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A Model of Customer Satisfaction and Retention for Hotels

Janet Sim
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ABSTRACT. This study was designed to assess the antecedents and consequences of customer satisfaction and retention in the hotel industry. The relationship between customer satisfaction and customer retention has been researched for many years. This study extended that research to look at the antecedent effects of customer satisfaction as well as the effect of added value and gender on customer satisfaction and customer retention, and how they relate to the intent to switch. Customer retention was operationalized in terms of loyalty and intent to switch. Customer satisfaction was operationalized in terms of hotel ambience and hospitality. A survey among hotel customers in the San Francisco Bay Area was conducted. A LISREL structural equation model with confirmatory factor analysis was developed to analyze the data. Results indicated that the latent construct customer retention was dependent on the latent construct of customer satisfaction. Added value was found to have positive effects on customer satisfaction and customer retention.

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Managerial implications to develop strategies to improve customer satisfaction and enhance retention of hotel customers were discussed. doi:10.1300/J162v07n03_01 [Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <<http://www.HaworthPress.com>> © 2006 by The Haworth Press, Inc. All rights reserved.]

KEYWORDS. Customer satisfaction, hospitality, ambience, customer retention, loyalty, intent to switch

INTRODUCTION

The relationship between customer satisfaction and customer retention has been researched for many years. This study extended that research to look at the antecedent effects of customer satisfaction as well as the effect of added value and gender on customer satisfaction and customer retention, and how they relate to intent to switch.

Retaining customers in the lodging industry has become increasingly more important with increasing competition. Hotels that can attract, maintain, satisfy and retain customers are more likely to survive (Choi & Chu, 2001). In general, the longer the customer stays in the long-term relationship, the more profitable the relationship becomes to the organization.

Customer satisfaction in the service industry has been important for many years. High quality service and enhancing customer satisfaction are widely recognized as important factors leading to the success of companies in the hotel, catering and tourism industries (Barsky & Labagh, 1992; Legohérel, 1998, Choi & Chu, 2001). It is believed that customers who are satisfied are more likely to establish loyalty, repeat purchases and favorable word-of-mouth (Fornell, 1992). Customer satisfaction of the hotels includes many elements, such as the ambience of the hotel and hospitality of the service provided to the customer (Skogland & Signaw, 2004).

“Value” has been considered to be influential in determining travelers’ overall satisfaction levels and their likelihood of returning to the same hotels (Choi & Chu, 2001). The price of a hotel stay can play a considerable role in the satisfaction or retention of customers. However, Dube and Renaghan (2000) identified other hotel attributes, such as location, functional service, food and beverage service, room amenities,

etc., that related to customer value. The gender of the customer may also affect the retention of hotel customers. Research findings on the relationship between customer satisfaction and gender have been inconclusive. Bendall-Lyon and Powers (2002) found that the satisfaction of female customers declined faster than male customers while Oderkerken-Schroder et al. (2001) found that female customers benefited the retailers more than the male customers.

Even though the relationship between customer satisfaction and customer retention has been researched for many years, this study extended that research to look at the antecedent effects of customer satisfaction as well as the effect of added value and gender on customer satisfaction and customer retention.

This study was designed to confirm the antecedents and consequences of customer satisfaction and retention in the hotel industry. What are the antecedents of customer satisfaction, in terms of ambience and hospitality? What are the consequences of retention, in terms of customer loyalty and intent to switch? Would added values and different gender respond differently to customer satisfaction and retention?

REVIEW OF LITERATURE

The focus of this research is to explore customer satisfaction and retention, as well as their antecedents and consequences. *Customer satisfaction* in the service industry has been important for many years. The goal of any customer-driven organization is to maximize customer satisfaction through the products and service offered (Mittal et al., 1998).

Customer Satisfaction

Satisfaction may be defined as “an overall evaluation of performance based on all prior experiences with a firm” (Skogland & Siguaw, 2004). A customer who receives what she or he expected in a hotel stay is most likely to be satisfied (Bowen & Shoemaker, 2004). Customer satisfaction with the hotels involves many elements, such as the ambience of the hotel and hospitality of the service provided to the customer (Choi & Chu, 2001). High quality service and enhancing customer satisfaction are widely recognized as important factors leading to the success of companies in the hotel, catering and tourism industries (Barsky & Labagh, 1992; Legohrerel, 1998; Choi & Chu, 2001).

Dube and Renaghan (2000) reported that the top two attributes driving business-meeting travelers' hotel-purchase decisions are physical property (exterior, public space) and guest-room design. Bitner (1992) refers to the physical design or setting as tangible and the quality of interpersonal services or hospitality as the intangible present within the servicescape. This study examined the people factor "hospitality" and the "ambience" of the hotel as antecedents of customer satisfaction.

