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The influence of relationship quality and switching costs on customer Loyalty in the Malaysian Hotel Industry

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Abstract

The intense competition among hotels in Malaysia means that there is a larger demand for service outsourcing. Hotels are now exposed to a wider choice of service providers that are willing to provide services. As a result, hotel managements are more inclined to switch to other service providers if the current service providers are unsatisfactory. This paper aims to investigate the effect of relationship quality and switching costs on business customer loyalty from the customers' perspective in the context of hotel service outsourcing. This study is important considering the economic advantages of retaining current customers as opposed to searching for new customers. Partial Least Squares was adopted as the data analysis methodology. Results of the study show that relationship quality positively and significantly influences customer loyalty. However, switching costs does not influence customer loyalty.

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1. Introduction

Customer loyalty has currently become one of the greatest concerns to researchers in the business-to-business relationship (B2B) (Hennig-Thurau et al., 2002; Athanasopoulou, 2009). Securing and increasing current customer loyalty emerges as an important marketing issue due to the economic advantages of retaining existing customers as opposed to searching for potential customers. Increasing market competition in the hotel industry has forced hoteliers to work harder to remain competitive by competing to get more hotel guests. However, faced with high fixed costs hoteliers have to outsource their operations to reduce the internal costs (Lam and Han, 2005). By outsourcing, hotels may focus on their core competence and reduce internal costs and this will improve hotels' performance (Donada and Nogatchewsky, 2009).

The intense competition among hotels in Malaysia means that there is a larger demand for outsourcing. Business customers are now exposed to a wider choice of firms that are willing to provide services to them. This makes them

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more inclined to switch to other service providers. For service providers that want to pursue sustainability, it is necessary for them to understand the nature of their customers in order to maintain customer loyalty. Anderson and Srinivasan (2003) claimed that a well-established firm may collapse without customer loyalty. In this sense, customer loyalty should be regarded as a long term-term investment for the service providers. In order to develop a loyal customer base, service providers should maintain their relationships with their business customers. Rauyruen and Miller (2007) found that the quality of B2B relationships is important in securing customer loyalty. Lam et al. (2004) and Ranaweera and Preabhu (2003) claimed that another common strategy that can increase customer loyalty is to increase the switching costs. The high costs of switching to other service providers function as barriers to using these service providers. With the exception of a study conducted by Lam et al. (2004) that investigated the impact of satisfaction and switching costs on loyalty, studies that have investigated the impact of relationship quality (as a higher order construct) and switching costs on customer loyalty in the B2B context are limited. Moreover, to the best of our knowledge no research has empirically investigated these constructs in a single framework. Therefore, the objective of this study is to investigate the influence of relationship quality and switching costs on business customers' loyalty in the context of outsourcing operations in the Malaysian hotel industry. Understanding how relationship quality and switching costs relate to customer loyalty can assist service providers to monitor and enhance customer loyalty effectively.

2. Research context and research model

2.1. Customer Loyalty

While there are various definitions of loyalty, the most common definition of loyalty is given by Oliver (1997). According to this author loyalty is “a deeply held commitment to rebuy or repatronise a preferred product or service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing, despite situational factors that may cause switching behavior” (p. 372). Consistent with the aim of developing long-term relationships with the service provider, this study based the definition of customer loyalty as that put forward by Oliver (1997). Various authors have found that increase in customer loyalty will increase profits, reduced costs to acquire new customers, and decrease costs to serve current customers (Reichheld and Sasser, 1990). The increasing competition, particularly in the service industry, has caused firms to become very concerned in attracting potential customers and trying to maintaining long-term relationships with their current customers (Jamil and Aryaty, 2010).

