verified in advance of sale to assure quality. Because of intangibility, the firm may find it difficult to understand how consumers perceive their services and evaluate service quality (Zeithaml, 1981)“ (as cited in Parasuraman et al., 1985, p. 42).

### **Heterogeneity**

Services that are composed of “high labor content, are heterogeneous: their performance often varies from producer to producer, from customer to customer, and from day to day. Consistency of behavior from service personnel (i.e., uniform quality) is difficult to assure (Booms and Bitner 1981)“ (as cited in Parasuraman et al., 1985, p. 42).

### **Inseparability**

The production and consumption of many services can not be easily separated as it entails “an interaction between the client and the contact person from the service firm“ and the quality of it occurs during the actual service delivery (Carmen and Langeard, 1980; Gronroos, 1978; Regan, 1963; Upah, 1980; and Lehtinen and Lehtinen, 1982) (as cited in Parasuraman et al., 1985, p. 42).

Parasuraman et al (1985, p. 42) reviewed service quality writings and suggested three underlying themes when defining the construct:

- 1) “service quality is more difficult for the consumer to evaluate than goods quality”
- 2) “service quality perceptions result from a comparison of consumer expectations with actual service performance”
- 3) “quality evaluations are not made solely on the outcome of service; they also involve evaluations of the process of service delivery” (as cited in Asubonteng, et al., 1996, p. 63).

Indicated consumer involvement is critical for firm’s competitiveness, as managers must have a clear understanding of how consumers perceive quality and the way it influences service quality (Grönroos, 1984). This understanding provides managers with the means of managing service quality by matching expected service of the customer, hence achieving higher perceived service quality (Seth et al., 2005). Likewise, service quality is also dependent on the service interactions between the customer and personnel who are the service provider and therefore the core contributor to the perceived quality of the service offered (Johns, 1999).

Service quality can also be defined to be “a combination of overall service expectations and perceptions resulting from a comparison between actual retail service performance and prior expectations for services” (Chau and Kao, 2009; Dimitriadis and Stevens, 2008; To and Leung, 2001; Parasuraman et al., 1985; as cited in Hurst et al., 2009, p. 516).

Asubonteng et al. (1996, p. 64) define service quality „as the difference between customers’ expectations for service performance prior to the service encounter and their perceptions of the service received.” Asubonteng et al. further introduces service quality theory predicting that clients will judge if quality is high or low depending on how the performance meets their

expectations. “Hence, customers’ expectations serve as the foundation on which service quality will be evaluated by customers“ (as cited in Asubonteng et al., 1996, p. 64). This is why the difference between customer’s expectations and perceived service quality must be clearly understood.

### 3.2.2 Service Quality Expectations vs. Perceptions

Seth et al. (2005) provided a review of 19 conceptual service quality models that cover a period of 20 years. These different models provide a rich insight into different views, definitions, methodologies, measurements and approaches in relation to the service quality phenomenon. Almost all of them discuss service quality *expectations* and service quality *perceptions*.

Extensive research was conducted to explore *expectations* and compare it to *perceptions* (Sasser, Olsen, and Wyckoff (1978); Grönroos (1982); Lehtinen and Lehtinen (1982), and Parasuraman, Zeithaml, and Berry (1985); as cited by Parasuraman et al., 1988, p.16-17). These studies indicate that *service quality* is the result of comparing *expectations* (what the customer feels the firm should offer) with *perception* (the customer’s view of the provided performance by a firm). Therefore, the perception of good or bad service quality can be seen as a “discrepancy between consumers' perceptions and expectations” (Parasuraman et al., 1988, p. 16-17).

#### 3.2.2.1 Expectations

Zeithaml, Berry & Parasuraman (1993, p. 1) provided a model with a “comprehensive framework of service expectations” and suggested a method to measure customer expectations. They also provided a clarification of the difference service quality and customer satisfaction ”by specifying three different levels of customer expectations: (1) desired service,

which reflects what customers want; (2) adequate service, the standard that customers are willing to accept; and (3) predicted service” (Zeithaml, Berry & Parasuraman, 1993, p. 1).

Zeithaml, et al. (1993, p. 10) emphasized the importance of investigating “how customers evaluate the gap between perceived and expected service (i.e., the service quality gap)” as this would enable researchers to predict service levels. Furthermore, if service levels could be predicted, then this could also enable companies or specialists to influence how customers interpret the service quality assessment (Zeithaml, et al, 1993). They developed a concept called the *zone of tolerance* which pointed out to different strategies that marketing managers could use to widen the tolerance levels of customers, for instance to reduce expectations and maximize quality perception, see **Appendix B**. The zone of tolerance also enabled managers to segment their customers into specific groups and develop different marketing strategies for each target group (Zeithaml, et al, 1993).

#### 3.2.2.2 Perceptions

Cronin & Taylor (1992) saw service quality perception as the consumer's evaluation of an experience from a service encounter at a specific point in time. Service quality has also been studied by Babakus & Boller (1992), Carman (1990), Parasuraman et al. (1988), Parasuraman, Zeithaml, & Berry (1994), Zeithaml, Berry, & Parasuraman (1996), Peter, Churchill, & Brown (1993) and Teas (1993); yet many researchers have been in favor of using performance perceptions to measure service quality as suggested by Cronin and Taylor (1992) (as cited in Loureiro & González, 2008, p. 121). Later, Parasuraman *et al.* (1988, p. 16) brought perceived service quality to the focus that they defined as “global judgment, or attitude, relating to the superiority of the service.”

In depth psychological research was carried out on the service interaction and the cognitive–affective process and the causal relationship which takes place when customers engage in services. Several factors are involved and affect the process, both external factors (real quality of service) and internal (personal state of mind, expectations). This topic has been of interest to many researches (Bolton & Drew, 1992; Boulding, Kalra, Staelin, & Zeithaml, 1993; Söderlund, 2002; Liljander & Mattsson, 2002; Pugh, 2001; Bigné, Andreu, & Gnoth, 2005; Boulding et al., 1993; Yi, 1993; and Zeithaml, Berry, & Parasuraman, 1993; as cited in Maestro et al., 2007, p. 952).

The literature indicates that individual attitude is seen to influence perceived quality and the evaluation of satisfaction at each point in time (Chiou, 2003; Del Río Lanza, Vázquez Casielles, & Iglesias Argüelles, 2003; Iglesias Argüelles, Fernández Barcala, Del Río Lanza, & Trespacios Gutiérrez, 2002; Till & Priluck, 2000; as cited in Maestro et al, 2007, p. 952). Hence, “research must consider a consumer's previous attitude before analyzing the perceived quality of or the satisfaction with a specific transaction” (Maestro et al., 2007, p. 952).

### 3.2.3 Satisfaction

Less focus will be put on satisfaction in the paper, yet it is important to get the understanding of the term itself. Satisfaction is most often seen as “the degree to which an individual believes that a consumption experience brings positive feelings (Rust and Oliver, 1994; as cited in Phillips et al., 2013, p. 95). Satisfaction “is the overall contented feeling that a tourist felt from visiting a destination, which fulfilled his travel expectations and needs” (Phillips et al., 2013, p. 95). “In tourism context, satisfaction is primarily referred to as a function of pre-travel expectations and post-travel experiences. When experiences compared to expectations



result in feelings of gratification, the tourist is satisfied. However, when they result in feelings of displeasure, the tourist is dissatisfied (Reisinger & Turner, 2003)“ (as cited in Chen & Chen, 2010, p. 30).

Parasuraman et al. (1988, p. 16) made a distinction between *service quality* and *satisfaction*, where they define “perceived service quality” to be “a global judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction.” This view is further supported with Oliver’s (1981, p. 42) differentiation on *attitude* from *satisfaction*, as he explained how *attitude* is more general view of a product or store, whereas *satisfaction* is more related to a “consumption-specific” situation (as cited by Parasuraman et al., 1988, p. 16).

More importantly, Parasuraman et al. (1988, p. 16) indicated their earlier research illustrated that even though respondents “were satisfied with a specific service” they might not necessarily “feel the service firm was of high quality.”

#### 3.2.4 Perceived Quality vs. Satisfaction

There is a distinct difference between perceived quality and satisfaction, although these constructs can be easily confused together (Loureiro & González, 2008). *Perceived quality* “refers to the cognitive process by which people evaluate the service according to certain attributes (Parasuraman, Zeithaml, & Berry, 1985). Several standards (e.g., prediction, norm, ideal, adequate minimum) may be involved, individually or simultaneously, in such an evaluation (Baker & Crompton, 2000; Boulding et al., 1993; Zeithaml et al., 1993)” (as cited in Maestro et al., 2007, p. 952).

Consumers incline to base their standards or expectations on their personal prediction and believed business offer, and among the variables that are crucial for this occurrence are “firm’s image, the consumer’s personal needs, friends’ comments, advertising, or the customer’s previous experience” (as cited in Maestro et al., 2007, p. 952).

*Satisfaction*, however, refers “to the psychological state that results from a cognitive–affective process...[and the] results from a combination of the emotion that is derived from the process and the person's perception of the degree of fulfillment of his or her standards (Oliver, 1981)” (as cited in Maestro et al., 2007, p. 952).

Some researchers claim perceived service quality to come before satisfaction (Baker and Crompton, 2000); Cronin, Brady, and Hult, 2000; and Dabholkar, Shepherd, and Thorpe, 2000) so that it contributes to customer's satisfaction by forming a more stable opinion after a service encounter takes place and hence affects how a person views the next service encounter (Bitner, 1990; Parasuraman, Zeithaml, & Berry, 1994; and Teas, 1993) (as cited in Maestro et al., 2007, p. 952).

Maestro et al. (2007, p. 961) explored the difference in perceived quality and satisfaction as the satisfaction construct was found to be “multicollinear with perceived quality” and that there was little evidence that the two constructs were different in practice.

Atilgan et al. (2003) indicated that even though service providers were enthusiastic to provide what customers expect, they might not be as good in evaluating perceived service levels. They claimed that *perceptual maps* could be “useful tools for visualising expectation–perception gaps, and thus provide service providers with an opportunity to direct their scarce resources to weak service dimensions” (Atilgan et al., 2003, p. 420).

### 3.2.5 GAP Model

Parasuraman et al.'s. (1985) insights from exploratory investigation, using executive interviews, revealed consistent patterns or that a set of 4-5 key "gaps exists regarding executive perceptions of service quality and the tasks associated with service delivery to consumers. These gaps can be major hurdles in attempting to deliver a service which consumers would perceive as being of high quality" (Parasuraman et al., 1985, p. 44).

With this knowledge in hand, Parasuraman et al. (1985) proposed the Service Quality Model, best known as the GAP model, that enabled managers to measure service quality by comparing customer *expectations* to customer *perceptions*. The difference between perception and expectation resulted in the service quality gap mentioned. A wide gap between perception and expectation would indicate poor service quality, in which the service provider would have to act to improve service quality and hence competitiveness (Parasuraman et al., 1985).

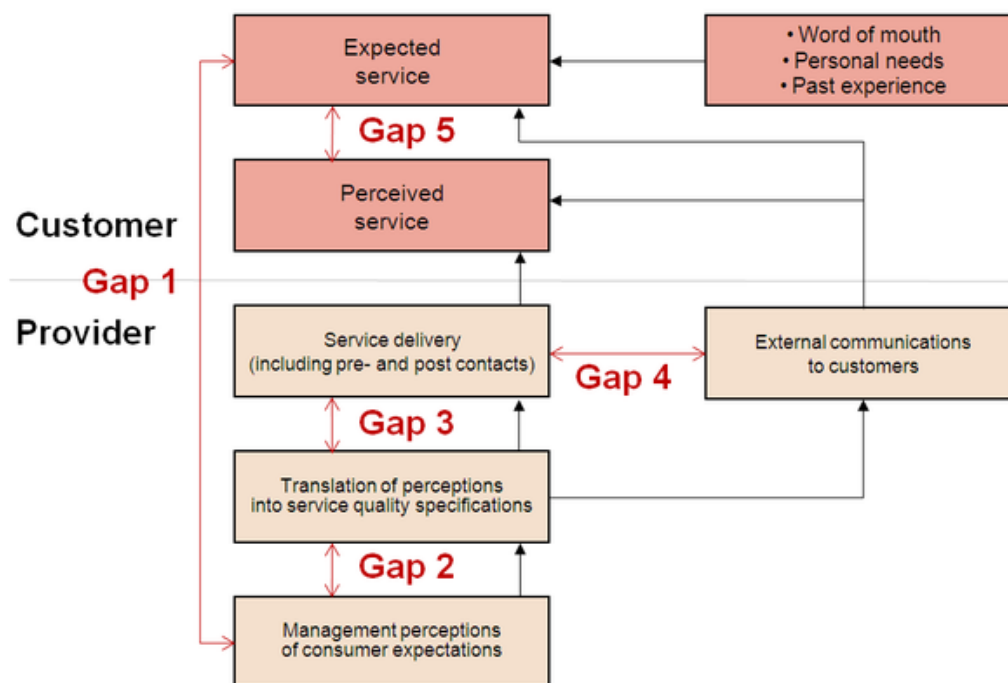
According to Parasuraman et al. (1985, p. 48-49), the variance between the expected service (ES) and perceived service (PS) may result in low, satisfactory or high quality depending on the nature of the discrepancies, for instance:

- a) Low quality:  $ES > PS$ , perceived quality is lower than expected quality
- b) Satisfactory quality:  $ES = PS$
- c) High quality:  $ES < PS$ , perceive quality is higher than expected quality.

The Gap model is divided into two sections: the lower part (called the executive, marketer or provider perception) and the higher part (the customer perception) as seen in Figure 5 (Parasuraman, Zeithaml and Berry, 1985, p. 44).

FIGURE 5 - GAPS MODEL OF SERVICE QUALITY

## Gap Model of Service Quality



Understanding the nature of each Gap is important in order to find appropriate managerial solutions.

### 3.2.5.1 The Lower part of the Model, Gaps 1-4 (The Service Provider Perception)

**Gap 1 - “Consumer expectation-management perception gap”** (Parasuraman et al., 1985, p. 44). This gap refers to the “difference between consumers’ expectations and management’s perceptions of those expectations” (Seth et al., 2005, p. 916-917). In other words, managers lack understanding of customer needs, what consumers expect or their service quality requirements (Parasuraman et al., 1985).

**Gap 2 - “Management perception-service quality specification gap”** (Parasuraman et al., 1985, p. 45). This gap refers to the “difference between management’s perceptions of consumer’s expectations and service quality specifications, i.e. improper service-quality standards” (Seth et al., 2005, p. 916-917). In other words, managers may lack the ability or interest to establish specific service quality standards or provide appropriate training for employees. The demand might fluctuate with peak demand in summer months, which unfortunately is when many of the best trained staff want to go on holiday (Parasuraman et al., 1985, p. 45).

**Gap 3 - “Service quality specifications-service delivery gap”** (Parasuraman et al., 1985, p. 45). This gap refers to the “difference between service quality specifications and service actually delivered” (Seth et al., 2005, p. 916-917). Even if the management set up service standards, there is no guarantee that employees will execute them. The variability of the employees will affect the performance outcome. Employees’ personality and ability varies, which is why they will treat the customer differently despite the quality standards (Parasuraman et al., 1985).

**Gap 4 - “Service delivery-external communications gap”** (Parasuraman et al., 1985, p. 45-46). This gap refers to the “difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery?” (Seth et al., 2005, p. 916-917). External communication of a company, such as media advertising and public communication, will affect consumer expectations. If a company creates higher expectation than what it can fulfill in reality, it can result in customer disappointment and lower perception of quality (Parasuraman et al., 1985, p. 46).

### 3.2.5.2 The Higher part of the Model, Gap 5 (The Customer Perception)

**Gap 5 - “Expected service-perceived service gap”** (Parasuraman et al., 1985, p. 46).

Parasuraman et al. (1985) conducted focus group interviews with consumers that revealed common service quality perceptions of consumers. Customer evaluate service quality differently depending on the context. Therefore, there is no ‘one-size-fits-all’ when it comes to meeting or exceeding what consumers expect in services. Managers of each operation must put in considerable effort in learning how their customers perceive and evaluate the actual performance of that unit and compare it to what they originally expected (Parasuraman et al., 1985).

To better understand the determinants that customers use to perceive service quality, Parasuraman et al. (1985, p. 49) called for further research, but they also suggested that they seemed to fall into 10 key dimensions: Dependability, Willingness, Competence, Availability, Courtesy, Communication, Trustworthiness, Assurance, Empathy and Tangibility.

In preceding research, Parasuraman et al. (1988) reduced the service quality attributes into five dimensions: Tangibility, Dependability, Willingness/Readiness, Assurance, and Empathy/Insight. This research was theoretical foundation of a new model called SERVQUAL (Parasuraman et al., 1985 & 1988; Asubonteng et al., 1996).

### 3.2.6 SERVQUAL Model

#### 3.2.6.1 SERVQUAL Model Review

Parasuraman et al. (1988) refined their earlier research and developed a 22-item instrument “named SERVQUAL for measuring customers’ perceptions of service quality” (Seth et al., 2005, p. 917). The conceptual foundation for the SERVQUAL scale was derived from their

earlier work as well as the works of a handful of researchers who all dedicated time to exploring the meaning of service quality (Sasser, Olsen & Wyckoff, 1978; Gronroos, 1982; and Lehtinen & Lehtinen, 1982; as cited by Parasuraman et al., 1988, p. 15).

No other measurement scales for service quality had been developed at that point in time. The authors discussed “the conceptualization and operationalization of the service quality construct, the procedures used in constructing and refining a multiple-item scale to measure the construct” and the potential application of the scales they developed (Parasuraman et al., 1998, p. 12). Parasuraman et al. (1988) reduced the service quality attributes into five key dimensions which are listed as following:

- 1) **Reliability** “is defined as the ability to deliver the promised service dependably and accurately. It is about keeping promises – promises about delivery, pricing, complaint handling, etc”
- 2) **Assurance** “is the service quality dimension that focuses on the ability to inspire trust and confidence”
- 3) **Responsiveness** ”can be described as the willingness to help customers and provide prompt service. This dimension stresses service personnel’s attitude to be attentive to customer requests, questions and complaints”
- 4) **Tangibles** “is the service dimension that focuses on the elements that represent the service physically”
- 5) **Empathy** “is the service aspect that stresses the treatment of customers as individuals” (as cited in Bloemer et al, 1999, p. 1084).

SERVQUAL “is a multi-item instrument for quantifying the service expectation-perception gap using the five generic dimensions” (Parasuraman, 1998; as cited in Atilgan et al., 2003, p. 413). Both expectations and perceptions are measured by using the 22 parallel question (item) scale measuring the five dimensions or 44 questions in total (Asubonteng et al., 1996, p. 64).

The model “was designed to measure service quality across a range of businesses”

(Parasuraman *et al.* 1985 & 1988; as cited in Asubonteng *et al.* 1996, p. 64).

However, there still seems to be a lack of consensus on the number of dimensions and their applicability to different types of services or industries. A study by Caraman (1990) applied the model to many different types of services and found that Parasuraman *et al.*'s (1988) dimensions did not apply to all service types and that even other dimensions might exist (as cited in Albacete-Sáez *et al.*, 2007, p. 48). Babakus & Boller (1992) also confirmed that the applicability of the SERVQUAL dimensions might depend on the service type (as cited in Albacete-Sáez *et al.*, 2007, p. 48).

According to Albacete-Sáez *et al.* (2007, p. 49), the SERVQUAL scale has been used in several studies in the tourism industry, but many have adjusted it to its context:

- in travel agencies (Bigné *et al.*, 2003; Leblanc, 1992; Ryan and Cliff, 1997; Frochot & Huges, 2000)
- in historical heritage (MacKay & Crompton, 1990)
- in leisure services (Bojanic & Rosen, 1994; Fick and Ritchie, 1991)
- in restaurants (Knutson *et al.*, 1995)
- in alpine ski resorts (Weiermair & Fuchs, 1999)
- in accommodation services (Getty and Thompson, 1994; Knutson *et al.*, 1991; Patton *et al.*, 1994; Saleh and Ryan, 1991; Saleh and Ryan, 1992; Suh *et al.*, 1997).

Bloemer *et al.* (1999, p. 1084) point out an important advantage of the SERVQUAL instrument, which “is that it has been proven valid and reliable across a large range of service contexts, such as a dental school patient clinic, a tyre shop (Carman, 1990), discount and department stores (Finn and Lamb, 1991; Teas, 1993), hospitals (Babakus and Mangold, 1992) and higher education (Boulding *et al.*, 1993).”



Asubonteng et al. (1996) also provide an overview of several studies using adapted SERVQUAL applications to measure service quality, such as: “Health care...(Babakus and Mangold, 1992; Bebko and Garg, 1995; Bowers *et al.*, 1994; Clow *et al.*, 1995; Headley and Miller, 1993; Licata *et al.*, 1995; Lytle and Mokwa, 1992; O’Connor *et al.*, 1994; Reidenbach and Sandifer-Smallwood, 1990; Woodside *et al.*, 1989). Other settings include a dental school patient clinic, a business school placement center, a tire store, and acute care hospital (Carman, 1990); independent dental offices ( McAlexander *et al.*, 1994); at AIDS service agencies (Fusilier and Simpson, 1995); with physicians (Brown and Swartz , 1989; Walbridge and Delene, 1993); in large retail chains (such as kMart, WalMart, and Target) (Teas, 1993); and banking, pest control, dry cleaning, and fast-food restaurants (Cronin and Taylor, 1992)”(as cited in Asubonteng et al., 1996, p. 65).

Even though the SERVQUAL instrument may need some adjustments as mentioned earlier, “it still seems the best alternative for cross-sectional research” (Fitzsimmons and Fitzsimmons, 1994; as cited in Bloemer et al., 1999, p. 1084).

### 3.2.6.2 Main criticism of SERVQUAL

The main criticism of SERVQUAL seems to be in relation to “the validity and reliability of the difference between expectations and performance” which “has been questioned and several authors have suggested that perception scores alone offer a better indication of service quality (Cronin and Taylor, 1992; Teas, 1993; Strandvik and Liljander, 1994)“ (as cited in Bloemer et al., 1999, p. 1084).

Furthermore, Al-Rousan et al. (2010, p. 887) have pointed out some critics that question the faults of SERVQUAL conceptual appropriateness (Van Dyke, Kappelman & Prybutok, 1997), low reliability (Teas, 1994), problems with discriminant validity (Brown, Churchill & Peter, 1993) and unstable dimensionality (Carman (1990), Saleh & Ryan (1991), Cronin &

Taylor (1995), Gagliano & Hathcote (1994), Asubonteng, McCleary & Swan (1996), and Yavas, Benkenstein, & Stuhldreier (2004).

As Seth et al. (2005, p. 933-934) portrayed in their review “it is clear that there does not seem to be a well-accepted conceptual definition and model of service quality nor is there any generally accepted operational definition of how to measure service quality” and pointed out that more detailed critique can be found in Asubonteng et al (1996) and Buttle (1996) (as cited in Seth et al., 2005, p. 934).

### 3.2.7 Why Choosing SERVQUAL

A measurement scale had to be selected for the research in this paper. In November 20, 2016, a simple Web engine search on Google Scholar, brought attention to three different models for service quality on tourism and retail. These models were Parasuraman et al.'s (1988) SERVQUAL model that delivered 38,200 findings, Cronin & Taylor's (1994) SERVPERF model that delivered 5,960 findings, and Dabholkar, Thorpe & Rentz's (1996) Retail Service Quality (RSQS) model that delivered 1,130 findings. Google Scholar indicated the controversy of the SERVQUAL model as it had been cited 26.709 times, but SERVPERF model 3.859 times, and the RSQS model 895 times. A literature review took place to identify the main measurement choices with a focus on these three main scales: SERVQUAL, SERVPERF and RSQS.

All three models have received considerable criticism. Gaur & Agrawal (2006) argued and provided a critical review of the empirical researches which revealed that both SERVQUAL and RSQS failed to provide a reliable or valid measurement tool from service quality in retail, but then this paper's research is also supposed to be more tourism service orientated.

**The Retail Service Quality (RSQS)** model developed by Dabholkar et al. (1996) that focused on the retail services seemed worth exploring in the beginning of this study. Bhatt &

Bhanawat (2016) provided a valuable review of the research instrument, scales and tools in addition to dimensions, attributes and methods used by different researchers on service quality issues in the retail industry. However, soon it became clear that a large part of the studies listed in Batt & Bhanawat's retail services review seemed to refer to large scale retail services. On the whole, the review provided an up-to-date insight into the usefulness of SERVQUAL, RSQS and many other instruments, as tools for measuring the service quality in a large variety of larger retail segments (Bhatt & Bhanawat, 2016). The RSQS measurement tool was not found suitable for this study. It was concluded that RSQS did not seem to be a good fit to the small rural tourism industry of the Westfjords.

