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An Integrated Model of Service Experience, Emotions, Satisfaction and Price Acceptance: An Empirical Analysis in the Chinese Hospitality Industry

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An Integrated Model of Service Experience, Emotions, Satisfaction and Price Acceptance: An Empirical Analysis in the Chinese Hospitality Industry

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ABSTRACT

The purpose of this study is to investigate the relationships between service experience, emotions, satisfaction and price acceptance in Chinese resort hotels. A self-administered survey

was used to collect the data from respondents. A total of 500 questionnaires were distributed to customers at resort hotels in three cities of China and 170 were returned back representing a response rate of 34%. The results of this study show a significant relationship between service experience and emotions, jointly influencing customer satisfaction which influences price acceptance of customers. These results indicate that management of resort hotels need to consider how the physical environment, interaction with employees and other customers within resort hotels can be managed in order to satisfy the customers emotionally which will lead them to accept premium prices charged by resort hotels. This study would enable resort hotels to have a better understanding of how a great experience and positive emotions influences customer satisfaction and price acceptance.

Keywords: Service Experience, Emotions, Customer Satisfaction, Price Acceptance, Resort Hotels

Introduction

In a highly competitive and dynamic hospitality industry, service providers today are developing various strategies to ensure customer satisfaction (Geissler and Rucks, 2011; Wu and Liang, 2009). It is evident that customer satisfaction is closely linked to many other marketing concepts including service quality, customer relationship marketing, customer confidence, loyalty, distribution, price, and emotions (Ali and Zhou, 2013; Berezina *et al.*, 2012; Jani and Han, 2011; Jang *et al* 2011; Ryu *et al.*, 2012). For example, in the hospitality industry, customer satisfaction can be ensured by developing an attractive physical environment or servicescape (Ali and Amin,

2014; Bitner, 1992; Countryman and Jang, 2006; Kincaid *et al.*, 2010; Ryu *et al.*, 2012), eliciting positive emotions (Kincaid *et al.*, 2010; Lin and Liang, 2011), providing memorable service experiences (Hou *et al.*, 2013) and ensuring great interaction with staff members and customers (Jani and Han, 2011; Kincaid *et al.*, 2010; Ruiz *et al.*, 2012). In this context, the influence of the service experience on customer satisfaction has received significant attention from researchers (Dölarslan, 2014; Grace and O’Cass, 2004; Oh *et al.*, 2007; Olsson *et al.*, 2012; Slatten *et al.*, 2011; Turley and Milliman, 2000). Although, the relationship between service experience, emotions and customer satisfaction has been studied in the hospitality industry (Ladhari, 2009), how these factors influence price acceptance and behavioural responses in resort hotels has not been studied well (Martin-Consuegra *et al.*, 2007; Huber *et al.*, 2001; Han and Ryu, 2009; Lin and Liang, 2011).

This study is conducted in the context of resort hotels which are one of the fastest growing segments of tourism attractions and are rapidly growing in number, diversity, and popularity since the economic boom of 1960s (Ali *et al.*, 2013). Nowadays, many people travel to lodge in resort hotels that are situated in exotic and beautiful destinations in order to enjoy themselves and escape from their daily routine (Yang and Chan, 2010). In this regard, Gee (2000, p. 22) stated that, “*The core principle of the resort concept is the creation of an environment that will promote and enhance a feeling of well-being and enjoyment*”. Furthermore, Gee (2000) identified two characteristics of a resort hotel i.e., (i) sufficient indoor amenities including quality services, pleasant physical surroundings, convenient entertainment and other facilities and (ii) unique location in terms of climate, scenery, and recreational attractions. This definition of resort hotels is also supported by other scholars and practitioners (Ali & Amin, 2014;

Gonzalez et al., 2007; Meng et al., 2008; Prideaux, 2000). Moreover, the United Nations World Tourism Organization also stated that the importance of resort hotels in tourism and hospitality has been consistently growing (UNWTO, 2013); however, it is surprising that this sector has not gained much attention in research (Ali et al., 2013). For example, Line and Runyan (2012) reviewed 274 articles published in four top hospitality journals from 2008 to 2010, and suggested that resort hotels are an emergent research trend and continually growing in hospitality marketing research (Kim, 2014).

From the customers' point of view, resort hotel services are intangible and heterogeneous, therefore price perceptions and acceptance play an important role in influencing the customer's consumption and post-consumption processes (Han and Ryu, 2009; Matzler *et al.*, 2006). Price is also one element of the marketing mix, and it has direct influences on inflow of resources (Chiang and Jang, 2007; Martin-Consuegra *et al.*, 2007; Goi, 2011; Low and Tan, 1995). Although recent researchers have studied various aspects of price including determinants of price for a service, perceived price, hedonic price, etc. (Chiang and Jang, 2007; Jiang and Rosenbloom, 2005; Varki and Colgate, 2001), there is limited focus on examining the effect of price acceptance in the hospitality and tourism industry.

Considering the discussion in preceding sections, this study attempts to add to this research stream by proposing and empirically testing a more comprehensive model of service experience, customer emotions, satisfaction and price acceptance in resort hotels. Building on extant research, this study describes the theoretical relationships between the afore-mentioned constructs. To be more precise, the objective of this study is to investigate the relationships

between service experience, customer's emotions, satisfaction and price acceptance in resort hotels.

