The Effect of Perceived Price Fairness on Customer Satisfaction and Loyalty

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ABSTRACT

The purpose of this thesis is to develop a conceptual model that examines the relationship between customers perceived price fairness, satisfaction and loyalty, incorporating two outcomes of loyalty, affective loyalty and behavioral loyalty. Perceived price fairness is the customer's perception of a sales transaction and outcome being just, acceptable and reasonable. It is believed that the perception of customers influences their judgment thereby increasing satisfaction and loyalty outcomes. The aforementioned relationships were examined via data obtained from customers of hotels in Nigeria using hierarchical multiple regression analysis. These hotel customers are chosen from the users of online reservation system of the hotel for booking accommodation.

According to the result of the study, perceived price fairness has a significant positive effect on customer satisfaction, similarly, the results showed that perceived price fairness has a significant positive effect on affective and behavioral loyalty; therefore, perceived price fairness increases customer satisfaction and loyalty. Furthermore, the results of the study indicate that customer satisfaction positively influences customer loyalty lending support to customer satisfaction as a factor of predicting customers repeat purchase. Finally, the results demonstrate the mediating effect of customer satisfaction between perceived price fairness and loyalty. Thus, perceived price fairness is positively related to affective and behavioral loyalty directly and indirectly through customer satisfaction.

Accordingly, managerial implications are provided based on the study results, information with regards to the study limitations and suggestion for further research is presented in the thesis.

Keywords: perceived price fairness, customer satisfaction, affective loyalty, behavioral loyalty, pricing, Nigeria, online customers.

ÖZ

Bu tezin amacı, müşterilerin fiyat adalet algısı, tatmini ve sadakati arasındaki ilişkiyi inceleyen kavramsal bir model geliştirmektir. Sadakat konusu, duygusal sadakat ve davranışsal sadakat olarak iki boyutta ele alınmıştır. Algılanan fiyat adaleti, satış işlem ve sonucunun müşteri tarafından adaletli, kabul edilebilir ve makul algılanmasıdır. Müşterilerin algısı yargılarını etkilediğinden tatminin ve sadakatin davranışsal sonuçlarını artırması beklenir. Sözü edilen ilişkiler Nijerya otellerindeki müşterilerden elde edilen veriler kullanılarak çoklu regresyon analizi yöntemiyle incelendi. Çalışmadaki örneklendirme online rezervasyon sisteminden yararlanan müşterilerden seçilmiştir.

Çalışmanın bulgularına göre, algılanan fiyat adaletinin müşteri tatmini üzerinde olumlu etkisi olduğu, benzer olarak, algılanan fiyat adaletinin duygusal ve davranışsal sadakat üzerinde anlamlı olumlu etkiye sahip olduğu ortaya konmuştur; bu nedenle, algılanan fiyat adaletinin, müşteri tatminini ve sadakatini artırdığı gözlemlenmiştir. Ayrıca, çalışmanın bulgusu müşteri tatmininin, müşteri sadakatini olumlu etkilediğini, dolayısıyla, müşterilerin devamlı müşteri olarak tekrar satın alma eylemlerini desteklediği gösterilmiştir. Son olarak, bulgular müşteri tatmininin, algılanan fiyat adaleti ve sadakat arasında aracı bir rolü olduğunu göstermektedir. Böylece, fiyat adaleti algısı duygusal ve davranışsal sadakat ile doğrudan ve dolaylı olarak positif ilişkilidir. Tezin son bölümünde ise, yönetimsel uygulama önerileri, çalışmadaki kısıtlamalar ve daha sonraki araştırmalar ile ilgili öneriler sunulmuştur.

Anahtar Kelimeler: algılanan fiyat adaleti, müşteri memnuniyeti, duygusal bağlılık, davranışsal bağlılık, fiyatlandırma, Nijerya.

Dedicated to my entire Family

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"So then it is not of him that willeth, nor of him that runneth, but of God that sheweth mercy"

(Romans 9:16).

I return all glory, praise and adoration to GOD, the source of all knowledge, the embodiment of all wisdom, the giver of strength, the glory and lifter of my head, for giving me the ability and strength to successfully complete this work.

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LIST OF ABRREVIATIONS

PPF	Perceived price fairness
CSAT	Customer satisfaction
AFL	Affective loyalty
BL	Behavioral Loyalty

Chapter 1

INTRODUCTION

1.1 Background of Nigeria

Nigeria is undoubtedly the most populated economy in the sub-Saharan region with an estimated population of 152,217,341 (2010 EST.). It is also in no doubt the largest black nation in the world. The Federal Republic of Nigeria, as it is officially known, covers an area of 356,669 square miles on the coast of West Africa (www.tripod.com). The country's borders catches with the Federal Republic of Cameroon to the east, Niger Republic to the north and Benin Republic to the west. In the northeast, Nigeria is separated by a 54-miles long border with the Republic of Chad, while its Gulf of Guinea coastline stretches for more than 500 miles from Badagry in the west to Calabar in the east, and includes the Bights of Benin and Biafra (www.tripod.com). Administratively, Nigeria as at date is divided into thirty-six states and the Federal Capital Territory of Abuja (CIA World Fact book, 2001) with a population 590,400 (2003 est.). The country has a land area of 351,649 sq. mi (910,771 sq. km); total area: 356,667 sq. mi (923,768 sq. km). The country's biggest cities are Lagos (2003 est.), 11,135,000 (metro. area), 5,686,000 (city proper); Kano, 3,329,900; Ibadan, 3,139,500; Kaduna, 1,510,300 (infoplease.com).

Like Africa in general, Nigeria is rich in diversity both ethnically and culturally even physically. This is resulting from the fact that Nigeria is today inhabited by a large number of tribal groups. According to the Encyclopedia Britannica, there are about

250 ethnic groups with over four hundred languages. This population comprises of both Christians and Muslims making up 80 percent of the population and the rest are associated with indigenous religions. Nigeria's greatest diversity is in its people. These peoples have so much culture and history that it is imperative to chronicle this history as it relates to their current economic and political struggles.

Nigeria has different tourist attractions including festivals and cultural celebrations such as Durbar festivals celebrated in the north and the Calabar Carnival in Cross River which attracts over 2million visitors from all over the World with demand for hotel accommodation. It also has national parks (such as old Oyo, Yankari, and Cross River National Parks), and other geographical sites (such as Aso Rock, Abuja.) (www.wikipedia.org). By far the most outstanding tourist zone is the Mambilla Plateau in Taraba State. More so, Nigeria is one of the richest nations in oil and exports to different parts of the world.

According to the World Tourism Organization (WTO), tourism has been defined as an activity engaged by a person which allows the movement of such from one destination being either their home country or town to another destination for several reasons such as business trips, holidays etc. (unwto,org). Since Nigeria is rich in festivals and culture, it has become one of the most popular countries to be visited for both business, leisure and holiday purpose owing to its rich and growing economy and richness in culture and festival. According to the records of World Travel and Tourism Council, tourism and travel related revenue in Nigeria is estimated to exceed 10 billion $USD in 2007, and will account for approximately 6% of the gross domestic product.

Hospitality as a big industry covers various services such as restaurants, hotels, bars, cruise lines etc. In Nigeria particularly, the industry is a multi-billion dollar sector contributing about 3.2 percent to GDP in 2013, and is forecast to rise by 1.9 percent in 2014, and to rise by 6.1 percent per annum to NGN2,886.2bn (3.4% of GDP) in 2024 (World Tourism & Travel Council) . The best of hospitality development in Nigeria is in accommodations and restaurants. This sector is a boom in Nigeria experiencing increased investment, as recorded by the World Travel and Tourism Council, tourism investment in 2013 was NGN264.2bn, or 4.8% of total investment. It should rise by 1.0% in 2014, and rise by 5.1% pa over the next ten years to NGN438.9bn in 2024 (4.4% of total), but yet still faces many challenges spanning from insufficient technological development, power supply instability, security, negative global publicity (Economic-Business-Monitor 2013). These challenges in the industry particularly the issue of security has heightened competition thereby causing hotels to strategize in other to maintain customer base, thus one of the dependent strategies is the use of price manipulations (Economic-Business-Monitor 2013). As recorded in the statistics of WTO, international tourist arrivals (overnight visitors) increased by 5% worldwide in 2013, reaching a record 1087 million arrivals, after topping the 1 billion mark in 2012 (unwto.org). This accounts for the rapid growth in competition in the hospitality industry. It has been documented from several studies that for a firm to increase its competitiveness, it will decrease the cost of production, increase its market share or adjust its price (Dolgui and Porth, 2010). Generally, in all the three options available for the firm to increase its competitiveness, price as an adjustment criterion for profit is the simplest and quickest way to improve competitiveness but also more complicated.

Pricing is a very vital tool in accounting as it has great impact on the profitability and survival of the firm. Generally, pricing could be defined as the method which the firm adopts to set its price of product (Business Dictionary 2013). Price has also functioned as an important determinant of consumer's choice (Kotler, 2012). Pricing therefore is an important tool in the hospitality industry. This is as characterized by the industry's dynamics, seasonality in demand, variation in price and change in demand. This has caused hospitality management to rely on variable pricing rather than flat rate pricing (Cross, 1997). The use of variable pricing allows hotels to change price in proportion to the change in demand. When demand increase, prices increase, and vice versa. For a pricing strategy to be effective, it has to align with the demand of customer as a reduction in price should result in an increase in customer demand (Choi and Mattila, 2005). This mechanism is employed by the hotel to increase its competitiveness and customer demand, but ironically, a price increase may also result in a decrease in competitiveness. This paradox has become more complicated. The use of technology by hotel in the distribution of hotel rooms has made it more difficult for hotels to gain customer loyalty and increase demand when its room prices are cheaper through intermediaries (Shoemaker and Bowen, 2003).

As prices communicate the firms intended value positioning of their products to the market, it is considered as one of the elements in the marketing mix and as an important tool for marketing (Kotler, 2012). Pricing from a marketing view involves the consideration of many factors including competitions, advertising and promotional campaigns, thus, an efficient pricing is that which is very close to the maximum that buyers are ready to pay, that is, a pricing that would not only maximize profit returns, but will also retain the loyalty of customers to that particular product. Therefore, while making pricing decisions, firms must make sure that these decisions are consistent with their marketing strategy (Kotler, 2012).

According to the marketing concept, it is specifically required that organizations and firms effectively identify, offer and satisfy the needs of theirs customers at a greater level than their competitors (Day, 1994; Drucker, 1965; McCarthy, 1960). Furthermore, satisfaction of the customer is directly connected to several aspects of relationship marketing like customer loyalty, confidence and price (Martin-Consuegra, Molina, and Esteban, 2007). Accordingly, pricing in its central role in consumer behavior and cost effectiveness is regarded and ranked as an important criterion by the customer when making product choices and selections (Martin-Consuegra *et al*., 2007). It is therefore astonishing to know that price has received less attention in the analysis of customer satisfaction (Huber, Herrmann, and Wricke, 2001). Hence, this calls for an empirical study in order to understand the relationship of price with satisfaction and loyalty.

In hotels, guest experience different room rates for similar rooms depending on certain characteristics (senior citizens, employee of certain organization etc.) and demand characteristics (days of the week, occupancy level and city wide event) (Kimes and Wirtz, 2003). In theory, hotels can charge as many different prices as they want, but if customers view the hotels pricing policy as unfair, it will influence their satisfaction and decision as they would not patronize the hotel in future. This being the case, loyalty becomes difficult to achieve. According to Shoemaker and Bowen (2003) this has become more complicated because of the emerging use of online reservation system, which allows hotels to change price easily via internet. This therefore formed the criteria for this study.

