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Improving Customer Loyalty in Hotel Industry: The role of Service Justice, Price Fairness, and Trust

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ABSTRACT

The increasing competition in the hospitality industry, particularly among non-stars Hotels, highlights the urgency of understanding factors that drive customer loyalty. This study aims to determine the influence of service justice dimensions and price fairness on customer loyalty, with trust as an intervening variable. The research involved 270 respondents who had stayed at non-stars Hotels in Kebumen Regency. The sampling technique used was random sampling, with data collected through a questionnaire instrument. Data analysis was conducted using SEM AMOS. The results indicated that distributive justice and procedural justice positively influence customer loyalty, while interactional justice has no significant effect. Price fairness also contributes to increased loyalty. In terms of trust, both distributive and interactional justice show positive effects. Similarly, price fairness enhances trust. Trust, in turn, positively affects loyalty and serves as a mediator variable. However, trust does not mediate the relationship between procedural justice and loyalty. This study shed a light for non-stars hotel manager regarding on maintaining customer trust by improving service and building customer trust.

Keywords: *service justice, price fairness, trust, loyalty, non-stars hotel.*

1. Introduction

The increasing competition in the hotel industry is driven by the emergence of various new accommodations, such as boutique hotels and hostels, along with online booking platforms [1]. The shrinking market share has prompted star-rated hotels to lower room rates, creating challenges for non-star hotels as they strive to attract customers who are drawn to the amenities offered by star-rated establishments [2]. To thrive, non-star hotels must build sustainable competitive advantages, particularly by enhancing customer loyalty [3].

This study investigates the determinants of customer loyalty in non-star hotels, focusing on the roles of service justice and price fairness, while also examining the mediating effect of customer trust [4]. Service justice is a multifaceted concept that includes three distinct dimensions[5]. First, distributive justice refers to customers' perceptions of fairness regarding the outcomes they receive compared to their inputs, such as the price paid for

the services. Hotel [6]. Second, procedural justice concerns the perceived fairness of the processes used to deliver services. This dimension emphasizes the importance of transparent, consistent, and equitable procedures in the service delivery process [7]. Third, interactional justice focuses on the quality of interpersonal interactions between customers and hotel staff [8].

In addition to service justice, the concept of price fairness plays a critical role in shaping customer loyalty in non-star hotels. Price fairness refers to customers' perceptions of whether the prices charged for accommodations and services are reasonable given the quality and quantity offered [9]. In the context of non-star hotels, where customers often seek value for money, a perception of fair pricing can significantly influence their loyalty [10]. This study also investigate customer trust as a mediating variable. This research argues that customers perceive high levels of both service justice and price fairness, they are more likely to develop trust in the hotel. This trust serves as a crucial mediator, enhancing customer loyalty by creating a sense of reliability and satisfaction with the hotel experience [11]. A trustworthy hotel is more likely to receive repeat business and recommendations from satisfied customers [12].

This study contributes to both theoretical understanding and practical applications within the context of non-star hotels. Theoretically, it enhances existing literature by elucidating the intricate relationships between service justice, price fairness, customer trust, and customer loyalty. By distinguishing between the dimensions of service justice and emphasizing the role of price fairness, this research offers a more nuanced perspective on how these factors interact to influence customer loyalty in a competitive hotel market. Practically, the findings provide actionable insights for hotel managers seeking to improve customer loyalty. By focusing on enhancing service justice and ensuring fair pricing, non-star hotels can foster trust among their customers, leading to higher retention rates and positive word-of-mouth recommendations.

2. Methods

2.1. Population and Sample

The population refers to the entirety of elements considered as subjects in this research [13]. In this study, the population comprises all customers who have stayed at non-star hotels in Kebumen. The sample is a smaller group drawn from the population, consisting of selected members [14]. The desired sample size was calculated using Slovin's formula, resulting in a total of 270 guests.

2.2. Method Approach

The analytical approach employed for data testing utilizes Structural Equation Modeling, which was processed with the assistance of AMOS version 24 [15]. Prior to the initial analysis, the research instruments were evaluated using the Confirmatory Factor Analysis (CFA) model, alongside classical assumption testing. Once all variables satisfied the necessary requirements, the hypothesis testing phase could proceed.

3. Results and Discussion

3.1. Results

Goodness of fit in AMOS is essential because it assesses how well the proposed model aligns with the observed data, ensuring that the relationships among variables are accurately represented [16].

