



Service Quality and Price Fairness as Determinants of Customer Loyalty: The Mediating Role of Customer Satisfaction in Service Management

Lia Rahmawati*, Gunarso Wiwoho

Universitas Putra Bangsa , Indonesia

Email : liarahmawati2121@gmail.com

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ABSTRACT

Keywords:

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*Corresponding Author

This study aims to examine the effects of service quality and price fairness on customer loyalty, with customer satisfaction as a mediating variable, within the context of service management. The study adopts a quantitative approach involving 100 repeat customers, selected using purposive sampling. Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. The results demonstrate that service quality and price fairness have positive and significant effects on customer satisfaction and customer loyalty. Customer satisfaction also shows a significant positive effect on customer loyalty and partially mediates the relationships between service quality, price fairness, and customer loyalty. These findings highlight that customer satisfaction plays a strategic role in translating service performance and pricing fairness into long-term loyalty. From a managerial and educational perspective, the study implies that organizations should strengthen service quality through continuous staff training, service-learning practices, and human capital development to enhance employees' service competencies. Additionally, fair pricing strategies supported by transparent communication and customer-oriented education are essential in fostering trust and sustainable customer loyalty in competitive service industries.

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INTRODUCTION

Service quality has become a central concern in the modern business era, particularly in the hospitality sector, as it directly influences customer satisfaction and loyalty. High-quality service ensures that customers feel valued and their expectations are met, which not only enhances the guest experience but also supports sustainable business growth (Agarwal & Dhingra, 2023; Ahmed et

al., 2023). In the context of hotel management, consistently improving service quality requires a structured approach to employee training, operational standards, and technology integration, reflecting broader principles of educational and organizational management. Evidence suggests that organizations emphasizing service quality achieve better customer retention and competitive advantage (Arici et al., 2023; Bhatti & Alawad, 2023; Biswas & Verma, 2023; Chang et al., 2024; Devi et al., 2024; Kalnaovakul & Promsivapallop, 2023). Therefore, investigating the mechanisms through which service quality influences customer satisfaction is critical for both business practitioners and policymakers aiming to enhance service-oriented management in education and hospitality sectors. The study underscores the societal importance of understanding and operationalizing service excellence to strengthen sustainable customer relationships.

Despite the recognized importance of service quality, many hospitality businesses face challenges in maintaining consistently high standards, which can negatively affect customer satisfaction and loyalty. Misalignment between customer expectations and perceived service quality often results in dissatisfaction, lower repeat visits, and reduced revenue stability (Karim et al., 2024; Konuk, 2023; Kumar, 2024). Price fairness has emerged as another critical factor influencing consumer behavior, particularly as dynamic pricing strategies become widespread in hotel operations. Consumers increasingly evaluate the fairness of prices relative to service quality and perceived value, impacting their loyalty and satisfaction levels (Li et al., 2023; Papademetriou et al., 2023). From a management education perspective, understanding how operational, strategic, and HR practices influence both service quality and price fairness is vital for training future hospitality managers. Addressing these challenges requires empirical research that links service quality, pricing perception, and customer satisfaction within a systematic management framework, offering actionable insights for organizational leaders in hospitality and related service industries.

In practical terms, hotels experience observable patterns that illustrate these challenges. For instance, at Hotel Mexolie, room sales increasingly rely on online platforms such as Traveloka and Booking.com, highlighting the shift in consumer behavior toward digital booking channels. Table 1 shows that while Traveloka maintains a stable 32% share, walk-in bookings decreased from 25% to 23% over two months, indicating the growing influence of perceived service quality and digital convenience on consumer choices. The hotel's historical value, modern facilities, and strategic location contribute to competitive differentiation, but the alignment between price fairness and service quality remains crucial in maintaining customer satisfaction. This dynamic demonstrates that beyond tangible assets, operational management and employee performance are critical in shaping guests' perceptions. Such phenomena suggest that traditional

hospitality strategies focusing solely on marketing or physical facilities are insufficient, and management practices must integrate service quality enhancement, transparent pricing, and customer-centric operations to remain competitive.

