Loyalty membership for luxury hotels in Malaysia

Hasliza Hassan, Zahra Pourabedin, Abu Bakar Sade and Jiayi Chai

Abstract

Purpose – Loyalty membership is widely used as a marketing strategy to secure customer's loyalty in many business sectors. The purpose of this paper is to focus on loyalty membership of customer in Malaysian luxury hotels, specifically, in the capital city of Kuala Lumpur, Malaysia by looking into the perceived value of economic, interaction and psychological needs.

Design/methodology/approach – Quantitative cross-sectional research was conducted to explore the feedback from customers who have loyalty membership with a luxury hotel. Surveyed data of 489 respondents were analysed using confirmatory factor analysis and structural equation modelling.

Findings – There is a significant positive relationship between the psychological needs and perceived value. The relationship between the perceived value and customer's loyalty is also significant and positive. However, there is no significant relationship between the economic value and the interaction constructs with the perceived value. The perceived value functions as a mediator for the economic value, interaction and psychological needs in respect of customer's loyalty.

Practical implications – Hotel management should prioritise addressing the elements of psychological needs to enhance the perceived value from the customers' perspective. The strength of the perceived value indirectly stimulates customer's loyalty to a hotel, followed by the interaction and economic value from the customer value perspective to ensure customer's loyalty.

Originality/value – This research highlights on how customers can be secured by a luxury hotel chain through a loyalty membership strategy. The knowledge generated from this research is expected to provide insights to practitioners on how to enhance their loyalty membership marketing strategy.

Keywords Hotel, Perceived value, Interaction, Economic value, Psychological needs, Loyalty membership

Paper type Research paper

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Introduction

The hotel industry is crucial for tourism in many countries around the world, and, consistent with this, as a developing country, the development of tourism in Malaysia is crucial to boost the economic stability of the whole nation. In line with this, the availability of hotels as the main logistic criterion to provide accommodation will ensure the support and stability of the tourism effort. The hotel industry is investing heavily to develop continuous improvement by providing a variety of additional facilities, such as parking spaces, swimming pools and developing additional hotels within the chain (Eja *et al.*, 2013) to build and maintain the relationship with their customers (Ali and Amin, 2014). Hotel facilities, such as the rooms, restaurants, bars, nightclubs and health treatments have become basic necessities, especially for luxury hotels (Kandampully and Suhartanto, 2000). However, recent findings have indicated that customers are no longer just looking at the basic facilities but now consider their additional psychological needs, such as personal service, the environment, healthy diet, relaxation, health treatment, tourism experience, social activities and mental learning (Chen *et al.*, 2013). In addition, since the number of working women in professional fields is continuously increasing, some luxury hotels are diverting the target market to meet the needs of these women by offering luxury toiletries, hair salon and scented candles (Khoo-Lattimore and Prayag, 2016). Furthermore, another segment of luxury hotels is capitalising on the Muslim market by focussing on tourists

from countries in the Middle East (Kassim and Zain, 2016). Such an initiative is suitable for the Malaysian market since nowadays there are many tourists seeking a luxury vacation, especially in Kuala Lumpur, Malaysia.

This research is important to determine how to strengthen the available services in luxury hotels based on customers' expectations (Yang and Mattila, 2016). Improvement in the luxury hotel services will encourage the same tourists to stay in the same hotel again, especially if they have membership loyalty with the hotel. Indirectly, this will enhance the development of the overall tourism industry because those who stay in luxury hotels do not usually mind paying extra for better services. In addition to spending extra for accommodation in the hotel, there is a high possibility that the same customers will also spend extra throughout the vacation thereby assisting the economic development of the particular locality. This research is expected to provide an insight on how to strengthen the existing membership loyalty marketing strategy to make the industry more competitive. It is anticipated that this initiative will indirectly create a positive momentum for the local tourism industry and stimulate positive economic development for the benefit of the whole nation.

Luxury hotel membership

It would be advantageous for a hotel to have customers who are loyal to the brand (Tsai, 2014). As an initiative, hotels usually offer membership loyalty status to encourage the same customers to return to the same hotel or another within the same hotel chain. This loyalty membership is offered to provide a value-added advantage for selected customers who continuously come to stay at the same hotel (Lo *et al.*, 2017). Loyalty membership has become a common marketing strategy among hoteliers because of the ability to provide flexibility and customisation based on customers' needs (Tanford *et al.*, 2016). To further enhance the existing findings, this research only focusses on customers who have a loyalty membership with a hotel instead of loyalty in general. Depending on the strength of the hotel brand, the loyalty membership can create an additional powerful intangible attraction for the customers. Hence, hoteliers would find it worthwhile investing in branding to create brand awareness (Lemmetyinen *et al.*, 2016). However, instead of just emphasising brand, there are many elements that attract customers that should be examined (Kandampully *et al.*, 2015).

