Investigation of Factors Influencing Customer Loyalty

in Malaysia and Jordan Hotel Industry

by

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Abstrak

Di negara Malaysia dan Jordan, pertambahan hotel pelbagai kategori bintang kian meningkat untuk memenuhi pilihan para pelanggan dan pelancong. Walau bagaimanapun, para pelanggan telah ditawarkan dengan pelbagai pilihan, namun pihak pengurusan hotel masih lagi tidak berupaya memuaskan citarasa pelanggan dalam kontek menjaga pelanggan mereka yang sedia ada dan menarik pelanggan yang baru melalui penyediaan perkhidmatan bagi mengurangkan kesan persaingan. Kajian ini bertujuan untuk mengajukan penyelesaian terhadap cabaran kesetiaan pelanggan mereka di setiap destinasi hotel yang mereka menginap dengan mencadangkan serta mengesahkan model kesetiaan pelanggan berdasarkan teori-teori pemasaran perhubungan dan pertukaran sosial. Berdasarkan teori-teori tersebut, kajian ini telah menganalisis pengaruh langsung dan pengaruh tidak langsung pemboleh ubah imej jenama, amanah, keselesaan serta emosi terhadap kesetiaan pelanggan di hotel lima bintang negara Malaysia dan Jordan. Seterusnya, dalam kajian ini kepuasan pelanggan merupakan kesan pemboleh ubah perantaraan antara pemboleh ubah eksogen dan pemboleh ubah endogen telah di analisis. Sebanyak tiga hotel yang terkenal di bawah pengurusan Starwood telah dijadikan sampel dengan pelanggan seramai 384 dan 371 orang, masing-masing di Malaysia dan Jordan dengan menggunakan kaedah persampelan rawak mudah. Perisian SPSS versi 21.0 telah digunakan untuk menganalisis data. Semua hipotesis kajian telah disokong oleh keputusan analisis empirikal dalam kajian ini. Di Malaysia, pelanggan menganggap faktor imej jenama dan keselesaan sebagai pengaruh yang paling penting terhadap kesetiaan pelanggan. Manakala, pelanggan hotel 5 bintang di Jordan mengganggap faktor emosi, imej dan jenama serta keselesaan sebagai pengaruh yang paling penting terhadap kesetiaan pelanggan. Walaubagaimanapun, keputusan empirikal menunjukkan kesan separa bagi pemboleh ubah perantaraan antara imej jenama, kepercayaan, keselesaan, emosi terhadap kesetiaan pelanggan bagi pelanggan hotel 5 bintang di Malaysia. Manakala, hasil kajian di hotel negara Jordan, pemboleh ubah kepuasan pelanggan tidak menjadi pemboleh ubah perantara yang signifikan antara pemboleh ubah kepercayaan terhadap kesetiaan pelanggan. Namun begitu, pemboleh ubah kepuasan pelanggan menjadi pemboleh ubah perantara terhadap pemboleh ubah emosi, imej jenama, keselesaan terhadap kesetiaan pelanggan. Kesimpulannya, hasil kajian ini telah memberi persepsi lebih mendalam ke atas hotel-hotel tersebut dalam kontek penilaian faktor-faktor sebenar terpilih bagi mendapatkan kesetiaan para pelanggan yang mereka hargai. Kajian ini juga telah menyumbang kepada bidang pengetahuan yang baru dengan mengintegrasikan pemboleh ubah pemasaran perhubungan daripada perspektif kedua-dua negara yang sedang membangun ini. Kajian ini telah membuat cadangan yang berguna dengan memberi manfaat kepada industri hotel secara umumnya dan hala tujunya untuk penyelidikan selanjutnya.

