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## Article

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## EVALUATING LOYALTY IN SOUTH AFRICA'S HOTEL INDUSTRY: THE EFFECT OF SERVICE QUALITY AND BRAND EQUITY

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### Abstract

*The hotel industry in South Africa is fiercely competitive, with a range of accommodation options from international chains to boutique establishments. Establishing and maintaining customer loyalty is essential for hoteliers to ensure repeat business and stand out in a crowded market. This study aimed to evaluate the effect of service quality and brand equity on customer loyalty in South Africa's hotel industry and explored the mediating effects of tangibles, responsiveness, reliability, empathy, and assurance on customer loyalty through service quality, as well as the mediating effects of brand attachment and brand attitude on customer loyalty through brand equity. Guided by a positivist paradigm, the study employed a quantitative methodology and a descriptive research design. Data was collected via an online survey from 379 respondents and analyzed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to test the hypotheses with SmartPLS version 3. The findings revealed a statistically significant effect of service quality and brand equity on customer loyalty. Furthermore, the findings indicate that customer loyalty mediates the relationship between service quality and brand equity. The study offers valuable insights for hotel managers and marketers, recommending strategies to improve customer loyalty through enhanced service quality, emotional branding efforts, and effective customer loyalty programs. These findings emphasize the importance of exceptional service experiences, robust brand equity, and understanding cultural nuances in consumer behavior, providing actionable insights for achieving a sustainable competitive advantage in the South African hotel industry.*

**Keywords:** brand equity, customer loyalty, service quality, South Africa's hotel industry.

**JEL:** M31, M37

### 1. Introduction

South Africa's diverse landscapes, rich biodiversity, and vibrant cultures make it a compelling destination for global tourists. Ranked as the sixth most biodiverse country in the world (African Wildlife Foundation, 2018), South Africa boasts seven distinct biomes, five world heritage sites, and twenty-two national parks, offering a range of experiences from nature safaris to cultural escapes and adventure tourism (South African Tourism, 2020). In 2019, South Africa welcomed 10.23 million international tourists and hosted 28.5 million domestic trips, contributing 2.9% to the country's GDP and supporting over 725,000 jobs directly (South African Tourism, 2020). The tourism sector's value proposition is characterized by high-quality experiences that offer value for money, including nature safaris, wildlife encounters, cultural experiences, beach getaways, city tours, and adventure activities. The accommodation sector is a vital component of South Africa's tourism value chain, contributing significantly to the economy. In 2019, the accommodation sector contributed R33.2 billion to the economy, with the hotel industry playing a significant role (Stats SA, 2024). The industry, however, experienced severe setbacks in 2020 and 2021 attributable to the coronavirus pandemic. In 2022, the accommodation sector contributed R23.4 billion to the economy, followed by R30.1 billion in 2023. (Stats SA, 2024). The hotel industry is a key player in South Africa's tourism value chain, with an income contribution of between R14.6 billion in 2022 and R19.1 billion in 2023, accounting for an average of 63% of the total contribution of the accommodation sector during this period (Stats SA, 2024). The research by Price Waterhouse Coopers in 2019 indicated that the overall hotel room revenue in South Africa was R16.7 billion across three-star, four-star, and five-star hotels. According to the South African

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Tourism Report by Fitch Solutions in 2022, there are nearly 3,260 hotels in South Africa, with approximately 76,570 available hotel rooms. The report forecasts growth in the number of hotels and establishments to 3,320 by 2026, with an additional 1,500 available hotel rooms. The competitive landscape of South Africa's hotel industry includes major international chains such as Marriott International, Hilton Worldwide Holdings, Radisson Hotels, Accor, and Hyatt, alongside strong domestic players like Protea Hotels and City Lodge Hotel Group (Fitch Solutions, 2022). The industry's competitive nature underscores the importance of customer loyalty in maintaining market share and profitability.

### *Statement of the Problem*

The main problem that this study aims to investigate is that there have been limited studies dedicated to evaluating the effect of service quality and brand equity as constructs, specifically within the context of the hotel industry in the South African market. The significance of studying the relationship between service quality, brand equity, and customer loyalty is amplified by the country's unique socio-economic landscape. South Africa's cultural diversity, shaped by its history of apartheid and subsequent democratization in 1994, has led to the emergence of a more diverse consumer market. Kaus (2013) discusses how conspicuous displays are a part of South African culture, where luxury consumption serves as an expression of flamboyance and bold displays of status. Furthermore, the widening of the Black middle class and the emergence of previously untraveled market segments have led to an increase in conspicuous consumption among South Africans (Kaus, 2013). This trend highlights the importance of brand equity and the perception of luxury and exclusivity in the South African market. Sahin and Nasir (2022) note that luxurious or ostentatious goods are often seen as exclusive and rare, appealing to a certain segment of the consumer market. Globalization has played a significant role in the accessibility of luxury products in emerging markets like South Africa.

With increased globalization, South African consumers now have greater access to luxury

goods and services than ever before. This accessibility has reshaped consumer behavior and preferences, particularly in the context of the hotel industry. Despite this increased accessibility, the literature on the hotel industry in South Africa indicates a limited exploration of status as a psychological mechanism related to customer loyalty. Incorporating the Theory of Conspicuous Consumption into the study of customer loyalty can provide valuable insights into how status-seeking behavior influences consumer decisions in the South African market. The problem statement highlights a gap in the existing literature regarding the relationship between service quality and brand equity in the hotel industry, particularly within the context of the South African market. While some studies have touched upon these topics individually, there is a lack of research that specifically examines how service quality and brand equity influence customer loyalty. By evaluating the relationship between service quality, brand equity and customer loyalty, this study aims to provide a comprehensive understanding of the factors that drive customer loyalty in the South African hotel industry.

### *Objectives of the Study*

Considering the above problem statement, the primary objective aimed to evaluate the effect of service quality and brand equity on customer loyalty in South Africa's hotel industry.