1.2 Statement of the Problem

There has been an emerging use of online reservation systems by hotels, allowing them to change prices easily via internet, there by offering different price for same product or service in real time. This has produced different perception of prices by customers. It has been concluded that the perceptions of fairness influence perceived value and customer satisfaction and produce different emotions and behavioral responses by the clients (Hirschman, 1970; Gummesson, 2002). Price fairness is a customer's perception of a sales transaction and outcome being just, acceptable and reasonable (Bolton, Warlop, and Alba, 2003). The perception of customers influences their responds, thus these responds have great influence and impact on customer's satisfaction, loyalty and long term profitability Bowen and Shoemaker (1998); Kimes (2002); Xia *et al* (2004), but many researchers have not empirically tested the effect of perceived price fairness as a single construct on customer's behavioral outcome.

Several studies that have concentrated on studying the link between prices, customer satisfaction loyalty, such as Kimes (2002); Xia *et al* (2004); Bolton *et al*. (2003) have proven that, price as an adjustment parameter, if handled well can produce positive result and serve as a competitive advantage. Nonetheless, these studies have not examined the effect of price fairness on loyalty outcomes. This is important because not all loyalty stage leads to action in consistency with the widely held definition of loyalty.

Therefore, there should be an empirical proof of the effect of perceived price fairness as a single construct on customer satisfaction and loyalty.

1.3 Objective of the Study

Theoretically, the study aims at providing empirical evidence on the effect of perceived price fairness on customer satisfaction and loyalty (affective and behavioral).

Practically, this study aims at giving hotel managers in accounting, marketing and relationship marketing insight to perceived price fairness and its impact on customer satisfaction and loyalty and provides strategies on how to maintain customer positive perception of price.

For the study to achieve its aims and objectives, a thorough investigation and study of literature in management accounting, marketing and hospitality accounting will be carried out to identify the gaps.

Specifically, in the management accounting literature, pricing will be considered from the customer's perception. This is because; the perception (fair or unfair) of the customer about hotel prices and pricing strategy has a great influence on customer satisfaction, loyalty and the long term profitability of the firm, Bowen and Shoemaker, (1998); Kimes (2002); Xia *et al* (2004) and also the intention to purchase and repurchase (Campbell 1999; Martins 1995).

Similarly, in the marketing literature, this is important because price as an adjustment parameter, if handled well can produce positive result and serve as a competitive advantage (Dolgui and Porth, 2010). This is consistent with several research that have concentrated on researching the link between prices, customer satisfaction and customer loyalty, such as (Kimes, 2002; Xia, Monroe, Cox, 2004; Bolton *et al*., 2003). Furthermore, adjusting prices is a strategic tool for increasing competitiveness Kimes and Wirtz (2003), but on the contrary, a price increase may also result to a decrease in competitiveness because consumers react differently to price change.

Finally, field work is carried out, which covers customer's perceptions. This field work is carried out in Nigeria due to the relative importance of hospitality in Nigeria and the growing competition in the county's hospitality industry. The data is analyzed using lisrel 8.30 to determine outputs of the result and results found is used for the provision of implication to hospitality industries and academicians.

1.4 Significance of the Study

Taking perceived price fairness into consideration, this research seeks to give insight to managers in accounting and marketing on the effect of price fairness on satisfaction and loyalty outcomes.

This study further discusses the definitions and theories which influences perceived price fairness with focus on customers of hospitality industries in Nigeria. The study reports the perception of customers based on the findings of the study, results discussed, and suggestions given to hotel managers on ways to maintain positive customer's perception of price.

1.5 Outline of the Study

The study comprises of six chapters. In chapter one entails introduction, statement of the problem, objectives and significance of the study.

Chapter two reviews past literature about perceived price fairness, customer satisfaction and customer loyalty, incorporation the loyalty cascade.

Chapter three states the justification of research hypothesis. In this chapter each hypothesis is explained and supported using findings from previous studies.

Chapter four gives detailed information of the method used in collecting data for the study, then followed by chapter five where findings of the study are discussed.

Finally, chapter six presents the discussion and conclusion of the study with direction to further study.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of past literatures and studies in pricing, perceived price fairness, customer satisfaction and customer loyalty, incorporating the loyalty cascade. This is to present a link and basis for the study.

2.2 Pricing and Accounting

Pricing is a very vital tool in accounting as it has great impact on the profitability and survival of the firm. Generally, pricing could be defined as the method which the firm adopts to set its price of product (Business dictionary, 2013). Pricing is usually dependent on the average cost of the firm, the buyer's perceived value of the product in comparison to the perceived value of competing product (Monroe, 2003). Firms can only be profitable if they are able to set prices that cover cost and thereafter determine a percentage addition which then accounts for the firm's profit (Zeithaml, 2001). Consequently, firms cannot achieve effective pricing without the cost functions which is discussed in the study, thus creating a link between accounting and pricing. Management accounting is defined as the process of identifying, measuring, accumulating, analyzing, preparing, interpreting and communicating informations that helps managers fulfill organizations objectives (Horngern, 1996).

According to Kaplan and Atkinson (1998), information from management accounting systems helps managers to plan and control their activities. Such activities include collecting, classifying, processing, analyzing and reporting (Kaplan and Atkinson, 1998). Similarly, Hilton (1999) stated several roles of managerial accounting and emphasized the importance and its integral part in both daily and strategic decision of the firm (Hilton, 1999). Management accounting idea began in the manufacturing industry (Horngern, 1996). Nevertheless, its advancement has made it applicable in the service industry. This is attributed to the fact that similar to the manufacturing industry, service industry has to raise revenue, spending has to be made, budgets prepared, control systems designed and implemented and wise use of resources, thus management accounting is essential and critical if these objectives must be achieved (Horngern, 1996).

In the hospitality industry, like in the production industry, several cost factors are associated with the service offering (room rate pricing), e.g., cost of sale, floor space, man power, marketing, advertisement cost (Harris and Mongiella, 2007). These factors are evident and important criteria for setting prices. Theses cost functions can only be determined by the management accounting information. This information explains the role of cost in setting prices (Hilton, 2000; Horngern, 1996). There are different techniques which firm uses to set prices (Salazar and Sanvictores, 1990). Similarly, in the traditional ways of fixing prices, firms consider the aspects of cost, demand and competition. Furthermore, Hung, Shang and Wang (2010) stated that hotel pricing techniques generally include cost based pricing, competition driven pricing and customer-driven pricing. Briefly, these aspects are discussed below.

1. **Cost-based pricing technique:** Here the price is equal to cost plus a markup (Hilton, 2000). The cost based pricing technique has different methods: (cost plus margin; target profit and price margin)
    - Cost plus margin – This method is the simplest. Here the firm adds a margin to its total cost, normally expressed in percentages to arrive at the final price markup (Price = Cost + (markup percentage x Cost).
    - Price margin - In this aspect, the margin mentioned above is not calculated based on cost, but rather based on price
    - Target profit – In this aspect, the firm sets a desired target profit, then base the price on the profit. The amount of addition is dependent on the desired target profit (Horngran, Sundem and Stratton, 1996).
2. **Demand-based pricing technique:** This technique is consistent with changes in demand. Here the firms' prices are fixed as the demand for product or a service increase or reduces, thereby a higher price at high demand and lower price during low demand. Here are some commonly used demand-based pricing techniques
    - Price discrimination - This technique allows the firm to charge different prices of the same product or service to different customers at different times (Horngran *et al*., 1996).
    - Experimentation – Here the firm sets prices with the objective of determining its effect on the demand. The result determines the suitable price to be fixed in alignment to the firm's objectives.
    - Predatory - Here the firm set prices which are lower than its competitor's prices with the objective of driving the competitors out of the market. At

this point, the predatory price has no significant competitor and the firm can increase its prices dramatically (Horngran *et al*., 1996).

3. **Competition-based pricing technique:** Here the firm considers the prices of their competitors, and then fixes it prices in relation to that. Furthermore, the prices are based on the firm's market position which determines if its prices will be higher, equal to or lower (Martinez, Borja and Jimnenez, 2011).
    - Higher prices – Here prices are higher than that of the competitors on the condition that a well-known advantage is evident.
    - Equal prices- Prices are equal when there is a perceived equality of products or service.
    - Lower prices – The firm lowers its prices with the objectives of penetrating a market which is already dominated by competitors.

2.3 Marketing and Pricing

Service or product prices communicate the firms intended value positioning of their products to the market, it is considered as one of the elements in the marketing mix and as an important tool for marketing (Kotler, 2013). Similarly it is regarded as a strategic tool. Price is defined as "the sum of the values customers exchange for the benefit of having or using the product or service" (Kotler, Bowen, and Makens, 2010). It is one of the elements of the marketing mix which generates revenue, whereas other element of the mix generates cost. Furthermore, the marketing mix elements are adjustable programs which the firm adjusts for competitiveness. Amongst the elements in the mix, price is the easiest element in the marketing program to adjust; other elements (product feature, distribution channels and promotional efforts) are time consuming (Kotler, 2013). It has been documented from several studies that, for a firm to increase its competitiveness, it will decrease the cost of production, increase its market share or adjust its price (Dolgui and Porth, 2010). Generally, in all the three options available for the firm to increase its competitiveness, price as an adjustment parameter for profit is the easiest and fastest way to increase competitiveness. Ironically, a price increase may also results to a decrease in competitiveness because consumers react differently to price changes. Considering this fact therefore, firms have to determine the best pricing strategy which will be suitable for its operation.

Pricing therefore could be defined as the method which the firm adopts to set its price of product. Pricing from a marketing view involves the consideration of many factors including competitions, advertising and promotional campaigns. Thus, an efficient pricing is that which is very close to the maximum, that buyers are ready to pay. That is, a pricing that would not only maximize profit returns, but will also retain the loyalty of customers to that particular product. Therefore, while making pricing decisions, firms must make sure that these decisions are consistent with their marketing strategy (Kotler, 2013).

2.4 Pricing in Hospitality

In the hospitality industry, pricing decisions are not only important, but complex. This complexity is relative to the characteristics of the industry. The hospitality industry is characterized with seasonality in demand, intangibility in service, inability to adjust inventory supply in the short run and fixed capacity (Choi and Cho, 2000). Furthermore, in hotels for example, insufficient demand, fixed administrative cost (manpower) contributes to making pricing decisions (room pricing) more complex (Ketabchi, 2013). As presented by Harris (2007), the major products in the hospitality industry include rooms, food and beverage. Further stated that the three products contain high degree of service element but also incorporate other functions retail, stock management and preparation or processing.

Pricing in the hospitality industry has evolved in the past years, experiencing a lot of changes in hotel revenue management. Furthermore, technological advancement has also influence pricing strategies. Hotels no long work with static seasonal rates, rather a wide range of yield and revenue management strategies have been implemented. Briefly, some of these practices will be discussed. Similarly, several authors have studied the implementation of the hotel pricing techniques (cost base pricing, competition base) stating the weakness of these strategies (Collins and Parsa, 2006; Danziger *et al*., 2006). Furthermore, Steed and Gu (2005) noted the complexity of hotel pricing, stating that human activities and environmental circumstances affects it. Thus the emergence of a synthesis as presented by Nagle and Holden (1995), a value based pricing technique which was noted to be more profitable than other hotel room pricing technique. One of the popularly used techniques of demand based pricing is yield management or revenue management. Yield management or revenue management has been extensively used in the hotel industries (Choi and Cho, 1997; Hanks, Noland and Cross 1992; Brotherton and Mooney, 1992).

Yield management technique focus on management decision-making with the objective of maximizing profit from the sales of hotel rooms. Similarly, Kimes and Wirtz (2003) define revenue management as the application of information systems and pricing strategies to allocate the right capacity to the right customers at the right price at the right time. Revenue management practice ensures that both firm and customer achieve maximum value and utility. Yield management technique involves the prediction of future demand levels for setting prices such that customers who are price sensitive will purchase at low demand seasons and price insensitive customers will do so at high demand period. Revenue management is suitably applied in operations where capacity is fixed, demand varying and uncertain, inventory perishable, fixed cost structures high and customer price sensitivity varies (Kimes and Wirtz, 2003). This is consistent with the characteristics of the hospitality industry.

