

Factors Influencing Customer Loyalty in Hotel Business: Case Study of Five-Star Hotels in Bangkok, Thailand

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Abstract

This research aims to (1) study customer characteristics of five-star hotels in Bangkok (2) study level of hotel location, service quality, perceived consumption value, customer satisfaction, and customer loyalty and (3) study the effects of hotel location, service quality, perceived consumption value and customer satisfaction on customer loyalty. This research uses quantitative methodology. A total of 700 completely questionnaires were returned by study participants and Structural Equation Modelling (SEM) techniques were used to analyze the data received. This study results were as following: firstly, the hotel location, service quality and perceived consumption value have the positive effect on customer satisfaction. Secondly, the hotel location, service quality, perceived consumption value, and customer satisfaction have the positive effect on customer loyalty. This study has also provide a reference for five-star hotel management in Bangkok, Thailand.

Keywords: Customer Loyalty, Hotel Industry, Five-Star Hotels

Introduction

In a seriously competitive situation in hotel sector in Thailand, five-star hotel operators still remain revenues by charging higher room rates. (Kasikorn Research Center, 2018) Moreover five-star hotel has been important themes of research in the fields of hotel industry especially in the city where is the tourism destination (Zhang, Qi and Pine, 2000). Bangkok is one of the tourist destinations which is convenient in many ways such as hotels, tourist attractions, restaurants etc. (Krungsri Research Center, 2018) These are the reasons why the researchers are interested in research area of five-star hotels in Bangkok. In terms of hotel operators, they have to understand factors influencing customer needs for enhancing new customers and maintaining existing customers. (United World Tourism Organization, 2015) Therefore, customer loyalty is one of the most important factor to help them building customer relationships and maintaining existing customers. (Richard and Zhang, 2012) Hence, hotel operators have to realize the factors related to customer loyalty as well. The previous studies have shown that hotel location has been very important factor related to customer loyalty because the travelers who have had either business or leisure purposes they have confirmed that hotel location is a major component to their hotel selections, satisfaction, (Yang and Mao, 2017), and also their loyalty. (Said, Hamzah, Muis, and Jusni, 2016) Service quality is one of important factor influencing customer satisfaction (Abbasi, Khalid, Azam, and Riaz,

2010) and directly effecting on customer loyalty (Nguyen, 2006). Customer satisfaction factor is also positively effecting on customer loyalty in hotel business. (Kandampully and Suhartanto, 2000) Nevertheless, service quality and customer satisfaction have not been clear that they have related to customer loyalty because service quality and customer satisfaction have always changed. (Mason and Nassivera, 2013) Perceived consumption value factor is one of the important factors which hotel operators have to seriously understand because customers always compare benefits they got from services with the actual price they paid. Therefore, customers who have perceived consumption value on service, they would have a loyalty to service provider. (Ko, 2016) Then, this research will focus on factors as mentioned above in five-star hotels in Bangkok setting.

Literature Reviews

Hotel location's research area has received considerable attention, mainly through the lens of hotel operators since hotel location is an important factor for hoteliers. (Xiang and Krawczyk, 2016) On the other hand, hotel location perception of customer has been important thing to make customers feel delightful so hotel operators should understand customer perception of hotel location. (Li, Law, Vu, Rong, and Zhao, 2015.) According to perception of hotel location, Werczberger and Berechman (1998) has proposed a model which comprises of three components: accessibility, characteristics of the property site and neighborhood effects. After that, Yang and Mao (2017) has proposed the aspects that hotel location has effected on customer satisfaction which has had three components: accessibility to point of interests, transportation convenience, and surrounding environment. In the same direction, Aksoy and Ozbuk (2017) has proposed hotel location has been divided into three components: hotel accessibility, surrounding environment, and accessibility to tourist attraction. Moreover, Lee, Moon, Kim, and Yi (2015) also proposed the dimension of hotel location which has been more coverable, are labelled as tourism attraction, convenience, safety, surrounding environment, traffic, and accessibility. Previous studies have found that hotel location has related to customer satisfaction (Keisidou, Sarigiannidis, Maditinos, and Thalassinis, 2013) as hypothesis *H1: hotel location effects on customer satisfaction*. Moreover, hotel location has related to customer loyalty (Emir, 2016) as hypothesis *H2: hotel location effects on customer loyalty*.