The secondary objectives were outlined as follows:

- To establish the effect of tangibles, responsiveness, reliability, empathy, and assurance on customer loyalty via service quality in South Africa's hotel industry.
- To establish the effect of brand attachment on customer loyalty via brand equity in South Africa's hotel industry.
- To establish the effect of brand attitude on customer loyalty via brand equity in South Africa's hotel industry.

### *Hypotheses Development*

To address the research objectives, the following research hypotheses were formulated.

H<sub>1</sub>: Service quality has a statistically significant effect on customer loyalty in South Africa's hotel industry.

H<sub>2</sub>: Service quality has a mediating effect on the relationship between tangibles and customer loyalty in South Africa's hotel industry.

H<sub>3</sub>: Service quality has a mediating effect on the relationship between responsiveness and customer loyalty in South Africa's hotel industry.

H<sub>4</sub>: Service quality has a mediating effect on the relationship between reliability and customer loyalty in South Africa's hotel industry.

H<sub>5</sub>: Service quality has a mediating effect on the relationship between empathy and customer loyalty in South Africa's hotel industry.

H<sub>6</sub>: Service quality has a mediating effect on the relationship between assurance and customer loyalty in South Africa's hotel industry.

H<sub>7</sub>: Brand equity has a statistically significant effect on customer loyalty in South Africa's hotel industry.

H<sub>8</sub>: Brand equity has a mediating effect on the relationship between brand attachment and customer loyalty in South Africa's hotel industry.

H<sub>9</sub>: Brand equity has a mediating effect on the relationship between brand attitude and customer loyalty in South Africa's hotel industry.

## **2. Conceptual Framework**

### *2.1 Customer Loyalty*

In 1999, Oliver provided one of the first comprehensive definitions of customer loyalty, defining the construct as "a deeply held psychological commitment to repurchase a preferred product consistently in the future, regardless of the existence of other competing alternatives and situational factors capable of swaying them." Nuanchaona, Siripipatthanakul, Nurittamont and Phayaphrom, (2021) refer to a more current definition of customer loyalty as the measurement of a consumer's intention as well as their inclination to reuse and repurchase in the future. Within the context of the hotel

industry, Warsewicz and Kulykovets (2020), assert that guest loyalty provides a favorable disposition for consumers towards the services of a hotel which can be coupled with a desire to frequently and consistently repurchase the hotel's service. There are many factors which contribute towards customer loyalty in the hotel industry as indicated by research from various authors (Mohamed, Yazid, Khatibi & Azam, 2017; Alsheikh, Halim, Tambi & Alnawafleh, 2018; Alauddin, Islam & Hossein, 2019; Lai, 2019, Shamsudin, Essa & Ali, 2019; Warsewicz & Kulykovets, 2020; Nuseir, 2021; Anabila, Ameyibor, Allan & Alomenu, 2022 and Radwan, 2022). Based on the research of these authors, the most widely cited factors are customer satisfaction, brand image, price fairness, perceived value, service quality and brand equity. This study aims to evaluate the effect of service quality and brand equity on customer loyalty, specifically within the hotel industry in South Africa. This warrants further investigation of service quality and brand equity as constructs to contribute towards existing empirical studies.

### *2.2 Service Quality*

A study by Nuanchaona *et al.*, (2021), proposes that service quality has been extensively acknowledged within contemporary literature as being critical to the performance of any business as it is an unobjective concept with complexities that incorporate distinctive characteristics. The hospitality and hotel industries are highly prone to service failures due to the high level of intense customer-employee contact, as well as problems that arise because of general service characteristics of inseparability, heterogeneity, and perishability (Anabila *et al.*, 2022). Academic research conducted in 1996 by Zeithaml, Berry & Parasuraman, which has been confirmed by recent studies (Alauddin *et al.*, 2019; Shamsudin, Esa and Ali, 2019 and Anabila *et al.*, 2022), verify that there are five main dimensions in measuring service quality, namely: tangibles, reliability, responsiveness, assurance and empathy, also known as the Service Quality Model (SERVQUAL). This model was developed by academic researchers to measure service quality within the service industry and is representative of a measurement method used for service quality

research. The SERVQUAL model has been widely applied in a variety of contexts and cultural settings, however as identified in the problem statement, there is limited evidence of research being conducted within the South African market. In addition, there is limited evidence of studies dedicated to examining service quality as an independent construct via the SERVQUAL model, specifically within the context of the hotel industry in South Africa.

Academic studies within the hotel industry (Mohamadi *et al.* 2017; Alauddin, Islam & Hossein, 2019; Shamsudin, Esa & Ali, 2019 and Anabila *et al.*, 2022) have highlighted the relative versatility, reliability, and validity of the model of service quality, including its associated versions as one of the primary scales to be used when evaluating service quality.

*Tangibles:* Ali, Gardi, and Othman (2021), define tangibles “as the appearance of physical facilities, equipment, personnel, and communication materials.” Within the context of the hotel industry, this includes the physical appearance of hotel amenities and facilities such as room cleanliness, food, and beverage services as well as spa and leisure activities on offer. Guests who purchase hotel products may therefore face high uncertainties when making their purchase decisions before they physically experience what they have purchased.

*Reliability:* Reliability depicts whether an organization follows the assurance of its promises with significant importance in fulfilling a customer’s requests promptly (Hameed & Anwar, 2018). Within the hotel industry, this dimension of service quality includes the customer interaction process and communication from the point of booking to the time that the guest arrives at the hotel. Performing these services dependably and accurately means that guests can count on the hotel as they value reliability.

*Responsiveness:* Responsiveness or “being willing to help” refers to an organization’s readiness to settle problems and their availability to provide prompt service (Ali, Gardi & Othman, 2021). Within the context of the hotel industry, this can include the amount of time it takes to get back to a guest on a potential telephonic or electronic booking

enquiry, promptness of room service, on-site activity, or concierge services.

*Assurance:* Assurance refers to “the knowledge and courtesy of employees and their ability to inspire trust and confidence” (Ali, Gardi & Othman, 2021). Within the context of the hotel industry, it is important for a hotel operator to prove that it is trustworthy and that the services provided are worth the money that the customer is paying. This can include communication to guests about certifications or accreditations that the hotel may have such as TripAdvisor accolades or ratings on online platforms such as Booking.com.

