

The Influence of Hospitality Service Quality on Hotel Customer Satisfaction in the Hotel Industry: The Moderating Role of Income

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ABSTRACT

This study aims to analyze the effect of hospitality service quality on hotel customer satisfaction in Badung Regency by considering the role of income as a moderating variable. The community engagement process was carried out through a survey of 150 hotel customers. The method used is a quantitative approach with an associative design, and data analysis was conducted using path analysis and moderation testing through SmartPLS. The results indicate that hospitality service quality has a positive and significant effect on customer satisfaction, with income strengthening this relationship. The practical implication is that hotels need to adjust their service strategies based on customer income segments to optimally enhance satisfaction.

INTRODUCTION

The hotel industry in Bali, particularly in Badung Regency, has shown rapid development in line with the increasing number of tourists visiting each year. In 2023, Bali recorded more than 4.79 million international tourists and approximately 8.67 million domestic tourists (Putra, 2024), with Badung Regency serving as the main hub for tourist accommodations. This growth has triggered major investments in the accommodation sector, including a significant increase in the number of star-rated hotels (Utami, 2025). However, behind this growth lies a challenge regarding hotel service quality, which is perceived to be inconsistent. This condition is further exacerbated by the phenomenon of overtourism, which has led to a decline in service quality and customer dissatisfaction (Decembria, 2024; Indraswari, 2024). In an increasingly competitive environment, hospitality service quality becomes a strategic element that can directly influence customer satisfaction (Ali *et al.*, 2021; Nunkoo *et al.*, 2020).

Previous studies have shown varied, and even contradictory, results regarding the relationship between service quality and customer satisfaction (Octaviani & Asrori, 2024; Tampanguma *et al.*, 2022). Accordingly, assessing the presence of other elements that might amplify or mitigate this relationship is necessary. One variable that has the potential to moderate this relationship is customer income, as different income levels can influence expectations toward the quality of service received (Alfajar *et al.*, 2021; Wahida, 2023).

The present study extends prior knowledge by examining the moderating influence of income on the relationship between service quality and customer satisfaction, a dimension that has seldom been explored through empirical methods. The use of samples from hotel customers in Badung Regency, who come from diverse economic segments, provides a rich context for understanding the dynamics of service perception and satisfaction. This research aims to determine whether hospitality service quality significantly affects hotel customer satisfaction and whether income significantly moderates this relationship within the hotel industry in Badung Regency.

LITERATURE REVIEW

Hotel Industry

The hotel industry is a strategic sector in tourism development, as it provides accommodation and comfort services for travelers. This industry falls under the service sector and heavily depends on the quality of service delivered (Noviastuti *et al.*, 2020). Over time, the hotel industry has become not only profit-oriented but also has adopted sustainability principles (the triple bottom line), which encompass social, economic, and environmental aspects (Setiawan & Muharis, 2024). Technological advancements have also modernized hotel operations through cloud-based management systems and AI-driven services (Kelsey *et al.*, 2023). In addition, this sector plays an important role in empowering local communities and developing micro, small, and medium enterprises (MSMEs), thereby strengthening its contribution to the regional economy (Langi *et al.*, 2024).

Service Marketing

Service marketing refers to managerial activities focused on offering intangible products designed to meet customer needs. Services have four main characteristics: intangibility (cannot be touched), inseparability (production and consumption occur simultaneously), variability (quality may vary depending on who provides the service), and perishability (cannot be stored) (Schouten *et al.*, 2025). Customer-service provider interactions play a crucial role in determining the success of service marketing efforts (Hasan *et al.*, 2022). Consequently, ensuring service consistency and optimizing capacity management are critical strategies for preserving customer satisfaction and loyalty within the hospitality industry.

Hospitality Service Quality

Hospitality service quality is a subjective measure of how well the service provided meets or exceeds customer expectations (Rahayu & Tindaon, 2024). One commonly used approach is SERVQUAL, which includes five dimensions: tangibles, reliability, responsiveness, assurance, and empathy (Apsari & Novitaningtyas, 2022). Nunkoo *et al.* (2020) refined this model into ten specific dimensions within the hotel context:

- a. Accommodation Infrastructure – room design, décor, and comfort
- b. Room Quality – room cleanliness and comfort
- c. Front Desk – efficiency and friendliness of front desk staff
- d. Food and Beverage – variety and quality of food and drinks
- e. Sociability – opportunities for guest social interaction
- f. Safety and Security – physical and psychological safety system
- g. Attitude and Behavior of Employees – professionalism of staff
- h. Employee Expertise – service competency
- i. Customer Interaction – social experience between guests
- j. Waiting Time – service promptness

High-quality service is believed to directly enhance customer satisfaction and loyalty (Riyanto *et al.*, 2024).

Income

Income is defined as the earnings gained from economic activities, whether in the form of money or goods. It includes salary, bonuses, additional income, and returns from investments (Rudianti *et al.*, 2022). In this study, income is used as a moderating variable that may influence the strength of the relationship between hospitality service quality and hotel customer satisfaction. According to Andika (2021), income can be identified through the following indicators: (1) regular salary income and (2) additional income. Customers with higher income levels tend to have greater expectations of service quality and are therefore more critical when experiences do not meet their expectations (Alfajar *et al.*, 2021; Lubis *et al.*, 2023).