Literature Review

Service experience

Service experience, introduced by Pine and Gilmore (1999) in their conceptualization of 'experience economy', is a fundamental concept in service-dominant (SD) logic, and research on service experience is growing rapidly (Olsson *et al.*, 2012; Vargo and Lusch, 2008). Service experience is in conjunction with a list of other social sciences disciplines, such as economics, psychology, and management and marketing areas. Yet, there is growing consensus that the area of service experience requires universally accepted definition that integrates different perspectives (Klaus and Maklan, 2012; Volo, 2009).

Rose *et al.*, (2012) conceptualizes consumer experience as a psychological construct, which is a holistic and subjective response resulting from customer contact with the service provider, which might involve customer's cognition as well as affect (Palmer, 2010). Within this milieu, experience is believed to have some experiential aspects, as Holbrook and Hirschman (1982) theorized. Similarly, Schmitt (1999) also attempted to explore the way companies create experiential marketing, by assuming the customer's sense, feeling, thinking, and action related to a company and its brand. Later, Berry *et al.*, (2002) suggested that for service providers to compete, their services must satisfy and create positive customer experiences. They can do this

through detecting clues that customers will note while buying process. Moreover, Padgett and Allen (1997, p. 17) posited that “*Researchers point out that for many services the experience itself is the key perceptual event from the customer’s point of view*”. Accordingly, this paper supports this argument and adopts the definition of service experience as the interplay of any direct or indirect contact with the company or its resources (Olsson *et al.*, 2012).

Many researchers have studied the composition of service experience across industries (Chang and Horng, 2010; Huang *et al.*, 2014; Kim, 2014; Moosberg, 2007; Pine and Gilmore, 1999). The initial conceptualisation was developed and presented by Pine and Gilmore (1999) proposing four dimensions of experiences, namely aesthetic, education, entertainment, and escapism. These four dimensions were later operationalised in the hospitality industry by Oh *et al.*, (2007). Grace and O’Cass (2004) articulated that services may possess experience and credence attributes which can only be determined during or after consumption, therefore, information about servicescape, core service and employee service gathered during consumption is contributory in developing the consumer’s experience and service performance perceptions. Customer experience develops over time (Bitran *et al.*, 2008), however, it starts when a customer interacts with the service provider in the form of its employees and physical surroundings or environment, as well as with other customers that are present during that encounter (Gil *et al.*, 2008; Wu and Liang, 2009). Berry *et al.*, (2002) have pointed out that service experience is composed of clues with functional and emotional characteristics. Service experience clues are to compensate the intangible nature of services, reduce the perceived risk associated with purchasing a service, and to improve the buying experience (Wu and Liang, 2009). In this context, Grove *et al.*, (1992) argued that many of the theatre concepts and principles may be used to capture the service

experience. Grove et al., (1998) stated that three key theatrical components constitute the service experience, including the actors (service personnel), the audience (consumers) and the setting (physical environment). A review of the literature related to service experience allows us to comprehend the conceptual meanings of experience discussed by Grace and O'Cass (2004), Moosberg (2007) and Walls et al., (2011). Accordingly, this study acknowledges the broader definition of the service experience composition and thus focuses on the physical environment (setting), interaction with employees (actors) and interaction with other customers (audience) as significant dimensions of service experience based on Grove *et al.*'s (1998) service theatre model.

Emotions

Customer emotion has been studied as a central element by researchers while investigating perceptions of service experiences (Bigne *et al.*, 2008; Lin and Liang, 2011). For example, Bagozzi *et al.*, (1999; p. 184) define emotion as *"a mental state of readiness that arises from cognitive appraisals of events or thoughts; has a phenomenological tone; is accompanied by physiological processes; is often expressed physically; and may result in specific actions to affirm or cope with the emotion, depending on its nature and the person having it."* (p. 184). Burns and Neisner (2006) comprehended and regarded emotions as intentional and based on objects. Consequently, emotions are not merely reactions to appraisals, but also include tendencies to action (Martin *et al.*, 2008). Emotions are a person's positive ("pleased," "relaxed," etc.) and negative ("nervous," "annoyed," etc.) feelings. People in positive emotional states have shorter decision times compared to the people in negative emotional states (Lee *et al.*, 2009).

Numerous researchers have pointed out the significant contribution of customer emotions in selection of service providers, evaluation of service quality, determination of repeat purchasing behaviours and development of brand loyalty (Burns and Neisner, 2006; Lee *et al.*, 2009; Martin *et al.*, 2008).

Emotional aspects have been emphasized as consumption experience by many researchers, because it broadens the understanding of the customers' process of service evaluation. For example, Dubé and Menon (2000) state that consumption emotions are developed based on the perceptions of a product or service performance. These emotions are actually intentional, because they are relying not only on mood but on intensity, motivational potency, situational specificity and psychological urgency (Lee *et al.*, 2009). Consumption emotion can be described by independent emotions such as anger, joy or fear etc. They can also be described in different emotional dimensions such as pleasant and unpleasant emotions and calm and excited emotions (Pareigis *et al.*, 2011). Several researchers agreed that consumption emotion means a series of emotional responses produced during service experience and product application. It is a procedure of emotions that change during the process of service experience and product application (Dubé and Menon, 2000). Therefore, this study adopts the definition of emotions given by Dubé and Menon (2000), considering consumption emotions as the affective responses triggered by a guest's service experience.

