

# An empirical investigation of Service encounter quality, Relationship quality and Perceived value on Customer loyalty in Hospitality industry

Amadou SAMAKE, NIU Xiongying, & Eunice MURAGURI

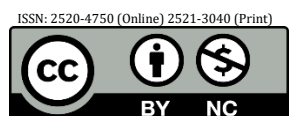
## Abstract

This empirical study investigates the relationship between service encounter quality, relationship quality, perceived value, and customer loyalty in the hospitality industry. "Moments of truth," representing customer interactions with service personnel, are critical in shaping customer experiences. The objectives of the research are to explore the impact of service encounter quality on customer loyalty, examine its effect on perceived value, determine the influence of perceived value on customer loyalty, assess the mediating role of perceived value, evaluate the moderating effect of relationship quality, analyze the joint effect of service encounter quality, relationship quality, and perceived value on customer loyalty, and investigate the impact of customer loyalty on word-of-mouth communication. The cross-sectional survey design targeted both local and international tourists and guests in star-rated hotels in Beijing. A pilot study with 100 randomly selected tourists was conducted to minimize sensitization effects. Structured questionnaires were administered to 1000 travelers with a two-week interval. Reliability of the instruments was confirmed using Cronbach's alpha ( $\alpha \geq 0.7$ ), and content, convergent, and discriminant validities were established. Hypotheses were tested using Structural Equation Modeling with SPSS and Amos Graphics software. The findings supported the proposed nine hypotheses, highlighting the significant relationship between service encounter quality and customer loyalty. Moreover, the combined effect of service encounter quality, relationship quality, and perceived value had a greater impact on customer loyalty than when considered individually. This suggests that hotel managers and decision-makers should focus on improving all three constructs collectively to enhance customer loyalty. This study contributes to the existing literature on service encounter quality and customer loyalty, providing practical insights for policymakers, marketers, hotel management, and tourists.



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**Keywords:** *service encounter quality, perceived value, relationship quality, customer loyalty, word of mouth.*

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## 1. Introduction

Hospitality businesses heavily rely on creating positive customer experiences to ensure customer satisfaction and loyalty. A crucial aspect of achieving this is by understanding the significance of customer interactions with the business and service personnel, often referred to as "moments of truth." These moments of truth, also known as service encounters, represent the interactions between customers and staff and play a critical role in shaping service quality.

The relevance of customer-provider interactions during service encounters has been emphasized by extensive study since it is at this level that customers assess the services they get. The customer's experience with a service is made up of both the service outcome and the service delivery method. Researchers have paid a lot of attention to service quality, customer happiness, and customer loyalty in the academic community because they understand how important they are to an organization's competitive advantage. The idea of service quality is multifaceted and has been researched from a number of angles. Three dimensions of service performance quality, output technical quality, and the organization's mental model were first recognised by Gronroos (2000) in early study. Later, Zeithaml et al. (1996) put out eleven service quality aspects, which were ultimately condensed into five factors: tangibles, dependability, responsiveness, assurance, and empathy, constituting the SERVQUAL model. In several service fields, this approach has been widely utilized to assess the quality of the provided services.

In the tourism industry, which includes hospitality businesses, service quality and customer loyalty are of utmost importance. Tourism contributes significantly to economic growth, employment opportunities, and revenue creation. China, in particular, has witnessed rapid growth in its tourism market, with a significant increase in domestic and overseas trips. Beijing, as the capital city of China, has experienced substantial growth in its hotel industry, with the emergence of star hotels that follow global protocols. The growth and success of a company are highly dependent on customer satisfaction and loyalty. Therefore, understanding the factors that influence service encounter quality, customer satisfaction, and customer loyalty is essential. However, existing research primarily focuses on product-oriented studies, and there is a lack of research examining service delivery in the hospitality industry. This study aims to address these knowledge gaps by integrating multiple variables, including service encounter quality, relationship quality, perceived customer value, and customer loyalty, to provide a comprehensive understanding of service quality in the hospitality industry.

The specific objectives of this research are: (i) to examine the effect of service encounter quality on customer loyalty in the hospitality industry, (ii) to investigate the impact of service encounter quality on customer perceived value in the hospitality industry, (iii) to determine the influence of customer perceived value on customer loyalty in the hospitality industry, (iv) to explore the mediating role of customer perceived value between service encounter quality and customer loyalty in the hospitality industry, (v) to assess the moderating effect of relationship quality on the relationship between service encounter quality and customer loyalty in the hospitality industry, (vi) to understand the joint influence of service encounter quality, relationship quality, and customer perceived value on customer loyalty in the hospitality industry, & (vii) to examine the effect of customer loyalty on word-of-mouth in the hospitality industry.

The study focuses on the attributes of service encounter quality, drawing heavily from the SERVQUAL model's dimensions, and their impact on customer loyalty in the hospitality industry. The research is conducted in Beijing, China, considering the significant growth of the

hotel industry in this location. By investigating these factors, this study aims to contribute to the understanding of service quality and customer loyalty in the Chinese hospitality industry.

## **2. Literature review**

### **2.1 Theoretical Underpinnings of the study**

The Service Encounter Needs Theory (SENT), Three Factor Theory of Consumer Satisfaction (TFTCS), Social Exchange Theory, and Consumer Behaviour theories serve as the study's main pillars. Consumer behaviour theories are thought of as a logical progression from theories of human behaviour. No single theory can explain everything; instead, they all try to fill in a specific gap in our knowledge of human psychology and consumption habits. Theories of consumer behaviour help marketers recognise and comprehend a variety of factors that underlie customer behaviour. They assist marketers in anticipating consumer behaviour and creating more effective marketing campaigns and tactics. In this study, the dependent variable (customer loyalty) was taken from TFTCS, while the independent variable (service encounter quality) was taken from SENT. In an effort to offer reasons for service encounter quality, relationship quality, perceived value, and customer loyalty, this study combined the SERVQUAL model, SET, SENT, and TFTCS.

#### **2.1.1 Service Encounter Needs Theory (SENT)**

SENT proposes that service encounters are influenced by individuals' psychosocial needs, including cognition, competency, control, justice, power, trust, respect, and pleasant relations (Bradley et al., 2010). These needs are relevant to both consumers and employees and involve social interactions and mutual influence (Homburg & Stock, 2005). SENT aligns with the assumptions of motivation theorists like Murray and Maslow, highlighting that behavior is influenced by inner needs, which vary in type and degree of activation (Murray, 1938; Maslow, 1943, 1970). Satisfaction of psychosocial needs contributes to overall well-being and psychological thriving, even though they are not essential for immediate survival (Deci & Ryan, 2000). Fulfilling these needs requires actions aimed at satisfying them and restoring desired states (Pittman & Zeigler, 2007).

Quality of service delivery and customer loyalty are crucial for business success (Weitz & Wensly, 2002). Consistent service quality ensures regularity in service provision, attracting and retaining customers (Kotler, 2007). For instance, in a hotel, various service encounters occur during room booking, check-in, meals, using in-house services, and check-out (Kandampully, 2002). Each encounter contributes to guests' perception of the hotel's service quality and influences their satisfaction. Hotel management should seize these opportunities to provide quality services and enhance guest satisfaction, ultimately increasing the likelihood of future business.

#### **2.1.2 Three Factor Theory of Consumer Satisfaction (TFTCS).**

The Three Factor Theory of Consumer Satisfaction (TFTCS) categorizes product or service quality attributes into three types: must-be, one-dimensional, and attractive (Kano et al., 1984). Each type affects customer satisfaction differently. Must-be attributes are basic expectations that, when unfulfilled, lead to extreme dissatisfaction. One-dimensional attributes are explicitly demanded by customers, and higher fulfillment levels correspond to higher satisfaction. Attractive attributes exceed customer expectations and have a significant impact on satisfaction (Kano et al., 1996). The model evaluates customer perceptions of attribute performance and classifies customer requirements to determine satisfaction levels (Edvardsson et al., 2000). The model challenges the notion that higher quality always leads to higher satisfaction, as different attributes have varying effects on satisfaction (Bilsen & Sevtap,

2008). The Kano model also considers additional attribute categories such as indifferent, questionable, and reverse attributes (Barbara & Claes, 2005).

**Figure 1: Kano (1984) model of TFTCS**

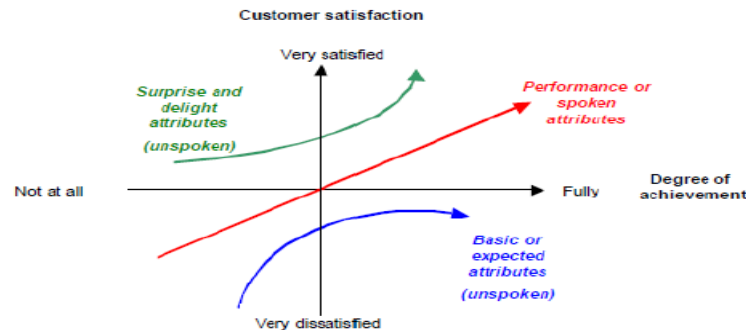


Figure 1 illustrates the evaluation of product or service features and predicts their changes over the product's life cycle (Lieberman, 2008). The horizontal axis represents the product's performance and functionality, while the vertical axis represents customer responses indicating satisfaction or dissatisfaction. Customer loyalty is crucial for a company's profitability, as satisfied customers become loyal and contribute to repeat purchases, brand loyalty, and positive word-of-mouth (Kotler, 2007). To maintain customer satisfaction and loyalty, companies must continuously identify and prioritize features that yield the highest returns, updating them over time and eliminating unnecessary attributes.

### 2.1.3 SERVQUAL Model

Parasuraman, Zeithaml, and Berry initially presented the SERVQUAL model in 1986 (Parasuraman et al., 1986). It has been frequently referenced in the marketing and retailing literature and has grown to be the most popular and well-tested tool for gauging customer service quality views (Bateson & Hoffman, 2011; Chau & Kao, 2009). SERVQUAL is one of the most crucial components for gauging customer satisfaction as a top priority paradigm, according to Aghdaie and Faghani (2012). This methodology is used by businesses to gauge customer satisfaction and perceptions of service quality. To find gaps in service/customer satisfaction and positioning in terms of satisfying criteria, analytical approaches and priority matrix reporting are used. Along with other measures like loyalty and referral, service indicators are recorded. It's essential to maintain service quality to foster client connections, profitability, employee motivation, and cost-cutting.