**SERVQUAL and SERVPERF** were said to be the "Most commonly used scales of service quality measurement (Gilmore and McMullan, 2009), among these two the most commonly used measure is SERVQUAL (Duff and Hair, 2008; Ladhari, 2009)" (as cited in Rodrigues, Barkur, Varambally & Motlagh, 2001, p. 630). Yet both instruments have received criticism. In fact, the SERVPERF instrument originally emerged from the criticisms on SERVQUAL made by Cronin & Taylor (1992) SERVPERF „includes only perception items from the SERVQUAL scale and excludes expectations“ (Albacete-Sáez et al., 2007, p. 48-49). Still the "expectation concept (Teas, 1993; Boulding *et al.*, 1993) and the theoretical aspects of the scale (Dyke *et al.*, 1997; Cronin and Taylor, 1992, 1994), SERVQUAL has been widely applied and highly valued (Buttle, 1996)" by many researchers (as cited in Atilgan, 2003, p. 413).

Cronin & Taylor (1992) suggest that SERVPERF "is purely a Performance based approach to measurement of service quality" (as cited in Rodrigues et al., 2001, p. 630). Sultan & Wong (2010) and Rodrigues et al. (2001) provide reviews comparing SERVQUAL and SERVPERF in order to see if there was a significant difference in these two scales. Their conclusion was that there are some differences between the applicability of the dimensions and their

reliability and validity as a measurement tool. However, Carrillat, Jaramillo & Mulki (2007) found that the predictive validity of SERVQUAL could be improved considerably if the scale was adapted to the context. Unlike SERVQUAL, the predictive validity of the SERVPERF scale did not seem to be improved by adjusting it to the context (Carrillat et al., 2007, p. 472). Furthermore, Asubonteng et al. (1996, p. 76) noted that the reliability of SERVQUAL has been reported “for a wide set of industries and as an overall measure of service quality, across all 22 pairs of questions” and that reliability was “consistently quite high suggesting that any change over time in the overall quality score is not likely to be just fluctuations in measurement” and that “general reliability has been high enough to provide useful insights.” Furthermore, “Ryan (1999) considered that SERVQUAL was a simple tool for tourism managers to use in tackling the areas of weakness in their service delivery” (as cited in Atilgan et al., 2003, p. 413).

This paper’s study focuses on identifying the gaps and the service quality attributes that managers can use to improve service quality, rather than measuring the service performance only as the SERVPERF focuses on. According to Carrillat et al. (2007), the SERVQUAL scale is seen to have a better diagnostic value that helps managers to “identify service shortfalls and use this information to allocate resources to improve” their service quality (Parasuraman et al., 1994; as cited in Carrillat et al., 2007, p. 485). Furthermore, Carrillat et al. (2007) also point out the importance of adjusting multinational and multilingual studies to the context, which is exactly what needs to be done in this study which includes survey responses from multinational tourists as well as Icelanders. The SERVQUAL scale was thought to be more likely to allow small but necessary context adaptations to its relatively simple questionnaire, without impacting the result of the study. Also, the SERVQUAL model appears to be well suited to identify the specific factors that call for managerial attention to improve quality (Seth et al., 2005).

In conclusion, the SERVQUAL model was chosen for this research to conceptualize the service quality of the rural tourism and retail in the Westfjords (Iceland) by applying the theory of the SERVQUAL scale as it is believed it to be the best instrument to measure customers' opinions of service quality. The SERVQUAL approach was considered to provide a good groundwork for this study, as it provided a broader approach needed to full quality assessment of both the local and tourism retail services.

### 3.3 Loyalty

The construct *loyalty* is specifically reviewed in this study. Loureiro (2010) claims it is especially important for managers and local governments in economically depressed or rural areas to understand the main factors that influence rural tourists' loyalty.

Loyalty "is often included in service quality models as an outcome variable (Cronin and Taylor, 1992; Boulding *et al.*, 1993)" (as cited in Bloemer et al., 1999, p. 1082).

Loyalty was described by Oliver (1999, p. 34) as a "deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior."

However, *product loyalty* and *service loyalty* must not be mixed together, as "there are a number of reasons why findings in the field of product loyalty cannot be generalised to service loyalty (Keaveney, 1995; Gremler and Brown, 1996)" (as cited in Bloemer et al., 1999, p. 1085).

#### 3.3.1 Service Loyalty

Service loyalty depends on interpersonal relationships and is "frequently defined as observed behaviour (Liljander and Strandvik, 1995). Ultimately it is actual behaviour that drives a service organisation's performance" (as cited in Bloemer et al., 1999, p. 1085).

Oliver (1999) also describes two different aspects of loyalty; behavioral and attitudinal. Behavioral loyalty is linked to repetitive purchase intentions, whereas attitudinal loyalty refers to customer's preference and commitment to something of special value to him/her. Furthermore, "cognitive, affective, and conative antecedents of relative attitude are identified as contributing to loyalty, along with motivational, perceptual, and behavioral consequences" (Dick & Basu, 1994, p. 99). In fact, Oliver (1997) proposed a framework that suggests loyalty is formed in four different attitudinal stages. First, customers seem to become loyal in the *cognitive sense*, then in *affective sense*, following in *conative sense*, and finally in *behavioral* manner, also called action inertia (as cited in Oliver, 1999).

In more recent research on service loyalty there seems to be three main approaches to the research of loyalty that can be distinguished as: behavioral loyalty, attitudinal loyalty and composite loyalty (Loureiro & Kastenholz, 2011). The term "customer loyalty is often measured by indicators like the intention to continue buying the same product, intention to buy more of the same product, and repeat purchase (behavioural measures) or willingness to recommend the product to others (attitudinal indicator, reflecting product advocacy)" (Loureiro & Kastenholz, 2011, p. 575).

### 3.3.2 Customer Loyalty

Another term used in loyalty discussions is *customer loyalty*. Customer loyalty refers to the behavior when a customer returns or continues to use the same services, makes referrals and provides a word-of-mouth references. The customers may also remain loyal because they lack other substitutes or because the substitution cost is too high (Al-Rousan et al., 2010).

The review of customer loyalty indicated that there is a vast amount of material on the construct, yet there seems to be little agreement in the research results. To begin with, "it has remained unclear whether or not there is a direct relationship between service quality and

loyalty. Zeithaml *et al.* (1996) report such a relationship, whereas Cronin and Taylor (1992) failed to find one” (as cited in Bloemer *et al.*, 1999, p. 1082).

Some companies aim for customer loyalty as a strategic objective. Oliver (1999), Reichheld (1993), and Petrick and Sirakaya (2004) found it to be “more desirable, and less expensive, to retain existing customers than to attract new ones” (as cited in Loureiro & González, 2008, p. 118). Therefore, it is important to understand the factors which influence customer loyalty, since such knowledge may help companies and government bodies “to improve marketing planning and investment decisions” (Loureiro & Kastenholz, 2011, p. 575).

Studies have found a positive relationship between service quality and customer loyalty, for example in Wong and Sohal’s (2003) study in retail trade (as cited in Al-Rousan *et al.*, 2010, p. 887). Several authors support the notion of service quality being “an important determinant of service loyalty but its exact relationship has remained unclear (Gremler and Brown, 1996)” (as cited in Bloemer *et al.*, 1999, p.1084). Although loyalty is said to be essential for service business survival (Reichheld, 1993), the relationship between service quality and loyalty of service customers (Gremler and Brown, 1996) remains relatively underdeveloped and behavioral approach “such as repeat purchasing and purchasing sequence, have been criticised for a lack of a conceptual basis” (Bloemer *et al.*, 1999, p. 1085).

### 3.3.3 Service quality perceptions and customer loyalty

According to Zeithaml *et al.* (1996), as cited in Bloemer *et al.* (1999, p. 1086-1087) there are few empirical surveys conducted to examine the specific relationship between service quality perceptions and customer loyalty. However, Chen and Chen (2010, p. 30) point out that according to previously conducted studies “(Anderson and Sullivan, 1993; Bignie *et al.*, 2001; Chen, 2008; Chen and Tsai, 2007; Choi and Chu, 2001; Cronin and Taylor, 1992; De

Rojas and Camarero, 2008; Fornell, 1992; Oliver, 1980; Petrick and Backman, 2002; Tam, 2000)” perceived service quality and perceived value are said to impact satisfaction, and satisfaction furthermore impacts loyalty and post-behaviors. More importantly, researchers have also pointed out that perceived service quality has a significant impact on customer loyalty (e.g., Boulding, Kalra, Staelin, & Zeithaml, 1993; Parasuraman et al., 1988; and Zeithaml et al., 1996; as cited in González et al., 2007).

### 3.4 Behavioral Intentions

Researchers that seek to reveal customers’ post-purchase behavior to further predict their behavioral intentions, most often depend on customer evaluations models (González et al., 2007). As cited by González et al. (2007, p. 156), behavioral intentions consist of several attributes:

- determination to continue with or leave the firm and “making favorable comments about the firm (Boulding et al., 1993)”
- “recommending the firm (Parasuraman et al., 1994 ; Reichheld and Sasser, 1990)”
- “paying a higher price, or remaining loyal to the company (LaBarbera and Mazursky, 1983; Rust and Zahorik, 1993)”.

Zeithaml, Berry and Parasuraman (1996) developed a multi-dimensional framework of customer behavioral intentions in services that consisted of four main dimensions (as seen in detail in **Appendices C & D**):

1. “word-of-mouth communications”
2. “purchase intention”
3. “price sensitivity”



4. “complaining behavior” (Zeithaml, 1996; Bloemer et al., 1999, p.1086-1087).

Even though not without faults, Zeithaml et al. (1996) used factor analysis to develop a 13-item measurement scale. This concept of five factor solutions has been widely used by researchers:

1. “loyalty to company”
2. “propensity to switch”
3. “willingness to pay more”
4. “external response to problem”
5. “internal response to problem” (Bloemer et al., 1999, p.1086-1087).

According to Reisinger & Turner (2003; as cited in Chen & Chen, 2010, p. 30-31) “the satisfied tourists may revisit a destination, recommend it to others, or express favorable comments about the destination” but “dissatisfied tourists may not return to the same destination and may not recommend it to other tourists. Even worse, dissatisfied tourists may express negative comments about a destination and damage its market reputation.”

Although behavioral intentions may help to predict future behavior of a customer, the attitudinal indicators may be of more importance to marketing agents since it indicates the likeliness that a customer recommends the place to others. For example, satisfied tourists may not necessarily have the intentions to revisit a rural tourism retail destination if they are only passing by, never to return. However, if satisfied, then they may still recommend the place to others and increase the likeliness that others visit the area (Loureiro & Kastenholz, 2011).

## 3.5 Retail Service Quality

### 3.5.1 Retailing

First, it is important to understand what retail stands for and why it is important to this study.

Peterson & Balasubramanian (2002) presented a detailed review of several different definitions of retailing. For instance, Caruth & Stovall (1994) define retailing to be “The activities involved in selling goods or services to ultimate consumers who purchase them for personal or household use” (as cited in Peterson & Balasubramanian, 2002, p. 10).

More detailed definition is provided by Wintage (1931, p. 28), who described retailing as „Any individual, firm, or corporation that performs the last step in the marketing of goods from producer to consumer. He buys from wholesaler, commission merchant, or manufacturer and sells direct to consumer. To be significant as a distinct economic unit, the retailer must act as a purchasing agent for the community rather than as a distributing agent for manufacturers“ (as cited in Peterson & Balasubramanian, 2002, p. 11). In other words, retailing is when a sale of goods or services takes place to the end user, the customer, who intends to use it for his or her use or consumption.

Although retailers buy large bulk of products from manufacturers or wholesales and sell in smaller quantities to customer, it is not just about the redistribution but also about many activities and functions. Wintage (1931) described some of these activities to be “from buying to merchandising, packing and delivery, employee training, inventory control and logistics, and accounting and credit collection“ (as cited in Peterson & Balasubramanian, 2002, p. 11).

So retailers are the final link to the end of the chain, the customer. Retailers specialize in product or service display, promoting special feature or benefit of a product/service to attract and convince the customer of benefits of the product that leads to a purchase. Retailers strive

to offer the right products and services, for the right price and at the right time. Retailers can be little or large stores, grocery markets, supermarkets or department stores; offering food, beverages, clothing, houseware, jewelry, souvenirs, electronics, oil products and more. Retailers can also include non-store-retailing, for instance: telemarketing, Internet marketing and catalog shopping (Peterson, & Balasubramanian, 2002).

However, Peterson & Balasubramanian (2002) argue that there is a need for more modern definition to expand the meaning and thinking about retailing, as its role and activities are changing in the modern world and because it needs to be distinguished from marketing activities and channels. Also, the rapid change of technology is making it difficult to predict how the future retailing will look like in a wireless world.

Furthermore, changes in demographic trends affect retailing, e.g. urbanization, aging population, higher birthrate in developing countries and so forth. Likewise the retailing industry is also an highly regulated industry, which makes it vulnerable to “near- and long-term political, cultural, technological, environmental, and regulatory changes“ (Peterson & Balasubramanian, 2002, p. 14).

These vast changes make it difficult to predict or theorize about the retailing phenomena.

Peterson & Balasubramanian (2002) claimed that the development of retailing theories remains unorganized and too narrow sighted. The world has changed and so has the consumer, who now uses multiple retailers across borders. The retail industry is lacking empirical research on conceptual basis and an updated literature review (Peterson & Balasubramanian, 2002). Past research is more business oriented, focusing on maximizing profits and the management of time, space, consumers, policies, promotion and more.

According to Peterson & Balasubramanian (2002) several perspectives in retail remain under-researched, such as value-creation, consumer behavior, drivers of consumer loyalty and

satisfaction, to name a few. They also recognize that research with geographical focus is needed including smaller retailers or developing retailers that are equipped with less modern tools.

Considering the above, less focus will be set on providing a comprehensive review of retailing theories. However, it is recognized that the globalizing retail environment is intensifying competition from all over the world. Operations are getting fewer and larger, as retailers merge into larger units in a response to the market changes. Increasingly sophisticated customer base demands lower prices and better quality. In order to survive, retailers must deliver superior service quality and ensure high customer satisfaction, as a retailing strategy to gain competitive advantage (Reichheld, 2003).

### 3.5.2 Retail and service quality

As discussed earlier, service quality is seen to be the cornerstone for good retail performance, as excellent service quality leads to customer satisfaction, loyalty and repurchase. Yet, there seems to be a lack of studies in retail service quality that apply service quality models in smaller retail units, as is the focus of this research.

Dabholkar, Thorpe, & Rentz (1996) proposed a tool to measure service quality in retail or the so called Retail Service Quality Scale (RSQS). The RSQS model is an adjusted version of the SERVQUAL model, consisting of similar five dimensions (physical aspects, reliability, general policy, personal interactions and problem-solving ) that measure how customers perceive the overall retail service and customers' satisfaction with the retail service performance (Dabholkar et al., 1996; Gaur & Agrawal, 2006; Bhatt & Bhanawat, 2016).

However, Gaur & Agrawal (2006) point out that some researchers see retail service quality to be no different than service quality in other industries. As mentioned before, they conducted a review of empirical research to compare and determine whether RSQS and SERVQUAL

effectively measure retail service quality and found that both models failed. Neither RSQS nor SERVQUAL seemed to provide unambiguous result and failed to provide reliable and valid measurement of retail service quality.

Nevertheless, researchers and retailers acknowledge that service quality needs to be monitored and measured to increase high quality standards and that service quality activities play a significant strategic role in creating quality perceptions, e.g. personnel training, customer service, service display and more (Gaur & Agrawal, 2006; Bhatt & Bhanawat, 2016).

In addition, this rural retail research also involves the research of multinational customer, as tourists visiting Westfjords' retail services come from different parts of the world. This is worth mentioning, as cultural issues seem to have received too little focus in the research of service quality in relation to rural retail (Seth et al., 2005, p. 922). Depending on customer's nationality and culture, their evaluation of service quality may depend on different norms, values and attitudes, which may be hard to measure effectively (Seth, 2005).

Certain cross-cultural studies on service quality have been conducted, e.g. Atilgan et al. (2003) examined the expectations and perceptions of German and Russian tourists' and their different evaluations of service-quality dimensions. By applying the Correspondence Analysis (CA) model together with SERVQUAL to measure service quality in the tourism industry, they found "that CA can be used effectively in evaluating the service-quality and displaying the differences in the expectations/perceptions of distinct consumer groups" (Atilgan et al., 2003, p. 412). Their study indicated that service-quality may be evaluated differently between nations. Cultural characteristics are said to affect perceived service quality and researchers claim that culture will become increasingly more important factor of success in the future, as "different cultural groups can have different levels of expectations

and perceptions in terms of service-quality dimensions” (as cited in Atilgan et al., 2003, p. 420).

On the whole, the brief review was an attempt to portray the complex environment that the retail industry is faced with in relation to global, technological, demographical and cultural changes. All these factors are affecting the way consumers behave, hence their expectations and perceptions of service quality. Little research is available on retail in rural areas with tourism emphasis, which calls for more research in this growing field.

### 3.6 Other Empirical Findings of Conceptual Relevance

The review above includes findings from several studies that deepen the understanding of the service quality concept within the rural retail and tourism context. However, related empirical findings have yet to be mentioned and this section will now cover the main highlights relevant to the conceptual part of the research.

Bloemer et al. (1999, p. 1099) examined the “relationship between service quality and service loyalty from a multidimensional perspective and from the perspective of different types of service industries. Their analysis found “four distinct dimensions of service loyalty: word-of-mouth, purchase intention, price sensitivity and complaining behaviour” that remained consistent across “four different types of service industries” (Bloemer et al., 1999, p.1099). This finding corresponds to the earlier study on customer loyalty items by Zeithaml et al. (1996). Nonetheless, Zeithaml et al. (1996) found service quality and loyalty to behave similarly across different industries, whereas Bloemer et al. (1999) found four separate patterns of quality and loyalty relationships within each one of the four services industries.

Albacete-Sáez et al. (2007) conducted a study that focused on service quality perceived in rural context. Authors wanted to establish the dimensions to evaluate service quality in rural accommodation, to develop a reliable measurement tool to measure rural service quality. This study considered a broad range of attributes, some of which relate to the SERVQUAL scale. The interesting part of this research is its objective which is to find ways to improve the quality of rural services from the perspective of customer perception. The study revealed “that the perceived quality of a rural establishment depends mainly on dimensions closely linked to the personnel who are in touch with the customer and to the actual physical space evaluated” (Albacete-Sáez et al., 2007, p. 59).

Similarly, Al-Rousan et al. (2010, p. 886), who examined the impact of the service quality dimension in the hospitality sector of Jordan, concluded that “dimensions of service quality such as empathy, reliability, responsiveness and tangibility significantly predict customer loyalty” but found that the most significant predictor of customer loyalty was in fact tangibility that mostly concerns physical appearance.

Therefore, managers of rural operations should focus both on the choice of personnel that deals with the customers and the physical aspects of the property and surroundings to enhance service quality perceptions “and, above all, the cleanliness of the premises and the staff” (Albacete-Sáez et al., 2007, p. 59). The authors claim that high service quality leads to increased loyalty as it can be an “important way to attract new tourists by word-of-mouth communication from friends and relatives” (Albacete-Sáez et al., 2007, p. 60).

Furthermore, Loureiro & González (2008) measured customers’ perceived quality with the so called “RURALQUAL, based on SERVQUAL model (Parasuraman et al., 1985, 1988, 1991) but assessing only performance—as suggested by Cronin and Taylor (1992)” (cited in Loureiro & González, 2008, p. 122-123). Authors developed the RURALQUAL scale

especially for measuring service quality in rural tourism lodging (Loureiro & González, 2008). The objective was to identify the interrelationships among image, quality, satisfaction, trust and behavior intentions in two rural areas in the lodging industry to enable managers to better manage and effectively promote their lodging. They found that image was in fact a main factor of “perceived quality, satisfaction, trust, and loyalty for rural tourism” (Loureiro & González, 2008, p. 117). Anyhow, although they found that perceived quality impacted loyalty positively, it was not supported in this study. Authors’ objective was to help rural managers in selecting effective marketing strategies, yet they warn that this model should not be applied directly to other types of tourism industries, and emphasize the importance of further research in this field (Loureiro & González, 2008).

In Zeithaml et al.’s (1993, p.1) framework presented earlier on service expectations and their potential antecedents, the model “also clarifies the distinction between customer satisfaction and service quality assessment.” Three different types of service expectations are identified in this research: “desired service, adequate service, and predicted service”(Zeithaml et al., 1993, p. 10). A special attention is given to how customers evaluate the gap between perceived and expected service and that “the predicted service level may moderate how a customer interprets Gap 5, the service quality assessment gap” (Zeithaml, et al, 1993, p. 10). The study suggests that managers can use the zone of tolerance concept to formulate effective marketing strategies. By using such strategies or activities, they can widen customers’ tolerance zones for different services (Zeithaml, et al, 1993). This may relate to a study by Loureiro (2010), who also contributed to a model covering the customer delight and satisfaction constructs that Oliver, Rust & Varki (1997) proposed and Finn (2005) later modified (as cited in Loureiro, 2010, p. 396). Loureiro studied these variables to identify how they impacted loyalty in rural areas in relation to the concept of zone of tolerance by



Parasuraman, Zeithaml, and Berry (1991) and Zeithaml, et al, (1993) “suggesting that consumers will allow certain exceptions to the fulfillment of expectations about the service (disconfirmation) and whenever such exceptions are within the “zone of tolerance,” the experience remains satisfactory” (as cited in Loureiro, 2010, p. 397). The conclusion of this study was that satisfaction and delight should be emphasized over loyalty in rural tourism and that “managers should go beyond the fulfillment of the expectations and provide an experience that is exciting, arousing, and enjoyable” (Loureiro, 2010, p. 405). This will be discussed more under the Recommendation chapter.

Loureiro and Kastenholtz (2011) build further on the model of delight and satisfaction and introduce two new variables, reputation and perceived quality, and hypothesize that delight affects future intentions and that “Perceived quality impacts positively on loyalty“ (Loureiro & Kastenholtz, 2011, p. 576-577). The authors stress the “importance of corporate reputation, satisfaction, and delight in determining customers’ loyalty“ for the rural lodging unit and claim there is a positive relationship between perceived quality and loyalty, but that it is not significant (Loureiro & Kastenholtz, 2011, p. 581). In other words, that the “quality perceived by rural tourists is not enough to encourage them to recommend the lodging, to return, or to pay more” but that it is the overall quality of the stay, experience and activities that leads to loyalty (Loureiro & Kastenholtz, 2011, p. 581). Moreover, they suggest that the construct “Corporate reputation plays a significant role in the customer's perception of service performance capability“ and that improving the overall image may increase customers’ intentions to return in the future or recommend the services (Loureiro & Kastenholtz, 2011, p. 582).

A more recent study by Loureiro (2014) on behavioral intentions indicates that there is a relation between those and the likelihood of customers returning in the future and recommending the destination. The constructs pleasant arousal and memory are of focus in the study, as well as place attachment and behavioral intentions. The main finding is that “Positive emotions, pleasant arousal, and specially memories are important predictors of intentions to recommend the rural place to others and to return there. A rural tourist who identifies with the place and feels somehow connected to it tends to recommend it and return there“ (Loureiro, 2014, p. 7). The study found that dimensions like esthetics, educational and emotional experiences affected behavioral intentions (Loureiro, 2014).

González et al. (2007) developed a model to illustrate how service quality perceptions and customer satisfaction influence behavioral intentions within the spa resort context. Their study found that service quality and customer satisfaction influenced behavioral intentions in tourism. According to González et al. (2007, p. 159), the two former mentioned variables are found to have a “positive and significant influence on buying intentions, word-of-mouth communication, and price sensitivity.“

Another research worth mentioning is a non-published research by Su & Fan (2011) that gives an interesting exploratory view of the rural tourism in China, an increasingly more popular destination and were even them most rural population is becoming supplier of tourism services. Their study focuses on identifying “the relationships between service quality, satisfaction, and trust of rural tourists and to investigate impacts of them on loyalty” (Su & Fan, 2011, no page number). Authors found that “service quality has an indirect effect on customer loyalty mediated by tourist satisfaction and tourist trust, and then on tourist

loyalty“ (Su & Fan, 2011, no page number). Furthermore, this exploratory research indicated that there is a “relationship between behavioral intention and word-of-mouth communication” and that *trust* influences loyalty of rural tourists (Su & Fan, 2011, no page number).

Alexandris et al. (2006) offered an adjusted version of the SERVQUAL model and introduced yet another construct, *place attachment* and studied its predictability effect on customer loyalty in a skiing resort context. The study results confirmed the result of previous studies conducted in various settings and proposed “that the place attachment construct is an important one for ski resort managers and marketers in their effort to build customer loyalty” (Alexandris et al., 2006, p. 420).

Phillips et al. (2013, p. 94) examined the intentions of rural destination visitors in North Dakota, “to return and to recommend travel to others by investigating key variables: destination image, perceived value and satisfaction.“ Authors found that *destination image* “directly affects visitors' perception of value and revisit intentions” which indirectly affected satisfaction and recommendation intentions (Phillips et al, 2013, p. 94).