Customers are expected to become loyal to a hotel due to the service quality and satisfaction (Kandampully and Hu, 2007), which can be developed through the experience (Gursoy *et al.*, 2014). If the customer's experience is positive, in return, the customer will assist in promoting the hotel brand name (Khan and Rahman, 2017). However, many research findings indicate that the majority of customers have a high tendency to switch from one hotel to another although they do have the loyalty membership with a specific hotel chain (Xie *et al.*, 2015). This makes hotels very vulnerable compared to other industries, such as retailing, banking and even wireless service providers (Korkki, 2009). Accordingly, a growing number of hoteliers are endeavouring to build a mutually satisfying relationship with the customers through loyalty programmes (Kotler and Keller, 2009). This research focusses on loyalty programmes since it is a topic of much debate among researchers (Kreis and Mafael, 2014). The benefits of a loyalty programme can be identified through the generated customer database (Dennis *et al.*, 2001). Loyalty membership is crucial for uncovering new insights into customer's behaviour by means of data analysis (Xiang *et al.*, 2015) based on the integrated information and communication technology (Law *et al.*, 2014). In line with this, the marketing plan could be enhanced through developing and managing customer profiles (Leung, 2009).

With the increase in the average disposable income in Malaysia, more and more people are willing to become members of hotel loyalty programmes to enjoy premium service. In addition, nowadays, hotels provide a leisure experience rather than relying solely on service (Langhorn, 2004). Marketing a hotel is more about the skills of managing the customer's experience (Miao and Mattila, 2013), as it is this experience that will lead to satisfaction, loyalty and brand commitment (Iglesias *et al.*, 2011). In line with this, hotels need to create enjoyable experiences for the guests to utilise their hotel environment (Jani and Han, 2015). Some of the guests might purposely switch from one hotel to another to discover such experiences, which has made the hotel industry highly competitive. One of ways to ensure

that guests will return to stay at the same hotel is by having loyalty membership as a customer retention strategy (Min *et al.*, 2002) to encourage the guests to return to the same hotel chain in the future (Pimpão *et al.*, 2014). This research focusses on the perceived values that drive loyalty membership for Malaysian luxury hotels by looking at the economic value, interaction and psychological needs. The result of the findings will be more precise with limited number of constructs that is based on specific former findings as a main support.

Values and loyalty in luxury hotels

Customers who choose luxury hotels perceive that the performances of both the local and international brand are similar (Hsu, 2014). As this group of customers usually consider brand loyalty as one of the main factors when choosing a hotel (Kim and Kim, 2005), they might be influenced to become loyal through membership loyalty. As an initiative to determine how far membership loyalty can influence the value of a luxury hotel, this research focusses on the membership loyalty of luxury hotel customers in Kuala Lumpur. In addition to loyalty, there are also findings that indicate that these customers consider the performance of the receptionist, room service and restaurant (Mohsin and Lockyer, 2010). Most of the customers who prefer to stay at luxury hotels expect a good quality service experience, which offers value for money (Ye *et al.*, 2014). Although such customers are mostly willing to spend extra for a better service experience, hotel management invariably face issues, such as budget constraints, employee behaviour, improper monitoring and difficulty in meeting the high expectations of sophisticated customers (Presbury *et al.*, 2005).

The perceived value is determined by the difference in the benefit and cost from the customer's perspective (Kotler and Keller, 2009). In this research, the perceived value is based on how much the customer spends for the accommodation in the hotel and the experience that the customer gains. The perceived value involves the interaction between the customer and the particular service experience being offered by the hotel. Recently, perceived value has become an important research interest due to the concern of marketing researchers in both academia and industry to create value for customers and business organisations. As a consequence, many organisations have become increasingly concerned with perceived value as one of the key factors in strategic management (Sánchez-Fernández and Iniesta-Bonillo, 2007) including within the hotel industry.

Value creation is important for long-term success (Sweeney and Soutar, 2001), and, although hotels can try to create value for their customers, the real value perception is developed within the minds of the customers in combination with their emotional experience, and it is this value creation that is expected to influence customer's loyalty (Xie and Chen, 2014). In line with this, value perception is also developed based on three constructs – economic value, interaction and psychological needs – which are expected to influence customer's loyalty towards a particular hotel chain. As the focus, this research determines the perceived value of loyalty membership through the economic value, interaction and the psychological needs of the customers.

Economic value in this research refers to the value that could be gained by becoming a loyal member of a hotel chain. The economic value focusses on the utilitarian and instrumental benefits (Kreis and Mafael, 2014). The economic value is perceived to be very influential towards the perceived value in the loyalty context (Mägi, 2003). The economic performance of a particular place will influence the motivation of the customer to aim for either utilitarian or hedonic purposes (Atkins and Kim, 2012; Cardoso and Pinto, 2010). Normally, customers who aim for utilitarian will prefer to choose a budget hotel while those who aim for hedonic will prefer to choose a luxury hotel. Although it is expected that customers who prefer to have hedonic value will be willing to pay extra for the service experience, if the price is too high it will erode the purchasing power and negatively reflect on the perceived value (Boksberger and Melsen, 2011; Deli-Gray *et al.*, 2013). Hence, the value provided by the hotel should meet the expectations of the customers.