The development of the SERVQUAL scale followed the guidelines for producing reliable and valid measurements of marketing constructs (Brown, Churchill, & Peter, 1993). By detecting discrepancies between management's view and consumers' impression of service quality, Parasuraman et al.'s original study (1985) sought to establish the notion of service quality. Researchers discovered a disconnection between what management regarded as service excellence and what customers thought of it. Later studies condensed Zeithaml et al.'s 10 service quality aspects (introduced in 1996) into five factors: tangibles, reliability, responsiveness, assurance, and empathy (Lim et al., 1999). These five dimensions capture facets of the original ten dimensions and serve as the basis of the SERVQUAL model. The SERVQUAL scale has undergone changes and improvements since its initial publication in 1988. For example, in 1991, the word "would" replaced "should" in the scale, and by 1994, the

total number of items increased to 22. The scale incorporates perception items and expectation items, which can be used for various purposes such as determining the average gap score between customers' perceptions and expectations, assessing service quality along each dimension, tracking changes in customer expectations and perceptions over time, comparing scores against competitors, identifying customer segments with differing assessments of service performance, and assessing internal service quality within a company (Wilson et al., 2008). The SERVQUAL model consists of five dimensions that collectively contribute to the assessment of service quality. Tangibles encompass the physical elements of a service, such as the appearance of facilities, equipment, personnel, and communication materials. These tangible factors significantly influence customers' perception of service quality (Wilson et al., 2008). Reliability, considered the most crucial dimension, refers to the ability to deliver the promised service consistently and accurately, solve customer problems effectively, and maintain a zero-defect policy (Wilson et al., 2008). Responsiveness emphasizes the willingness to assist customers promptly, minimizing waiting time for interactions, and customizing services to meet individual needs (Wilson et al., 2008). Assurance revolves around the knowledge, courtesy, and trustworthiness of personnel, instilling confidence in customers through qualified and polite employees (Wilson et al., 2008). Finally, empathy entails understanding and addressing individual customer needs through personalized attention and convenient service hours (Wilson et al., 2008). These dimensions collectively provide a comprehensive framework for evaluating and improving service quality. Service quality is the evaluation and judgment customers make regarding the excellence of received service. It is the comparison between customers' expectations and the actual service provided (Parasuraman et al., 1986). Perceived service quality influences customer satisfaction and loyalty, leading to positive outcomes such as commitment, increased tolerance for service failures, positive word-of-mouth, and repurchase intentions (Cronin Jr. et al., 2000; Spreng et al., 1995). The five dimensions of SERVQUAL provide a framework for assessing and improving service quality (Parasuraman et al., 1986).

#### **2.1.4 Social Exchange Theory**

Since the early writings of Homans (1961), Blau (1964), and Emerson (1962, 1972), social exchange theory has been a well-known theoretical viewpoint in social psychology. Social exchange, according to Homans (1961), is the exchange of enjoyable or expensive activities, material or intangible, between at least two people. In social exchange theory, the idea of cost essentially refers to the alternative alternatives given up by the players. Homans utilised behaviourist reinforcement concepts to explain why exchange interactions persisted. Emerson (1972), based on the same reinforcing concepts, expanded on the psychological underpinnings of trade. Homans concentrated on how behaviour in a two-party trade relationship feeds behaviour in the opposite direction and vice versa, explaining how social engagement continues at the sub-institutional level.

Homans' investigation of other sociological notions such distributive justice, balance, status, leadership, authority, power, and solidarity was based on his study on dyadic exchange. Homans' approach, however, was criticised for being reductionist since it used psychological concepts to explain social phenomena. Additionally, he underemphasized the importance of institutional variables and social processes that result from social contact in his research of social behaviour at the sub-institutional level. However, Homans' early consideration of distributive fairness in social exchange interactions is one of his most important contributions to social psychology.

The core ideas of Homans focused on incentives and penalties as influences on social behaviour. His success proposition asserts that actions that result in favourable outcomes are likely to be repeated, while his stimulation proposition contends that actions that have previously been rewarded will be taken in comparable circumstances. According to the value proposition, an action is more likely to be completed the more valuable its outcome is to a particular person. The deprivation-satiation hypothesis introduces the idea of declining marginal utility, which states that as reward receipt frequency increases, the value of an extra unit of reward declines. Finally, Homans stated that when people do not get what they want or when they think the rate of return in trade relationships is unjust, they may emotionally respond by becoming irate and hostile. In contrast to Homans, Blau (1964) saw social exchange as a fundamental aspect of social life that underlies both interpersonal and intergroup relationships. He concentrated on the social structures that resulted from reciprocal transfers of extrinsic rewards. Blau emphasized that social interaction involves free behaviours driven by the anticipation of rewards from others, with initial commitments of a vague character. According to Blau, the concept of social exchange involves the idea of one person doing a favour for another with a broad expectation of a subsequent return, without specifically stating the type of the return in advance.

In conclusion, social exchange is generally understood to refer to a trade involving emotional social advantages, reciprocal commitment, and trust between participants. It is predicated on implicit agreements to cooperate and share benefits (Blau, 1964; Emerson, 1976). According to the idea, there is a vague and undefined sort of reciprocity in which one person feels bound to repay another upon receiving a benefit (Blau, 2017). Favour exchanges in the context of business-customer interactions boost client loyalty (Gronroos, 2002). Meeting the various consumers wants and encouraging loyalty are essential managerial objectives since obtaining new customers is more expensive than keeping existing ones (Liu et al., 2011). To accomplish these goals, building long-term, mutually beneficial relationships with clients is crucial. It is impossible to exaggerate the importance of customer loyalty (Liu et al., 2011), and it may be increased through building solid relationships with customers (Athanasopoulou, 2009).

### **3. Development of hypotheses**

#### ***3.1 Service Encounter Quality***

Every day, millions of service contacts take place between customers and staff throughout the world (Drach-Zahavy, 2010; Gregoire & Fisher, 2008; McColl-Kennedy et al., 2009). Customers' dissatisfaction, disloyalty, and bad word-of-mouth, as well as employee stress-related illness, absenteeism, and turnover, are significant costs of poorly transacted interactions that reduce organisational productivity and profits (Drach-Zahavy, 2010; Gregoire & Fisher, 2008; McColl-Kennedy et al., 2009). The well-being of both employees and customers depends on discovering methods to enhance service relationships (Ostrom et al., 2010). The customer's interaction with the service provider during the service encounter is when they form their most important impression of the service (Zeithaml et al., 2013). The chance for the service provider to please the client and earn rewards like client loyalty or word-of-mouth referrals arises throughout the service encounter (Zeithaml et al., 2013). Service interactions have been proven to be a crucial component of the service economy, which accounts for 63% of the global GDP (Central Intelligence Agency, 2013).

A face-to-face interaction between service providers and recipients throughout the process of service consumption is referred to as a service encounter, according to Solomon et al. (1985), who established the idea. A service encounter, according to Shostack (1985), is "a period of time during which a consumer interacts with a service". According to Czepiel et al. (1986), a

service encounter is typically understood to be a customer's direct relationship with a service provider, comprising both face-to-face interaction and experience. It has a substantial impact on service quality assurance, service delivery methods, and customer satisfaction and is regarded as the core of any service marketing issue (Van Dolen et al., 2002). Nunkoo et al. (2020) suggested several aspects of service encounter quality, including front desk quality, food and beverage quality, safety and security, waiting time, sociability, staff attitude and behaviour, and employee competence. The research adopted and measured the parameters of lodging/room quality, front desk quality, food and beverage quality, and health and safety.

Customer happiness and loyalty in the tourist and hospitality industry depend on the quality of accommodations and rooms (Wu & Ko, 2013). Interior design, physical environment, infrastructure design, lighting, ambiance, temperature, wall colour, signage, and amenities offered by hotel operators are quality features connected to accommodations and hotel infrastructure (Ju et al., 2019; Nunkoo et al., 2020). Customer happiness and loyalty are also influenced by room quality, which includes elements like room size, temperature, silence, mattress comfort, and amenities (Lockyer, 2002; Ramanathan & Ramanathan, 2011). Another crucial aspect of lodging is the calibre of the food and beverages (Akbaba, 2006; Nunkoo et al., 2020). It consists of the type and standard of food offered, the cleanliness, and the degree of service (Akbaba, 2006; Wu & Ko, 2013). According to earlier research (Ramanathan & Ramanathan, 2011; Ryu et al., 2012), the quality of the meal has a substantial impact on the perceived value, contentment, and loyalty of the client. Customer happiness and loyalty are greatly influenced by front desk quality, which includes elements like check-in procedures, luggage transfer processes, and front desk staff members' problem-solving skills (Bharadwaja et al., 2018; Hartline et al., 2000). Customer loyalty and satisfaction have been demonstrated to be positively impacted by front desk quality (Ju et al., 2019; Nunkoo et al., 2020). Another crucial aspect of the quality of a service encounter is health and safety, particularly in the hospitality sector (Ju et al., 2019). Customer satisfaction and loyalty are significantly impacted by elements including cleanliness, hygiene, and safety precautions (Lockyer, 2002; Wu & Ko, 2013). The whole quality of service interactions in the tourist and hospitality industries is influenced by these factors. The industry's commercial performance may be improved by enhancing these dimensions, which can also increase consumer loyalty and good word-of-mouth advertising (Ju et al., 2019; Nunkoo et al., 2020). Employees from the safety and security department are in charge of putting their plans into practise in order to satisfy customers, according to Mmutle (2017). According to Awan et al. (2020), hotel owners in Malaysia were under pressure from domestic and foreign travellers to promote cleanliness and disinfection procedures as part of the new standard operating procedure as a result of the COVID-19 pandemic. Employee knowledge of risk and health promotes adherence to COVID-19 safety procedures, according to Hu et al. (2021). Not to add, the management must ensure that employees have a secure environment. In their interviews with hotel managers, Bonfanti et al. (2021) discovered seven safety measures, including cleanliness and protection as well as physical and digital controlled touch points that most hotels have used to improve the guest experience. According to Kostromitina et al. (2021), customers' top concerns during the pandemic are safety and service quality. As a result, company owners must create a secure atmosphere for patrons. Customers experience unfavourable feelings when there is a lack of safety. The research therefore hypothesized that:

**H<sub>1</sub>:** *Service encounter quality has a positive relationship with customer loyalty in hospitality industry.*

### **3.2 Perceived Value**

Value is seen as a term in the context of services that entails a trade-off between what the consumer receives from the service and what the customer contributes in exchange for it. That is, it is assumed that a consumer will base their purchase on "value," which also denotes the concept of "cost" (Gil et al., 2008). The consumer's assessment of the usefulness of perceived advantages and trade-offs is known as service value. Customers may therefore cognitively integrate their impressions of what they stand to gain in terms of advantages compared to what they must forego in order to acquire the services. What one customer, for instance, considers to be quality may not coincide with another consumer's perception of value (Flint et al., 2002).