Similar to Loureiro and Kastenholtz (2011), reviewed earlier, Phillips et al. (2013) found that perceived value and overall satisfaction of the destination influences tourists' evaluations. The effects of these two constructs on tourists' behavior are well known in other studies (Baker and Crompton, 2000; Oh, 2000; Petrick, 2004; Chen and Tsai, 2007; Faullant et al., 2008; Žabka et al., 2010, Assaker et al., 2011: as cited by Phillips et al, 2013, p. 94). Also, even though there is less agreement on “the relationships to other variables, perceived value is recognized as an important antecedent for customer satisfaction and future behavioral

intentions (Oh, 2000; Petrick, 2004; Chen and Chen, 2010)” (Phillips et al., 2013, p. 95). In other words, “destination image alone does not necessarily play a role in encouraging people to recommend the rural destination to other people”, but together “destination image and the visitors' satisfaction are good indicators for revisit intention and WOM intention” (Phillips et al., 2013, p. 100-101).

Asubonteng, McCleary & Swan (1996, p. 80) provided a literature review on SERVQUAL and presented two main categories of criticisms; “the model’s applicability to all service industries or situations and the lack of validity of the model especially in respect of the dependence or independence of the five main variables.” Asubonteng et al. (1996) warn international managers and say they need to know the model is generic and its dimensions may not behave in the same way in all industries or across cultures. They also point out, that even though academics mostly criticize the model’s lack of measurement validity, its simplicity also increases the likeliness that all managers understand its key results that still may be of some importance to managerial activities. Authors suggest that managers must accept the fact that some SERVQUAL dimensions may prove to be of more importance to them than to others. Yet a deeper understanding of the main service delivery gaps may help them make improvement priorities that can be used as an effective planning tool in the context of their own industries (Asubonteng et al., 1996).

Besides, in a research paper by Chen & Chen (2010, p. 29) on visitor’s experience in Taiwanese heritage tourism, authors found direct effects from the quality of experience on perceived value and satisfaction, where the indirect effects of the quality of an experience impact behavioral intentions when mediated by perceived value and satisfaction. Chen & Chen’s (2010) finding is not so dissimilar to a study on *attitudes* by Maestro et al. (2007, p. 951), where this construct is added, as they examine “how tourists’ attitudes toward rural

tourism, as a new form of tourism, can affect both the quality and the satisfaction that the tourist associates with a specific facility.“

Anyhow, the study demonstrated that there was a positive indirect relationship between attitude and perceived quality; but more controversially, it demonstrated perceived quality and satisfaction to be almost the same as the two constructs were found to be multicollinear (Maestro et al., 2007, p. 961). Authors suggest that this finding “simplifies theoretical models” and that the “lack of discriminant validity between perceived quality and satisfaction and the simplicity of the structure of perceived quality reduce the number of constructs that must be considered by further research“ (Maestro et al., 2007, p. 961).

With a better understanding of the determinants of customer loyalty, managers can focus more on “the major factors leading to customer retention. Many studies have examined the antecedents of repeat purchase intentions. Additionally, the causal relationships among customer perceptions of service quality, satisfaction, value, and behavioral intentions have been established by previous studies (Athanasopoulos, 2000; Baker and Crompton, 2000; Chen, 2008; Chen and Tsai, 2007 ; Cronin et al., 2000; Petrick and Backman, 2002; Rust and Oliver, 1994 ; Zeithaml et al., 1996). Quality, perceived value, and satisfaction all have been shown to be good predictors of behavioral intentions (Petrick, 2004)“ (as cited in Chen & Chen, 2010, p. 31).

Nevertheless, according to a review conducted by González et al., (2007), studies relating service quality and behavior intentions have proved to be quite complex ones. Despite the recognition of the important „relationship between service quality and customer satisfaction, research surrounding consumer behavior intentions remains insufficient,, (González et al., 2007, p. 153). There seems to be little or “no mutual agreement on the relationships to other

variables, [yet] perceived value is recognized as an important antecedent for customer satisfaction and future behavioral intentions (Oh, 2000; Petrick, 2004; Chen and Chen, 2010)” (as cited in Phillips et al., 2013, p. 95).

Furthermore, as cited by Loureiro & González (2008, p. 121), “the literature on marketing has shown that there is a positive relationship between perceived quality and intentions after the purchase (Boulding et al., 1993; Cronin & Taylor, 1992; Keaveney, 1995; Ruyter, Wetzel, & Bloemer, 1996; Zeithaml et al., 1996).“ Studies have confirmed that there is a relationship between perceived service quality, loyalty to a destination and return visits. So the “generation of income also depends on the how tourists value quality during their stay. Receiving excellent service reinforces the loyalty of current customers and increases the prospect of attracting new ones” (Baker and Crompton, 2000; Bigné et al., 2001; Kozak, 2001; Tian-Cole and Crompton, 2003 ; Tian-Cole et al., 2002; as cited in Albacete-Sáez et al., 2007, p. 46).

In all, the above review of the many different conceptual studies provides an insight into the highly complex field of study. Yet busy managers may simply seek a simplified model that will improve their understanding and help them take the first steps in improving their service quality.

## Chapter 4 Conceptual Model

### 4.1 Conceptual model of determinants of rural retail loyalty

The aim of this study is to develop a conceptual framework for understanding retail service quality dynamics in rural tourism communities, see **Figure 6**. The conceptual model is a modified version of a model presented by Hurst et al. (2009, p. 517), who studied the service quality literature within the rural tourism context. On the basis of this proposed model, several hypotheses will be tested.

FIGURE 6 – A MODIFIED CONCEPTUAL MODEL FOR SERVICE QUALITY IN RURAL RETAIL



### 4.2 Justification for Proposed Model

Hurst et al. (2009) created the conceptual model upon which this study is basing its own model development on. Besides, there is a variety of previously conducted research in which similar relations between constructs were tested. However, before testing this concept, the relationships between constructs and the service quality dimensions need to be tested to confirm the original SERVQUAL dimensions used in this study.

Previously conducted research on service quality dimensions in rural context (Albacete-Sáez et al., 2007, p. 57-58) indicated that there are seven dimensions of service quality: personnel

response, complementary offer, tourist relations, basic demands, tangible elements, security, and empathy. Only the last three dimensions cover concepts similar to the original SERVQUAL dimensions. In this research (Albacete-Sáez et al., 2007, p. 57-58), the concept of service quality is based on the paradigm of “perceptions minus expectations” so perceived service quality is viewed as “degree and direction of discrepancy between consumer perceptions and expectations” according to Parasuraman et al. (1988, p. 17) as cited in Albacete-Sáez et al. (2007, p. 50).

In the results of principal component analysis conducted by Hurst et al. (2009), two dimensional and one dimensional aspects of service quality were found. The analysis of the local customers sample recognized responsiveness and tangibles as two dimensions of the original SERVQUAL model, and Tourist customers as one dimension. Obtained components were used to test relationships between service quality dimensions and loyalty and purchase intentions, and support was found for the ability of post-service perceptions (service quality dimensions of responsiveness and tangibles) to predict local customers’ retailer loyalty, but it was not supported for the sample of Tourist customers. According to results obtained from study conducted in Jordan (Al-Rousan et al., 2010, p. 886), dimensions of service quality (such as empathy, reliability, responsiveness and tangibility) can significantly predict customer loyalty, and the most significant predictor of customer loyalty is tangibility.

Beside perceived quality, satisfaction and loyalty, some authors of the previously conducted studies (Su & Fan, 2011; Loureiro & González, 2008) tested the relations between several other constructs like perceived value, trust, image, and word-of-mouth communication of rural tourists. According to the results of these conducted studies, service quality has an indirect effect on customer loyalty mediated by tourist satisfaction and tourist trust (Su & Fan, 2011; Loureiro & González, 2008). Also, Loureiro & González (2008, p. 117) indicated that image was a main factor of perceived quality, satisfaction, and loyalty for rural tourism.



According to the results of study conducted on the sample of customers from four different service industries, Bloemer et al. (1999, p. 1099) suggest that four dimensions of service loyalty can be identified: purchase intentions, word-of-mouth communication, price sensitivity, and complaining behaviour. Regarding retail services, from all the SERVQUAL dimensions, only reliability had positive and significant impact on purchase intentions and word-of-mouth, and empathy had positive and significant impact on price sensitivity. Similar result was obtained in González et al.'s (2007, p. 159) study in which the model was developed to depict how service quality perceptions and customer satisfaction influence behavioral intentions. By testing the proposed model, results indicated that both constructs had positive and significant influence on buying intentions and word-of-mouth communication, and negative influence on price sensitivity (decreasing price sensitivity) (González, Comesaña & Brea, 2007).

Other authors were also investigating what were the most influential predictors of behavioral intentions (Chen & Chen, 2010; Phillips et al., 2013). Phillips et al. (2013, p. 94) indicated that destination image directly affected visitors' perception of value and revisit intentions, and that it indirectly affected satisfaction and recommendation intentions, while Chen & Chen (2010, p. 29) demonstrated that there were indirect effects of the quality on behavioral intentions mediated by perceived value and satisfaction, hence the relationship “experience quality → perceived value → satisfaction → behavioral intentions” appears to be evident in this case.

Loureiro & Kastenholz (2011, p. 577) conducted a similar study several years later and established a hypothesis that perceived quality had positive impact on loyalty. Results of their study indicated that direct relationship between perceived quality and loyalty is positive, but not significant so the hypothesis is not supported (Loureiro & Kastenholz, 2011, p. 581). Inability to confirm that there is direct influence of perceived service quality on loyalty is

explained by a group of authors (Maestro et al., 2007, p. 961) who claim that perceived quality and satisfaction are found to be almost the same. The results of their study indicate that the satisfaction construct is multicollinear with perceived quality. This case can be explained in the way that quality perceptions may already “incorporate the affective component that would differentiate satisfaction from perceived quality” (Maestro et al., 2007, p. 961). According to the authors Maestro et al. (2007), the results of this study can simplify future theoretical models, as the lack of discriminant “validity between perceived quality and satisfaction and the simplicity of the structure of perceived quality reduce the number of constructs that must be considered by further research” (Maestro et al. 2007, p. 961).

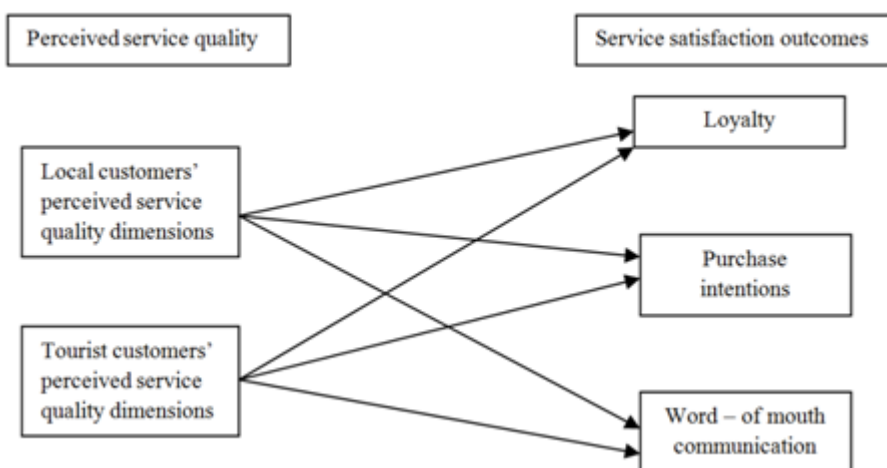
According to Loureiro & González (2008, p. 121) there are several studies which “indicate that service quality influences loyalty indirectly through other variables...(e.g., Anderson & Sullivan, 1993; Gotlieb, Grewal, & Brown, 1994; Patterson & Spreng, 1997; Roest & Pieters, 1997; Taylor & Baker, 1994),” but there are also others who argue that there is direct effect between service quality and loyalty “(e.g., Boulding, Kalra, Staelin, & Zeithaml, 1993; Parasuraman et al., 1988, 1991; Taylor & Baker; Zeithaml et al., 1996).” Taking into account above mentioned results of previously conducted studies and explanation of Maestro et al. (2007), perceived service quality can be used excluding the satisfaction construct, so the proposed model seems to be justified.

#### 4.3 Proposed Research Model

The research model which will be proposed for testing in this thesis will include four constructs: perceived service quality, loyalty, purchase intentions and word-of-mouth communication. The variables of perceived service quality will be calculated by subtracting expectations from perceptions, considering that perceived service quality represent “degree

and direction of discrepancy between consumer perceptions and expectations” (Parasuraman et al., 1988, p. 17; as cited in Albacete-Sáez et al., 2007, p. 50). Dimensions of perceived service quality will be obtained by principal component analysis and those constructs will be used in testing the relationship between service quality and loyalty, as well as purchase intentions and word-of-mouth communication. One of the main objectives is to investigate which latent variables have the relatively strongest impact on loyalty, purchase intentions and word-of-mouth communication. The proposed research model is presented in **Figure 7**.

FIGURE 7 - THE PROPOSED RESEARCH MODEL



Source: Hurst et al., 2009 (Modified version)

#### 4.4 Hypothesis

Based on demonstrated literature review of previous research, the adjusted series of hypotheses made by Hurst et al. (2009, p. 519), and the proposed research model, several hypotheses are set to be tested:

*H1: “Customer expectations for pre-service quality will be different for local customers than for tourist customers in rural tourism contexts.”*

*H1a: “Customer perceptions for post-service quality will be different for local customers than for tourist customers in rural tourism contexts.”*

*H1b: “Expectations for pre-service quality will be greater for customers (local and tourist) than for retailers.”*

*H1c: “Perceptions for post-service quality will be greater for customers (local and tourist) than for retailers.”*

*H2: “Retail pre-service quality expectations will predict local customers’, tourist customers’, and retailers’ post-service quality perceptions.”*

*H2a: Local customers’ and tourist customers’ perceived service quality will predict their purchase intentions (adjusted hypothesis)*

*H2b: Local customers’ and tourist customers’ perceived service quality will predict their retailer loyalty (adjusted hypothesis)*

*H2c: Local customers’ and tourist customers’ perceived service quality will predict their word-of-mouth communication (adjusted hypothesis)*

## Chapter 5 Research Methodology

### 5.1 Research Design

The main research design selected is *survey technique* which was used to collect quantitative data with SERVQUAL questionnaire items. The research questions were highly focused on the SERVQUAL instrument (Expectation – Perception), Loyalty and Behavioral Intentions. The plan was to calculate new variables by subtracting perception from expectation (E-P) and then to use those new variables in further analysis. A focus was to be put on a variable named Perceived Service Quality, because according to the literature perceived service quality is difference between expectations and perceptions or the so called GAPs (Parasuraman, 1985).

The second research design chosen for this study is an adapted *case study/interview* version of the study made by Hurst et al. (2009). This explorative part of the study was intended to collect information about the complex context of service quality in rural retail in an attempt to accurately classify and adapt the study questions to the two very different segments of local and tourist customer.

Also, the plan was to interview managers and employees of rural retailers to gather qualitative results. However, soon it became clear that this part of the study would come across some serious obstacles. Too few retailers were in the area and many did only operate during high-season, whereas the study was conducted in April.

Only 13 interviews were gathered, which caused severe limitations. The sample was too small and was limited to only one part of the Westfjords. Therefore, the result is only briefly mentioned in this paper, but it cannot be generalized as it is not a representative sample. Nevertheless, the 13 responses provided an interesting insight into the rural retail operations

of a rural community, as managers and employees of Kaupfélag Steingrímsfjarðar Hólmavík (KSH) described the largest retailer in the Strandir area of the Westfjords and outlined the main challenges and their attitudes towards service quality in relation to local and tourist customers.

## 5.2 Population Profile (Demographics)

The population for this specific research was limited to the rural community of the Westfjords, with a total of merely 6.885 residents at the end of 2016, and overnight stays of tourist visitors reportedly 238.242 in the same year (Statistics Iceland, 2017a; Statistic Iceland, 2017b).

The Pre-test took place from mid-March 2017 to the end of the month. The final survey and interviews took place at the end of the winter season and in early spring or more specifically from April 12-24th, 2017. It can be argued that the survey timing can affect the outcome extensively, since winter travelers may have different characteristics than summer travelers. However, since increased emphasis is put on combating seasonality, it was seen to be of great value to learn more about the preferences of the off-season travelers.

## 5.3 Sample

A total of 253 responses were collected in the final survey, consisting of 130 tourists and 123 local customers, as well as interviews with 13 retailers who also answered a modified version of the SERVQUAL items for comparison.

A survey used for the main data collection was split into two groups (Local and Tourist) which were further split into four sub-groups covering the Local Strandir first, Local Westfjords second, the Icelandic Tourist third and the International Tourist fourth.

#### 5.3.1 Unit

The unit of analysis in this study was the individual (local and tourist customer).

#### 5.3.2 Sampling techniques

Certain quota sampling technique took place, but convenience sampling was mainly used in the sense that potential tourist respondents were approached with haphazard sampling at popular service stops (rural gas stations, rural retailers and rural tourist destinations).

Potential limitation of this type of sampling is that it lacks the depth and may provide a non-representative sample. Yet it was cheap, easy and quick way of gathering data swiftly and highly suitable during the Easter holiday which was the main testing period in this case. In addition, there was a special three-day musical event taking place in the region (Aldrei fór ég suður). This event may have caused for a specific type of individuals to be more likely to visit the area (young musicians), but this is a recurring event every Easter.

The sampling was based on subjective human decision. Anyone entering certain locations was asked, then stratified sampling was used to include specific kind of diversity into the sample to address the differences with the intention to compare. Therefore, the population was divided into subpopulations, with the aim to get a relative equal representation from both genders and a good range of all age groups. This categorization was thought to reflect the aspects of diversity which is important to this study. The purpose was to compare the different views of these groups, so the sample selection had to ensure that the major

differences in the population would appear in the study sample and was considered a major improvement to applying the convenience sample alone.

### 5.3.3 Sample Size

The sample selection process was guided by the study by Hurst et al. (2009) which had the target of 375 responses (125 local residents, 125 tourists and 125 retail managers/owners). However, it was very clear that aiming for 125 responses from retailers would never be realistic in this small community where the number of retailers is less than 20 and many do not operate on a 12-month basis.

A special effort was made to get a genuinely representative sample of the population, although no accurate information on the combination of the retail customer population currently exist. Also, no accurate measurement of the tourists visiting the Westfjords exists either. Therefore, it may be difficult to generalize the results gained. Nonetheless, an attempt was made to reduce impact bias by reducing the likeliness of biased selection or the effect of emotion.

#### 5.3.3.1 Sample ratio

A total of 300 respondents were targeted, providing a total of 253 responses (91% response rate ratio). In such a small population it was necessary to approach almost every respondent available in the short application time of the survey. The gathered response samples were divided in the following groups:

The ratio between local and tourist customer was:

123 local responses = 48.6%

130 tourist responses = 51.4%

The local and tourist sample can be split even further into the following groups:



Local customer sample (123 responses):

92 responses (74.8%) = Local Strandir

31 responses (25.2%) = Local Westfjords

Tourist customer sample (130 responses):

112 responses (86.2%) = Icelandic tourists

18 responses (13.8%) = International tourists.

#### 5.3.4 Questionnaire

In early stages, the pre-test of survey questionnaire revealed that it had to be improved. The Hurst et al.'s (2009) article did not seem to provide satisfactory information about the survey design and data collection to enable an effective use of its research methods. The pre-test provided 40 responses and data analysis proved to be problematic. There were several reasons for concern:

- The questions were not provided by Hurst et al. (2009) and had to be partially assumed and translated.
- It may be the application was too sensitive to the new cultural or business setting.
- It may be the area was even too rural, for Hurst et al.'s (2009) layout for rural research.
- The questionnaire was too long and appeared repetitive.

The length of the survey was reduced considerably and a new SERVQUAL questions consisted of 21 adapted items and three newly added items related to Product assessment.

Specific changes were made in the translations of some questions to gain a better fit with the regional context, few other questions were added. The questionnaire was pre-tested and revised to ensure content validity. Few adjustments were made and the final questionnaire consists of four major sections: respondents' demographic profile, SERVQUAL expected and perceived service quality, loyalty and customer behavioral intentions. Apart from respondent's demographic profile information that was measured by a categorical scale, all items of the latter four parts are measured by a 7-point Likert-type scale.

- **Part 1** deals with the respondent demographic information with seven items including age, gender, residency, occupation and monthly income.
- **Part 2** deals with service quality expectation with the 21 SERVQUAL items plus three product items.
- **Part 3** measures perceived performance of services with the 21 SERVQUAL items plus three product items.
- **Part 4** consists of loyalty (three items), purchase intentions and behavioral intentions (seven items).

Behavioral intentions of customers were measured on the basis of their intention:

- to recommend shopping in rural areas,
- to spread positive "word-of-mouth" about rural areas,
- to shop again in rural areas.

Some questions had to be reversed coded to prevent response bias as some of the items were reverse negatively worded. Reverse coded questions were:

- *Loyalty1: I will shop out of town before I shop in town (reverse coded)*

- *Purch.Int2: If I am not satisfied with the customer service I have received at a particular store, I will not buy anything from the store that day, nor will I ever go back (reverse coded)*
- *Purch.Int3: If I am not satisfied with the customer service I have received at a particular store, I will take my business elsewhere (reverse coded)*

The question type used was mostly closed, offering the respondents a number of pre-defined response choices. However, an open-ended question was used to determine the nationality of the international respondents.

The response format for the descriptive part included questions that could be answered by ticking the boxes providing data with numerical format. SERVQUAL part of the questionnaire consisted of response format with Likert type scale, where respondents were required to interpret the questions and personally evaluate their own views by ranking how much they agreed or disagreed with a particular subject.

Considerable time was spent on the wording of the questions, as they had to be adapted to the demographic and cultural context. An attempt was made to word the questions very clearly and carefully to avoid too long questions, double negatives or double barreled questions. All jargon, abbreviations, culture specific, leading questions, emotionally weighted or words with double meaning were eliminated from the questions.

#### 5.4 Data Collection

As mentioned before, the survey was conducted in Strandir (Westfjords) during the months of March and April 2017. This stop-over area has one of the highest concentrations of visitors during this time of year. The goal of the study was explained to the participants and the managers of the units.

The survey was conducted using a questionnaire that was developed carefully in two different languages, as the local customer base was mainly Icelandic, whereas the tourists were seen to be multinational which required a fairly international language which was chosen to be English.

The survey was self-administered to locals and tourists at the Strandir Area in Westfjords. Retail visitors were approached with a printed copy of the survey as they entered or left the unit, and they all have been requested to participate in the survey in the same way, by the same person and providing the same information to minimize sampling error with human involvement.

## 5.5 Scale and Measurement

The quantitative survey applied to the local and tourist customers was intended to collect data that would produce numerical information. The measurement technique used was questionnaire to gather empirical evidence and to better link the ideas to the measurements in order to make better sense of the data. The idea was to further develop and adapt the existing service quality concept to the specific rural context.

The conceptualization was based on the results of previously conducted research (Parasuraman et al., 1985 & 1988; Hurst, 2009). Previous conceptual definitions and variable definitions were replicated with very little changes to accommodate the situational differences in the operationalization of the survey questions and measurements (such as translation and rural context).

The conceptual definition of each variable was considered and fitted to the Icelandic context and the measures moderately adapted in order to effectively determine the degree of

empirical association between all the indicators. The result of potential associations could either support or refute the hypothesis.

However, the case study interviews of the employees were not seen as a part of the conceptual research, because the sample was too small. The interview information collected from employees was simply supposed to give a better idea and deeper understanding of their views of the challenges they were facing, to better pinpoint and refine the possible issues at hand.

## 5.6 Reliability and Validity of Scale

**Validity of Constructs- Measurement scales** - This study uses measurement scales from previously conducted studies that appeared fully validated and intersubjectively verifiable. However, the application was being made in a new context/situation which called for further construct validation.

The **validity** of the constructs will be assessed using a multi-step approach of factor analysis and Cronbach's Alpha for obtained factors. The data analysis will be conducted in SPSS using descriptive statistics, factor analysis, *t*-tests and multiple regression analysis. The data analysis will be interpreted and compared to Hurst et al's (2009) study that found that local customer believed they received worse service quality and service interactions "in contrast to tourist customers, and retailers [who] indicate some degree of differentiated treatment between local and tourist customers" (Hurst et al., 2009, p. 533).

## 5.6.1 Item Level Validity (Item scale analysis)

### 5.6.1.1 Face validity

The construct validity will be evaluated by getting input from an expert in the field of SERVQUAL Measurement, who can indicate if items seem to be measuring what they were supposed to.

### 5.6.1.2 Reliability

Reliability test for each component will be performed in order to see if those components have good internal consistency. Cronbach's Coefficient Alpha will be calculated and reported if there is low/moderate/high internal consistency of obtained components. If findings show very low internal consistency of the construct, then mean inter-item correlation will be considered, which has to be between 0.2 and 0.4 according to Briggs and Cheek (1986). Also, the average correlation between items will be checked in order to test reliability of used constructs.

## 5.6.2 Construct Level Validity

### 5.6.2.1 Convergent validity

In order to check if related items behave the same, component matrix table will be checked. The Communalities table will also indicate how much variance each item explains. If the values are above 0.3 then the results are indicating a good fit of items. Pattern matrix will be also checked in order to see if there is a clean factor structure in which convergent and discriminant validity were evident.