Customer satisfaction

Satisfying customers is the ultimate goal of every business due to its potential impact on repeat purchasing behaviour and profits (Ali *et al.*, 2012; Frias-Jamilena *et al.*, 2012; Jani and Han,

2011; Ryu *et al.*, 2012). During the last decade, numerous researchers have developed measures of satisfaction and examined antecedents and consequences of the construct because of the benefits of satisfaction to consumers and firms (Chen *et al.*, 2009; Han and Ryu, 2012; Slatten *et al.*, 2011). The definition and conceptualization of customer satisfaction varies throughout the marketing literature. However, all of these definitions and conceptualizations agree that the concept of satisfaction implies the necessary presence of a goal that the consumer wants to achieve. For example, Oliver (1997) defines customer satisfaction as meeting the customer's expectations of products and services by comparing with the perceived performance. If the perceived performance matches customer expectations of services, they are satisfied. If it does not, they are dissatisfied (Amin & Nasharuddin, 2013; Zeithaml and Bitner, 2000). Similarly, Day (1984; p. 497) described satisfaction from a cognitive perspective as "*a post-choice evaluative judgment concerning a specific purchase selection*". This cognitive definition is the most popular satisfaction model used across industry (Oliver, 1997; Patterson, 2000; Wirtz and Lee, 2003; Wirtz and Mattila, 2001). Various studies such as Oliver (1993), Westbrook (1987) and Wirtz and Bateson (1999) have suggested that satisfaction is a partly cognitive and partly affective evaluation of a customer experience in service settings. For this reason, some studies supported the argument that customer satisfaction should be defined from a boarder perspective rather than cognition and emotion definition (Churchill & Surprenent, 1982; Teixeira *et al.*, 2012). This study also picks up this notion and adopts the definition of Westbrook and Oliver (1991) who state that satisfaction is a post-choice evaluative judgment concerning a specific purchase selection and "*emotion coexists alongside various cognitive judgments in producing satisfaction*" (Oliver, 1997; p. 319) and that it is central to understanding customers'

consumption experiences. Although there is no consensus in literature regarding customer satisfaction definition, literature shows that both emotions (Mano and Oliver, 1993; Westbrook and Oliver, 1991; Westbrook, 1987) and cognition (Bearden and Teel, 1983; LaBarbera and Mazursky, 1983; Oliver and DeSarbo, 1988; Oliver, 1980) significantly influence customers' judgments of satisfaction (Martin-Consuegra *et al.*, 2007; Kollman, 2000).

The studies on customer satisfaction in the hospitality and tourism industry had more concerns about understanding the attributes of satisfaction. For instance, Barsky and Labagh (1992) counted nine attributes of customer satisfaction, namely, employee attitudes, location, room, price, facilities, reception, services, parking, and food and beverage. In the same notion, Amin *et al.* (2013) pointed out that customer satisfaction in the hotel industry is based on four factors i.e., reception, food and beverage, house-keeping and price. On the other hand, emotions have emerged as an important theme in the broad satisfaction field. It is now widely accepted that emotions may be one of the core components of the consumer satisfaction construct (Martin *et al.*, 2008). For this reason, researchers now propose that measures of customer satisfaction should include an additional affective component or scale (Martin *et al.*, 2008). Various studies, however, also assessed satisfaction with four emotion-laden items derived from Westbrook and Oliver's (1991) satisfaction measure (Jin *et al.*, 2012), which is very much related to the conceptualisation of customer satisfaction adopted by this study.

Price acceptance

Many studies in marketing indicate that variability in service performance enhances customer uncertainty. In this situation, customers usually consider price as a cue in their expectations of

the service performance, which shapes their attitude and behaviour as well (Han and Ryu, 2009). Moreover, price has also been established as a determinant of value perceptions (Varki and Colgate, 2001), therefore a number of researcher's works have studied some aspects of price within marketing literature. For instance, Jiang and Rosenbloom (2005) studied price perceptions of customers in online context and they observed that price perceptions have direct and positive effect on overall customer satisfaction and intention to return. Moreover, Bolton and Lemon (1999) examined the impact of price fairness on customer use of cellular phone and entertainment services. Their findings indicated that customer perceptions of price fairness/unfairness significantly affected their overall satisfaction and behavioural intentions in both industries. In another study, Han and Ryu (2009) examined the moderating role of price on the relationships among perceived quality of food, service, and physical environment and customer satisfaction in the restaurant industry. They further stated that the customers' perceptions of a reasonable price intervenes as a moderator variable to enhance the impact of quality on their satisfaction. These studies highlight various aspects of price, yet little research has been conducted on the concept of price acceptance.

In the literature, the concept of price acceptance's definition is close to one that the theorists name as reservation price in microeconomics, which refers to the maximum price that a buyer is ready to pay for the given product or service (Consuegra *et al.*, 2007; Huber *et al.*, 2001; Kollmann, 2000). Price acceptance is based on the assimilation-contrast theory presented by (Sherif *et al.*, 1958) which suggests that a new stimulus experienced by a customer is compared with a background of previous experiences (reference scale) providing the basis for comparisons and evaluations. Consequently, the researchers applied assimilation-contrast theory to price

perceptions and posited latitude of price acceptance (Consuegra *et al.*, 2007). Price acceptance can be explained as consumers' intention in the function of price (Huber *et al.*, 2001) and as the maximum price that a buyer is prepared to pay for the product or service (Monroe, 1990). Contrary to economists, marketing academics emphasize that not only an upper price threshold exists but a lower price threshold can be determined as well (Ofir, 2004), and the two price points comprise the range that is acceptable for the consumers and by which they are willing to buy. Since then, acceptance of price has not received significant attention as compared to other results of customer satisfaction such as loyalty, repurchase intentions and word-of-mouth (Consuegra *et al.*, 2007), rather than revenue management specific studies (Maier, 2012).

