Covid-19 Pandemic And The Adversity Of Hotel Industry: Relationship Between Service Guarantees On Service Quality Perception And Consumer Perceived Risk

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Abstract: The impact of the Covid-19 pandemic has been significantly felt by many industries, especially the hotel industry in Indonesia. Declining occupancy had been a significant blow to the industry that also has an impact on the company. Therefore, some policies are taken, such as layoff, temporarily operation suspend, or even permanent termination. Even though the Indonesian government has relaxed its social restriction policy, declining occupancy has still occurred. In other words, consumers are still not sure about the implementation of health protocols in public, including hotels. This study investigates consumer perceived risk influenced by service guarantees and service quality perception during the Covid-19 pandemic condition, retrieving research data from 312 starred-hotel consumers in East Java and Bali provinces. The results showed that service guarantees directly and significantly affect service quality perception and consumer perceived risk. However, service quality perception has a direct effect but not significant on consumer perceived risk.

Keywords: Service Guarantees, Service Quality Perception; Customer Perceived Risk; Hotel Industry; Covid-19 pandemic

INTRODUCTION

Beginning of 2020, the whole world, including Indonesia, was shocked by the Covid-19 pandemic, which harmed human health and caused the industrial sector to experience severe financial health crisis and shock, including the hospitality industry (The Jakarta Post, 2020a). The existence of social distancing and travel restriction issued by the government for local communities and also by foreign national condition from visiting Indonesia and vice versa, and also severe concern from communities being exposed to Covid-19 have caused hotels to experience a severe decline in occupancy rates (The Jakarta Post, 2020b). The covid-19 pandemic in Indonesia has been going on for more than a year. It does not sign for any revival of hope in the hotel industry, which remains for many question marks. The hotel industry is still experiencing tremendous uncertainty and risk for its business continuity (Foroudi et al., 2021). The uncertainty about the end of the Covid-19 pandemic leads to communities' concern regarding the potential health risk during their stay at the hotel (JawaPos.com, 2021) and social restrictions imposed by the government more lenient approach (EKONID, 2021). Consumers' perceptions regarding their concerns in the Covid-19 pandemic could also represent the tendency and involvement regarding public understanding in procedures and behaviours in the pandemic condition (Lee & Chen, 2011). The covid-19 pandemic crisis has brought broader ambiguity and negative perceptions toward the hotel industry (Foroudi et al., 2021). Since people are forced to undergo quarantine with mobile restriction, it would develop a different perception of today's world. Therefore, the study regarding consumers' perception of pandemic condition and its implications in the hospitality industry need to be further investigated.

During a purchase decision process, consumers face inherent risks that reflect their uncertainty about consequences and different outcomes during a purchasing process (Bach et al., 2020). This risk includes various components, namely performance; psychological; social; financial; comfort; and physical risk (Kumar & Dange, 2014; Pentz et al., 2020). Consumers tend to use various strategies to reduce those risks (Boutang & De Lara, 2016), including in Covid-19 pandemic condition as today. In the consumer behavior literature, consumer's perceived risk has been defined in many ways. Mehta et al. (2020), for example, argues that the concept of risk has somewhat two different aspects, namely the "change" aspect, which focuses on probability, and the "danger" aspect, which emphasizes the level of negative consequences. Arshad et al. (2015) define consumers' perceived risk as the uncertainty of consumers' perceptions in determining purchasing decisions for a particular product or

service. Meanwhile, in classical decision theory, the risk is often most understood tod as a variation that reflects the distribution of possible outcomes and its subjective values (Parmigiani et al., 2010). The risk could be measured by non-linearity in terms of benefit for money or by various distribution probability of gains and losses associated with a particular alternative (Rieger et al., 2017). Principally, general theory suggests that consumer prefers lower risks that have the least negative consequences, unless with proper consideration of particular factors such as expected values (Rieger et al., 2017).