### 5.6.2.2 Discriminant validity

In order to check if there is a violation of discriminant validity, pattern matrix will be checked. A second method will also be used to examine if there is a discriminant validity by

checking the factor correlation matrix. Correlations between factors should not exceed 0.7 in order to conclude that there is discriminant validity of constructs.

#### 5.6.2.3 Nomological validity

Nomological validity will be tested by looking for evidence that the relationships among constructs are consistent with previously conducted studies, that have been measured with validated instruments. Also, the positive and negative sides of the results obtained will be presented.

### 5.7 Data Analysis Tools

Data analysis was conducted by statistical software SPSS. Analysis that have been performed are Exploratory factor analysis, One way ANOVA, Independent Sample t-test, Paired Sample t-test and Multiple Regression Analysis.

#### 5.7.1 Descriptive statistics

A summary of Descriptive Statistics was used to describe the characteristics of the study sample; number of respondent, min/max range of result (e.g. age from 18-65+), Mean (e.g. age 37.4) and so forth. Within the Descriptive Statistics, some basic tests were used to check for violations such as Mean, Standard Deviation (SD), range, skewness and kurtosis. The Skewness was useful to see the symmetry of distribution of scores and kurtosis indicated the peakedness of distribution. This further indicated in which direction the distribution was leaning towards, also indicating whether the distribution was relatively flat or included too many extremes.

### 5.7.2 Factor Analysis

Exploratory factor analysis (EFA) will be performed with the Principal Component Analysis for extraction of factors. In order to decide how many factors will be retained for further analysis, so-called Guttman-Kaiser criterion will be used, on the basis of which all factors with Eigenvalue above 1 will be retained. By reviewing the scree plot, it will be confirmed if those factors really have to be retained. Principal Component Analysis will be performed with the Promax method of rotation.

In order to test reliability of obtained components, Cronbach's alpha coefficient will be calculated. This coefficient should be greater than 0.7 (Pallant, 2009; as cited in DeVellis, 2003) to conclude that the measurement scale is reliable.

Barlett's test of sphericity will be used to test the degree of intercorrelation among items. The output of this test allows researchers to reject the null hypothesis, then it means that the sample intercorrelation matrix did not come from a population in which the intercorrelation matrix is an identity matrix. If the value of the test statistic for sphericity is large and the associated significance level is small, then it is unlikely that the population correlation matrix is an identity.

The value of the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) will be interpreted, which represent the index for comparing magnitude of observed correlation coefficients to magnitude of partial correlation coefficients. The closer the KMO measure is to 1, the more evidence it is of a sizeable sampling adequacy. In general, this study is searching for a minimum KMO of 0.50. The results of  $KMO < 0.50$  will be considered unacceptable, 0.60 is mediocre, 0.70 is acceptable and values of 0.80 and higher are excellent.



Having a positive result from those tests means that the study's dataset allows researchers to continue and conduct a factor analysis, as well a principal component analysis. Also, correlation between variables in Correlation Matrix must be examined, in which acceptable level of correlation is above 0.3. If it is the case, variables are well correlated.

### 5.7.3 T-tests

Independent samples t - test can be performed in order to investigate if there are statistically significant differences in mean values of dependent variable between two groups (local and tourist customers), and paired sample t - test can be performed in order to investigate if there are statistically significant differences in mean values of dependent variable within one group (local or tourist customers).

Before conducting t-tests, some conditions have to be met. First, it has to be checked if dependent variable is interval, which the case is considering that all variables are measured on a Likert scale from 1 to 7. Another assumption is related to accidental sampling, so it is important that simple random sampling is used in study.

In order to check if assumption of homogeneity of variance is disturbed, Levene's test will be done. If this test reached statistical significance, which will indicate that assumption of homogeneity of variance was violated.

Results of t-test can be seen in column Sig. (2-tailed) in part called t-test for Equality of Means.

### 5.7.4 Analysis of variance (ANOVA)

Before conducting One Way ANOVA, certain conditions have to be met. First, it has to be checked if each group is approximately normal. It will be done by checking histograms and it

can be handled with some non-normality, but not severe outliers. Also, standard deviations of each group have to be approximately equal.

In order to check if assumption of homogeneity of variance is disturbed, Levene's test will be conducted. If this test reached statistical significance, which will indicate that assumption of homogeneity of variance was violated. In the same aim, Welch and Brown-Forsythe tests will be conducted. If results of Welch and Brown-Forsythe tests are statistically significant, it can be concluded that data is not suitable for ANOVA analysis because there was violation of the assumption of homogeneity of variance.

In order to interpret if there are differences in mean values of dependent variable in several groups, F-statistics will be shown (which is ratio of the Between Group Variation divided by the Within Group Variation). If the value of F is large and statistically significant, it is evidence against  $H_0$ , so it can be concluded that there are large differences between groups than within groups. Results of ANOVA can only indicate if there are differences between groups, but results of Post Hoc Analysis can indicate between which actual groups the difference exists.

In order to indicate between which groups the difference exist, LSD (Least Significant Difference) Post Hoc Comparison will be performed. From Multiple Comparison table it can be seen between which groups are differences that are statistically significant ( $p < 0.05$ ). This will be done in the way in which two by two of them will be compared using the 2-sample t test.

#### 5.7.5 Multiple Regression Analysis

Multiple regression analysis is used when someone aims to predict the value of a variable based on the value of two or more other variables. The variable which is to be predicted is called the dependent variable. The variables used for prediction of the value of the dependent

variable are called the independent variables. Multiple regression analysis will be conducted using the method of least squares. Additional analysis will be checked for assumptions on the validity of the model by checking the normality of the distribution of residuals. Also, tests will be conducted in order to detect autocorrelation (DW test) and check multicollinearity.

Key statistics which have to be reported are F- statistic and significance, R and R squared. F statistics will be used to determine if the whole regression is statistically significant. Value R will indicate how strong relationships between predictors and dependent variable are. R squared will indicate the percent of variance of dependent variable explained by group of predictors.

Before conducting multiple regression analysis, it is necessary to analyze the various solutions of problems involving one dependent and more independent variables. For this purpose, the correlation between variables will be tested. This analysis should help in detecting the direction and strength of the linear relationship among the variables. The correlation matrix will be based on the Pearson correlation coefficient and it will show relations between independent variables and dependent one, as well as relations between independent variables by themselves.

Several regression assumptions will be tested:

- Normality of Residual- Examination of fulfillment of the assumptions of normality of residuals is based on the analysis of numerical data and graphics, on the basis of a visual assessment of schedule of residuals. Results will provide a view of descriptives that contain different indicators of the conducted analysis of the residual variable.
- Indicators of asymmetry (Skewness and kurtosis) will be calculated, so results can indicate if distribution is approximate to normal residuals, so it can (not) be

concluded that the results are within the normal distribution and if assumption of normality of the distribution is fulfilled. Kolmogorov-Smirnov and Shapiro-Wilk tests will be conducted also. Result of those tests can indicate if there is statistically significant deviation from the normality of distribution.

- Multicollinearity - it occurs when a linear correlation between the independent variables is 0.7 or more. In order to check multicollinearity among independent variables, the results of the coefficients Variance Inflation Factor (VIF) and Tolerance will be used. Value for Tolerance shows how much of the variance of independent variables is not explained by variances of other independent variables in the model. Bad value for Tolerance are those that are below 0.10, and those indicate a high correlation with other variables.
- Autocorrelation of residuals - Durbin-Watson (DW) statistic is one of the most commonly used indicators of autocorrelation. If the calculated value is in the range  $dg < d < 4-dg$ , it can be concluded that there is no significant autocorrelation between residuals.

After testing regression assumptions, two questions can be answered:

- How collectively do the IVs predict the DV?
- Which of the IVs are most significant predictors?

First question will be answered on the basis of results of F- statistic and significance, R and R squared. F statistics will be used to determine if the whole regression is statistically significant. Value R will indicate how strong relationships between predictors and dependent variable are. R squared will indicate the percent of variance of dependent variable explained by group of predictors.

The second question will be answered on the basis of results of beta coefficients. Which variable has the largest beta coefficient (and also statistical significance), it has the most powerful individual contribution to explanation of variance of dependent variable. The amount of that percentage can be calculated by squared value of Part coefficient.

## Chapter 6 Data Analysis & Interpretations

### 6.1. Results of Reliability and Validity testing

#### 6.1.1 Face validity

The construct validity was evaluated by getting input from an expert in the field of SERVQUAL Measurement, who stated the result was reasonable and that both constructs and items seemed to be measuring what they were supposed to. The measurement seemed to be producing scores that reflected the 'true' value for each of the dimension.

#### 6.1.2 Reliability

Reliability test for each component was performed, and all of them had good internal consistency with a Cronbach's Coefficient Alpha reported in range from 0.72 to 0.95, except in the case of the fourth component in the sample of Local customers (0.55), which was expected considering that this component consisted of only two variables.

In that manner, mean inter-item correlation could be considered, which had to be between 0.2 and 0.4 according to Briggs and Cheek (1986). This value was 0.37, so this component could be considered reliable as well. Reported Cronbach's Alpha coefficients indicated that the items were measuring the same construct and the correlated item total level indicated that all the items were contributing. The average correlation between items was above 0.3 which is considered as acceptable.

### 6.1.3 Construct Level Validity

#### 6.1.3.1 Convergent validity

Component matrix table found that related items were behaving the same. In Communalities table it could be seen how much variance each item explains. Considering that values were above 0.3 and in average above 0.5, results indicated good fit of items. A total of 66.62% (Local customers sample) and 65.6% (Tourist customers sample) of variance was explained by the items and Eigenvalue higher than 1 were explored further. Pattern matrix showed very clean factor structure in which convergent and discriminant validity were evident by the high loadings within factors, and no major cross-loadings between factors. This led to the conclusion that both questions and the scales were working and that they were measuring separate dimensions as they were loading on separate components.

#### 6.1.3.2 Discriminant validity

As pointed out earlier in the convergence validity section, questions were measuring separate values and were not too related, so there is no violation of discriminant validity. Pattern matrix showed how the questions loaded onto constructs. A second method was used to examine discriminant validity by checking the factor correlation matrix. Correlations between factors should not exceed 0.7, as was the case in this example.

#### 6.1.3.3 Nomological validity

Overall, the tables appear to be logical. There were four similar components in each sample (Local and Tourist customers), but fourth component in the sample of Local customers consisted of only two variables (one from Tangibles and one from Empathy dimension) and had Cronbach's Alpha of 0.55, hence the obtained component was not used in following

analysis although mean inter item correlation was between 0.2 and 0.4. This component consisted of two items which are not similar to any of the original SERVQUAL dimensions.

Although other obtained constructs may have seemed to partially support the model and hypothesis as well, it was clear that further development was needed on the modification of the used items so they would be applicable for rural retailers. The model did not fully explain the original SERVQUAL dimensions considering that the survey was conducted in the rural retail industry. The positive side of the obtained results is that there was no large cross loading between components making it easily visible that each component measured the same thing and had high internal consistency. However, the negative sides are that those constructs did not fully confirm the original SERVQUAL dimensions, but they were grouped accordingly or in the way they covered several different SERVQUAL dimensions under one construct, which will be described subsequently.

## 6.2 Results of Descriptive Statistics

### 6.2.1 Respondent's demographic profile

A total of 253 usable surveys were received out of the 300 distributed, for an overall response rate of 84%. Out of the total number of participants approached, 123 were local customers (48.6%) and 130 were tourist customers (51.4%).

For the local customers, 65.9% were female and 34.1% were male. Taking into account age group, 16.3% were between the ages of 18-34, 54.5% were between the ages of 34-54, and 29.3% were 55 or older. When taking into consideration educational level of respondents, 43.1% of them had general education, 19.5% graduated at high school, 25.2 had college



degree and only 11.4% of them had post-graduate degree. From total of 123 respondents, 74.8% of them were from Local Strandir and 25.2% of them were Local Westfjords. 22.8% of local respondents reported income under \$25,000, 26.8% were between \$25,001 and \$50,000 and 38.2% were between \$50,000 and \$75,000. Only 7.3% of them reported income over \$75,001. A total of 74% owned property in this area and 18.7% of them rented it.

In contrast, the tourists were slightly younger with about 45.4% between the ages of 18-34, 39.3% were between the ages of 35-54, and 16.2% were 55 or older. For the tourist customers, 53.8% were female and 44.6% were male. When taking into consideration educational level of respondents, 21.5% of them had general education, 13.8% graduated at high school, 42.3% had college degree and 22.3% of them had post-graduate degree. From total of 130 respondents, 86.2% of them were Icelandic travelers and 13.8% of them were International tourists. Also, 14.6% of tourist respondents reported income under \$25,000, 16.2% were between \$25,001 and \$50,000 and 40% were between \$50,000 and \$75,000. Some 20% of them reported income over \$75,001. It can be concluded that tourists had higher income in comparison to local customers. A total of 75.4% neither owned nor rented property in this area, therefore 57.7% of them stayed with family and friends.

TABLE 4 - DESCRIPTIVE STATISTICS

	Descriptive Statistics										
	N	Range	Minimum	Maximum	Mean	Std.	Variance	Skewness	Kurtosis		
	Deviation										
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std.	Statistic	Std.
								Error		Error	
Gender	264	1.00	1.00	2.00	1.6098	.48871	.239	-.453	.150	-1.809	.299
Age	266	5.00	1.00	6.00	3.3008	1.38719	1.924	.226	.149	-.753	.298
Education	265	4.00	1.00	5.00	2.6943	1.51288	2.289	.226	.150	-1.465	.298
Residency	266	4.00	1.00	5.00	1.9774	1.11907	1.252	1.184	.149	.713	.298
Nationality	18	11.00	1.00	12.00	6.2778	3.78551	14.330	-.125	.536	-1.700	1.038
Income	238	4.00	1.00	5.00	2.6176	1.12922	1.275	.298	.158	-.342	.314
OwnRent	245	2.00	1.00	3.00	2.3061	.68962	.476	-.486	.156	-.830	.310
DontOwn	138	4.00	1.00	5.00	3.0145	.94356	.890	.711	.206	.831	.410

TABLE 5 - DEMOGRAPHICS OF RURAL TOURISM COMMUNITY

	Local customers		Tourist customers	
	N	%	n	%
<b>Gender</b>				
Male	42	34.1	58	44.6
Female	81	65.9	70	53.8
Missing	0	0	2	1.5
Total	123	100.0	130	100.0
<b>Age</b>				
18-24	6	4.9	16	12.3
25-34	14	11.4	43	33.1
35-44	32	26.0	37	28.5
45-54	35	28.5	14	10.8
55-64	30	24.4	7	5.4
65+	6	4.9	13	10.0
Missing	0	0.0	0	0.0
Total	123	100.0	130	100.0
<b>Education</b>				
General education	53	43.1	28	21.5
High school	24	19.5	18	13.8
Some college	11	8.9	20	15.4
College graduate	20	16.3	35	26.9
Post-graduate	14	11.4	29	22.3
Missing	1	.8	0	0.0
Total	123	100.0	130	100.0
<b>Residency</b>				
Icelandic traveller	0	0	112	86.2
International tourist	0	0	18	13.8
Local Strandir	92	74.8	0	0
Local Westfjords	31	25.2	0	0
Local Employee	0	0	0	0
Missing	0	0	0	0
Total	123	100.0	130	100.0
<b>Nationality</b>				
Danmark	N/A	N/A	2	1.5
Luxembourg	N/A	N/A	2	1.5
Britan	N/A	N/A	3	2.3
Slovakia	N/A	N/A	1	.8
Japan	N/A	N/A	1	.8
USA	N/A	N/A	6	4.6
Germany	N/A	N/A	1	.8
Brazil	N/A	N/A	1	.8
Australia	N/A	N/A	1	.8
Missing	N/A	N/A	112	86.2
Total	123	100.0	130	100.0
<b>Income</b>				
Under 25000	28	22.8	19	14.6

25001-50000	33	26.8	21	16.2
50001-75000	47	38.2	52	40.0
75001-100000	7	5.7	12	9.2
100000+	2	1.6	17	13.1
Missing	6	4.9	9	6.9
Total	123	100.0	130	100.0

<b><i>Own Rent</i></b>				
Rent	23	18.7	9	6.9
Own	91	74.0	15	11.5
Neither	9	7.3	98	75.4
Missing	0	0.0	8	6.2
Total	123	100.0	130	100.0

<b><i>Don't Own</i></b>				
Hotel/guesthouse	1	.8	4	3.1
Apartment/Airbnb/summerhouse	8	6.5	18	13.8
With family/friends	13	10.6	75	57.7
Just passing through	1	.8	18	13.8
Missing	100	81.3	15	11.5
Total	123	100.0	130	100.0

### 6.3 Results of Independent Sample T-test

In H1, customer expectations for pre-service quality in the rural tourism community were hypothesized to be different for local customers and tourist customers. Support for this hypothesis was found. In order to investigate if there was a difference in average expectations for pre-service quality between local and tourist customers, Independent Samples T-tests was conducted. Results of an independent t-test indicate that local customers had higher expectations (6.00,  $s = 0.54$ ,  $n = 123$ ) than tourist customers (5.75,  $s = 0.64$ ,  $n = 130$ ) and difference in expectations is statistically significant ( $t(251) = -3.278$ ,  $p < .05$ ) suggesting that there is a difference between local customers' pre-service quality expectations and the tourist customers' pre-service quality expectations.

H1a posited there would be a difference in post-service quality perceptions by length of residence (local versus tourist). Support for this hypothesis was not found. In order to investigate if there was a difference in average perceptions for post-service quality between local and tourist customers, Independent Samples T-tests were conducted. Results of an independent t-test indicate that local customers had similar satisfaction (4.85,  $s = 0.87$ ,  $n =$

123) as tourist customers (4.75,  $s = 0.86$ ,  $n = 130$ ) and difference in perceptions is not statistically significant ( $t(251) = -.909$ ,  $p > .05$ ).

In sum, these findings suggest that local customers had higher expectations than tourist customers but after service was delivered, the two customer groups (local and tourist) had similar perceptions – satisfaction going into a retail purchase.

TABLE 6 - GROUP STATISTICS

Group Statistics					
	Residency.2groups	N	Mean	Std. Deviation	Std. Error Mean
Expectations.SQ	Tourist	130	5.7567	.64977	.05699
	Local	123	6.0042	.54284	.04895
Perceptions.SQ	Tourist	130	4.7565	.86639	.07599
	Local	123	4.8559	.87354	.07876

TABLE 7 - INDEPENDENT SAMPLES TEST

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower		Upper
Expectations.SQ	Equal variances assumed	3.348	.068	-3.278	251	.001	-.24751	.07549	-.39619	-.09882
	Equal variances not assumed			-3.295	247.252	.001	-.24751	.07512	-.39547	-.09954
Perceptions.SQ	Equal variances assumed	.053	.818	-.909	251	.364	-.09941	.10942	-.31491	.11608
	Equal variances not assumed			-.908	249.983	.365	-.09941	.10944	-.31496	.11614

Furthermore, H1b and H1c were used to test if there were greater pre-service quality expectations (H1b) and post-service perceptions (H1c) for customers as a whole (local and tourist) than for retailers. Instead of summing up the two customer groups (local and tourist) each of five groups will individually be included in the analysis, in order to achieve equal sample size of groups. This is considering that the residency variable originally included five groups (Icelandic traveler, Local Strandir, Local Westfjords, International tourist, Local Employee) One Way ANOVA was performed in order to test if there was a difference in expectations and perceptions between groups. Results indicated that there was statistically significant difference in expectations between groups ( $F(4,261) = 3.611$ ;  $p < 0.05$ ) but there

was not statistically significant difference in perceptions between groups ( $F(4,261) = 1.061$ ;  $p > 0.05$ ). Results of Post Hoc Test will show between which groups there was a significant difference in expectations.

TABLE 8 – DESCRIPTIVE

		Descriptive							Between-Component Variance	
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum		Maximum
						Lower Bound	Upper Bound			
Expectations	Icelandic traveler	112	5.7620	.66787	.06311	5.6370	5.8871	3.29	6.96	
	Local Strandir	92	5.9945	.53516	.05579	5.8836	6.1053	4.46	7.00	
	Local Westfjords	31	6.0330	.57314	.10294	5.8228	6.2433	4.22	7.00	
	International tourist	18	5.7233	.53843	.12691	5.4555	5.9910	4.73	6.80	
	Local Employee	13	6.1924	.48975	.13583	5.8964	6.4883	5.28	6.92	
	Total	266	5.8924	.60934	.03736	5.8189	5.9660	3.29	7.00	
	Model	Fixed Effects			.59768	.03665	5.8203	5.9646		
	Random Effects				.08869	5.6462	6.1387			.02055
Perceptions	Icelandic traveler	112	4.7004	.87058	.08226	4.5374	4.8634	2.94	7.00	
	Local Strandir	92	4.8674	.85519	.08916	4.6903	5.0445	2.43	6.96	
	Local Westfjords	31	4.8219	.93974	.16878	4.4772	5.1666	2.56	6.68	
	International tourist	18	5.1056	.77301	.18220	4.7211	5.4900	3.93	6.51	
	Local Employee	13	4.8245	.94958	.26337	4.2507	5.3983	3.22	6.88	
	Total	266	4.8058	.87173	.05345	4.7006	4.9110	2.43	7.00	
	Model	Fixed Effects			.87133	.05342	4.7006	4.9110		
	Random Effects				.05638	4.6493	4.9624			.00102

TABLE 9 - ANOVA

		ANOVA				
		Sum of Squares	Df	Mean Square	F	Sig.
Expectation.SQ	Between Groups	5.159	4	1.290	3.611	.007
	Within Groups	93.235	261	.357		
	Total	98.394	265			
Perceptions.SQ	Between Groups	3.223	4	.806	1.061	.376
	Within Groups	198.154	261	.759		
	Total	201.377	265			

According to the results, LSD post hoc test revealed that there was a difference in expectations between Local Employees ( $M = 6.1924$ ,  $SD = .4897$ ) and Icelandic traveler ( $M = 5.7620$ ,  $SD = .66787$ ), and also between Local Employees ( $M = 6.1924$ ,  $SD = .4897$ ) and International tourist ( $M = 5.7233$ ,  $SD = .53843$ ), so it can be concluded that there is statistically significant difference between retailers and tourist customers, and that there is no statistically significant difference in expectations between retailers and local customers. To conclude, retailers have higher expectations than tourist customers, so H1b is not supported

because it hypothesized that expectations for pre-service quality will be greater for customers (local and tourist) than for retailers, which is not the case. Also H1c cannot be supported because there was no statistically significant difference in perceptions between groups, hence it can be concluded that perceptions for post-service quality were greater for customers (local and tourist) than for retailers.

TABLE 10 - MULTIPLE COMPARISONS

LSD		Multiple Comparisons						
Dependent Variable	(I) Residency	(J) Residency	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval		
						Lower Bound	Upper Bound	
Expectations.SQ	Icelandic traveler	Local Strandir	<b>-.23242*</b>	.08410	.006	-.3980	-.0668	
		Local Westfjords	<b>-.27098*</b>	.12130	.026	-.5098	-.0321	
		International tourist	.03877	.15177	.799	-.2601	.3376	
		Local Employee	<b>-.43033*</b>	.17512	.015	-.7752	-.0855	
	Local Strandir	Icelandic traveler	<b>.23242*</b>	.08410	.006	.0668	.3980	
		Local Westfjords	-.03856	.12412	.756	-.2830	.2058	
		International tourist	.27119	.15404	.079	-.0321	.5745	
		Local Employee	-.19791	.17709	.265	-.5466	.1508	
	Local Westfjords	Icelandic traveler	<b>.27098*</b>	.12130	.026	.0321	.5098	
		Local Strandir	.03856	.12412	.756	-.2058	.2830	
		International tourist	.30975	.17711	.081	-.0390	.6585	
		Local Employee	-.15935	.19749	.420	-.5482	.2295	
	International tourist	Icelandic traveler	-.03877	.15177	.799	-.3376	.2601	
		Local Strandir	-.27119	.15404	.079	-.5745	.0321	
		Local Westfjords	-.30975	.17711	.081	-.6585	.0390	
		Local Employee	<b>-.46909*</b>	.21754	.032	-.8975	-.0407	
	Local Employee	Icelandic traveler	<b>.43033*</b>	.17512	.015	.0855	.7752	
		Local Strandir	.19791	.17709	.265	-.1508	.5466	
		Local Westfjords	.15935	.19749	.420	-.2295	.5482	
		International tourist	<b>.46909*</b>	.21754	.032	.0407	.8975	
	Perceptions.SQ	Icelandic traveler	Local Strandir	-.16696	.12260	.174	-.4084	.0745
			Local Westfjords	-.12152	.17683	.493	-.4697	.2267
			International tourist	-.40513	.22126	.068	-.8408	.0306
			Local Employee	-.12410	.25530	.627	-.6268	.3786
Local Strandir		Icelandic traveler	.16696	.12260	.174	-.0745	.4084	
		Local Westfjords	.04544	.18095	.802	-.3109	.4018	
		International tourist	-.23817	.22457	.290	-.6804	.2040	
		Local Employee	.04286	.25817	.868	-.4655	.5512	
Local Westfjords		Icelandic traveler	.12152	.17683	.493	-.2267	.4697	
		Local Strandir	-.04544	.18095	.802	-.4018	.3109	
		International tourist	-.28362	.25820	.273	-.7920	.2248	
		Local Employee	-.00258	.28791	.993	-.5695	.5643	
International tourist		Icelandic traveler	.40513	.22126	.068	-.0306	.8408	
		Local Strandir	.23817	.22457	.290	-.2040	.6804	
		Local Westfjords	.28362	.25820	.273	-.2248	.7920	
		Local Employee	.28103	.31714	.376	-.3435	.9055	
Local Employee		Icelandic traveler	.12410	.25530	.627	-.3786	.6268	
		Local Strandir	-.04286	.25817	.868	-.5512	.4655	
		Local Westfjords	.00258	.28791	.993	-.5643	.5695	
		International tourist	-.28103	.31714	.376	-.9055	.3435	

\*. The mean difference is significant at the 0.05 level.