*Empathy:* Ali, Gardi, and Othman (2021) refer to empathy as the attention provided to customers, knowing what their specific needs are, and providing business operational times that are convenient for customers. Within the hospitality industry, interacting with guests by showing them that you care, and going beyond what is expected is an important aspect of service quality.

### 2.3 Brand Equity

According to Nuseir (2021), brand equity encompasses the financial as well as monetary value associated with the strength of a brand in the hotel industry and as an incremental utility, brand equity is paramount to obtaining a competitive advantage. This view is supported by Cinar (2020), who stipulates that brand equity as a concept covers all material and non-material assets of a business and is even more important in the tourism and hospitality industry where branding has been used as a strategy to introduce and extend existing brands to new markets. Academic literature proposes that there are several dimensions related to brand equity, which include brand awareness, brand loyalty and brand associations (Aaker, 1996; Warszewicz & Kulykovets, 2020 and Nuseir, 2021).

A study concluded by Iacobucci, MacInnes and Eisingerich (2010) highlights the importance of two additional brand equity drivers, namely brand attitude and brand attachment. These authors are of the opinion that research has not verified the theoretical or practical value of brand attachment as well as brand attitude. Iacobucci, MacInnes and Eisingerich (2010) as



well as Sciarrino and Prudente (2021) are also of the opinion that brand attachment offers value over brand attitude with its ability to predict a consumer's intention to perform behaviors which are difficult. There is limited evidence of research being conducted which includes brand attachment and brand attitude as drivers of brand equity, which provides an opportunity to expand on the existing literature.

**Brand Attachment:** Magnoni, Valette-Florence and De Barnier (2021) and Li (2019) define brand attachment as a consumers' strong emotional connection with a brand whereby consumers regard the brand as a part of their self-concept, develop brand commitment, spread positive word-of-mouth and are willing to pay a premium price for the brand. Li, Teng and Chen (2020), propose that brand attachment includes brand-self connection which is defined as the consumer's link with the brand cognitively and emotionally.

**Brand Attitude:** A study by Razak, Themba and Sjahrudin (2019) proposes that consumers' attitudes towards brands can be interpreted as delivering what is expected by buyers to satisfy their needs, therefore, consumer attitudes can spur the desire or intention to buy a product. Brand attitudes are useful in predicting consumer behavior with the direction of the behavior being inclined or disinclined towards a purchase varying as a function of whether attitude valence is strongly positive or strongly negative (Iacobucci, MacInnes & Eisingerich, 2010).

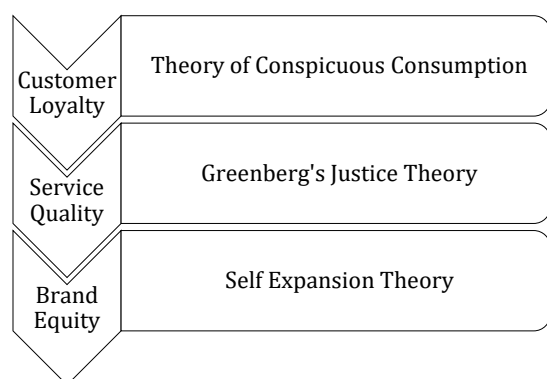


Figure 1. Construct and theory relationships for this study

Source: Authors' own work

Figure 1 shows the relationship between the constructs as well as the underpinning theories to support the primary objective of the study. These include the Theory of Conspicuous Consumption which underpins customer loyalty, Greenberg's Justice Theory underpinning service quality as a construct and the Self-Expansion Theory which underpins brand equity as a construct.

#### 2.4 The Theory of Conspicuous Consumption

The Theory of Conspicuous Consumption explores the status phenomenon with important implications for using status as a loyalty-induced mechanism. For many consumers, status is highly desirable as it is associated with privileges and feelings of superiority. Elevated status conferred to consumers as part of a seller's marketing efforts can motivate consumers to behave loyally, and the desire for status motivates conspicuous consumption or the purchase of particularly luxurious or altruistic goods (Sahin & Nasir, 2022). According to studies by Assimos, Pinto, Leite and De Andrade (2019), the consumption of luxury goods such as fashion, travel, and lifestyle products can help consumers in their pursuit of status, self-respect, and social approval. As consumers define themselves in relation to others, loyalty often involves rewards such as special treatments and queue exclusivity which serve status signaling purposes (Chen, Mandler & Waarden (2021). The term "status consumption" appropriately reflects this association and the expression of the status of the owner through his habits of consumption was connected to the idea of conspicuous consumption by Veblen in 1899 (Assimos, Pinto, Leite & De Andrade, 2019). Taking into consideration the cultural diversity within South Africa, Kaus (2013), discusses how conspicuous displays are part of South African culture which therefore highlights that the motivation for South Africans to engage in luxury consumption is for an expression of flamboyance and bold displays of status. South African consumers that have emerged due to the country's democracy in 1994 and the widening of the Black middle class, have given rise to a previously untraveled Black-market segment. This has led to the enrichment of conspicuous consumption amongst South

Africans. Globalization has resulted in emerging markets like South Africa having accessibility to luxury products now more so than ever. It would seem from the review of available literature which examines the hotel industry in South Africa, that a limited number of studies have explored status as one of the psychological mechanisms related to customer loyalty, incorporating the Theory of Conspicuous Consumption.