Service quality has been the outcome of a comparison between expectations of a service and what is perceived to have been received. (Parasuraman, Zeithaml, and Berry, 1985) In hotel industry, service quality could be divided into two categories: functional quality and technical quality (McCain, Jang and Hu, 2005). Functional quality has represented service's tangible aspects such as facilities and physical evidences, while technical quality has represented service's intangible aspects such as service processes. Parasuraman, Zeithaml, and Berry (1988) has developed the SERVQUAL model to measure service quality. This model consists of the following five dimensions (1) Tangible: this dimension has been all about the appearance of physical facilities, equipment, personnel and communication materials. (Zeithalm, Bitner and Gremler, 2013) (2) Reliability: the ability of service providers to perform the promised services dependably and accurately. (Zeithalm, Bitner and Gremler, 2013) (3) Responsiveness: service providers have been willing to help customers and provide service promptly. (Zeithalm, Bitner and Gremler, 2013) (4) Assurance: service employees have had knowledge, politeness and ability to provide services with confidence. (Zeithalm, Bitner and Gremler, 2013)

And (5) Empathy: service providers have had empathy and attention to provide service to individual customers. (Zeithalm, Bitner and Gremler, 2013) After that, Cronin and Taylor (1992) proposed the model SERVPERF (Service Performance) to measure service quality hence SERVQUAL has been more reliable and validate model to measure service quality in

hotel industry. (Kalotra and Shama, 2017) Previous studies have found that service quality has related to customer satisfaction (Zeithalm, Bitner and Gremler, 2013) as hypothesis *H3: service quality effects on customer satisfaction*. Furthermore, service quality has related to customer loyalty (Rahim, 2016) as hypothesis *H4: Service quality effects on customer loyalty*. **Perceived consumption value** has been defined in terms of customer needs and desires. (Ko, 2016) It has followed from perceived or expected service performance in satisfying or delightful customers' functional and psychological needs. (Sheth, Newman and Gross, 1991) Basically, perceived consumption value has represented judgments or assessments of what customers perceive and receive from service provider between service encounter or in specific situation. Furthermore, Sheth, Newman and Gross (1991) has developed an important theory which explains the basic values of consumption that guide customers when they make their choices and also a model to measure perceived consumption value which has comprised of 5 components as the following (Wongsuchat and Ngamyam, 2014) Functional value: the functional dimension has shown core benefits and basic utilities of service such as the quality of service and service uniqueness etc. (Eid and El-Gohary, 2015) Financial value: the financial dimension has addressed direct monetary aspects such as room rate price, It has referred to the value of the service expressed in cost of pay. (Eid and El-Gohary, 2015) Emotional value: emotional benefit has referred to the perceptual benefit acquired from a service's capability to arouse feelings or affective states. (Chang, 2008) Social value: the service consumption has appeared to have a strong social function. Therefore, social dimension has referred to the perceived utility individuals acquire by consuming services recognized within their own social group(s) such as conspicuousness and prestige value. (Eid and El-Gohary, 2015) Epistemic value: epistemic benefit has referred to the benefits acquired from service's capability to satisfy curiosity, provide novelty, and/or meet a desire for self-knowledge. (Eid and El-Gohary, 2015) The previous studies have found that perceived consumption value has related to customer satisfaction (Eid and El-Gohary, 2015) as hypothesis *H5: Perceived consumption value effects on customer satisfaction*. Furthermore, perceived consumption value has related to customer loyalty (Ko, 2016) as hypothesis *H6: Perceived consumption value effects on customer loyalty*.

Customer satisfaction could be defined as both of positive and negative emotional responses resulting from an individually subjective evaluation of specific situation. (Khan and Haugue, 2012) In prior researches have shown that the more customers have been satisfied, the more customers have become a loyal customer to prevent customer defection and apply lower marketing costs. (Grigoroudis and Siskos, 2010) Moreover, it has been connected with emotional factors such as interest, joy, delight and pleasant. (Wongsuchat and Ngamyam, 2014) According to Oliver (1980), customer satisfaction can be pointed out through the expectation-disconfirmation theory. Overall satisfaction has been a post-decision-making measurement of a specific purchase occasion. (Jermsittiparsert, Siam, Issa, Ahmed, and Pahi, 2019) In this study, researchers focus on an expectation-disconfirmation theory to develop a measurement to evaluate customer satisfaction in five-star hotels. (Li and Krit, 2012) The empirical studies have proved that the existence of a positive relationship between customer satisfaction and customer loyalty (Wirtz and Lovelock, 2016) as hypothesis *H7: Customer satisfaction effects on customer loyalty*.