Previous research has shown a positive relationship between service quality, customer satisfaction, and loyalty across various contexts. For example, studies highlight that service quality dimensions—reliability, responsiveness, assurance, empathy, and tangibles—significantly impact customer perceptions and behavioral intentions (Perdomo-Verdecia et al., 2024; PJ et al., 2023; Prum et al., 2024). Other studies emphasize that price fairness also plays a key role in shaping satisfaction and repeat purchase behavior (Qing et al., 2023; Tedjokusumo & Murhadi, 2023; Vayghan et al., 2023). However, most research is either conceptual, focused on specific countries, or limited in linking price fairness with mediating mechanisms like customer satisfaction. Moreover, many studies overlook the integration of human resource and operational management practices from a management education perspective, which can influence service delivery and fairness perception. Thus, there is a research gap in understanding the combined influence of service quality and price fairness on loyalty, mediated by customer satisfaction, particularly in local hotel contexts. Filling this gap has both theoretical and practical relevance for improving hospitality management strategies.

Several studies have extended this discussion by incorporating technology, green practices, and digital platforms as moderators of service quality and loyalty. Arici et al. (2023) demonstrate how big data analytics can reveal customer satisfaction patterns, while Bhatti & Alawad (2023) highlight the role of digital adoption in engagement and loyalty. Devi et al. (2024) and Kalnaovakul & Promsivapallop (2023) show that quality, food, and service factors, combined with perceived price fairness, directly impact loyalty. Other research emphasizes sustainable HR practices and customer-centric digital strategies (Karim et al., 2024; Kumar, 2024; Li et al., 2023; Konuk, 2023). Despite these contributions, prior studies do not fully capture the mediating role of customer satisfaction in linking both service quality and price fairness to loyalty, nor do they integrate management education dimensions that influence employee behavior and service delivery. This research aims to address these gaps by providing empirical evidence in the hospitality sector, guiding both operational and managerial decision-making.

This study contributes to knowledge by combining service quality, price fairness, and customer satisfaction within a single framework to predict customer loyalty, which is rarely done in previous empirical research. It integrates management education principles by highlighting how HR practices, employee competencies, and operational management influence service delivery and customer perceptions. The research focuses on a local hotel context with

historical and strategic significance, allowing insights into culturally relevant hospitality management practices. By empirically testing these relationships using SEM-PLS, the study provides a comprehensive understanding of the mechanisms that drive loyalty beyond isolated service or pricing factors, offering practical strategies for sustainable customer retention.

The main research problem is to determine how service quality and price fairness influence customer loyalty, directly and through customer satisfaction, in the hospitality industry. Preliminary arguments suggest that customer satisfaction is the key mediating mechanism linking service quality and price fairness with loyalty. The study contributes both theoretically and practically: theoretically by confirming the centrality of customer satisfaction in Expectation Disconfirmation Theory, and practically by guiding hotel managers on service improvement, fair pricing, and employee development strategies to strengthen loyalty. This approach also informs management education curricula by demonstrating the applied significance of integrating operational and strategic practices in service-oriented industries.

RESEARCH METHOD

This study employs a quantitative approach with a causal-associative research design to examine the cause-and-effect relationships between the research variables. The quantitative approach was chosen because it allows for the objective measurement of constructs through numerical data and hypothesis testing using statistical analysis (Nurfajriani et al., 2024). The causal associative design is considered appropriate for identifying the direct and indirect influences between service quality and price fairness as independent variables, customer loyalty as the dependent variable, and customer satisfaction as the mediating variable. The use of a mediation model aligns with the development of contemporary marketing research, which emphasises understanding the mechanisms of relationships between variables, not merely identifying correlations.