Hypotheses Development

Influence of service experience on emotions

It has been empirically shown that various constituents of service experience including physical environments, staff and other customers can elicit an emotional response from the customers (Ali *et al.*, 2014; Bitner, 1992; Ladhari, 2009; Pareigis *et al.*, 2011). Similarly, Grace and O'Cass (2004) in their study also showed a positive relationship between the customer's service experience and their emotions. Moreover, Ali *et al.*, (2014) also tested and confirmed the relationship between the customer's experience and their emotions in Chinese resort hotels. Hosany and Gilbert (2010) and Hosany and Witham (2010) also observed a significant impact of service experience on customer emotions in tourism and cruise holidays context respectively. This discussion thus concludes that service experience dimensions, including physical

environmental factors and interaction with service employees and other consumers (Grace and O'Cass, 2004; Grove et al., 1998; Walls et al., 2011) may influence the emotional states of the customers. It is therefore, hypothesised;

Hypothesis 1: Service experience significantly influences emotions.

Influence of service experience on customer satisfaction

It is generally accepted that service experience effects the customer's overall satisfaction with the services brand (Grace and O'Cass, 2004). Because of being generally associated with a particular transaction at a particular time (Cronin *et al.*, 2000), satisfaction is the immediate response to both tangible and intangible brand stimuli. It is evident from the service marketing literature that customer satisfaction is influenced by the physical environment of a service setting (Han and Ryu, 2009; Ruiz *et al.*, 2012; Wakefield and Blodgett, 1996; Wong, 2013). Similarly, the core service, employee service and feelings aroused during service consumption, are also argued to have a direct effect on satisfaction (Grace and O'Cass, 2004). Literature related to environmental psychology also discussed the link between the service environment and customer satisfaction (Lin and Liang, 2011). Additionally, Grace and O'Cass (2004) proposed that the presence of other consumers in the same service environment directly influences customer satisfaction. Wakefield and Blodgett (1996) also suggested that a positive perception of various factors and cues in physical environments can result in better customer satisfaction. It is therefore hypothesized that;

Hypothesis 2: Service experience significantly influences customer satisfaction.

Influence of emotions on customer satisfaction

Previous research suggests that emotions associated with the service encounter play an important role in defining satisfaction (Hou *et al.*, 2013; Jani and Han, 2011; Ma *et al.*, 2013; Martin *et al.*, 2008; Oliver, 1997; Westbrook and Oliver, 1991; Wong, 2004). For example, when a customer experiences positive emotions in a service encounter, he/she will express higher levels of satisfaction which will lead them to stay with the same service provider and spread positive word of mouth (Grace and O'Cass, 2004; Jang and Namkung, 2009). In a recent 'experiential view' framework, customer satisfaction can be studied as a cognitive affective state resulting from cognitive evaluations and from the emotions evoked by such cognitive evaluations (Wu and Liang, 2009). In studies conducted by Chen *et al.*, (2009) and Eroglu *et al.*, (2005), researchers observed a positive direct effect of positive emotions on satisfaction and vice versa. Therefore, it can be hypothesized that;

Hypothesis 3: Emotions significantly influences customer satisfaction.

Influence of customer satisfaction on price acceptance

Although how customer satisfaction influences price acceptance has not been well investigated in the resort industry, some studies have attempted to relate it with price sensitivity or willingness to pay more. One of the frequently named consequences of satisfaction is the increase of price sensitivity (Cronin *et al.*, 2000; Faiswal and Niraj, 2011; Huber *et al.*, 2001; Zeithaml *et al.*, 1996). This is based on the fact that companies with higher satisfaction values are able to receive higher prices from customers. Excess of price that a customer would be

willing to pay, rather than go without having a thing, over what he actually pays is the economic measure of his satisfaction surplus (Bigne *et al.*, 2008; Martin-Consuegra *et al.*, 2007). Thus it is expected that customers who are satisfied with a product or a service will accept a higher price for that product or service. Anderson (1996) reports a positive association between changes in customer satisfaction and changes in price acceptance and is also supported by Martin-Consuegra *et al.*, (2007). Therefore, it is hypothesized;

Hypothesis 4: Customer satisfaction significantly influences price acceptance.

Research Methods

Measures

In this study, service experience construct is measured as formative construct consisting of three dimensions i.e., physical environment (setting), interaction with customers (audience) and interaction with staff (actors) considering the conceptualisation of service experience presented by Grove *et al.*, (1998). Five items of physical environment, three items of interaction with staff, and three items of interaction with customer were adapted and modified from Wu and Liang (2009) and Jani and Han (2001). Emotions were measured with four items adopted from Lin and Liang (2011), while customer satisfaction was operationalized using the four emotion-laden items proposed by Westbrook and Oliver (1991). Lastly, the four items for price acceptance were adopted from Martin-Consuegra *et al.*, (2007). All the items were rated on a 5 point Likert scale ranging from strongly disagree (1) to strongly agree (5). Modification of items was conducted

and reviewed by academic faculty majoring in hospitality management. Based on their review, the questionnaire was refined in terms of structure, clarity, reselection of words, and editorial corrections. The questionnaire was translated from English to Chinese and then retranslated to English by experts from Beifang University of Nationalities, China in order to ensure item equivalence (Lin and Mattila, 2010).