Hotel Customer Satisfaction

Hotel customer satisfaction refers to the feeling that arises after comparing service expectations with the actual performance of the service received. When

services meet or exceed expectations, customers will feel satisfied, which in turn influences loyalty, repeat purchase, and positive word-of-mouth (Kim & Kim, 2022; Marlina *et al.*, 2023). According to Hermanto & Nainggolan (2020), customer satisfaction indicators include:

- a. Overall service satisfaction
- b. Willingness to recommend to others
- c. Intention to repurchase or return

Customer satisfaction is viewed as the end result of the overall hotel stay experience, which is highly influenced by the quality of service provided.

Hospitality service quality in the Hotel Industry

The quality of hospitality services signifies how well the delivered services align with or surpass what customers anticipate. Within the hotel sector, this quality includes multiple elements that have a direct influence on guests' overall experience, such as room comfort, staff friendliness, service speed, and a sense of safety during the stay (Nunkoo *et al.*, 2020). The dimensions of service quality used in this study refer to ten main dimensions: accommodation infrastructure, room quality, front desk, food and beverage, sociability, safety and security, attitude and behavior of employees, employee expertise, customer interaction, and waiting time.

Several previous studies have found that hospitality service quality has a positive and significant effect on hotel customer satisfaction. For instance, Ananda & Wahyudi (2022), Ainassyifa (2023), and Yuniar & Shafariah (2023) demonstrated that the better the hospitality service quality provided by the hotel, the higher the level of hotel customer satisfaction. A study by Pitoi *et al.* (2021) at the Best Western The Lagoon Manado Hotel also emphasized that superior hospitality service quality not only affects satisfaction but also drives customer loyalty. However, there are also studies that show different results. Octaviani & Asrori (2024) found that in certain cases, service quality does not have a significant effect on customer satisfaction. These inconsistencies suggest the possibility that other factors may moderate the relationship.

H₁: Hospitality service quality has a positive and significant effect on hotel customer satisfaction.

Income as a Moderating Variable

Income is one of the customer characteristics that can influence how they evaluate services. Customers with high income tend to have higher expectations regarding hotel facilities and service quality. If those expectations are met, satisfaction levels are likely to increase significantly. Conversely, customers with lower income may be more flexible in assessing service shortcomings, as long as the price paid is perceived as reasonable (Alfajar *et al.*, 2021; Lubis *et al.*, 2023; Wahida, 2023). Therefore, income has the potential to strengthen or weaken the influence of service quality on customer satisfaction. In this study, income is measured based on two main indicators: regular salary income and additional income (Rudianti *et al.*, 2022). Studies conducted by Winata (2023), Wahyuni & Erawati (2022), and Juniasih *et al.* (2023) indicate that customers' perceptions of

service quality can be heavily influenced by their economic status, including income level.

H2: Income moderates the influence of hospitality service quality on hotel customer satisfaction.

The relationship between variables in this study is visually illustrated in Figure 1 below.