Customer Satisfaction Factor: Ambience

Ambience refers to "the special atmosphere or mood created by a particular environment" (<http://www.dictionary.com>). A hotel's image has also been found to have a significant correlation with the satisfaction of a hotel and its departments, as well as with customer preference and customer loyalty (Mazenec, 1995; Kandampully & Suhartanto, 2000). Griffin (1998) examined seven small lodging operations in San Jose, Costa Rica and found that ambience was one of the factors contributing to the success of the lodging operations. Research also indicated that the ambience of the hotel affects a customer's selection decision (Lewis, 1984; Anonymous, 1987). Link (1989) suggested that hotel revisits could be enhanced by improving its ambience to meet the needs of the target market segments. Better ambience will indicate a better perceived service quality of the hotel. Bitner (1992) stressed the importance of the physical surroundings to facilitate ambient conditions that are important to employee productivity and interpersonal services. Skogland and Siguaw (2004) examined the people factor and satisfaction with hotel ambience and reported that satisfaction with a hotel's ambience did positively affect word-of-mouth loyalty. Their finding supports another study that underscored the importance of hotel design and amenities as drivers of guest satisfaction (Siguaw & Enz, 1999). Sulek and Hensley (2004) reported that in examining customer satisfaction in restaurants, restaurant atmosphere was one of the factors that had significant effects.

This study examined the "Ambience" (see Table 1 for Ambience items) of the hotel as one of the antecedents of customer satisfaction.

Customer Satisfaction Factor: Hospitality

Hospitality is the people component of service quality. One essential difference between the "hospitality" business and other business sectors

TABLE 1. Items Within the Questionnaire

Variable	Item	Questions
Ambience	Amb01	This hotel gives me a feeling that I am staying at a high-class luxury hotel
	Amb02	I am very impressed with the architectural design, interior decorating, accessory selections, artwork, and overall color and décor of this hotel
	Amb03	This hotel has beautiful accommodation
	Amb04	This hotel has a fantastic and unique ambience
	Amb05	There is an ambience of genuine friendliness and warmth at this hotel
	Amb06	The atmosphere here makes me feel welcome, comfortable and at ease
	Amb07	The ambience offers me the lifetime setting of elegance at this hotel
	Amb08	The employee dress code, color harmony, and audio effects of this hotel all blend in very well to create an elite atmosphere
Hospitality	Hosp01	The employees here meet all of my needs without having to ask them
	Hosp02	The employees at this hotel greet me with courtesy and smiles at all times
	Hosp03	The employees here are friendly, cheerful, polite and responsive
	Hosp04	This hotel provides me with all my needs without having to ask for them
	Hosp05	The employees here are patient and spend time responding and explaining things to me
	Hosp06	The employees here always make me feel very important at this hotel
	Hosp07	The employees here communicate well and are good listeners
	Hosp08	The employees at this hotel can anticipate my unmet needs
	Hosp09	The employees here make me feel protected and secure
	Hosp10	The employees here are positive towards customers and never say negative things, such as "We can't do such and such"
	Hosp11	At this hotel, the staff creates a special mood of comfort and relaxation
	Hosp12	At this hotel I feel as I am treated like a queen/king
Added value	Value01	This hotel is conveniently located for me to take advantage of near area low-cost attractions, dining, shopping, and groceries within walking distance.

TABLE 1 (continued)

Added value	Value02	This hotel offers a great value for 24-hour free or reduced parking
	Value03	This hotel offers a great value for local calls
	Value04	This hotel offers an array of awesome amenities
	Value05	This hotel has great in-room facilities, such as coffee maker, mini-refrigerator, ironing board and hair dryer for my daily conveniences
Loyalty	Commit01	I would love to come back to this hotel
	Commit02	I am loyal to this hotel
	Commit03	I am really dedicated to this hotel
	Commit04	I identify myself with this hotel
	Commit05	I will tell all my friends and relatives to come to this hotel
	Commit06	I will not go to any other hotel but this one
	Commit07	My loyalty is deeply rooted in this hotel
	Commit08	My values and those of this hotel are very similar
Intent to switch hotels	Switch01	I might not consider returning to this hotel
	Switch02	I don't want to encourage my friends and relatives to come to this hotel
	Switch03	I have reservations about returning to this hotel again
	Switch04	I do not believe this is the right hotel for my future stays
	Switch05	The next time when I come to this city, I will consider staying at another hotel
	Switch06	I would not recommend this hotel to others
	Switch07	I have some complaints and concerns about this hotel

is that hospitality produces guest satisfaction—an ephemeral product or, in the service literature, an intangible product (Walker, 2006, p. 8). To further define hospitality in the hotel business, Walker included “the need to greet, assist and serve guests” (Walker, 2006, p. 5).