Interaction, in this research, refers to how the customers interact with the hoteliers through the loyalty membership status. Customers will not interact with the hotel employees in a vacuum but within an environment that can influence their decisions (Albrecht *et al.*, 2016). The interaction value emphasises the communication between the customers and the hotel (Kreis and Mafael, 2014).

Customer interaction is usually based on functional and emotional aspects that are developed based on different touch points within the hotel (Khan *et al.*, 2015). A good interaction between the customers and the hotel will influence satisfaction and loyalty (Fakharyan *et al.*, 2014) since this focusses on the customer-centric orientation (Sarmaniotis *et al.*, 2013). In addition, higher interaction is also expected to result in better perceived value and vice versa. Accordingly, it would be good for the employees who are dealing directly with the customers to be friendly, as a failure on the part of the hotel management to provide the expected interaction with the customer might have a negative influence on the perceived value.

In this research, psychological needs refer to what the customer expects by becoming a loyal member with a particular hotel chain. In line with the increasing average income, it is expected that, indirectly, customer's behaviour is being continuously shaped according to their psychological needs. The psychological needs of the customers can be developed by the front-line employees (Namasivayam *et al.*, 2014) through the organisational culture (Edwin and Sheryl, 2013). The psychological needs represent the superiority of the individual within a particular society (Kreis and Mafael, 2014). The psychological needs from the customers' point of view are crucial because that can positively enhance the overall hotel operations (Xie and Chen, 2014). Although the psychological needs can be influenced by the brand of the particular hotel, the brand alone will not guarantee the customer staying loyal since the customer will take the service experience into consideration as the main criterion (So *et al.*, 2013). There are also further findings that found that customers are not easily influenced to pay based on brand even when they have a membership card of a particular hotel (Xiong *et al.*, 2014).

Research methodology

As per the findings from a combination of previous research scholars, this research focusses on five main constructs – economic value, interaction, psychological needs, perceived value and customer's loyalty. Economic value, interaction and psychological needs constitute the independent constructs in the research model. Customer's loyalty is placed as the dependent construct of the overall research model, while perceived value is placed as the mediating construct between the independent and dependent constructs, as illustrated in Figure 1. These constructs are positioned in such a manner because related findings contended that the economic, social (interaction) and psychological aspects are part of perceived value (Suh and Ahn, 2012). Further findings have also indicated that relational (interaction) aspects have a direct influence on perceived value (Chen and Hu, 2010). In addition, perceived value is also expected to positively encourage customer's loyalty (Chang and Wang, 2011; Chen and Hu, 2010). This research assembles the previous findings into a new research model to determine the relationship of customer's loyalty and perceived value based on the economic value, interaction and psychological needs in Malaysian luxury hotels through loyalty membership. As a path to discover the relationship of the constructs, the hypotheses are developed as below:

H1. There is a significant positive relationship between economic value and perceived value by customers in Malaysian luxury hotels through loyalty membership.

H2. There is a significant positive relationship between interaction and perceived value by customers in Malaysian luxury hotels through loyalty membership.

Figure 1 Research framework
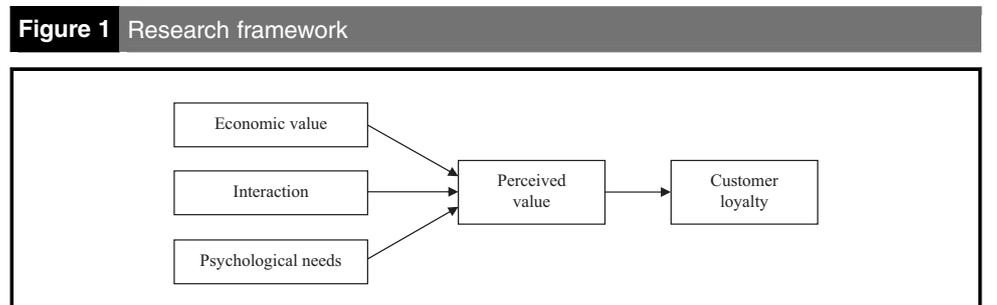
H3. There is a significant positive relationship between psychological needs and perceived value by customers in Malaysian luxury hotels through loyalty membership.

H4. There is a significant positive relationship between perceived value and customer's loyalty by customers in Malaysian luxury hotels through loyalty membership.

H5. The significant relationship between economic value and customer's loyalty is mediated by perceived value.

H6. The significant relationship between interaction and customer's loyalty is mediated by perceived value.

H7. The significant relationship between psychological needs and customer's loyalty is mediated by perceived value.