This research was conducted at the Mexolie Hotel in Kebumen, which was chosen as the research location because it is a historical and strategic hotel with a relatively stable visitor rate, allowing for continuous observation of customer loyalty behaviour. The research instrument, a questionnaire, was developed based on a measurement scale that had been validated in previous studies to ensure content validity. Respondents were determined using a non-probability sampling technique with the purposive sampling method, with the criteria being visitors to the Mexolie Hotel Kebumen who had visited more than three times. This criterion was applied because respondents were considered to have

sufficient experience in assessing service quality, price fairness, satisfaction, and loyalty to the hotel. Data collection was conducted during the school holiday and Eid al-Adha period through the stages of pre-survey, questionnaire distribution, and data compilation.

Data analysis was conducted using Variance-Based Structural Equation Modelling through the Partial Least Squares (PLS-SEM) approach, with the assistance of SmartPLS software version 4. The PLS-SEM method was chosen because it is suitable for complex research models, involves mediating variables, has a relatively limited sample size, and data that is not normally distributed. The analysis procedure is carried out in two stages: measurement model evaluation and structural model evaluation. Model measurement evaluation includes testing convergent validity through factor loading values and Average Variance Extracted (AVE), discriminant validity using the Fornell–Larcker Criterion and Heterotrait–Monotrait Ratio (HTMT), and construct reliability assessed through Cronbach’s Alpha and Composite Reliability.

The structural model was evaluated using the R-squared value, the effect size f-squared, and the Variance Inflation Factor (VIF) value to detect potential multicollinearity. Hypothesis testing was conducted using a bootstrapping procedure with 5,000 subsamples, employing path coefficients, T-statistic values, and P-values to assess both direct and indirect effects between variables. All validity and reliability indicators met the recommended criteria, namely factor loadings above 0.70, AVE values greater than 0.50, reliability exceeding 0.70, and VIF values below the threshold of 5.0 (Hair, 2014). These procedures collectively ensure that the measurement instruments and structural relationships are valid, reliable, and suitable for hypothesis testing.

RESULT AND DISCUSSION

RESULT

Based on the research results from 100 respondents who visited the Mexolie Hotel in Kebumen more than three times, the following characteristics of the respondents were obtained from the questionnaire data:

Table 2 : Research Data Overview

Characteristic	Category	Frequency	Percentage
Gender	Male	60	60%
	Female	40	40%
Age	26 – 35 years	73	73%
	36 – 45 years	21	21%
	46 – 55 years	6	6%
Occupation	Civil Servant	14	14%
	Private Employee	62	62%
	Entrepreneur	24	24%

Source: Primary Data

Based on Table 2, the majority of respondents are male, totalling 60 people (60%), while female respondents number 40 (40). From an age perspective, the respondents were dominated by the 26–35 age group, with 73 people (73%), followed by the 36–45 age group with 21 people (21%), and the 46–55 age group with 6 people (6%). This distribution shows that visitors to Hotel Mexolie Kebumen during the study period were mostly young adults with high mobility. Based on occupation characteristics, the largest number of respondents were from the private employee group, totalling 62 people (62%), followed by self-employed individuals at 24 people (24%), and civil servants at 14 people (14%). This composition indicates that the majority of visitors have a relatively high level of work flexibility. These respondent characteristics are related to the data collection period, which was conducted after Eid al-Adha, a holiday season. During this period, visitors to the Mexolie Hotel in Kebumen were predominantly guests travelling for leisure and family visits, so perceptions of service quality and price fairness tended to focus on aspects of comfort, facilities, and the alignment of price with the overall stay experience. Therefore, the respondent profile in Table 4.1 provides a relevant foundation for interpreting the influence of service quality and price fairness on customer satisfaction and customer loyalty.

