

## ATTITUDINAL LOYALTY IN THE BUDGET HOTEL INDUSTRY: WHAT ARE THE IMPORTANT FACTORS?

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### ABSTRACT

*Brand loyalty is an important strategy to maintain competitive advantage in the hotel industry. Despite the notable impact that brand loyalty has on business performance, research appears to be lack of attention on attitudinal loyalty and its determinants. In addition, most studies on loyalty in the hotel industry have been focused on star hotels while research in budget hotel has little attention. Therefore, this study is proposed to gain an understanding of how loyalty determinants affect attitudinal loyalty in the budget hotel industry. This study proposes attitudinal loyalty as a single dimension including cognitive, affective, and conative elements. Further, this study proposes that service quality, perceived value, and customer satisfaction directly and indirectly affect attitudinal loyalty. Three hypotheses were developed to test the relationships between loyalty determinants and attitudinal loyalty. The questionnaire data from 399 customer respondents were collected from budget hotels in Indonesia. Finally, partial least square was used to test the hypotheses. The result of testing the attitudinal loyalty model underlines the importance of service quality and customer satisfaction in forming attitudinal loyalty. Although these three factors are important in determining guest loyalty towards a hotel budget, this study highlight that the effect of service quality on loyalty is indirect through customer satisfaction. These results contribute to the services marketing theory by providing an empirically based insight into the attitudinal loyalty determinants. Additionally, these findings will assist the budget hotel management to develop and implement competitive strategies.*

**Keywords:** *Attitudinal loyalty, service quality, customer satisfaction, service value, and budget hotel*

## **BACKGROUND**

Brand loyalty has been considered as an important concept for organizational success in all business sectors. As a consequence, much attention has been given by both practitioners and academics to understand the issues related to brand loyalty. Studies on brand loyalty generally include many loyalty determinants such as service quality, customer satisfaction (Clemes, Gan, & Ren, 2011; Li & Petrick, 2010), service value, switching cost, commitment, and involvement (Suhartanto & Clemes, 2011; Wilkins, Merrilees, & Herington, 2007). Among these determinants, researchers in many service industries tend to agree that service quality, customer satisfaction, and service value are 'building blocks' of brand loyalty.

In the hotel industry, service quality, customer satisfaction, and service value are also recognized as important determinants of brand loyalty (Suhartanto & Clemes, 2011). However, most of the previous studies measure brand loyalty with behavioral intention such as intention to repurchase and to recommend. As brand loyalty is a complex concept consisting of attitudinal and behavioral elements (Oliver, 2010), prior studies have not been able to explain satisfactorily on how service quality, customer satisfaction, and service value affect to both attitudinal and behavioral loyalty. Furthermore, previous loyalty studies tend to focus on star hotel, while studies using budget hotel as research setting are very limited (Chitty, Ward, & Chua, 2007). This paper is intended to fill the gap in the literature by providing an empirical evidence on how service quality, customer satisfaction, and service value influence attitudinal loyalty in the budget hotel industry.

## **LITERATURE REVIEW**

### **The Concept of Attitudinal Loyalty**

Brand loyalty is a critical success factor for any business; consequently, the study of brand loyalty has been widely conducted in various industries. The study of customer loyalty generally using behavioral, attitudinal, or combination of both behavioral and attitudinal.

dinal approaches. As this study is emphasised on attitudinal loyalty, the literature review will be mainly pondered on loyalty as an attitude.

Attitudinal loyalty is defined as "a degree of dispositional commitment in terms of some unique value association with the brand" (Chaudhuri & Holbrook, 2001, p. 234). In contrast to behavioral researchers, attitudinal researchers tend to believe that there are a number of attitudinal causes affecting customer' repeat purchase (Li & Petrick, 2010). They contend that these causes can be isolated from each other and then can be modified in order the consumer will behave as expected. Therefore, brand loyalty research using this approach focuses on beliefs, attitudes, and opinions related to consumer purchasing behavior (Back, 2005).