Kata kunci: Kesetiaan Pelanggan, Kepuasan, Emosi, Imej jenama, Kepercayaan, Keselesaan

Investigation of Factors Influencing Customer Loyalty in

Malaysia and Jordan Hotels Industry

Abstract

The ever increasing establishment of various star hotels in Malaysia and Jordan has leverage the choice options of guests and tourist in these countries. While the guests were been offered multiple choices, the management of hotels are staggering to keep their existing guests and attract new ones through service provision to mitigate effects of competition. This study aims to proffer solutions to customer loyalty challenges at these destinations by proposing and validating customer loyalty model using relationship marketing and social exchange theory. Based on the underpinning theories, this study analyzed the direct and indirect influence of brand image, trust, convenience and emotion on customer loyalty of five star hotels in Malaysia and Jordan. Further, the mediating effect of customer satisfaction on the relationship between exogenous latent variables and endogenous latent variable was investigated. A total of 384 and 371customers respectively of three famous hotels under the management of Starwood were sampled using convenience sampling method for data analysis from Malaysia and Jordan. SPSS version 21.0 software was used for the analysis. The results of empirical analysis supported all the hypothesized relationships. In Malaysia, customers considered brand image and convenience as the most significant influencer of customer loyalty. While Jordanian 5 star hotels customers considered emotion, brand image and convenience as the most significant factors of customer loyalty. However, the empirical results showed partial mediation effects on the relationship between brand image, trust, convenience, emotion and customer loyalty in respect of Malaysian hotel customers. In Jordan hotels, satisfaction does not mediate the relationship between trust and customer loyalty but partially mediate between emotion, brand image, convenience and customer loyalty. In summary, the findings of this study will narrow the perception of the top echelon of these hotels on the actual factors to focus in order to earn loyalty of their valued customers. This study also contributed to frontier of knowledge by integrating the variables of relationship marketing from the perspectives of two developing countries. The study made useful recommendations that will benefit hotel industry generally and suggest direction for further research.

Keywords: Customer Loyalty, Satisfaction, Emotion, Brand Image, Trust, Convenience

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

It is a basic and inherent need of humans, individually and in societal groups, to obtain full economic development in order to live within a certain level of living standards (Abdollahi & Poordadashi, 2015). This is why individuals living in a society that is stable have a strong tendency to obtain different basic life requirements including knowledge, education, healthcare facilities, social and personal life standards, sovereignty of law and social environment development enjoining security, safety and discipline (Hothersall, 2016).

In this background, the development and establishment of products and trade units have notably increased in order to boost economic growth in countries, with the tourism business taking top priority among them in the past few decades (Tsang, Lee & Qu, 2015). Tourism is a significant industry that encapsulates distinct infrastructure and services and for its growth, many countries have employed educational institutions to serve the sector's profession. Behind the tourism sector's success is a range of hotels that constitutes the forefront of businesses that provide tourism services (Kandampully, Zhang & Bilgihan, 2015). In other words, hotels have key role in developing and expanding the tourism sector and in driving the development of the country's economy (Niewiadomski, 2015).

According to prior studies on tourism, governments all over the globe generally support and promote tourism owing to its positive effect on the development and growth

of the economy (Cardenaas-Garcia, Sanchez-Rivero & Pulido-Fernandez, 2015; Mazghouni & Goaied, 2015; Page, 2014). Specifically, tourism opens avenues for employment opportunities and income and it results in positive balance of payments, boosts tourism supply sector and facilitates overall economic activity growth within the country (Khanna, Papadavid, Tyson & te Velde, 2016; Papdaskalopoulos & Christofakis, 2016). This led Joppe and Li (2014) to propose the impact of tourism on economic quantitative measurement employed in the development of the economy. Consequently, a distinct literature has developed to measure the effect of tourism on the basis of GDP in order to gauge its contribution to the growth of the economy (Aslan, 2014).

In line with the above studies, common assumptions have been provided in literature concerning the internal factors of different countries including their level of development and geographic density of population distribution, and their influence on public and private business sectors. In other words, tourism may be boosted in various ways including the construction and development of infrastructure, specifically, the construction of five-star hotels in developing nations.

In the present study, the focus is on two developing nations, namely Malaysia and Jordan, where tourism has been known to play a crucial role in both countries' economies. In the context of Malaysia, the statistics reported by Trading Economics (2015b), tourists that arrived in the country as of March 2015, numbered 2,242,077, a considerable increase from 1,949,016 the year before in February 2015. In a 15 year span (1999-2015), the tourists that arrived in Malaysia averaged approximately 1,563,407.12, with the most being 2,806,565 (April 2003) as depicted in Figure 1.1.