Almost 70% of identifiable reasons why customers switched to competitors were associated with a dissatisfying service experience with a service provider during the service encounter (Whiteley, 1991). The in-

tangible aspect of service quality has to do with the people involved in service delivery. Service quality, although intangible, does contain tangible components in the customer evaluation of service quality. In the hotel business, the employees act as the boundary spanners with the customers that represent the service quality being delivered (Zeithaml & Bitner, 2003). The quality of service provided by the service producer during the face-to-face encounter with the customer could be the deciding factor on which the customer makes a re-purchase decision and is an influencing factor in the customer's decision to form and maintain a long-term relationship with an organization (Barksy & Labagh, 1992; Bitner et al., 1990; Bolton & Drew, 1992). Service relationship between the customer and the service provider has always been cited as being critical (Scanlon & McPhail, 2000).

Petrillose and Brewer (2000), using focus groups, found that customers perceived their experience as excellent when employees were courteous, friendly, helpful, and ready to respond. Major findings from Fu and Parks (2001) were that friendly service and individual attention were more important factors than tangible aspects of service in influencing elderly customers' behavioral intentions. Scanlon and McPhail (2000) reported that the underlying dimensions defining relationship formation are positive first impressions, adaptive behavior, memorable and satisfying service experience, extended interaction and conversation, and intentions to continue to patronize the organization. If the desired behaviors are not experienced in the first and subsequent service encounters, customers may defect to the organization's competitors.

The "people factor" may be the most salient factor in determining overall satisfaction and repeated purchasing in the service industries (Yuksel & Yuksel, 2000). Choi and Chu (2001) reported "staff service quality" to be one of the influential factors in determining travelers' overall satisfaction levels and their likelihood of returning to the same hotels. Skogland and Siguaw (2004) examined the people factor and satisfaction with hotel ambience, and reported that the factor that caused guests to be most involved in the purchase decision was its employees.

This study examined "Hospitality" (see Table 2 for Hospitality items) as one of the antecedents of customer satisfaction.

Customer Retention

Customer retention means "retaining customers," and it costs more to find new customers than to retain existing ones (www.walkerinfo.

TABLE 2. Reliability and Validity of the Items in the Model

Variable	Item	Corrected Item Total Correlation	Factor Loading
Ambience	Amb01	0.86	0.89
	Amb02	0.86	0.90
	Amb03	0.89	0.92
	Amb04	0.89	0.91
	Amb05	0.85	0.89
	Amb06	0.80	0.85
	Amb07	0.83	0.87
	Amb08	0.76	0.81
		Alpha = 0.96	1 factor 77% of variance
Hospitality	Hosp01	0.77	0.81
	Hosp02	0.78	0.82
	Hosp03	0.80	0.84
	Hosp04	0.80	0.83
	Hosp05	0.85	0.88
	Hosp06	0.85	0.88
	Hosp07	0.83	0.87
	Hosp08	0.80	0.84
	Hosp09	0.77	0.81
	Hosp10	0.72	0.77
	Hosp11	0.83	0.86
	Hosp12	0.75	0.79
		Alpha = 0.96	1 factor 69% of variance
Added value	Value01	0.426	0.64
	Value02	0.529	0.71
	Value03	0.573	0.74
	Value04	0.557	0.75
	Value05	0.507	0.71
		Alpha = 0.74	1 factor 51% of variance
Loyalty	Commit01	0.72	0.78
	Commit02	0.86	0.90
	Commit03	0.89	0.92
	Commit04	0.90	0.93

Loyalty	Commit05	0.81	0.86
	Commit06	0.82	0.86
	Commit07	0.83	0.87
	Commit08	0.83	0.87
		Alpha = 0.96	1 factor 77% of variance
Intent to switch hotels			
	Switch01	0.70	0.84
	Switch02	0.77	0.89
	Switch03	0.34	0.42
	Switch04	0.82	0.91
	Switch05	0.67	0.78
	Switch06	0.74	0.88
	Switch07	0.72	0.83
		Alpha = 0.90	1 factor 65% of variance

com). Customer retention in the lodging industry has also become increasingly more important (Back & Parks, 2003). According to the findings of Reichheld and Sasser (1990), a 5% increase in customer retention translated into a 25% to 125% increase in the profitability of nine selected service firms. Long-term customers buy more, bring in new customers, take less of the service providers' time, and are less sensitive to price (Reichheld, 1996; Reichheld & Sasser, 1990). It has been shown that the cost of soliciting new customers is seven times higher than that of retaining old ones (Richard & Larry, 1996) and that enhancing customer retention will lead to profit increase.