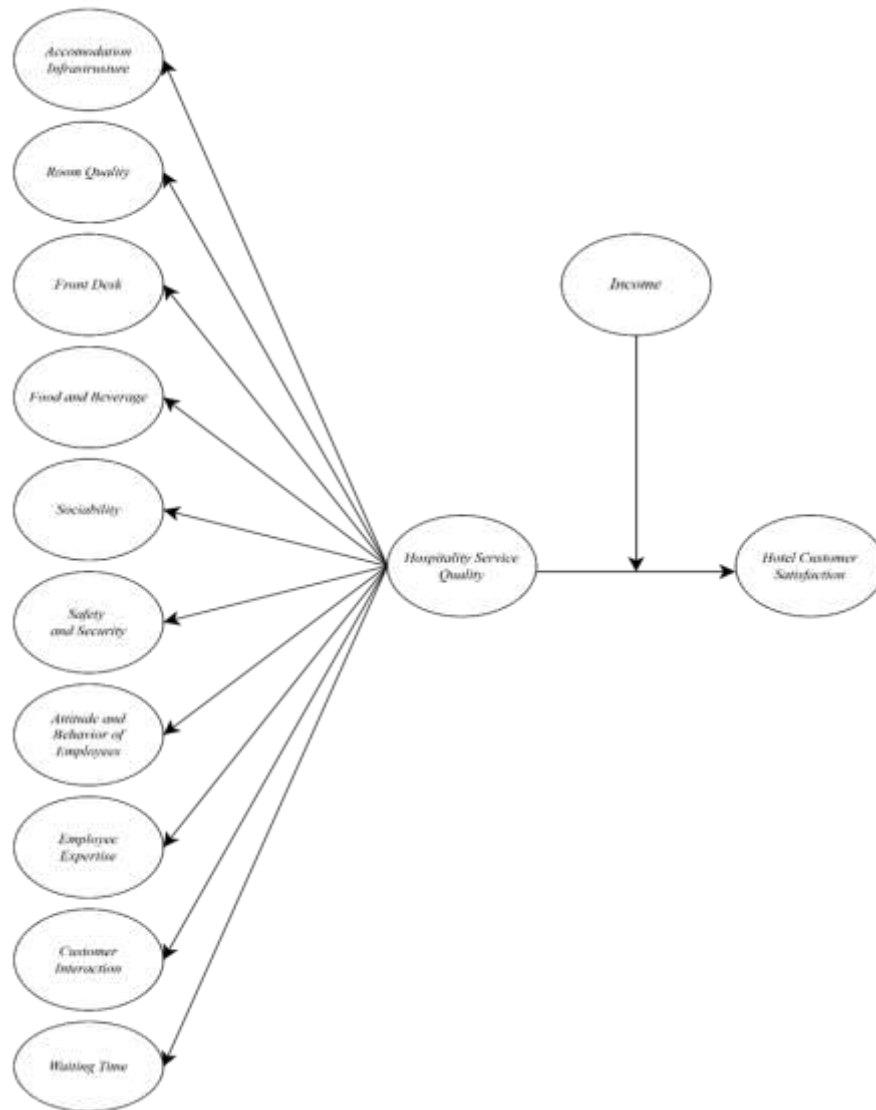


Figure 1. Conceptual Framework Model

METHODOLOGY

This study employs a quantitative approach using an associative design to examine how hospitality service quality correlates with hotel customer satisfaction, while also exploring income as a moderating variable in this relationship. The study was conducted in Badung Regency, Bali, which is recognized as the primary center of the hotel industry in the province. The target population consisted of hotel guests who had stayed in accommodations within Badung Regency during the previous six months. A total of 150 participants were selected through purposive sampling, using the criteria of being at least 18 years old and having prior experience staying in a hotel in the area. Data were gathered through a questionnaire utilizing a Likert scale. Before being distributed, the

research instrument was tested for validity and reliability to ensure its robustness. The data were analyzed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method, supported by SmartPLS 4 software. This analysis involved assessing the measurement model for reliability and validity, examining the structural model to test the proposed hypotheses, and evaluating the presence of a moderating effect.

RESEARCH RESULT

Assessing the Outer Model or Measurement Model

Convergent validity is considered achieved when the loading factor of each indicator exceeds 0.70, indicating a strong correlation between the indicator and its corresponding construct. Table 1 displays the findings of the convergent validity assessment.

Table 1. Convergent Validity

Construct	Outer loadings
X1.1 ← Accommodation Infrastructure	0.860
X1.2 ← Accommodation Infrastructure	0.814
X1.3 ← Accommodation Infrastructure	0.789
X1.4 ← Accommodation Infrastructure	0.835
X10.1 ← Waiting Time	0.859
X10.2 ← Waiting Time	0.858
X10.3 ← Waiting Time	0.883
X2.1 ← Room Quality	0.829
X2.2 ← Room Quality	0.843
X2.3 ← Room Quality	0.813
X2.4 ← Room Quality	0.864
X3.1 ← Front Desk	0.865
X3.2 ← Front Desk	0.846
X3.3 ← Front Desk	0.875
X4.1 ← Food and Beverage	0.833
X4.2 ← Food and Beverage	0.827
X4.3 ← Food and Beverage	0.848
X4.4 ← Food and Beverage	0.861
X5.1 ← Sociability	0.882
X5.2 ← Sociability	0.804
X5.3 ← Sociability	0.892
X6.1 ← Safety and Security	0.862
X6.2 ← Safety and Security	0.805
X6.3 ← Safety and Security	0.817
X6.4 ← Safety and Security	0.857
X7.1 ← Attitude and Behavior of Employees	0.900
X7.2 ← Attitude and Behavior of Employees	0.852
X7.3 ← Attitude and Behavior of Employees	0.894
X8.1 ← Employee Expertise	0.835
X8.2 ← Employee Expertise	0.843

X8.3 ← Employee Expertise	0.850
X8.4 ← Employee Expertise	0.873
X9.1 ← Hospitality Service Quality	0.788
X9.2 ← Customer Interaction	0.882
Y1 ← Hotel Customer Satisfaction	0.816
Y2 ← Hotel Customer Satisfaction	0.764
Y3 ← Hotel Customer Satisfaction	0.824
Z1 ← Income	0.954
Z2 ← Income	0.958
Income × Hospitality Service Quality →	1.000
Income × Hospitality Service Quality	1.000

Source: Processed primary data, 2025

Evaluating Reliability and Average Variance Extracted (AVE)

A construct is deemed valid when its Average Variance Extracted (AVE) surpasses 0.50, suggesting that it captures more variance than is attributable to measurement error. Similarly, a composite reliability value above 0.70 indicates a high level of internal consistency among items measuring the same construct. In this study, all constructs met these criteria, affirming the reliability and validity of the measurement tool in evaluating hospitality service quality, income, and hotel customer satisfaction. Table 2 provides the detailed AVE and composite reliability values.