The phenomenon that describes consumer perceived risk for hotel customers related to health issues while staying at the hotel with social restriction policies should be taken seriously and carefully. This effort also urges consumers to have the courage and confidence to stay at the hotel, helping the hotel regain its resources to operate and lead to better performance improvements fully. There are many ways that hotel management could do in minimizing consumer perceived risk, including through a service guarantee, which is arranged according to the needs and wants of the hotel's prospective customers. Service guarantee aims to reduce the risk level to the point that acceptable by consumers. A hotel service guarantee is offered to maintain consumer expectations related to the hotel and its services (Kennett-Hensel et al., 2012). Many hotels prefer to use price guarantees, such as giving vouchers, discounts, and so on, to attract consumers' attention (Bilotkach & Rupp, 2014). However, during the present pandemic situation, consumers tend to prioritize service guarantees related to health and safety that obtained compared to prices (Auener et al., 2020; Awan et al., 2020).

The service guarantees should also be required to exceed consumer expectations if there is any kind of error during service delivery (service failure). The payout provided will have more value and could also increase the intention to return to the hotel (van Vaerenbergh et al., 2014). Besides, consumers tend to choose a hotel establishment that offers a broader range of guarantees to increase assurance in choosing hotels with good quality services. Conversely, if the hotel provides fewer warranties, it will reduce consumer expectation, which is also relevant to high consumer perceived risk (Crisafulli & Singh, 2016; Sun, 2014). From the consumers' perspective, a service guarantee is considered necessary because its ability to ensure that the services are given will serve consumers' expectations, increasing consumers' confidence in making choices, especially in hotel booking hotels (Hocutt & Bowers, 2005). From the hotel managements' perspective, service guarantee should improve hotels' services to meet consumers' standards and develop marketing efforts to improve consumers' purchasing decisions (Liat et al., 2017; Shin & Kang, 2020).

Apart from service guarantees, service quality perception is also relevant to decreasing consumer perceived risk, especially for hotel consumers during a pandemic situation (Mmutle & Shonhe, 2017). The quality of hotel services is one of the prominent factors in consumer decision related to hotel choices and preferences (Chawla & Sengupta, 2017; Chen & Chen, 2014; Dortyol et al., 2014). A hotel with good service quality could create a positive corporate image among its guests and enhance its overall corporate appearance. Therefore, many hotels do not incur any costs to improve service quality (Chen & Chen, 2014). Service quality perception compares consumers' perceptions toward service provider performance according to their standards or desires (Malik, 2012; Tarigan et al., 2020). Service quality perception results from consumers' previous expectation and actual perception (Chen & Chen, 2014).

Prior studies have been conducted regarding consumer perceived risk, as discussed by previous researchers (Crisafulli & Singh, 2016; Lainamngern & Sawmong, 2019; Sun, 2014; Wu et al., 2012). However, this study intends to investigate the concern level over the risk during staying at the hotel, which is described as consumer perceived risk and the role of service guarantees and service quality as determinant variables in the present situation of Covid-19 pandemic in Indonesia. Specifically, this study develops a theoretical model for the relationship between service guarantees, service quality perception, and perceived consumer perceived risk. Hopefully, the conceptual framework suggested by this research will determine the possibility of effectively reducing consumer perceived risk.

LITERATURE REVIEW

The theoretical basis used in building the conceptual framework model is based on Signaling Theory (Connelly et al., 2011). Consumers demand to get a good quality product or service while making purchases in a consumer behaviour context. On the other hand, the product or service provider will generally promote that the products or services provided are of good quality. Specifically, signalling theory explains that consumers will observe signals during their asymmetric information when consumers do not know its quality or usefulness. The provider tries to convince the quality of the products or services (Connelly et al., 2011). This condition usually occurs when consumers buy products or services that cannot directly be assessed how good the quality, or during their difficulty in determining the quality level of products or services (Mavlanova et al., 2012). Another possibility is that consumers do not know or experience the products or services they bought (Connelly et al., 2011).

Fundamentally, signalling theory helps explain two parties' behaviour when they have access to different information (Mavlanova et al., 2012). Signalling theory is related to asymmetric information reduction between two parties (Connelly et al., 2011). Signalling theory explains when consumers are in asymmetric information

conditions. Consumers tend to depend on general signals to infer how good the quality of the products such as brands (Tsao et al., 2011), prices (Tsao et al., 2011), and third parties' label quality (Brouthers et al., 2008). Another study by Van Vaerenbergh et al. (2014) also uses signalling theory and shows that service guarantees could be a signalling approach of pre-purchase quality. Therefore, this study hypothesizes that service guarantees will affeSignallinge quality perception, reduce consumer perceived risk during the making, and consumers stay at the hotel. This study's signalling theory could explain why the differentiation aspect of service guarantees could affect consumer perceived service quality and consumer perceived risk during the purchasing decision-making process.