Customer loyalty has been describe as a repeat purchase behavior which has been affected by a customers' favorable attitude toward service (Kotler and Keller, 2009: 786). Kandampully and Suhartanto (2000) has divided customer loyalty into two components which are behavioral dimension such as repeat purchase and attitudinal dimensions such as recommendation to others. (Wang and Chaipoopirutana, 2015) Later, Skogland and Siquaw (2004) has proposed three dimensions of customer loyalty which is more in details to measure customer loyalty as following: price sensitivity - to be willing to pay more for

staying at this hotel despite the price increasing, repeat-patronage/revisit - to visit hotel more often in the future and do not switch to other hotels, and word of mouth (WOM) - to be willing and happy to positively recommend this hotel to family and friends. (Pungpho and Wanarat, 2017) A literature review on customer loyalty reveals that price sensitivity, revisit and WOM are the three dimensions to appropriately measure customer loyalty in hotel industry. (Kim, 2011)

From prior studies in the fields of hotel location, service quality, perceived consumption value, customer satisfaction and customer loyalty in five-star hotels in Bangkok, the authors propose research conceptual framework as figure 1 below:

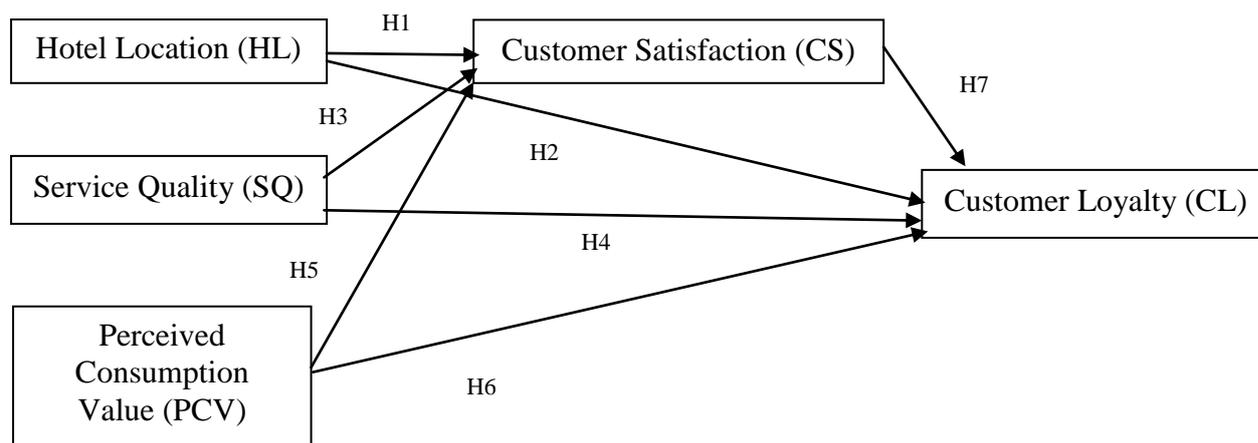


Figure 1 Conceptual Framework

Research Objectives

The objectives of this research are (1) to study customer characteristics of five-star hotels in Bangkok (2) to study level of hotel location, service quality, perceived consumption value, customer satisfaction, and customer loyalty and (3) to study the effects of hotel location, service quality, perceived consumption value and customer satisfaction on customer loyalty.

Research Methodology

This study adopted quantitative method. Quantitative data was collected via questionnaires then analyzed by using Structural Equation Modelling (SEM) technique.

The questionnaire for this study included two main sections. The first part of the questionnaire was designed to bring out demographic and travel information about the respondents. The second section of the questionnaire was designed to measure the respondents' perceptions regarding to the hotel location, service quality, perceived consumption value, customer satisfaction and customer loyalty. Some questions were revised in order to make them more applicable to the five-star hotel setting in Bangkok, Thailand. The questionnaire was structured so that hotel guests were asked to rate their level of agreement for the hotels at which they stayed on a seven-point Likert scale ranging from (1) indicating "Totally not agree" to (7) indicating "Totally agree."

Prior to the pilot test and the main survey, the questionnaires were reviewed by five experts working academic research in both of marketing and hotel fields. This review was undertaken to ensure that the respondents understood the contents and questions clearly. Two questions of perceived consumption values section were completely cut off because of some problems with unclear wording and meaning were identified.