Table 2. Composite Reliability Variable

Construct	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted
Accommodation Infrastructure	0.843	0.844	0.895	0.681
Attitude and Behavior of Employees	0.857	0.857	0.913	0.778
Customer Interaction	0.710	0.710	0.873	0.775
Employee Expertise	0.872	0.873	0.913	0.723
Food and Beverage	0.863	0.864	0.907	0.709
Front Desk	0.827	0.827	0.897	0.743
Hospitality Service Quality	0.980	0.980	0.981	0.606
Hotel Customer Satisfaction	0.722	0.721	0.844	0.643
Income	0.906	0.907	0.955	0.914
Room Quality	0.858	0.859	0.904	0.701
Safety and Security	0.856	0.858	0.903	0.699
Sociability	0.823	0.826	0.895	0.740
Waiting Time	0.834	0.835	0.901	0.751

Source: Processed primary data, 2025

Discriminant Validity Testing

Discriminant validity in this study was evaluated using three complementary methods: cross-loading analysis, the Fornell-Larcker criterion, and the Heterotrait-Monotrait (HTMT) ratio. This evaluation aims to confirm that each latent variable is both theoretically and empirically unique, ensuring that the indicators do not reflect overlapping or unrelated constructs.

Conducting this validation step is essential to confirm that each construct is well-defined and maintains conceptual boundaries that do not blur with others. As indicated in Table 3, the cross-loading analysis confirms that all indicators load more heavily on their respective constructs than on any alternative constructs. This finding supports the conclusion that the indicators effectively represent their intended variables and satisfy the criteria for discriminant validity.

