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# Do the roles of switching barriers on customer loyalty vary for different types of hotels?

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ABSTRACT

The role of switching barriers in generating hotel customers' loyalty has recently received increasing scholarly attention. The current study aims to investigate the simultaneous impact of customer satisfaction and switching barriers on customer loyalty and examine the moderating effect of switching barriers between customer satisfaction and loyalty. Boundary conditions of the role of switching barriers have also been explored. Online and offline questionnaire survey has been conducted with respondents in three tier-one cities in China, namely Beijing, Shanghai, and Guangzhou. The results suggest that customer satisfaction has significant positive effects on customer loyalty. However, the positive effect and the moderating role of negative switching barriers (i.e., switching costs) were only found for high-tariff hotels. For low-tariff hotels, the moderating role was not revealed. Practical implications regarding the optimal use of switching barriers in the hotel industry were offered.



## 1. Introduction

From a theoretical perspective, the consensus in business literature is that firms benefit considerably from the creation of customer loyalty (Dick and Basu, 1994; Jacoby and Chestnut, 1978). Loyal customers return, spend more money, and spread positive reviews through word-of-mouth. The 20/80 rule implies that 80% of the firm's business comes from 20% of existing customers. It is widely accepted that it is more economical to retain existing customers than acquire new ones (Reichheld and Sasser, 1990). In hospitality research, some regard customer loyalty as the future of hospitality firms (Shoemaker and Lewis, 1999). Consequently, both industry practitioners and academic scholars have embarked on an unprecedented journey to seek ways to increase customer loyalty. Among others, studies on possible antecedents of customer loyalty have drawn particular attention.

The widely accepted belief is that customer satisfaction has direct and positive effect on customer loyalty (Oliver, 1999). However, in many cases, while the firm is doing whatever they can to make customers happy, the satisfied customer may still display switching behavior and purchase products or services from other competitors. On the other hand, customers may not be satisfied with what they receive or how they are treated but they still purchase repeatedly and demonstrate behavioral loyalty to the firm. These transaction-specific investments (both time and psychological effort) may have molded customers' minds on routines and dependence (Frazier, 1983; Heide and Weiss, 1995), thus making it difficult for customers to switch out. A conditional factor should be introduced to enlighten the link between customer satisfaction and loyalty. Inclusion of the construct of switching barriers in the customer satisfaction–loyalty link will offer insights to understand the complex phenomenon of customer loyalty in the hotel industry in particular.

Within the extensive literature on switching barriers of general business, comparatively only a few studies have been done to assess the effect of switching barriers in the hotel industry (e.g., Han et al., 2011a,b). Although prior research has discovered that switching barriers can moderate the relationship between satisfaction and switching intention, limited attention has been paid to test the differential effects of switching barriers across different hotel

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segments. In fact, the impacts of different components of switching barriers on customer loyalty may vary due to different types of hotel guests (e.g., Tanford et al., 2012). As such, hoteliers from different segments should not apply a one-size-fit-all approach to design their loyalty programs. To improve the cost-effectiveness of the programs, a number of questions need to be addressed. For example, should the hoteliers invest much in developing loyalty programs or should the resources be allocated to other areas such as training of front-line staff to ensure customer satisfaction? How can the switching barriers be used in a more effective manner?

The optimal use of switching barriers including an appropriate mix of monetary and non-monetary measures will help hoteliers develop a strategic focus to win over hotel guests and achieve organization goals. Managerial implications derived from this study on the effective use of switching barriers to minimize switching behaviors will be recommended to hoteliers. From a theoretical perspective, the moderating effects of switching barriers in influencing customer loyalty have not been explored extensively in the hotel industry. Particularly, the role of switching barriers in different contexts, such as different types of hotels, has not been thoroughly studied. The results of prior research imply that the moderating effects of switching barriers may vary across hotel segments (e.g., Tanford et al., 2012). Although prior research has demonstrated that switching barriers moderate the relationship between customer satisfaction and switching intention (e.g., Han et al., 2011a,b), it is interesting to examine whether such effects hold true across different conditions. This issue is crucial to hotel practitioners because if the effects differ across situation, managers from different hotels should not pay equal attention and efforts to creating switching barriers. Hence, it is of paramount importance to investigate this issue further. Overall, the objectives of this study were as follows.

1. To investigate the simultaneous impact of customer satisfaction and switching barriers on customer loyalty;
2. To examine the moderating effect of switching barriers between customer satisfaction and loyalty;
3. To elucidate the possible differential effects on switching barriers for different hotel customers (e.g., low-tariff vs. high-tariff hotel customers);
4. To provide managerial recommendations to hoteliers on the effective use of switching barriers in order to increase customer loyalty.