2.5 Hospitality in Nigeria

In the last decade the hospitality industry in Nigeria has experienced rapid blistering growth. Most of this growth was experienced in the three big cities of the country, Abuja, Lagos and Port Harcourt (hospitalitygroup.com). In the recent years international hotels have shown interest and investment in the industry. Similarly, hotels like Protea hotels, Park Inn by Radisson, Four Points by Sheraton and Hilton Garden Inn hotels have indicated interest of expansion beyond the major cities in the country. Accordingly, the smooth transition from military to democratic rule in 1999 accounts for the stable raise in indigenous capital investment experienced during the last decade, thus, greater hospitality demand was generated. In early 2000's, research statistics shows that demand grew in a faster pace than supply, thereby, accounting for the high occupancy enjoyed by key players in the industry (hospitalitygroup.com). In 2008, hotels enjoyed high occupancy with peak exceeding 80 per cent, ranking one of the major cities in the country as second to Paris in terms of average daily rates in the STR Global ranking. (strglobal.com). Similarly, the rack rates in Nigerian's hotels are high, as such; the lowest published rates of market leaders in the country's hotel industry are quoted at "\$555 (Sheraton) in Lagos, \$419 (Transcorp Hilton) in Abuja and \$381 (Le Meridien) in Port Harcourt" (hospitalitygroup.com). Accordingly, major generator of demand for hotel accommodation in the country is the corporate sector which organizes meeting and conferences. The demand for domestic leisure tourism is mainly seasonal and international tourism accounts for a little contribution to the demand.

In recent times, the security challenges (Northern Nigeria) and some other issues in the country are having adverse effect on tourism and hospitality industry in the country as companies in the sector are recording declining profits. Some of the leading hotels in the country has recorded slight decline in turnover, occupancy and profit (thisdaylive.com). These challenges coupled with the seasonality in domestic tourism and little or less international tourism thus prompts strategic actions from hotel management to increase potential customers and return intentions. Thus, in the hotel industry, there is an intense reliance on variable pricing strategy (Revenue Management). Therefore, there has been a successful implementation of variable pricing strategy in the service industry, hotels, and airlines (Cross, 1997). Here, hotels increase price when there is a high demand and decrease when there is low demand.

In hotels, guest experience different room rates for similar rooms depending on certain characteristics (senior citizens, employee of certain organization etc.) and demand characteristics (days of the week, occupancy level and city wide event) Kimes and Wirtz (2003). In theory, hotels can charge as many different prices as they want, but if customers view the hotels pricing policy as unfair this will influence their satisfaction and they would negatively patronize the hotel in future. This being the case, loyalty becomes difficult to achieve. More so, this has become more complicated because of the emerging use of online reservation system (Shoemaker & Bowen, 2003), allowing hotels to change price easily via internet.

2.6 Importance of pricing

Pricing is a very important determinant of a firm's profitability and survival. It could be said that business are set up for the sole purpose of profit making. Pricing affect the sales of a firms product, thus affecting the profitability of the firm as well. Pricing is a determinant factor for the acceptance of a product in the market, thus determining the future of the product in the market. Price provides the link between quality and the customer's expectation. Accordingly, where there is a higher price, the expectation of the quality of hospitality experience is higher (Bowie and Buttle, 2004). The role of price cannot be over emphasized, as it is a determining factor in the establishment of the customer's perception of a product or the position of the firm in the market place. Buyers do not purchase the items; they rather buy the value or the benefit which the product promises to offer. Therefore when setting price or changing prices firms should depend on value related information, while ensuring that their pricing strategy is consistent with their operation (Ingenbleek et al., 2001).

2.7 Types of Pricing Strategy

There are different pricing strategies, but in a broad sense there are two categories of pricing, which is the flat rate and the variable pricing.

2.7.1 Flat Rate Pricing

According to Hoffman and Bateson (2010), a flat rate pricing is that which the customer pays a fixed price. With the flat rate pricing, the same price is charged no matter the level of demand. There is a fixed price for the product and prices are only change in the event of economic changes, increase in production cost etc. It is evident that flat rate and variable strategies have been successfully implemented in a number of service industries such as airline, lodging and car rental, but in recent times this pricing strategy has been less implemented in the hospitality industry owing to the fluctuation in demand (Cross, 1997). In the bid of management of hotels to increase sales and make profit, they resulted to the use variables pricing which allows management to increase price when there is an increase in demand and reduce when there is a decrease.

2.7.2 Variable Pricing

The variable pricing is the opposite of the flat, here the prices are adjusted based on customer demand. The variable pricing allows firms to increase price when there is a high demand, and decrease when there is low demand. According to Chio and Mattila (2005), an effective pricing strategy is that which aligns price with customers demand, thus a price reduction would result in an increased customer demand. For example, in hotels, guest experience different room rates for similar rooms depending on demand characteristics (days of the week, level of occupancy and city wide event, period and mode of booking.

An important element of variable pricing is the rate fence. These are rules set by firms to dictate which buyer gets what price and also help in differentiating one transaction from another. Rate fence if properly structured or well-designed can permit customers self-segmentation on the basis of readiness to pay, and can also help a firm individualize the price offered to different segments (Dolan and Simon 1996; Hanks, Noland, and Cross, 1992). Rate fence can either be physical or non-physical. Physical rate fence could include size of the hotel room, furniture in the room or the view. Non-physical rate fence are further categorized into buyers, consumption and transaction. Example of buyers include discount given to senior citizens, for consumption, frequency of purchase and quantity of purchase, for transaction, time or season of booking.

2.8 Perceived Price Fairness

Theoretically, hotels can charge as many different prices as they want, but if customers view (perceive) the hotels pricing policy as unfair this will influence their satisfaction and they would negatively patronize the hotel in future. Price fairness is a customer's perception of a sales transaction and outcome being just, acceptable and reasonable (Bolton *et al.*, 2003). It is documented in several studies such as that of Hirschman (1970); Gunmmesson (2002) that the perception of price fairness of a consumer influences his perceived value, satisfaction and thus produces different emotions and behavioral responds by the customers. This implies that a positive perception will lead to a positive responds and behavior similarly; a negative perception of perceived price fairness will also lead to a negative behavior.

Subsequently, Bowen and Shoemaker (1998); Kimes (2002); Xia *et al* (2004) also documented the importance of perceived price fairness as it influences customer satisfaction, loyalty and the long term profitability of the firm. In most of the studies, two factors have been noted to influence customer's perception of price fairness. These two factors are reference price or reference transaction and the principle of dual entitlement (Kimes and Wirtz, 2003b). The principle of dual entitlement proposes that it is fair for sellers to pursue a pricing rule of raising prices when their costs increase, but not reduce their prices when costs decrease (Kalapurakal, Peter, Dickson, Joel and Urbany, 1991). Here, the customer perceives the price increase as being fair when it is justified by increase in cost and unfair when price increase is based on the firm's intent to increase profit and take advantage of increased demand

(Bolton *et al*., 2003). Whereas the reference price is the price which the customer believes the service should cost and reference transaction is his ideal way of how the transaction should be conducted (Kimes, 1994). According to Martins and Monroe (1994) it was found that customers compare the price they pay with what other customers paid for similar or same service (Equity Theory). Accordingly, when there is a difference in the price being judged by the customer, an unfairness perception will be induced (Xia *et al*., 2004).

Several researches have also shown similar and consistent findings, stating that unfair price perception influences customer satisfaction and intention to repurchase (Campbell, 1999; Martins and Monroe, 1994). Similarly, Xia *et al* (2004) suggested in their study that price fairness perception influences the customer's assessment of product value and satisfaction. Furthermore the study showed that the perceptions generate negative emotions which differ in intensity and appear in various types, also stating that value assessment of the customer and negative emotions are the mediating variables which influences different behavioral actions such as purchase intentions, negative word of mouth etc.

It was suggested by Kimes and Wirtz (2003) that the appropriateness of a variable strategy is dependent on the customers, only when he views the adjustment of price as fair. For instance, a person books for the same room using an online via internet reservation system and gets a room for $100 and his friend gets the same room using the same mode for $80, there are tendencies that the former will feel the hotel's pricing is unfair. Similarly, two friends' checks into a hotel both stay in similar room, receiving same service but paying different price because of the view of one room, there are chances that he will feel the hotel's pricing practices are unfair, thus influencing his judgment. Assuming there is no difference in quality or benefit received from the service, a negative perceived value will arise as a result of an increased perception of monetary sacrifice Monroe (2003), thus influencing the customer satisfaction as it has been shown in different studies that customers perceived value directly influence customer satisfaction (Bolton and Drew, 1991; Zeithaml, 1996). As backed by empirical findings which showed that buyers believe that unfair price represents a lower value than a financially equivalent fair price (Martins and Monroe, 1994). It is therefore important that firms take caution while increasing price so not to create an obstructive effect on the customer's perception of price fairness.

Accordingly, several researches proposed ways to maintain the customer's perception of price fairness. Such suggestions as recommending price change as discounts and not premium price (Kimes and Wirtz, 2002). Subsequently, they proposed a gradual increase of reference price over a prolonged period of time. The same also proposed that additional service should be added such that when the service is sold at a higher price, the customer's perception of fairness will not be negatively influenced. As outlined above the factors identified by several literature affecting customers perception of price fairness, notwithstanding, this issue has not been widely covered in the hotel industry (Shoemaker & Mattila, 2009).

2.9 Customer Satisfaction

In recent years, the issue of customer satisfaction has gained serious attention both theoretically and practically. Customer satisfaction as defined by Oliver (1997) is a post consumption judgment by the consumer of a product or service, giving a verdict for or against the derived fulfillment of his or her consumption. Several researches have indicated factors that influence customer's satisfaction, such as service quality, product quality, and price.

Zeithaml and Bitner (1996) in their study of the relationship between price and satisfaction noted that the depth of satisfaction was subject to several factors such as service quality, product quality, situational and personal factor and price. However, price as an important factor has not been extensively and empirically investigated in previous studies. Interestingly, price has been identified as an important factor of customer satisfaction, this being that customers in their evaluation of value of product or service consider the price (Cronin *et al*., 2000; Anderson *et al*., 1994).

Accordingly, for a customer to obtain a particular product or service, he or she must make a sacrifice, which is price, this arising from his cognitive conception (Zeithamal 1988). Typically, when the customer has a lower perception of price, his or her perception of sacrifice will be lower as well. Moreover, a sense of price fairness should be generated (Martin-Consuegra *et al*., 2007). Accordingly, if the firms practice is viewed as unfair by the customer, there are high chances of negative response occurrence (Wirtz and Kimes, 2007). Therefore, several attitudinal and affective responses, such as dissatisfaction, and lower intention to purchase are evident (Oliver and Swan, 1989; Campbell, 1999). These negative responses therefore impacts negatively on the firm's profitability and survival.

According to the study of Anderson and Sullivan (1993); Bansal and Taylor (1999) and Cronin *et al* (2000) which was focused on assessing the relationship of satisfaction and customer behavior, it was concluded that customer satisfaction is the key to retaining a customer. Similarly, the study of Zhang and Pan (2009) supported the direct relationship between customer satisfaction and profitability of the firm.

2.10 Customer Loyalty

Customer loyalty is one of the desired and paramount goals of many firms. The topic of loyalty has gained an extensive concern and interest by researchers and companies. This is owing to two major reasons, one of which is that, it is far easier to obtain a purchase from an old customer than from a new one and has a positive effect on profitability and revenue of the company as proved in the empirical findings of Naidu *et al* (1999) and Edvardsson *et al* (2000). When a customer becomes loyalty, they make more frequent purchase, these frequent purchase impact greatly on the firms profitability, likewise they disseminate positive word of mouth about the firm thereby becoming advocates for the firm. Loyal customer are resistant to negative word of mouth, they are also price insensitive, most importantly they are committed to purchasing the product or service regardless of new situations or offers proposed by a firm’s competitor. Loyalty has been defined as a long-term commitment to repurchase involving both repeated patronage and a favorable attitude (Dick and Basu, 1994).