Since little research has been conducted in this field within Malaysia, primary data collection was taken to analyse the relationships of the hypotheses. As a well-developing country, the hotel industry in Malaysia is very broad. In order to gain precision of the outcomes, this research only focusses on luxury hotels that are normally rated as either 4 or 5 stars within Kuala Lumpur, Malaysia. These hotels are considered as luxury hotels since they are targeting high-income customers. In addition, the accommodation costs in Kuala Lumpur are considered as high compared to other states since it is the capital city of Malaysia. According to the Ministry of Tourism and Culture Malaysia (2015), 48 hotels in Kuala Lumpur are rated as either 4 or 5 stars. It is not easy to collect data from all 48 hotels. Only some of the hotels are interested to participate in this research. Due to this, convenience sampling was chosen for this analysis based on the agreeableness of the hotel managements to participate in this research. The data collection was based on a research survey questionnaire that was placed on the reception counter in the hotels. The survey was collected in collaboration with the selected luxury hotels that were interested in participating in this research. The front office reception officers were briefed about the research being conducted and how to collect the survey questionnaires. The target respondents were the hotel guests – customers who have loyalty membership with a particular luxury hotel. The surveys were collected by the front office reception officer from the guests during the check-out. To ensure precision of the feedback, none of the respondents was coerced into participating. However, a token of appreciation was given as an encouragement for those respondents who participated in the survey.

Overall, a total of 489 survey questionnaires were collected from the hotel guests. All the survey questionnaires collected were screened by the front office reception officer to ensure there were no missing data. The sampling size was based on the statistical requirement by Krejcie and Morgan (1970). Therefore, the collected data meet the required statistical sample size for analysis. The survey questionnaire was developed based on five constructs. The economic value, interaction and perceived value constructs were each represented by four items. The constructs for psychological needs and customer's loyalty were each represented by five items. Overall, there are 22 items to represent 5 constructs, as shown in Table I. To ensure that each of the items represented the constructs and that the questionnaire could be easily understood by the potential respondents, it was revised to include improvements based on the reviews received from other researchers and non-academicians to meet the face validity. The collected data were analysed using analysis of moment structures as the tool for confirmatory factor analysis (CFA) and structural equation modelling (SEM). The model fitness and validity were analysed through CFA. This analysis was to ensure that the research framework represented a practical scenario. The hypotheses for this research were analysed using SEM to determine any significant relationships between the constructs.

Analyses and results

Profile of respondents

In total, data of 489 respondents were collected from customers possessing loyalty membership with a luxury hotel in Kuala Lumpur and used for analysis. Of the respondents, 339 (69.3 per cent) were Malaysian, and only 150 (30.7 per cent) were non-Malaysian. In terms of gender, 213 (43.6 per cent)

Table I	Questionnaire
Label	Items
EC1	It is more economical for me to become a member of the loyalty programme
EC2	The loyalty programme offers me additional value for money
EC3	The loyalty programme encouraged me to spend money at the hotel
EC4	I enjoy the reward points from the hotel loyalty programme
IT5	I express my appreciation to the hotel through the membership loyalty programme
IT6	The loyalty programme provides social benefits for me
IT7	The loyalty programme is very useful in providing product/service information
IT8	The loyalty programme encourages the hotel employees to recognise me
PY9	I am enjoying being a member of this hotel
PY10	I am happy with the availability of the special rewards through the loyalty programme
PY11	Upgrading to a higher elite level is easier with membership
PY12	The loyalty programme makes me more special compared to other customers
PY13	Being a member provides me better recognition than non-members
PV14	This hotel offers a more attractive product/service than the alternative hotels
PV15	This hotel charges me more fairly than the alternative hotels
PV16	This hotel provides more services than the alternative hotels
PV17	I think this hotel provides me with better value compared to the alternative hotels
CL18	I would recommend my hotel reward programme to others
CL19	I prefer to stay in this hotel although the other hotels charge less
CL20	I frequently use my hotel membership card
CL21	I will choose to stay at the participating hotel chain for my next trip
CL22	I prefer to stay at this hotel again in the future

male respondents and 276 (56.4 per cent) female respondents participated in the research survey. Hence, the majority of the respondents were Malaysian, and the number of female respondents was slightly higher than the male respondents. This is perhaps indicative of the fact that the percentage of women working in professional fields is continuously increasing throughout all states in Malaysia, and it is very common for this group of customers to express their preference for a luxury hotel for accommodation instead of a budget hotel or homestay when travelling to the capital city.

CFAs

The original CFA χ^2 was 556.818 with 199 degrees of freedom. The analysis for the absolute fit of p-value was 0.001, which was less than 0.05 (Hu and Bentler, 1995), while the CMIN/df was 2.798, which was less than 3 (Bagozzi and Yi, 1988). Both analyses meet the absolute fitness theory. However, the RMSEA was 0.105, with the lowest and highest ranging between 0.095 and 0.116, which was slightly higher than 0.08 (Brown and Cudeck, 1993). The GFI was also 0.771, which was less than 0.90 (Chau and Hu, 2001). Similarly, the parsimony value for AGFI was also a bit low at 0.709, which was less than 0.80 (Chau and Hu, 2001). The value for the incremental fitness was also slightly low with the CFI being 0.857, which was marginally below 0.90 (Bagozzi and Yi, 1988). Similarly, the NFI was 0.796, which was also slightly lower than 0.80 (Bentler and Bonnet, 1980), while the TLI was 0.834, which was marginally higher than 0.80 (Tucker and Lewis, 1973).