### 2.5 Greenberg's Justice Theory

As outlined in the SERVQUAL model, service failures occur due to specific gaps in service quality. It is a prerequisite of effective service recovery that an organization has some understanding of the psychological expectations held by customers regarding the service being offered, its failure to perform and the justice or fairness received in terms of any attempts at service recovery. Greenberg's Justice Theory is included in this study to support the service quality construct, emphasizing fairness in service interactions. This theory suggests that customer satisfaction and loyalty depend on whether customers feel they were treated fairly, especially in service failure and recovery scenarios (Mulgund, 2022). The Justice Theory consists of three perspectives: distributive justice, procedural justice, and interactional justice, which collectively create a sense of fairness for customers. Distributive justice pertains to the fairness of tangible outcomes in service encounters, such as compensation for service failures. Procedural justice relates to the fairness of the service recovery process, including the speed, dependability, and consideration shown to customers. Interactional justice focuses on the interpersonal aspects of service encounters, emphasizing attributes like honesty, politeness, and empathy. Together, these dimensions of justice influence customers' perceptions of service quality and their satisfaction with service recovery efforts.

### 2.6 Self-Expansion Theory

Through the inclusion of self in the self-concept, the Self-Expansion theory describes a process by which people tend to maintain their individual identity (Ketay, Beck & Welker,

2020). The Self-Expansion Theory suggests that individuals seek to expand their self-concept by incorporating aspects of their environment, including brands (Gorlier & Michel, 2020). Lee (2012) proposes that a brand's resources can translate into part of the owner's self, which is a perspective of seeing the world from the brand's point of view; with the brand's identity becoming part of the cognitive structure of the owner's self. In order to better understand the consumer's attitudes and behaviors within the context of the hotel industry in South Africa, the Self-Expansion Theory is reviewed to offer the connection between brand equity, attachment, and attitude. In the context of the hotel industry, this theory can help explain how consumers' attitudes and behaviors are influenced by their relationship with hotel brands. Brands that offer unique and exciting experiences can enhance consumer perceptions and lead to more positive brand relationships. In the hotel industry, understanding the Self-Expansion Theory can help hoteliers build stronger relationships with guests. This study aims to explore how applying the Self-Expansion Theory to consumer-brand relationships can benefit hotels in South Africa by fostering stronger guest relationships and increasing guest satisfaction.

## 3. Research Methodology

McDaniel and Gates (2021), highlight that the design of the research incorporates the procedure that will need to be adhered to as an underlying approach in facilitating the collection and analysis of data within any given study. This study made use of a descriptive method of research framing the design of the overall objective of the data collection process. Additionally, a quantitative approach is compatible with descriptive research methods as well as a positivistic paradigm; therefore, this approach was used for this study. Quantitative research also shows the relationship of variables involved in the research via cause-and-effect (Schindler, 2021). This approach was selected to address the aim of reaching a broad audience with numerous respondents and to gather factual data, facilitating the creation of summaries about the sample, rather than the monitoring and exploration of data.

### 3.1 Population and Sample

Schindler (2021) defines a population as the complete set of elements for which we seek to make inferences, while a sample is a subset of the population consisting of cases, participants, events, or records that are carefully selected to represent the population. Due to the impracticality of selecting and collecting data from an entire population, a subgroup is selected to represent and mirror the population at large. In assessing the most viable sampling technique for this study, non-probability sampling would be the most suitable due to its practicality, utilising a simple random sampling approach. Simple random sampling is a subset of a statistical population in which each member of the subset has an equal probability of being chosen and is meant to be an unbiased representation of a group (Schindler, 2021). For this study, the researcher as the Chief Marketing Officer of Dream Hotels and Resorts in South Africa obtained the company consent to communicate with the business's hotel guests and marketing database as the proposed respondents. The Dream Hotels & Resorts guest and marketing database consists of a target population of approximately 25 810 leisure travellers who reside across provinces in South Africa. In addition, the database consists of consumers who had already stayed at one of the properties within the Dream Hotels & Resorts portfolio as well as those who had stayed at competitor properties over 24 months from October 2021 to October 2023. As part of the Dream Hotels and Resorts business strategy, a competitor assessment was conducted. This assessment involved identifying hotel groups with similar product offerings and locations to those of Dream Hotels and Resorts. The competitors identified were AHA Hotels and Lodges, Premier Resorts, Legacy Resorts, Southern Sun, and Protea Hotels. With the use of a Raosoft calculator and based on a maximum population of 25 810, a sample of 379 respondents was suggested as a generalisable result which can be obtained with this sample size at a confidence level of 95% and a margin of error of 5%. The requirement for the sample to have stayed at a hotel within 24 months justified the selection of a simple random sampling technique for this study.

### 3.2 Data Collection and Analysis

The study utilised an online self-administered survey comprising a set of structured and formalised questions to elicit the necessary information from the respondents and collect the relevant data. A set of questions was specifically designed in the format of a structured questionnaire to gather data which enabled conclusions to be drawn following statistical analysis (McDaniel & Gates, 2021). The respondents were required to document responses using English as a medium using a self-administered questionnaire and all constructs in the measurement were anchored using a Likert-scale format, from 1=strongly disagree to 5=strongly agree. Data for the questionnaire was initially entered into a Microsoft Excel spreadsheet and then categorised to handle any inconsistencies. Questionnaires that were incomplete or unlikely to provide meaningful responses were excluded from the analysis. In this study, using an electronic format helped minimise the errors associated with manual transcription. During consistency checks, all missing values were identified and assigned designated codes. The constructs and measurements used in the study were derived from multiple empirical studies known for their high validity and reliability as illustrated in Table 1.

Table 1. *Source of empirical studies for scale validity and reliability*

Research Scales	Cronbach's Alpha	Article Source
Customer Loyalty	0.901	Adapted from Anabila, Ameyibor, Allan & Alomenu, (2022)
Reliability	0.877	
Responsiveness	0.841	
Assurance	0.867	
Empathy	0.881	
Tangibility	0.846	Adapted from Shimul, Phau and Lwin (2019)
Brand attachment	0.919	
Brand attitude	0.888	

Source: Authors' own work



The statistical analysis focused on examining the frequencies of demographic metrics obtained from the respondents, specifically their age, gender, education level, and employment status. In addition, the descriptive method of analysis was utilised to measure the respondents' travel behavior, their frequency of stays at specific hotel groups as well as their loyalty behaviors related to these hotel groups. Inferential statistics was also used to evaluate the reliability and validity of the study's scales, employing Cronbach's alpha coefficient for reliability and confirmatory factor analysis for validity. Composite reliability was employed as a key metric to assess the internal consistency and reliability of the latent constructs. Cronbach's alpha ( $\alpha$ ) was used to measure internal consistency, similar to composite reliability.