2.2. Relationship Quality

Relationship quality was found to be an important factor in maintaining and developing successful business-to-business relationships (Rauyruen and Miller, 2007). Although there is, as yet, no clear consensus in the literature on the sets of dimensions that comprise the construct of relationship quality (Hennig-Thurau et al. 2002; Athanasopoulou, 2009), extant literature has found that trust, commitment, and satisfaction are the core dimensions of relationship quality (Hennig-Thurau et al., 2002). This study views relationship quality as a higher order construct that consists of three dimensions: trust, commitment, and satisfaction, as suggested by Hennig-Thurau, et al. (2002). According to Crosby et al. (1990), customers that trust the service providers are more likely to repurchase and stay with the same service provider. Good relationship quality means that the travel retailers are satisfied with their relationships with the wholesalers and this would lead to long-term relationships and higher purchase volume (Tsaor et al., 2006). A positive significant effect of relationship quality was found on e-loyalty in search, experience, and credence goods/services (Lin and Chung, 2008) and commercial ISP customers (Sanchez-Franco et al. 2009). Therefore, based on the above arguments and empirical evidence, it is posited that:

H1: There is a positive significant relationship between relationship quality and loyalty.

2.3. Switching Costs

Gremler and Brown (1998) defined switching costs as the investment of money, time, and effort that increase the difficulty of switching from one partner to another and may be an effective tool in retaining customers (Ping 1993). Fornell (1992) claimed that switching costs affected repurchase intentions, whereby the customer placed higher value on existing relationships when switching costs are higher. Lam et al. (2004) provide empirical evidence on the

significant positive effect of switching costs on customer loyalty in the context of B2B relationships. Based on the above arguments and empirical evidence, the following hypothesis is posited:

H2: There is a positive significant relationship between switching costs and loyalty.

Figure 1 shows the research model for examining the relationship between relationship quality, switching costs and loyalty.

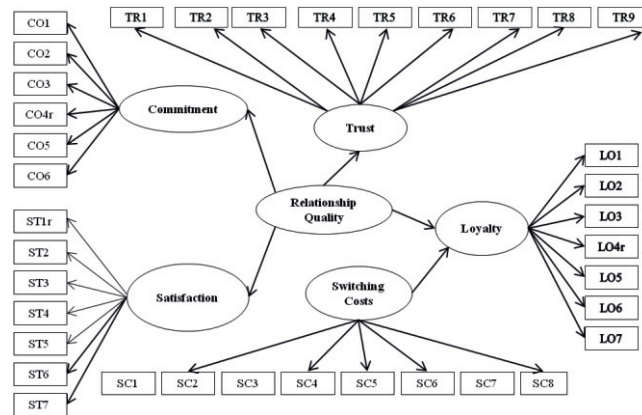


Figure 1 Research Model

3. Research method

The sample in this study consists of 151 hotel managers from 1 to 5 Star hotels in Peninsular Malaysia that are involved in outsourcing. Since there is no available list of hotels that outsource their operations, we used a non-probability sampling of purposive sampling, whereby questionnaires were sent to all 583 hotels in the database obtained from the Ministry of Tourism Malaysia. Those hotels that did not outsource were excluded from the sample. Two hundred sixty-five hotel managers returned the questionnaire, with 90 hotels informing the researcher that they were not involved in any outsourcing activity. From the 175 returned questionnaires, 16 were unusable. Therefore, the response rate for this study is 32.25 percent. After treating for outliers, 8 respondents were deleted from the analysis.

The constructs in this study were measured using multiple-item scales that were adapted from previous studies and were modified to suit the research context. With the exception of demographic variables, all other variables in this study were measured using a seven-point Likert scale ranging from “strongly disagree”, 7 to “strongly agree”, 1. Partial Least Squares using *SmartPLS* software (Ringle, Wende and Will, 2005) was used to analyze the data.

3.1 Assessment of goodness of measures

Convergent validity, discriminant validity, and reliability measure the goodness of the items and they will be assessed before testing the hypotheses. Convergent validity refers to the extent to which the items measuring the same concept are in agreement (Ramayah et al. 2011). According to Hair et al. 2010, convergent validity can be assessed by using factor loadings, average variance extracted (AVE), and composite reliability (CR). Table 1 shows the loadings for all items that exceeded the recommended value of 0.5 (Hair et al. 2010). The AVE is in the range of 0.544 and 0.721. The AVE measures the variance captured by the indicators relative to measurement error, and it should be greater than 0.5 to justify using a construct (Barclay et al. 1995). The CR values for all constructs are above 0.7 as suggested by Fornell and Larcker (1981) indicating an adequate level of convergent validity.