## 6.4 Results of Exploratory Factor Analysis

Principal components analysis with promax rotation was conducted on 24 items - variables of perceived service quality (gap between pre-service expectations and post-service perceptions)

for each group of respondents (local customers and tourist customers). Based on the previous literature review, this approach was selected considering that perceived service quality appeared to be the best predictor of satisfaction and loyalty of customers.

Before conducting factor analysis, the value of the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) was calculated, in order to assess the suitability of data for factor analysis. Barlett's test of sphericity was used to test the feasibility of the use of factor analysis. In order to test reliability of used scales, Cronbach's alpha coefficient was calculated. This coefficient needed to be greater than 0.7 (Pallant, 2009, according to DeVellis, 2003) to conclude that the measurement scale in this study is reliable.

TABLE 11 - FACTOR LOADINGS

Factor items	Labels	Factor loadings							
		First component		Second component		Third component		Fourth component	
		Local customer s	Tourist customers	Local customer	Tourist customer s	Local customer s	Tourist customer s	Local customer s	Tourist customer s
GAP.TA1	Modern fixtures and upto-date displays						<b>.751</b>	<b>.697</b>	
GAP.TA2	Visually appealing store					<b>.777</b>	<b>.817</b>		
GAP.TA3	Employees have neat appearance				.449	<b>.788</b>	<b>.635</b>		
GAP.TA4	Cleanliness of store				.439	<b>.550</b>	<b>.626</b>		
GAP.RL1	To provide service within the promised time frame	<b>.603</b>			<b>.672</b>				
GAP.RL2	Employees' sincere willingness to solve problems and correct mistakes	<b>.704</b>			<b>.779</b>				
GAP.RL3	Perform correct service the first time	<b>.433</b>			<b>.827</b>	.410			
GAP.RL4	Accurate transactions and records				<b>.878</b>	<b>.577</b>			
GAP.RN1	Employees make information easily available and obtainable	<b>.710</b>	<b>.564</b>						
GAP.RN2	Prompt service to customers	<b>.641</b>	<b>.605</b>						
GAP.RN3	Employees' willingness to help and provide service to customers	<b>.883</b>	<b>.495</b>		.488				

GAP.RN4	Attention given by employees (never too busy to respond)	<b>.777</b>	<b>.479</b>						
GAP.AS1	Employees' trustworthy behaviour instils confidence	<b>.753</b>	<b>.714</b>						
GAP.AS2	Feeling of safety in transactions with employees	<b>.782</b>	<b>.572</b>						
GAP.AS3	Employees' politeness and courtesy	<b>.715</b>		<b>.403</b>					
GAP.AS4	Employees' knowledge and ability to answer questions	<b>.921</b>	<b>.764</b>						
GAP.EM1	Individual attention to customer	<b>.713</b>	<b>.785</b>						
GAP.EM2	Convenient operating/opening hours						<b>.584</b>	<b>.662</b>	
GAP.EM3	Personal service	<b>.849</b>	<b>.945</b>						
GAP.EM4	Employees have customers' interest at heart	<b>.507</b>	<b>.682</b>						
GAP.EM5	Employees understand and respond to specific customer needs	<b>.657</b>	<b>.735</b>						
GAP.PR1	Product selection			<b>.916</b>					<b>.693</b>
GAP.PR2	Product quality			<b>.682</b>		<b>.476</b>			<b>.405</b>
GAP.PR3	Product price			<b>.793</b>					<b>.497</b>
Cronbach's alpha by each component		0.952	0.94	0.783	0.85	0.807	0.83	0.55	0.72
% of variance explained		48.98	47.75	7.41	6.92	5.61	6.07	4.61	4.84
Composite mean		1.08	0.85	1.34	1.00	1.42	0.99	0.153	1.04
Composite standard deviation		1.08	1.09	1.33	1.04	1.16	1.19	1.46	1.28
Composite variance		1.17	1.19	1.76	1.09	1.35	1.42	2.14	1.64
N		123	130	123	130	123	130	123	130

Results of the principal components analysis and reliabilities obtained are summarized in **Table 11** above. Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) had been calculated and its values for sample of local customers (0.920) and for sample of tourist customers (0.912) indicated that the data were suitable for factor analysis. Barlett's test of sphericity reached statistical significance (Sig. = 0.000), hence it can be concluded that the application of factor analysis is justified. Only items with loadings of 0.30 or higher, and an



eigenvalue of 1 were used to determine latent factors (Stevens, 1992; as cited in Hurst et al., 2009, p. 526).

Reliability test for each component was performed, and Cronbach Alpha coefficients range from 0.72 to 0.95, except in the case of the fourth component in the sample of Local customers (0.55), which is expected considering that this component consists of only two variables. In that manner, mean inter-item correlation can be considered, which has to be between 0.2 and 0.4 according to Briggs and Cheek (1986). This value is 0.37, therefore this component can be considered reliable as well.

Items were summed and averaged to create a component score per dimension. Finally, each component was matched to common service themes and then new variables got new names in relation to the original names of SERVQUAL dimensions.

Principal component analysis results revealed difference in latent components obtained in two different groups (local customers vs. tourist customers). Both analyses indicated that there were four components, but some of those components are different in variables which they include. The first component in both samples consists of original SERVQUAL dimensions named Assurance, Empathy and Responsibilities, but analysis on sample of Local customers implied that the first component also consists of those three dimensions and Reliability dimension as well. The second component is different for two groups. In the sample of Tourist customers, second component consists of variables from Reliability scale, and in the sample Local customers second component consists of variables from newly added Product scale. The third component is similar for both groups, considering that it includes variables from original SERVQUAL scale named Tangibles. At last, the fourth component is different for two groups (analysis) and in the sample of Tourist customers it includes variables from newly added Product scale, and in the sample of Local customers it includes

only two variables, one from Tangible dimension and one from Empathy dimension. The fourth component was excluded from the further analysis.

Based on the content and themes of these variables, components were given the names from the original SERVQUAL dimensions where it was possible. However, considering that some of those components include three or more dimensions, unique name was attempted to be made.

In the sample of Local customers three components were retained which were named:

- 1) Employees' behavior (M = 1.08; SD = 1.08)
- 2) Product (M = 1.34; SD = 1.33)
- 3) Tangibles (M = 1.42; SD = 1.16)

In the sample of Tourist customers four components were retained which were named:

- 1) Employees' behavior (M = 0.85; SD = 1.09)
- 2) Reliability (M = 1.00; SD = 1.04)
- 3) Tangibles (M = 0.99; SD = 1.19)
- 4) Product (M = 1.04; SD = 1.28)

Total variance explained by local customers' perceived quality dimensions was 66.62 percent (Employees' behavior =48.98 percent, Product assessment= 56.39 percent and Tangibles = 24.64 percent). Total variance explained by tourist customers' perceived quality dimensions was 65.60 percent. Abovementioned results suggest that rural retailers need to adjust their customer relationship management strategies to allow them to simultaneously cater to local and tourist customers. The fact that tourist and local customers' perceived quality perceptions loaded into three almost identical dimensions is noteworthy. Also, it has to be highlighted that Local customers perceive all original SERVQUAL dimensions, except Tangibles, as one

component - Employee's behavior. On the other hand, Tourist customers perceive Reliability separately from other employee's behavior. These findings suggest that each customer segment (local and tourist) has similar way of interpreting service quality except in the case of reliability of employees. These three and four-dimensional constructs were then used to test hypotheses H2, H2a and H2b.

For local customers, three perceived service quality dimensions (Employee's behavior, Product Assessment and Tangibles) that resulted from principle component factor analysis, were used in testing hypotheses H2-H2b. For tourist customers, four service quality dimensions (Employee's behavior, Reliability, Product Assessment and Tangibles) that resulted from principle component factor analysis were used to test hypotheses H2-H2b. A component mean score was calculated by summing and averaging responses to items in each dimension. Mean scores were used in hypothesis tests of relationships between perceived service quality, purchase intentions, behavioral intentions and retailer loyalty.

In second hypothesis (H2) customer pre-service quality expectations were hypothesized to be predictors of local customers' and tourist customers' post-service quality perceptions.

Support was not found in any group (local customer:  $\beta = 0.44$ ,  $p > 0.05$ ; tourist:  $\beta = 0.17$ ,  $p > 0.05$ ) indicating that expectations do not play a role in predicting resulting service satisfaction for customers in rural tourism communities, see **Table 12** below.

**TABLE 12 - EXPECTATIONS DO NOT SEEM TO PREDICT SERVICE SATISFACTION**

Variable	Constant	B	SE	T-value	F	p-value
Local customers expectation	4.432	.071	.146	.483	.233	.630
Tourist expectations	3.456	.226	.116	1.945	3.782	.054

Notes: Variable named "Service quality expectations" was calculated by summarizing all of five service quality expectation dimensions plus product assessment.

In order to assess the importance of the customer service quality dimensions and their effect on customers' service satisfaction, a series of hypotheses were tested relating to the outcome

behaviors: purchase intentions (H2a), retailer loyalty (H2b) and behavioral intentions (H2c), see **Table 13** below.

In line with the results obtained by using multiple regression analysis for each sample individually, support was not found for the H2a according to which perceived service quality (service quality dimensions) can predict purchase intentions. Results indicate that purchase intentions were not influenced by local customers perceived service quality dimensions ( $F(3,119) = 2.556, p > 0.05$ ), nor the tourist customers perceived service quality dimensions ( $F(4,125) = 2.095, p > 0.05$ ). Obtained results failed to confirm results of previously conducted studies (Zeithaml, 1988) pursuant to which purchase intentions are affected greatly by customers' value perceptions, product quality and price.

Support was found for the H2b according to which perceived service quality (service quality dimensions) can predict retailer loyalty. Results indicate that retailer loyalty was influenced by local customers perceived service quality dimensions ( $F(3,119) = 5.603, p < 0.05$ ), and the tourist customers perceived service quality dimensions ( $F(4,125) = 4.112, p < 0.05$ ).

More precisely, in the case of local customers, only one individual variable (Product) has individual statistically significant prediction of retailer loyalty ( $\beta = -.375; p < 0.05$ ).

Considering that beta coefficient is with negative sign, it can be concluded that if customer's perceptions did not meet their expectation about product selection, quality and price, loyalty is less expressed. On the other hand, in the case of tourist customers, there is no particular variable which has individual predictive power, considering that only whole regression model is statistically significant.

Support was found for the H2c according to which perceived service quality (service quality dimensions) can predict behavioral intentions of customers. Results indicate that behavioral intentions were influenced by local customers perceived service quality dimensions ( $F(3,119) = 4.468, p < 0.05$ ), and the tourist customers perceived service quality dimensions ( $F$

(4,125) = 3.904,  $p < 0.05$ ). More precisely, in the case of tourist customers, only one individual variable (Product) has individual statistically significant prediction of behavioral intentions ( $\beta = -.288$ ;  $p < 0.05$ ). Considering that beta coefficient is with negative sign, it can be concluded that if customer's perceptions did not meet their expectation about product selection, quality and price, behavioral intentions are less expressed.

**TABLE 13 - REGRESSION ESTIMATES FOR H2A AND H2B: INFLUENCE OF LOCAL CUSTOMERS' PERCEIVED SERVICE QUALITY ON SERVICE SATISFACTION OUTCOMES**

Dependent variable Independent variable	B	SE	$\beta$	t-value	Sig.	F	p-value	R <sup>2</sup>
Purchase intentions						2.556	.059	.061
Constant	3.336	.189		17.647	.000			
Employee's behavior	.102	.154	.086	.663	.508			
Product assessment	-.253	.103	-.261	-2.454	.016			
Tangibles	.196	.138	.178	1.425	.157			
Retailer loyalty						5.603	.001*	.124
Constant	5.454	.169		32.285	.000			
Employee's behavior	-.026	.138	-.024	-.190	.850			
Product assessment	-.336	.092	-.375	-3.645	.000*			
Tangibles	.091	.123	.089	.739	.461			
Behavioral intentions						4.468	.005*	.101
Constant	6.232	.126		49.368	.000			
Employee's behavior	-.203	.103	-.250	-1.971	.051			
Product assessment	-.103	.069	-.156	-1.502	.136			
Tangibles	.047	.092	.063	.514	.608			

Notes: \* $p < 0.05$ ; Cronbach's alpha: Purchase intentions consist of 2 items ( $\alpha = 0.84$ ); Retailer loyalty consist of 3 items ( $\alpha = 0.76$ ); Behavioral intentions consist of 3 items ( $\alpha = 0.81$ ). Summed independent variable items are based on factor analysis results of perceived service quality dimensions (gaps between expectations and perceptions).

**TABLE 14 REGRESSION ESTIMATES FOR H2A AND H2B: INFLUENCE OF TOURIST CUSTOMERS' PERCEIVED SERVICE QUALITY ON SERVICE SATISFACTION OUTCOMES**

Dependent variable Independent variable	B	SE	$\beta$	t-value	Sig.	F	p-value	R <sup>2</sup>
Purchase intentions						2.095	.085	.063
Constant	2.964	.155		19.069	.000			
Employee's behavior	-.405	.169	-	-2.396	.018			
Reliability	.013	.170	.354	.076	.940			
Tangibles	.154	.129	.147	1.197	.234			
Product assessment	.140	.115	.144	1.220	.225			
Retailer loyalty						4.112	.004*	.116
Constant	5.365	.132		40.739	.000			
Employee's behavior	-.094	.143	-	-.658	.512			
Reliability	-.150	.144	.094	-1.039	.301			
Tangibles	.057	.109	.144	.526	.600			
Product assessment	-.171	.097	-	-1.759	.081			
Behavioral intentions						3.904	.005*	.111
Constant	5.743	.118		48.631	.000			
Employee's behavior	-.201	.128	-	-1.568	.119			
Reliability	.114	.129	.226	.880	.380			
Tangibles	.075	.098	.092	.763	.447			
Product assessment	-.219	.087	-	-2.513	.013*			
			.288					

Notes: \* $p < 0.05$ ; Cronbach's alpha: Purchase intentions consist of 2 items ( $\alpha = 0.81$ ); Retailer loyalty consist of 2 items ( $\alpha = 0.73$ ); Behavioral intentions consist of 3 items ( $\alpha = 0.89$ ). Summed independent variable items are based on factor analysis results of perceived service quality dimensions (gaps between expectations and perceptions).

## 6.5 Results of Paired Samples T –test

According to Buttle (1996), SERVQUAL gap can be determined based on three methods:

- (1) Item-by-item analysis (e.g. P1-E1, P2-E2, ..., P22-E22)
- (2) Construct-by construct analysis (e.g.  $((P1+P2+P3+P4)/4) - ((E1+E2+E3+E4)/4)$ , where P1 to P4, and E1 to E4 represent the four perception and expectation statements relating to a particular construct)
- (3) Computation of an overall single measure of service quality  $(P1+P2+P3+...+P22) - (E1+E2+E3+...+E22)$  the so called SERVQUAL gap.

Paired Sample t-test was conducted to assess the degree of service gap (perceptions minus expectations) and to investigate if there are statistically significant differences between expectations and perceptions. The same analysis was conducted three times. First on items (in order to compare single items), second was performed on constructs (in order to compare constructs) and the third was performed in order to investigate differences between overall expectations and perceptions.

Results of the first Paired Sample t-test indicated that there were statistically significant differences between each pair of items and in all cases, mean values of perceptions items were lower than mean values of expectation items, except in the case of statement related to “modern fixtures and up to-date displays” for which perceptions (4.83,  $s = 1.26$ ,  $n = 264$ ) are higher than expectations (4.47,  $s = 1.39$ ,  $n = 264$ ) and difference in expectations is statistically significant ( $t(263) = -3.416$ ,  $p < .05$ ) suggesting that there is statistically significant difference between perceptions and expectations for this particular item.

TABLE 15 - PAIRED SAMPLES STATISTICS

		Paired Samples Statistics			
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Exp1_TA1	4.4697	264	1.39766	.08602
	Per1_TA1	4.8258	264	1.26067	.07759
Pair 2	Exp2_TA2	5.5358	265	1.14135	.07011
	Per2_TA2	4.8038	265	1.23368	.07578
Pair 3	Exp3_TA3	6.3954	263	.90982	.05610
	Per3_TA3	4.7300	263	1.17842	.07266
Pair 4	Exp4_TA4	6.5000	262	.77187	.04769
	Per4_TA4	4.7481	262	1.21827	.07527
Pair 5	Exp5_RL1	5.9105	257	.95799	.05976
	Per5_RL1	4.8327	257	1.09652	.06840
Pair 6	Exp6_RL2	6.2644	261	.79120	.04897
	Per6_RL2	5.0613	261	1.14189	.07068
Pair 7	Exp7_RL3	5.6000	260	.99497	.06171
	Per7_RL3	4.9615	260	1.08627	.06737
Pair 8	Exp8_RL4	6.2077	260	.86722	.05378
	Per8_RL4	4.9577	260	1.11939	.06942
Pair 9	Exp9_RN1	5.8256	258	.94014	.05853
	Per9_RN1	4.7984	258	1.06869	.06653
Pair 10	Exp10_RN2	5.3784	259	1.00949	.06273
	Per10_RN2	4.8031	259	1.25593	.07804
Pair 11	Exp11_RN3	6.3089	259	.83362	.05180
	Per11_RN3	4.9073	259	1.16435	.07235
Pair 12	Exp12_RN4	5.9846	259	.98031	.06091
	Per12_RN4	4.7529	259	1.30025	.08079
Pair 13	Exp13_AS1	5.9961	259	.99026	.06153
	Per13_AS1	4.8378	259	1.17333	.07291
Pair 14	Exp14_AS2	6.0155	258	.97426	.06065
	Per14_AS2	4.8682	258	1.14939	.07156
Pair 15	Exp15_AS3	6.4865	259	.74891	.04653
	Per15_AS3	5.0888	259	1.13260	.07038
Pair 16	Exp16_AS4	5.7490	259	.94968	.05901
	Per16_AS4	4.7220	259	1.10668	.06877
Pair 17	Exp17_EM1	5.1953	256	1.12413	.07026
	Per17_EM1	4.6367	256	1.08685	.06793
Pair 18	Exp18_EM2	5.8755	257	.94789	.05913
	Per18_EM2	4.9844	257	1.35776	.08469
Pair 19	Exp19_EM3	5.3466	251	1.19138	.07520
	Per19_EM3	4.8446	251	1.14357	.07218
Pair 20	Exp20_EM4	5.8307	254	.92766	.05821
	Per20_EM4	4.7598	254	1.13922	.07148
Pair 21	Exp21_EM5	5.5843	255	1.01550	.06359
	Per21_EM5	4.7961	255	1.07841	.06753
Pair 22	Exp22_PR1	5.4538	260	1.13635	.07047
	Per22_PR1	4.8000	260	1.26674	.07856
Pair 23	Exp23_PR2	6.1860	258	.83938	.05226
	Per23_PR2	4.8372	258	1.16559	.07257
Pair 24	Exp24_PR3	5.9377	257	1.03645	.06465
	Per24_PR3	4.1751	257	1.35658	.08462

Results of the second Paired Sample t-test indicated that there were statistically significant differences between each pair of constructs and in all cases mean values of perception constructs were lower than mean values of expectation constructs, for example perceptions about Tangibles (4.77,  $s = 1.03$ ,  $n = 260$ ) were lower than expectations about Tangibles (5.72,  $s = .79$ ,  $n = 260$ ) and difference between expectations and perceptions was statistically significant ( $t(259) = 12.434$ ,  $p < .05$ ) suggesting that there was statistically significant difference between perceptions and expectations for this construct, see **Table 16** below.

TABLE 16 - PAIRED SAMPLES TEST

		Paired Samples Test					t	df	Sig. (2-tailed)
		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Exp1_TA1 - Per1_TA1	-.35606	1.69379	.10425	-.56132	-.15080	-3.416	263	.001
Pair 2	Exp2_TA2 - Per2_TA2	.73208	1.58828	.09757	.53997	.92418	7.503	264	.000
Pair 3	Exp3_TA3 - Per3_TA3	1.66540	1.54396	.09520	1.47794	1.85286	17.493	262	.000
Pair 4	Exp4_TA4 - Per4_TA4	1.75191	1.43422	.08861	1.57743	1.92638	19.772	261	.000
Pair 5	Exp5_RL1 - Per5_RL1	1.07782	1.43946	.08979	.90100	1.25464	12.004	256	.000
Pair 6	Exp6_RL2 - Per6_RL2	1.20307	1.30124	.08054	1.04446	1.36167	14.937	260	.000
Pair 7	Exp7_RL3 - Per7_RL3	.63846	1.40876	.08737	.46642	.81050	7.308	259	.000
Pair 8	Exp8_RL4 - Per8_RL4	1.25000	1.40153	.08692	1.07884	1.42116	14.381	259	.000
Pair 9	Exp9_RN1 - Per9_RN1	1.02713	1.31263	.08172	.86620	1.18806	12.569	257	.000
Pair 10	Exp10_RN2 - Per10_RN2	.57529	1.51387	.09407	.39005	.76053	6.116	258	.000
Pair 11	Exp11_RN3 - Per11_RN3	1.40154	1.37846	.08565	1.23288	1.57021	16.363	258	.000
Pair 12	Exp12_RN4 - Per12_RN4	1.23166	1.62836	.10118	1.03241	1.43091	12.173	258	.000
Pair 13	Exp13_AS1 - Per13_AS1	1.15830	1.39838	.08689	.98720	1.32941	13.331	258	.000
Pair 14	Exp14_AS2 - Per14_AS2	1.14729	1.38418	.08618	.97759	1.31699	13.313	257	.000
Pair 15	Exp15_AS3 - Per15_AS3	1.39768	1.30301	.08096	1.23825	1.55712	17.263	258	.000
Pair 16	Exp16_AS4 - Per16_AS4	1.02703	1.39602	.08674	.85621	1.19784	11.840	258	.000
Pair 17	Exp17_EM1 - Per17_EM1	.55859	1.45672	.09105	.37930	.73789	6.135	255	.000
Pair 18	Exp18_EM2 - Per18_EM2	.89105	1.60924	.10038	.69337	1.08873	8.877	256	.000
Pair 19	Exp19_EM3 - Per19_EM3	.50199	1.46799	.09266	.31950	.68448	5.418	250	.000
Pair 20	Exp20_EM4 - Per20_EM4	1.07087	1.41243	.08862	.89633	1.24540	12.083	253	.000
Pair 21	Exp21_EM5 - Per21_EM5	.78824	1.28063	.08020	.63030	.94617	9.829	254	.000
Pair 22	Exp22_PR1 - Per22_PR1	.65385	1.57545	.09771	.46145	.84624	6.692	259	.000
Pair 23	Exp23_PR2 - Per23_PR2	1.34884	1.39008	.08654	1.17841	1.51926	15.586	257	.000
Pair 24	Exp24_PR3 - Per24_PR3	1.76265	1.76613	.11017	1.54569	1.97960	16.000	256	.000

TABLE 17 - PAIRED SAMPLES STATISTICS

		Paired Samples Statistics			
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	E.Tangibles	5.7212	260	.79855	.04952
	P.Tangibles	4.7712	260	1.03021	.06389
Pair 2	E.Reliability	5.9970	250	.69475	.04394
	P.Reliability	4.9420	250	.96585	.06109
Pair 3	E.Responsiveness	5.8720	254	.75008	.04706
	P.Respon	4.8356	254	1.04815	.06577
Pair 4	E.Assurance	6.0647	255	.74389	.04658
	P.Assurance	4.8922	255	1.03513	.06482
Pair 5	E.Emphaty	5.5578	237	.80543	.05232
	P.Emphaty	4.7857	237	.97562	.06337
Pair 6	E.Product	5.8568	256	.85118	.05320
	P.Product	4.6133	256	1.08313	.06770
Pair 7	ExpectationS.SQ	5.8230	215	.64064	.04369
	Perceptions.SQ	4.7942	215	.88787	.06055

TABLE 18 - PAIRED SAMPLES TEST

		Paired Samples Test					t	df	Sig. (2-tailed)
		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	E.Tangibles - P.Tangibles	.95000	1.23197	.07640	.79955	1.10045	12.434	259	.000
Pair 2	E.Reliability - P.Reliability	1.05500	1.13330	.07168	.91383	1.19617	14.719	249	.000
Pair 3	E.Responsiveness - P.Respon	1.03642	1.22026	.07657	.88563	1.18721	13.536	253	.000
Pair 4	E.Assurance - P.Assurance	1.17255	1.16888	.07320	1.02840	1.31670	16.019	254	.000
Pair 5	E.Emphaty - P.Emphaty	.77215	1.12735	.07323	.62789	.91642	10.544	236	.000
Pair 6	E.Product - P.Product	1.24349	1.33307	.08332	1.07941	1.40757	14.925	255	.000
Pair 7	Expectat.SQ - Percept.SQ	1.02879	1.02076	.06962	.89157	1.16601	14.778	214	.000



Results of the third Paired Sample t-test indicated that there were statistically significant differences between overall expectations and overall perceptions. Mean value of overall perceptions (4.79,  $s = .88$ ,  $n = 215$ ) was lower than overall expectations (5.82,  $s = .64$ ,  $n = 215$ ) and difference between expectations and perceptions was statistically significant ( $t(214) = 14.778$ ,  $p < .05$ ) suggesting that there was statistically significant difference between overall perceptions and overall expectations.