## 2. Literature review

### 2.1. Customer loyalty

There are many interpretations of what entails customer loyalty. Customer loyalty can be described as the proportion of customers' total purchases to a given product brand (Cunningham, 1956). Behavioral measures such as repeat purchase frequency and repurchase probability have been employed to assess loyalty. However, such an approach has been criticized by scholars for its incompleteness. For example, Day (1969) indicated that to simply reflect on the purchasing behavior is not enough to define loyalty. In this regard, he advocated the addition of attitudinal variables to broaden the concept of brand loyalty and distinguish true and spurious loyalty. Oliver (1999), among others, argued that the behavioral approach ignores the psychological meaning of loyalty and thus lacks of explanatory power. In response to the call, scholarly efforts have been made to enrich the concept of loyalty. For example, Dick and Basu (1994, p. 94) defined loyalty as "the strength of the relationship between an individual's relative attitude and repeat patronage".

The proliferation of literature in customer loyalty shows a clear trend of concept enrichment. For example, Dick and Basu (1994) argued that loyalty is the result of interaction between a customer's relative attitude to a brand and their repeat purchase behavior for that brand. Following the cognition-affect-conation pattern, Oliver (1999) proposed four ascending brand-loyalty stages: cognitive loyalty, affective loyalty, conative loyalty or behavioral intentions, and action loyalty. Customers' loyalty is first generated from the information they have on that brand, the positive attitude toward a brand, their commitment to buy and the last stage, where customers transform their intentions into action. Although the enriched conceptualization has shed more light on customer loyalty, measurement issues arise. Due to the difficulties in measuring actual repatronage behaviors, many studies focus on the attitudinal aspects of loyalty (e.g., Skogland and Siguaw, 2004). Consistent with prior studies, the current research used recommendation, positive word-of-mouth and repatronage intention as indicators for attitudinal loyalty. For the purpose of the current study, customer loyalty is defined as customers' relative attitude to a hotel brand and their positive word-of-mouth communication and repatronage intention for that brand.

Creating and maintaining customer loyalty are significant to firms. Loyal customers buy more frequently, reduce marketing cost, show less price sensitivity, and bring referrals through positive word-of-mouth (Hennig-Thurau et al., 2002; Payne and Holt, 2001) which guarantee the future earnings of an organization (Sharp and Sharp, 1997). Specifically, the firm's profits could increase by 25–125% with a customer retention rate of 5% (Reichheld and Sasser, 1990). As suggested by prior research, the hotel industry uses six value-adding or value-recovery strategies to influence loyalty. These strategies include financial (saving money on future transactions), temporal (saving time by priority check-in, for example), functional (e.g., check cashing, Web site available), experiential (e.g., upgrades or turndown services), emotional (e.g., customer recognition or more pleasurable service experience), and social (e.g., interpersonal link with a service provider) (Shoemaker and Lewis, 1999). Value creation strategies could eventually influence customer satisfaction and their loyalty-switching decisions. Yoo and Bai (2007) also found a positive relationship between strategic alliance and customer loyalty and that value-creation from strategic alliance is only one element in the decision-making process of loyal customers. Examples can be seen in the application of loyalty programs to create special value for hotel customers. Loyalty programs are designed to acquire new customers and retain the existing profitable ones. In the hospitality and tourism industry, hotels often team up with airlines, restaurants, rental cars, and even credit card companies to provide extra value to hotel guests to retain their loyal customers. Additionally, Mason et al. (2006) also argued that loyalty is a complex and dynamic construct and depends on the interaction of several key variables. Hoteliers should stress on the importance of personalizing the hotel–guest relationship with special deals, special treatment, and special relationship.

In hospitality research, there have been a number of studies investigating loyalty program and guest loyalty (Mattila, 2006; Tanford, 2013; Tanford et al., 2011; Xie and Chen, 2014). The effectiveness of these loyalty programs in relation with creating customer loyalty has been studied. However, the findings are mixed. For example, Mattila (2006) discovered that loyalty program failed to predict hotel guest loyalty while affective commitment did. Her argument is that loyalty programs are alike thus their effectiveness is weakened. However, other scholars hold different views regarding this issue. For example, Xie and Chen (2014) found that psychological value of hotel loyalty programs has a significant impact on active loyalty. In addition, Tanford et al. (2011) discovered differential effects of loyalty programs on guests' switching