Then, a pilot test (30 samples by five-star hotel guests) was administrated to test Cronbach's Alpha reliability and Discriminant Power (total-item correlation) before the actual collection of data. All 70 measurement items used in this research, showed high reliability with a coefficient alpha higher than 0.80 and moderate discriminant power with corrected item-total correlation (r) higher than 0.30. This indicates an acceptable internal consistency of the measurement items employed in this research (Hair, Black, Babin, Anderson, and Tatham, 2006; Zait and Berteau, 2011)

The questionnaires were distributed to customers from 21 five-star hotels in Bangkok following hotel classified list by Thai Hotel Association (THA). The sampling was carried out in two stages: a quota sampling method was employed for 21 hotels then a convenience sampling method for each hotel and a total of 700 questionnaires. As of the sample size is as much as 10 parameter estimation. If the estimated parameters it amount to 70, the sample size is 700. (Kline, 2011)

The questionnaires were distributed to all the target hotels in the period of August - October 2018. Hotel guests who had checked out from the hotel and were about to leave were approached. The questionnaires were handed to the ones who were willing to complete them. A total of 700 usable questionnaires were used for further analysis. Statistical software was used to analyze the data with regard to the descriptive analysis and SEM technique.

Research Results

For the 700 respondents, the gender distribution was 51.9% male and 48.1% female. Their ages were 29 years old and below (6.9%), 30 - 39 years old (42.6%), 40 - 49 years old (32.1%), 50 - 59 years old (17.1%), and 60 years old and above (1.3%). Their residence areas were Bangkok (62.4%), Central (20.7%), North-Eastern (4.4%), North (2.3%), South (2.4%), West (2.6%), and East (5.1%). The educational level of hotel guests showed that their education level was lower than bachelor's degree (3.4%), bachelor's degree (67.7%), and higher than bachelor's degree (28.9%). Income per month, they got below 30,000 THB (7.4%), 30,000 - 50,000 THB (31.4%), 50,001 - 100,000 THB (26.6%), and above 100,000 THB (34.6%). The marital status of respondents was single (48.7%), married (49.9%), and divorced (1.4%). Their work status was employees (65.9%), business owner (33.6%), and retirement (0.6%). The length of stay at hotel was 1 night (47.3%), 2 - 3 nights (36.1%), and 4 - 5 nights (16.6%). And their purposes of stay were leisure (49.9%), work/business (33%), and weekend/holiday (17.1%) respectively.

Descriptive statistical methods were used to investigate hotel location, service quality, perceived consumption value, customer satisfaction, and customer loyalty of hotel guests who stayed in five-star hotels in Bangkok.

For hotel location variable, respondents had very good perception on the dimensions of surrounding environment and safety (mean = 6.04, S.D. = 0.78 and mean = 5.85, S.D. = 0.83 respectively) and good perception on the dimensions of accessibility, tourism attraction, traffic, and convenience (mean = 5.73 S.D. = 0.95, mean = 5.59 S.D. = 0.71, mean = 5.58, S.D. = 0.91, and mean = 5.40, S.D. = 0.91 respectively).

For service quality variable, respondents had very good perception on the dimensions of tangible, sympathy, reliability, responsiveness, and assurance (mean = 5.93 S.D. = 0.75, mean = 5.91 S.D. = 0.80, mean = 5.90 S.D. = 0.78, mean = 5.89 S.D. = 0.78, and mean = 5.81 S.D. = 0.76 respectively).

For perceived consumption variable, respondents had very good perception on the dimensions of functional value, emotional value, and financial value (mean = 6.00 S.D. = 0.71, mean = 6.00 S.D. = 0.70, and mean = 5.90 S.D. = 0.78 respectively) and good perception on the dimensions of epistemic value and social value (mean = 5.80 S.D. = 0.80 and mean = 5.68 S.D. = 0.84 respectively).