## 6.6 Summary

The set of hypotheses proposed in the paper and the design of the study are partially replicated and also adapted from earlier literature using the SERVQUAL instrument. The software SPSS-21 was used to test the hypotheses with the aim of achieving the research objectives.

Data analysis took place using factor analysis to test the reliability and validity of the SERVQUAL instrument in relation to the service quality dimensions of the rural retail setting. The result showed that tourist and local customers' perceived quality perceptions loaded into three almost identical dimensions (Employee's behavior, Product, Tangibles). The main difference between those two groups was that Tourist customers saw Reliability scale as one separate factor while Reliability items was included under Employees' behavior in case of Local customers.

Further analysis was carried out to identify the differences in service quality gaps between the customer groups. Independent Samples T-test was used in order to assess if there was statistically significant difference in expectations and perceptions between Local and Tourist customers. Paired T-test was used to evaluate the degree of service gap (perceptions minus expectations) and to investigate if there was statistically significant difference between

expectations and perceptions. Multiple regression analysis was performed in order to investigate if there is a relationship between service quality dimensions and customers' behavioral intentions.

In conclusion, the results of regression analysis revealed that some specific service quality dimensions may be of more importance in predicting customer behavioral intention towards rural retailers, considering that Product assessment scale (newly added) was a significant predictor and other constructs did not seem as statistically significant. More importantly, this finding may support that there is a statistically significant difference between customer groups based on demographic factors, such as being local or tourist customer.

## Chapter 7 Discussion

### 7.1 Overview of strengths and weaknesses of the research

This chapter will discuss the results obtained, however a quick overview of the main strengths and weaknesses of the research methodology will be presented first.

The survey questionnaire was self-administered to locals and tourists visiting the Strandir area in the Westfjords. Customers were approached with a printed copy of the survey as they entered or left the unit. It may be arguable if expectations can be measured after an experience has occurred, or whether it is too early to evaluate perception if the visitor has only just entered the rural area, as this service-stop might have been the first stop visit in the area. It could have been helpful to have included a question that would have indicated how long the traveler had stayed in the area or how often they had visited retailers of the area. Even though survey specifically stated that it applied to all the retailers in the area, some respondents left additional hand-written comments for specific retailers in which the survey took place.

The survey was conducted during the winter months of March and April 2017, which may not provide a sample that represents other seasons. However, performing data collection during an off season was also important due to several reasons. For instance, mostly full-time and highly experienced employees are the service providers (often on holiday during high season). Also, public tourism agents are trying to promote the low season period (late fall, winter, early spring), so it is good to see how the traveler perceive the service quality during those seasons specifically.

Furthermore, travelers may feel less rushed during the winter season. In fact, during one of the days that the questionnaire was conducted, the mountain roads were blocked with snow in part of the area. Hence the travelers had to wait for two to four hours before the mountain pass was reopened. This gave the researchers an opportunity to approach them and receive more responses than they would otherwise. However, it is unknown if this situation could have affected the survey result. As an illustration, over 100 responses came from the same survey location site. Nonetheless, this situation was very helpful for the data collection as the time and funding were very limited.

An online link to the survey was provided and published through the SurveyMonkey software. The survey was introduced to the locals through social media or location specific Facebook sites:

- 1) Sölusíða Hólmavíkur og nágrennis (804 members)
- 2) Ísafjörður og Ísfirðinga (4549 members)

No comparison was made on web-based responses vs. location-based responses. However, most tourist responses were gathered on-site, whereas most locals responded on-line.

Limited time and work force were the main reason for selecting the convenience sampling method. Tourists visiting the retail and service units in Strandir were asked for their willingness to take part in the survey by answering a questionnaire. Although all positive respondents were registered, the ones that refused to take part were not included. As an afterthought, it would also have been interesting to register how many refused to participate, and if possible age, gender and the reasons for refusal. The survey result showed that more female tourists took part in the survey than male, which is similar to result found in other studies in the area (Markaðsstofa Vestfjarða, 2016). However, the reasons behind this higher

response rate from female tourists are unclear. Do female tourists visit retailers more than male? Are female tourists more likely to participate in surveys than male? Do female tourists visit rural areas more than males? Finding answers to these gender related questions is outside the scope of this study. Still a larger sample and a longer survey could have delivered a higher number of responses, which could have tested the proportion of female tourism visitors in rural retail more sufficiently.

The questionnaire was conducted in two languages, English and Icelandic, and was translated with a help from a professional translator. Although a pilot survey was conducted to test the questionnaire (for instance wording and correct translation), language barriers may still provide a risk as international travelers do not necessarily have proper command of English and may not fully understand the questionnaire, even if the translation was correct. Some questions were avoided in the final survey, possibly because the respondents did not understand their meaning, though sometimes respondents avoided complete pages as if they intentionally or unintentionally went through certain sections in a rush.

As described before, the final questionnaire consisted of five major sections: respondents' demographic profile, SERVQUAL expected and perceived service quality, loyalty and customer behavioral intentions. The respondents did not appear to have any problems with the demographic questions, although understandably some preferred not to reveal their income range, as many find this to be highly confidential matter. Respondents also expressed their expectations freely, though a few marked the highest or second highest option throughout the questionnaire. Certain respondents hesitated with the perceived service quality and found it to be a repetition in answering, still once the difference was explained they would continue. One might wonder if this was an indication of a problem with the actual understanding of the questionnaire. However, the questions on loyalty and behavioral intentions were answered by most respondents and appeared to be less challenging.

Little or no prior knowledge of the rural retail population was known, other than the 40 response pre-tests conducted earlier. During the data collection, it was clear that the 125 tourists sample quota that was aimed for would be fulfilled very quickly by Icelanders. It soon became clear that mid-aged females were much more likely to agree to participate than males or other age groups. Therefore, a human involvement occurred in order to turn to the less representative gender and age groups.

The data collected on-site was inserted manually into the SurveyMonkey software at the end of each day. After the first day of conducting the survey it was obvious that if a group travelling together had limited time or lack of interest in answering the survey, then a whole group would possibly abort the participation and deliver invalid answers. Groups were also likely to give similar responses. At least similar responses seemed to compile in order in the delivery-box offered on site, where people delivered their responses. It appeared that younger and older respondents experienced more difficulties in answering the questionnaire. Both groups seemed undecided or even confused in certain cases. The reason for their confusion is not clear, but they appeared to be unclear of the difference between expectations versus perceptions.

However, the SERVQUAL instrument was selected as it was seen to be the most reliable model to compare the differences or so-called service gaps between customer expectations and perceptions of service quality. The SERVQUAL instrument was modified and adapted to better fit the rural tourism retail sector of the Westfjords specifically. In order to test the reliability of the measuring scales used in this study, Cronbach Alpha coefficient was calculated after conducting principal component analysis. The results of principal component analysis confirmed only two dimensions (out of five) and one additional dimension - Product assessment, while other three dimensions' variables loaded onto one component. Results of the reliability tests for each component was performed, and Cronbach Alpha coefficients

range from 0.72 to 0.95, except in the case of the fourth component in the sample of Local customers (0.55) which is expected considering that this component consist of only two variables. This result indicated that the measuring scales were acceptable, highly reliable and therefore it was justified to use. Later, on the basis of the obtained results from the conducted research, it was also concluded that the findings were reliable and valid.

Nevertheless, considering the sampling process described above, the representation of the surveys population may include some limitations. Further research during different seasons within in a broader rural population is recommended to refine the scale and improve the internal validity. Also, different seasonal timing could be explored to obtain more generic data to improve external validity.

## 7.2 Theoretical , methodological and management implications of the findings

### 7.2.1 Differences between Perception and Expectation in Service Quality

According to the results of the conducted analyses it can be seen that there were statistically significant differences between perceptions and expectations in service quality. In majority of cases, perceptions were lower than expectations, so it can be concluded that services quality did not fulfill customers' expectations, which means that customers were not satisfied with the quality of the rural retail services offered. Considering several critiques of SERVQUAL which was pointed out by Buttle (1996), this is an expected result, as similar findings were obtained in several previous studies. However, one of the main critiques is the meaning of tied gaps between perceptions and expectations. This problem was studied by Teas (1993a; 1993b; 1994, as cited in Buttle, 1996) who contemplated the meaning of identified gaps. The same author has questioned the different ways of producing  $P - E$  gaps of  $-1$  ( $P = 1, E = 2$ ;  $P = 2, E = 3$ ;  $P = 3, E = 4$ ;  $P = 4, E = 5$ ;  $P = 5, E = 6$ ;  $P = 6, E = 7$ ). The main question of his

work is related to the meaning of these tied gaps and if they mean equal perceived service quality. Considering this, the negatively signed results of SERVQUAL gap scores do not necessarily indicate poor service quality, that can be caused by a highly set customers expectations (Buttle, 1996). According to Babakus and Inhofe (1991) this may be the result of customers' socially desirable responses, considering that majority of respondents are motivated to set their expectations at high levels, thinking that it is a social norm they have to fulfill (as cited in Buttle, 1996). Also, Parasuraman et al. (1988) indicated that the overall mean expectation was above 6, which confirms the above mentioned results; that a high expectation is very hard to fulfill, as was the case in this study.

#### 7.2.2 The Suitability of the SERVQUAL Dimensions to Rural Tourism Retail

Results of conducted principal component analysis indicated that the five-factor structure could not be confirmed, since three or even four factors from the original SERVQUAL model were part of the same factor (component). Obtained results were similar to those shown in previous studies, in which dimensions of responsiveness, empathy and assurance tend to overlap (Asubonteng et al., 1996; as cited in Buttle, 1996) or where two-factor solution of responsiveness and tangibles was obtained (Hurst et al., 2009). In comparison to those two previous studies, this study used one newly added scale (Product Assessment) in addition to original SERVQUAL dimensions. Furthermore, this dimension was loaded on the single component, which indicated that newly added dimension was confirmed to be distinct from other dimensions.

Taking into account the obtained results in this study, it can be concluded that SERVQUAL dimensions may not be fully suitable for rural tourism retail, and that a modified version of SERVQUAL scale would be preferable. By adding new scale related to the product, other



dimensions are visibly separated from the other SERVQUAL dimensions which are related to services only. The retail industry is specific in terms of services which they provide because beside services, customers most often purchase products as well. Therefore, they assess the complete package delivery, both services and products, but not the services alone.

Considering that SERVQUAL measure dimensions of service quality, there is a need for a modified version of the original SERVQUAL scale that include the special features of the retail industry.

#### 7.2.2.1 Service Quality Dimensions and Demographic Differences (groups)

According to the results of principal component analysis for the two different groups (local customers vs. tourist customers), it can be seen that different structures of latent components were obtained. Although both analysis indicated that there were four components, they differ considering variables included. The first component is named Employees' behavior in both groups because they included three original SERVQUAL dimensions: Assurance, Empathy and Responsibilities. Two other components were the same and consisted of variables related to the Tangibles and Product assessment. Similar results were obtained in previously conducted research (Hurst et al., 2009) which showed that the local customers sample got two-factor solution (Responsiveness and Tangibles) and tourist customers sample got one-factor solution (Responsiveness).

In this study, the only difference between tourist and local customers is that Reliability dimension variables are loaded on the separate component in the group of Tourists and the same dimension is included in the first component in the Local customer group. Those results can be interpreted in the way that tourist customers see Reliability as individual factor of service quality, while local customers see all four dimensions (Assurance, Empathy, Responsibilities and Reliability) as one characteristic of employee's behaviour in providing services to customers. Abovementioned findings suggest that each customer segment (local

and tourist) has a unique way of interpreting service quality. Considering that tourist customers recognized retailer's ability to actually perform what is promised, for instance. their dependability as unique component, this has to be considered as the important factor in adjustment of their customer relationship management strategy for tourist customers.

### 7.2.3 Factors Affecting Customer Loyalty

As hypothesized, perceived service quality was proven to be significant predictor of retailer loyalty for both samples (tourist and local customers). Although the whole regression model was statistically significant, only Product dimension (product selection, quality and price) had individual prediction of retailer loyalty in the case of local customers. Considering negative sign of coefficient, it can be concluded that if customer's perceptions did not meet their expectations about product selection, quality and price, loyalty will be more expressed. Given result is contradictory but can be explained by the way the variables of perceived service quality were calculated (E-P). Once again, study by Teas (1993a; 1993b; 1994, as cited in Buttle, 1996) can be cited considering that the same identified gaps can have different meanings. In other words, if gap is -1 it does not mean that customer was unsatisfied, but he only put his expectations at high level (maybe higher than what can be fulfilled). Considering this, it can be concluded that it would be better to use only perceptions of service performance as predictors of loyalty. This way, these kinds of results can be avoided. On the other hand, there is no particular variable that can predict loyalty of tourism customers. Although, the whole regression model was statistically significant, none of the individual variables was proven to be predictor of tourism customers' loyalty.

Similar results were obtained in previously conducted study by Hurst et al. (2009), in which the service quality dimensions (Responsiveness and Tangibles) were proven to be significant predictors of local customer's loyalty, but this relationship was not proven for the sample of tourist customers. When a similar study was conducted, on the whole sample of respondents; tangibility was also proven to be statistically significant predictor of loyalty (Al-Rousan, Ramzi & Mohamed, 2010). Also, the obtained results confirmed the results of previous studies in which authors argue that there is a direct relationship between service quality and loyalty "(e.g., *Boulding, Kalra, Staelin, & Zeithaml, 1993; Parasuraman et al., 1988, 1991; Taylor & Baker; Zeithaml et al., 1996*)" (as cited in Loureiro & González, 2008, p.121).

#### 7.2.4 Factors Affecting Purchase Intentions and word-of-mouth communication

Opposite to the hypothesis, results of the performed analysis indicated that purchase intentions were not influenced by local and tourist customers' perceived service quality. Obtained results failed to confirm the results of previously conducted studies (Zeithaml, 1988) according to which purchase intentions are said to be affected greatly by customers' value perceptions, product quality and price. The above mentioned findings can be related to the fact that the scale for 'purchase intentions' consisted of variables related to their purchase intentions in a particular store in a specific area and not to the whole rural area. It is also possible that customers (especially tourist customers) were shopping in that store for the first time and might not intend to visit the area again anytime soon, so they can not be sure that they will purchase there again or not. The causal relationship of these results may therefore need a further investigation.

On the other hand, perceived service quality was proven to be significant predictor of local and tourist customers' intention to spread word-of-mouth communication, willingness to

recommend and purchase again in rural areas. This result appears to represent the rural area as a whole destination and not to be limited to one particular store. Similar to the case of loyalty in the event of the local customer group, only Product dimension (product selection, quality and price) seemed to have a predictive relationship to customers' word-of-mouth, recommendation and repurchase. Considering that the beta coefficient was negative, it can be concluded that if customer's perceptions did not meet their expectations about a product selection, quality and price; behavioral intentions are more expressed. These results confirmed findings from previously conducted researches by Bloemer et al. (1999) and González et al. (2007), which indicated that dimensions of service quality had a positive significant impact on purchase intentions and word-of-mouth communication and negative influence on price sensitivity.

### 7.3 Main Contribution of the Research

#### 7.3.1 Theoretical

There were only few studies in which the service quality dimension was investigated in the light of predicting local and tourist customer's loyalty, so the theoretical contribution of the conducted research and published findings may in that sense be seen as significant. However, during the confirmation of the several original SERVQUAL dimensions, it was clearly indicated that there is a continued need for further modification of the dimensions when applied to the rural retail industry, which is one of the significant contribution of this study.

This study can also lead to the suggestion that the newly added items of Product assessment, may have a larger influence on customers' loyalty and behavioral intentions, which is additional contribution of this research towards the theory of customers' loyalty and retention.

This research may also be the first study on the perceived service quality construct in the Westfjords, measuring the gaps between expected service quality and perceived performance. Based on the findings, recommendations for all five service quality gaps will be provided in the next chapter. Even though the finding can not be generalized, this material may still be of use to rural managers in other rural areas too seeking to better understand the importance of service quality and that it is vital to differentiate their services from those of competitors.

The aim of the SERVQUAL dimensions and the three Product item measurement (see **Appendix E**) was to gain a better understanding of the problem. The problem was broken down into smaller units that were further analyzed. The problems were ranked to get a better feel of their importance within the rural retail context. The object was to see if the SERVQUAL theory was relevant to the context and to learn more about this area's special challenges.

Results shown in this study indicated that there was statistically significant difference between overall expectations and overall perceptions. Mean value of overall perceptions was lower than overall expectations and difference between expectations and perceptions was statistically significant suggesting that there was statistically significant difference between overall perceptions and overall expectations. Given results led to conclusion that performance of provided services did not fulfil customers' expectations.

Furthermore, results of regression analysis revealed that some specific service quality dimensions may be of more importance in predicting customer behavioral intention towards rural retailers, considering that Product assessment scale (newly added) was a significant predictor and other constructs did not seem as statistically significant. More importantly, this study's finding may support that there is a statistically significant difference between customer groups based on demographic factors, such as being local or tourist customer.

Moreover, results obtained indicated that purchase intentions were not influenced by local nor the tourist customers perceived service quality dimensions.

Results obtained led to the conclusion that there is no particular perceived quality dimension which can predict tourism customer's retailer loyalty, but the service quality in total (all dimensions together) can predict their loyalty. On the other hand, local customer's retailer loyalty was affected greatly by customers' gap between expectations and perceptions about product selection, quality and price.

### 7.3.2 Managerial Practices & Implications

A broad literature review was performed to gather empirical research from various sources to reflect the complex context of this particular situation. That is the rural setting reflecting both Icelandic and international context, retail and tourism, plus the off-season timing of the research. Learning more about the difference of the customer base may be of great importance to rural retailers that strive to increase customer satisfaction of very different target groups. Few relative recommendations were found for further research in this field. Nevertheless, this study attempted to shed some light on the rapidly developing industry in relation to service quality of the otherwise unexplored area of Iceland and explore how rural retailers can adjust their customer relationship and management strategies to allow them to simultaneously cater to both local and tourist customers.

According to results obtained from this study, in which the largest amount of variance was explained by the first component which consists of employees' behaviors (combination of several SERVQUAL dimensions), it can be concluded that employees' responsiveness, empathy and assurance are the key factors influencing the customer's perception of service quality. On the basis of these findings, it can be said that management strategies have to focus

on the improvement of employees' behavior toward both local and tourist customers, considering that their attitudes are the key determinants of customer's perceptions about received services. As retailers provide products as well as services, impact of the quality of those products has to be considered. According to results obtained in this study, product assessment - added scale in addition to original SERVQUAL shown as construct with very good internal consistency which means that this construct measures what it is supposed to. This result obtained new point of view by which products have to be measured as a part of service quality in rural retail sector, and also suppliers have to be carefully picked in order to make the customers more satisfied with the products offered.

Phillips et al., (2013, p. 95) suggest that destination image may also influence "tourists' post-purchase evaluations and behaviors such as perceived value and future behavior intentions, including revisit intentions and recommendations to others." They point out that "destination marketing campaigns and promotions should play a major role in convincing travelers to visit a destination" and that marketing strategies such as positive word of mouth (WOM) from earlier guests may prove to be a valuable tool in marketing (Phillips et al., 2013, p. 94). In fact, positive WOM recommendations are potentially thought to "be one of the most effective marketing tools to bring new visitors, especially to rural destinations" (Phillips et al., 2013, p. 94).

Encouraging frequent visits to tourism retail in rural destinations may not be a sensible strategy and is proved to be "a major challenge to many rural destinations, due to the complexity and high costs of accessing rural destinations" (Gartner, 2004; as cited in Phillips et al., 2013, p.94). This might especially be true for isolated areas (like Iceland) that would gain more benefit from targeting people from nearby locations. "People in neighboring locations might consider visiting again because of the proximity and easy access, or they are

likely to pass through the destination on their way to other destinations“ (Phillips et al., 2013, p. 94).

Frequent visit is perhaps unlikely for international tourists as they do “not plan to come back for a while. However, they are willing to recommend these sites to others based on the good experiences and satisfaction at the destinations.



## Chapter 8 Recommendations and Limitations

### 8.1 Recommendations on closing the service quality gaps

Findings revealed that service quality variance was mostly explained by employees' behavior. Managers should keep this in mind as they take action in closing the service quality gaps. The next section will discuss several activities that can be recommended to rural retailers seeking to close all five service quality gaps.

#### 8.1.1 Closing Gap 1 – Manager's understanding of customer needs and joint communal effort

In the past, rural retailers may have been partially less service-centered and some may still be stuck in the old-school good-centered way of thinking. Rural managers need to deepen their understanding of customer needs, expectations and their service quality requirements (Parasuraman et al., 1985).

In order to improve service quality, managers must master the quality concept and advance their ability to measure it. The purpose of this study and the review provided earlier on the GAP and SERVQUAL models along with input from several other studies, is to provide an insight into issues that could be considered by retailers and service managers in rural areas.

In a review made by Asubonteng et al. (1996), they suggest that the SERVQUAL dimensions are industry specific. Their findings indicated that these dimensions can even be different within the customer group of each industry. However, the SERVQUAL definition and the better understanding of service quality can provide tourism managers and retailers with the tools to further enhance service performance.

To begin with, manager must review empirical findings on recent SERVQUAL studies and search for results in relation to rural retail, tourism studies or relevant industry (Asubonteng

et al., 1996). This study did not find material that applied directly to this context or the mix of rural retail and tourism. So effort was put into identifying dimensions for rural retail and the two different service groups, local and tourist customers.

With the findings of this study, rural retail managers may gain some insight from the analysis of each dimension within each customer group (local and tourist). The result of the study may not apply directly to other areas, but can be used by retailers to compare and consider “the expectations of customers on each dimension and how well the firm performs on the dimensions” within their own retail operation (Asubonteng et al., 1996, p.75-76). Doing a proper quantitative research would be beneficial, still qualitative information on expectations, performance and customer complaints can also be gathered by communicating directly with customers, as well as discussing with employees that deal directly with the customers (Asubonteng et al., 1996).

Results from the employee interviews revealed that there was a difference in expectations between Local Employees and Icelandic traveler, and also between Local Employees and International tourist, so it can be concluded that there is difference between retailers and tourist customers, and there is no significant difference in expectations between retailers and local customers. Considering that retailers thought that customers had higher expectations than tourist customers actually had, it could lead to the conclusion that managers of rural retailers did a good job preparing their employees to be able to provide much higher level of service quality than tourist customers would even expect. This kind of strategy has to be continued as a good manager practice, still always being aware of need for innovation in their future work.

It can be considered a good strategy to enhance retailer’s competitive edge by building up current strengths, however the weaknesses must also be identified. The Gap model can be of

great help in comparing performance with expectation, to locate where crucial improvement is needed. Also, this cannot be seen as a one-time process. Customer expectations change and service quality must be evaluated repeatedly over time. An eye must be kept on the improvement as well as the defaults that need attention. New employees need training in the specific service quality context to enable them to contribute to the increased service quality performance. These same employees may also bring in knowledge from other retailers' or industries with useful approach or improvement ideas. In fact, retailers could form their own focus groups to share and build knowledge on service quality, as it is the quality of the whole destination that contributes to customer satisfaction (Asubonteng et al., 1996).

Although rural retailers are often small and isolated in the Westfjords, they have already created some networks or clusters with other companies. For instance, a cluster project called Retail in Rural Regions (RRR) was a small project supported by NORA and Northern Periphery Programme. The project consisted of both public and private retailers and individuals in the retail field from several periphery countries, that had the mutual goal of exploring ways to further support rural stores. The program was mainly an educational program (Karlsson, 2009).

The participants of the RRR project recognized the importance of providing locals with the opportunity to socialise during their retail visit, as "shops play an important social role for locals" (Karlsson, 2009, p. 32). Local residents like to visit their pleasant local shop, gather together, socialize with other people and get update on the newest gossip in town. Also, providing key additional services may draw in even more customers. An example of this service expansion could be where local retailers add units such as: post office, pharmacy, cash-machine, bottle-recycling, alcohol-stores, car-wash, hair-salon, tourist information and so on. The main purpose of the RRR cluster was to integrate rural retailers into a joint

educational network, were experiences and knowledge could be shared and built on to enhance their survival chances (Karlsson, 2009).