To enhance the CFA model fitness, slight modifications were made by deleting six items based on the modification indices value. One item each was deleted for the economic value (EC3), interaction (IT7), perceived value (PV15) and customer's loyalty (CL19) constructs, while two items were deleted for the psychological needs (PY12 and PY13) construct. The χ^2 for the modified CFA model was 172.427 with 94 degrees of freedom. The p-value of modified model remained less than 0.001 (Hu and Bentler, 1995) while the CMIN/df was 1.834, which was considerably less than 3 (Bagozzi and Yi, 1988). The new modified RMSEA value was 0.072, which was less than 0.08 (Brown and Cudeck, 1993) and within the range of 0.055-0.088. In addition, the GFI value was 0.887. Although the value was still below 0.90 (Chau and Hu, 2001), the value showed an improvement in the overall fitness. In line with this, there was also an improvement in the AGFI with a new value of 0.836, which meets the minimum value of 0.80 (Chau and Hu, 2001). There was also an improvement in the incremental fit with a new modified

CFI value of 0.949, which is higher than 0.90 (Bagozzi and Yi, 1988). The NFI and TLI values also improved and exceeded 0.80, with 0.897 and 0.935, respectively (Bentler and Bonnet, 1980; Tucker and Lewis, 1973). Hence, overall, the modified CFA model meets the statistical fitness theory, as shown in Figure 2.

Construct validity

Face validity. Each of the questions represents a specific latent construct in the research model. The questionnaire was validated by several researchers within this field. In order to ensure the survey questionnaire could be understood by the prospective respondents, the questionnaire was also reviewed by researchers from other fields, as well as non-academicians. Overall, the questionnaire represents the research constructs and meets the face validity.

Convergent validity. Each of the item loadings, average variance extracted (AVE) and reliability are shown in Table II. The loadings for all the items were more than 0.70 except for EC4, which was 0.564. Overall, all the loadings could be considered as acceptable for analysis. The value for AVE should be either equal to or more than 0.50 to illustrate adequate convergent validity (Awang, 2012). Based on the analysis in Table II, all the AVE values were more than 0.50. Hence, all the constructs meet the minimum AVE validity. The value of the construct reliability should be at least 0.60 (Awang, 2012; Nunnally, 1978). The analyses of the reliability of all the constructs in this research meet the required convergence or internal consistency.

Discriminant validity. As for discriminant validity, the squared inter-construct correlation (SIC) estimates should be less than the AVE estimates to illustrate that the measurement items represent the construct and meet the expected discriminant validity (Hair *et al.*, 2010). The SIC and discriminant validity are presented in Tables III and IV.

In CFA analysis, all the measurement items were loaded according to the constructs. Hence, it was expected that the data would meet the discriminant validity based on the measurement path diagram. Although there was no cross-loadings of measurement items into different constructs, based on the manual discriminant validity calculation, there were a few SIC that were higher than the AVE for interaction, psychological needs, perceived value and customer's loyalty.
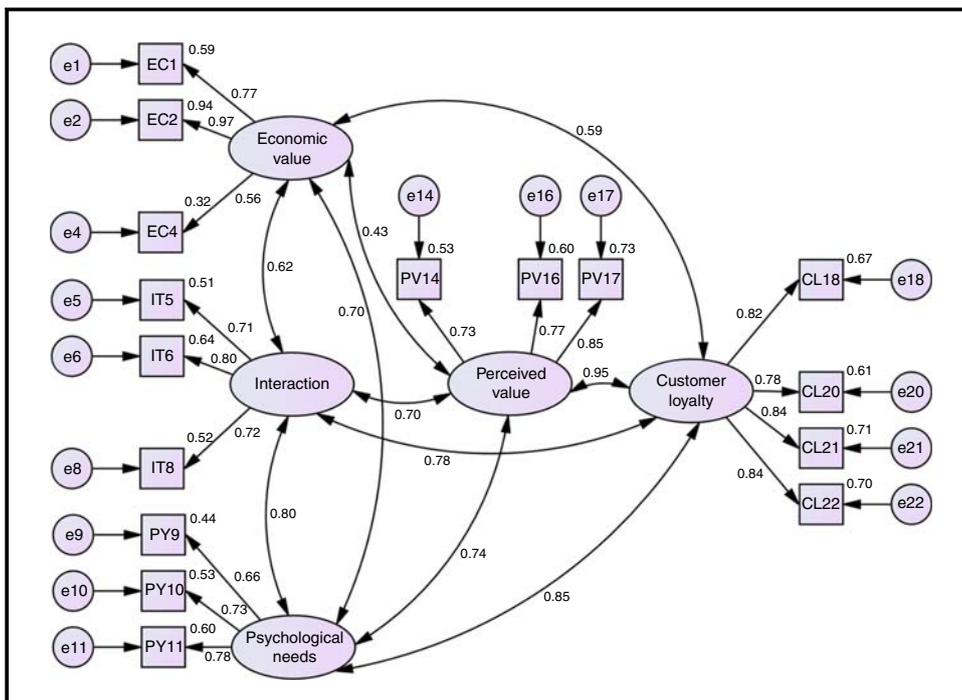
Figure 2 Confirmatory factor analysis