According to Kottler & Keller (2006), businesses in the hospitality sector and any others that are able to provide superior value to customers will succeed in the current complex market environment. As a result, marketers are concentrating more on developing a better understanding of how customers view services and products that are suited to meet their unique needs and circumstances. Consumers are more informed and empowered than ever before, and they are more interested in the value of consuming a particular good or service. Although they are frequently influenced by high quality and even price, consumers prefer to make a fair trade-off between the costs associated with obtaining and using those goods and services (Popova, M. (2006). Providing excellent customer value has become more crucial as consumers become more value-oriented and prioritise their needs (Popova, M. 2006). According to Gaur, S., and Xu, Y. (2009), it is crucial to strive towards raising consumers' perceived value in order to retain them and profit from their engagement and loyalty.

In the hospitality sector, perceived value refers to the opinions visitors have before visiting the service provider's location. Information given to the customer, the reservation process, and visitor interactions throughout service delivery, such as the check-in process, guest assistance, physical amenities, and guest service, can all contribute to this image. According to Johnson, M. D., & Fornell, C. (1991), there are two forms of perceived value in this context: value before and value during service delivery. It is impossible to overstate the significance of perceived value and customer loyalty in the hospitality sector since hotels must cater to a variety of visitor tastes in order to keep consumers happy and keep their business growing. Therefore, the purpose of this study is to investigate the connection between customer loyalty, perceived value, and service encounter quality.

The research therefore hypothesized that:

**H<sub>2</sub>:** *Service encounter quality has a positive relationship with perceived value in hospitality industry.*

**H<sub>3</sub>:** *There is a positive relationship between perceived value and customer loyalty in hospitality industry.*

**H<sub>4</sub>:** *Perceived value positively mediates the relationship between service encounter quality and customer loyalty in hospitality industry.*

### **3.3 Relationship Quality**

Customers must be retained through excellent relationships, and in order to do this, businesses must think about ways to raise customer happiness and foster customer trust, both of which lead to customer loyalty (Liu et al. 2011). According to studies, relationship quality is always thought of as a higher order construct made up of commitment, contentment, and trust (Ghzaiel and Akrouf 2012; Ulaga and Eggert 2006). Buyer relationship quality was conceptualized by Dorsch et al. (1998) as being characterized by trust, commitment, and satisfaction. While Hewett et al. (2002) and Hibbard et al. (2001) identified relationship quality as a higher-order construct with trust and commitment as first-order constructs; Crosby et al. (1990) classified



satisfaction and trust as major elements of relationship quality. Taking into account these classifications from other studies, this study concentrates on trust, commitment, and business satisfaction as important relationship quality aspects (Ghzaïel & Akroun, 2012).

According to Huntley (2006), relationship quality refers to how pleased customers are with a partnership over time as evidenced by the quality of the partnership's total products, services, and financial worth. Holmlund (2001) provides a working definition of relationship quality as "the joint cognitive evaluation of business interactions by key individuals in the dyad, compared with potential alternative interactions" in a context that is reflecting a people-based, inter-organizational approach to relationship quality. There are many viewpoints on what forms a good relationship as well. Reaching agreement on relationship quality measures remains difficult despite the literature's substantial discussion of both its nature and dimensions (Gregori et al. 2014). However, other researchers thought of relationship quality as a construct made up of several parts. These elements include, among others, fulfilment (Crosby et al. 1990), trust (Hennig-Thurau and al. 2002), commitment (Hennig-Thurau et al. 2002), and general quality (Hennig-Thurau et al. 2002). Other research (Athanasopoulou 2009; De Canniere et al. 2009; Rauyruen and Miller 2007) have focused primarily on contentment, trust, and commitment as components of relationship quality. Relationship quality was first established from theory and research within relationship marketing areas, claim Crosby et al. (1990) and Dwyer et al. (1987). The idea was created to deepen existing solid bonds and convert inattentive clients into devoted ones (Rauyruen and Miller 2007). In fact, according to a number of experts, understanding loyalty is crucial for corporate endeavours (Goode and Harris, 2007; Zeithaml et al., 2002). The study therefore hypothesized that:

**H5:** *Relationship quality has a positive moderating effect on the relationship between service encounter quality and customer loyalty in hospitality industry.*

**H6:** *Service encounter quality has a positive effect on relationship quality in hospitality industry.*

**H7:** *Relationship quality has a positive effect on customer loyalty in hospitality industry.*

### **3.4 Customer Loyalty**

According to studies currently available, scientists generally concur that a company's ability to retain customers is a crucial factor in its success (Chaudhuri & Holbrook, 2001). Client loyalty, according to Blomqvist (2000), is the act of a client continuing to use a certain company over time in order to partially or completely meet his wants by using the firm's services or goods. This indicates that a consumer will only turn to a potential rival if the firm to whom they are loyal does not carry the goods they are looking for. For instance, a consumer in the hospitality sector will only go to a rival if the chosen hotel chain does not have a location nearby. Since the idea of customer loyalty has been thoroughly studied throughout the years, it is not a novel one. In three seconds, a random Google search for the meaning of "customer loyalty" returned nearly 47 million results. As a result, other academics have provided explanations of customer loyalty; nonetheless, Oliver's description from 1999 is the most thorough. Loyalty, according to him, is "a deeply held commitment to rebuy or patronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour" (Olive, 1999). The literature highlighted three different definitions of loyalty. These include the stochastic approach, which focuses solely on behaviour; the deterministic approach, which views loyalty as an attitude; and the composite approach, which combines both attitudinal and behavioural loyalty (Odin et al., 2001; Chaudhuri and Holbrook, 2001; East et al., 2005; Rundle Thiele, 2006; Bandyopadhyay and Martell, 2007).

Furthermore, according to Blomqvist (2000), there are two key strategies for a business to keep its customers loyal. The first is by doing the appropriate marketing. The researcher contends that the business may develop a market base of devoted clients with a high frequency of purchases through effective marketing. Second, keeping existing clients. According to the study, it would cost a business five times as much to acquire a new client as it would to keep an existing one. Losing a client means having less money while having less chance of maintaining the ones you already have. The recent years' intense rivalry in many company sectors and the emergence of new global concerns including fierce competition force businesses to think critically about the value of client retention. Due to the advantages of keeping current clients, the development of customer loyalty has recently attracted attention (Matthews, 2001). Benefits to the business include, but are not limited to, keeping lower expenses in comparison to the costs of acquiring new clients and raising the company's worth through a larger customer base and a larger market share. It is important to look at how customer loyalty is affected by service quality (Ding & Straub, 2008; Jia, Reich, & Pearson, 2008). According to earlier studies (Gefen, 2002; Reichheld & Scheffer, 2000), client loyalty is mostly based on the calibre of the services provided. The study therefore hypothesized that:

**H<sub>8</sub>:** *Joint influence of service encounter quality, relationship quality and customer perceived value has a positive effect on customer loyalty in hospitality industry.*

### 3.5 Word of Mouth (WOM)

Word-of-mouth (WOM) is a critical research subject, according to several academics in recent years (Hsu et al., 2016). WOM is a "marketplace information dissemination mechanism in which customer opinions concerning identified enterprises, products/services, and consumer experiences are communicated through informal interpersonal interactions," according to Arndt (1967). According to Eisingerich et al. (2015), the verbal, informal, person-to-person contact between a perceived noncommercial communicator is another definition of word-of-mouth. WOM is therefore the practice of talking about brands, goods, or services among communicators and receivers without any underlying commercial aim. WOM describes the exchange of product information between two individuals who are not members of the marketing department (Solomon, 2008). It is believed that using word-of-mouth marketing is a more successful marketing technique than using formal marketing.

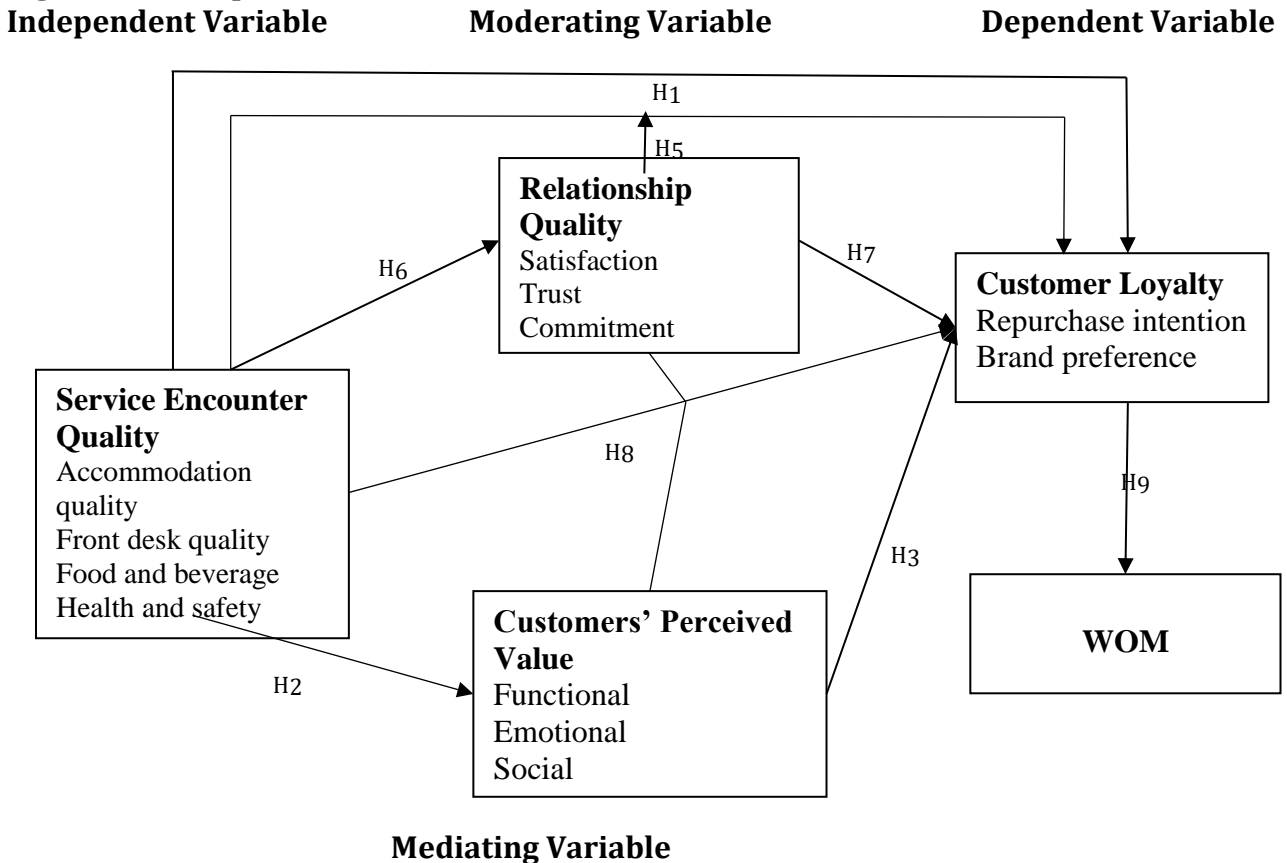
One of the most potent types of communication in the market today is WOM, which is informal communication on product performance and service quality between consumers who are independent of the firm (Rosen, 2000; & Silverman, 2001). Through trustworthiness, fast delivery, and time savings, the strategy disseminates information about a good or service that influences consumers' decisions regarding goods and service providers (Rosen, 2000; Arpa, 2002). Numerous studies on perceived quality and loyalty as antecedents of WOM have been conducted, and the majority of these studies show a positive relationship between WOM and both of these evaluation constructs (Brown et al., 2005; Harrison-Walker, 2001a; Ladhari, 2007; de Matos and Rossi, 2008; Wangenheim and Bayón, 2007). However, the literature's conclusions about the connection between service encounter quality constructs and WOM are still not clear. In the case of the link between contentment, perceived quality, and WOM, for instance, it has sparked concerns about the tiny impact sizes (de Matos and Rossi, 2008). As a result, even if a customer is happy with a purchase, they might not spread the word about it through WOM. Therefore, while taking into account perceived worth and relationship quality, it would be advantageous to discover elements that may impact the strength of the association between loyalty and WOM (Gremler and Brown, 1999; Mazzarol et al., 2007). The study therefore hypothesized that:

**H<sub>9</sub>:** *Customer loyalty has a positive effect on word of mouth in hospitality industry.*

### 3.6 Conceptual Framework

The SERVQUAL Model by Parasuraman, Zeithaml, and Berry (1986) and the Social Exchange Theory by Homans, Blau, and Emerson (1961, 1962) served as the conceptual framework's guiding principles. The dependent variable was the quality of the service encounter, and the connection between the independent and dependent variables was mediated by perceived value. The link between the independent factors and the dependent variable was mediated by the relationship quality factor from the social exchange theory. Age, gender, education, and income were all considered control factors. The suggested conceptual framework that served as the research's direction is as follows:

**Figure 2: Conceptual Framework**



**Note:** Hypotheses 4 represent the mediating role of customers' perceived value on the relationship between SEQ and customer loyalty.

## 4. Research methodology

### 4.1 The Research Design

A research design is a comprehensive strategy that outlines the techniques and steps to be taken in order to gather and analyze the necessary data (Sekeran & Roger, 2009). It serves as the guide for gathering, measuring, and analyzing data to accomplish the study's goals (Cooper & Schindler, 2006). Scholars are led in the design of their research by factors including the type of data being gathered, the technique of data collecting, and the objective of the study. The research design for the study was a descriptive cross-sectional survey. Descriptive study designs properly depict the traits of a certain individual scenario or group, according to Gall and Borg (2003). The cross-sectional survey design was the specific descriptive research method used. One of the most popular forms of descriptive studies uses cross-sectional survey designs, which include selecting a sample of respondents from a population and asking them

to complete a standardized questionnaire (Creswell, Plano, Gutmann & Hanson, 2003). According to Tuli (2012), the paradigm that directs the research activity—more specifically, beliefs about the nature of reality and humanity (ontology), the theory of knowledge that underpins the research (epistemology), and how that knowledge may be obtained (methodology)—should be taken into consideration when choosing a research methodology.

#### **4.2 The Study Area**

The study was conducted in Beijing, China, which was chosen as the research area due to its status as a rapidly growing tourism market. China experienced significant growth in tourism, with a 2.4% increase in tourism revenue in the first half of 2017 compared to the previous year, reaching US\$69.5 million. The hotel sector in China has also seen substantial growth, particularly in the emergence of star hotels that follow global hotel protocols as a means of distinguishing between different levels of hotel quality and driving the development of the Chinese hotel market. Beijing, as the capital city of China, serves as the political, cultural, and educational center of the country. It is well-connected with national highways, high-speed rail, railway networks, and expressways. In 2016, there were 554 ranked star hotels in Beijing (Beijing Tourism Industry Overview, 2016). Furthermore, the World Economic Forum has projected China to become a leading global tourism destination by 2030 (Whiting, 2018). The research targeted both local and international tourists who had stayed in three- and four-star hotels in Beijing. This selection was based on the fact that out of the 10,956 hotels in China, 7,684 are three- and four-star hotels, accounting for 70.13% of the total (Travel, 2015). Beijing attracts tourists from all over China, enhancing the generalizability of the study's findings. The city's numerous tourist attractions have contributed to the rapid growth of its hotel and tourism industry.

#### **4.3 The Target Population**

Population is defined by Kothari (2004) as a collection of individuals, occasions, or noteworthy objects. Population, according to Cooper and Schindler (2006), is the group of things we want to refer to. China's Beijing served as the location of this investigation. The study's target audience included both domestic and foreign travellers who were contacted via websites including Facebook, trip adviser, emails, and tour operator data bases. Data gathering utilised convenience sampling. The following three conditions must be met for this method to be considered viable: (1) items on an instrument must be pertinent and appropriate for the participants; (2) the target population must be subjective; and (3) the research must be exploratory and have a sufficient sample size to produce stable results (Seckler et al., 2015; Ferber, 1977). When the study is exploratory and the questionnaire items are pertinent and appropriate for the respondents, according to Roman (2007), sampling is appropriate for data gathering. Because of the exploratory nature of the study and the relevance between the survey items and the respondents, convenience sampling can be used. Guests who spent at least one night in Beijing's star-rated hotels were the focus of this investigation. Although, according to Economic Survey (2017), a client would have used the most of the hotel's amenities by the time their average stay in a hotel was thirteen days. One thousand survey cards were handed out.

#### **4.4 Data Collection Methods**

This section outlines the data sources, the data collecting process, the instruments to be used for data collection, and the methods used to assess the validity and reliability of the instruments.

#### **4.4.1 Sources of Data**

Secondary information was gathered by reexamining pertinent literature on the subject of customer loyalty and service quality characteristics in the travel and hospitality sector. Both structured and unstructured questionnaires were used to collect primary data. This information was gathered from the target demographic, which included both domestic and foreign travellers and tourists visiting Beijing, China.

#### **4.4.2 Methods for Data Collection**

To get the real data, a variety of processes were conducted. First, to make sure the surveys contained what the objectives aimed to achieve, specialists assisted in a cross-examination of the data. The surveys were then put through a test run after that. The questions were modified to meet the target criteria using input from the pilot research. Murray (2003) asserts that piloting is crucial for identifying ambiguities in the items and ambiguous questions that need to be improved. The targeted respondents received surveys after improvements. In order to do this, the researcher and three research assistants with PhD training who were staying in three- and four-star hotels in Beijing's Chaoyang, Haidian, Changping, Dongcheng, and Shunyi Districts first intercepted respondents. Near airports and train terminals, this is where the majority of tourist attractions are located, along with travellers' preferred lodging. The three interviewers had initial training and were instructed to wear badges identifying them as representatives of the UIBE School of Business. Second, the researcher sent the questionnaires to the targeted three and four star hotels in Beijing together with the three research assistants who had received PhD training. The hotel guests were then given the surveys to complete while having some down time. For visitors who choose to fill out the form online through social networking sites and emails, a link was also sent. The online responders received a reminder two weeks after the original mailing through individualised emails and SMS. The questionnaire was finished in between 15 and 20 minutes.

#### **4.4.3 Data-Collection Tools**

Using structured questionnaires, primary data was gathered. The responders to the questionnaires were asked to provide quantitative data. A questionnaire is a list of inquiries or statements that evaluates attitudes, beliefs, and personal characteristics (McMillan & Schumacher, 2001). Data on perceived value, relationship quality, word-of-mouth, and customer loyalty were gathered using a standardised questionnaire that also asked about several aspects of service encounter quality. A Likert scale of 1–7, with 1 denoting a "very small extent" and 7 denoting a "very large extent," was used in the questionnaire's design. This is due to the fact that many of the questions dealt with subjects that couldn't be measured in terms of a single number. Structured questionnaires are a good way to gather information, especially from a big group of respondents, and they're simple to analyse (Cooper & Schindler, 2006). The questionnaire was appropriate for this investigation since a significant amount of data was needed.

#### **4.4.4 Instrument Reliability**

According to McMillan and Schumacher (2001), reliability is the degree to which measurements are free from mistakes and the consistency of measurement, which is the degree to which results are comparable across several iterations of the same instrument or occasions of data collection. Orodho (2005) defines instrument dependability as the extent to which a given instrument can consistently produce a comparable result across a number of repeated trials. 1000 travellers were given the prepared questionnaires over the course of two weeks. According to Connelly (2008), this accounted for at least 10% of the parent sample and is sufficient for a pilot research. To ensure that the questions were understandable and crystal

clear, the tools were pre-tested. By doing this, it was assured that the schedules covered all pertinent topics and concerns and were free of any ambiguity. The pretest was useful in determining the precise number of enumerators, days, and cost estimates that were needed. To minimise the sensitization effect, the pilot tested participants were not included in the research (Mugenda & Mugenda, 2003). Cronbach's coefficient alpha (Cronbach, 1951) was used to assess the instrument's internal consistency. A scale's Cronbach alpha coefficient should ideally be higher than 0.70 (Cronbach, 1951).