In order to enhance the retention of customers, it is essential for hotel managers to understand the relationship between customers' satisfaction and customer retention.

Studies have reported significant links between customer satisfaction and retention (Bolton, 1998; Cronin & Taylor, 1992). Sirgy and Tyagi (1986) mentioned that a customer's repeat purchase is closely associated with his or her satisfaction with an initial purchase. Choi and Chu (2001) reported factors that determined travelers' overall satisfaction levels and their likelihood of returning to the same hotel as well. However, Skogland and Siguaw (2004) reported only a weak connection

between satisfaction and loyalty (a precursor to repeat purchases). This study investigates whether the latent construct “customer retention” is dependent on the latent construct of “customer satisfaction.”

Although much of the research documented in hospitality journals has addressed issues of brand loyalty, little attention has yet been given to a model that operationalizes the latent factor of “customer retention” with perceived “loyalty” of customers and their “intent to switch.” Tideswell and Fredline (2004) studied the importance of hotel customers’ attitudes toward switching between different hotels in general. Their study revealed that 28% of respondents agreed that they liked staying at different hotels when returning to the same destination and 16% suggested that they enjoyed switching from one hotel to another. In this study, we investigated with confirmatory factor analysis how the latent factor of customer retention could be operationalized in terms of perceived loyalty of the customer to the hotel, and their intent to switch to other hotels.

Customer Retention Effect: Intent to Switch

An important dimension of customer retention is customer’s “intent to switch.” Hotel customers may enjoy switching to different hotels when returning to the same destination (Tideswell & Fredline, 2004). Researchers in hospitality industries have indicated the importance of understanding the underlying causes of customer retention behavior and how it relates to customers’ intent to switch (Back & Parks, 2003). Switching behavior of customers has been an important research area in banking and marketing. For example, Athanassopoulos (2000) studied facets of customer satisfaction as explanatory cues for the switching behavior of business customers. Chakravarty et al. (2003) examined the role of relationships between individuals and their banks in determining bank switching behavior. The intent of switch may be affected by many factors, such as loyalty (Shoemaker & Lewis, 1999), and dissatisfaction that occurred as a result of defections (Reichheld, 1996).

Customer Retention Effect: Loyalty

Customer loyalty is defined as the likelihood of a customer’s return to a hotel (Bowen & Shoemaker, 1998). A loyal customer may have emotional attachment to the hotel (Griffin, 1995). Loyal customers are the principal drivers of profits as they continue to stay at a brand’s

properties. Tideswell and Fredline (2004) reported that guests who fit into the extremely loyalty cluster have high attitudinal attachment to the hotel, so that many are prepared to change the timing of their visit to ensure they are able to stay at their preferred property. They are also not as sensitive on pricing issues and are willing to pay more to stay in their favorite property rather than go elsewhere in favor of cheaper room rate.

It has been found that brand loyalty customers also reduced marketing costs associated with attracting new customers (Kotler et al., 1998). In addition, these customers say positive things about a company to others (Tepeci, 1999) and frequently pay premium prices (Bowen & Shoemaker, 1998). Barsky and Lin (2004) reported that in the luxury hotel segment among leisure travelers, overall satisfaction was significantly higher among repeat guests. This suggests that satisfying leisure travelers can pay off handsomely with higher rates and more repeat guests. Industry executives continue to emphasize “customer loyalty” as a key to sustaining long-term business success (Oh, 2002).

“Added Value” Affecting Customer Satisfaction and Customer Retention

Another important element is the “added value” affecting satisfaction and retention. In a previous study by Jones et al. (2005), perceived value has been defined as “the consumer’s overall assessment of the utility of a service based on the perceptions of what is received and what is given” (Ziethaml & Bitner, 2003, p. 491). It has been found to influence not only pre-purchase, but also customer satisfaction, and intention to recommend and return (Dodds et al., 1991; Parasuraman & Grewal, 2000; Al-Sabbahy et al., 2004). However, the construct has been operationalized as being multidimensional.

Price offered by the hotel can play a considerable role in consumers’ perception of value. However, other aspects of “added value” may go beyond the monetary price. Lewis and Shoemaker (1997) discussed the interpretation of price as well as value that goes beyond the manifest monetary price of an item or service.

Choi and Chu (2001) reported that “value” was considered to be one of the influential factors in determining travelers’ overall satisfaction levels and their likelihood of returning to the same hotels in Hong Kong. The factor “value,” which was associated with the travelers’ perceptions about the value for money, had several items which included room value for money and hotel food and beverage value for money.