Table II	Construct loadings, average variance extracted and reliability				
	Economic value	Interaction	Psychological needs	Perceived value	Customer's loyalty
EC1	0.771				
EC2	0.967				
EC4	0.564				
IT5		0.711			
IT6		0.800			
IT8		0.723			
PY9			0.664		
PY10			0.726		
PY11			0.776		
PV14				0.726	
PV16				0.772	
PV17				0.853	
CL18					0.817
CL20					0.781
CL21					0.844
CL22					0.838
AVE (%)	61.6	55.6	52.27	61.7	67.33
Reliability	0.821	0.789	0.766	0.828	0.892

Table III	Squared inter-construct correlations	
Relationships	Inter-construct correlations (IC)	Squared inter-construct correlations (SIC)
Economic value-perceived value	0.426	0.1815
Economic value-interaction	0.625	0.3906
Economic value-psychological needs	0.695	0.4830
Economic value-customer's loyalty	0.591	0.3493
Interaction-perceived value	0.698	0.4872
Interaction-psychological needs	0.796	0.6336
Interaction-customer's loyalty	0.780	0.6084
Psychological needs-perceived value	0.741	0.5491
Psychological needs-customer's loyalty	0.850	0.7225
Perceived value-customer's loyalty	0.948	0.8987

Table IV	Discriminant validity	
Constructs	AVE	SIC
Economic value	0.616	0.1815, 0.3906, 0.4830, 0.3493
Interaction	0.556	0.3906, 0.4872, 0.6336, 0.6084
Psychological needs	0.5227	0.4830, 0.6336, 0.5491, 0.7225
Perceived value	0.617	0.1815, 0.4872, 0.5491, 0.8987
Customer's loyalty	0.6733	0.3493, 0.6084, 0.7225, 0.8987

All the SIC values were less than the AVE value in the economic value construct. Although this analysis did not meet the required minimum discriminant validity based on the calculation, the overall constructs were still considered as valid because the analysis met other construct validities including pattern matching to represent the theories that were adapted in this research (Trochim, 2000).

Nomological validity. Nomological validity is to test whether the correlations between the constructs in the measurement model make sense (Hair *et al.*, 2010). The covariance and correlation values are shown in Table V. The results of the analysis show that all the covariance

Table V Nomological validity

| Relationships	p-value (covariance)	Estimate (correlation)
Economic value-perceived value	***	0.426
Economic value-interaction	***	0.625
Economic value-psychological needs	***	0.695
Economic value-customer's loyalty	***	0.591
Interaction-perceived value	***	0.698
Interaction-psychological needs	***	0.796
Interaction-customer's loyalty	***	0.780
Psychological needs-perceived value	***	0.741
Psychological needs-customer's loyalty	***	0.850
Perceived value-customer's loyalty	***	0.948

Note: ***p-value < 0.001

relationships between the constructs in the measurement model are significant with p-values less than 0.001. The correlation relationships between the constructs in the measurement model are positive. Hence, all the constructs are positively related to each other in the CFA measurement. Hence, the data meet the nomological validity.

SEM

The hypotheses in this research were tested using SEM. The SEM diagram is shown in Figure 3. According to the result, there is no significant relationship between economic value and perceived value since the p-value is 0.265 ($\rho > 0.001$) (*H1*). There is also no significant relationship between interaction and perceived value since the p-value is 0.035 ($\rho > 0.001$) (*H2*). However, there is a significant positive relationship between psychological needs and perceived value (*H3*), and there is also a significant positive relationship between perceived value and customer's loyalty (*H4*). For the first four direct hypotheses, two of the hypotheses are positively supported while the other