Several studies have investigated factors that influence customer loyalty. Some of the studies proposed direct relationships and indirect relationship through other variables. Such variables included in the empirical findings are service quality, service fairness, price fairness, and customer satisfaction. A few have supported a direct relationship between these variables, such as Akber and Parvez (2009; Martin-Consuergra and Esteban (2007). Rather, majority of these studies concentrated on the correlating link between these variables through customer satisfaction such as

Henning-Thurau *et al* (2002); Wong and Zhou (2006) stating that customers who are satisfied display positive loyalty behavior.

Shoemaker & Bowen (2003) in their commentary on loyalty as a strategic commitment investigated the link between pricing (Yield management) and loyalty revealed in their findings that yielded customers were possibly less positive in their comment regarding the hotel. Secondly, they are also likely to check price when they stay in the hotel again and finally will possibly check and compare rates at other hotels. As a result, these customers are not really loyal customers because they will subsequently ask for cheaper rates during their next stay and also be promiscuous. Accordingly, they advised that pricing unit of the hotel work closely with those involved in loyalty management, this advice was also supported in the publication by Noone, Kimes and Renaghan (2003).

Furthermore Shoemaker & Bowen (2003) stated the complication of pricing issue as caused by the recent technological development of using the internet for the distribution of hotel rooms, stating the difficulty of gaining loyalty when rooms are cheaper through the use of intermediaries.

Accordingly, Jacoby and Chestnut (1978) stated that customer loyalty is generated through a three process steps, Belief (price fairness) Affect (Satisfaction) and Cognition (Customer Loyalty). This therefore implies that the preceding steps in the process are dependent on the earlier. Interestingly, Bei and Chiao (2001) stated that when customers feel that the sacrifice (price) which they have made in other to get the service is not worthwhile, the tendency of repurchase is low even when satisfaction was derived from delivered service. Similarly, if they perceive that the price is reasonable, the tendency to repurchase is high. The same also proposed the loyalty cascade which stated the hierarchy of loyalty (Jacoby and Chestnut, 1978). The loyalty construct since its development has received less attention. The construct was later enriched by Oliver (1997) stating that loyalty begins with cognitive loyalty based on brand-related beliefs and ends with an action which is known as behavioral loyalty. He further stated that loyalty consist of belief, affect, intention and action. The four-stage construct include cognitive loyalty, affective loyalty, intention loyalty and behavioral loyalty and implies that different phase of the loyalty do not occur at the same time or concurrently, rather it occurs sequentially (Evanschitzky and Wunderlich, 2006).

According to Evanschitzky & Wunderlich (2006) in their study which examined the moderator effect in the four stages of loyalty and the link between the different stages of loyalty phases stated that different factors exert influence on the development of the different stages of the loyalty phase. The moderating variables were divided into two groups, personal (age, education, and gender) and situational characteristics (expertise, product and price orientation). It was concluded in their study that, amongst other variables, price orientation was found to be very important moderator of the links in the loyalty phase. More so, the hypothesized relationships in the loyalty stages were all supported thus supporting the link between the four stage loyalty phases as was earlier supported in previous studies such as Sivadas and Baker-Prewitt (2000); Harris and Goode (2004).

Accordingly, Oliver (1997) argued in emphasis of the weakness of cognitive loyalty because it is made up of brand beliefs only which are still prone to threats from competitors and opposing arguments, but if the consumer continues a routine transaction and satisfaction is experience overtime, loyalty begins to take depth thus connoting affectivity. At the level of affectivity, the consumer begins to develop likeness for the brand because there has been cumulative satisfying usage overtime. This stage of the phrase (affective loyalty) is stronger than earlier (cognitive loyalty) because it incorporates beliefs and hedonic evaluations (Han *et al*., 2008). As consumer continually experience satisfying usage of the service, cognition is reinforced and affection deepens, an inclination to engage in a repurchase and brand consonant behavior is developed. This inclining desire leads to the next phase of the loyalty formation called intention loyalty. The final stage is called behavioral loyalty. Here attitude and intention is converted to action. When this is attained, it leads to true behavioral loyalty. Consistent with Oliver (1999), it is expected that service loyalty so displays a sequential structure. For the purpose of this study, two dimensions of loyalty will be considered (affective and behavioral loyalty).

2.10.1 Cognitive Loyalty

This is the first stage of loyalty. Consumer loyalty at this stage can be due to the information of the offering, such as price, quality and the list continues. It can be considered the least strong of loyalty because it is directed at cost and benefit of an offering and not at the brand itself. In other words, consumers are likely to change once they perceive alternative offerings as being superior with respect to cost benefit ratio (Kalyanaram and Little, 1994; Sivakumar and Raj, 1997). Cognitive loyalty is greatly influenced by customer evaluation response to experience, in particular to the perceived performance of the offering.

2.10.2 Affective Loyalty

Affective loyalty can be linked to a favorable attitude towards a specific brand or product. Attitude is a function of cognition, (e.g. expectation). Expectancy confirmation leads to satisfaction which in turn effectuates affective loyalty (Bitner, 1990).

Oliver (1997) explained satisfaction as the consumer fulfillment responds, the degree to which the level of fulfillment is pleasant or unpleasant. Satisfaction will broadly affect the evaluation or feeling that can be predicted from perceived performance as the cognitive component of the evaluation. Affective loyalty can deteriorate as a result of increased attractiveness of competitive offering and enhanced liking of competitive brands which could be conveyed through imagery and association used in competitive competition. (Sambandam and Lords, 1995)

2.10.3 Intention Loyalty

Intention loyalty can mean that attitudinal loyalty can be accompanied by a desire to intend an action. For instance, repurchase a particular brand. It is stronger than affective loyalty but has vulnerability as well. Constant delivery failures are a particular aspect in diminishing intention loyalty. Consumers are more likely to try alternative offerings if the witness repeated service failures even though the customer is intentionally loyal; he or she has not developed the resolved to avoid consideration of alternative offering (Oliver, 1999).

2.10.4 Behavioral Loyalty

Action control studies mean that not all intentions are transformed into action. For example, Kuhl and Beckmann (1985) concluded that the three previous loyalty states may result in a readiness to act (in this case, to buy). This readiness is accompanied by the consumers’ willingness to search for best offerings despite considerable effects necessary to do so. Competitive offerings are not considered as an option. The facilitator of purchase is called action inertia (Oliver, 1999). Behavioral loyalty is the last stage of loyalty, where there is a conversion of intentions and attitude to action (Han *et al.*, 2008).

Chapter 3

RESEARCH HYPOTHESIS

3.1 Introduction

This chapter is typically concerned with the presentation and justification of the conceptual model and hypothesis of this study. It discusses the relationship among the study variables and how they are developed. The relationship and contextual model of this study was developed after a careful and extensive review of relevant literature. The followings are the study variables, perceived price fairness, customer satisfaction and loyalty outcomes (affective loyalty and behavioral loyalty) loyalty cascade (Oliver, 1997).

3.2 Conceptual Model

The conceptual model is shown in figure 1. It consists of the relationship among variables. It has been documented that the perception of fairness influences perceived value and customer's satisfaction and produce different emotions and behavioral responds by the customers and clients (Hirschman, 1970; Gunmmesson, 2002). The model proposes that perceived price fairness positively influences customer satisfaction and loyalty outcomes. Also, customer's satisfaction directly influences customer loyalty positively. The model posits that customer satisfaction partially mediates the relationship between perceived price fairness and loyalty outcomes (affective and behavioral loyalty). As illustrated in figure 1, the conceptual model is developed to test four set of hypotheses. The first hypothesis examines the relationship between perceived price fairness and customer satisfaction, second hypothesis examines the relationship between perceived price fairness and loyalty outcomes, while third hypothesis examines the relationship between customer satisfaction and loyalty outcomes (behavioral and affective loyalty) and finally the mediating role of customer satisfaction on perceived price fairness and loyalty outcomes.

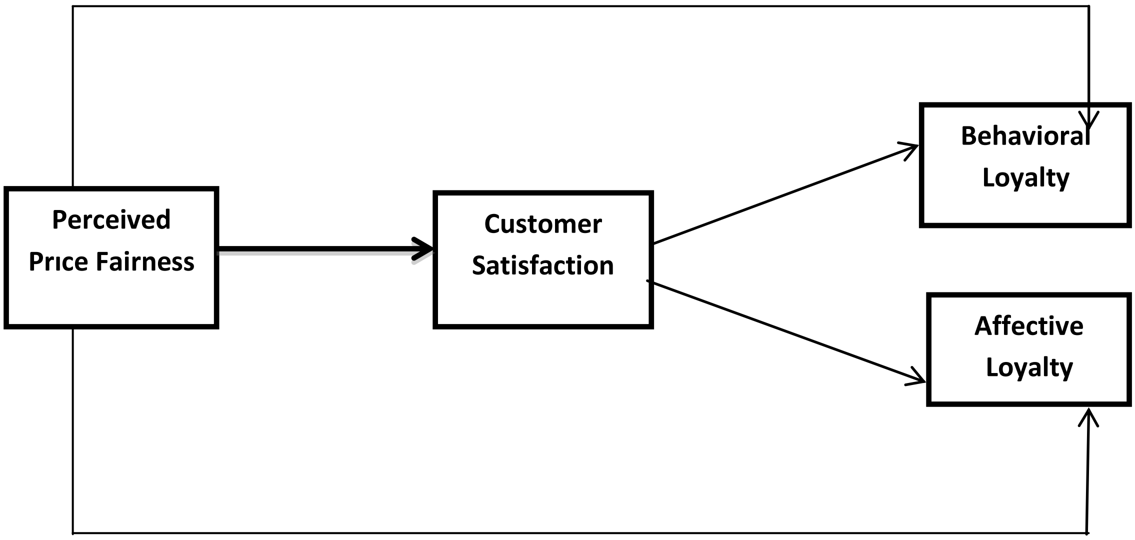

Figure 1: Conceptual Mode

3.3 Hypothesis Development

3.3.1 Pricing strategy and perceived price fairness

According to Cross (1997) there has been a successful implementation of both the flat rate and variable pricing strategies in the service industry. The flat rate pricing strategy is one, where the prices are fixed and maintained irrespective of the time, season and increase or decrease in customers demand, but the variable pricing strategy allows firms to adjust their price based on the demand of customer, thereby increasing the price where there is a higher demand and vice versa. According to Mattila (2005) prices are increased when there is a high demand, and lowered when there is a decrease in demand. However, the flat rate pricing generates little or no controversial emotion in consumers, but the variable pricing strategy does. The variable pricing strategy has emerged as a vital revenue management tool in the hospitality industry and a strategic instrument owing to the seasonality in the demand characteristics of the hospitality industry. In hotels, revenue management is used to maximize profit by generating revenue from rooms which otherwise would not have been sold (Chio and Mattila, 2004). Because there has been an extensive use of variable pricing (revenue management) as well as the use of several price promotion techniques such as customer loyalty program rate, quantity discounts and coupons, a wide range of price for essentially the same product or service may exist. In the light of this, customers tend to compare what they were charged for the same service and what other customers paid (Bolton, Warlop, and Alba, 2003; Chen, Monroe, and Lou, 1998; Martins and Monroe, 1994). Therefore, seeing that this comparison is likely to happen between buyers, it is important that firms ensure that customers understand the reasons for the varying prices Homans (1961); Lynn (1990) and this can be achieved through the use of rate fence.