#### 4.4.5 Instrument Validity

According to Shadish, Cook, and Campbell (2001), validity is the degree to which the questionnaire's measurements accurately reflect the notion that is being tested and nothing else. Validity, according to Kothari (2004), is the degree to which differences between test subjects and the measuring tool actually represent those differences. We'll use content validity in this study. If the participants and the researcher generally concur that the instrument's measurement items cover every facet of the variable being assessed, the measure is said to have content validity (Ojera, 2011). Through the subjective evaluation of professional judges, this type of validity determines the degree of correlation between the individual items and the idea. As a result, my boss and other professionals in the field of service marketing will double-check the created instruments. This is followed by the calculation of the content validity index (CVI). The CVI is described as the percentage of objects that raters provide a rating to in Waltz, Strickland, and Lenz's (2005) definition. According to studies, a CVI of 0.70 or greater is considered appropriate (Oso, 2013; Waltz, Strickland, & Lenz, 2005).

#### 4.5 Data Analysis and Presentation

In this study, both qualitative and quantitative data were gathered and examined. The usage of frequency tables, structures, and graphs was used to portray the data. Coding and data entry into the analysis software, which assisted analysis and deduction, were the first steps in the analysis. SEM, or structural equation modelling, was used to analyse the data. Version 23 of SPSS- AMOS was employed. In addition to being crucial multivariate statistical tools for understanding various aspects of applied or fundamental research in the behavioural sciences, health, social, and managerial fields, SEM are statistical procedures that enable measurement of functional hypothesis, both being predictive and causal, according to Bagozzi & Yi's (2011) study. The measurement model and the structural model are the two layers of analysis that make up structural equation modelling (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). The structural model establishes the relationship between constructs, which further determines whether the structural relationships are meaningful and significant as well as testing the hypothesis (Chen & Chang, 2011). The measurement model establishes the relationship between the latent variables or constructs and their indicators. Explanatory power analysis, which examines the direct and indirect effects of a collection of factors, is comparable to regression performance in SEM (Vasquez & Sanchez, 2013). It is generally agreed that SEM is ideal for small sample sizes, but PLS produces significant standard errors and performs badly when used with tiny samples. As a result, more than 200 samples are needed (Chin & Newsted, 1999). Prior studies have shown that estimates using PLS improved as sample size grew and a considerable decrease in average absolute error was reported (Hui & Wold, 1982). For hypotheses six which aimed at establishing whether the joint influence of service encounter quality, relationship quality and customer perceived value had a positive effect on customer loyalty in hospitality industry, stepwise regression was adopted using statistical package for social sciences (SPSS) version 25 (Kinyanjui, 2020). The following analytical model was used

$$Y = \beta_0 + \beta_1X + \beta_2Z + \beta_3XZ + e \text{ whereby;}$$

Customer loyalty (Y) = SEQ + relationship quality + perceived value

$\epsilon$  = the error term.

For the interpretation of the results, R2 value was used to determine the joint effect of SEQ, relationship quality and perceived value on customer loyalty, T-test compared variables for statistical significance while F test using ANOVA assessed the importance of the regression model.

## Data Screening

Accuracy of the data obtained was checked by examining missing values after which test for common method bias (CMB) was carried out. According to Bagozzi and Yi (1991) CMB represents the variance associated with method of measurement rather than the construct of interest which represents a significant factor when testing a model. Harman's one-factor test was performed to test CMB (Podsakoff et. al, 2003). CMB threshold value is 50% and any value less than this represented a data that is unlikely to be affected by CMB. Pearson correlation coefficient was also calculated in order to measure the association between two variables (Stigler, 1989). The resultant correlation coefficients should be above 0.70. Convergent validity which denotes the degree of agreement of multiple items measuring the same concept was calculated (Amin et al., 2016). The researcher concentrated on loadings higher than 0.80, Composite Reliability (CR) higher than 0.60 but lower than 0.95 and the Average Variance Extracted (AVE) higher than 0.70 (Hair et al., 2017). In addition, collinearity which exists when separate variables actually measure the same thing was measured (Kline, 2011). This was preceded by assessing Variance inflation factor (VIF) which is defined as the reciprocal of tolerance. VIF values greater than 5 denote existence of collinearity. Discriminant validity was also established. Based on the sample size of this study and the nature of hypothesis to be tested, SEM was considered the most appropriate in identifying causalities of SERVQUAL dimensions and customer loyalty.

## 5. Data analysis and presentation

### 5.1 Profile of the Respondents

Table 1 illustrates the respondents' profile.

**Table 1: Respondents' Profile**

Demographic Information	Frequency	Percentage
<b>Gender</b>		
Male	154	47.2
Female	172	52.8
<b>Age</b>		
18- 25	18	5.5
26- 30	84	25.7
31- 35	76	23.1
36- 40	63	19.3
40 and above	85	26.1
<b>Purpose of the visit</b>		
Vacation	142	43.5
Business	122	37.4
Conference	50	15.3
Others	12	3.6
<b>Monthly Income (Yuan)</b>		
1 to 5000	26	7.9
5001 - 10000	53	16.2
10000 and above	247	75.8
<b>Number of times visited</b>		
Once	122	37.4
Twice	184	56.4
Thrice	18	5.5
More than three times	2	0.6

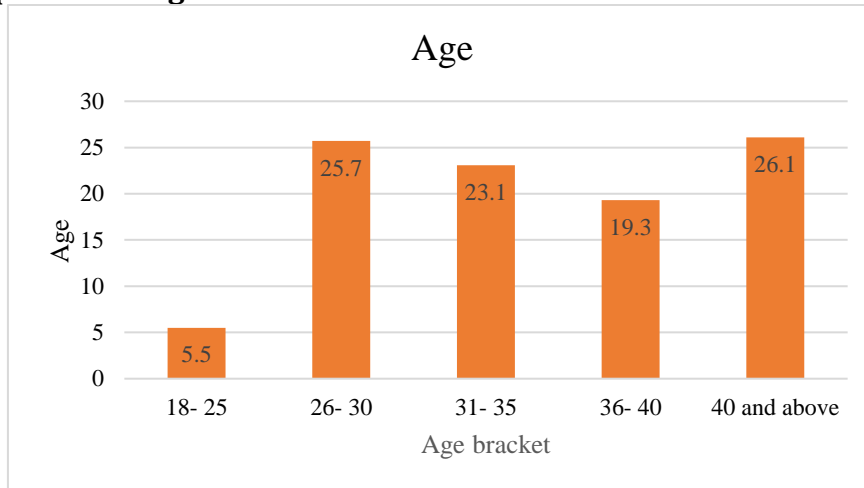
### 5.1.1 Respondents' gender

There was a slight discrepancy in terms of gender whereby males accounted for 47.2% while females accounted for 52.8%.

### 5.1.2 Age

Age distribution ranged between 18 to over 40 years. The age bracket with the highest number of respondents was 40 years and above at 26.1%. This was followed closely by the age bracket of 26 – 30 years (25.7%). The age bracket with the least number of respondents was 18 -25 which was probably attributed to their income levels (Figure 4 illustrates).

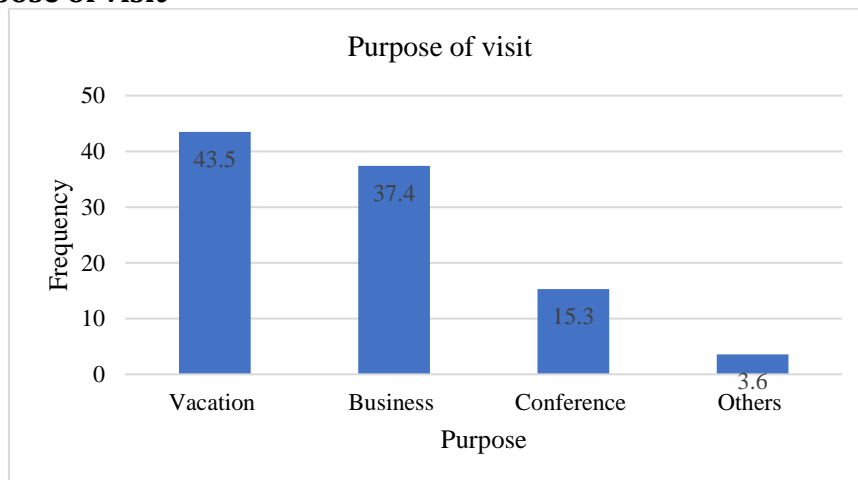
**Figure 3: Respondents' Age**



### 5.1.3 Purpose of Visit

The study's data analysis established that the major purpose of the visit was vacation (43.5%) and business (37.4%). This may be attribute to the fact that of Beijing being the capital city of China while it is also a political, cultural and educational center of China which hosts major hubs for national highway, high speed rail, railway networks and expressway (Beijing Tourism Industry Overview, 2016).

**Figure 4: Purpose of visit**

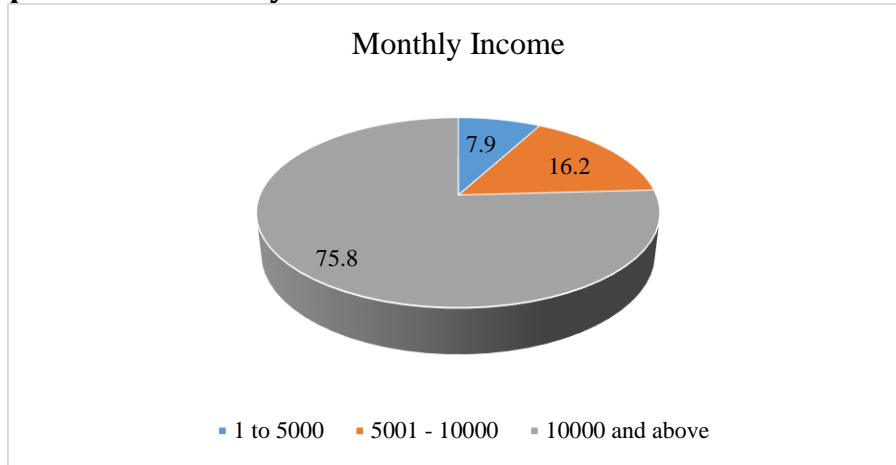




### 5.1.4 Monthly Income

As illustrated in Figure 6, the monthly income bracket with the largest number of respondents was between above 10,000 accounting for 75.8%. The income range with the least number of respondents was below 5000 yuan.