However, service quality remains infrequently studied in rural context, at least in Iceland. Gaining detailed information about the main characteristics of the rural tourism versus the local tourist, along with the main factors that influence the tourist's choice and service quality evaluations, would help governments, tourism agencies, and individual tourism operators considerably when making strategic plans such as marketing and promotional campaigns for their rural tourism areas.

Governments may aim to reduce mass-tourism by directing the tourist to rural destination, but relatively little effort is put into doing so strategically, e.g. by appropriate funding into infrastructure and promotional effort. If rural tourism is expected to adapt to the highly competitive international market mechanisms, then some seriously powerful and publicly funded marketing and communication techniques need to be put into action, however it needs to be within the context of the strategic development of the rural area (Loureiro, 2010).

Otherwise, there is always danger that the most dominating player in the market will control how and where the development takes place.

The Icelandic Government has up to this date seen the economic value of tourism and openly accepted the large increase of tourist inflow to the country as described in chapter 2.

However, limited resources have been put into the infrastructure to efficiently and effectively control this huge influx of visitors with a focus on service quality. So far, the industry is expanding wherever private investors choose to locate new hotels, mostly in the most culturally and environmentally sensitive locations.

Little strategic effort with matching resources has been put into expanding the industry in rural areas. Too fragile infrastructure and too little tourism funding is put into the promotion

of rural destinations and too little training takes place in relation to raising service quality standards. Therefore, some rural areas have failed to build competitive advantages. General promotion of rural destination is not enough to promote the expansion of a sustainable rural tourism. The local governments and even the locals themselves must be involved through active policies that not only promote different regions, but also that encourage high quality services to be provided as this will convert these rural regions as a whole into attractive destinations (Albacete-Sáez et al., 2007).

#### 8.1.2 Closing Gap 2 - Employee education and training

Managers may lack the ability or interest to establish specific service quality standards or provide appropriate training for employees. Also, the demand might fluctuate with peak demand in the summer months, which is unfortunately when many of the best trained employees want to go on holiday (Parasuraman et al., 1985, p. 45).

Not only must the retail managers have a clear understanding of the quality concept, but so should the employees (Asubonteng et al., 1996, p. 75). The purpose of this study and the review provided earlier on the GAP and SERVQUAL models along with input from several other studies, is to provide an insight into issues that can be considered by service managers and employees in rural retail of the Westfjords. According to Seth et al., (2005) the key managerial activities to make improvements to service quality are:

- A clear customer focus, with deeper understanding of the clear differences between customer groups, e.g. Local and Tourism customer.
- Effective employee motivation and empowerment.
- Provide training to enhance the understanding of the concepts of service quality and the factors that are seen of special importance to each customer group.

- Make plans to conduct effective measurement of service quality and special feedback systems that will be publicly reported within the company, available to all employees.
- Low quality score must be noticed, made known to all employees and effective implementation systems put into action.
- Managers must take ownership and responsibility of requires changes in service quality performance by developing a customer service strategy.

Many other activities can also be included, e.g. create a customer service targets, where employees truly understand retailer's vision and goals and realize their responsibility in this process (Seth et al., 2005). Setting clear measurable goals for improving service quality is an effective way for employees to be accountable for meeting set standards, e.g. cashier should be available within 20 seconds, or waiting lines should never be longer than three customers.

Also, training is important to teach customer service skills and ability to assess customer needs. Training will provide a deeper understanding of customers' expectations and enable employees to provide better customer service. Untrained and unprepared front-line employees may not be effective in dealing with customer issues.

The study has shown some differences in the needs of the two customer groups, Local and Tourist customer. These differences need to be explored even further or retailers may be wasting valuable resources in developing new services they thought the customer wanted, but actually did not want at all. Customer's expectations and perceptions of services must be fully understood so that resources for improvements are allocated efficiently and effectively. Small rural retailers may not have the time or resources to do repeated surveys, but they can receive feedback from focus groups or by offering customer comment cards on location.

Managers must also be aware, that what customers want today might be totally different from what they might want after a year has passed. Expectations may change.

Response to customer complaints should be taught and so should service recovery.

Employees should be held accountable for achieving customer satisfaction. Failure to do so should call for an action, e.g. a private sit-down with the demonstration of the importance of service quality and effects on performance. Retailers should have rewards systems in place, recognizing and rewarding good customer service (Seth et al., 2005).

### 8.1.3 Closing Gap 3 – The right personnel

Even if the management set up service standards, there is no guarantee that employees will execute them. The selection of right employees is important. For many reasons, not all individuals may be cut out for customer services. In the hiring process, managers should consider employee's personality and ability to treat the customer right. Retailers must hire right employees that are willing to learn and develop strong customer service. However, although appearance, communication skills and problem solving can be taught, personality is not so easily taught (Seth et al., 2005). Still, managers can put in special reward systems to encourage employees to positively affect the performance outcome.

Parasuraman et al. (1985) conducted in-depth interviews of service executives and focus-group interviews with employees to gain insights on their views on key attributes of service quality. In a similar way, an attempt was made to interview 13 employees and managers of one retailer chain in three different rural locations in Strandir, Westfjords.

The KSH employees were asked to rate the same 24 SERVQUAL items on expectations and to evaluate what consumers perceived to be the key attributes of quality in services. The discrepancies, between what they thought were the consumer's perceptions and what the survey above indicated was their perspective, were discussed. Similar to Parasuraman (1985), employees were also asked what steps they took to improve service quality, and what were

the main obstacles they came across in controlling or delivering high quality services (see **Appendix A** again).

With only 13 employee responses, this information has no scientific value and can definitely not be generalized. However, the KSH employees' comments are definitely worth mentioning here, as reading them provides a valuable insight into a field of comparison that would be interesting to focus on in the future. It would be especially interesting to learn more about the service quality attitudes and evaluation of the front-line employees.

The KSH employees' comments give an important insight into many difficult dilemmas that service managers and employees are faced with regarding service quality. Customers may have pre-shaped expectations when they arrive or they can be influenced by factors outside the control of rural retailers. However, if retailers and tourism services are to shape or influence communication, and hence service expectations by relying on Word of mouth communication, then some managerial strategies must be applied.

The above discussion portrays the important role of front line employees and their contribution to service quality is well established (Brady and Cronin, 2001; Gremler and Gwinner, 2000; Zeithaml and Bitner, 2003) (as cited in Alexandris et al., 2006, p. 415).

Similar to the above, Albacete-Sáez et al. (2007, p. 59) discussed the implications of managing rural services. Their study revealed that the "perceived quality of a rural establishment depends mainly on dimensions closely linked to the personnel who are in touch with the customer and to the actual physical space evaluated." Therefore, emphasis should be put into selecting the right people for the job, that have the ability to deal with customers. Front line people should have a neat appearance and be customer focused. Willingness to respond to customer requirements might carry an employee far, but not without the ability to deliver professional service.



Alexandris et al. (2006) suggest that rural managers focus on developing an interaction dimension of service quality. Special attention should be given to developing hiring policies. Employees should also be trained in communication skills, bearing in mind foreign languages and cultural sensitivity as equally important since large part of the customers are international tourists. Besides, training and guidance could be provided to increase employee's kindness and alertness. Front-line employees are of special importance, as they are the ones that determine a great amount of service quality that the customer experiences. Similar effort should be made to please the local customer, although even more effort should be put into creating interpersonal relationships that make them feel appreciated and increasing their loyalty and intentions to return (Alexandris et al., 2006).

However, great service skills are of no use if the appearance of the place is of bad quality. Cleanliness of the facility, utility, premises, surrounding or even the complete appearance of the rural area matters too (Albacete-Sáez et al., 2007). Tourism and retail managers should make certain effort in enhancing the physical environment of the rural area. The design of facility should be both attractive and practical for the customer. Care should be taken to develop sustainable environment that also gives an authentic view of the local characteristics and fuels employee's sense of pride, which may increase their willingness to represent the place in a positive and professional manner (Alexandris et al., 2006).

#### 8.1.4 Closing Gap 4 - Communicate what can be delivered and be aware of competitor's

Managers should be careful with what they promise to the customer, as service delivery should be in line with expectations indicated in public communication. Retailers must not create higher expectations than they can fulfill at promised time.

But what has been promised? Are customer's expectations built on urban retailer's advertising that has been applied to the rural retail too? Rural retailers claim they have not really made any public promises and that they have not participated in much advertising so far.

Therefore, rural managers must also be aware of promises made by urban retailers in bigger cities. Promises made in the capital city may also affect customer expectations when visiting the rural area, since they are not aware of the special challenges that the rural area is facing. Examples of those challenges are: competing with prices when their products cost more, high transportation cost, higher cost of raw material, less discounts, longer opening hours for fewer customers, high labor cost, lack of trained employees and retailers often running operations on too young or elderly employees that lack language skills.

It is questionable, whether rural companies should inform the customer of these differences, make them understand their challenges or if these problems should not be discussed at all. In fact, other strategies discussed in gap 5 might be more effective.

Retailers can use different strategies to influence expectations and hence perceived quality by controlling their marketing communication process better. Simple procedures such as communicating regularly and actively changes in operating hours, menu offering or pricing and by providing special package deals during local events. Tourism managers and retailers may not be taking full advantage of the possibilities related to the social media and the internet. If these promotional channels are utilized effectively, then this could not only increase the number of visitors, but it could also allow control of expectations.

However, one must not forget that negative communication by the customers may also take place and have negative “impact not only on the reputation of the establishment, but also on quality perception, satisfaction concerning service expectations and even on likelihood to come back, recommend or pay more“ (Loureiro & Kastenzholz, 2011, p. 582).

Considering that results obtained in this study indicate that there is a relationship between perceived service quality and word-of-mouth communication, it can be concluded that poor service quality led to negative communication, influenced likelihood to come back and recommend rural retailer which confirms results of previously conducted research (Loureiro & Kastenholz, 2011). Once again, it was confirmed that not only official promotional channels, but also word-of-mouth communication has large impact on customers' expectations, therefore the need for controlling their promotional activities as well as putting additional effort in the fulfillment of the customers' expectations has to be set on the highest level of priority of the rural retail managers.

#### 8.1.5 Closing Gap 5 - Influence customer's expectation and perception by increasing their zone of tolerance

Findings gained suggest that both local and tourist customers have quite high expectations, although local customers had even higher expectations than tourist customers. Nevertheless, after the service was delivered, then the two customer groups (local and tourist) had similar perceptions about obtained level of service quality.

Still, rural managers need to consider practises that can influence customer's expectations and perceptions in attempt to fill up the service quality gap. Closing gap 5 can be achieved in several ways: impacting customers' expectation, impacting their perceptions or maybe both simultaneously. Activities to impact customers' expectations are often related to promotional activities, yet retailers must be careful what they offer so that customers do not expect more than retailers can offer, as discussed above. Yet, perceptions can be positively influenced with pleasant physical environment and responsive employees' behavior. Employees should be customer focused and ensure that both products and services are desirable and according to customer's needs.

Reliability was proven to be the most important employees' attribute for tourist customers, considering that this group of customers perceived reliability separately from other employees' attributes, hence it is of great significance to make sure that employees deliver the promised service safely, dependably and accurately. Within the reliability dimensions, the safety item was of clear importance to the international tourist, but of lesser importance to the local and Icelandic tourist. It may be the Icelandic respondents are taking safety for granted, since Iceland has a very low crime rate. In all, it is important to the tourist customer that employees keep promises about delivery, pricing and complaint handling.

In addition, employees' behavior as a whole is of great importance in creating local and tourist customers' perceptions, so in general it should be the most important thing to be focused on when creating strategies for rural retailers.

The research also indicated that the Product dimension was of special importance for both customer groups, and the Price item was highly valued. However, rural retailers may be incapable of competing by lowering their prices, because of their high operating cost. Their suppliers of raw material or merchandise may offer lower bulk discounts to smaller retailers, their creditors may offer lesser purchase terms, their product depreciation might also be higher due to the long-distance transportation and the transportation cost might also be much higher. International tourist or even urban Icelanders may not realize why the products and services are of higher price at the rural retailer in the Westfjords area. The retailer could either try to explain this difference to the customer in an attempt to increase his/her tolerance level, or the retailer could create an activity to draw people to the location to experience what makes their destination a must stop location.

Interestingly, Loureiro (2010) discussed how rural managers could develop practices by creating a pleasant surprise or a memorable experience. Retailers might sometimes be

stranded in the process of selling and providing service and might forget how one tiny action could create competitive advantage.

Tourism managers and retailers, including little rural shops, could put some proper effort into the participation in activities such as: heritage fair, cultural events, rural activities (e.g. food processing, picking berries, herding sheep), tasting and trying local food (wine, honey, jam) or even learn to make handicrafts from local material (Loureiro, 2010). Who says you can not clean mushrooms, rinse berries, cook and put into jars inside the store and let the customer participate in the process?

Activity like this might enhance customer's *tolerance zone levels* described by Parasuraman et al.'s (1985), where positive experiences may increase the likeliness of high service quality perception. Not necessarily because the quality of the service itself was of such a high quality, but rather the experience was so entertaining or memorable, that the element of quality is forgiven.

Fun activities or unique experiences may draw the attention of people, creating a positive word of mouth communication through the social media. This could affect retailer's reputation, which is also considered a direct "antecedent of perceived quality, satisfaction, and loyalty (intention to return and to recommend, and even to pay more)" (Loureiro & Kastenholz, 2011, p. 582).

Therefore, tourism managers and retailers must pay serious attention to the elements contributing to their reputation, although at the same time they must be very careful not to increase the expectations too much either and then not be able to deliver what is expected. Special events or activities can be promoted to take place within a specific period of time, which must also be stated clear in the promotional material, such as: advertising, tourism

information centers, social media, websites and providing information to travel agents and tour operators.

In fact, Kastenholz (2002) suggests that the “perceived quality performance, satisfaction, and delight derived from the experience should further contribute to continuously enhance reputation and positively impact on loyalty and sustainability of the tourism business, with positive word-of-mouth being a crucial factor of image building” (as cited in Loureiro & Kastenholz, 2011, p. 582).

## 8.2 Limitations and Future Research

One of the main limitations of this study is related to the data collection and instruments used. It can be debatable if expectations could be measured after an experience has occurred, or whether it is too early to evaluate perception if the visitor has only just entered the service area. Also, the survey location where data collection was performed might have been the first service-stop visit in the Westfjords area.

It would have been helpful to have included a question that would have indicated how long the traveler had stayed in the area or how often they had visited retailers of the area. Also, even though the survey specifically stated that it applied to all the retailers in the area, certain respondents left additional hand-written comments for specific retailers in which the survey took place.

Although included at the beginning of the empirical review process, the material and variables related to the cross-cultural experience setting were later excluded from the

research. Customers came from all over the world, although mostly from Iceland at observed time of the year. It would have been interesting to determine if this was a difference in the service perception of different nationalities or cultures. However, the survey did not provide enough international responses to enable this to be analyzed specifically. In fact, the sample was quite homogenous due to the timing of the survey, which was conducted off season when mostly Icelanders travel the snowy and glazy roads in the rural Westfjords.

In fact, it may be considered a limitation that the data was mostly collected in the rural area of Strandir in the Westfjords, which might not efficiently represent other rural areas with different attributes. Thus, caution is needed when generalizing the study's results with regard to other areas or even same areas including other seasons.

Seasonality may also be a factor of limitation and should be taken into consideration in the sampling process. The sample was supposed to represent the variance in the population that the researcher aimed to address. Yet the season in which the survey took place was undoubtedly thought to affect the sampling, as relatively more Icelandic tourists may travel during Easter than during other seasons.

In future analysis, it would be interesting to conduct a research during the summer season in order to gather more international responses aiming to research nationality based differences of perceived service quality.

However, it was a conscious choice to run the survey in April, though it must be kept in mind that the result may not be valid outside this area or for other seasons. The results cannot be generalized and may not be externally valid. Nonetheless, the results may provide a valuable

insight in this special context that may well be relevant for problem solving for the service managers of the rural retail area.

Another limitation of the study was that it did not include potential tourists in the study, but only current visitors of the area. Also, it could be interesting to ask potential customers specifically about their service quality expectations to urban versus rural retailers. Do customers have different expectations of urban and rural retailers? If so, what dimensions differ?

The limited length of survey further excluded questions that could have provided more demographic information about the customer, which could help managers to plan their target-market promotion or to influence word-of-mouth communication. Information about trip characteristics would have been useful, e.g. Why particular destination? Why particular season? With whom did you travel? What was your means of transportation? What made you stop at a particular rural destination? These questions may be of value to managers trying to understand and map out the customer profile of the target market and its specific needs and expectations.

One more limitation may be the exclusion of the satisfaction construct in the survey. The pre-test revealed that the survey was too long and that some questions had to be eliminated. The literature review indicated that perceived quality and satisfaction overlapped, therefore the satisfaction construct was eliminated. As an afterthought, it may have been an omission to eliminate it, but then again it is very hard to get travelers to dedicate their valuable vacation time to too long surveys.



Likewise, causalities between variables were not tested directly, but were based on previous research. The factors influencing loyalty were not investigated in detail either in this study, as they would have added another level of complexity to it.

Considering all the above limitations, further research is recommended to refine the scale and improve the internal validity. In addition, different seasonal timing could be explored to obtain more generic data to improve external validity. Again, the sample should be interpreted cautiously in relation to nationality, as the research did not collect enough samples to consider such attributes.

## CONCLUSION

Finally, in this paper we have found a way to draw attention to rural tourism community and its business sustainability. As it was stated earlier, tourism appears to provide lifeline for the rural retail businesses. However, working on the paper has revealed that little research is available on retail in rural areas combined with tourism, especially in the Westfjords. The picture is therefore still fragmentary. Taken together, findings of this study present an excellent initial step towards enhancing our understanding of the various challenges retailers in rural communities are facing. Challenges are many and ever growing, eminently affecting traditional way of life.

Hopefully, this study has highlighted the relation of rapidly developing industry and service quality of the unexplored area of Iceland. That said, certain findings previously explained might help retailers evaluate and improve their service quality in future performance. With the widespread availability of new ideas and by understanding factors that influence tourist or local customer choices, rural retailers should accept the challenges instead of seeing them as an obstacle.

In general, research carried out in this study would seem to suggest that rural retailers are not keeping up with changes that are happening with increased tourism. For instance, certain employees are inclined to see a tourist as a problem and not as an opportunity, and that approach should change. Potential solution might be increased employee training and the adaptation of new strategies in making retail visits more memorable experience, or simply promoting rural way of life and rural quality instead of competing with the urban.

The concept of this research has built on the similarities and differences of earlier research in relation to the GAP and SERVQUAL models, followed by the testing of the relationships between perceived service quality, loyalty, and behavioral intentions. Instead of replicating Hurst et al.'s (2009) study, a focus was returned back to depending more on the old building blocks of the original Parasuraman et al. (1988) and Buttle (1996) literature. A careful attempt was made in following scientifically correct procedure in order to compare it to similar research and to maintain the scientific approach. Similar to other studies, this research did identify its own service quality dimensions, which was expected considering the specifics of rural retail sector.

The SERVQUAL dimensions may not be fully suitable to rural retail, as the 5 factor structure was not confirmed. More modification may be needed and the product items could be of special interest as rural retailers offer a inter-mixed products and services.

In all, this paper has revealed that customers' expectations in rural areas are set quite high, as they were measured to be six out of seven in the Westfjords area. The perceived service quality was measured lower. However, this may not necessarily indicate poor service as it may be very difficult to fulfill such high expectations. Nevertheless, the service quality gaps give a clear indication that there is some space for improvements.

Also, obtained findings suggest that each customer segment (local and tourist) has a unique way of interpreting service quality, considering that tourist customers recognized retailer's ability to actually perform what is promised, e.g. their dependability, as unique component. This has to be considered as the important factor in adjusting their customer relation management strategy for tourist customers.

On one hand, the findings also suggest that there is no particular perceived quality dimension which can predict tourism customer's retailer loyalty but the service quality in total (all

dimensions together) can predict their loyalty. On the other hand, local customer's retailer loyalty was affected greatly by customers' gap between expectations and perceptions about product selection, quality and price.

Likewise, the results did reveal that some specific service quality dimensions may be of more importance in evaluating service quality perception and in predicting customer behavioral intention towards rural retailers. The most important factor in predicting customer's loyalty, purchase intentions and word-of-mouth communications, appeared to be the newly added Product scale for both the tourist and local customers.

However, findings of this study did not confirm that purchase intentions are affected greatly by customers' perceived service quality. This can be due to the fact that the scale for 'purchase intentions' consisted of variables related to their purchase intentions in a particular store in a specific area, but not to a whole rural area. It is likewise possible that tourist customers were shopping in that store for the first and only time, and might not intend to visit the area again anytime soon even though the service quality was perceived good.

The study came across several complex studies, but it is important that retailers have access to relatively simple models and measuring techniques. If the models are too complex, then that might lessen managers' acceptability and reduce the likeliness of them taking important steps towards identifying the directions and dedicating resources necessary to improve service quality.

However, managers must realize that interpreting the GAP and SERVQUAL results requires certain flexibility relative to the context. The model is easy to use, but managers must read between the lines in order to gain a deeper understanding of the relationship between service quality, loyalty and behavioral intentions of their own customers. This understanding will

help them identify critical service quality gaps and plan appropriate strategies to train their employees and enhance their competitiveness in the rural area.

This research was a valuable lesson in the importance of managers adopting a high service quality strategies and awareness to continually monitor the quality levels and loyalty in their operations. A failure to attend to these issues could have a devastating impact on their business performance and may even endanger its survival. The greatest challenge for rural retail managers might not be in attracting customers, but rather in identifying their needs and delivering appropriate service, as well as returning a satisfied customer back on the road spreading a positive word of mouth to potential customers of the future.

This paper has hopefully contributed to the theoretical attributes of service quality in some of the most rural regions in Europe. Several questions have also been posed in need of future investigation. For the most part, enhanced understanding presents a base for raising competitiveness of the rural area.

However, it must be noted that a research involving such an isolated area will undoubtedly result in some limitations. Nonetheless, the aim of the research was to provide an interesting insight into such isolated and unique area, such as rural Iceland, which appears to be an increasingly more attractive location for worldwide visitors.

## REFERENCES

1. Al-Rousan, Ramzi, M. & 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.
2. Albacete-Sáez, C.A., Fuentes-Fuentes, M.M. & Lloréns-Montes, F.J. (2007). Service quality measurement in rural accommodation. *Annals of Tourism Research*, 34(1), 45-65.
3. Alexandris, K., Kouthouris, C. & Meligdis, A. (2006). Increasing customers' loyalty in a skiing resort: The contribution of place attachment and service quality. *International Journal of Contemporary Hospitality Management*, 18(5), 414-425.
4. Asubonteng, P., McCleary, K.J. & Swan, J.E. (1996). SERVQUAL revisited: A critical review of service quality. *Journal of Service Marketing*, 10(6), 62-81.
5. Atilgan, E., Akinci, S. & Aksoy, S. (2003). Mapping service quality in the tourism industry. *Managing Service Quality*, 13(5), 412-422.
6. Bhatt, A.K. & Bhanawat, D.S. (2016). Service Quality in Retail – a Literature Review. *International Journal for Research in Business, Management and Accounting*, 2(3), 27-35.
7. Bloemer, J., Ruyter, K. & Wetzels, M. (1999). Linking perceived service quality and service loyalty: A multi-dimensional perspective.(Statistical Data Included). *European Journal of Marketing*, 33(11 12), 1082-1106.
8. Briggs, S.R., & Cheek, J.M. (1986). The role of factor analysis in the development and evaluation of personality scales. *Journal of personality*, 54(1), 106-148.

9. Buttle, F. (1996). SERVQUAL: review, critique, research agenda, *European Journal of Marketing*, Vol. 30 Issue: 1, 8-32.
10. Cambridge University Press. (2017) Cambridge Dictionary. Website. Retrieved from <http://dictionary.cambridge.org/dictionary/english/local>.
11. Carrillat, F.A., Jaramillo, F., & Mulki, J.P. (2007). The validity of the SERVQUAL and SERVPERF scales: A meta-analytic view of 17 years of research across five continents, *International Journal of Service Industry Management*, 18(5), 472 – 490.
12. Chen, C., & Chen, F. (2010). Experience quality, perceived value, satisfaction and behavioral intentions for heritage tourists. *Tourism Management*, 31(1), 29-35.
13. CIA World Factbook. (2016). Indxmundi: Iceland Demographics Profile 2016. Website. Retrieved 27.5.2017 from [http://www.indexmundi.com/iceland/demographics\\_profile.html](http://www.indexmundi.com/iceland/demographics_profile.html)
14. Cronin, J.J. and Taylor, S.A. (1992), Measuring Service Quality: A Re-Examination And Extension, *Journal of Marketing*, Vol.No. 56, July, 55-68.
15. Cronin, J.J. and Taylor, S.A. (1994). SERVPERF versus SERVQUAL: Reconciling Performance-Based and Perceptions-Minus-Expectations Measurement of Service Quality, *Journal of Marketing*. Vol. 58, No. 1, 125-131.
16. Dabholkar, P., Thorpe, A., & Rentz, D. (1996). A measure of service quality for retail stores: Scale development and validation. *Journal of the Academy of Marketing Science*, 24(1), 3-16.
17. DeVellis, R.F. (2003). Scale development: Theory and applications (2nd edn). Thousand Oaks, California: Sage.
18. Dick, A.S., & Basu, K. (1994). Customer loyalty: toward an integrated conceptual framework. *Journal of the academy of marketing science*, 22(2), 99-113.