Convergent validity was also assessed by examining the factor loadings of indicators on their respective latent variables. Another common measure of convergent validity is the Average Variance Extracted (AVE), which assesses the average amount of variance in the indicators that are captured by the latent variable. Discriminant validity is a subcategory of construct validity and is important for any research that involves latent variables for the prevention of multicollinearity issues (Fornell & Larcker, 1981).

The Fornell and Larcker criterion is the most widely used method for this purpose and is a popular technique used to check the discriminant validity of constructs in structural equation models (Fornell & Larcker, 1981). The Heterotrait-Monotrait Ratio of Correlations (HTMT) method is a technique used to assess discriminant validity (Henseler, 2017). Structural Equation Modelling (SEM) was used to analyze the relationships between customer loyalty and service quality, as well as between customer loyalty and brand equity. Partial least squares structural equation modelling (PLS-SEM), also known as PLS path modelling, stands out as a highly favored method of multivariate data analysis within the realms of business and social science scholarship (Memon, Ramayah, Cheah, Ting, Chuah & Cham, 2021). In this study, PLS-SEM was used utilising SmartPLS version 3 to test the hypothesis and model the relationships

between customer loyalty, service quality and brand equity. This study made use of confirmatory factor analysis to examine correlations between latent variables using the SEM program SmartPLS. SEM prefers confirmatory factor analysis to exploratory factor analysis as it is concerned with testing an existing model underpinned by an existing theory, therefore in this study, confirmatory factor analysis was used to compute the structural model and measurement model (Hoyle, 2023). The analysis involved assessing the measurement model, structural model, and validity and reliability of the constructs and the factor loadings represent the correlation between each variable and its underlying factor, indicating how much of the variance in the variable is explained by that factor.

A conceptual model examining customer loyalty in South Africa's hotel industry including the effect of service quality and brand equity was presented for empirical substantiation. The model included factor loadings, path coefficients, indirect effects, and total effects. Path coefficients, also known as direct effects, quantify the impact of an independent variable on a dependent variable, indicating the strength of this relationship (Hair, 2021). Indirect effects which are a common occurrence in PLS-SEM, represent the relationships between constructs. These effects were evaluated using bootstrapping which is a method that calculates the p-values for estimates to test for significance. Bootstrapping is a nonparametric procedure used to test the statistical significance of various partial PLS-SEM results, such as path coefficients, Cronbach's alpha, Heterotrait-Monotrait (HTMT) ratios, and  $R^2$  values (Schuberth, Rademaker & Henseler, 2023). To ensure the overall fit of the proposed model the following measures were employed: the standardized root mean square residual (SRMR), Normed Fit Index (NFI), squared Euclidean distance ( $d_{ULS}$ ), and geodesic distance ( $d_G$ ).

### 3.3 Ethical Considerations

Anonymity and confidentiality, informed consent as well as data protection were considered for this study. It is also important to note that the Protection of Personal

Information Act (POPIA), as well as all the information procured to support this research study, were treated with the strictest confidence. The study was conducted with honesty and integrity, with the research questions posed in an unbiased format to ensure that the outcomes were not swayed in any way. The chosen respondents were communicated with in advance to obtain their consent as well as all the relevant permissions to participate in this study. Ethical clearance was sought from the IMM Graduate School Research Committee before any data was gathered.

#### 4. Results and Discussion

An analysis of the demographic profile revealed that 51.2% of the respondents were female, while 48.8% were male. The age group with the highest participation was 56+, comprising 34.6%. Additionally, 59.7% completed a post-graduate qualification and full-time employees were the most represented at 38.6%. The findings further indicated that

0.973 were deemed acceptable indicating that the observed variables are good indicators of their respective latent constructs in the measurement model.

To assess model fit the SRMR value of 0.022 fell within an acceptable range of <0.10 or 0.08 (Hu & Bentler, 1999). Additionally, both  $d_{ULS}$  and  $d_G$  values of 1.770 and 0.858 were within acceptable thresholds of <95% of the bootstrap quantile (Dijkstra & Henseler, 2015), supporting the adequacy of the model fit. The constructs of customer loyalty, service quality, and brand equity were assessed with several metrics. These included Cronbach's Alpha ( $\alpha$ ) and  $\rho_A$  to evaluate internal consistency reliability, while Composite Reliability (CR) was used to assess the reliability of the constructs. Additionally, the study examined the Average Variance Extracted (AVE) to gauge convergent validity.

The findings presented in Table 2 reveal that all constructs have AVE values above 0.5 ranging from 0.738 to 0.939 indicating that the

Table 2. *Composite reliability and convergence validity of constructs*

<i>Constructs</i>	<i>Cronbach Alphas (<math>\alpha</math>)</i>	<i><math>\rho_A</math></i>	<i>Composite Reliability (CR)</i>	<i>Average Variance Extracted (AVE)</i>
Customer loyalty	0.958	0.963	0.967	0.831
Service quality	0.952	0.966	0.961	0.738
Brand equity	0.983	0.983	0.985	0.854
Tangibles	0.958	0.959	0.966	0.801
Responsiveness	0.968	0.968	0.974	0.861
Reliability	0.961	0.961	0.970	0.865
Empathy	0.946	0.946	0.961	0.860
Assurance	0.964	0.965	0.971	0.848
Brand attachment	0.983	0.983	0.986	0.907
Brand attitude	0.984	0.984	0.987	0.939