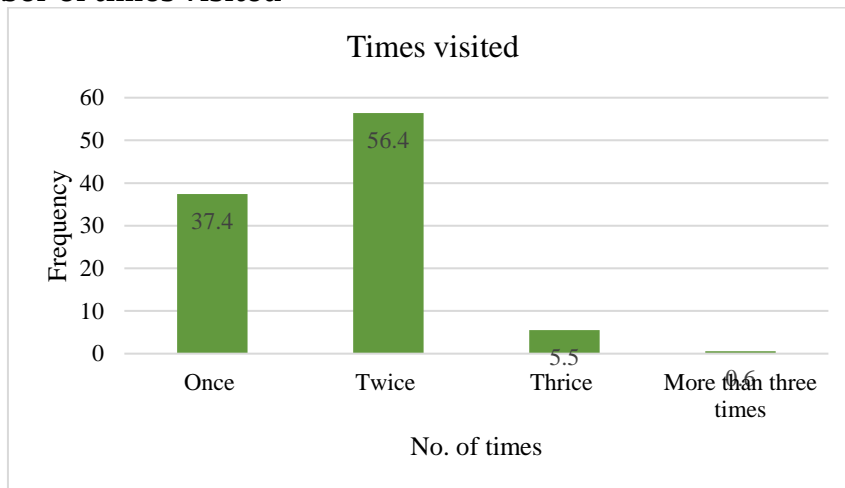
**Figure 5: Respondents' monthly income**



### 5.1.5 Number of times visited

The frequency of hotel visits can indicate guests' appreciation for the establishment and its superior services, leading to customer loyalty. Figure 7 illustrates the analysis of how often respondents visited the hotel. Results indicate that 56.4% of guests visited the facility twice, followed by 37.4% who visited once. Only approximately 6% of respondents had visited the hotel more than two times. This analysis reveals that a majority of guests were open to trying out new experiences in different hotels, possibly due to the abundance of star-rated hotel options in Beijing.

**Figure 6: Number of times visited**



## 5.2 Data Analysis Results

### 5.2.1 Measurement Model

Data analysis for this study was done using SPSS 25.0 and Amos Graphics version 23.0. To evaluate the validity and reliability of the data, Anderson and Gerbings' (1988) two-step statistical analysis approach was used. The results of the confirmatory factor analysis (CFA), which showed the measurement model's goodness-of-fit indices, are shown in Table 2.

According to Hu and Bentler (1999), the model produced good results for a number of indices, including normed chi square, NFI, RFI, TLI, CFI, and RMSEA. Additionally, the construct dependability (CR) values attained, as displayed in Table 2, were higher above the cutoff point of 0.70, ranging from 0.80 to 0.90 (Hair et al., 2011). With all standardised factor loadings over 0.70 and average variance extracted (AVE) values above the cut-off of 0.50 (Fornell and Larcker, 1981; Hair et al., 2011), convergent validity was verified using the method developed by Fornell and Larcker (1981). These findings suggested convergent validity in a good manner. The study made sure that the correlations between the constructs were below the cutoff of 0.85 (Kline, 2015) and that the square roots of AVE were greater than the correlation of any construct with other latent constructs in the model (Fornell and Larcker, 1981) in order to evaluate discriminant validity. All constructs have Cronbach's alpha ( $\alpha$ ) values greater than 0.70, suggesting high consistency. The model therefore satisfies the psychometric requirements set forth for the constructs.

**Table 2: Confirmatory Factor Analysis (n=326)**

Construct	Item	Statement	SFL
Service Encounter Quality (SEQ) $\alpha=0.81$ , CR=0.83, AVE = 0.59	SEQ1	The room facilities at the hotel were visually appealing	0.807
	SEQ2	The hotel had modern looking facilities	0.825
	SEQ3	The lighting and ambience in the hotel created a comfortable atmosphere	0.713
	SEQ4	There was a genuine interest to solve issues arising by the hotel staff	0.892
	SEQ5	I was accorded a friendly welcome by the hotel on arrival	0.816
	SEQ6	Services were performed right the first time by the hotel	0.735
	SEQ7	The hotel offered a variety of meals	0.814
	SEQ8	The hotel provides its guests a safe and secure place	0.853
	SEQ9	Appliances in hotel room are maintained well (soap, shampoo, towel, etc.)	0.791
Relationship Quality (RQ) $\alpha=0.88$ , CR=0.93, AVE = 0.72	RQ1	The visited facility was easy to be trusted	0.874
	RQ2	I felt satisfied by the services offered by the visited facility	0.868
	RQ3	There was engagement of customers by the visited facility's employees	0.764
Perceived Value (PV) $\alpha=0.87$ , CR=0.90, AVE = 0.73	PV1	I use the hotel because of the quality service offered	0.907
	PV2	The hotel experience I got was worth the money and time I spent	0.918
	PV3	The hotel was able to meet my specific needs of comfort, accommodation and location at a reasonable price.	0.863
	PV4	The hotel stay experience was pleasurable	0.778
	PV5	The hotel stay experience made me feel relaxed	0.785
	PV6	The hotel stay experience aroused positive feeling	0.864
Word of Mouth (WOM) $\alpha=0.87$ , CR=0.87, AVE = 0.63	WOM1	I would highly recommend this hotel to my friends and family	0.870
	WOM2	I will say positive things about this hotel when talking to my friends and family	0.802
	WOM3	I will encourage my friends and relatives to use this hotel	0.894
	WOM4	I will post this hotel on my social media handles for my online friends to see	0.755
Customer Loyalty (CL) $\alpha=0.85$ , CR=0.83, AVE = 0.65.	CL1	Overall, I am satisfied with the experiences of the visited facility.	0.902
	CL2	I would continue to use this hotel even if the price was increased.	0.764
	CL3	Service quality offered by the employees would prompt me to use the same hotel again.	0.812
	CL4	I would not switch to another hotel any time	0.863
	CL5	I usually use this hotel brand as my first choice compared to other brands	0.852
	CL6	I feel the hotel suits my needs	0.776

**Abbreviations:** CR= Composite Reliability,  $\alpha$ = Cronbach's alpha, AVE= Average Variance Extracted, SFL= Standardized factor loadings \*\*\*  $p<0.001$

**Table 3: Discriminant Validity**

	SEQ	RQ	PV	CL	WOM
Service Encounter Quality (SEQ)	<b>0.768</b>	0.627	0.375	0.663	0.152
Relationship Quality (RQ)		<b>0.848</b>	0.288	0.672	0.133
Perceived Value (PV)			<b>0.854</b>	0.321	0.124
Customer Loyalty (CL)				<b>0.794</b>	0.217
Word of Mouth (WOM)					<b>0.806</b>
Mean	3.65	3.88	3.65	3.84	3.75
SD	1.09	1.76	1.38	1.02	1.05
VIF	2.23	2.33	1.62	1.52	1.57

Note: The bold numbers in diagonal row are square root of AVE

### 5.2.2 Common method variance test

Given that the study used cross-sectional data, common method variance (CMV) was a greater concern. Harman's single-factor test was used to identify any false covariance between variables (Podsakoff et al. 2003). The findings of the exploratory factor analysis revealed that the first component only explained 31.72% of the variance, indicating that there were more variables that contributed to the variation. Common practice variance was therefore not a problem and had no impact on the research's results. Additionally, the common latent factor technique developed by Podsakoff et al. (2003) was used to assess the robustness of the common method variance test. The results demonstrated that there were only minor variations between the computed parameters and the fit indices of the used framework. These results led to the study's dismissal of common method variance as a potential problem.

### 5.2.3 Structural Model

Classification of goodness-of-fit indices that relate to absolute fit measures, incremental fit measures, and parsimonious adjusted metrics were utilised to evaluate the model's fitness (Hooper et al. 2008). Then, to gauge the aforementioned, Schreibers' (2008) guidelines were applied. With CMIN/DF = 1.236, RMSEA = 0.020, GFI = 0.955, and AGFI = 0.945, the findings showed an overall goodness of fit that was adequate (Hu and Bentler, 1999). Since CMIN/DF and RMSEA were below 3.0 and 0.08, respectively, and GFI and AGFI were more than 0.90 (Hu and Bentler, 1999; MacCallum and Hong, 1997), all indices of absolute fit measures satisfied the criteria. Hu and Bentler (1999) said that incremental fit indices should have values more than 0.90, and the findings showed that NFI = 0.973, RFI = 0.949, IFI = 0.990, TLI = 0.992, and CFI = 0.918 were all suitable values. Additionally, the values were PCFI = 0.862, PNFI = 0.853, and PGFI = 0.870 for the three parsimonious fit measures. These satisfied the cutoff specifications, which were 0.50 or above (Hu and Bentler, 1999). Overall, the findings showed that the suggested model properly suited the data (Hair et al., 2011).

### 5.2.4 Hypotheses testing and results

The proposed hypotheses were examined using structural equation modeling. Multicollinearity issue was first examined whereby it was found out that variance inflation factor values were in the range of 1.52–2.33. These were well below the threshold score of 3.0 (Table 3). The proposed structural relationships were tested with the bootstrapping method. Table 5 present the results of structural equation modeling. The results for H1 indicated that service encounter quality had significant and positive influence on customer loyalty ( $\beta_{SEQ \rightarrow CL} = 0.367$ ,  $t = 4.323$ ,  $(0.387, 0.740)$ ,  $p < 0.05$ ). Service encounter quality also positively influenced perceived value ( $\beta_{SEQ \rightarrow PV} = 0.127$ ,  $t = 2.555$ ,  $[0.229, 0.588]$ ,  $p < 0.05$ ). Therefore, H1 and H2 were supported. The study also confirmed H3, with results revealing that perceived value had a positive impact on customer loyalty ( $\beta_{PV \rightarrow CL} = 0.258$ ,  $t = 1.884$ ,  $[0.335, 0.539]$ ,  $p < 0.05$ ). H3 was therefore supported. On the relationship between service encounter quality and relationship

quality the results were; ( $\beta_{SEQ \rightarrow RQ} = 0.293$ ,  $t = 3.578$ ,  $[0.421, 0.384]$ ,  $p < 0.001$ ) leading to hypotheses 6 being supported. Also, the relationship between relationship quality and customer loyalty was but to a small extent significant and positive at; ( $\beta_{RQ \rightarrow CL} = 0.198$ ,  $t = 2.691$ ,  $[0.421, 0.384]$ ,  $p < 0.001$ ). As for the word of mouth in hypotheses nine, customer loyalty indicated a significant and positive influence on word of mouth ( $\beta_{CL \rightarrow WOM} = 0.258$ ,  $t = 5.688$ ,  $[0.238, 0.449]$ ,  $p < 0.001$ ). H9 was therefore supported.