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Moreover, the percentage share of travel and tourism contribution to Malaysia GDP showed an increase from 15% (2011) to 16.3% (2015) (Knoema, 2015).

Figure 1.1 Malaysia Tourism Arrivals

Source: Trading Economics (2015)

In comparison, the Ministry of Tourism and Antiquities in Jordan noted that the tourists arrivals in Jordan decreased to 68.20 thousand (May 2015) from 78.10 thousand (April 2015) (Economics, 2015a). And in a span of 9 years, (2006-2015), the tourists arrivals in the country was reported to be an average of 79.68 thousand, with the highest recorded to be 142.60 thousand in November 2010, and the lowest to be 37 thousand in February 2006 (See Figure 1.2). More importantly, the World Data Atlas indicated that the percentage share of travel and tourism contribution to Jordan GDP dipped from 24.0% (2010) to 21.8% (2015) (Knoema, 2015).

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JORDAN TOURIST ARRIVALS

Figure 1.2 Jordan Tourist Arrivals

Considering the tourism contribution to the economies of Malaysia and Jordan as discussed respectively above, the changes in the tourism phenomenon of arrivals and the spending patterns clearly have an effect on the operations of tourism places, particularly hotels, and revenues management within such establishments over the past years. The statistical data shown that inbound tourists visit to both countries are losing its stem, this study aimed at making comparison to identified similarities and differences since both are termed emerging Nations. The focus of this study is more on the competitive nature and loyalty of customers given that the services of hotels in both countries are the same (Yan, 2015). Interestingly, both countries are Muslim dominated whose choice of hotel and services are of great concern to tourists and service providers (Abdullah & Haan, 2012).

This study is based on the customer loyalty of five star-hotels in both Malaysia and Jordan, there are some common assumptions of internal factors or homogeneity between these two countries, such as they are Muslim countries, developing and low-income countries, and the geographic density of population distribution are influential factors which affect the development of the public and private sectors. There are abundant

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elements that encourage tourism, including the construction of five-star hotels in these areas. Researchers such as Godolia and Spaho (2014), recommended that as many differences exist between these countries and developed ones, conducting research in such developing economies is an important contribution to the body of knowledge.

Narrowing down the focus to hotels, on the basis of the MKG Hospitality's (2014) Global Hotel Rankings, competitive appears to be fierce, with branded hotels increasing by 3.2% in 2013 and by 1-3% in 2014. With such dynamic competition and the almost identical provided services, customer loyalty has become of the top aspects of sustainable competitive advantage within hotel establishments (Yan, 2015) that brings about effective customer retention (Yoo & Bai, 2007). This is particularly important as customers in the current times hold significant bargaining power (Berges-Sennou, 2006) and they seem to have a significant effect on the ability of the hotels to attract new customers.

In fact, customer satisfaction and loyalty has been evidenced in literature (e.g., Vuueren, Roberts-Lombard & Tonder, 2012; Yan, 2015) as the key to business sustainability. Added to this, customer loyalty can be discerned from customer behavior like involving in positive word-of-mouth, not as price-sensitive, intention towards repurchase, and provision of positive feedback. In the context of hotel industry, such benefits obtained from loyal customers and their maintenance are highly important (Peter, 2014) as finding new customers five times more costly than retaining an existing one (Khalid-Saleh, 2015; Lawrence, 2012). Hence, for sustainability of hotels, customer behavior has to be understood in terms of the factors that influence customer satisfaction and loyalty.

Furthermore, customer loyalty originates from the positive behavior, while failure to accept the significant choice criteria may lead to negative experiences and thus, behavior of customers. In the latter scenario, potential customers may choose not patronize the hotel and instead settle for rival hotels that can provide them with the positive experiences. Stated clearly, customer loyalty is developed through building customers (Evanschitzky et al., 2012) and it is a significant element of customer relationship as displayed through the commitment of the firm to the customers and to the firm's differentiation and competitive advantage (Gronroos & Ravald, 2011).