Source: Author's computation

39.6% engaged in leisure travel occasionally, while 38% reported never traveling for business purposes. Moreover, 39.2% of the respondents stayed in a hotel 3 to 5 times between October 2021 and October 2023 with 57.3% enrolled in a hotel loyalty program. The analysis involved assessing the measurement model, structural model, and validity and reliability of the constructs. The factor loadings for each item of customer loyalty, service quality and brand equity ranging from 0.450 to

variables are adequately representing their respective constructs. In addition, the results indicated that all constructs have CR values ranging from 0.961 to 0.987, reflecting good internal consistency. Cronbach's alpha was used to test the reliability of the data, and all scales in the study were shown to be reliable and valid, ranging from 0.946 to 0.984. An alternative measure of internal consistency reliability is  $\rho_A$ , which is less sensitive to the number of items in the scale compared to

Table 3. *Fornell-Larcker criterion measures*

Constructs	Assurance	Brand attachment	Brand attitude	Brand equity	Customer loyalty	Empathy	Reliability	Responsiveness	Service quality	Tangibles
Assurance	0.921									
Brand attachment	0.753	0.952								
Brand attitude	0.833	0.881	0.969							
Brand equity	0.858	0.886	0.917	0.924						
Customer loyalty	0.715	0.679	0.766	0.777	0.911					
Empathy	0.908	0.754	0.809	0.837	0.719	0.928				
Reliability	0.903	0.747	0.833	0.850	0.734	0.911	0.930			
Responsiveness	0.884	0.745	0.810	0.846	0.727	0.888	0.916	0.928		
Service quality	0.856	0.766	0.846	0.874	0.798	0.860	0.867	0.872	0.859	
Tangibles	0.858	0.765	0.819	0.865	0.762	0.850	0.861	0.864	0.901	0.895

Source: Author's computation

Cronbach alphas (Esteban-Bravo & Vidal-Sanz, 2021). The acceptable levels required were above 0.70 (Hair *et al.*, 2019) and the values for all constructs ranged from 0.946 to 0.984 suggesting that the constructs correlate well with each other. Discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait ratio. Table 3 presents the Fornell-Larcker criterion measures for assessing the discriminant validity of the constructs in the measurement model revealing meaningful relationships between the variables in the model.

To support the primary objective of this study, customer loyalty exhibits strong positive correlations with brand equity (0.911) and

variables are moderately to strongly positively correlated with assurance, reflecting a strong positive correlation with brand attachment (0.921) and tangibles (0.858). Brand attitude demonstrates a very strong positive correlation with brand equity (0.969) and empathy reflects moderate to strong positive correlations with other variables, such as assurance (0.908) and reliability (0.928). These findings suggest that the constructs in the model are interconnected, supporting the notion that improvements in one construct may lead to enhancements in others. The Heterotrait-Monotrait Ratio matrix in Table 4 evaluates the discriminant validity of constructs in the measurement model. A value below 1 suggests that the constructs are

Table 4. *Heterotrait-Monotrait ratio matrix*

Constructs	Assurance	Brand attachment	Brand attitude	Brand equity	Customer loyalty	Empathy	Reliability	Responsiveness	Service quality	Tangibles
Brand attachment	0.773									0.773
Brand attitude	0.854	0.895								0.854
Brand equity	0.880	0.790	0.732							0.880
Customer loyalty	0.742	0.701	0.788	0.800						0.742
Empathy	0.895	0.782	0.838	0.868	0.754					0.895
Reliability	0.793	0.768	0.857	0.875	0.764	0.795				0.793
Responsiveness	0.891	0.763	0.830	0.868	0.753	0.827	0.850			0.891
Service quality	0.890	0.783	0.869	0.895	0.825	0.790	0.790	0.849		0.890
Tangibles	0.892	0.788	0.843	0.891	0.793	0.892	0.897	0.897	0.893	0.892

Source: Author's computation

service quality (0.874). In relation to the secondary objectives of this study, the

distinct from each other, indicating good discriminant validity. The correlation matrix

revealed moderate to strong positive relationships between constructs, with key correlations including brand attitude and brand equity (0.969), customer loyalty and brand equity (0.911), as well as empathy and reliability (0.928).

#### 4.1 Structural Equation Modelling

In Structural Equation Modelling (SEM), the main purpose is to find a model that has an adequate fit in the model used in the study to draw causal inferences in the phenomena under investigation (Hair, 2021). A measurement model was constructed using SmartPLS version 3, and the model's fit, along with its factor loadings are delineated in Figure 2. The factor loadings are illustrated by values positioned between the blue circle and yellow rectangles in the model. The analysis reveals strong factor loadings across all constructs, with each loading demonstrating statistical significance with the p-values < 0.05 and ranging from 0.450 to 0.950. The analysis involved the consideration of the adjusted R-squared values where a higher R-squared value indicates a better fit for the model, with the values of 0.75 and above considered substantial (Hair *et al.*, 2019). The adjusted R-squared value of 0.663 indicates that 66.3% of the variance in customer loyalty is explained by the independent variables, suggesting a moderately good fit for the model. Additionally, the adjusted R-squared value of 0.856 for service quality indicates that 85.6% of its variance is explained by the independent variables.

Table 5. *Adjusted R-squared values*

	<i>Original Sample</i>	<i>St. Dev.</i>	<i>T stat</i>	<i>p</i>
Customer loyalty	0.663	0.046	14.432	0.000
Service quality	0.856	0.016	52.194	0.000
Brand equity	0.868	0.016	53.035	0.000

Source: Author's computation

The adjusted R-squared value of 0.868 indicates that 86.8% of the variance in brand equity is explained by the independent variables, suggesting a strong model fit. This

implies that factors such as service quality, tangibles, responsiveness, reliability, empathy, assurance, brand attachment, and brand attitude are strong predictors of brand equity in the South African hotel industry. The significance of this relationship is further supported by the high T-statistic and low p-value (0.000).