Dube and Renaghan (2000) reported that one of the key efforts that hotels must make in developing loyal, satisfied customers is to create value for their customers. Since repeat guests are hotel's richest sources of revenues and profits, managers should focus on developing hotel attributes that are most likely to be sources of visible customer value. They defined value as customers' perceptions with regard to ten specific hotel attributes that have fulfilled their needs during their stay. Other than value for money, other hotel attributes used in the study were location, F&B services, physical property, and other services which could contribute to "customer value."

This study examines whether "added value," such as hotel location to take advantage of attractions, dining, shopping, free or reduced parking, in-room facilities, and amenities, etc. (see Table 1 for items under Added Value) may have an impact on "Customer Satisfaction" and "Retention."

Gender Affecting Customer Satisfaction and Customer Retention

Research finding on the relationship between customer satisfaction and gender is inconclusive. Some researchers found that females showed more loyalty and satisfaction. For example, Oderkerken-Schroder et al. (2001) found that store loyalty was moderated by the gender of customers. They reported that retailers reap more benefits from their quality investments if they offer relational quality to female as opposed to male consumers. On the other hand, other researchers found that female consumers showed lower satisfaction or loyalty. For example, Bendall-Lyon and Powers (2002) found that in women receiving health care service, overall satisfaction and behavioral intentions declined more over time. Similarly, Moutinho and Goode (1995) found that female customers tended to have marginally significant lower brand loyalty. Further, Skogland and Siguaw (2004) also found that men had higher loyalty, and they were more interested than women in reducing risk by purchasing a known hotel.

In summary, we hypothesized the following:

- Customer satisfaction leads to customer retention.
- The latent construct of customer satisfaction can be operationalized in terms of ambience and hospitality. Better perceived ambience would indicate better customer satisfaction. Better perceived hospitality would indicate better customer satisfaction.

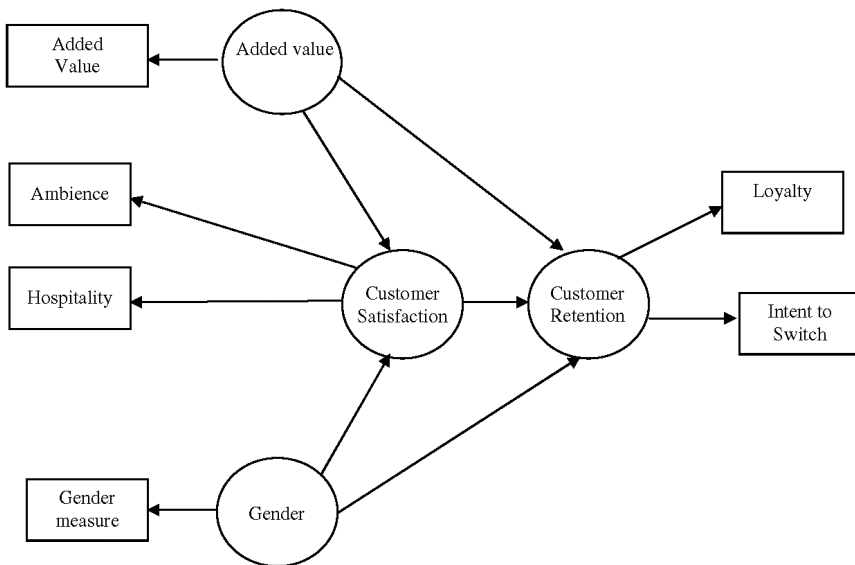
- The latent construct of customer retention can be operationalized in terms of customer loyalty and intent to switch. Higher customer loyalty would indicate better customer retention. A lower intent to switch would indicate better customer retention.
- Added value affects customer satisfaction positively. Higher perceived added value of hotel stay would lead to better customer satisfaction.
- Added value affects customer retention positively. Higher perceived added value of hotel stay would lead to better customer retention.
- Gender affects customer satisfaction and customer retention. Females would have lower satisfaction and lower retention.

See Figure 1, which summarizes the hypothesized model.

RESEARCH METHODOLOGY

A survey was conducted among customers of the hotels in the San Francisco Bay Area. The majority of the respondents stayed at 4-star

FIGURE 1. Hypothetical Model for Relationships Among Added Value, Gender, Customer Satisfaction and Retention



hotels, while a few of them stayed at 5-star hotels and 3-star hotels. A total of 200 questionnaires were distributed and 139 usable questionnaires were returned.