Table 1: Structural Assessment Result

Hypothesis	Estimate	C.R.	p	Kesimpulan
H1: Distributive Justice > Customer Loyalty	0,122	2,513	0,012	Supported
H2: Interactional Justice > Customer Loyalty	-0,039	-0,644	0,519	Not Supported
H3: Procedural Justice > Customer Loyalty	0,376	4,744	***	Supported
H4: Price Fairness > Customer Loyalty	0,170	2,248	0,025	Supported
H5: Distributive Justice > Trust	0,155	2,496	0,013	Supported
H6: Interactional Justice > Trust	0,194	2,499	0,012	Supported
H7: Procedural Justice > Trust	-0,193	-2,103	0,035	Not Supported
H8: Price Fairness > Trust	0,298	3,092	0,002	Supported
H9: Trust > Customer Loyalty	0,257	3,712	***	Supported

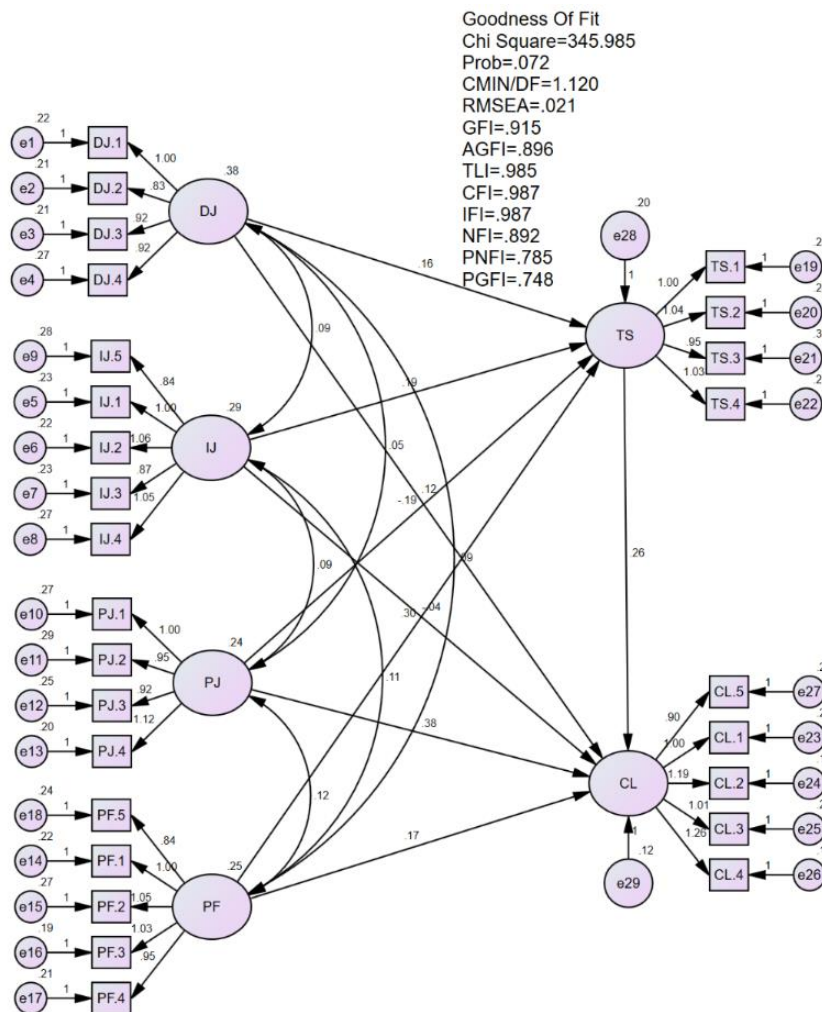


Figure 1: Structural Model Evaluation

The goodness of fit test results indicate that most fit criteria meet the expected thresholds, with a Chi-square probability of 0.072 ($p > 0.05$), CMIN/DF of 1.120, and RMSEA of 0.021, all suggesting a good model fit. The GFI (0.915), TLI (0.985), CFI (0.987), and IFI (0.987) further support the model's adequacy, although the AGFI is slightly below the cutoff at 0.896, indicating marginal fit. PNFI and PGFI values of 0.785 and 0.748, respectively, also reflect good fit. Additionally, an AVE of 0.9 indicates strong construct validity, reinforcing that the overall model is acceptable.

Based on table 1., the hypothesis testing results reveal significant positive relationships among the research variables, with p -values less than 0.05 for hypotheses 1, 3, 4, 5, 6, 8, and 9. Hypothesis 2, regarding the influence of interactional justice on customer loyalty, is unsupported ($p > 0.05$), and hypothesis 7 is deemed insignificant due to a negative estimate. The pathway coefficients show that distributive justice positively impacts customer loyalty (0.122, C.R. = 2.513; $p = 0.012$), while procedural justice also has a strong positive relationship (0.376, C.R. = 4.744; $p < 0.001$). Price fairness positively influences customer loyalty (0.170, C.R. = 2.248; $p = 0.025$) and trust (0.298, C.R. = 3.092; $p = 0.002$). Distributive justice further enhances trust (0.155, C.R. = 2.496; $p = 0.013$), and interactional justice also shows a positive effect on trust (0.194, C.R. = 2.499; $p = 0.012$). However, procedural justice negatively affects trust (-0.193, C.R. = -2.103; $p = 0.035$). Notably, customer trust significantly correlates with loyalty (0.257, C.R. = 3.712; $p < 0.001$), highlighting a strong link between trust and loyalty in the context of customer relations.