Figure 3 Structural equation modelling
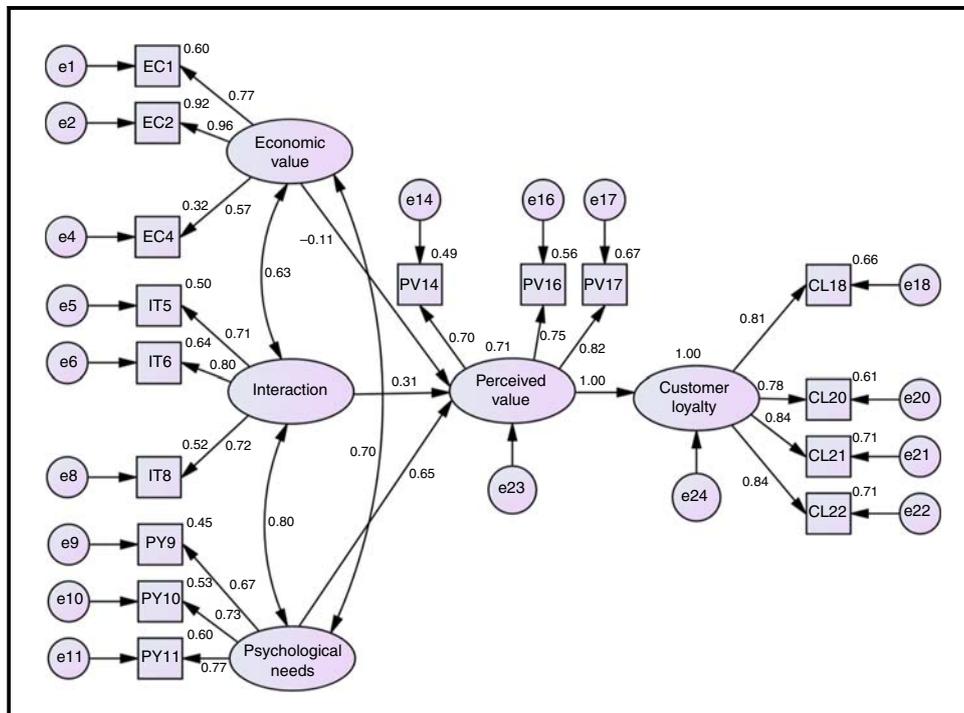
two hypotheses are not supported. The supported hypotheses create a chain of customer's loyalty membership value based on the psychological needs.

Mediating analysis was undertaken to further examine the relationship among the constructs within the research framework. To run the analysis, the individual direct effect relationship was analysed in advance. If the relationship was significant, the analysis should proceed with the indirect effect relationship to determine the mediating effect (Awang, 2012). The analysis indicated that the relationship between economic value and customer's loyalty is mediated by perceived value (H5). This mediation is known as partial mediation since the direct effect of economic value and customer's loyalty is significant after the mediation model with perceived value is developed. It is also found that the significant relationship between interaction and customer's loyalty is mediated by perceived value (H6). This mediation is known as full mediation since the direct effect of the interaction and customer's loyalty is not significant after the mediation model with perceived value is developed. For the final hypothesis, the perceived value is also found to be a mediator between psychological needs and customer's loyalty (H7). Similar to H5, this mediation is considered to be partial mediation since the direct effect of psychological needs and customer's loyalty is significant after the mediation model with perceived value is developed. The analysis for all three mediating hypotheses indicates that there are mediating relationships among the constructs. The results of the hypotheses are summarised in Table VI.

Discussion and implications

As per the results of the analysis, there is no significant relationship between economic value and perceived value by customers in Malaysian luxury hotels through loyalty membership. This result does not support the first hypothesis and does not concur with the finding of Suh and Ahn (2012) who found that economic value was a part of perceived value. Hence, the perception of value is not dependent on the economic condition of the customers who have loyalty membership with a hotel. Further research can be undertaken to determine why the relationship between these two constructs is negative in practice when, theoretically, it makes sense that the economic condition would influence the perceived value.

Analysis of the results also indicated that there is no significant relationship between interaction and perceived value by customers in Malaysian hotels through loyalty membership. Similar to the first hypothesis, this result does not support the second hypothesis of this research, which was based on the findings of Suh and Ahn (2012) and Chen and Hu (2010). Although it could be construed as logical that an improvement in the interaction between the customers and a hotel would influence the perceived value, this research has somehow indicated that such a relationship does not exist. Nevertheless, nowadays, there is the possibility that customers do not depend so much on face-to-face interaction, as pre-bookings are made through an automated online booking system. Hence, increasingly, the personal interaction between the customers and the employees in the hotel is minimal and restricted to the short period of time taken to check-in and check-out. However, to strengthen the understanding, further research should be undertaken to determine the real reason why the relationship between these two constructs is negative.

Table VI Results of hypotheses	
Hypotheses	*Results*
H1	Not supported (*p*-value: 0.265)
H2	Not supported (*p*-value: 0.035)
H3	Supported (*p*-value < 0.001)
H4	Supported (*p*-value < 0.001)
H5	Supported (partial mediation)
H6	Supported (full mediation)
H7	Supported (partial mediation)

The analysis of the results showed that there is a significant positive relationship between psychological needs and perceived value by customers in Malaysian hotels through loyalty membership. This supports the third hypothesis in this research, which is in keeping with the research findings of Suh and Ahn (2012). Hence, in order to ensure that there is positive perceived value by the customers, the hotel management should ensure that they address the psychological needs of the customers. Further research should be taken to identify what customers expect in terms of their psychological needs.