Out of the 139 respondents, 40% were female, 31% were male and the remaining respondents preferred not to state their gender. About 61% were between the ages of 26 to 45, 14% were under 25, and 20% were above 46, and 5% did not state their age. About 70% of the respondents were employed. About 26% worked in hotels or restaurants, 13% worked in high-tech, 11% in education, 10% in healthcare, 12% in retailing, and 7% in government (see Table 3). About 75% had completed bachelor degrees or above, and 46% of the respondents had education in the area of business or science and engineering.

The survey instrument was first developed using literature review and consultations with hotel industry experts. A pretest of the questionnaire was then conducted among students in the Hospitality Management Department at San Francisco State University and the result was used to refine the instrument to improve its clarity and depth. Respondent perceptions were measured using a Likert scale of 6 points, with 1

TABLE 3. Demographic Summary of the Research Sample

Characteristics	Categories	Respondents (%)
Gender	Male	31
	Female	40
	Did not respond	29
Age group	Under 25 years	14
	Between 26 to 45 years	61
	Between 46 and above	20
	Did not state age	5
Employment	Not employed	12
	Self-employed	13
	Employed	70
	Other	5
Area of employment	Government	7
	Healthcare	10
	High-tech	13
	Hotels or restaurants	26
	Retailers	12
	Education	11
	Others	21

standing for strongly disagree, 2 for Disagree, 3 for Slightly Disagree, 4 for Slightly Agree, 5 for Agree and 6 for Strongly Agree. This even number of response scale was adopted without middle neutral or undecided choice, in order to force the respondent to decide whether they lean more towards the agree or disagree end of the scale for each item (<http://www.socialresearchmethods.net/kb/scallik.htm>). Respondents indicated in radio buttons whether they are male, female or prefer not to say. To analyze the survey, the gender data was later coded as “1” for male, and “0” for female. Table 1 displays the items used in the questionnaire.

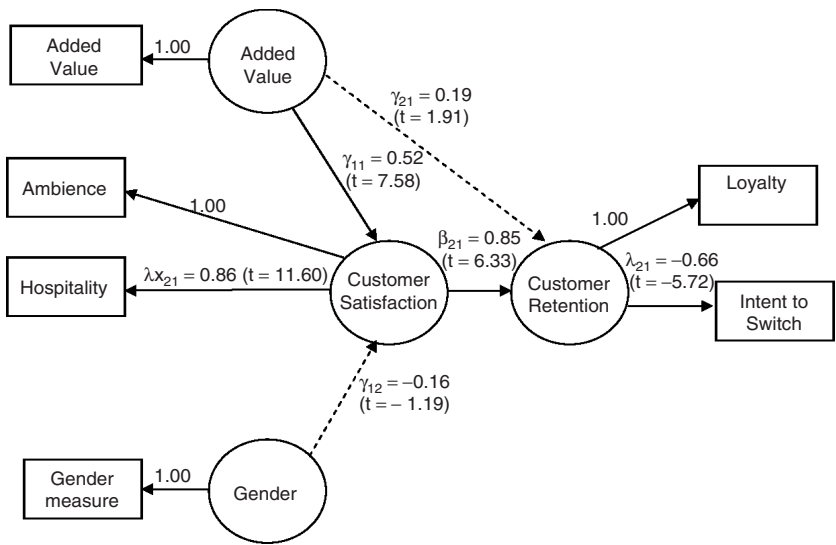
Each of the observable variables was measured by several questions. The items for each variable were checked for construct validity and reliability using SPSS. Construct validity refers to whether all the items for the observable variable represent one single construct. Construct validity was established by checking the result of the factor analysis, with all the items representing one factor accounting for about at least 51% of variance. Reliability refers to the degree of stability of the scale (Jackson et al., 1997). Reliability of the construct is demonstrated by checking the Cronbach alpha for the items for each construct and the correlation among the items for the construct. Typically, a scale is said to be reliable if alpha is 0.70 or higher. Table 2 gives the validity and reliability indices for the questionnaire items for each variable. All the items had reliability coefficient higher than 0.74.

RESULTS AND ANALYSIS

The survey data was analyzed with LISREL confirmatory factor analysis (Joeskog & Sobom, 1989; Long, 1983), in order to understand the underlying relationships among “Customer Satisfaction” and “Customer Retention,” gender and added value. LISREL is a powerful tool in analyzing the underlying dimensions of latent variables. It captures the simultaneous relationships among them and gives an accurate picture of the true model.