Table 2: Indirect Effect Result (Sobel Test)

	Hipotesis	t-stat	p-value	Kesimpulan
H10:	Distributive Justice > Trust > Customer Loyalty	2,0757	0,0379	Supported
H11:	Interactional Justice > Trust > Customer Loyalty	2,0684	0,0386	Not Supported
H12:	Procedural Justice > Trust > Customer Loyalty	-1,8278	0,0675	Supported
H13:	Price fairness > Trust > Customer Loyalty	2,3845	0,0170	Supported

The mediation analysis results in the table 3. indicate that trust effectively mediates the relationship between distributive justice ($t=2.0757;p=0.0379$) and customer loyalty as evidenced by a Sobel test result of, thus supporting hypothesis 10. Similarly, hypothesis 11, which posits that trust mediates the relationship between interactional justice and loyalty ($t=2.0684;p=0.0386t$). However, trust does not mediate the relationship between procedural justice and customer loyalty leading to a rejection of hypothesis 12. Finally, hypothesis 13, which claims that trust mediates the relationship between price fairness and customer loyalty, is supported ($t=2.3845;p=0.0170$).

3.2. Discussion

The research illustrates the complex interplay between different forms of service justice—distributive, interactional, procedural, and price fairness—and customer loyalty at non-star Hotels, with trust serving as a critical mediating factor[17]. Distributive justice, which refers to the perceived fairness of the services and benefits provided, significantly impacts customer loyalty [18]. In the context of a non-star hotel, where expectations may be

lower, guests are particularly responsive to fairness in service quality and value. When customers perceive their experiences as just and satisfactory, they are more inclined to return, fostering a cycle of loyalty. Conversely, interactional justice, which pertains to the quality of interpersonal interactions, does not show a significant effect on loyalty [19]. This may be attributed to the limited engagement between hotel staff and guests due to the smaller team size typical of non-star hotels. Staff often juggle multiple roles, which can hinder effective communication and personalization of service, ultimately leading to a lack of emotional connection that fosters loyalty. Procedural justice, concerning the fairness and transparency of processes, reveals a strong positive correlation with loyalty [17]. Efficient, straightforward service procedures are crucial for non-star hotels, as they can enhance the comfort and satisfaction of guests [20]. When customers feel that their needs are met quickly and effectively, they are more likely to return.

Price fairness also significantly influences loyalty [21]. Guests at non-star hotels often prioritize affordability, so when pricing is perceived as reasonable and stable, it increases their likelihood of returning [22]. In non-star hotels, where budget constraints are common, maintaining consistent and fair pricing is vital. Guests appreciate knowing they won't encounter unexpected fees or sudden price hikes, especially during peak seasons. The perception of value for money is particularly critical in this segment, as many guests may choose these hotels based on cost-effectiveness [23]. When they feel they receive fair value for their expenditures, they are more likely to develop loyalty toward the hotel.

Trust emerges as a pivotal element in these relationships. It is positively influenced by both distributive and interactional justice; when guests feel treated fairly and perceive good interactions, their trust in the hotel increases [20]. However, procedural justice has an unexpected negative impact on trust in this context. In non-star hotels, rigid adherence to procedures may make guests feel less valued, as they might prefer a more flexible, personalized approach to service [24]. Additionally, trust serves as a mediator in several relationships, reinforcing the connection between distributive justice and loyalty, as well as between interactional justice and loyalty. However, it does not mediate the relationship between procedural justice and loyalty, indicating that the rigidity of procedures can undermine trust rather than build it [19].

4. Conclusion

In conclusion, the findings from this research highlight the intricate dynamics of service justice and its influence on customer loyalty at non-star Hotel. Distributive and price fairness emerge as critical drivers of loyalty, particularly in the non-star hotel context, where guests seek not only value for money but also a sense of fairness in the services received. While procedural justice positively impacts loyalty by streamlining service processes, it paradoxically detracts from trust when perceived as overly rigid. Interactional justice, despite its potential, falls short in this setting, likely due to the limited personal engagement between staff and guests. Ultimately, trust acts as a vital mediator, strengthening the connections between distributive justice, interactional justice, and loyalty. For non-star hotels, prioritizing fairness in service quality and pricing, alongside fostering genuine interactions, can

cultivate lasting guest loyalty. Embracing a more flexible approach to service delivery may further enhance trust and satisfaction, creating a loyal customer base that values both fairness and memorable experiences. The findings suggest that non-star hotels should prioritize improving service quality, enhancing staff-guest interactions, and ensuring fairness in pricing and processes. By fostering an environment of trust and perceived fairness, these hotels can enhance customer loyalty, leading to sustained business success.

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