Sample design and data collection

The target population for this study was limited to those guests who had stayed at Chinese resort hotels at least once. The reason for selecting guests at resort hotels is because a good service experience at a resort hotel can make their stay memorable by influencing their emotions. Data was collected through a survey conducted at various locations within the selected resort hotels in three cities of China i.e., Beijing, Xian and Yinchuan, with the help of School of Management, Beifang University of Nationalities, Yinchuan, China. Data collection was conducted by distributing questionnaires to guests by using systematic sampling at different times of the day (morning, noon and evening), over a period of four weeks. In order to reduce the referrals to participate, guests were informed of the purpose of the research. Questionnaires were distributed to 500 customers at resort hotels out of which 170 were returned back and deemed fit for the analysis, representing a response rate of 34%. Out of these 170 respondents, 48.2% were male and 51.8% were female. 12.4% were under 20 years of age, 44.1% were between 21 and 30 years, 27.1% were between the ages of 31 – 40 years and 16.5% were older than 41 years. 50.6% of the total respondents had a bachelor degree whereas 38.2% had a master degree. Amongst the 170 respondents, 59.4% were Chinese whereas 40.6% were foreigners. A non-response analysis

using wave analysis was conducted as suggested by Rylander et al. (1995). Responses that were collected in the first two weeks were grouped as early responses whereas responses that were collected in the last two weeks were grouped as late responses. An independent t-test was conducted which revealed no significant difference between the two groups i.e., early responses and late responses. Based on this it was concluded that the sample did not suffer from non-response bias (Cobanoglu et al., 2011).

Analysis

Structural equation modelling - partial least squares (SEM-PLS) method was used to validate the model as the model contains both formative and reflective constructs and violates the assumption of multivariate normality (Gefen and Straub, 2005). SEM-PLS and is now commonly used by different researchers and provides a robust way of analysing survey data (Herath and Rao, 2009; Simkin and McLeod, 2010). SEM-PLS requires a sample size with at least 10 times the largest number of indicators of the construct in the model (Peng and Lai, 2012). For the hypothesized model in this study, service experience (SE) had the most indicators numbering to 11. Thus, the minimum sample size was 110. The sample size for this model was 170, which exceeded the minimum requirement. To run the analysis, Smart PLS (Ringle, Wende and Will, 2005) software was used by applying bootstrapping technique to assess the significance of the factor loadings, and path coefficients. A two-step analysis approach suggested by Anderson and Gerbing (1988) is adopted for this study. First, the measurement model was tested by performing validity and reliability analyses on each of the measures of the model and then, the structural model was

tested by estimating the paths between the constructs in the model, determining their significance as well as the Goodness of Fit of the model.

Common method bias test

The common method bias implies that the covariance among measured items is driven by the fact that some or all of the responses are collected with the same type of scale (Hair et al., 2006). To determine the presence of common method variance bias among the study variables, a Harman's (1967) one-factor test as suggested by Podsakoff et al. (2003) was employed. All the items of this study were entered into a principal component analysis with varimax rotation to identify if a single factor emerges from the factor analysis or one general factor accounts for more than 50 percent of the co-variation. The results extracted six dimensions from 23 items and the accumulated variation explained was 28.97percent, and thus this study did not have a serious problem with common method variance.

Measurement Model

First, the measurement model was tested for convergent validity. This was assessed through factor loadings, composite reliability (CR) and average variance extracted (AVE) (Hair *et al.*, 2006). Internal consistency of all the constructs were measured by employing composite reliability (C.R) as suggested by Hoffmann and Birnbrich (2012). For this measure, the threshold criterion is 0.70 (Herath and Rao, 2009; Nunnally, 1978) and all the constructs included in this study exceeded the recommended level. Moreover, convergent validity of the constructs was tested by examining the factor loadings and the average variance extracted (AVE). Value of

AVE should exceed 0.5 to suggest adequate convergent validity (Bagozzi and Yi, 1988) and all the constructs included in this study exceeded the recommended level except for one item - PE1 that had loadings below 0.7 and it was therefore deleted. The remaining 22 items were used to measure the constructs. Table I shows the factor loadings, results of C.R and AVE for all the constructs.

Discriminant validity was assessed based on the correlation matrix of the latent constructs (see Table II), where the square roots of the AVE values calculated for each construct are reported in bold along the diagonal. Hair et al, (2006) suggested that average variance shared between a construct and its measures should be greater than the variance shared between the constructs and other constructs in the model. Discriminant validity is given, when the diagonal elements (square root AVE) are greater than the off-diagonal elements in the corresponding rows and columns. Overall, all the measures show satisfactory reliability and validity (see Table II).