The fourth hypothesis of this research is also supported based on the result of the analysis. This result is in line with the previous findings of Chang and Wang (2011) and Chen and Hu (2010). Hence, there is a significant relationship between perceived value and customer's loyalty by customers in Malaysian hotels through loyalty membership. Since there is a positive interaction between the two constructs, further exploratory research should be undertaken to determine how additional positive value can be created to ensure that the customers remain loyal to a particular hotel chain.

The above findings offer an explanation of the peculiar challenges of building customer's loyalty in the luxury hotel market. A positive perceived value could only be significantly developed at the level of psychological needs. The customers of luxury hotels are far more sophisticated in their demands and, therefore, their psychological needs and wants are where the significant perceived values could be created. In other words, building loyalty for such customers cannot be just skin deep. In fact, as practised by one of the leading luxury hotel brands, the customers are actually referred to as fans in order to create perceived values at the psychological level to ensure customer's loyalty. The pillar to develop positive loyalty value for hotel chains is by addressing the psychological needs expectations of the customers (Xie and Chen, 2014). The theoretical findings of this research can be further validated through a real practice application.

Although the findings indicated that economic value and interaction do not have a significant relationship with perceived value, the mediating analysis showed that the perceived value actually functions as a mediator in respect of customer's loyalty. Further comparison indicated that perceived value had a higher mediating impact in respect of the relationship between interaction and customer's loyalty (full mediation) than the relationship between economic value and customer's loyalty (partial mediation). This finding indirectly provides justification for why economic value and interaction are important for customers who have the loyalty membership status with a particular hotel. The mediating analysis also indicates that the relationship between psychological needs and customer's loyalty is partially mediated by perceived value. In general, addressing the psychological needs of the customer should be the main priority of hoteliers, followed by interaction and economic value.

Contribution of study

This research has discovered new findings on the customer's loyalty through perceived value in economic, interaction and psychological needs. The research has been conducted based on previous findings and theories. The additional knowledge generated from this research has expanding the existing discovery. Nevertheless, further research can always be made by looking into different theory, scope and location. Due to this, although the research is conducted by using similar methodology, the findings might not be exactly the same since the customers might behave differently depending on location and culture. This has made the academic research tend to be more interesting for those who would like to discover something new and unique.

The findings in this research is only visualising the real scenario in a particular market which is specifically in the capital city of Kuala Lumpur. The findings from research are normally being used for academic purposes. These findings can only be practically valuable if there is an effort to implement the findings in the industry. As for industrial side, the implementation is depending on the practitioners from the hotel industry. It is hardly for academician to implement the findings practically in the industry if there is no support from industrial practitioners. Due to this, there is high potential that the local hotel industry to be continuously developing if there is a strong collaboration between academicians and practitioners instead of working separately in isolated world.

Limitations and further research

Majority of the hotel management strive to ensure that customers become loyal through an excellent service experience (Torres *et al.*, 2014). This research only focusses on respondents who have experience of staying in luxury hotels in Kuala Lumpur and not those located elsewhere in Malaysia. Hence, it might not be possible to generalise the findings to a broader population. In addition, this research only focussed on selected luxury hotels that were rated as either 4 or 5 stars, which normally cater to those customers who do not usually mind paying extra for a satisfactory service experience. Consequently, under these circumstances, the findings of this research cannot be generalised to those customers who travel on tight budget constraints. Once again, as the data collection of this research focused on those existing customers who had loyalty membership with a particular hotel, the results of this research might not be generalisable to non-membership customers. In addition, this research did not categorise the respondents as local or international. As the behaviour of local and international customers might not be exactly the same due to cultural differences, further detailed research should be undertaken by focussing on different customer categories and strategising the market for a more specific target segment. The findings from this research can be used to expand the local hotel operations into the international market (Lam *et al.*, 2015).

Conclusion

The findings of this research indicated that there is no significant relationship between economic value and interaction with perceived value. Although the economic value and interaction values can be considered as prerequisites, it is the psychological needs that will significantly drive the perceived value and customers' loyalty. The perceived value of a particular hotel can be enhanced by addressing the customers' psychological needs. Ignorance on the part of the hotel management concerning the psychological needs might divert the positive value perception of the customers away from the particular hotel, which, indirectly, will also negatively influence the customer's loyalty. Although economic value and interaction do not have a direct significant relationship with perceived value, the analysis from this research indicated that both economic value and interaction do have a significant relationship with customer's loyalty through perceived value as a mediator. The findings also indicated that perceived value also functions as a mediator between psychological needs and customer's loyalty. Developing customer's loyalty in the luxury hotel market is about creating perceived values that appeal to the needs and wants of far more demanding and sophisticated customers. Undeniably, such needs and wants are also the most challenging to fulfil, simply because they touch the minds and hearts of the customers. Managers of luxury hotels must, therefore, be aware of the level of competency needed to deliver such a level of perceived values to stand the chance of making customers loyal to the hotel brand.

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