Table 3. Results of Discriminant Validity Testing

	AI	AB	CI	EE	FB	FD	X	Y	M	RQ	SS	SO	WT	MXX
AI 1	0.860	0.656	0.667	0.665	0.733	0.653	0.765	0.495	0.643	0.730	0.683	0.667	0.643	-0.529
AI 1	0.860	0.656	0.667	0.665	0.733	0.653	0.765	0.495	0.643	0.730	0.683	0.667	0.643	-0.529
AI 2	0.814	0.685	0.688	0.749	0.636	0.736	0.787	0.460	0.578	0.728	0.747	0.648	0.739	-0.582
AI 2	0.814	0.685	0.688	0.749	0.636	0.736	0.787	0.460	0.578	0.728	0.747	0.648	0.739	-0.582
AI 3	0.789	0.616	0.628	0.618	0.625	0.635	0.716	0.405	0.543	0.634	0.664	0.672	0.656	-0.541
AI 4	0.789	0.616	0.628	0.618	0.625	0.635	0.716	0.405	0.543	0.634	0.664	0.672	0.656	-0.541
AI 4	0.835	0.593	0.653	0.657	0.651	0.675	0.727	0.412	0.584	0.690	0.629	0.600	0.644	-0.497
AI 4	0.835	0.593	0.653	0.657	0.651	0.675	0.727	0.412	0.584	0.690	0.629	0.600	0.644	-0.497
WT 1	0.715	0.691	0.696	0.719	0.672	0.687	0.780	0.549	0.619	0.718	0.711	0.665	0.859	-0.566
WT 1	0.715	0.691	0.696	0.719	0.672	0.687	0.780	0.549	0.619	0.718	0.711	0.665	0.859	-0.566
WT 2	0.718	0.732	0.739	0.782	0.660	0.760	0.817	0.472	0.573	0.768	0.764	0.689	0.858	-0.548
WT 2	0.718	0.732	0.739	0.782	0.660	0.760	0.817	0.472	0.573	0.768	0.764	0.689	0.858	-0.548
WT 3	0.684	0.694	0.702	0.753	0.632	0.710	0.783	0.520	0.597	0.697	0.725	0.695	0.883	-0.565
WT 3	0.684	0.694	0.702	0.753	0.632	0.710	0.783	0.520	0.597	0.697	0.725	0.695	0.883	-0.565
RQ 1	0.666	0.676	0.671	0.690	0.698	0.708	0.763	0.519	0.609	0.829	0.707	0.658	0.638	-0.541
RQ 1	0.666	0.676	0.671	0.690	0.698	0.708	0.763	0.519	0.609	0.829	0.707	0.658	0.638	-0.541
RQ 2	0.764	0.749	0.709	0.719	0.715	0.718	0.811	0.411	0.619	0.843	0.742	0.693	0.745	-0.608
RQ 2	0.764	0.749	0.709	0.719	0.715	0.718	0.811	0.411	0.619	0.843	0.742	0.693	0.745	-0.608
RQ 3	0.693	0.663	0.672	0.681	0.688	0.689	0.758	0.507	0.609	0.813	0.682	0.627	0.691	-0.470
RQ 3	0.693	0.663	0.672	0.681	0.688	0.689	0.758	0.507	0.609	0.813	0.682	0.627	0.691	-0.470
RQ 4	0.705	0.696	0.699	0.721	0.688	0.724	0.800	0.441	0.582	0.864	0.755	0.693	0.737	-0.582
RQ 4	0.705	0.696	0.699	0.721	0.688	0.724	0.800	0.441	0.582	0.864	0.755	0.693	0.737	-0.582
FD 1	0.668	0.688	0.673	0.748	0.666	0.865	0.776	0.484	0.625	0.694	0.744	0.661	0.686	-0.545
FD 1	0.668	0.688	0.673	0.748	0.666	0.865	0.776	0.484	0.625	0.694	0.744	0.661	0.686	-0.545
FD 2	0.735	0.680	0.775	0.750	0.723	0.846	0.805	0.430	0.565	0.741	0.742	0.656	0.727	-0.588
FD 2	0.735	0.680	0.775	0.750	0.723	0.846	0.805	0.430	0.565	0.741	0.742	0.656	0.727	-0.588
FD 3	0.714	0.729	0.668	0.775	0.678	0.875	0.805	0.471	0.597	0.755	0.744	0.671	0.734	-0.562
FD 3	0.714	0.729	0.668	0.775	0.678	0.875	0.805	0.471	0.597	0.755	0.744	0.671	0.734	-0.562
CS 1	0.635	0.650	0.634	0.635	0.833	0.652	0.727	0.455	0.532	0.703	0.656	0.612	0.603	-0.522
CS 1	0.635	0.650	0.634	0.635	0.833	0.652	0.727	0.455	0.532	0.703	0.656	0.612	0.603	-0.522
CS 2	0.641	0.615	0.620	0.622	0.827	0.636	0.722	0.490	0.594	0.703	0.682	0.627	0.582	-0.545
CS 2	0.641	0.615	0.620	0.622	0.827	0.636	0.722	0.490	0.594	0.703	0.682	0.627	0.582	-0.545
CS 3	0.696	0.632	0.644	0.693	0.848	0.672	0.741	0.485	0.567	0.663	0.648	0.587	0.649	-0.492
CS 3	0.696	0.632	0.644	0.693	0.848	0.672	0.741	0.485	0.567	0.663	0.648	0.587	0.649	-0.492
CS 4	0.725	0.647	0.694	0.713	0.861	0.728	0.788	0.458	0.632	0.734	0.692	0.675	0.704	-0.534
CS 4	0.725	0.647	0.694	0.713	0.861	0.728	0.788	0.458	0.632	0.734	0.692	0.675	0.704	-0.534
EE 1	0.686	0.712	0.659	0.676	0.653	0.667	0.777	0.480	0.590	0.740	0.731	0.882	0.705	-0.543
EE 1	0.686	0.712	0.659	0.676	0.653	0.667	0.777	0.480	0.590	0.740	0.731	0.882	0.705	-0.543
EE 2	0.648	0.617	0.702	0.667	0.619	0.658	0.724	0.331	0.590	0.625	0.694	0.804	0.625	-0.468
EE 2	0.648	0.617	0.702	0.667	0.619	0.658	0.724	0.331	0.590	0.625	0.694	0.804	0.625	-0.468
EE 3	0.689	0.702	0.719	0.720	0.645	0.659	0.786	0.509	0.594	0.691	0.788	0.892	0.702	-0.579
EE 3	0.689	0.702	0.719	0.720	0.645	0.659	0.786	0.509	0.594	0.691	0.788	0.892	0.702	-0.579
FB 1	0.702	0.700	0.694	0.734	0.684	0.762	0.809	0.458	0.562	0.760	0.862	0.744	0.729	-0.621
FB 1	0.702	0.700	0.694	0.734	0.684	0.762	0.809	0.458	0.562	0.760	0.862	0.744	0.729	-0.621
FB 2	0.640	0.594	0.612	0.679	0.636	0.639	0.720	0.463	0.542	0.640	0.805	0.641	0.660	-0.551
FB 2	0.640	0.594	0.612	0.679	0.636	0.639	0.720	0.463	0.542	0.640	0.805	0.641	0.660	-0.551
FB 3	0.720	0.710	0.741	0.753	0.679	0.775	0.807	0.488	0.604	0.721	0.817	0.730	0.730	-0.536
FB 3	0.720	0.710	0.741	0.753	0.679	0.775	0.807	0.488	0.604	0.721	0.817	0.730	0.730	-0.536
FB 4	0.698	0.743	0.681	0.719	0.658	0.701	0.797	0.511	0.614	0.754	0.857	0.747	0.708	-0.566
FB 4	0.698	0.743	0.681	0.719	0.658	0.701	0.797	0.511	0.614	0.754	0.857	0.747	0.708	-0.566
RQ 1	0.704	0.900	0.700	0.766	0.671	0.739	0.809	0.496	0.609	0.781	0.731	0.656	0.742	-0.546
RQ 1	0.704	0.900	0.700	0.766	0.671	0.739	0.809	0.496	0.609	0.781	0.731	0.656	0.742	-0.546
RQ 2	0.718	0.852	0.725	0.742	0.681	0.725	0.797	0.511	0.661	0.706	0.735	0.714	0.705	-0.522
RQ 2	0.718	0.852	0.725	0.742	0.681	0.725	0.797	0.511	0.661	0.706	0.735	0.714	0.705	-0.522
RQ 3	0.625	0.894	0.681	0.757	0.646	0.680	0.780	0.458	0.606	0.712	0.715	0.718	0.709	-0.520
RQ 3	0.625	0.894	0.681	0.757	0.646	0.680	0.780	0.458	0.606	0.712	0.715	0.718	0.709	-0.520
SS 1	0.667	0.713	0.674	0.835	0.647	0.723	0.775	0.521	0.574	0.680	0.705	0.666	0.758	-0.531
SS 1	0.667	0.713	0.674	0.835	0.647	0.723	0.775	0.521	0.574	0.680	0.705	0.666	0.758	-0.531
SS 2	0.711	0.717	0.740	0.843	0.705	0.783	0.817	0.554	0.675	0.746	0.737	0.703	0.770	-0.561
SS 2	0.711	0.717	0.740	0.843	0.705	0.783	0.817	0.554	0.675	0.746	0.737	0.703	0.770	-0.561
SS 3	0.671	0.729	0.726	0.850	0.644	0.736	0.791	0.472	0.620	0.715	0.763	0.684	0.704	-0.555
SS 3	0.671	0.729	0.726	0.850	0.644	0.736	0.791	0.472	0.620	0.715	0.763	0.684	0.704	-0.555