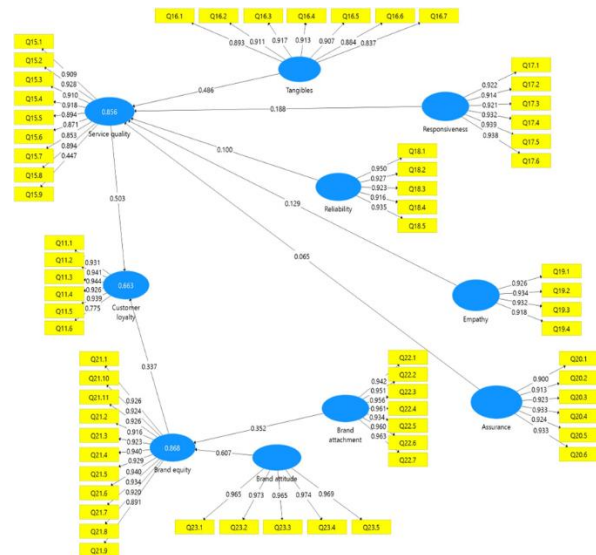


Figure 2. *Customer loyalty, service quality and brand equity structural model*

Source: Author's computation

#### 4.2 Discussion

To accomplish the research objectives, an evaluation of the hypotheses was conducted using path coefficients and specific indirect effects to assess the structural model. Table 6 presents the results of the hypotheses testing which includes the relationships between customer loyalty and the effect of service quality and brand equity.

**Hypothesis 1: Service Quality:** The effect of service quality on customer loyalty was found to be significant, indicating that enhancements in service quality lead to higher customer loyalty in South Africa's hotel industry. While studies demonstrated a significant effect (Mohamed *et al.*, 2017; Nuanchaona *et al.*, 2021; Allauddin, Islam & Hussein, 2019), some studies found an insignificant effect (Anabila *et al.*, 2022).

**Hypothesis 2: Tangibles:** The analysis showed that service quality mediates the relationship

between tangibles and customer loyalty, suggesting that improvements in physical facilities and appearance can enhance service quality and thereby increase customer loyalty. While Mohamed *et al.* (2017) found a significant effect of tangibles on loyalty in their studies, Nuanchaona *et al.* (2021) reported an insignificant effect in their research.

*Hypothesis 3: Responsiveness:* The analysis showed that service quality mediates the relationship between responsiveness and customer loyalty, suggesting that attentiveness to customer needs enhances service quality, thereby increasing customer loyalty in South Africa's hotel industry. Although research by Mohamed *et al.* (2017) and Nuanchaona *et al.* (2021) showed a significant effect of responsiveness on loyalty, Anabila *et al.* (2022) found the effect to be insignificant in their study.

*Hypothesis 4: Reliability:* The findings reveal that service quality does not mediate the relationship between reliability and customer loyalty, suggesting that while reliability is crucial for service quality, it does not directly impact customer loyalty in this context. While research by Mohamed *et al.* (2017) identified a significant effect of reliability on loyalty, some studies, such as Nuanchaona *et al.* (2021), discovered an insignificant effect.

*Hypothesis 5: Empathy:* The analysis found that service quality does not mediate the relationship between empathy and customer loyalty, suggesting that while empathy is important for service quality, it does not directly impact customer loyalty in South Africa's hotel industry. Although Mohamed *et al.* (2017) and Nuanchaona *et al.* (2021) identified a significant effect of empathy on loyalty, other studies, such as Anabila *et al.* (2022), reported an insignificant effect.

*Hypothesis 6: Assurance:* The analysis indicated that service quality does not mediate the relationship between assurance and customer loyalty, suggesting that while providing assurance about service quality is important in South Africa's hotel industry, it may not directly influence customer loyalty. Although Mohamed *et al.* (2017) and Nuanchaona *et al.* (2021) identified a significant effect of

assurance on loyalty, other studies by Anabila *et al.* (2022), observed an insignificant effect.

*Hypothesis 7: Brand Equity:* The relationship between brand equity and customer loyalty was found to be significant, suggesting that brand equity has a significant effect leading to higher customer loyalty in South Africa's hotel industry. These findings support previous literature reflecting the significant effect of brand equity on loyalty (Nuseir, 2021; Lee, 2014; Warsewicz & Kulykovets (2020).

*Hypothesis 8: Brand Attachment:* The analysis indicated a significant mediating effect of brand equity in the relationship between brand attachment and customer loyalty, suggesting that emotional attachment to a brand positively affects brand equity, which in turn significantly influences customer loyalty. These findings align with earlier research that highlights the significant impact of brand attachment on loyalty (Li, Teng & Chen, 2020).

*Hypothesis 9: Brand Attitude:* The analysis found a significant mediating effect of brand equity in the relationship between brand attitude and customer loyalty, suggesting that customers' perceptions of a brand positively influence its brand equity, leading to a significant impact on their loyalty to the brand. These results are consistent with previous studies that emphasize the substantial influence of brand attitude on loyalty (Nayeem, Murshed, & Dwivedi, 2019).



Table 6. *Results of hypotheses testing*

Hypothesis	Path Coefficient	T Statistic	P Value	Accept	Reject
H <sub>1</sub> : Service quality has a statistically significant effect on customer loyalty in South Africa's hotel industry	0.503	8.323	0.000	✓	
H <sub>2</sub> : Service quality has a mediating effect on the relationship between tangibles and customer loyalty in South Africa's hotel industry	0.245	5.384	0.000	✓	
H <sub>3</sub> : Service quality has a mediating effect on the relationship between responsiveness and customer loyalty in South Africa's hotel industry.	0.094	2.768	0.003	✓	
H <sub>4</sub> : Service quality has a mediating effect on the relationship between reliability and customer loyalty in South Africa's hotel industry.	0.050	1.409	0.080		✓
H <sub>5</sub> : Service quality has a mediating effect on the relationship between empathy and customer loyalty in South Africa's hotel industry.	0.065	1.778	0.038		✓
H <sub>6</sub> : Service quality has a mediating effect on the relationship between assurance and customer loyalty in South Africa's hotel industry.	0.033	1.118	0.132		✓
H <sub>7</sub> : Brand equity has a statistically significant effect on customer loyalty in South Africa's hotel industry.	0.337	5.768	0.000	✓	
H <sub>8</sub> : Brand equity has a mediating effect on the relationship between brand attachment and customer loyalty in South Africa's hotel industry.	0.119	4.454	0.000	✓	
H <sub>9</sub> : Brand equity has a mediating effect on the relationship between brand attitude and customer loyalty in South Africa's hotel industry.	0.204	5.218	0.000	✓	

Source: Author's computation

*Primary Objective Discussion*

The study's primary objective aimed to evaluate the effect of service quality and brand equity on customer loyalty in South Africa's hotel industry. The findings reveal that superior levels of service quality can significantly influence customer loyalty.