Rate fence are rules set by firms to determine who gets what price and also help in differentiating one transaction from another. Rate fence, if properly structured or well-designed can allow buyers self-segment on the basics of readiness to pay and can also help a firm individualize the price offered to different segments (Dolan and Simon, 1996; Hanks, Noland, and Cross, 1992; Kimes and Wirtz, 2003). Rate fence can either be physical or non-physical. Physical rate fence includes size of the hotel room, furniture in the room or the view. Non-physical rate fence are further categorized into buyers, consumption and transaction. Example of buyers include discount given to senior citizens, for consumption, frequency of purchase and quantity of purchase, for transaction, time or season of booking. For these rules (rate fence) to be perceived as fair, firms must ensure it is logical and clear (Bennett, 1984). Perception of price fairness is affected by both the price paid and also the rules used in price setting (Kimes and Wirtz, 2003). It is therefore advised that firms should have a fair pricing rule.

In some of the service industries, management still hesitate to adjust prices because some customers will still perceive it as unfair (Cross, 1997). The negative perception thus influences their judgments and affective behaviors. This is because, customers are heterogeneous in nature, each perceiving like things and situation differently. According to research findings, customers have different perception of fairness of variable pricing strategy (Kimes and Wirtzs, 2003; Chio and Mattila, 2004). It has also been documented that perception of fairness influence perceived value, customer's satisfaction and produces different emotions and behavioral responds by the client (Hirschman, 1970; Gunmmesson, 2002). Therefore, it is important to empirically test the influence of these strategies on customer's perception of price fairness in the hospitality industry,

3.3.2 Perceived price fairness and customer satisfaction

As documented in the study of Hirschman (1970); Gunmmesson (2002) that the perception of price fairness of a consumer influences his perceived value, satisfaction and thus produces different emotions and behavioral responds by the customers. This implies that a positive perception will lead to a positive responds and behavior and a negative perception of perceived price fairness will also lead to a negative behavior. Therefore, considering the importance of consumers' behavior and the impacts is exerts on the profitability of a firm. It is therefore pertinent that we empirically test the relationship between behavioral outcome which have great impact on the profitability of the firm and even the firm's image. This study will consider customer satisfaction, affective and behavioral outcomes of loyalty.

Customer satisfaction as defined by Oliver (1999) is a post consumption judgment by the consumer of a product or service, giving a verdict for or against the derived fulfillment of his or her consumption. As argued by Gray and Boshor (2004), satisfaction is not dependent on the service or product alone, but has a greater reliance on the perception of the consumer. Likewise Srikanjanarak and Ramayah (2009) in their study also proved that, it is not only service quality that positively relates with satisfaction but price fairness. Cronin *et al* (2000) also stated that satisfaction is a result of the customer's perception. Likewise Choi *et al* (2004) similarly concluded that there is a positive influence of perceived value on the satisfaction of the customer. Furthermore, Hermann, Xia, Monroe, and Huber (2007) concluded in their study which they conceptually linked satisfaction and the price fairness. Its findings proved that price fairness affects customer's satisfaction. Correspondingly, the study of Martin-Consuegra *et al* (2007) reveals that price fairness is positively associated with customer satisfaction and loyalty.

As documented in different studies and in the Harvard Business Review (1995), attaining customer's satisfaction will lead the organization towards customer loyalty; ensure profitability, increase positive word of mouth and lower market expenditure and this could be achieved through customer satisfaction. Owing to these facts, it is therefore proposed that there is a positive relationship between perceived price fairness and customer satisfaction. Therefore the following hypothesis can be stated as:

H_1: Perceived price fairness is positively related to customer satisfaction.

Price is what a firm charges for its products or services. A business transaction can be an exchange of money, therefore it represents price (McCarty and Perreault, 1990). Accordingly, Zeithamal (1988) stated that price is a sacrifice. It is what must be sacrificed to obtain service or product. Thus in the customers perspective, price is a sacrifice made by them to obtain the service or product (Bei and Chaio, 2001). Therefore, if the customer perceives that price is reasonable, the display of repurchase intention is evident. But if they perceive otherwise that the price is unreasonable and that the sacrifice is not worthwhile, they will not repurchase the product again, not minding if they were satisfied with the product or service (Bei and Chaio, 2001). This implying that there is also a positive association of perceived price fairness and customer loyalty (Martin-Consuegra *et al*., 2007). Similarly, this is also consistent with the study of Hassan, Hassan, Nawaz and Aksel (2013); Silva (2012). The result of their study indicated that for customer loyalty to be generated, customer's perception of price has to be fair (Hassan, *et al*., 2013). Accordingly we propose a relationship between perceived price fairness and loyalty outcomes.

H_2: *Perceived price fairness is positively related (a) behavioral loyalty and (b) affective loyalty.*

3.3.3 Customer satisfaction and customer loyalty

Customer loyalty is one of the desired and paramount goals of many firms. The topic of loyalty has gained an extensive concern and interest by researchers and companies. This is owing to two major reasons, one of which is that, it is more easier to secure a purchase from an old customer than from a new buyer Rosenberg and Czepiel (1983) and has a positive effect on profitability and revenue of the company as proved in the empirical findings of Edvardsson *et al* (2000) and Naidu *et al* (1999). When a customer becomes loyal, they make more frequent purchase, these frequent purchase impact greatly on the firms profitability, likewise they disseminate positive word of mouth concerning the firm thereby becoming advocates for the firm. Loyal customer are resistant to negative word of mouth, they are also price insensitive, most importantly they are committed to purchasing the product or service regardless of new situations or offers proposed by a firm's competitor. Loyalty has been defined as a long-term commitment to repurchase involving both repeated patronage and a favorable attitude (Dick and Basu, 1994). Jacoby and Chestnut (1978) stated that customer loyalty is generated through a three process steps, belief (price fairness) affect (satisfaction) and cognitive (customer loyalty).

According to Darian, Tucci and Wiman (2001), customer satisfaction is an indispensable contributor to the success of service providers and a key element in the marketing exchange process. Similarly, Martin-Consuegra *et al* (2007) mentioned customer satisfaction as an essential element in predicting customer behavior and specifically repurchase action. Several researchers have proved to an undoubtable extent that there is a positive correlation between customer satisfaction and customer loyalty. Anderson and Fornell (1994); Gunmmesson (1993); Heskett *et al* (1990); Heskett *et al* (1994); Reicheld and Sasser (1990); Rust, *et al* (1995); Schneider and Bowen (1995); Storbacka *et al* (1994); and Zeithaml *et al* (1990) they all proposed that customer loyalty is influenced by customer satisfaction which in turn affects the firm's profitability. Furthermore, the loyalty phrase was proposed earlier by Jacoby and Chestnut (1978) stating a hierarchy of loyalty effect and later Oliver (1997) enriched that framework of loyalty as he describes the phases of loyalty formation stating that it begins with cognitive loyalty based on brand-related beliefs and ends with an action which is known as behavioral loyalty.

According to Oliver (1999) it is argued in emphasis of the weakness of cognitive loyalty because it is made up of brand beliefs only which are still prone to threats from competitors and opposing arguments, but if the consumer continues a routine transaction and satisfaction his experience overtime, loyalty begins to take depth, thus, connoting affectivity. At the level of affectivity, the consumer begins to develop likeness for the brand because there has been cumulative satisfying usage overtime (Oliver, 1999). This stage of the phrase (affective loyalty) is stronger than earlier (cognitive loyalty) because it incorporates "beliefs and hedonic evaluations" (Han *et al*., 2008). As consumer continually experience satisfying usage of the service, cognition is reinforced and affection deepens, an inclination to engage in a repurchase and brand consonant behavior is developed. This inclining desire leads to the next phase of the loyalty formation called intention loyalty. The final stage is called behavioral loyalty. Here attitude and intention is converted to action. When this is attained, it leads to true behavioral loyalty. Consistent with Oliver (1997), it is expected that service loyalty so displays a sequential structure. This study therefore uses affective loyalty and behavioral loyalty being that at the stage of affectivity there is beliefs and hedonic evaluation and at behavioral, attitude and intentions are turned to action.

Finally, several other researchers have supported the effect of satisfaction on loyalty behavior and intention (Bolton 1998; Gustafsson, Johnson, and Rose 2005; Cronin, Brady, and Holt 2000; Seiders *et al*., 2005; Henning-Thurau, Gwinner, and Gremler 2002). Accordingly, we propose a positive relationship between satisfactions and loyalty.

$H_{3:}$ *Customer satisfaction is positively related to (a) behavioral loyalty and (b) affective loyalty*

Finally, we propose in this study that customer satisfaction is partially mediating the relationship between perceived price fairness and affective loyalty and behavioral loyalty. This is on the basis that when the customer is satisfied they show loyalty behaviors. This is consistent with empirically study such as (Wong and Zhou, 2006; Henning-Thurau, Gwinner and Gremler, 2002; Reynolds and Beatty 2006). Also, if the customer perceives that price is reasonable, they display of repurchase intention Bei and Chaio (2001); Martin-Consuegra *et al* (2007), but if they perceive otherwise that the price is unreasonable and that the sacrifice is not worthwhile, they possibly will not repurchase the product again, not minding if they were satisfied with the product or service (Bei and Chaio, 2001). Furthermore, the study of Martin, Ponder and Lueg (2009) concluded same. More so, the study of Bei and Chaio (2001) concluded that perceived price fairness has a positive effect on customer loyalty both directly and indirectly through customer satisfaction. Considering this therefore, we hypothesize thus.

$H_{4:}$ *Customer satisfaction is partially mediating the relationship between perceived price fairness (a) behavioral loyalty (b) affective loyalty.*

Chapter 4

METHODOLOGY

4.1 Introduction

In this chapter emphasis is laid on several issues associated with the methodology of the empirical study. It specifically explains several research methods and gives justification for the appropriate method used for the study. It also provides information about the study sample, the mode of data collection and questionnaires structure and finally presents information regarding the analysis of data.

4.2 Research Methods

According to Altinay and Paraskevas (2008) there are two distinct research philosophies, namely positivism and phenomenology. They were of the opinion that, positivism supports a more objective interpretation of reality making use of data from surveys and experiments, while the latter is concerned with methods that examine people and their social behavior. They further distinguished between these two philosophies based on their approaches. It was stated that positivism is associated with deduction and quantitative research while the latter is based on inductive and qualitative. Distinguishing between these does not imply a superiority of one over the other, but both with its advantage and disadvantage. Thus, Saunders *et al* (2007) stated that the choice of a research approach is dependent on the appropriateness of each to the distinct research objectives and questions.

4.2.1 Qualitative Research

Qualitative research is associated with the phenomenological philosophy as stated earlier. It aims at understanding why certain behavior and phenomenon happens. It seeks to understand the human behavior and what controls such behaviors. It is concerned with the why's and how's of human decision making. This kind of research mainly focuses on human experience and emotions and encourages the introduction of concepts of importance from their perspective (Altinay and Paraskevas, 2008). Unlike the quantitative research, the qualitative data is in a text form offering a deeper and clearer image of populations experience, beliefs and attitude. Finally, because the data gathered from these studies are highly personal and circumstantial, the drawn conclusion or findings cannot be generalized.

4.2.2 Quantitative Research

According to Aliaga and Gunderson (2000), quantitative research is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods (in particular statistics). The objective of a quantitative study is to determine how a variable affects another in a population through the quantification of the variables by the use of statistical methods (Altinay and Paraskevas, 2008). It is the development and deployment of mathematical models and theories to solve natural phenomenon, to measure the incidence of various views and opinions in a chosen sample. Quantitative research also includes surveys and customer questionnaire. It is about asking people for their opinions in a structured way so that you can produce hard facts and statistics to guide you. It can help small firms to improve their products and services by enabling them to make informed decisions regarding customer choices and preferences. Data arising from the quantitative research are essential for measuring the incidence of various views and opinions in a chosen sample. Finally the outcomes are used to recommend a final course of action and can be generalize.

Furthermore, this kind of research follows a sequence of steps starting from a conceptualized plan, following through to collection of data and next to analyzing the data and then the result or outcome.