Service Guarantees
Service guarantees are an extension of product warranty (McCollough, 2010), which could reduce consumer perceived risk and increase consumer assurance in buying services that might not as expected (Keh & Sun, 2008). Service guarantees could also be interpreted as a reflection of the quality used as a reference for consumers during their assessment progress regarding the quality of the products or services (Hogreve & Gremler, 2009). Companies often use service guarantees as a product marketing strategy (Jin et al., 2016). The company could be concluded that service guarantees are one of the companies' marketing strategies in increasing consumer assurance in product quality. Therefore, having an impact on increasing purchase intensity. In service industries context such as hotels, service guarantees are warranty that offered by the hotels to maintain consumer expectations regarding related hotels (Kennett-Hensel et al., 2012).
The service guarantees offered should equal or exceed consumer expectations, especially if service failure happened. The payout provided will have more value, and it could also increase the intention to return to the hotel (van Vaerenbergh et al., 2014). Consumers must feel service guarantees that the hotel has provided. From the consumers' side, service guarantees should warrant the services provided at least equal to their expectation. Thus, it could affect consumers' assurance in choosing hotels (Hocutt & Bowers, 2005). On the hotels' side, service guarantees should be used as area cover to overcome the problem and increase hotels' services to meet the customers' expectations, especially in marketing efforts to increase buying decisions (Liat et al., 2017; Shin & Kang, 2020).

Service Quality Perception
Service quality perception compares consumers' perception and service providers' performance according to consumers' desires or standards (Malik, 2012). Service quality perception results from consumers' expectation and actual perception (Chen & Chen, 2014). This construct's theoretical development compares the expected service and the provider's existing field service. Customer expectations and the actual service will significantly influence consumers' perception due to consumers' satisfaction with services (Chen & Chen, 2014; Malik, 2012). Based on the description above, service quality perceptions are consumers' descriptions of companies' products or services offered. This perception is a reference for companies in improving quality and efficiency based on consumers' feedback, according to consumers' expectations relevant to customers' satisfaction.
In the hotel industry, service quality is an essential factor in consumers' decision-making, especially in choosing hotels (Chawla & Sengupta, 2017; Chen & Chen, 2014; Dortyol et al., 2014). Hotel with good service quality could create a positive corporate image among its consumers and enhance the overall corporate image. Therefore, many hotels do not require any costs to improve their quality (Chen & Chen, 2014).

Consumer Perceived Risk
Consumer perceived risk is the consumer's perception regarding risk incurred due to the uncertainty outcomes during purchasing decision (Arshad et al., 2015). In general, consumer perceived risk could reduce consumer's satisfaction related to products or services provided by companies (Johnson et al., 2008). information becomes essential for customers in making perceptions so that they become satisfied (Tarigan et al., 2020). Lainamngern & Sawmong (2019) stated that consumer perceived risk indicates consumers' knowledge regarding their needs that shape their expectation related to what extent a service provider will match their expectation. Consumer perceived risk is closely related to consumers' perception regarding adverse outcomes that might be faced (Maziriri & Chuchu, 2017). Therefore, consumers need to find a solution to reduce their concern of risks during buying decision processes related to products or services. Regarding this theory, the decision-maker tends to prefer minor adverse outcomes unless there is additional consideration regarding other factors such as expected values (Rieger et al., 2017).

Hypotheses Development
Parmigiani et al. (2010) conclude that service only provides a little explanation regarding the actual service before making a purchase decision. According to signalling theory, some consumers might not have sufficient information or experience regarding products or services they will buy (Connelly et al., 2011). The company's job to provide service guarantees to reduce any risks that might happen. Service guarantees are considered an

extension of product warranty that could help consumers reduce their perceived risk and increase their assurance toward future services (Keh & Sun, 2008). In other words, service guarantees are necessarily provided to reduce consumer perceived risk (Wirtz et al., 2015).