Consistent enhancements including seamless check-in processes, exceptional room cleanliness, friendly staff, high-quality amenities, excellent room service, and elevated dining options, are likely to result in higher levels of customer loyalty. Similarly, the

relationship between brand equity and customer loyalty was found to be significant. Cultivating and upholding a strong brand identity, reflected in elements such as a positive brand perception, a favorable community reputation, superior standing compared to competitors, and a sense of security instilled by the brand, can also positively impact customer loyalty.

#### *Secondary Objectives Discussion*

The study's secondary objectives aimed to establish the effect of tangibles, responsiveness, reliability, empathy, and assurance on customer loyalty via service quality in South Africa's hotel industry. Additionally, the study sought to establish the effect of brand attachment and brand attitude on customer loyalty via brand equity in South Africa's hotel industry. The findings reveal that service quality significantly mediates the relationship between tangibles and customer loyalty, emphasizing the importance of physical aspects in enhancing service quality and loyalty.

Similarly, responsiveness showed a significant mediating effect through service quality, highlighting the role of efficient service in fostering customer loyalty. However, the mediating effects of service quality on reliability, empathy, and assurance were found to be insignificant, suggesting that while these factors are expected in hotel service, they do not independently drive customer loyalty. This underscores the complexity of customer loyalty drivers and the need for a holistic approach to service quality. The empirical results, showing consistent effects and significant mediation through the service quality construct, point towards a reflective modelling approach. This aligns with the conventional understanding of the dimensions of SERVQUAL affecting the overall service quality perceived by customers. In this context, it would be reasonable to justify modelling SERVQUAL as a reflective construct in SEM. The study found that brand equity significantly mediates the relationship between both brand attachment and brand attitude on customer loyalty. This suggests that brand attachment positively influences brand equity, which in turn significantly impacts customer loyalty.

Similarly, a customer's positive perception of a brand enhances brand equity, which also significantly influences their loyalty to the brand.

#### *Managerial Implications and Recommendations*

The study offers valuable strategies for hotels in South Africa to enhance customer loyalty leading to increased profitability and long-term success in the competitive hotel industry. Personalized loyalty programs can improve customer retention, while tailored service training programs can enhance service quality. Effective brand management strategies, collaborations with local businesses, and offerings that appeal to status-seeking behaviors can also drive loyalty. Hotels should prioritize seamless check-in procedures, leveraging technology like mobile check-in or self-service kiosks to minimize waiting times and enhance guest satisfaction. Implementing rigorous cleaning protocols and providing ongoing customer service training will ensure consistently well-maintained rooms and friendly, helpful, and attentive staff. Enhancing dining options with diverse menu choices can elevate the guest's dining experience. Incorporating a knowledgeable front desk concierge service and providing information about nearby attractions in marketing materials can enhance the overall guest experience. Regularly reviewing pricing strategies to ensure perceived value for money, including personalized promotions, is also crucial. Local marketing teams can engage in community events and collaborations to strengthen the hotel's brand presence. Leveraging positive reviews on platforms like Booking.com and Tripadvisor can enhance brand credibility, and encouraging loyal customers to advocate for the brand can be beneficial. Developing a strong brand identity, personality, and promise that offers a unique value proposition and ensuring consistency across all touchpoints is essential. Aligning the guest experience with the brand promise and training staff to embody brand values are key. Continuous monitoring of competitor brands and adapting strategies based on market research will help differentiate the brand and improve competitiveness.

### Limitations

The study's sample size of 379 respondents was relatively small, limiting the generalizability of the findings to the entire South African hotel industry. The sample may not have fully represented the diversity of hotels and customers in the country. The reliance on survey data could introduce response bias and errors, and self-reported data may not always accurately reflect actual behavior or perceptions. The focus on the South African hotel industry means the findings may not apply to other industries or countries with different contexts. The study's timeline and resources may have limited the depth and breadth of the analysis, potentially overlooking certain nuances or aspects of these relationships.

### Future Research

The study suggests several key research areas to explore in the South African hotel industry. These include cross-cultural analysis, examining the impact of technology on service quality and loyalty to enhance customer experiences, sustainability practices, online reviews and social media, employee engagement, market segmentation and crisis management.

## 5. Conclusion

Based on the comprehensive analysis conducted, several key findings have emerged regarding customer loyalty, service quality, and brand equity in the South African hotel industry. Analyzing the survey data from 379 respondents, the study identified the mediating role of service quality and customer loyalty. Specifically, the study found that service quality significantly affects customer loyalty with a path coefficient of 0.503. Tangibles, such as physical facilities and amenities, were particularly impactful, with a path coefficient of 0.245 mediated by service quality. Responsiveness and empathy also showed significant mediating effects through service quality, with path coefficients of 0.094 and 0.065, respectively. While reliability and assurance did not show significant direct effects on loyalty (path coefficients of 0.050 and 0.033 respectively), they remain essential

for overall service quality. The study further revealed that brand equity has a statistically significant effect on customer loyalty, with a path coefficient of 0.337. Both brand attachment and brand attitude significantly mediate customer loyalty through brand equity, with path coefficients of 0.119 and 0.204, respectively. This indicates that hotels with strong brand equity are likely to have more loyal customers, emphasizing the importance of building a robust brand. In conclusion, the study's findings provide valuable insights for hotel managers and marketers aiming to enhance customer loyalty in the South African market.

By focusing on improving service quality across all dimensions and building strong brand equity, hotels can create positive customer experiences that lead to increased loyalty and long-term profitability. Implementing personalized services, integrating technology, and engaging with the local community can further enhance customer loyalty and differentiate hotels in a competitive market.

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