SS 4	0.728	0.753	0.721	0.873	0.693	0.747	0.806	0.523	0.634	0.713	0.732	0.667	0.717	-0.508
SS 4	0.728	0.753	0.721	0.873	0.693	0.747	0.806	0.523	0.634	0.713	0.732	0.667	0.717	-0.508
SO 1	0.716	0.663	0.879	0.751	0.680	0.722	0.788	0.525	0.602	0.735	0.712	0.695	0.708	-0.539
SO 1	0.716	0.663	0.879	0.751	0.680	0.722	0.788	0.525	0.602	0.735	0.712	0.695	0.708	-0.539
SO 2	0.693	0.739	0.882	0.731	0.677	0.720	0.795	0.512	0.641	0.712	0.729	0.725	0.740	-0.511
SO 2	0.693	0.739	0.882	0.731	0.677	0.720	0.795	0.512	0.641	0.712	0.729	0.725	0.740	-0.511
Y 1	0.394	0.464	0.458	0.488	0.395	0.418	0.478	0.816	0.458	0.441	0.469	0.401	0.440	-0.220
Y 2	0.492	0.415	0.491	0.508	0.516	0.459	0.522	0.764	0.501	0.471	0.474	0.426	0.510	-0.238
Y 3	0.400	0.454	0.462	0.464	0.427	0.406	0.475	0.824	0.463	0.427	0.435	0.407	0.468	-0.199
M 1	0.676	0.688	0.666	0.711	0.668	0.651	0.734	0.557	0.954	0.692	0.642	0.657	0.655	-0.537
M 2	0.686	0.668	0.683	0.698	0.653	0.669	0.739	0.577	0.958	0.688	0.687	0.657	0.660	-0.545
M X X	-0.652	-0.601	-0.597	-0.634	-0.621	-	-0.698	-0.274	-0.566	-0.659	-0.680	-0.618	-0.645	1.000
						0.656								

Source: Processed primary data, 2025

As presented in Table 4, the application of the Fornell-Larcker criterion confirms that each construct's AVE square root surpasses its correlations with all other constructs. This outcome signifies a clear conceptual separation among the constructs. Furthermore, the HTMT values shown in Table 5 are all below the recommended cutoff of 0.90, indicating that there are no significant concerns regarding multicollinearity or construct redundancy in the model.

Table 4. Fornell-Larcker Criterion

Construct	Hospitality Service Quality	Hotel Customer Satisfaction	Income
Hospitality Service Quality	0.778		
Hotel Customer Satisfaction	0.615	0.802	
Income	0.770	0.593	0.956

Source: Processed primary data, 2025

Table 5. Heterotrait-Monotrait Ratio (HTMT)

Construct	Hospitality Service Quality	Hotel Customer Satisfaction	Income
Hospitality Service Quality			
Hotel Customer Satisfaction	0.729		
Income	0.818	0.731	

Source: Processed primary data, 2025

Structural Model Testing (Inner Model)

After confirming that the measurement model met the required validity and reliability criteria, the next step was to evaluate the structural model. This phase focused on analysing the strength and direction of the relationships among the latent constructs defined in the conceptual framework. The purpose of this analysis is to identify both direct and indirect effects between variables and to verify whether the hypothesized connections are supported by empirical evidence. The structural model offers important insights into how much each independent variable helps explain the variance in the dependent variable, while also evaluating the presence of a significant moderating effect. This analysis employed the Partial Least Squares (PLS) method, which is well-suited for examining complex models with moderate sample sizes. The structural model that forms the basis of the analysis in this study is presented in detail. This model is shown in Figure 2, illustrating the relationships

between the studied variables in a systematic and structured manner.