4.2.3 Rational For Using Quantitative Method

As mentioned earlier that the choice of each method to be used is dependent on the appropriateness of each to the distinct research objectives and questions (Saunders *et al*., 2007; Altinay and Paraskevas, 2008). The choice of a quantitative research method for this study becomes imperative because it is aimed at investigating the effect of variables and the conclusions are meant to be generalized. Therefore this study has also followed through these sequential steps by trying to find out how pricing strategy in the hospitality industry influences the perception of customer's price fairness owing to the fact that customers are heterogeneous in nature, each perceiving similar things in different ways. Also, evaluate and understand the influence these perceptions have on customer's satisfaction and loyalty outcomes.

4.3 Deductive and Inductive Approach

The first and important decision to be taken by the researcher before starting a research is the decision of what type of approach to use. The researcher has two options to choose, the deductive or the inductive approach. These two approaches are prevalent till date.

4.3.1 Inductive

The inductive approach is the opposite way of the deductive. It moves from a more specific observation to theories and generalization. This approach is also called the "bottom up" approach. The researcher starts with definite observations and measures, then moves to detect patterns, then hypothesis formulation and finally arrives at theories and conclusions. Johnson-Laird and Byrne (1991) defines inductive approach as a process whereby sensible singulars, perceived by the sense, one arrives at universal concept and principles held by intellect. Gathering from the definition above, the researchers makes an observation and then draws a conclusion based on the evidences from his or her observation. This therefore implies that it is only the evidences from the researcher's observation that pilots the researches conclusion. This approaches like others, has its own pros and cons. one of its advantages is that it helps the researchers explain why's of a phenomenon, and one of its major disadvantage is that it is time consuming.

4.3.2 Deductive

It is the human process of going from one thing to another, i.e., of moving from the known to the unknown (Spangler, 1989). Deductive reasoning happens when working from the more general information to the more specific, thus using what is already known to move to what is not directly seen. Sometimes this is called the "top-down" approach. Here, conclusion is based on available facts. The deductive approach begins with theories and moves to hypothesis then to observation and finally confirmation. In this process, confirmation here means proving whether or not the conclusion is true or not. The advantage of a deductive research is that it will help in better describing and explaining the pattern of relationships and interactions between two variables been looked at (Altinay and Paraskevas, 2008). It has been noted in several studies that researchers make use of both approaches in their study, but what is important to note here is that, the choice of which approach to be used in a study is directly related to the appropriateness of the approach, the objectives of the study and the research questions. This study therefore selected the appropriate approach base on these criteria mentioned. Being that the theory of this study did not arise for this research, but rather from already stated theories about the topic of interest, and the test of hypotheses is to confirm the original theory which will lead to a conclusion and generalization, this study therefore selected the deductive approach.

4.4 Questionnaire Structure

A questionnaire is a means of eliciting the feelings, beliefs, experiences, perceptions, or attitudes of some sample of individuals. This was chosen for this study because it allows for the collection of information from a greater number of people and the findings can be demonstrated in numerical terms (Veal, 1997). Accordingly, McQueen and Knussen (2002) mentioned that the questionnaires are the suitable method of generating descriptive primary data.

The design and structure of a questionnaire is different, the difference can be seen in the way it is administered and the level of contact the researcher has with the respondent (Altinay and Paraskevas, 2008). The researcher has two choices, the self-administered and interview administered. With the self-administered, the respondent completes the questionnaire. The method of delivering self-administered could be done either through emails (online questionnaire), post or mail (postal questionnaire) or hand delivery (delivery and collection questionnaire) (Saunders *et al*., 2007; Altinay and Paraskevas, 2008). It is important to note that the mode of collection of each mentioned takes the same as it was administered. With the interviewer administered, the respondent answers are recorded by the interviewer and can be done through telephone or structured interview (Saunders *et al*., 2007). Furthermore, certain factors such as number of questions to be asked to collect data, size of sample, importance of non-contamination and distortion of respondent answers characteristic and importance of reaching a particular set of respondent will influence the choice of questionnaire (Gill and Johnson, 1997). Same was the case with the study and the online questionnaire was deemed appropriate.

Online questionnaires involve sending questions via email; the mails come either in text format or attachments. Upon receipt of mail, the respondents are expected to fill and send back (Phellas, Bloch and Seale, 2011). Online questions are cost effective and time efficient (Saunders *et al*., 2007). Accordingly, Phellas *et al* (2011) highlighted several advantages and appropriateness of online questionnaires such as; speed (advantage of gathering thousand responses within a day or two), cost (zero cost involvement), file attachment (picture and sound) and the element of novelty which stimulates higher response level. This is consistent with the study of Su (2004); Seo and Jang (2013).

The questionnaire is administered online via email. Contact (email address) of respondent is gotten through the data base of online reservation customers of 3 star and 4 star hotels in Nigeria. Recipients of the questionnaire are expected to acknowledge receipt of the email containing the questionnaire. Subsequently, a follow up email is sent to ensure response. This is done consistently for the time lag. Thus the total respond rate was 268 questionnaires. The response rate can be attributed to the amount of administered questionnaire, choice of hotels for the survey and the trust which the customers have on the hotels also account for the high responds rate.

This study therefore aims at developing generalization through the use of questionnaires. After the identification of the research goals which is based on how perception of price fairness affects and influences customer satisfaction and loyalty of hotel customers using online reservation customers. In line with the discussion and justification presented in the literature review, the information needed for this research is specified and consequently, the questionnaire is developed using questions found in previous research. Consistency with the desired information for the study is ensured and avoidance of ambiguous words and questions is taken into consideration.

The questions as presented in appendix aims at evaluating the following dimensions

- Perceived price fairness
- Customer satisfaction
- Loyalty outcomes (affective and behavioral loyalty)

4.4.1 Perceived Price Fairness

In the hotel industry customers experience different prices and the owing to the heterogeneous nature of consumers, each perceiving same things in a different way and their perception usually influence their judgment .This therefore aims to identify the perception of consumers of price strategies used in hotel industry. This is important because the perception of fairness of a customer influences their satisfaction, overall loyalty and long term profitability of a firm (Bowen and Shoemaker, 1998: Kimes, 2002: Xia, *et al*., 2004). Therefore to measure perceived price fairness, questions are adopted from Kimes and Writz (2007) and it consisted of four items.

4.4.2 Customer Satisfaction

As was documented by Srikanjanarak and Ramayah (2009) that price fairness positively relates to customer satisfaction and therefore for firms to achieve and keep profitable relationships with their customers it must ensure they are satisfied and this can be achieved through fair pricing. Therefore this aims at identifying the extent to which price fairness influences customer's perception. To measure customer satisfaction, questions are adopted from Han *et al* (2008) and consisted of five questions.

4.4.3 Customer Loyalty

Studies such as Bolton (1998); Gustafsson, Johnson, and Roos (2005); Cronin, Brady and Holt (2002) have supported a direct effect of satisfaction on loyalty. This therefore aims at identifying the effect of customer's satisfaction on loyalty outcomes proposed by Han *et al* (2008). To measure loyalty outcomes, standard questions are adopted from Han *et al* (2008) consisting of three questions relating to affective loyalty, four questions relating to behavioral loyalty.

The respondent filled this questionnaire by use of one to five selection, one meaning strongly agree, two for agree, three meaning undecided, four disagree and five meaning strongly disagree.

Finally, the respondents are required to state their demographic characteristic (i.e. control variables) including gender, age, income etc. Moreover, some questions such as how often they make online booking for rooms in hotels is made for the purpose of research.

4.5 Data Collection

The data for this research is gathered from customers of hospitality industry in Nigeria. The target respondents are customers of several hotels who make booking and reservations online. Respondent are informed of the purpose and context of the study and further assured the confidentiality and anonymity of the provided information for the research. Furthermore, they are also informed of the impossibility to carry out this research without their corporation and responds. Thus the importance of the research and what is expected of the respondent is clearly stated. As stated in the questionnaire section, the variables for the study are perceived price fairness, customer's satisfaction and loyalty outcomes (affective and behavioral). To measure these variable, standard questions are used which are adopted from previous studies. Data for this study is gather from customers from hotel customers who have used online reservation systems within the past six months from the date that questionnaire was administered. The questionnaire is administered within a time lag of two months. The questionnaires are administered online via email in August and follow up emails sent in September and data collected by October.

4.6 Sampling

The subject of sampling would not have been birth without the subject of population. Therefore understanding what the population is in a research work will give us a better understanding of the importance of a sample. In simple terms, a population is concerned with who we are studying or say, group or what we are studying. Population is the group of interest to the researcher, the group to which the researcher would like the results of the study to be generalizable. It is the entire set of entities that encompasses the group of the researcher's interest (Robson, 1993; Churchill, 1995; McQueen and Knussen, 2002). But in reality, most of the population for research are unmanageably large or geographically scattered posing difficulties for the researcher in terms of time, money and effort. Considering this topic of research, the case is similar as the population of study (customers of Hotels in Nigerian) is very large and scattered geographically. Therefore the need to choose a sample is needful as an important criterion for conducting a research.

According to Field (2005), a sample is a smaller but hopefully representative collection of units from a population used to determine truth about that population. A "good" sample is one that is representative of the population from which it was selected. Samples are used for the essence of saving time and money also to reduce work load. There are different types of sample but regardless of what type or technique, the sampling steps are the same.

- Identification of the population
- Determination of the required sample size
- Selection of the sample.

Therefore, considering the importance of the sample to the generalized result of the research, an appropriate sampling technique needs to be chosen for the research, taking cognizant of the sample size and precaution sampling and measurement error to ensure validity and reliability of information. Gathered from different literature, sampling methods are categorized in two groups, Probability and non-probability sampling method, each of the methods having different techniques as showing in figure 2. The techniques for the probability method include simple random, systematic, stratified, cluster and multi stage and for the non-probability method, they include quota, snowball, purposive, self-selection and convenience techniques.

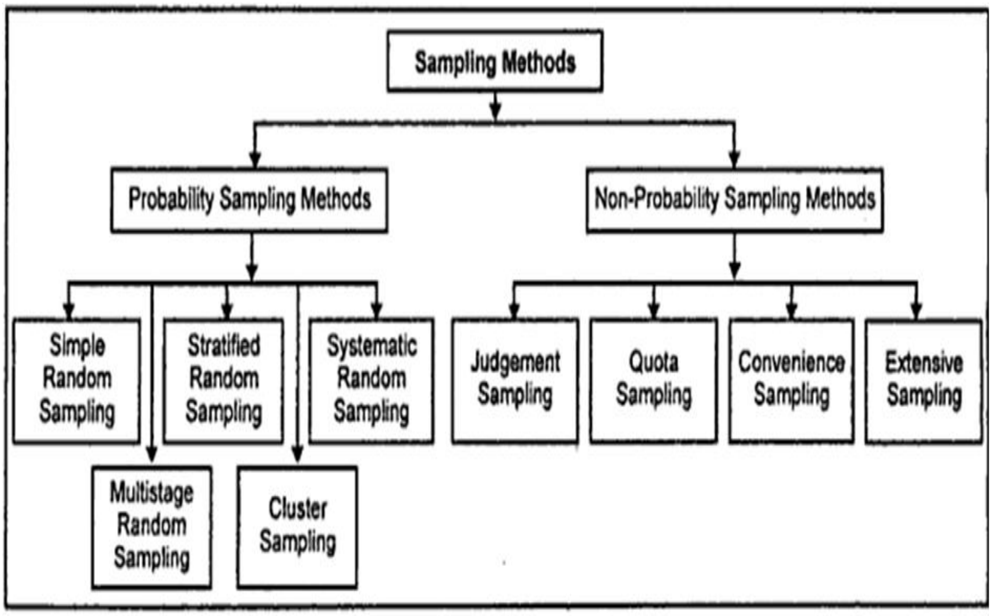

Figure 2: Different Sampling Techniques
Source: Brown (2006) Research methodology.net

4.7 Probability Sampling Techniques

Simple Random Sampling: This sampling technique is one of the well-known of the probability method. This method asserts that every person or member of the population under study has equal chances of being chosen or the same probability of selection. In selecting a sample in the simple random technique, the research should assign a number starting from 1 to the expected total sample number. The researcher can take any pattern to number till he gets the expected number of sample size.