Structural Model

SmartPLS 2.0 was used to test the structural model and hypotheses (Ringle *et al.*, 2005). A bootstrapping procedure with 1000 iterations was performed to examine the statistical significance of the weights of sub-constructs and the path coefficients (Chin, Peterson and Brown, 2008). The SEM-PLS approach using SmartPLS software does not provide a traditional assessment of overall model fit as in CB-SEM (Chin, 1998b). Therefore, the corrected R^2 of all constructs were calculated to employ a diagnostic tool, the goodness of fit (GoF) index presented by Tenenhaus *et al.*, (2005). The GoF measure uses the geometric mean of the average communality and the average R^2 (for endogenous constructs). Hoffmann and Brinbrich (2012)

report the following cut-off values for assessing the results of the GoF analysis: $GoF_{small} = 0.1$; $GoF_{medium} = 0.25$; $GoF_{large} = 0.36$. For the complete model in this study, a GoF value of 0.419 is obtained indicating a very good global model fit (See Table III). However, it is noteworthy that GoF cannot be used as a statistical tool for model validation. Rather, it is a diagnostic tool to indicate how well the collected data fits the proposed model (Henseler & Sarstedt, 2013).

Following the measurement model and goodness of fit, the hypothesized relationships in the structural model were tested. Figure 1 shows the results of the structural model. The values in the figure shows the standardized coefficients and their respective t-values. The corrected R^2 s refer to the explanatory power of the predictor variable(s) on the respective construct and are reported in Figure 1. Service experience of customers explains 11.4 per cent of their emotions ($R^2 = 0.114$). On the other hand service experience and emotions explain 49 per cent of customer satisfaction ($R^2 = 0.490$). Whereas customer satisfaction predicts 19.8 per cent of customers' price acceptance ($R^2 = 0.198$). In regard to model validity, Chin *et al.*, (2008) classified the endogenous latent variables as substantial, moderate or weak based on the R^2 values of 0.67, 0.33, or 0.19 respectively. Accordingly, emotions ($R^2 = 0.114$), customer satisfaction ($R^2 = 0.490$) and price acceptance ($R^2 = 0.198$) can be described as weak, moderate and moderate respectively.

Calculating Predictive Relevance (Q^2) and Effect Size (f^2)

In addition to the size of R^2 , the predictive sample reuse technique (Q^2) can effectively be used as a criterion for predictive relevance (Chin et al., 2008). Based on blindfolding procedure, Q^2 evaluates the predictive validity of a complex model by omitting data for a given block of

indicators and then predicts the omitted part based on the calculated parameters. Thus, Q^2 shows how well the data collected empirically can be reconstructed with the help of model and the SEM-PLS parameters (Akter *et al.*, 2011). For this study, Q^2 was obtained using cross validated redundancy procedures as suggested by Chin (2010). As per Akter *et al.* (2011), a Q^2 greater than 0 means that the model has predictive relevance whereas Q^2 less than 0 mean that the model lacks predictive relevance. As shown in Table IV, Q^2 for emotions, customer satisfaction and price acceptance are 0.074, 0.342 and 0.098 respectively indicating acceptable predictive relevance.

In some models, endogenous variables are predicted by more than one predicting/exogenous variables. In this situation, according to Wong (2013), effect sizes are calculated to assess how much a predicting (exogenous) variable contributes to an endogenous latent variable's R^2 value by using the equation $f^2 = (R^2_{\text{included}} - R^2_{\text{excluded}}) / (1 - R^2_{\text{included}})$. According to Wong (2013), f^2 value of 0.02 shows a small effect, f^2 value of 0.15 shows a medium effect and f^2 value of 0.35 shows a large effect. In this study, customer satisfaction is predicted by service experience and emotions, therefore relative effect sizes (f^2) of the predicting (exogenous) constructs were calculated and are shown in Table IV. In regard to predicting customer satisfaction, service experience had medium effects whereas emotions had a large effect size (Peng and Lai, 2012).

Second-Order Construct Assessment

The measurement quality of the formative second- order constructs was tested in two steps (Chin *et al.*, 200; Diamantopoulos and Winklhofer, 2001). In the first step, the correlations between the first- order constructs (Physical Environment, Interaction with Customers and Interaction with

Staff) of Service Experience (SE) were examined. The correlations between these first-order constructs of SE range from 0.060 to 0.287. These results support the hypotheses that SE is better represented as a formative second order construct and not as reflective ones, since a reflective second order construct would show extremely high correlation among its lower-order constructs (≥ 0.8) (Peng and Lai, 2012). Following this, variance inflation factor (VIF) for the first-order factors of SE was computed to assess multicollinearity. As shown in Table V, the VIF values for all three first-order constructs are 1.090, 1.076 and 1.169 which are below the cut-off value of 3.3 (Peng and Lai, 2012), indicating that there is no multicollinearity between the first-order constructs of SE. Moreover, the significance of the relationships between SE and its first-order dimensions was also assessed. According to Table V, all first-order dimensions forming SE were found to be significant at 1%.

Structural Estimates and Hypotheses Testing

After estimating the structural model, the complete results are summarized in Table VI. H1 was hypothesizing that perceptions of service experience will influence customer emotions, thus H1 was accepted (H1: $b = 0.339$, $t = 3.458$, $\text{sig} < 0.01$). These results are consistent with the previous studies (Ma *et al.*, 2013; Jani and Han, 2011; Grace and O'Cass, 2004). Similarly, H2 and H3 were hypothesised that perceptions of service experience and customer emotions will significantly influence customer satisfaction, thus H2 and H3 were accepted (H2: $b = 0.219$, $t = 2.930$, $\text{sig} < 0.01$; H3: $b = 0.595$, $t = 7.902$, $\text{sig} < 0.01$). Emotions were the most significant predictor of customer satisfaction. These results are consistent with the previous studies (Han and Ryu, 2009; Jang and Namkung, 2009; Lin and Liang, 2011; Martin *et al.*, 2008; Oliver,

1997; Ruiz *et al.*, 2012; Wakefield and Blodgett, 1996; Wong, 2013). H4 hypothesised the relationship between customer satisfaction and price acceptance, thus the hypothesis was accepted (H4: $b = 0.358$, $t = 4.695$, $\text{sig} < 0.05$). These results are consistent with the previous studies (Martin-Consuegra *et al.*, 2007; Huber *et al.*, 2001).