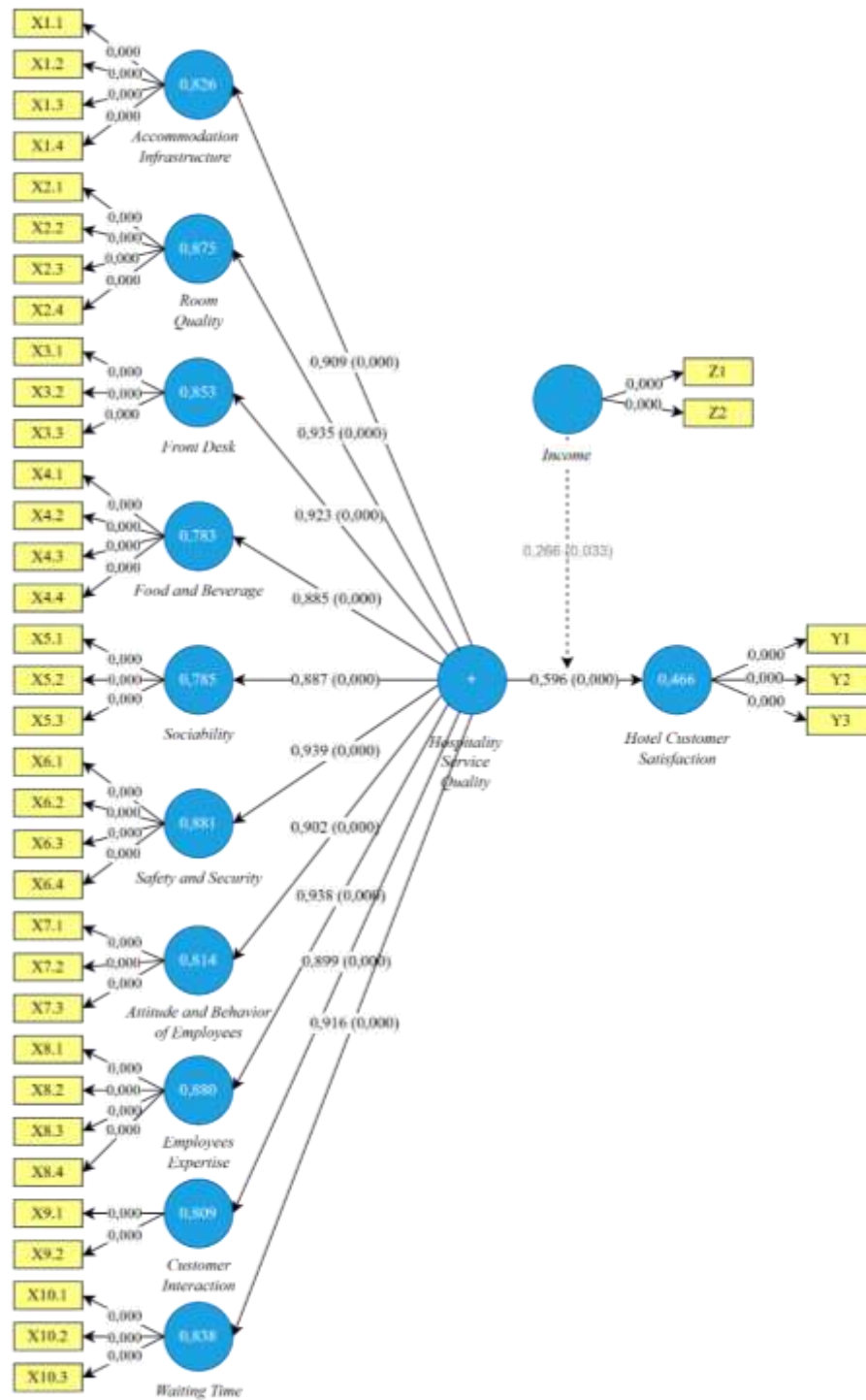


Figure 2. Structural Model

The R-square value, presented in Table 6, shows that 46.6 % of the variance in hotel customer satisfaction can be explained by hospitality service quality and income.

Table 6. R-Square Value

Model	R-square	R-square adjusted
Accommodation Infrastructure	0.826	0.825
Attitude and Behavior of Employees	0.814	0.812
Customer Interaction	0.809	0.807
Employee Expertise	0.880	0.879
Food and Beverage	0.783	0.781
Front Desk	0.853	0.852
Hotel Customer Satisfaction	0.466	0.455
Room Quality	0.875	0.874
Safety and Security	0.881	0.881
Sociability	0.786	0.785
Waiting Time	0.838	0.837

Source: Processed primary data, 2025

Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping technique. The results are presented in Table 7. Hospitality service quality has a positive and significant effect on hotel customer satisfaction (p-value = 0.000; β = 0.596), and income also shows a significant effect (p-value = 0.038; β = 0.316). Furthermore, income significantly moderates the relationship between hospitality service quality and hotel customer satisfaction (p-value = 0.033; β = 0.266).