Systematic Sampling: This techniques has gained much usage in research over the years, this is owing to its simplicity. Here every nth number of the population under study is selected. This the research does by dividing the total population by the expected sample number, the result then give the researcher the nth number. For example, if the research has a population of 5000 and wants to take a sample of 500, he will divide (5000/500 = 10) therefore the researcher picks every 10th member of the population to make the 500 expected sample for the study.

Stratified Random Sampling: This is a sampling technique where we divide or segment the population based on homogenous characteristic like gender, age etc. The segmented group is called the strata. After the segmentation, the researcher then selects the sample from the strata randomly. This technique is mostly used when the researcher is trying to focus on a particular subgroup within the population under study. For example, to obtain a stratified sample of students in EMU, the researcher first organize the population by college class and then select appropriate numbers of new students, graduating students, undergraduates, masters student, PhD student. This will then ensure that at the end or final sample, the researcher must have gotten an adequate number from each of the segment or class.

Cluster Sampling: This technique is appropriate to use when it is impossible to gather a comprehensive list of the element that makes up the population under study. Here the researcher divides the population into subgroups called clusters and then random selecting is done from the cluster to get the sample for the study. Ideally, elements in the subgroup called the cluster must be as heterogeneous as possible and also each subgroup represents the population well. If the researcher then makes use of all the element of the selected cluster, it is called a single stage cluster sampling and if a random sampling technique is adopted, then it is a two stage cluster sampling.

Multi Stage Sampling: Also similar to the cluster sampling mentioned earlier, the multi stage sampling is used when the research study involves a very large population. The population is divided into subgroups or cluster and in the subgroups other subgroups are also selected and a random selection in done to get the sample. For example, the study is about salesmen for a nationwide chain hotel with hotels located all over the country. The researcher then randomly select states, randomly select cities in each state, randomly select hotel in each county, and randomly select salesmen in those hotels.

4.8 Non Probability Sampling Techniques

Quota Sampling: This type of techniques is one which the researcher uses to ensure an equal participation of the participant which was done through a stratified sampling. The first step of this technique is to divide the whole population into subgroups like it is done in the stratified sampling. Furthermore, the researcher then uses judgment based on a specific fraction or percentage to choose the element for the sample from each of the earlier divided sub groups.

Judgmental Sampling: This sampling technique is also called purposive sampling. Here the research has the power to pick the best participants or element which will provide the best answers for the researcher's research questions. This kind of technique is appropriate when carrying out a study on a small group or a smaller population. For example, if you are carrying out a study on high cost of sales in hotels, u choose the accounts head of the hotels or specifically the cost accountants in hotels instead of choosing just an account clerk that handles ledger entry.

Snowball Sampling: This sampling technique is also called chain referral. Researchers use this technique when there is a difficulty in determining or locating the intended element or participants for the study. As implied by the name chain referral, there is no set number for the sample size to be used until the data collection is finished. This is because more respondent are gotten from the referral of the existing respondent. This means that the first identified respondent refers the research to another respondent he thinks is appropriate to answer the researcher's questions. The researcher asks the identified respondent after the interview about who else is involved in the subject of the research. For example, the study is about aerospace engineering, the researcher will ask the respondent who else is an aerospace engineer

Self-Selection Sampling: This technique takes a different line entirely from other sampling technique. Here the respondent or participants indicates their interest to take part in the study. The researcher uses the means of advert and public means of announcement to indicate the need for participants. When the public sees, they then contact the advertiser (researcher). The researcher can make use of internet site, magazines, handbills, bulletins social media and advertising companies to make known his research topic then the participants will indicate interest to participate.

Convenience Sampling: As the name implies, convenience sampling is a non-probability sampling technique that allows the researcher to select the sample base on convenience and ease of access. Convenience sampling is also known as grab, opportunity, accidental or haphazard sampling. Some examples of convenience sampling are when students use their classmates in a research study or a television reporter interviews people on the street.

4.9 Rational For Using Judgmental Sampling

The sampling plan and parameters of this study is such that a judgmental sampling method is selected, as the advantage of the researcher's judgment of the appropriate group of the study is considered, thus setting a criteria for the study. Similarly, it is noted that for a judgmental sampling, the samples are selected of the believe that they represent the population of interest (Churchill, 1995).This sampling method is deemed appropriate for this study because the representative sample can bring more accurate results than other sampling method. The sample for this study is the online reservation customers of hotels in Nigeria as it is believed that they experience the most price differences and thus their perception of price fairness is suitable for generalization.

4.10 Data Analysis and Measurement

Analysis is carried out by the means of standard based on realistic, valid, appropriate and measurable norms. The effect of customer's perceived price fairness on customer's satisfaction and loyalty outcomes (affective and behavioral) is tested by provided data. Likert scale is used for the measurement of the study variables. According to Saunders *et al* (2000), it is the most commonly used scaling method. A 5-point liker scale is used which were "1" (strongly disagree) – "5" (strongly agree). Analysis was carried out using lisrel 8.30.

The analysis done included demographic profile of the sample, confirmatory factor analysis, means standard deviation, correlation of the study variables and multiple regressions.

Chapter 5

FINDINGS

5.1 Introduction

This chapter presents findings of the analysis. As included in the findings presented in this chapter are: respondent profile, means, standard deviation, and correlation of study variable and Hierarchical Multiple Regression Analysis: direct and mediating effects.

Confirmatory factor analysis is used to test all the measures and assess the measurement model in terms of convergent and discriminant validity.

5.2 Respondent Profile

Table 1. Respondent's Profile (n=268)

	Frequency	%
Age		
18-27	82	30.6
28-37	94	35.1
38-47	67	25.0
48-57	25	9.3
Total	268	100
Gender		

Male	206	76.9
Female	62	23.1
Total	268	100
Marital Status		
Single	114	42.5
Married	154	57.5
Total	268	100
Income		
500-999	90	33.6
1000-1499	53	19.8
1500-1999	57	21.3
2000-2499	42	15.7
Above 2000	26	9.7
Total	268	100

The respondent profile is shown in table. As shown in table 1 the majority of the respondent were male. Seventy-seven percent of the respondents were male and the rest were females (23%). Thirty five percent of the respondent were between 28 and 37, 30% were between 18 and 27, and the rest were above 38 years old. Fifty-seven were single or divorced while the rest were married. In terms of income level, thirty-four percent of the respondents had between 500-999dollars per month, 21% had an income between 1,500-1,999 and 19% of the respondent had wages of 1,000-1,499 dollars. The rest of the respondents had income above 2000dollars.

Table 2: Confirmatory factor analysis results

Scale items	Loadings	t-Value	AVE
Perceived price fairness			0.91
This hotel offers the best possible price that meets my needs	0.90	18.99	
This hotel provides a variety of pricing plans	0.90	18.90	
The price charged by this hotel is reasonable.	0.94	20.51	
Overall, this hotel provides superior price compared to other service.	0.90	19.04	
Customer satisfaction			0.96
I am satisfied with my experience in this hotel.	0.95	20.78	
I have had pleasurable stay in this hotel.	0.96	21.17	
I am satisfied with this hotel overall.	0.96	21.40	
My experience in this hotel has exceeded my expectations.	-	-	
It was wise for me to stay at this hotel.	-	-	
Affective loyalty			0.98
To me, this hotel is the one I enjoy the most in this city.	0.98	22.26	
Compared to other hotels, I prefer this hotel more.	0.97	21.58	
This hotel is the one I appreciate most in this city.	0.98	22.04	
Behavioral loyalty			0.99
When I come to the city, I stay at this hotel.	-	-	
Compared with other hotels, I have spent more money at this hotel.	-	-	
Compared with other hotels in this city, I have stayed more at this hotel	0.98	22.31	
Compared to other hotels in this city, I have used more of the services offered at this hotel.	0.99	22.40	

Model fit statistics: x^2 = 120.77; df = 48; x^2/df = 2.52; CFI = .99; IFI = .99; RMSEA = .075; SRMR = .012. Note: All loadings are significant at the .01 level. CFI, comparative fit index; IFI, incremental fit index; RMSEA, root mean square error of approximation; SRMR, standardized root mean square residual; AVE, average variance extracted. - Dropped during confirmatory factor analysis.

5.3 Measurement Results

Confirmatory factor analysis was used to test all the measures and assess the measurement model in terms of convergent and discriminant validity (Anderson and Gerbing, 1988; Fornell and Larcker, 1981).

The x^2 measure, Comparative Fit Index (CFI), Incremental Fit index (IFI), Root Mean Square Error of Approximation (RMSEA), and Standardized Root Mean Square Residual (SRMR) were used to assess the model fit. The above mentioned analyses were employed using LISREL 8.30 (Joreskog and Sorbom, 1996).

The results of the confirmatory factor analysis led to deletion of several items due to correlation measurement errors. That is, 2 items from CSAT and 2 items from BL were dropped.

The indexes of the model provide a good fit: x^2= 120.77, df = 48; x^2/df = 2.52; CFI= .99; IFI = .99; RMSEA = .075; SRMR= .012. As shown in Table 2, the loadings ranged from .90 to.99 and all t-values were significant. The average variance extracted for PPF, CSAT, AFL, BL was .99, .96, .98, .99, respectively, which was higher than 0.50 (Bagozzi and Yi, 1988). The model fit statistics, the loadings levels and the average variances extracted lend support for convergent validity (Anderson and Gerbing, 1988; Fornell and Larcker, 1981).

Table 3: Mean Standard Deviation. Correlations of study's variables and Cronbach's Alpha

Variables	Mean	SD	Alpha	1	2	3	4
1. Perceived price fairness	3.44	1.23	.95	1000			
2. Customer Satisfaction	3.50	1.32	.97	.901**	1000		
3. Affective Loyalty	3.38	1.29	.98	.876**	.893**	1000	
4. Behavioral Loyalty	3.55	1.42	.98	.837**	.877**	.879**	1000

Note: Composite scores for each construct were computed by averaging respective item scores. The score for the constructs ranged from 1 to 5. ** Correlation is significant at the 0.01 level (2-tailed).

Means, standard, deviations and correlations of the study variables are presented in Table 3. All correlation coefficients were significant (p<0.01). Thus, the first three conditions for the mediation analysis were met (Baron and Kenny, 1986). That it is, PPF is significantly correlated with CSAT (r= .901), thus the first condition regarding the relationship between the predictor variable and the mediator is met. The significant link between the predictor variable and the criterion variable confirms the second condition, that is PPF is significantly related with AFL (r=.876) and BL (r=.837) as shown in Table 3. As Customer satisfaction demonstrates a significant relationship with AFL (r=.893) and BL (r=.877), the third condition regarding the link between the mediator and the criterion variable is also verified. The coefficient alphas are also presented in Table 3 that is the coefficient alphas for each variable were greater than .70

Table 4: Hierarchical Multiple Regression Analysis: Direct and Mediating Effects

Independent Variables	Standardized regression weights			
	Affective Loyalty		Behavioral Loyalty	
	Step 1	Step 2	Step1	Step2
Perceived price fairness	.87	.37	.84	.25
Customer satisfaction		.55		.65
F	874.00	622.56	622.95	473.15
R^2 at each step	.76	.82	.70	.78
ΔR^2		.06		.08

Note: The variance inflation factors did not demonstrate any problems of collinearity. All results are significant at $p< 0.01$.