### 5.2.5 Moderation effects

SPSS 25.0 Amos Version 23 was used to check for the moderation of relationship quality through interaction effects. This process entailed checking for the main direct effects of independent variable and moderating variable on the dependent variable. For this path of service encounter quality  $\times$  relationship quality  $\rightarrow$  customer loyalty, first, the direct effect of service encounter quality and customer loyalty (service encounter quality  $\rightarrow$  customer loyalty) was statistically significant ( $F = 2.483$ ,  $p < .05$ ). Secondly, the interaction effect between service encounter quality and relationship (service encounter quality  $\times$  relationship quality) on customer loyalty was also statistically significant ( $\beta = 0.182$ ,  $t = 3.120$ ,  $p < .001$ ). Since the results indicated significant interaction effects, the next step entailed a check for simple effects in order to determine the nature of interactions. This was guided by suggestions by Aiken et al. (1991). Data for the moderator variable was divided into high and low groups using dummy variables. The effect of service encounter quality on customer loyalty was checked at both high and low levels of relationship quality. Service encounter quality had a positive effect on customer loyalty in the presence of high levels of relationship quality ( $\beta = 0.379$ ,  $t = 2.472$ ,  $p < .001$ ). Service encounter quality was also weakly but positively associated with customer loyalty when there was low levels of relationship quality ( $\beta = 0.121$ ,  $t = 2.298$ ,  $p < .05$ ). The analysis went further to check for the differences between the two high and low levels. The simple slopes' difference was established as significant ( $t = 4.820$ ,  $p < .01$ ). H5 was thus supported.

### 5.2.6 Mediation effect

The mediation effect of the relationships hypothesized in H4 was tested with bootstrapped confidence intervals (See Table 6). Empirical test results established that service encounter quality significantly and indirectly affects customer loyalty through perceived value ( $\beta_{SEQ \rightarrow PV \rightarrow CL} = 0.085$ ,  $[CI: 0.009, 0.186]$ ). Thus H4 was supported.

### 5.2.7 Joint effect

In order to establish the joint effect of all the three predictor variables of service encounter quality, relationship quality and customer perceived value on customer loyalty, stepwise regression analysis was used. Service encounter quality was established to be a significant predictor of customer loyalty ( $\beta = 0.413$ ,  $SE = 0.1216$ ,  $t = 4.351$ ,  $p < 0.05$ ). Customer perceived value, which was also a mediator was a significant predictor of customer loyalty ( $\beta = 0.253$ ,  $SE = 0.498$ ,  $t = 1.885$ ,  $p < 0.05$ ). Relationship quality was also a significant predictor of customer loyalty ( $\beta = 0.271$ ,  $SE = 0.2795$ ,  $t = 2.691$ ,  $p < 0.05$ ). The joint effect of service encounter quality, relationship quality and customer perceived value on customer loyalty was statistically significant at  $p < 0.05$ ). Hypothesis 8 was therefore supported. The beta coefficients for SEQ, relationship quality and perceived value when tested individually had small values ( $\beta_{SEQ} = 0.365$ ;  $\beta_{RQ} = 0.260$ ;  $\beta_{PV} = 0.201$ ). When the three variables were combined, the beta changed and increased to ( $\beta_{SEQ} = 0.413$ ;  $\beta_{RQ} = 0.271$ ;  $\beta_{PV} = 0.253$ ). This indicated that when the three constructs are combined, they contributed more to customer loyalty than when acting individually.

**Table 4: Analysis of Variance**

Model	Dependent Customer Loyalty					
R	R-Sq	MSE	F	df1	df2	P
0.8431	0.738	0.0741	194.6	2	94	0.000
Constant	Coeff	SC	t	p	LLCI	ULCI
SEQ	-1.0698	0.3421	-3.0325	0.0019	-1.6973	-0.369
Customer Perceived value	0.4139	0.1216	4.351	0.000	0.4032	0.8901
Relationship Quality	0.2530	0.498	1.885	0.000	0.469	0.8982
	0.2710	0.2795	2.691	0.000	0.392	0.5633

The resultant regression equation was:

$$CL = -1.0698 + 0.4139SEQ + 0.2530CPV + 0.2710RQ$$

Where:

CL = Customer Loyalty

SEQ = Service encounter quality

CPV = Customer perceived value

RQ = Relationship quality

**Table 5: Results of the hypotheses**

Path	Coefficient estimate	t-statistics	p value	Relationship
H1 Service encounter quality → Customer loyalty	0.367*	4.323	<0.05	Supported
H2 Service encounter quality → Perceived value	0.127*	2.555	<0.05	Supported
H3 Perceived Value → Customer Loyalty	0.258*	1.884	<0.05	Supported
H5 Service encounter quality × Relationship quality → CL	0.182***	3.120	<0.001	Supported
H6 Service encounter quality → Relationship quality	0.293***	3.578	<0.001	Supported
H7 Relationship quality → CL	0.198***	2.691	<0.001	Supported
H8 SEQ × RQ × CPV → Customer loyalty	0.322*	4.848	<0.05	Supported
H9 Customer loyalty → Word of mouth	0.258***	5.680	<0.001	Supported

	Structural Model	Threshold
Model fit statistics	Chi-square = 194.63 d.f = 94	
Absolute fit measures	Normed chi-square = 2.061 RMSEA = 0.020 GFI = 0.955 AGFI = 0.945	1.0 – 3.0 <0.08 >0.90 >0.80
Incremental fit measures	NFI = 0.967 IFI = 0.990 RFI = 0.949	>0.90 >0.90 >0.90

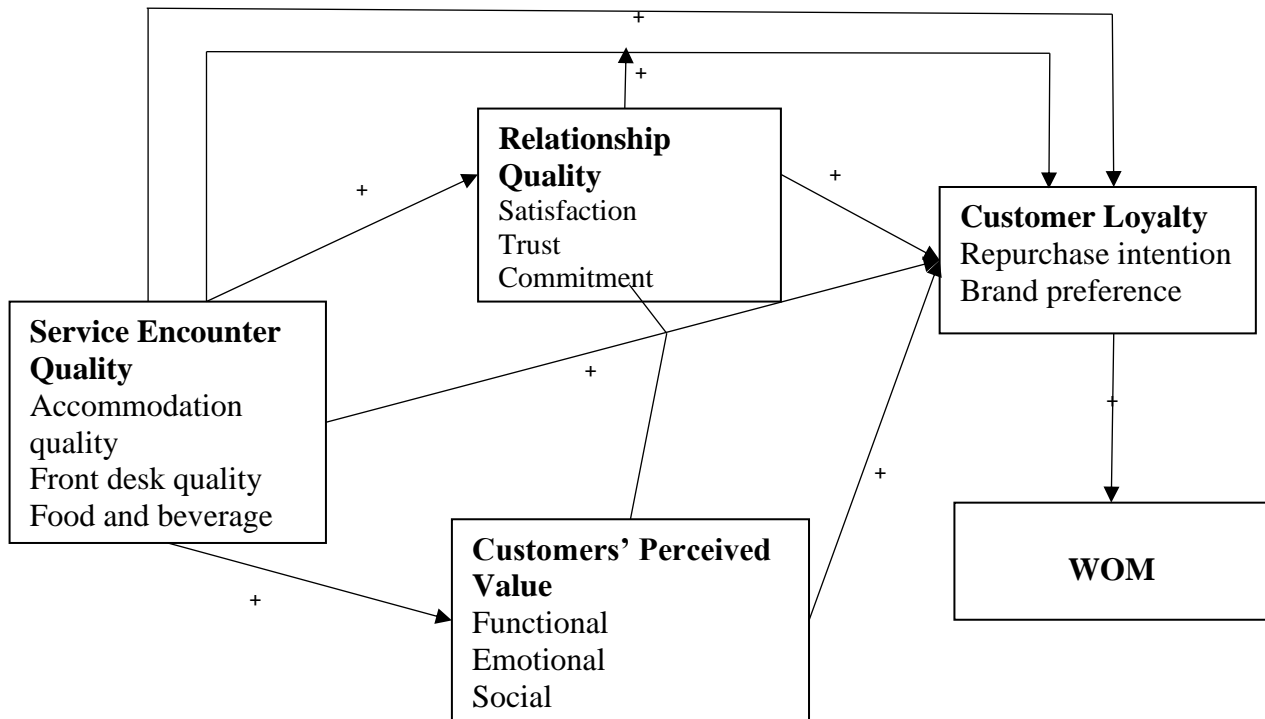
Notes: n = 326; \*, \*\*, \*\*\* indicate significance at 5%, 1%, and 0.1% levels, respectively

**Table 6: Mediation Effects Results**

Path	Effect Size	Boot SE	Bias Corrected CI. 95%	Relationship
H1(ii)a: SEQ → PV → CL	0.085	0.061	0.009, 0.186	Supported

Notes: n = 326; \*, \*\*, \*\*\* indicate significance at 5%, 1%, and 0.1% levels, respectively

The resultant conceptual framework was therefore:



## 6.1 Discussion

The primary goal of this study was to determine the association between customer loyalty and service encounter quality in the hotel sector, as modulated by relationship quality and mediated by perceived value. Customer loyalty was the dependent variable, whereas the dependent variable was the quality of the service experience. The study also demonstrated a link between repeat business and client loyalty.

First, empirical findings demonstrated that customer loyalty was positively impacted by the quality of the service contact. In this study, service encounter quality was examined across a broad variety of hospitality-related activities. Quality of accommodations and rooms, food and drink, front desk service, and health and safety were among them. Results showed that the existence of the aforementioned characteristics influenced levels of customer loyalty in the hotel sector. It's noteworthy that customer loyalty was positively impacted by service encounter quality the most in the research overall, at a rate of ( $=0.367^*$ ). Loyalty is described by Uncles et al. (2003) as a trait of individuals rather than an attribute of businesses. Therefore, it is crucial for businesses to have positive customer interactions in order to encourage client loyalty, which finally results in improved relationships.

According to this study's conventional factor loadings, the real desire of hotel personnel to resolve customer difficulties came in first (0.892), while the degree to which the hotel's lighting and ambiance promoted a comfortable atmosphere came in last (0.713). This suggests that hotels in China need to actively pay attention to the study's described aspects that affect the quality of service encounters, as well as paying close attention to how staff members address clients' requests. This may be accomplished by hiring personnel that are dependable, polite, and knowledgeable about how to best serve the visitors. A consumer should also anticipate flawless service delivery from start to finish. As a result, hotel management must make sure that the personnel is qualified and that the building has an appealing outside.