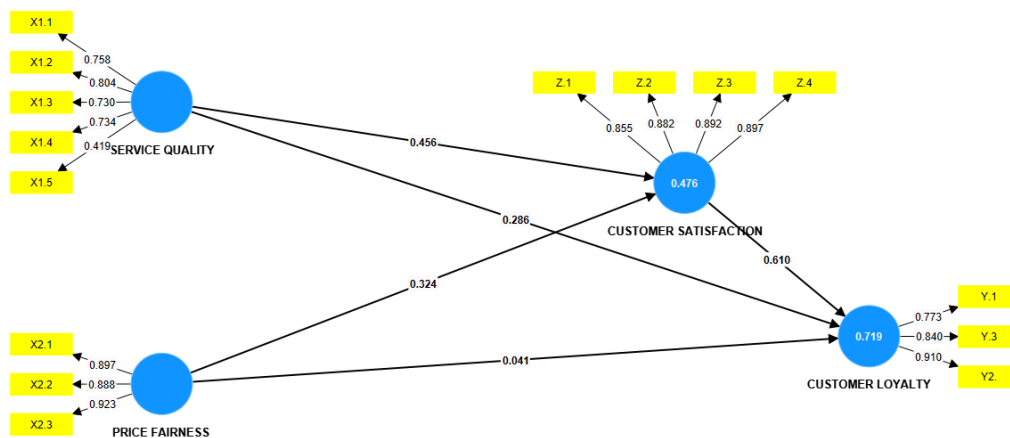


Figure 1 : Graphical Output PLS-SEM Algorithm

In this study, data analysis was conducted using the Partial Least Squares-based Structural Equation Modelling (SEM-PLS) approach with the assistance of SmartPLS 4 software. This method is used to test the influence of packaging design and digital marketing on purchasing decisions, with brand image as a mediating variable. The analysis process refers to the procedures proposed by Hair (2014), which comprehensively include the evaluation of the measurement model (outer model) and the structural model (inner model).

Evaluation of the Measurement Model (Outer Model)

The measurement model (outer model) evaluation is conducted to assess the validity and reliability of the research instrument. This evaluation includes testing for convergent validity, discriminant validity, and reliability to ensure that each indicator and construct accurately represents the latent variable. Convergent validity assesses the degree of association between indicators within a single construct. In this study, the acceptance criterion was set at a factor loading value (outer loading) greater than 0.60, indicating that the indicator has a strong relationship with the latent variable it measures. The results of the external loading tests are presented in Table 3.

Table 3 : Outer Loadings Results

	Customer loyalty	Customer satisfaction	Price fairness	Service quality
X1.1				0.758
X1.2				0.804
X1.3				0.730
X1.4				0.734
X1.5				0.419
X2.1			0.897	
X2.2			0.888	
X2.3			0.923	
Y.1	0.773			
Y.3	0.840			
Y2.	0.910			
Z.1		0.855		
Z.2		0.882		
Z.3		0.892		
Z.4		0.897		

Source: Primary Data, 2025

Most indicators have factor loading values above the threshold of 0.60, indicating a strong correlation between the indicators and the latent variables being measured. One indicator, X1.5, has a factor loading value of 0.419, which does not meet the criteria for convergent validity and was removed from the model. After these adjustments, the measurement model was found to meet convergent validity and was suitable for further analysis. The AVE results are summarised in Table 4.

Table 4 : Average Variance Extracted (AVE)

	Average variance extracted (AVE)
Customer loyalty	0.711
Customer satisfaction	0.778
Price fairness	0.815
Service quality	0.494

Source: Primary Data, 2025

The Average Variance Extracted (AVE) values for most latent variables have exceeded the recommended minimum threshold of 0.50, indicating that convergent validity has been achieved. However, the service quality variable has an AVE value of 0.494, which is slightly below the threshold, but is still acceptable in exploratory research if supported by adequate reliability values. The variable price fairness shows the highest AVE value, followed by customer satisfaction, customer loyalty, and service quality, which indicates that the indicators used are able to represent their respective constructs quite well. Discriminant validity was further evaluated to ensure that each latent variable had clear empirical differences from the others in the model. The assessment was conducted using the Fornell–Larcker Criterion and the Heterotrait–Monotrait Ratio (HTMT). Based on the Fornell–Larcker Criterion, discriminant validity is met if the square root of the AVE for each construct is greater than its correlation with other constructs. The results of the testing are presented in Table 5.