The results in Table 4 showed that hypothesis 1 is supported, as PPF has a significant positive effect on CSAT. Moreover, CSAT has a positive impact on the loyalty outcomes as well which lends support for hypotheses 2a, and b. Lastly, the results in Table 4 show that customer satisfaction partially mediated the effect of PPF on AFL and BL, thus hypotheses 3a and b are empirically supported. Sobel T-test also supports the above mentioned relationships, specifically for AFL ($t = 8.92$, $p < 0.01$) and for BL ($t = 9.22$, $p < 0.01$).

According to the results, as far as AF is concerned, CSAT increased the variance by 0.6%. As for BL, it increased the variance by 0.8%.

Chapter 6

DISCUSION AND CONCLUSION

6.1 Overview of the study

The perception of price fairness of a consumer influences his perceived value, satisfaction and thus produces different emotions and behavioral response by the customers (Hirschman, 1970; Gunmmesson, 2002). This implies that a positive perception will lead to a positive response and behavior and a negative perception of perceived price fairness will also lead to a negative behavior. The perception of customers influences their response, thus these response have great influence and impact on customer's satisfaction, loyalty and long term profitability (Bowen and Shoemaker, 1998; Kimes, 2002; Xia *et al*., 2004). In theory, hotels can charge as many different prices as they want, but if customers view the hotels pricing policy as unfair this will influence their satisfaction and they would negatively patronize the hotel in future. As a result of this, customer's loyalty will be difficult to achieve. More so, this has become more complicated because of the emerging use of online reservation system, allowing hotels to change price easily via internet (Shoemaker and Bowen, 2003). This formed the criteria for this study. Therefore, considering the importance of consumers' behavior and the impacts it exerts on the profitability of a firm, it was therefore pertinent that we empirically test the relationship between perceived price fairness, customer satisfactions and loyalty (affective and behavioral loyalty).

The purpose of the study was to test the relational link between perceived price fairness, customer satisfaction and loyalty outcomes (behavioral and affective loyalty). Data for the study was gathered from hotel customers in Nigeria who use online reservation system using a non-probability judgmental sampling method. The analysis of data (268 questionnaires) was done using Lisrel 8.30. The study developed 4 hypotheses (H_1, H_2ab, H_3ab, and H_4ab) and all the hypotheses were supported.

6.2 Discussions

Throughout the study, 4 hypotheses were developed and tested. Accordingly, all correlation coefficient were significant ($p<0.01$). All the hypotheses developed are supported. The first hypothesis (H_1) which proposed that "Perceived price fairness is positively related to customer satisfaction" was supported being that perceived price fairness is significantly correlated with customer satisfaction ($r= .901$).

These findings corroborates with previous studies such as Srikanjanarak and Ramayah (2009); Bei and Chiao (2001); Cronin *et al* (2000); Choi *et al* (2004); Hermann, Xia, Monroe, and Huber, (2007) and Martin-Consuegra *et al* (2007) meaning that when the customer perceive the price as being fair, the satisfaction outcome will be positive likewise when they perceive price to be unfair the outcome of satisfaction will be negative.

The second hypothesis (H_2) which proposed that "Perceived price fairness is positively related (a) Behavioral loyalty and (b) Affective loyalty" was also supported with a positive relationship of BL ($r=.837$) and AFL ($r=.876$).

Affective loyalty can be linked to a favorable attitude towards a specific brand or product. Accordingly, Han et al. (2008) stated that affective loyalty conforms to the customer’s beliefs evaluation. Therefore this finding lends support being that perceived price fairness is a function of beliefs. Similarly, behavioral loyalty is the last state of loyalty where attitude is converted to action (repurchase) as a result of affective responses, the consumer then takes action.

These findings are consistent with the study of Martin-Consuegra *et al* (2007); Bei and Chaio (2001) meaning that if the customer perceives that price is fair, they will display a repurchase intention. But if they perceive otherwise that the price is unreasonable and that the sacrifice is not worthwhile, they possibly will not repurchase the product again, not minding if they were satisfied with the product or service. This result is important as all the dimensions of loyalty necessarily don’t lead to action. As argued by Evanschitzky and Wunderlich (2006), that the first stage of loyalty is the weakest and that consumers at this stage may possibly switch. The second stage of loyalty, affective loyalty similarly will decline as competitive offerings increases and at the third stage, intention loyalty, customers are still prone to trying alternative offerings. For example, Kuhl and Beckmann (1985) concluded that the three previous loyalty states may result in a readiness to act (in this case, to buy) only at the point of repurchase is loyalty formed. Therefore, behavioral loyalty is an important stage of loyalty, being that the consumer does not consider competitive offerings as alternatives. Accordingly the study supports a positive influence on behavioral loyalty.

The third hypothesis H_3 stating that "Customer satisfaction is positively related to (a) Behavioral loyalty and (b) Affective loyalty" was also supported with a positive relationship of AFL (r=.893) and BL (r=.877). Earlier in the discussion part it was mentioned that affective loyalty can be linked to a favorable attitude towards a specific brand or product. Attitude on its own is a function of cognition, (e.g. Expectation). When expectation is confirmed, satisfaction is generated thus affective loyalty is influenced (Bitner, 1990). This gives justification to the results that supports a positive relationship between satisfaction and affective loyalty. Accordingly, satisfaction has been proven to be a factor for predicting customers repeat purchase and behavioral loyalty connotes an action (purchase repetition). This also justifies the confirmatory findings which supports a positive relationship between customer satisfaction and behavioral loyalty.

These findings corroborates with several studies such as Han *et al* (2008) Bolton (1998); Gustafsson, Johnson, and Rose (2005); Cronin, Brady, and Holt (2000); Seiders *et al* (2005); Henning-Thurau, Gwinner, and Gremler (2002). This means that when customers' expectations are fulfilled in a transaction, the probability of the customer repurchasing is high, as consistent with Wong and Sohal (2003). Therefore satisfied customers display loyalty behavioral outcomes. The more satisfied customers are the more they will repurchase.

Finally, the results of this study suggest that perceived price fairness is positively related to customer loyalty (behavioral and affective) directly and indirectly through customer satisfaction. In other words, the results that customer satisfaction is partially mediating the relationship between perceived price fairness and customer loyalty outcomes are in agreement with the study predictions as it was stated in hypothesis (H_4) “Customer satisfaction is partially mediating the relationship between perceived price fairness and behavioral loyalty (a) and affective loyalty (b)”. Similarly, the results corroborates with the study of Martin, Ponder and Lueg (2009); Bei and Chaio (2001). Overall, our results contribute to the hospitality accounting, management and marketing literature by investigating the relationships among perceived price fairness, customer satisfaction and loyalty incorporating the loyalty cascade.

6.3 Conclusion and Managerial Implication

The study links several important managerial accounting and marketing concepts thereby demonstrating the influence of perceived price fairness on customer satisfaction and loyalty. In so doing, the research reveals that perceived fairness of price increases the satisfaction and loyalty of customers. The study result sheds light on the effect of perceived price fairness on two dimensions of loyalty (affective loyalty and behavioral loyalty). This study has extended the research on perceived price fairness and behavioral outcomes to other society by testing the study hypotheses through data collected from hotel customers that use online reservation system with a time lag of 2-months in Nigeria a fast growing tourism market. Importantly, until this date, there have not been any international publications on online and perceived price fairness issues related to Nigerian hotels.

In the hospitality industry, yield management strategy has been widely implemented and accepted. This is owing to the seasonality in demand in the industry, therefore the implications of this study is relevant for hotels with revenue management practices.

The study has several implications in the hospitality industry. Accordingly, both literature and findings of the study reveal the importance of perceived price fairness on customer's behavioral outcome which was the aim of this study. For the study, it has been proven that perceived price fairness can be regarded as a base to which satisfaction and loyalty can be maintained in the hotel industry. It is also evident that satisfied customers show high wiliness to repurchase and will be ready to pay a different price. This is evident in the fact that service performance cannot be easily compared but price can. Therefore, hotel management should pay attention to pricing issues and price alteration which directly influences perception of the customers. Furthermore, hotel management should also focus on the factors that influences perceived price fairness thereby enhancing on factor which increase the perception of the customers since the results have shown that perceived price fairness increases satisfaction and loyalty behaviors. Such practices as price changes being presented as discounts and not premium prices or as surcharges, additional service added such that when the service is sold at a higher price, the customers perception of fairness will not be negatively influenced (Kimes, 1999; Kimes and Wirtz, 2002). Accordingly, management of hotels should pay close attention on how customers assess the hotels pricing strategy, leading to a careful application which will increase perception of fairness.

Furthermore, the sample of the study is online reservation users of hotels and the result reveals the price sensitivity of this customer segment. This finding is very important to hotel marketing managers because of the relative importance of the growing number of customers in this segment. Online customers are likely to check prices of other hotels and request for cheaper rates, thereby making it difficult to build loyalty. Hotel manager therefore should pay close attention to this growing segment by providing information for price changes through the use of advertisement (marketing communication). This will enhance their perception of price fairness.

Finally, hotel management should ensure that those involved in pricing should work closely with those in relationship marketing department and ensure their pricing strategies are consistent with their objectives.

6.4 Limitation and Direction for further Research

In the course of this research, several limitations were evident. Based on the identified limitations**,** further research directions are given. First, data collection was done via emails, and it was challenging to get access to the hotel's data base for email addresses. Similarly studies have shown that e-mail surveys produce a lower response rate (Crawford, Couper, and Lamias, 2001; Bachmann, Elfrink, and Vazzana, 1996). This justifies the level of response rate in the study. Further research could use another form of data collecting in other to avoid the challenges faced in the study and ensure a significantly high response rate. Also the data did not specify cultural background of the respondent; therefore further research should specify cultural background of respondent as data base of hotels include different cultural background.

Secondly, data was collected in only two cities in the country, focusing on 4 star and 5 star rating hotels. Further research should include more cities and other star rating hotels to increase participant and widen generalization.

Thirdly, the research focused on the hotel sector. Further research should include other tourism and hospitality service such as travel agencies. Finally, inclusion of other variables in the conceptual framework will be instrumental to a wider generalization and implication.

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APPENDIX

Appendix: Questionnaire

Dear Respondent,
This research aims to investigate the effect of perceived price fairness on customer satisfaction and loyalty.

The study sample is chosen among those who have used "online" via internet booking system within the last six months.

All information collected during this study will be kept confidential. We appreciate your time and effort towards this research as it will be impossible to carry out this research without your response and cooperation.

In the case of any further questions about our research, please do not hesitate to contact Mr. Frederick Bassey through this email: fredhakins@yahoo.com.

Thank you for your response and cooperation.

Research Team:

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Section A

Please read each question carefully and indicate your agreement or disagreement by marking the appropriate response category:

1 = strongly disagree

2=disagree
3= undecided
4 = agree
5 = strongly agree

	1	**2**	**3**	**4**	**5**
1. This hotel offers the best possible price that meets my needs.					
2. This hotel provides a variety of pricing plans.					
3. The price charged by this hotel is reasonable.					
4. Overall, this hotel provides superior price compared to other service.					
5. I am satisfied with my experience in this hotel.					
6. I have had pleasurable stay in this hotel.					
7. I am satisfied with this hotel overall.					
8. To me, this hotel is the one I enjoy the most in this city.					
9. Compared to other hotels, I prefer this hotel more.					
10. This hotel is the one I appreciate most in this city.					
11. Compared with other hotels in this city, I have stayed more at this hotel.					
12. Compared to other hotels in this city, I have used more of the services offered at this hotel.					

Section B

1. Gender……..………………………………… Male ☐ Female ☐

2. Age…… ………………. .18-27 ☐ 28-37 ☐ 38-47 ☐ 48-57 ☐

3. Income Level………$500-$999 ☐ $1000-$1499 ☐ $1500-$1999 ☐

$2000- $2499 ☐ above $2499 ☐

4. Marital status …………………… Married ☐ Single ☐