In relation to the above, loyal customer can also be viewed as a source to maximize revenues among organizations, which in turn, could lead to predictable sales and return (Chen, Sch, Kazman & Matthes, 2016; Karajaluoto, Jayawardhena, Pihlstrom, & Leppaniemei, 2015). Also, customers that are satisfied and loyal create free advertisement in the form of positive word of mouth (Dogdubay & Avcikurt, 2009; Shoemaker & Lewis, 1999). In view of the firm's profitability, a 5% customer's retention will approximately lead to 25-95% company profitability (Reicheld, 1996; Yao, 2013). Therefore, the creation of loyal customers is crucial to the generation of profits in firms, and this may be possible through customer satisfaction.

This notion is supported by other studies in literature that stressed on the commodity aspect of products and services in the dynamic hotel industry competitiveness (e.g., Mattila, 2006; Oliveria-Castro, Cavalcanti & Foxall, 2015), indicating that it is crucial for hotels to search for ways to promote distinct products and services within the industry. One of the highlighted ways to achieve successful hotel business is through customer satisfaction.

In fact, customer satisfaction is one of the factors that driver customer loyalty, and in turn, influences hotel business performance (Markovic & Raspor, 2010). High customer satisfaction is therefore expected to lead to repurchase and positive word-of-mouth of customers and ultimately, profitability (Chinomona & Sandada, 2013; Gundersen, Heide & Olsson, 1996; Taghizadeh, Taghipourian & Khazaei, 2013).

Considering the above, it is crucial for hotels to provide value for money services and satisfy patrons in various aspects. This is noted to be the biggest current challenge of hotel management, particularly because customer satisfaction has been time and again, hailed as a key factor in bringing about competitive differentiation and customer loyalty. The challenge is compounded by the overwhelming demands for products and services in recent years in the hospitality industry (Fouad, Hussein & Attia, 2016; Ho, Yang & Hung, 2015; Sobihah, Mohamad, Ali & Ismail, 2015).

In business, including hotel business, the dynamic environment, legislative, demographic, technological and clients tastes constantly change and this provide avenues for opportunities as well as threats. Therefore, sustainable competition can be attained through a robust brand name, reputation and image – this would ensure that customers experience positive stay at the hotels and they will be likely to display positive behavior and revisit intention (Zeithaml, Berry & Parasuraman, 1996).

Narrowing down the field to luxury hotel establishments, currently, luxury hotels constitute a significant aspect of the hospitality industry and its expansions. In this regard, Smith (2013) stated that according to Inc (STR), luxury hotel market has achieved an all-time high in several indices, with the inclusion of occupancy, average daily rate, and nominal revenue for each available room (RevPAR). In particular, the average room

supply has been maintained at 106,300, whereas the nominal RevPAR achieved $200.75 in 2013 – indicating an 8.1% increase from 2012 (Smith, 2013). This reveals the success of the luxury hotel market and the attraction of the phenomenon in the circles of researchers and practitioners.

Luxury, in this case, is linked to product experience, where Curtis (2001) related that Ms. Barbara Talbott, former CMO of the Four Seasons Hotels and Resorts enumerated the four main factors that contribute to the luxury hotel experience namely style, comfort, service and pampering. Stated clearly, an independently owned hotel, or one that is part of a chain, related or non-related, can be referred to as luxury hotel if it meets the above criteria (Talbott, 2004).

In the context of Malaysian tourism market, Middle Easterners have been found to be partial to the country's beautiful surroundings, historical sites, value for money services, shopping areas and the country's progressive and modern aspects (Nielsen, 2002; Wong, 2001). The attraction also lies in the fact that Malaysia is a Muslim country. Additionally, the strengths in Malaysian hotel industry lie in their promotions of services and products and their competitive prices along with effective hotel management and operators facilitation of customer retention (Abdullah & Haan, 2012).

With regards to the average room charges in hotels in both countries, in Malaysia, it is RM514 per night, while in Jordan, it is RM810 per night (Booking, 2015) – in this regard, patrons are expected to search for high value in exchange for their incurred expenses. Such perceived value has also been evidenced to be a determinant of customer hotel loyalty (Krasna, 2008; Liang, 2008; So, King, Sparks & Wang, 2013; Suhartanto & Noor, 2013).