Conclusion and Managerial Implications

The objective of this study is to investigate the relationships between service experience, customer's emotion, satisfaction and price acceptance in resort hotels. SEM-PLS method was used to analyse the data based on structural equation modelling techniques and test the relationships between the constructs. The result of this study found that all hypotheses are supported. In particular, the results show that there is a significant relationship between service experience and emotions. Service experience and emotions, in turn, jointly influences customer satisfaction which as a result influences price acceptance. These findings are all in line with the previous studies (Martin-Consuegra *et al.*, 2007; Grace and O'Cass, 2004; Han and Ryu, 2009; Huber *et al.*, 2001; Jang and Namkung, 2009; Jani and Han, 2011; Lin and Liang, 2011; Ma *et al.*, 2013; Martin *et al.*, 2008; Oliver, 1997; Ruiz *et al.*, 2012; Wakefield and Blodgett, 1996; Wong, 2013).

The findings show that customers' perceptions of service experience have a significant influence on emotions, thus, H1 was supported. This indicates that positive perceptions of service experience will lead to elicitation of positive emotions in customers. This relationship between service experience elements such as physical environment, interaction with staff and customers

and emotions has been studied in the hospitality industry (Jani and Han, 2011; Pareigis *et al.*, 2011). For example, Grace and O'Cass (2004) in their study also observed a positive relationship between the customer's service experience and their emotions. In this study service experience was having three dimensions, i.e., servicescape, core service and employee service. Similarly, H2 stated that perceptions of service experience significantly influences customer satisfaction. The results show that H2 was accepted. It means that positive perceptions of service experience will lead to satisfaction of customers which is consistent with the findings from previous studies (Han and Ryu, 2009; Ruiz *et al.*, 2012; Wakefield and Blodgett, 1996; Wong, 2013). For example, Lin and Liang (2011) observed a positive link between the service environment and customer satisfaction in their study in retail industry whereas Wong (2013) discussed a positive effect of service experience on customer satisfaction in casinos. Additionally, H3 hypothesised a significant relationship between emotions and customer satisfaction. The findings of this study support H3 which is similar to the findings from previous studies (Han and Ryu, 2009; Jang and Namkung, 2009; Lin and Liang, 2011; Martin *et al.*, 2008; Oliver, 1997; Ruiz *et al.*, 2012; Wakefield and Blodgett, 1996; Wong, 2013). For example, Wong (2004) has indicated the positive and significant association between a customer's positive affect and satisfaction. Similarly Jani and Han (2011) observed that positive emotions of customers will lead to their satisfaction in the hospitality industry. Similarly, the findings of this study also showed that customers' satisfaction influences their price acceptance, thus, H4 was accepted. This indicates that if a customer is satisfied with the services provided by a resort hotel, it is likely that they will accept the prices charged. Research on price acceptances is scant, so the influence of customer satisfaction on customer price acceptance has been proposed but not properly tested. The

relationship between customer satisfaction and price acceptance, however, is tested by Martin-Consuegra *et al.*, (2007), which support the findings of this current study.

This study links several important marketing concepts and demonstrates the influence of service experience emotions and satisfaction on price acceptance. The study shows that if the customer is satisfied and has positive emotions from their experience at resort hotels, they will be likely to pay the comparatively higher prices of this industry. Consequently, resort hotels may be able to charge premium prices, because once customers are satisfied with their experiences, they attach themselves emotionally to those specific experiences (Ma *et al.*, 2013). Since the findings show a positive linkage of service experience, emotions and satisfaction, management of resort hotels need to consider how the physical environment, interaction with employees and other customers can be managed in order to satisfy the customers emotionally. In order to do this, management needs to examine the primary needs of their customers regarding physical environment and interaction with staff and customers. In addition to this, management should also examine the different aspects of service experience that can create a competitive advantage. This can help the customers to accept the prices charged by resort hotels. Additionally, the findings of the study show that all three dimensions i.e. physical environment, interaction with staff and interaction with customers, of service experience function as significant contributors to customers' service experience at Chinese resort hotels. Since all three dimensions develop service experience for the customers, the resort hotel management needs to know the relative importance of each of these elements with regards to the service experience to better understand the distinct role of each individual dimension.

This study also revealed the importance of stimulating positive emotions, which has important implications for managers (Jang *et al.*, 2011). Emotions have a significant impact on customer satisfaction, thus resort hotel managers can use physical and social interaction to create great customer experiences to elicit positive emotions in them, which may result in favourable behaviours. The significance of emotions is apparent, given the pleasure-seeking motive for staying at resort hotels. Therefore, resort hotel management can focus on refining the physical environment to heighten popularity and desired feelings. Lastly, the model also included interaction with staff and customers which is also referred to as, “social factors” by Ryu and Han (2010). These social factors are very essential because of the often inseparability of the service from employee, who is the service provider. Considering this argument, resort hotels must focus on their human capital as a marketing imperative and provide continual investment in staff training in order to make the experience of their customers better. This will help the customers to better judge the steps taken by the resort hotels to ensure their experience will elicit positive emotions and satisfy them and will also ultimately end up in their willingness to accept the prices as well as pay higher prices for getting that experience.