Table 7. Hypothesis Testing

Variable Influence	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P-values
X → Y	0.596	0.613	0.151	3.947	0.000
M → Y	0.316	0.299	0.152	2.080	0.038
M x X → Y	0.266	0.265	0.124	2.136	0.033

Source: Processed primary data, 2025

These findings confirm the hypothesis that service quality directly enhances hotel customer satisfaction. The results support previous studies by Sahyunu *et al.* (2024) and Tampanguma *et al.* (2022), while also providing a new contribution by reinforcing the role of income as a moderating variable, which has been relatively underexplored in the context of Bali's hotel industry. This suggests that guests with higher income levels tend to show greater sensitivity to differences in service quality.

Theoretically, this study expands the SERVQUAL model by incorporating the economic perspective of customers as a key factor in shaping perceptions of service quality. Practically, the findings offer valuable insights for hotel managers to design differentiated services based on customer income segmentation. Tailored premium service packages for high-income customers can significantly enhance customer satisfaction.

This study is subject to certain limitations, including its geographical scope, which is restricted to Badung Regency, and the use of a cross-sectional

approach, which does not capture the longitudinal dynamics of customer behavior. Future research is recommended to expand the regional coverage and consider mediating variables such as perceived value or perceived service fairness to gain a more comprehensive understanding.

DISCUSSION

The study's results demonstrate that hospitality service quality exerts a positive and statistically significant influence on hotel customer satisfaction within the hotel industry in Badung Regency. This finding affirms that as customers perceive higher levels of service quality, their satisfaction correspondingly increases. Dimensions such as accommodation infrastructure, room quality, front desk, food and beverage, sociability, safety and security, attitude and behavior of employees, employee expertise, customer interaction, and waiting time during their stay are proven to be key elements in shaping customers' positive perceptions of hotel service. This finding aligns with previous studies by Ananda & Wahyudi (2022), and Pitoi *et al.* (2021), which state that superior service quality not only enhances customer satisfaction but also promotes customer loyalty.

The study also finds that income moderates the relationship between hospitality service quality and hotel customer satisfaction. In other words, the impact of hospitality service quality on satisfaction tends to be stronger among customers with higher income levels. This suggests that high-income customers have greater service expectations and tend to be more critical in assessing service quality. Satisfaction levels tend to increase substantially when customer expectations are either met or exceeded. Conversely, lower-income customers tend to be more flexible in their service evaluations, as long as the price paid is perceived as fair. This outcome corresponds with previous research conducted by Wahida (2023) and Lubis *et al.* (2023), who assert that differences in economic status affect how customers evaluate service quality and their resulting satisfaction with hotels.

Therefore, this research strengthens the notion that in a highly competitive hotel industry, service quality is not the only factor influencing customer satisfaction. Individual characteristics, such as income, also significantly affect how customers form expectations and perceive service experiences. Therefore, strategies to improve service quality must be tailored to the targeted customer segment, enabling hotels to design service experiences that are more personalized, relevant, and impactful. The outcomes of this study offer actionable insights for hotel managers in developing service strategies that are not only technically excellent but also responsive to the socioeconomic characteristics of their customers.

CONCLUSIONS AND RECOMMENDATIONS

The findings of this study reveal that hospitality service quality, which encompasses multiple dimensions like accommodation infrastructure, room quality, front desk, food and beverage, sociability, safety and security, employee attitude and behavior, employee expertise, customer interaction, and waiting time has a positive and significant impact on hotel customer satisfaction. Moreover, the variable income was found to play a significant moderating role in this relationship, with the influence of hospitality service quality on satisfaction being

more pronounced among higher-income customers. This suggests that as a customer's income increases, so does their sensitivity to the quality of service they receive.

This research contributes to the development of service management theory by expanding the SERVQUAL model through the integration of the customer's economic perspective as a factor that differentiates service perception. The findings provide a theoretical foundation for developing income-based segmentation approaches in designing hotel service strategies.

From a practical perspective, hotel management can design customized service packages for specific customer segments for example, value-added services for high-income guests without neglecting the basic service standards for other segments. For policymakers in the tourism sector, these results offer empirical evidence supporting the need for adaptive service quality policies that respond to the socioeconomic dynamics of tourists.

ADVANCED RESEARCH

The limitation of this study lies in its geographical scope, which is confined to Badung Regency. Therefore, future research is recommended to expand the scope of variables by incorporating external factors that may influence customer satisfaction levels, such as macroeconomic dynamics or regional tourism policies. Considering the results, income is found to moderate the link between service quality and customer satisfaction, further exploration of other social and demographic variables such as age, education level, or travel motivation could enrich the understanding of variations in customer behavior.

It is also suggested that future studies differentiate the population based on types of tourists, namely international and domestic tourists, as each group may have distinct service preferences and expectations. This approach not only allows for a more refined analysis of service effectiveness but also offers valuable insights for hotel management to design targeted strategies tailored to two market segments with unique characteristics.

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