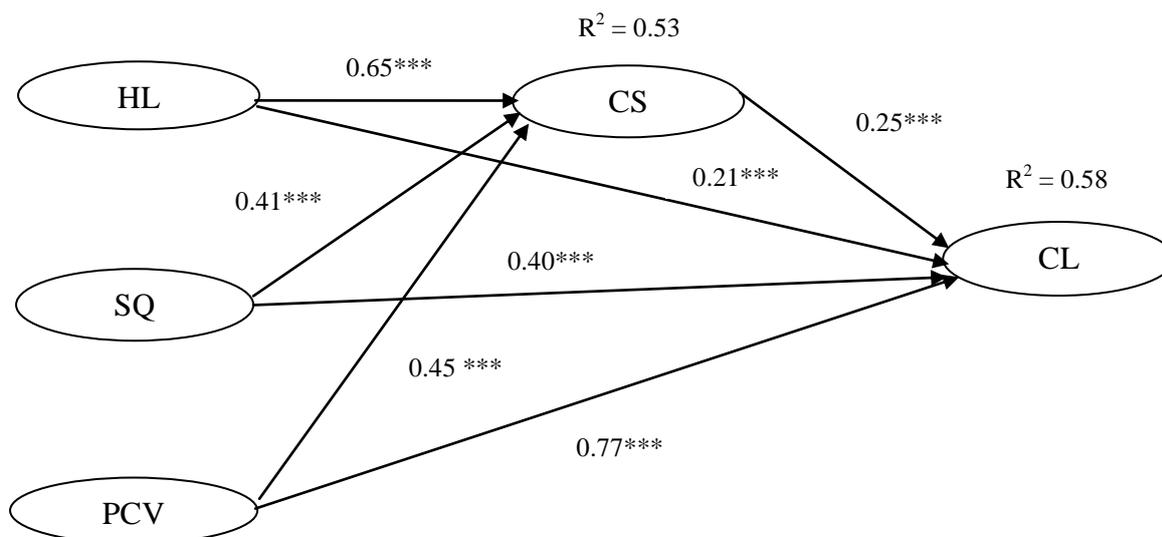
For customer satisfaction variable, respondents had very good perception on customer satisfaction (mean = 5.86 S.D. = 0.70).

Lastly, for customer loyalty variable, respondents had good perception on the dimension of word of mouth, revisit, and price sensitivity (mean = 5.68 S.D. = 0.90, mean = 5.51 S.D. = 0.97, and mean = 5.44 S.D. = 0.95 respectively).

Table 1 The fit indices and analysis result of the research model

Fit indices	Recommended value	Result
Chi-square/df	<2.0	1.15
RMSEA	<0.05	0.01
GFI	>0.90	0.98
RMR	<0.05	0.01
NFI	>0.90	0.99
NNFI	>0.90	0.99
CFI	>0.90	0.99

According to the data from questionnaires, researchers built the SEM technique. Based on Schumacker and Lomax (2004)'s theory, researchers listed Table 1 that shown Goodness of fit test of SEM and Table 1 also reveals a good fit of this study which as following: RMSEA is 0.01, GFI is 0.98, RMR is 0.01, NFI is 0.99, NNFI is 0.99, and CFI is 0.99.



Chi-Square = 279.60, df = 154, P-value = 0.07, RMSEA = 0.04

Note: *** P<0.01 indicates the path relationships is significant value

Figure 2 The research model (n=700)

Figure 2 describes the research model is accepted model. The Chi-square equal to 279.607, the degree of freedom (df) equal to 154, thus the Chi-square / df = 1.81 was less than 2, p-value equal to 0.07 was more than 0.05, and the RMSEA equal to 0.04 was less than the 0.05. All of those results were achieved the recommended value, thus the model's was passed requirements.

According to Figure 2, customer loyalty and customer satisfaction variables were found proper predictors ($R^2 = 0.58$ and 0.53 respectively). The result of the SEM was shown in Figure 2, it shows the results of the hypothesis of this research as following:

The hotel location has the positive effect on customer satisfaction (0.65***) at the significant level p-value of 0.00, the H1 was significant.

The hotel location has the positive effect on customer loyalty (0.21***) at the significant level p-value of 0.00, the H2 was significant.

The service quality has the positive effect on customer satisfaction (0.41***) at the significant level p-value of 0.00, the H3 was significant.

The service quality has the positive effect on customer loyalty (0.40***) at the significant level p-value of 0.00, the H4 was significant.

The perceived consumption value has positive effect on customer satisfaction (0.45***) at the significant level p-value of 0.00, the H5 was significant.

The perceived consumption value has positive effect on customer loyalty (0.77***) at the significant level p-value of 0.00, the H6 was significant.

The customer satisfaction has positive effect on customer loyalty (0.25***) at the significant level p-value of 0.00, the H7 was significant.