This study has several limitations which should be considered when evaluating the results, but which also provide interesting avenues for future research. When using instruments across cultures, there are various types of equivalence such as idiomatic equivalence, metaphorical equivalence and metric equivalence, etc. For this study, the questionnaire was translated and assessed only the linguistic equivalence. Moreover, the sample size for this study was low and was drawn from selected resort hotels in China, therefore, generalization of the results needs to be cautiously conducted. For instance, the findings should be interpreted with caution when

applied to different types of hotels or different industries. Future research should examine the proposed relationships in other types of hotels, industries and countries with a larger sample size. It is advisable to use a uni-dimensional approach of service experience in future studies. Future studies might also consider how people having different characteristics perceive service experience and its effect on their emotions and behaviours. Another avenue for future research can be using additional variables such as perceived value and customer loyalty which can determine the unexplained variance in customers' price acceptance.

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Table I. Validity and reliability for constructs

Constructs	Items	Loadings	CR ^a	AVE ^b
Physical Environment	The resort's temperature is comfortable	0.741	0.819	0.509
	The resort's environment is clean	0.768		
	The resort's architecture is impressive	0.807		
	The colours within the resort are complementary and coordinating	0.767		
	The resort's lighting is appropriate*	0.591		
Interaction with Staff	The staffs provide a thorough and satisfactory service	0.887	0.895	0.740
	The staffs are reliable	0.872		
	The staffs are professional	0.823		
Interaction with Customers	Other guests are not loud	0.902	0.948	0.859
	Other guests behave nice	0.957		
	Other Guests are not problematic	0.923		
Emotions	After visiting this resort, I feel elated	0.801	0.891	0.673
	After visiting this resort, I feel peppy.	0.773		
	After visiting this resort, I feel relaxed.	0.849		
	After visiting this resort, I feel Excited.	0.856		
Customer Satisfaction	I am satisfied with my decision to use this resort as service provider	0.822	0.913	0.724
	My choice to choose this resort as a service provider was a wise one	0.821		
	I think I did the right thing when I chose to stay at this resort	0.899		
	I feel that my experience with this resort has been enjoyable	0.858		
Price Acceptance	Sometimes I am willing to pay more	0.911	0.949	0.824
	I know the reference price level	0.924		
	I usually accept changes in prices	0.864		
	I have a good knowledge of price distribution in resorts	0.954		

^a Composite reliability = (square of the summation of the factor loadings) / [(square of the summation of the factor loadings) + (square of the summation of the error variances)]

* The item was deleted because of low loadings

^b AVE = (summation of squared factor loadings)/(summation of squared factor loadings) (summation of error variances)

Table II. Discriminant validity

	PE	IC	IS	EM	SAT	PA
Physical Environment	0.713					
Interaction with Customers	0.077	0.926				
Interaction with Staff	0.280	0.264	0.860			
Emotions	0.222	0.055	0.382	0.820		
Customer Satisfaction	0.275	0.055	0.418	0.671	0.850	
Price Acceptance	0.128	0.077	0.245	0.407	0.359	0.907

Notes: Square root (AVE) on the diagonal and construct correlations below the diagonal

Table III: Goodness of Fit Index		
	AVE	R²
Physical Environment	0.509	-
Interaction with customers	0.859	-
Interaction with staff	0.740	-
Emotions	0.673	0.114
Customer Satisfaction	0.724	0.490
Price Acceptance	0.824	0.198
Average Scores	0.721^a	0.244^b
AVE * R²	0.176	
($GOF = \sqrt{AVE \times R^2}$)	0.419	

Table IV: Predictive Relevance (Q^2) and Effect Size (f^2)		
	Q^2	f^2 (Customer Satisfaction)
Physical Environment	-	-
Interaction with customers	-	-
Interaction with staff	-	-
Service Experience	-	0.279 (medium)
Emotions	0.074	0.650 (large)
Customer Satisfaction	0.342	-
Price Acceptance	0.098	-

Table V: Reliability and Validity of Second-Order Construct

	Correlation amongst the First-Order Constructs			Weights of the first-order constructs on Service Experience		VIF
	PE	IC	IS	Weights	T Value	
Physical Environment	1			0.528 ***	5.532	1.09
Interaction with Customers	0.060	1		0.293 ***	2.989	1.076
Interaction with Staff	0.287	0.266	1	0.587 ***	9.45	1.169

*** Significant at the 1% level of significance

Table VI: Results of the structural model

Hypothesis	Standard Beta	Standard Error	T Statistics	Decision
H1 Service Experience → Emotions	0.3391	0.0980	3.458**	Supported
H2 Service Experience → Customer Satisfaction	0.2196	0.0749	2.930**	Supported
H3 Emotions → Customer Satisfaction	0.5951	0.0753	7.902**	Supported
H4 Customer Satisfaction → Price Acceptance	0.3581	0.0763	4.695**	Supported

**p>0.01

Figure 1: Structural results of the proposed model