Attitude is an abstract concept that leads to its conceptualization and measurement vary. In 1944, Guest (in Back, 2005) was the first researcher who employs attitudinal approach by using "consistency of preference" for measuring customer loyalty to a brand. Since the publication of Guest' work, researchers in various industries, including hotel industry, have supported attitudinal approach and conceptualize loyalty as attachment, commitment, and intention to repurchase or recommend (Chitty et al., 2007; Kandampully & Hu, 2007). Most studies in this genre use a combination of measurement instruments to evaluate customer loyalty to a brand. In contrast, Reichheld (2003) argues that the measurement of brand loyalty with a single instrument of customer's willingness to recommend is an effective measurement of loyalty compared to customer satisfaction or retention level.

There are several advantages using attitude as a brand loyalty measurement. As an abstract construct, attitude can be measured by interval scales (Odin, Odin, & Valette-Florence, 2001). Using this scale, beside enables uncomplicated collecting data process, allows researchers to express the intensity of loyalty to a brand from "very loyal" to "very not loyal". This gradation of loyalty makes possible for researchers to predict future customer behavior. Although the measurements of attitudinal loyalty were criticized for its lacking ability in predicting actual purchase behavior, a meta-analysis study

conducted by Glasman and Albarracín (2006) suggests that attitude significantly and substantially predicts future behavior. Thus, understanding customer attitudinal loyalty is an important factor for any business as it will assist marketing manager in designing programs to modify future customer behavior, especially switching behavior from or to a particular brand. Furthermore, in order to discover the underlying motivations in purchasing behavior, managers need to understand the customers cognitive mechanism as part of their attitude (Back, 2005). In this context, it is important to examine the factors lead to customer attitudinal loyalty.

## **Brand loyalty Determinants**

Researchers have identified several important determinants of brand loyalty. Among the determinants, service quality, service value, and customer satisfaction are widely accepted as the most influential factors. Service quality, the customer opinions about the overall service superiority (Lovelock, 2008), is an important strategy for company success. A number of studies have examined the relationship between service quality and other factors such as customer satisfaction, service value, as well as customer brand loyalty (Chitty et al., 2007). Basically, these studies agree that service quality is an important factor affecting service value, customer satisfaction, and customer loyalty. Although it is an important factor for brand loyalty, how service quality affects the complexity of customer loyalty is vague (Clemes et al., 2011; Harris & Goode, 2004).

Service value is a consumer's evaluation of what customer received compared to what has been given (Cronin Jr, Brady, & Hult, 2000; Nasution & Mavondo, 2008). Providing superior service value will have a positive impact on consumers and employees, thus many studies have been conducted to examine the service value in various service industries context. Most of these studies confirm the positive effect of service value on customer satisfaction and brand loyalty. However, the extent of the service value affects attitudinal as well as behavioral dimension of brand loyalty is still poorly understood (Han, Kwortnik, & Wang, 2008).

Customer satisfaction is an important factor that influences consumer buying behavior, profitability, and company stock value. Recent studies have examined customer satisfaction using multivariate models including its determinants such as: service quality, service value, brand image, as well as its effect on brand loyalty (Han et al., 2008). Overall, researchers agree that the service quality and service value are factors that determine the level of customer satisfaction. However, many researchers still argue that previous studies still cannot convincingly explain the relationship between customer satisfaction and customer purchasing behaviour (Harris & Goode, 2004).

The discussion on attitudinal loyalty and its three determinants (service quality, customer satisfaction, and service value) indicates that the relationship between the determinants and attitudinal loyalty can be direct and indirect. Thus, for the purposes of this study, three hypotheses were proposed.

- H1:* Service quality, customer satisfaction, and service value directly and significantly affect the attitudinal loyalty.
- H2:* Service quality indirectly affects attitudinal loyalty through customer satisfaction and service value.
- H3:* Customer satisfaction indirectly affect attitudinal loyalty through service value.