Discussion and Conclusion

Discussion: As the results of demographic profile section, the majority of respondents were female, 30 - 39 years old, Bangkok is their residence area, bachelor's degree graduation, their income per month more than 100,000 THB, their work status as employees and the length of stay in five-star hotels only 1 night for leisure purpose. Hoteliers can apply this information as one source of supporting data for marketing strategic planning for hotel business.

The key findings from this descriptive study are: the hotel location in terms of safety and surrounding environment were very good, the service quality was very high, hotel guests had very high perceived consumption value in terms of functional, financial and emotional values, hotel guests were very satisfied to stay in five-star hotels which could be implied that hotels were able to provide service as hotel guests' expectation and hotel guests also had high loyalty.

This study has also proved the seven relationships. Then, the implication and the conclusion were as following below:

The hotel location has the positive effect on customer satisfaction, the H1 was significant. The result is the same as empirical study by Falakh and Sri Murwanti (2016) showing that positively significant correlation between variables hotel location and customer satisfaction in hotel industry.

The hotel location has the positive effect on customer loyalty, the H2 was significant. This result is the same as empirical study by Said, Hamzah, Muis, and Jusni (2016) showing that hotel location has positively effected on customer loyalty.

The service quality has the positive effect on customer satisfaction, the H3 was significant. This result maintains congruence with Gong and Yi (2018) who shows that service quality has had positive effect on customer satisfaction.

The service quality has the positive effect on customer loyalty, the H4 was significant. This result is the same as the study by Malik, Akhtar, Raziq, and Ahmad (2018) showing that the service quality has been positively related to customer loyalty. If service quality increases, customer loyalty will increase.

The perceived consumption value has positive effect on customer satisfaction, the H5 was significant. The same as the research by Fernández, Ruíz, Gavira, Colón, Pitts, and García (2018) has found that perceived consumption value has positive effect on customer satisfaction and also plays an indispensable role in satisfaction.

The perceived consumption value has positive effect on customer loyalty, the H6 was significant. Therefore, the results are the same as empirical study by Shen and Bae (2018) showing that perceived consumption value has increased customer loyalty.

The customer satisfaction has positive effect on customer loyalty, the H7 was significant. This result maintains congruence with Zhang and Wei (2018) who show that customer satisfaction has had a positive effect on customer loyalty and also is an important factor to realize, as it influences the future intention to revisit this hotel.

Implication of study: From the study, implications for hotel managing are as follow; (1) Hotel Location: When customers satisfy with hotel location, they will satisfy with their stay which leads to increasing customers' loyalty. Therefore providing information about prime location of the hotel such as near tourist attractions, surrounded by necessary facilities, light traffic, and close to public transportations is highly recommended. Advantage of hotel location can also be used to make decision when investor decide to locate newly built hotel. (2) Service quality: Hotel management may set more clearly service policy due to the study shows that service quality effect directly to customers' satisfaction and customers' loyalty. Hotels might improve service quality by developing physical facilities in the hotels to be more convenience and more beautiful, develop staffs' skill and attitude toward providing good service to every individual hotel guests. And (3) Perceived consumption value: The study shows that perceive consumption effects directly to customers' satisfaction and customers' loyalty. Hotel management should provide high service quality as it has promised, that would make customers feel that costs of stay is worthy paid, feel relax, and enjoy their stays. If possible, providing beyond expected service quality or newly service experiences may increase chance of revisits and chance of pass on hotel recommendations to the future customers.

Conclusion: In term of customer loyalty issues, hotel location, service quality and perceived consumption value are the key factors which practitioners or hoteliers should realize how to enhance hotel guests' satisfaction and lead them to a very high loyalty guests. This study also helps in discovering the factors affecting customer loyalty. Having knowledge of these areas would definitely help hoteliers meet the challenge of improving the customer loyalty in the hotel industry. This research has widened the existing knowledge as it has been found that the factors affecting the customer loyalty in the hotel industry vary in different countries. The time and type of hotel also play a very important role in the perception of hotel guests that have different perceptions for different time and types of hotel. Therefore, the challenge of improving the customer loyalty, it is contingent upon the time type of hotel and the country where the hotel is located. The findings of this study will definitely help the five-star hotels in Bangkok, Thailand in the period of study. Further research may extend the study scope to cover other types of hotels (e.g., resort and spa, boutique hotels located in other provinces of Thailand). Seasons should be also taken into consideration, such as the high season or low season, because customers' perceptions may be different in different seasons.

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