Hypothesis 1: Significantly, service guarantees affect negatively consumer perceived risk

Consumers' perception that reflects service quality could be effectively initiated through service guarantees deliverance (Jin et al., 2016). Thus, service guarantees could be interpreted as a reflection of the quality used as consumers' reference in assessing products or services quality (Hogreve & Gremler, 2009). Conversely, the company's poor reputation might affect consumers' trust level, affecting consumer perceived quality. Hence, service guarantees are required to increase service quality perception (Wirtz et al., 2015).

Hypothesis 2: Significantly, service guarantees affect positively on service quality perception

Lainamngern & Sawmong (2019) argues that consumer perceived risk reduction is significantly affected by service quality perception. Moreover, a study by Lainamngern & Sawmong (2019) empirically supports that the higher perceived quality perception, it will reduce consumer perceived risk (Boutang & De Lara, 2016).

Hypothesis 3: Significantly, service quality perception affects negatively consumer perceived risk.

RESEARCH METHODOLOGY

The research framework is tested using starred hotels' consumer in East Java province and Bali province due to the number of starred hotels. East Java and Bali are considered to have large hotel establishments and diverse tourism potential, which is regarded as suitable to collect data samples. This research used large data samples to strengthen generalization for the result. Data samples are collected from October 2020 until January 2021 (4 months in total) from starred hotels' consumers to describe the actual perception, especially during the Covid-19 pandemic condition. The questionnaire is provided in Indonesian due to the initial questionnaire was conducted in English. An interpreter expert worked the translation process to form the final questionnaire (Boeije & Willis, 2013). The questionnaires were distributed online through email or social media platform (WhatsApp, LINE, and Instagram) personally or collectively through a social media group. In total, 433 questionnaires were collected, but after further check, only 312 questionnaires (72.1%) were eligible to proceed using SmartPLS 3.0. The data respondent indicates that from the total of 312 respondents, 59% are male consumers and the rest are women; the majority age, ranging from 17 to 59 years old; the respondents have various employment such as students (14%), government employees (27%), private employees (41%), and self-employed (18%). During pandemic period, 44% of respondents had stayed in East Java province, and 49% had stayed in Bali province, and the remaining 7% had stayed in both. This study uses validated measurement items from previous studies and literature measured on a 5-point Likert scale. Service guarantees are measured by eight-item indicators adopted from Fabien (2005). These indicators include "offered unconditionally, transparent, credible, focused on key features of service, supported by significant compensation, easy to understand and communicate, easy for consumers to invoke, and easy to implement". Service quality perception is measured based on Yarimoglu (2014) to evaluate consumers' feeling about hotels' services. The indicators are trustworthiness, reliability, satisfaction, and overall quality perceived by consumers. Furthermore, consumer perceived risk is measured by 4 item indicators adopted from Bertea (2010), including performance risk, financial risk, psychological risk, and social risk.

RESULT

Convergent validity could be check by loading factor value for each indicator ranging from 0 to 1, composite reliability (CR) and average variance extracted (AVE) (Hair et al., 2016). AVE's value should greater than 0.50 to be considered valid (Hair et al., 2016; Henseler et al., 2009). From Table 1, all indicators' loading factor value in service guarantees, service quality perception, and consumer perceived risk is more than 0.7; hence, it could be considered valid.

Table 1. Loading Factor

Service guarantees				Service quality perception		Consumer perceived risk	
Sg1	.711	Sg5	.768	Sqp1	.768	Cpr1	.768
Sg2	.784	Sg6	.771	Sqp2	.864	Cpr2	.790
Sg3	.770	Sg7	.775	Sqp3	.739	Cpr3	.802
Sg4	.733	Sg8	.803	Sqp4	.755	Cpr4	.794

The value of composite reliability (CR) in-service guarantees, service quality perceptions, and consumer perceived risk constructs are more than 0.6 (see Table 2). Consecutively, composite reliability (CR) value for all the three constructs are high enough 0.918, 0.854 and 0.868. The composite reliability (CR) values indicated that the reliability requirement is considered reliable.