This supports earlier research like Wanjiku's (2020) study, which aimed to determine the connection between customer expectations, perceived value, and satisfaction in Kenyan hotels. The study found a strong correlation between customer happiness and the quality of the

service experience. Hossein et al. (2012) found a substantial positive link between customer perception of service encounter quality and customer satisfaction in their article analysing the impacts of service encounter quality on customer satisfaction in the banking industry. Additionally, research by Hossein et al. (2011) found a link between high-quality services and consumer loyalty to the company while taking into account concepts like confidentiality, physical infrastructure, and staff respect. However, there is no published research that examined the direct relationship between a positive customer experience and loyalty.

Second, the study aimed to determine the link between relationship quality and the quality of the service encounter as well as the moderating effect of relationship quality on the link between service encounter quality and customer loyalty. Relationship quality and service encounter quality were shown to be positively correlated in the research ( $r = 0.293$ ,  $p 0.001$ ). This was in line with research by Ali (2020), who wrote a paper titled "The Roles of Relationships and Service Quality as Drivers of Customer Loyalty: An Empirical Study" in which he discussed the subject. According to the study, relationship quality and service quality are positively correlated. Service quality was represented by characteristics of responsiveness, dependability, and assurance, whereas relationship quality was described, as in the current study, by characteristics of satisfaction, trust, and commitment. The hypothesis was significantly validated ( $p 0.001$ ) with regard to the moderating influence of relationship quality on the connection between service encounter quality and customer loyalty. This is consistent with research by Ali (2020), which found that the quality of relationships has a positive moderating effect on the link between service quality and customer loyalty.

Thirdly, the study attempted to determine the link between customer loyalty and the quality of the service received, as well as the mediating role that perceived value plays in that connection. First, perceived value was positively and significantly influenced by the quality of the service contact ( $\beta = 0.127$ ,  $p 0.05$ ). The association between service encounter quality and customer loyalty was also positively mediated by perceived value (SEQ PV CL = 0.085). This was in line with findings from Wanjiku (2020), which showed a connection between the calibre of a service encounter and the perceived value among Kenyan hotel visitors. The study also found that perceived value and customer satisfaction had a favourable mediating impact. The mediating function of perceived value in the link between the calibre of the customer experience and loyalty was not explored in any study that is currently accessible.

Fourthly, using simple regression analysis and stepwise regression analysis, the combined impact of service encounter quality, relationship quality, and customer perceived value on customer loyalty was evaluated. The resulting data demonstrated that the model's goodness of fit increased when the coefficient of determination  $R^2$  changed. The regression model's F-test's p-value of  $F=0.000$  indicated that the model was statistically significant. Therefore, the three factors account for varying amounts of client loyalty. When examined separately, the beta coefficients for SEQ, relationship quality, and perceived value exhibited low values (SEQ= 0.365; RQ = 0.260; PV= 0.201). The beta altered and rose to (SEQ= 0.413; RQ = 0.271; PV= 0.253) when the three variables were merged. This demonstrated that the three elements worked better together than they did alone in promoting consumer loyalty. Therefore, in order to improve a concerted effort in boosting client loyalty, managers and decision-makers in the hotel industry should apply the aforementioned elements together in their respective organisations. These findings accord with those of Wanjiku (2020).

Last but not least, Hsu (2018) found a positive correlation between satisfaction and word-of-mouth in a work that examined the impact of service interaction, value, and satisfaction on word-of-mouth while completing an outpatient service course. These results closely matched the findings of the current study, whose data analysis showed that customer loyalty

considerably and favourably influenced the likelihood of consumers praising the hotel facility when they became loyal customers ( $= 0.258, p 0.001$ ).

## **6.2 Theoretical and Practical Contribution**

### **6.2.1 Theoretical Contribution**

This research aims to contribute to theory building, policy issues, and managerial practice by examining the relationships between service encounter quality (SEQ), perceived value, customer satisfaction, and customer loyalty. The study incorporates the theory of consumer behavior, with service encounter quality as an independent variable and perceived value as a mediating variable. Additionally, the study incorporates relationship quality, derived from the theory of social exchange, as a moderating variable in the relationship between SEQ and customer loyalty. Additionally, By exploring the components of service encounter quality as perceived by customers and examining their relationships with relationship quality, perceived value, and customer loyalty, this study expands and integrates previous research. It fills a gap in the existing literature by incorporating the factors of social exchange theory as a moderating variable in the hospitality sector, which has not been extensively studied. Also, the study emphasizes the paramount role played by service encounter quality in shaping customer loyalty and draws from best practices to measure service encounter quality and loyalty. Social exchange theory is employed to understand the reciprocal transactions and resource exchanges that occur between service providers and tourists. The moderating role of relationship quality is expected to enhance service encounter quality and customer loyalty in the hospitality industry. In the competitive marketplace, organizations must be customer-oriented and provide high-quality services to remain relevant. By addressing the multi-level needs of customers, such as trust, satisfaction, and engagement, organizations can solidify customer loyalty. The study contributes to the theoretical development of a model that explains the relationship between service encounter quality and customer loyalty by incorporating the complex dimensions of quality specific to the hospitality industry, drawing inspiration from the SERVQUAL model's five dimensions: tangibles, reliability, responsiveness, assurance, and empathy.

### **6.2.2 Managerial and Practical Contribution**

Findings of this research will help the management of the hospitality industry in improving the service to their customers with the changing needs of the customers. This will translate into creation of a competitive edge, increased sales volume, an increased market shares, enjoying word of mouth advertisement among others. For the policy makers who understand and gauges how well the industry can be leveraged through learning, this study will be of benefit to them. Policy makers across the globe appreciate the importance of hospitality industry in achievement of long term economic development and hence this study's results will assist them in making informed decisions. In addition, the findings of this research are expected to provide invaluable insights as well as a more reliable guide to monitoring the impact of service quality at the point of encounter with customers. Further, the research findings will be important to public policy makers who may use the information in adjusting market structures, provision of incentives, implementation of regulations and promotion of public awareness. Lastly, the study will provide information-based strategies that can be adopted by managers and policy makers in provision of quality services in hospitality industry thereby improving firm performance by increasing consumers' confidence towards the industry. At the individual level, this research's findings will be critical to the customers of the industry's facilities e.g. restaurants and accommodation facilities in their decision making when planning to make travel arrangements.



## 7. Conclusion and future research directions

### 7.1 Conclusion

Service quality is regarded as a multidimensional concept that continues to evolve. It presents a highly important problem that needs to be solved by contemporary management (Cronin & Taylor, 1992). Service providers can favorably position themselves in the market by delivering superior levels of service quality though service quality is an elusive and abstract concept that is not easy to be defined and measured (Parasuraman et al., 1985). According to Gronroos (1984) service quality is believed to rely on two variables which are expected service and perceived service. In addition, customers are not only interested in what service they get as a result of the production process, but also in the process itself (Gronroos, 1984).

The loyalty of customers to service firms relies more on interpersonal relationships development as opposed to customers' loyalty to firms producing tangible products. This is because the perceived risk is greater in services offerings than products. Revised literature indicates that customer loyalty can be defined in two different ways. The first one defines loyalty as an attitude whereby different feelings create an individual's overall attachment to a product, service, or organization. These feelings consequently define the degree of loyalty of an individual. Behavioral is the second definition of loyalty. In this case, instances of loyalty behavior entails continued purchase of services from the same supplier, increasing the scale and or scope of a relationship, or recommending to other potential buyers (Hallowell, 1996).

Loyalty is a feature of people, rather than something inherent in firms (Uncles et al., 2003). Hence, the importance of relationships between firms and customers to foster customer loyalty, which will in turn lead to enhanced relationships. Different prior studies have been carried out examining the antecedents and consequences of customer loyalty (Pan et al., 2012) since loyalty is connected with other complex constructs such as customer involvement, trust, satisfaction, commitment, as well as engagement (Hajli et al., 2017).

This study in a bid to model the concept of service encounter quality and customer loyalty incorporated relationship quality as a moderating variable and perceived value as a mediating variable. Relationship quality was defined as the degree to which both parties in a relationship get engaged in an active, long-term working relationship and the construct was operationalized using indicators of satisfaction, trust, and commitment (Hewett et al., 2002). The study sought to advance literature in service encounter quality and customer loyalty by considering the role played by relationship quality borrowed from social exchange theory and customer perceived value. Relationship quality positively moderated the relationship between the SEQ dimensions and customer loyalty while customer perceived value also positively mediated the relationship between the independent and dependent variable. In addition, the study sought to gauge the joint effect of the three variables; SEQ, relationship quality and customer perceived value on customer loyalty, which was also significant. The study established that for the joint effect, when the three constructs are combined, they contributed more to customer loyalty than when acting individually. Thus for managers and decision makers of hotel management, the three constructs should be used jointly in order to establish concerted effort in enhancing customer loyalty. Customer loyalty further had a positive relationship with word of mouth. In general, the proposed systematic managerial model offered insights into service market, specifically in tourism and hospitality industry, and the results added to the currently available literature on service quality. The results offer a blueprint that hotel management should exploit in positioning their services and consecutively gaining a competitive advantage.

## 7.2 Limitations and suggestions for future research

This study has several limitations that should be considered when evaluating its results. Firstly, it is a cross-sectional study, which means it cannot establish causality between variables like a longitudinal study could. However, conducting a longitudinal study with a large number of respondents over an extended period of time was not feasible for this research. Secondly, the study was conducted in the tourism and hospitality industry, limiting its generalizability to other industries. Service industries vary significantly, and the importance and impact of service encounters may differ in high-tech service contexts. Future research should replicate the presented structural model in other service industries, considering the specific industry context and employing longitudinal data collection if possible. Thirdly, the research only surveyed customers for quantitative analysis, neglecting the perspectives of employees. It would be beneficial for future studies to include both employees and customers to assess their perceptions of service encounter quality comprehensively. Fourthly, the research did not include dimensions related to technology, despite the growing body of literature on the impact of self-service technology (SST) in service encounters. Future research in this field should incorporate dimensions related to technology in their measurement instruments. Although the study collected data from individuals from various cultural backgrounds, providing diverse cultural contexts, it is important to consider individual differences such as age, gender, education level, and income levels, as they can affect perceptions and decisions related to choosing and spending at a facility. Despite these limitations, the rapidly evolving technology landscape, the expanding tourism and hospitality industry, and unforeseen occurrences impacting service encounter quality call for further research in this area. It is timely and necessary to conduct subsequent studies to fill the gaps in our understanding of service encounter quality in the tourism and hospitality industry.

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