Hotel ratings are often used to classify hotels according to their quality. The development of the concept of hotel rating and its associated definitions display strong parallels. From the initial purpose of informing travelers on basic facilities that can be expected, the objectives of hotel rating has expanded into a focus on the hotel experience as a whole. Today the terms 'grading', 'rating', and 'classification' are used to generally refer to the same concept, that is to categorize hotels (Hensen, Struwig & Dayan, 2010).

There is a wide variety of rating schemes used by different organizations around the world. Many have a system involving stars, with a greater number of stars indicating greater luxury. Forbes Travel Guide, formerly Mobil Travel Guide, launched its star rating system in 1958 (Vine, 1981). The American Automobile Association (AAA) and their affiliated bodies use diamonds instead of stars to express hotel and restaurant ratings levels. Food services, entertainment, view, room variations such as size and additional amenities, spas and fitness centers, ease of access and location may be considered in establishing a standard. Hotels are independently assessed in traditional systems and rest heavily on the facilities provided. Some consider this disadvantageous to smaller hotels whose quality of accommodation could fall into one class but the lack of an item such as an elevator would prevent it from reaching a higher categorization (Vine, 1981). The scope of this study is Malaysia and Jordan, incidentally both countries used star rating and Starwood hotels fall in the category of five-star by the standard.

1.2 Problem Statement

The extensive expansion of hotel services has brought about competitive advantage among service providers. This is compounded by the tourism increase around the globe that necessitated the boost of hotel construction, particularly luxury hotels (five-star hotels). It is thus not surprising that currently, hotels among different categories are in fierce competition to retain customers through customer support services and price-cutting strategies. However, the latter could lead to serious risk of adverse outcomes in terms of long-term profitability of hotels (Kawachart, 2013). More importantly, the critically affected hotels is the luxury class hotels, where the occupancy rate and room rate has been showing a decrease owing to price instability (Kawachart, 2013)

Although an increase of tourism activities in a country affects the demand for luxury hotel services, there appears to be a mismatch between the number of hotels and tourism activities in both Malaysian and Jordanian contexts. This could be attributed to the over-projection of tourism activities that results in extensive hotel services investment to accommodate expected tourists. For instance, 32 five-star hotels are in current operation in Jordan, and 61 of the same are in operation in Malaysia and by definition, 5-star hotels is categorized under luxury hotel (Banerjee & Chua, 2016; Patwardhan, Mayya & Joshi, 2016). These controversies spur the researcher's interest to investigate customer loyalty pattern from both countries and juxtaposed the result. The intensive competition among the hotels of same standard and decreasing number of guests far less than the project resulted in declining loyalty. New tourists have many choices and repeat tourists always want to try new services. The issue of loyalty is crucial due to declining number of guest at the hotels in both countries.

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Specifically, Malaysia is increasingly turning into a high-income nation, where people are becoming sensitive with the service quality regardless of costs. In hotels, patrons expectations have increased in regards to timely and reliable customer services and those who are dissatisfied do not hesitate to look for better alternatives (Abdullah & Hamdan, 2012).

Generally, tourism is influenced by circumstances (regional or international). In Jordan, a sharp decrease in the profitability of tourism industry has been noted in the past five years and this has affected the national economy of the country. The top challenges noted in this sector include the unstable political situation in the Middle Eastern region that resulted in the decline of the number of tourists. This is compounded by the negative image that the media has developed about the country concerning instability as opposed to actual reality (stability, security and safety) and as such, it has become important to disseminate the right image (Alrai, 2015).

On the basis of aforementioned number of hotels in both countries, competition is stiff and thus, customer loyalty issues and its determinants have become important for hotels management when considering business survival in a dynamic competitive environment. Prior empirical studies indicate low rate of customer loyalty hotels owing to competition and other influential factors affecting customer loyalty (Cheng & Rashid, 2015; Liat, Mansori & Huei, 2014; Prakash, Somasundaram & Krishnamoorthy, 2016). This urged the researcher to focus on hotel customer loyalty and its determinants in this study. The more common classification systems in hotel industry include "star" rating, letter grading, from "A" to "F", such as hotels and motels. Systems using terms such as Deluxe/Luxury, First Class/Superior, Tourist Class/Standard, and Budget Class/Economy are more widely accepted as hotel types, rather than hotel standard (Vine, 1981). Hotel