Table 2. Composite Reliability

	CR
Service guarantees	.918
Service quality perception	.854
Consumer perceived risk	.868

The phase's focus is hypothesis testing through estimation value of path coefficients, t-statistic and p-value (Hair et al., 2016). Based on hypothesis testing in Table 3, only two hypotheses (hypothesis 1 and hypothesis 2) are supported by the proposed three hypotheses. However, hypothesis 3 is not supported due to low p-value > 0.05 or t-statistic value < 1.65 (1-tailed).

Table 3. Uji hipotesis

Hypotheses	Original Sample	t-statistic	p-value	Note
Hypothesis 1	(.393)	2.745	.006	Supported
Hypothesis 2	.662	11.514	.000	Supported
Hypothesis 3	(.104)	.761	.447	Not Supported

DISCUSSION

Partially, the results indicate that service guarantees provided by the management effect reducing consumer perceived risk. This result follows the study by Lainamngern & Sawmong (2019), which states that service guarantees could reduce consumers' uncertainty. Thus, it could also lower consumer perceived risk. During the purchasing decision making process, consumers tend to use various strategies to reduce risk (Boutang & De Lara, 2016). With the presence of service guarantees, it could help to reduce consumer perceived risk as "pre-planned" safety recovery plan is conducted in its effort to recover in case of failure or whether it is not equal with expectation (Eman et al., 2018). The existence of service guarantees could affect the lack of uncertainty felt by the consumers to choose a suitable hotel. It could overcome the lack of information which could worsened consumers' risks during their stay at the hotel, as described by the concept of signalling theory. Therefore, the procure of service guarantees during the present pandemic era, including implementing health protocols, should be continued. Moreover, the hotel's management should publicly its strategy in various form of marketing efforts, either directly or through third party such as travel agents.

This study also shows the effect of service guarantees to increase consumers' service quality perception. The result is also consistent with the previous studies by Wu et al. (2012). Service guarantees are considered one of the evaluation criteria before making a buying decision (Jin et al., 2016). The existence of service guarantees by the hotel's management has proven to be a differentiator. It provides its value during the hotel selection process to reflect the hotel's quality (Shahril et al., 2013). Decision-making of service guarantees should become a benchmark for hotel management in repairing its service failures and provide an opportunity for the hotel to convince its consumers (van Vaerenbergh et al., 2014).

Finally, t finds that service quality perceptions do not significantly affect consumer perceived risk. This result contradicts several previous studies; service quality perception strongly influences purchasing decision-making by the consumers (Cworsenen, 2014) and reduces consumer perceived risk (Boutang & De Lara, 2016). The result is considered reasonable due to the Covid-19 pandemic situation in which consumers are highly concerned regarding staying at hotels. Consumers tend to prioritize their health and safety instead of hotel service quality as the primary concern. If the hotel is deemed capable of providing assurance, for example conducting and implementing health protocols with standard compliance, it should be felt directly by consumers. The consumers are also totally aware that during the pandemic situation, many hotels have reduced their staff. This kind of policy is likely to affect hotel service quality.

CONCLUSION AND RECOMMENDATIONS

The covid-19 pandemic situation has caused the hotel industry to experience a prolonged downturn, requiring a fast-moving transition and adoption fo accurate strategies in the new normal situation. The Covid-19 pandemic causes situation and condition tho shrouded in a high uncertainty that could threaten consumers' perceptions, future expectations, and consumers' spending. Based on relevant literature, this study provides a new understanding of the perceived risks by hotels' consumers regarding health and safety factors for travelling and staying at hotels. The results showed that adequate service guarantees were able to minimise consumers' risk perceptions. Service guarantees could also have an impact on consumer service quality perception. However, service quality perception could not affect consumer perceived risk. Although many efforts have been made to make it a rigorous study, this study still has limitations. Firstly, the study is conducted based on five-starred hotels' consumers who have stayed in East Java and Bali provinces. Thus, it could constraint the generalizability of the results. Secondly, this study does not emphasize the differentiation of guarantees provided by the hotels to

simplify consumers' evaluation. Many kinds of service guarantees can create different effects on service quality perception and consumer perceived risk. Service guarantees are viable for future study to explore further the relationship between service quality perception and consumer perceived risk.

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