We tested the model in Figure 1. The final model is given in Figure 2. Insignificant relationships are indicated by dotted arrows. In the final model, “Customer Retention” is made up of two significant indicators, “Loyalty” and “Intent to Switch.” “Customer Satisfaction” is made up of two significant indicators, “Ambience” and “Hospitality.” Gender is indicated by the “Gender Measure” reported by the customer. “Customer Satisfaction” is significantly related to “Customer Retention”

FIGURE 2. Final Model for Relationships Among Added Value, Gender, Customer Satisfaction and Retention*



Goodness of Fit Measures:

Chi-square	11.78
Degree of freedom (df)	6
Chi-square / df	1.963
Goodness of fit (GFI)	0.97
Adjusted Goodness of Fit (AGFI)	0.90
Normed Fit Index (NFI)	0.97
Comparative Fit Index (CFI)	0.98
Non-Normed Fit Index (NNFI)	0.96
Root Mean Square Residual	0.08

*Significant relationships are denoted as solid arrows and insignificant relationships are denoted as dotted arrows.

(t-value = 6.33). The effect of “Added Value” on “Customer Satisfaction” is positive and significant (t-value = 7.58), and its effect on “Customer Retention” is positive and marginally significant (t-value = 1.91). The effect of “Gender” on “Customer Satisfaction” is negative but not significant (t-value = -1.20).

The adequacy of the model in Figure 2 is assessed using various measures (Rai & Patnayakuni, 1996). In using structural equation models for testing, the null hypothesis is set up as a priori not to be rejected. The

chi-square statistic tests whether the observed data fit the hypothesis of the proposed model, and a smaller chi-square value indicates a better fit. Hence, when the chi-square values are statistically insignificant, the hypothesized model would have a pattern close to the observed data. However, for small sample sizes that might have slightly departed from normality, the chi-squares are not good model fit indicators. The chi-square per degree of freedom should be used instead. A ratio of approximately five shows a reasonable fit while a ratio between one and two is an excellent fit (Ahire et al., 1996). The ratio of the model in Figure 2 is 1.963 ($\chi^2 = 11.78$ with six degrees of freedom), indicating a very good fit.

Other measures of fit include the goodness of fit index (GFI) and normed fit index (NFI). Both the GFI and NFI are always between zero and one, with one indicating a perfect fit while any value above 0.9 suggesting a good fit (Bentler & Bonett, 1990). The model has a GFI of 0.97 and a NFI of 0.97. This shows a good fit. The adjusted goodness of fit (AGFI) is 0.90. This again shows a good fit. Similarly, the non-normed fit index (NNFI) and the comparative fit index (CFI) are two additional measures ranging from 0 to 1, where values close to or greater than 0.9 represent a reasonable model fit. The NNFI and CFI for the model are 0.96 and 0.98, respectively. Finally, the root-mean squared residual (RMSR) shows the proportion of the variance not explained by the model. In general, a root mean squared residual of 0.08 or below indicates a reasonable model fit. The model has a RMSR of 0.08. Overall speaking, the GFI, AGFI, NFI, NNFI, CFI, and RMSR all indicate that the model has a good fit.

Figure 2 summarizes the maximum likelihood parameter estimates and t-values for the model constructs shown in Figure 2. The model parameter $\lambda_{y_{11}}$ for "Loyalty" is set to unity to define the unit of measurement for the latent variable "Customer Retention." As indicated, $\lambda_{y_{21}}$ ($t = -5.72$) is -0.66 , which is significant at the 0.05 level. This suggests that "Loyalty" and "Intent to Switch" are observable measures of the latent variable "Customer Retention." Since $\lambda_{y_{21}}$ is negative, this shows that the less the customer intent to switch hotels, the more positive is the customer retention of the hotel. Since $\lambda_{y_{21}}$ is smaller than unity, this suggests that "Intent to Switch" is a less important indicator than "Loyalty" in measuring "Customer Retention" of the hotel.

Similarly, the model parameter $\lambda_{x_{11}}$ for "Ambience" is set to unity to define the unit of measurement for the latent variable "Customer Satisfaction." As indicated, $\lambda_{x_{21}}$ ($t = 11.60$) is 0.86 , which is significant at the 0.05 level. This suggests that "Ambience" and "Hospitality" are

observable measures of the latent variable "Customer Satisfaction." Since $\lambda_{x_{21}}$ is positive, this shows that the better the hospitality and ambience as perceived by the customer, the more positive is the perceived customer satisfaction. Since $\lambda_{x_{21}}$ is smaller than unity, this suggests that "Hospitality" is a less important indicator than "Ambience" in measuring "Customer Satisfaction."

The model shows that higher customer satisfaction would lead to higher customer retention. β_{21} is 0.85 ($t = 6.33$) and is significant at the 0.05 level, with one unit increase in the level of "Customer Satisfaction" leading to 0.85 unit increase in "Customer Retention" of the hotel.