Table 5 : Fornell-Larcker Criterion

	Customer loyalty	Customer satisfaction	Price fairness	Service quality
Customer loyalty	0.843			
Customer satisfaction	0.815	0.882		
Price fairness	0.551	0.576	0.903	
Service quality	0.696	0.635	0.553	0.703

Source: Primary Data, 2025

All constructs in this study meet the Fornell-Larcker criteria, as indicated by the square root of the AVE value for each variable being greater than its correlation with other variables. This finding confirms that each construct measures a different concept and is unique within the research model. Discriminant validity was further tested using the Heterotrait–Monotrait Ratio (HTMT), with the condition that an HTMT value below 0.90 indicates an adequate level of discriminant validity. The results of the HTMT test are presented in Table 6.

Table 1 : Heterotrait-Monotrait Ratio (HTMT)

	Customer loyalty	Customer satisfaction	Price fairness	Service quality
Customer Loyalty				
Customer satisfaction	0.957			
Price fairness	0.661	0.641		
Service quality	0.879	0.763	0.717	

Source: Primary Data, 2025

Most HTMT values are below the 0.90 threshold, indicating that discriminant validity between constructs has generally been met. However, the HTMT value for the customer satisfaction variable was recorded at 0.957, which exceeds the recommended threshold and indicates potential construct overlap that requires further attention. Reliability testing was conducted to assess the internal consistency of the measurement instrument using Cronbach's Alpha and Composite Reliability. Values for both measures exceeding 0.70 indicate that all constructs have a good level of reliability. The reliability test results are presented in Table 7.

Table 2 : Cronbach's Alpha dan Composite Reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)
Customer loyalty	0.794	0.807	0.880
Customer satisfaction	0.905	0.908	0.933
Price fairness	0.886	0.888	0.930
Service quality	0.735	0.772	0.824

Source: Primary Data, 2025

The analysis results show that all latent variables have Cronbach's Alpha and Composite Reliability values exceeding the threshold of 0.70. These findings confirm that all constructs in the measurement model have good internal consistency and are considered reliable for use in subsequent structural model analysis.

Evaluation of the Structural Model (Inner Model)

Structural model evaluation, also known as the inner model, is conducted to test the relationships between latent variables and assess the predictive ability of the proposed research model. This evaluation stage includes the analysis of the coefficient of determination, effect size, and collinearity testing. The coefficient of determination (R-squared) is used to measure the proportion of variance in the dependent variable that can be explained by the independent variables. The results of the R-squared value testing are presented in Table 8.

Table 8 : R-Square Value

	R-square	R-square adjusted
Customer loyalty	0.719	0.710
Customer satisfaction	0.476	0.465

Source: Primary Data, 2025

The R-squared value indicates that the customer loyalty variable has a value of 0.719, which falls into the strong category. This means that 71.9% of the variation in customer loyalty can be explained by the service quality, price fairness, and customer satisfaction variables in the research model, while the remaining 28.1% is influenced by other factors outside the model. Meanwhile, the customer satisfaction variable has an R-squared value of 0.476, which is in the moderate category.

This indicates that 47.6% of the variation in customer satisfaction can be explained by service quality and price fairness, while the remaining 52.4% is influenced by other variables not examined in this study. Effect size analysis using f-square values was conducted to assess the relative contribution of each independent variable to the explanatory power of the dependent variable. Based on interpretation criteria, an f-square value of 0.02 indicates a small effect, 0.15 indicates a medium effect, and 0.35 indicates a large effect. The results of the f-square test are presented in Table 9.