## **METHODOLOGY**

The construct measurement in this study was developed based on existing literature in the hotel industry. Items used as construct indicators were measured using 5-point Likert scale 1 (strongly disagree/very unimportant) and 5 (strongly agree/very important). Four items reflecting cognitive, affective, and conative elements were adapted from (Back, 2005) and Han et al. (2008) to measure the attitudinal loyalty. Service quality is measured by ten items adapted from Han et al. (2008) and Cronin Jr et al. (2000). Two items were used to measure customer satisfaction, both are adapted from Back (2005) and Chitty et al. (2007). Finally, the perceived service value is measured by two items adapted from Nasution and Mavondo (2005) and Chitty et al. (2007).

Sample population in this study consisted of individual staying in budget hotel at four locations in Indonesia: Jakarta, Bandung, Yogyakarta and Bali. As identifying the population of budget hotel guests are difficult, convenience sampling method was applied in this study. In this case, only budget hotel guests who willing to participate in this study were asked to response the questionnaire.

The purpose of this study is to examine how loyalty determinants affect attitudinal loyalty in the budget hotel industry. The skewness and kurtosis test of the data collected show that the data is not normally distributed. Thus, the estimation of loyalty determinants effect on attitudinal loyalty were tested by using partial least square (PLS). This method was used because of its ability to handle non-multivariate normal data and multicollinearity among the independent variables (Hair, Sarstedt, Ringle, & Mena, 2012).

## **ANALYSIS AND DISCUSSION**

The respondents participating in this study were 399 budget hotel guests. Of the respondents, 51% are male and 49% are female. The majority of the respondents (65%) are less than thirty years old. The staying purpose of respondents are 93% for leisure while the rest for business.

Before testing the hypotheses proposed using PLS modeling, psychometric test were conducted to measure the reliability and validity of the variables. The results of psychometric test is shown in Table 1.

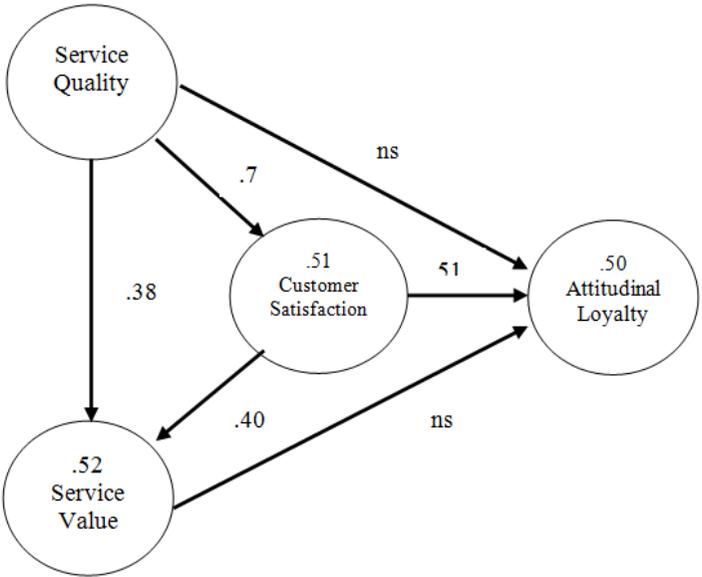
**Table 1: Psychometric Variable Test**

<b>Variable</b>	<b>AVE</b>	<b>Composite Reliability</b>	<b>Cronbach Alpha</b>
Customer loyalty	0.637	0.872	0.798
Customer satisfaction	0.82	0.901	0.78
Service quality	0.54	0.921	0.904
Service value	0.871	0.931	0.853

Table 1 shows that the average variance extracted (AVE) of all variables are above 0.50, indicates that the variable tested has good

validity construct (Gozali, 2008). The discriminant validity between two constructs is demonstrated if the average variance extracted is greater than the squared correlation between constructs. Comparing AVE and  $r^2$  between construct (all  $r$  value between variables less than 0.68) indicates that the discriminant validity between the tested variables are satisfied (Chin, Peterson, & Brown, 2008). Finally, as the value of composite reliability and the value of Cronbah alpha are more than 0.60, the tested variables are reliable (Hair et al., 2012).