19. Federation of Trade and Services. (2017). About SVTH. Website. Retrieved 25.5.2017 from <http://svth.is/almennar-upplysingar-um-svth/about-svth/>.
20. Gaur, S.S. & Agrawal, R. (2006). Service Quality Measurement in Retail Store Context: A Review of Advances made using SERVQUAL and RSQS. *The Marketing Review*, 6(4), 317-330 (14).
21. George, E.W., Mair, H., & Reid, D.G. (2009). Rural tourism development: Localism and cultural change, (Vol. 17). Channel View Publications.
22. González, Comesaña, & Brea. (2007). Assessing tourist behavioral intentions through perceived service quality and customer satisfaction. *Journal of Business Research*, 60(2), 153-160.
23. Grönroos, C. (1984). A service quality model and its marketing implications, *European Journal of Marketing*, Vol. 18 No. 4, 36-44.
24. Hagfræðideild Landsbankans. (2015) Hagsjá – Ferðaðjónusta: Gjaldeyrirtekjur ferðaðjónustu 430 ma.kr árið 2017. Website. Retrieved 25.5.2017 from <https://www.landsbankinn.is/Uploads/Documents/Hagsja/2015-03-24-Ferdathjonusta.pdf>
25. Hurst, J.L., Niehm, L.S., & Littrell, M.A. (2009). Retail service dynamics in a rural tourism community: Implications for customer relationship management. *Managing Service Quality*, 19(5), 511-540.
26. Icelandic Tourist Board. (2016). Ferðamálastofa – Icelandic Tourist Board International Visitors in Iceland Summer 2016. Website presentation. Retrieved 25.05.2017 from [https://www.ferdamalastofa.is/static/files/ferdamalastofa/Frettamyndir/2017/januar/su\\_narkonnun/sumar-2016-islensk.pdf](https://www.ferdamalastofa.is/static/files/ferdamalastofa/Frettamyndir/2017/januar/su_narkonnun/sumar-2016-islensk.pdf)



27. Icelandic Tourist Board. (2017a). Number of visitors smashes all earlier records. Research & Statistics. Website. Retrieved 25.5.2017 from <https://www.ferdamalastofa.is/en/moya/news/number-of-visitors-smashes-all-earlier-records>
28. Icelandic Tourist Board. (2017b). Number of foreign visitors: Year-over-year (YOY). Website. Retrieved 25.5.2017 from <https://www.ferdamalastofa.is/en/research-and-statistics/numbers-of-foreign-visitors>
29. Icelandic Travel Industry Association. (2017). Gjaldeyristekjur flokkaðar á atvinnugreinar. Website. Retrieved 25.5.2016 from <http://www.saf.is/atvinnugreinin/lykiltolur-hagstaerdir/>
30. Johns, N. (1999). What is this thing called service? *European Journal of Marketing*, 33(9/10), 958-974.
31. Karlsson, E.B. (2009). Retail in Rural Regions: Exploring ways to support rural shops. Rannsóknarsetur verslunarinnar, Bifröst University. Website. Retrieved 20.1.2017 from [http://www.rsv.is/files/Skra\\_0060124.pdf](http://www.rsv.is/files/Skra_0060124.pdf)
32. Kotler, P. (1973). Atmospherics as a marketing tool. *Journal of Retailing*, 49(4), 48.
33. Landsbankinn. (2014). Verslun. Tímarit Landsbankans, 3 (2), p. 1-55. Website. Retrieved 25.5.2017 from <http://svth.is/wp-content/uploads/2015/11/2014-Timarit-Verslun-ogThjonusta.pdf>
34. Loureiro, S. (2010). Satisfying and Delighting the Rural Tourists. *Journal of Travel & Tourism Marketing*, 27(4), 396-408.
35. Loureiro, S. (2014). The role of the rural tourism experience economy in place attachment and behavioral intentions. *International Journal of Hospitality Management*, 40, 1-9.

36. Loureiro, S., & González, F. (2008). The Importance of Quality, Satisfaction, Trust, and Image in Relation to Rural Tourist Loyalty. *Journal of Travel & Tourism Marketing*, 25(2), 117-136.
37. Loureiro, S., & Kastenholtz, E. (2011). Corporate reputation, satisfaction, delight, and loyalty towards rural lodging units in Portugal. *International Journal of Hospitality Management*, 30(3), 575-583.
38. Lusch, R., Vargo, S., & O'Brien, M. (2007). Competing through service: Insights from service-dominant logic. *Journal of Retailing*, 83(1), 5-18.
39. Maestro, H., Gallego, M., & Requejo, S. (2007). The moderating role of familiarity in rural tourism in Spain. *Tourism Management*, 28(4), 951-964.
40. Markaðstofa Vestfjarða, Atvinnuþróunarfélag Vestfjarða og Ferðamálasamtök Vestfjarða. (2016). Ferðaþjónustugreiningar 2015. Website. Retrieved 20.05.2017 from [https://www.atvest.is/greiningar\\_utgafa\\_skyrslur/skra/93/](https://www.atvest.is/greiningar_utgafa_skyrslur/skra/93/)
41. Neuman, W. (2014). *Understanding research* (New international ed.). Harlow: Pearson.
42. OECD. (2014.) Environmental Performance Reviews: Iceland 2014. Website. Retrieved 20.5.2017 from <https://www.oecd.org/environment/country-reviews/Iceland%20Highlights%20web6.pdf>.
43. OECD. (2015). Glossary of statistical terms. Website. Retrieved 8.12.2015 from <https://stats.oecd.org/glossary/detail.asp?ID=6185>.
44. OECD. (2017). International Trade in Services, Travel Services. *OECD Quarterly International Trade Statistics*, Volume 2016, Issue 3. Website. Retrieved 18.5.2017 from [http://www.oecd-ilibrary.org/trade/oecd-quarterly-international-trade-statistics\\_23130857](http://www.oecd-ilibrary.org/trade/oecd-quarterly-international-trade-statistics_23130857)

45. Oliver, R.L. (1999). Whence consumer loyalty? *The Journal of Marketing*, 33-44.
46. Parasuraman, Zeithaml, & Berry. (1994). Alternative scales for measuring service quality: A comparative assessment based on psychometric and diagnostic criteria. *Journal of Retailing*, 70(3), 193-194.
47. Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1985), "A conceptual model of service quality and its implications for future research", *Journal of Marketing*, Vol. 49 No. 3, 41-50.
48. Parasuraman, A., Zeithaml, Valarie, V.A., & Berry, L.L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*, 64(1), 12-40.
49. Peterson, & Balasubramanian. (2002). Retailing in the 21st century: Reflections and prologue to research. *Journal of Retailing*, 78(1), 9-16.
50. Phillips, W., Wolfe, K., Hodur, N., & Leistriz, F. (2013). Tourist Word of Mouth and Revisit Intentions to Rural Tourism Destinations: A Case of North Dakota, USA. *International Journal of Tourism Research*, 15(1), 93-104.
51. Reichheld, F. (2003), The one number you need to grow, *Harvard Business Review*, Vol. 81 No.12, pp. 46-54.
52. Rodrigues, L.L.R, Barkur, G., Varambally, K.V.M, & Motlagh, F.G. (2011). Comparison of SERVQUAL and SERVPERF metrics: an empirical study. *The TQM Journal*, 23(6), 629-643.
53. Seth, N., Deshmukh, S.G., & Vrat, P. (2005). Service quality models: A review. *International Journal of Quality & Reliability Management*, 22(9), 913-949.
54. Statistics Iceland. (2016). Selected items of the exports of goods and services 2013-2016. Website. Retrieved 30.11.2016 from [http://px.hagstofa.is/pxen/pxweb/en/Efnahagur/Efnahagur\\_utanrikisverslun\\_3\\_voru](http://px.hagstofa.is/pxen/pxweb/en/Efnahagur/Efnahagur_utanrikisverslun_3_voru)

[thjonusta\\_voruthjonusta/UTA05003.px/table/tableViewLayout1/?rxid=b786eba4-8101-42d3-9612-5d49c3892c73](http://px.hagstofa.is/pxen/pxweb/en/thjonusta_voruthjonusta/UTA05003.px/table/tableViewLayout1/?rxid=b786eba4-8101-42d3-9612-5d49c3892c73)

55. Statistics Iceland. (2017a). Mannfjöldi eftir kyni, aldri og sveitarfélögum 1998-2017 - Sveitarfélagaskipan hvers árs. Website. Retrieved 18.5.2017 from <http://px.hagstofa.is/pxen/pxweb/en>
56. Statistics Iceland. (2017b). Gistinætur og gestakomur á öllum tegundum gististaða 1998-2016. Website. Retrieved 18.5.2016 from [http://px.hagstofa.is/pxis/pxweb/is/Atvinnuvegir/Atvinnuvegir\\_ferdathjonusta\\_Gisting\\_3\\_allartegundirgististada/SAM01601.px/](http://px.hagstofa.is/pxis/pxweb/is/Atvinnuvegir/Atvinnuvegir_ferdathjonusta_Gisting_3_allartegundirgististada/SAM01601.px/)
57. Statistics Iceland. (2017c). Valdir liðir útflutnings vöru og þjónustu 2013-2016. Website. Retrieved 18.5.2016 from [http://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur\\_utanrikisverslun\\_3\\_vorut\\_hjonusta\\_voruthjonusta/UTA05003.px/](http://px.hagstofa.is/pxis/pxweb/is/Efnahagur/Efnahagur_utanrikisverslun_3_vorut_hjonusta_voruthjonusta/UTA05003.px/)
58. Su, L. & Fan, X. (2011). "A study on the relationships between service quality, satisfaction, trust and loyalty among rural tourism." Service Systems and Service Management (ICSSSM), 2011 8th International Conference on. IEEE, 2011.
59. Sultan, P. & Wong, H.Y. (2010). Service quality in higher education – a review and research agenda. *International Journal of Quality and Service Science*. 2(2), 259-272.
60. Vargo, S., & Lusch, R. (2004). Evolving to a new dominant logic for marketing. *Journal Of Marketing*, 68(1), 1-17.
61. Visit Iceland. (2017). Experience the Peace and Quiet of the Westfjords. Website. Retrieved 25.6.2017 from <http://www.visiticeland.com/DiscoverIceland/regions/westfjords>.
62. Web Finance Inc. (2017). BD Business Directory. Website. Retrieved 18.5.2017 from <http://www.businessdictionary.com/definition/customer.html>

63. Zeithaml, V.A., Berry, L.L. and Parasuraman, A. (1993). The Nature And Determinants Of Customer Expectations Of Service, *Journal of the Academy of Marketing Science*, Vol.No.21, Issue.No.1, 1-12.
64. Zeithaml, V., Berry, L., & Parasuraman, A. (1996). The Behavioral Consequences of Service Quality. *Journal of Marketing*, 60(2), 31-46.
65. Zeithaml, V., Parasuraman, A., & Berry, L. (1990). *Delivering quality service : Balancing customer perceptions and expectations*. New York: Free Press.

## APPENDICIES

### APPENDIX A

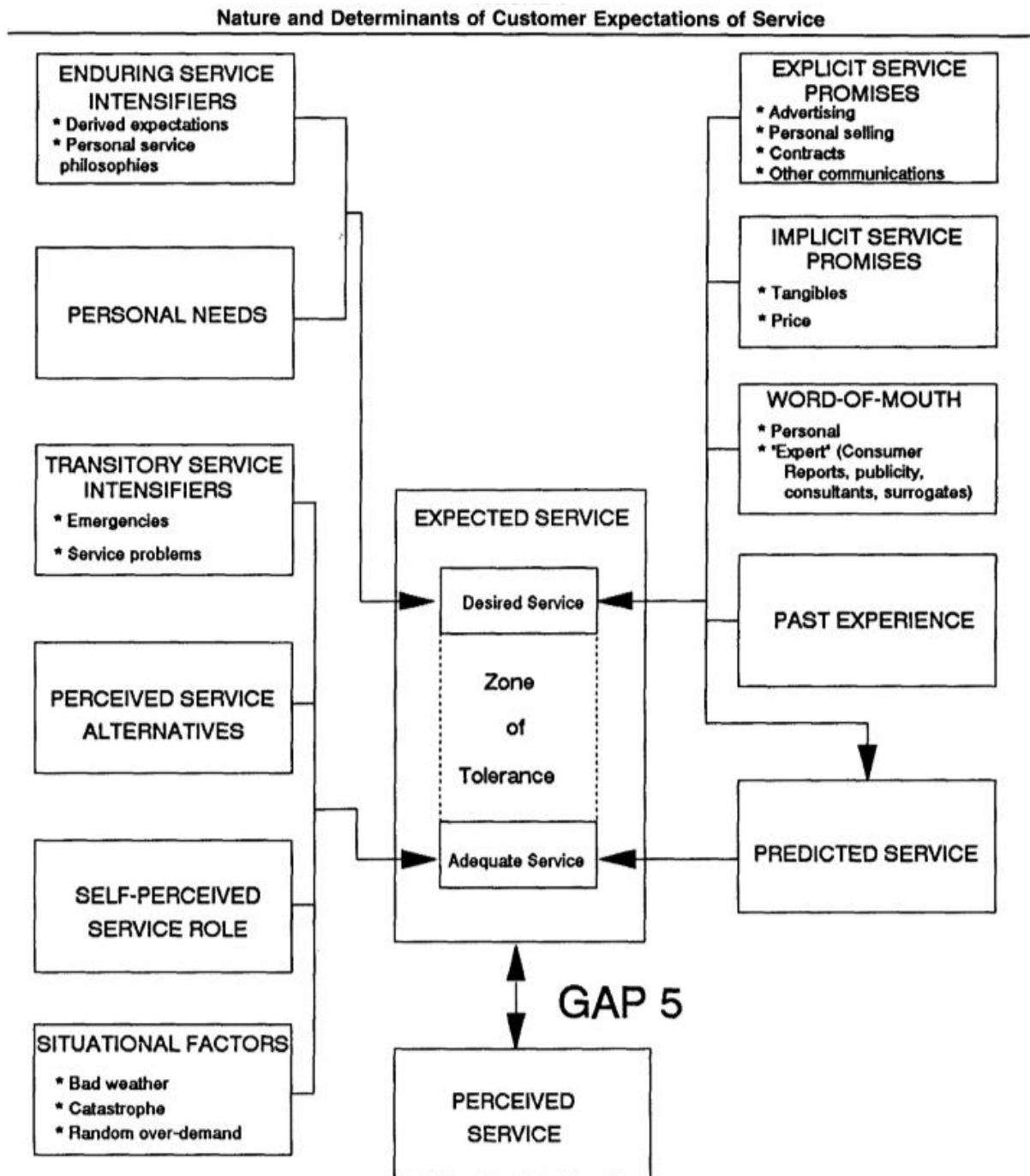
#### **Directly quoted statements made by KSH employees:**

- “Jobs in retail and services are unappreciated and difficult jobs. Low wage and unsuitable working hours lead to high staff turnover. Often young people or unemployed individuals, that get no other jobs, go into retail and services. Also, nobody wants to work in the summer, because the summer is so terribly short here in Iceland. Seasonality is a problem in tourism, because the busiest time is when normal Icelanders want to enjoy the few days of summer. All the experienced staff go on holiday during the busiest season.”
- “A lot of the summer workers are students and they do not arrive for their summer jobs until after the summer season starts. So there this is no time for training, they just have to jump into the deep end and learn by their own mistakes. This causes several incidents and mistakes that cause bad service quality, bad word of mouth and worsening reputation. Also it causes a lot of tension at the workplace.”
- “The service industry is always mostly employed by girls. It is also unfair that girls can flirt and make it look like they are very attentive to the customer, but if the boys attempt the same it can be perceived totally differently and sometimes negatively, almost like an inappropriate ‘come on’. Boys are so misunderstood. Unless you are gay.”
- “Local people are nice enough, but if you make mistakes then they talk behind your back all over the community. It takes a long time to make up for even the slightest mistakes in little rural villages.”
- “I feel less insecure around the tourist. They are politer and I also know I will never see them again. So no big deal if I do something stupid.”
- “The local customer are great. They are caring and always ready for a chit chat. Then again, maybe I would chat more with foreigner if I spoke better English.
- “I can’t stand tourists. They pee everywhere and leave their trash in the parking area, even if we have marked areas for it. I really don’t think they are worth the extra effort. I think the store should focus more on the locals. I don’t care what the manager thinks.
- “It is more embarrassing for boys to work in the service industry. It was more acceptable for girls as it is more related to the old-fashioned idea that girls should work in the kitchen and boys outside. The rural areas are a bit stuck in the past. But the tourists are more open minded.”
- “There is really no difference between tourist or locals in general. It is just personal differences and sometimes just the mood of the day. Also, I think the weather might even play a role in how people evaluate quality. If it is sunny, then they are happier and then they might be happier with our services. But if it is sunny, then it stinks to be stuck inside working.”
- “I think tourists are more demanding and rude than the locals. Because they don’t know us or our families. So they don’t care how they treat us, they will probably never see us again. Actually, it is awkward to meet a local customer that has been dissatisfied with something, especially if he has lost his temper.”

- “We are always trying to improve service quality of all levels. However, high staff-turnover and lack of training is probably our biggest issue. Also, younger people seem to have worse working ethics than the older generation. Unfortunately, it is hard to get the older generation to work during the summer-weeks.”
- “Young people are much less loyal to local stores. They enjoy travelling to the city to have fun and to do a big stock-up shopping at larger supermarket chains on the way home. I don’t think it is only the price that matters, but also just fun to make a change and to see what other retailers offer. We just have to live with that and try harder to tourists to spend more here.”
- “Travelers in the winter time are so much nicer than in the summer. We also have more time to serve them better. The summers are so rushed and everything feels very unipersonal. We are almost like robots.”
- “Hormones! Yes, hormones control service quality. Both the attitude of the employee and the customer. It is a totally unpredictable minefield. Every retailer should have its own psychologist.”
- “When I travel, I love to visit places that have clean toilets. Customers often point it out to us when the toilets are slacking. I imagine many more say nothing, but are still unsatisfied. This is why I think we need to focus more on the cleanliness and appearance. Not just the toilets, but the whole place.”
- “Well, what is an ideal service quality? We cannot so much focus on one group. In a small town like this we just have to service who ever stops here. The customers are all so different.”
- “Sometimes we get complaints that are really not our fault, like when the quality of a good is bad from our supplier or not available at all. For example, we were out of bacon and potatoes for weeks during high season last year because the supplier sold out. It took weeks to get them back into stock. I almost think the rural areas were put at the bottom of the supplier’s priority list, because we don’t make as large orders as the retailers in the city. The local customer is used to this, but the tourist customer is not buying our excuses, even if our competitors are out of bacon and potatoes too.”
- “Honestly, the staff are really not that bothered about quality. Only when the boss is around. I mean, they are not being destructive. They are just not putting more effort in than what they have to. The summer-season staff don’t exactly stop for very long. So they don’t care.”
- “We have meetings about these things and we truly are trying to improve things, but it just takes that one mistake to ruin so much. But we are getting better. It just takes time.
- “The front-line staff is often the least experienced staff. They don’t mean to provide bad quality service. They just don’t have the knowhow that comes with dealing with people. Mind you, some people have it in their blood and are born to smile no matter what.”
- “The internet is a monster, One little mistake and it is all over the place on Facebook. Sometimes it is not even fairly communicated or blown out of proportions, hyped-up. We call it reputation murder.”

Appendix B

„Nature and Determinants of Customer Expectations of Service“ (as cited in Zeithaml, Berry & Parasuraman, 1993, p. 5)





## Appendix C

**Service Loyalty Dimensions. (Zeithaml et al. (1996); as cited in Bloemer, Ruyter & Wetzels, 1999, p.1086)****Word-of-mouth communications**

1. Say positive things about XYZ to other people
2. Recommend XYZ to someone who seeks your advice
3. Encourage friends and relatives to do business with XYZ

**Purchase intentions**

4. Consider XYZ your first choice to buy ... services
5. Do more business with XYZ in the next few years
6. Do less business with XYZ in the next few years

**Price sensitivity**

7. Take some of your business to a competitor that offers more attractive prices
8. Continue to do business to a competitor that offers more attractive prices
9. Pay a higher price than competitors charge for the benefits you currently receive from XYZ

**Complaining behaviour**

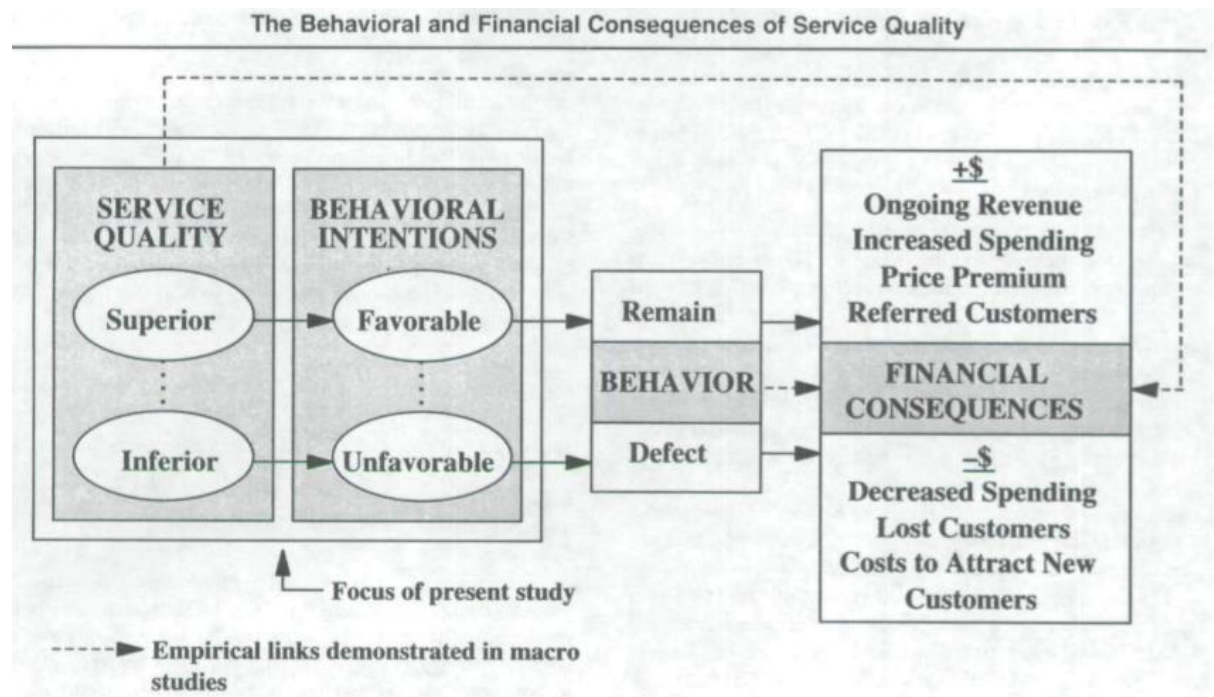
10. Switch to a competitor if you experience a problem with XYZ's service
11. Complain to other consumers if you experience a problem with XYZ's service
12. Complain to external agencies, such as the Better Business Bureau, if you experience a problem with XYZ's service
13. Complain to XYZ's employees if you experience a problem with XYZ's service

**Source:** Zeithaml *et al.* (1996)

## Appendix D

**The Behavioral and Financial Consequences of Service Quality**

Source: Zeithaml, V., Berry, L., & Parasuraman, A. (1996, p. 33).



## APPENDIX E

### **SERVQUAL dimensions and items:**

**Question 8: Expectation** - This section deals with your expectations.

How important are the following factors to your expectations and reason for shopping or buying services in rural areas?

**Question 9: Experience** - This section deals with your perception of the service you received.

How would you rate the following service factors for the service result you received in rural areas?

#### **Tangibles items**

1. Modern fixtures and up-to-date displays
2. Visually appealing store
3. Employees have neat appearance
4. Cleanliness of store

#### **Reliability items**

5. To provide service within the promised time frame
6. Employees' sincere willingness to solve problems and correct mistakes
7. Perform correct service the first time

#### **Responsiveness items**

9. Employees make information easily available and obtainable
10. Prompt service to customers
11. Employees' willingness to help and provide service to customers
12. Attention given by employees (never too busy to respond)

#### **Assurance items**

13. Employees' trustworthy behaviour instils confidence
14. Feeling of safety in transactions with employees
15. Employees' politeness and courtesy
16. Employees' knowledge and ability to answer questions

#### **Empathy items**

17. Individual attention to customer
18. Convenient operating/opening hours
19. Personal service
20. Employees have customers' interest at heart
21. Employees understand and respond to specific customer needs

#### **Product items (newly added)**

22. Product selection
23. Product quality
24. Product price