Table 9 : f-square

	Customer loyalty	Customer satisfaction
Customer loyalty		
Customer satisfaction	0.693	
Price fairness	0.004	0.139
Service quality	0.159	0.276

Source: Primary Data, 2025

The results of the f-square analysis show that customer satisfaction has a very strong influence on customer loyalty ($f^2 = 0.693$), thus playing a dominant role in increasing customer loyalty at Hotel Mexolie Kebumen. Service quality shows a moderate influence on customer satisfaction ($f^2 = 0.276$) and customer loyalty ($f^2 = 0.159$), confirming its important role in shaping customer satisfaction and loyalty. Meanwhile, price fairness has a small influence on customer satisfaction ($f^2 = 0.139$) and a very weak influence on customer loyalty ($f^2 = 0.004$), indicating that price fairness plays a more indirect role thru customer satisfaction. Overall, these findings confirm the position of customer satisfaction as a crucial mediating variable in the relationship between service quality, price fairness, and customer loyalty.

Collinearity assessment was conducted using the Variance Inflation Factor (VIF) to detect potential multicollinearity issues between independent variables. VIF values below the threshold of 5.0 indicate that there is no problematic multicollinearity in the research model. The results of the VIF value testing are presented in Table 10.

Table 10 : Variance Inflation Factor (VIF)

	Customer loyalty	Customer satisfaction	Price fairness	Service quality
Customer Loyalty				
Customer satisfaction	1.909			
Price fairness	1.641	1.441		
Service quality	1.838	1.441		

Source: Primary Data, 2025

The test results show that price fairness and service quality each have a VIF value of 1.441, which is far below the threshold of 5, indicating no multicollinearity in predicting customer satisfaction. Furthermore, customer satisfaction has a VIF value of 1.909, while price fairness and service quality each have VIF values of 1.641 and 1.838 in predicting customer loyalty. All of these VIF values are below the recommended limit, confirming that there is no multicollinearity issue among the predictor variables. Thus, the structural model in this study can be stated to be free from multicollinearity and suitable for reliably testing the relationships between variables.

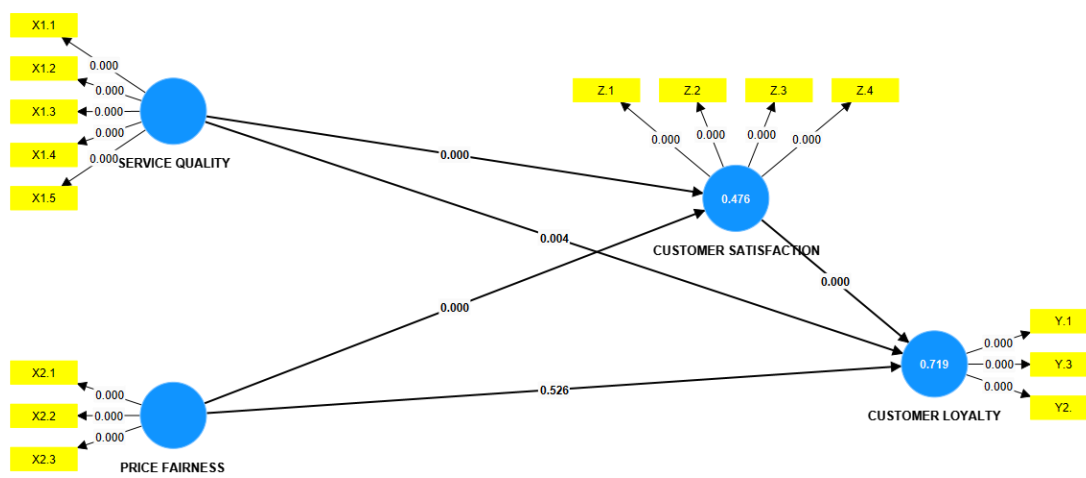


Figure 2 : Graphical Output Bootstrapping

Hypothesis Testing

Hypothesis testing in this study was conducted using the bootstrapping procedure with 5,000 subsamples through SmartPLS software version 4. This approach is used to assess the statistical significance of both direct and indirect relationships between latent variables. The decision-making criteria are based on a p-value < 0.05 and a t-statistic value > 1.96 for a two-tailed test, indicating a significant effect. Direct effect testing is conducted to evaluate the causal relationships between constructs in the structural model. The results of the direct effect analysis, as presented in Table 11, indicate that most of the proposed hypotheses are statistically supported.