Further, the model shows that higher added value would lead to higher customer satisfaction. γ_{11} is 0.52 ($t = 7.58$) and is significant at the 0.05 level, with one unit increase in the level of "Added Value" leading to 0.52 unit increase in "Customer Satisfaction" of the hotel. Moreover, higher added value would lead to higher customer retention. γ_{21} is 0.19 ($t = 1.91$) and is significant at the 0.05 level, with one unit increase in the level of "Added Value" leading to 0.19 unit increase in "Customer Retention" of the hotel. Nevertheless, the effects of gender on customer satisfaction and customer retention were not significant.

In summary, "Customer Retention" as a latent variable is measured through "Loyalty" and "Intent to Switch." "Customer Satisfaction" as a latent variable is measured through "Ambience" and "Hospitality." Better "Ambience" and "Hospitality" would lead to better "Customer Satisfaction," which in turn leads to better customer retention. Further, both "Customer Satisfaction" and "Customer Retention" are also enhanced through better added value.

DISCUSSION

This investigation furthers our understanding of the relationship between the latent constructs of "Customer Satisfaction" and "Customer Retention" for hotels. In this study, "Customer Satisfaction" was found to be significantly related to "Customer Retention." Since the study was conducted in a hotel context, this suggests that "Retention" of hotel customers can be improved by enhancing "Satisfaction" as exhibited by the customers. This confirms the results of other studies that have reported significant links between customer satisfaction and retention (Bolton, 1998; Cronin & Taylor, 1992; Choi & Chu, 2001), but extends them by showing that retention can be operationalized in terms of loyalty and intent to switch, while customer satisfaction can be operationalized in

terms of ambience and hospitality, and that added value has a positive effect on both customer satisfaction and customer retention. However, this study failed to find the relationship among gender, customer satisfaction and customer retention.

In the model, "Customer Retention" is made up of two significant indicators, "Loyalty" and "Intent to Switch" (see questionnaire items used for "Loyalty" and "Intent to Switch" in Table 1). The above finding is congruent with the literature that customer retention was related to customer loyalty and intent to switch (Bowen & Shoemaker, 1998; Shoemaker & Lewis, 1999; Back and Parks, 2003). Therefore, industry executives should continue to emphasize customer retention, loyalty and customer's return to a hotel to sustain long-term business success.

The model also shows that "Hospitality" and "Ambience" are two significant indicators of "Customer Satisfaction." "Hospitality" items used in this study are mostly based on service delivered by the employees (see Table 1), especially their ability to meet customer needs (Ganesh et al., 2002; Choi & Chu, 2001). This would be especially critical for the front-line employees who have direct customer contact. "Ambience" items used in this study refer to architectural design, decor, elegance, color harmony and atmosphere (see Table 1). The study confirms with the other authors who reported the importance of ambience as a contributing factor to the success of the lodging operations (Siguaw & Enz, 1999; Griffin, 1998). The importance of ambience to customer satisfaction would suggest that constant updating and maintenance to improve the image of the hotel is paramount. This research provides support for including funds in the annual budget of a hotel to upgrade the ambience of the hotel and to improve its intangible service quality.

The effect of added value on customer satisfaction is positive and significant, indicating that better added value would enhance both customer satisfaction as well as customer retention. The "Added Value" items in this study refer to added values that meet customers' specific needs, such as hotel location to take advantage of low-cost attractions, dining, shopping, etc., free or reduced parking, phone calls, in-room facilities, and amenities, etc. (see Table 1). This is congruent with the findings of literature, which indicated that "value" was considered to be one of the influential factors in determining travelers' overall satisfaction levels and their likelihood of returning to the same hotels (Choi & Chu, 2001).

LIMITATION AND FUTURE RESEARCH

This study established the relationship among customer satisfaction, customer retention and added value. More research might be conducted in order to assess whether gender has a significant effect on satisfaction and retention. One limitation of this research is that only 71% of the respondents indicate their gender. In future research, the person administering the survey should report the gender of the respondents. The data then collected would allow a more accurate assessment of the effect of gender on customer retention.

Also, the customer satisfaction construct in this study consists of only two variables, ambience and hospitality. Future research could possibly explore more variables, such as food and beverage quality and service, branding, cleanliness and security of hotels, related to the construct of customer satisfaction.

Another limitation of this study is that the surveyed customers were mostly from 4-star hotels. Future research may consider collecting data from more of the 3-star and 5-star hotels and comparing customers among different types of hotels (e.g., 5-star hotels versus 3-star hotels). The factors that affect loyalty of customers may be different for different types of hotels.

In addition, it may be important to find out whether the respondent is a decision maker in the choice of a hotel. If customers are on business trips, the hotel decisions are made by companies. Analyzing the decision making process involved in choosing hotels would enrich our understanding of the determinants of customer retention.

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