The result of testing the model of the relationship between service quality, service value, customer satisfaction, and attitudinal loyalty is depicted in Figure 1. The result shows that the coefficient path between customer satisfaction and attitudinal loyalty, customer satisfaction and service value, service quality and services value and attitudinal loyalty are significant at  $p < 5\%$ . While the coefficient path between service quality and attitudinal loyalty and path between service value and attitudinal loyalty are not significant. These findings indicate that service quality is an important factor affecting service value, customer satisfaction, and customer loyalty. However, because the path between service quality and attitudinal loyalty is not significant, the attitudinal loyalty should be generated through the creation of customer satisfaction.



**Figure 1 Attitudinal Loyalty Model**

Figure 1 shows the  $R^2$  value of endogenous variables is 52% (service value), 52% (customer satisfaction), and 50% (customer loyalty). Researchers (Gozali, 2008; Hair et al., 2012) suggest that the model is fit if its  $R^2=67\%$ , moderate if its  $R^2=33\%$ , and weak if its  $R^2=19\%$ . Refer to this suggestion, it can be concluded that the attitudinal loyalty model is considered as relatively acceptable (between moderate and good).

The result of testing the attitudinal loyalty model show that the service quality and service value were not directly affect attitudinal loyalty, thus Hypothesis 1 is only partially supported (customer satisfaction only). Further, service quality affects attitudinal loyalty through customer satisfaction (Hypotheses 2 supported partially). The third hypothesis is not supported as the direct effect between service value and attitudinal loyalty are not significant. This finding suggests that although hotel guests received a high quality service during their stay in a budget hotel, if the service is below their expectations the consumers are still not satisfied. This unsatisfied feeling will ultimately affect guests' willingness to stay at the budget hotel in the future and to recommend the hotel to others (not loyal). In other words, hotel guests would build their loyalty to a budget hotel if the service quality meet their expectations. Thus, it can be said that the ability to satisfy customer (through the provision of a superior services quality) is an important element in building attitudinal loyalty. This finding is consistent with the result of a study conducted by Chitty et al. (2007) in the budget hotel industry in Australia.

The insignificant direct effect of service quality on attitudinal loyalty specifies that the explanation power of service quality on attitudinal loyalty were through service value and customer satisfaction. This finding is demonstrated by total effect (direct and indirect effects) of service quality on attitudinal loyalty are significant. Thus, in line with previous studies, this study demonstrates the important role of providing high service quality and the ability to satisfy customer needs are the basis for the formation of attitudinal loyalty.

## **Managerial Implications and Future Research**

The results of this study suggest that budget hotel managers should concern that customer satisfaction mediates the relationship between service quality and attitudinal loyalty. Thus, satisfying guests is an important strategy to develop attitudinal loyalty. Despite satisfying customer is not a new idea in the hotel industry, this study shows that satisfaction is determined by service quality. Thus, this study recommends that the budget hotel manager should provide a superior service quality with emphasising on the staff ability to increase guest confidence, serve at the right time, and understanding the individual needs of the hotel guests.

This study focuses on attitudinal aspect of loyalty. Although attitude is an important predictor of customer future behavior, there is no guarantee that customer intention will automatically become an action. This is due to many factors influencing consumer behavior during the process of making decision. Thus, consumers who have a high attitudinal loyalty will not necessarily have high behavioral loyalty in the future. Future research may benefit from the use of a longitudinal study design to examine the link between attitudinal loyalty and behavioral loyalty. To conduct such a study, researchers need to collaborate with hotel guests and hotel managers in order to enable measuring attitudinal and behavioral loyalty accurately over time.

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