Table 11 : Results of Direct Effect Testing (Path Coefficients)

	Path Coefficients	T-Statistic	P-Value	Status	Conclusion
CS->CL	0.610	6.349	0.000	Significant	Accepted
PF->CL	0.238	2.911	0.004	Significant	Accepted
PF->CS	0.324	3.487	0.000	Significant	Accepted
SQ->CL	0.564	5.747	0.000	Significant	Accepted
SQ->CS	0.456	4.566	0.000	Significant	Accepted

Source: Primary Data, 2025

The results of the direct effect testing show that all the hypotheses proposed in this study are accepted. Customer satisfaction is proven to have a positive and significant influence on customer loyalty, as indicated by a p-value of 0.000 with strong statistical support. Additionally, price fairness also has a positive and significant influence on customer loyalty with a p-value of 0.004.

Furthermore, price fairness was found to have a positive and significant impact on customer satisfaction with a p-value of 0.000. Similarly, service quality showed a positive and significant influence on customer loyalty and customer satisfaction, with p-values of 0.000 for each. The results of the specific indirect effect analysis are presented in Table 11.

Indirect effect testing was conducted to assess the mediating role of customer satisfaction in linking the independent variables with the dependent variable, namely customer loyalty. The results of the indirect effect analysis are specifically presented in Table 12.

Table 12 : Results of Indirect Effect Testing (Specific Indirect Effects)

	Path Coefficients	T-Statistic	P-Value	Status	Conclusion
PF->CS->CL	0.197	2.932	0.003	Significant	Accepted
SQ->CS->CL	0.278	3.996	0.000	Significant	Accepted

Source: Primary Data, 2025

Analysis of indirect effects showed that both mediation hypotheses were statistically supported. Customer satisfaction was found to significantly mediate the relationship between service quality and customer loyalty, indicating that improving service quality can increase customer loyalty by enhancing customer satisfaction. Additionally, customer satisfaction also significantly mediates the relationship between price fairness and customer loyalty.

The relatively high coefficient values for the indirect effect and the significant t-statistic values confirm that service quality and price fairness consistently contribute to shaping customer loyalty by first increasing customer satisfaction. Overall, these findings affirm the important role of customer satisfaction as a mediating variable through which service quality and price fairness indirectly influence customer loyalty.

DISCUSSION

The results of this study indicate that service quality has a positive and significant effect on customer satisfaction, suggesting that hotels that deliver superior service aligned with guest expectations can enhance satisfaction levels. Service quality is defined as the ability of service providers to consistently meet or exceed customer expectations, which leads to positive disconfirmation and heightened satisfaction (Ramasamy et al., 2024; Agarwal & Dhingra, 2023; Abdullah et al., 2023). This finding aligns with previous research in the hospitality industry, confirming that well-managed service processes and competent staff performance directly influence guests' perceived satisfaction (Ahmed et al., 2023; Perdomo-Verdecia et al., 2024). The theoretical perspective of Expectation Disconfirmation Theory (EDT) explains that when service performance meets or exceeds expectations, customers experience positive disconfirmation, which enhances their overall satisfaction. Integrating service management education and employee training into operational practices further strengthens service quality outcomes.