Discriminant validity refers to the degree to which items measure different concepts. It can be assessed by examining whether items were loaded strongly on their own constructs in the model. In addition, the AVE shared between each construct and its measures should be greater than the variance shared between the construct and other constructs (Ramayah et al. 2011). Table 2 shows the correlations for each construct are less than the square root of the AVE of the constructs, indicating adequate discriminant validity.

The Cronbach’s alpha coefficient and CR are used to assess the inter-item consistency of the measurement model. From Table 1, all alpha values are above 0.6 as suggested by Nunnally and Bernstein (1994). The CR values

ranged between 0.803 and 0.916, which is greater than 0.7, and these values are considered acceptable by Fornell and Larcker (1981). Therefore, we can conclude that the measurement model is valid and reliable.

3.2 Assessment of second-order constructs

In this study, relationship quality is specified as a second-order reflective construct that comprises three first-order reflective constructs (trust, commitment, and satisfaction). The degree of explained variance (R^2) of relationship quality is reflected in its dimensions: trust (87.4 percent), commitment (66.5 percent), and satisfaction (81.1 percent). According to Cohen (1988), R^2 values of 0.26 and above are considered substantial. All the path coefficients from relationship quality to its dimensions are greater than 0.10 and significant at $p < 0.01$. The AVE and CR values are 0.50 and 0.950, respectively. The value of AVE is equal to the cut-off value of 0.5 suggested by Hair et al. (2010), while the value of CR is considered acceptable by Fornell and Larcker (1981).

Table 1. Results of the Measurement Model

Construct	Items	Loading	Composite Reliability ^a	Cronbach's Alpha	AVE ^b
Commitment	CO1	0.822	0.867	0.803	0.572
	CO2	0.844			
	CO3	0.867			
	CO5	0.601			
	CO6	0.598			
Loyalty	LO1	0.887	0.885	0.805	0.721
	LO2	0.867			
	LO3	0.790			
Switching costs	SC1	0.590	0.892	0.857	0.544
	SC2	0.647			
	SC4	0.817			
	SC5	0.799			
	SC6	0.786			
	SC7	0.811			
	SC8	0.678			
Satisfaction	ST2	0.825	0.935	0.916	0.706
	ST3	0.886			
	ST4	0.908			
	ST5	0.815			
	ST6	0.757			
	ST7	0.839			
Trust	TR1	0.793	0.928	0.912	0.589
	TR2	0.823			
	TR3	0.785			
	TR4	0.842			
	TR5	0.757			
	TR6	0.744			
	TR7	0.738			
	TR8	0.670			
	TR9	0.742			

^a Composite reliability (CR) = (square of the summation of the factor loadings) / {(square of the summation of the factor loadings) + (square of the summation of the error variances)}

^b Average variance extracted (AVE) = (summation of the square of the factor loadings) / {(summation of the square of the factor loadings) + (summation of the error variances)}

Table 2. The results of discriminant analysis

Construct	Commitment	Loyalty	Satisfaction	Switching costs	Trust
Commitment	0.756				
Loyalty	0.623	0.849			
Satisfaction	0.635	0.774	0.840		
Switching costs	0.406	0.284	0.238	0.738	
Trust	0.676	0.609	0.749	0.274	0.768

Diagonals (in bold) represent the square root of average variance extracted while the other entries represent the correlations.

4. Results

In Table 4 the results give a t-value of 0.732 from relationship quality to loyalty. Thus, we find support for H1. The results show that relationship quality has a positive impact on customer loyalty and explain 56 percent of its variance. However, H2 is not supported. Switching costs do not have any significant impact on customer loyalty.

Table 3. The results of the structural model

Hypothesis		Beta	Std Error	t-value	Decision
H1	Relationship Quality → Loyalty	0.732	0.049	14.894	Supported*
H2	Switching costs → Loyalty	0.048	0.060	0.792	Not Supported

*p<0.01

5. Discussion

The research findings indicate that relationship quality is a powerful predictor of business customer loyalty in the context of hotel outsourcing, thus supporting past research. However, contradictory with past studies, switching costs does not have any significant impact on loyalty. In terms of practice, the results of this study support the importance of relationship quality in increasing customer loyalty. Overall, to maintain customer loyalty to the service provider, it is recommended that a service provider enhance all three aspects of relationship quality which are trust, commitment, and satisfaction.

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