Price fairness also significantly affects customer satisfaction, highlighting the importance of perceived fairness in pricing decisions. Fair pricing occurs when customers consider prices reasonable relative to the service received, producing positive emotional responses and reinforcing satisfaction (Chen et al., 2023; Konuk, 2023; Al-Hyari et al., 2023). Guests who perceive that they receive value commensurate with the price paid tend to be more satisfied, reflecting the role of cognitive and affective evaluations in shaping perceptions (Gazi et al., 2025; Phi & Huong, 2023). EDT provides a useful lens here, showing that alignment between expectations and actual pricing experience generates positive disconfirmation, which increases satisfaction. These findings underscore the need for transparent and consistent pricing policies in hospitality, both for direct bookings and through online channels.

Customer satisfaction was found to positively influence customer loyalty, indicating that higher satisfaction levels increase the likelihood of repeat visits and positive recommendations. Satisfaction reflects the evaluation of the gap between perceived performance and expectations (Hien et al., 2024; Tedjokusumo & Murhadi, 2023). In the hospitality context, loyal customers are more likely to engage in repeat bookings and promote the hotel through word-of-mouth, enhancing long-term revenue potential (Prum et al., 2024; PJ et al., 2023). EDT explains this relationship by emphasizing that positive disconfirmation, achieved when service experiences surpass expectations, strengthens customer attachment and commitment. Consequently, hotels must maintain consistent service quality and employee performance to foster enduring loyalty.

Furthermore, both service quality and price fairness have direct effects on customer loyalty, emphasizing their combined importance in sustaining long-term customer relationships. Superior service quality creates value that customers recognize, leading to loyalty, while fair pricing enhances trust and repeat purchase intentions (Abdullah et al., 2023; Ahmed et al., 2023; Al-Hyari et al., 2023). Customers who perceive fair prices and experience high-quality service develop stronger emotional and cognitive connections with the hotel, which are key predictors of loyalty (Gazi et al., 2025; Perdomo-Verdecia et al., 2024). Hotels that integrate employee training, service excellence practices, and transparent pricing can achieve competitive advantage and increase customer retention in an increasingly competitive market.

Finally, customer satisfaction was confirmed as a mediating variable between both service quality and price fairness on customer loyalty. This indicates that service improvements and fair pricing first enhance satisfaction, which subsequently strengthens loyalty (Chandra, 2023; Prum et al., 2024; Konuk, 2023). Satisfaction acts as a psychological mechanism bridging operational practices and behavioral outcomes, consistent with EDT (Ramasamy et al., 2024; Tedjokusumo & Murhadi, 2023). The practical implication is clear: hospitality managers should focus on training programs, consistent service quality, and transparent pricing to enhance satisfaction and cultivate loyal guests. This integrated approach ensures that service quality and pricing strategies jointly drive sustainable loyalty while enhancing customer experience in the hospitality industry.

CONCLUSION

The key insight from this study is that customer loyalty in the hospitality industry is shaped not only by service quality and price fairness individually, but primarily through customer satisfaction as a mediating mechanism. Service quality and fair pricing alone are insufficient to drive loyalty if they are not accompanied by high levels of satisfaction. Within the framework of Expectation

Disconfirmation Theory (EDT), loyalty emerges when customer experiences meet or exceed expectations, generating positive disconfirmation that strengthens satisfaction and encourages repeat visits. Practically, this highlights the importance for hotel management to maintain consistent service quality, implement transparent and fair pricing strategies, and enhance employee competencies and facility maintenance to ensure that guests perceive optimal value, thereby fostering long-term loyalty.

This study contributes to the academic literature by providing empirical evidence on the central role of customer satisfaction in bridging service quality, price fairness, and customer loyalty. Using SEM-PLS, the research demonstrates a comprehensive model of causal relationships in hospitality settings. However, the study has limitations, including its focus on a single hotel and a cross-sectional design, which restricts the generalizability and temporal insights of the findings. Future research should consider longitudinal studies, comparative analyses across multiple hotels, and additional variables such as trust, perceived value, or brand image to further enrich understanding of customer loyalty formation in the hospitality industry.

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