THE INFLUENCE OF RELATIONSHIP QUALITY ON CUSTOMER LOYALTY IN THE CONTEXT OF OUTSOURCING RELATIONSHIPS IN THE MALAYSIAN HOTEL INDUSTRY

Maria Abdul Rahman* and Yusniza Kamarulzaman**

Abstract: Securing loyalty and creating long-term relationships with existing customers has emerged as an important marketing agenda to service providers. It is more cost effective to re-market to the existing customers rather than attract, educate, and convert new ones. Thus, customer retention has been suggested as an easier and more reliable source of superior performance and long-term profitability. The increase in competitions in the hotel industry has made it crucial for service providers to retain the customers as well as the personnel. There are customers who remain loyal because of the value received from the services or high quality relationships demonstrated by the service providers. While relationship quality has been identified as an important predictor of customer loyalty, perceived value is also likely to influence customer loyalty. However, limited research has been conducted and minimal attention has been given to the relationships between perceived value, relationship quality, and customer loyalty in the context of outsourcing relationship. Therefore, this study intends to investigate the influence of perceived value and relationship quality on customer loyalty in the context of outsourcing relationships in the Malaysian hotel industry. Results of the study show that relationship quality mediates the relationship between perceived value and customer loyalty.

Keywords: Relationship quality, outsourcing, hotel industry, perceived value, Partial Least Squares

INTRODUCTION

Business-to-business (B2B) relationships are one of the areas that has been addressed frequently, and gained the interest of marketing practitioners and academics. While research in B2B relationships has concentrated on various areas, customer loyalty has caught the interest of researchers, and has currently becoming one of the greatest concerns to researchers (Caceres and Paparoidamis, 2007; Athanasopoulou, 2009). Customer loyalty in B2B relationships is just as important as business-to-customer (B2C) relationships. In B2B relationships, service providers

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* School of Business Management, College of Business, Universiti Utara Malaysia 604-9287483, E-mail: maria@uum.edu.my

** Faculty of Business and Accountancy, Universiti Malaya 603-7967915, E-mail: yusniza@um.edu.my
have the advantage of gaining higher profitability, since B2B customers spend larger amounts on purchases and services than retail users. Hence, high level of B2B customer loyalty has become the focus of most firms and service providers. Thus, investigating factors that influence B2B customers’ loyalty need to be further sustained and continued.

The increase in competition between hotels, as well as between emerging and new tourist destinations, and increase in costs have made hotels rethink their competitive strategies to survive in the business environment. Faced with high levels of fixed costs, hoteliers have opted to outsource their activities to external service providers (Lam and Han, 2004). In an outsourcing relationship, a company contracts-out to a third-party supplier, who, in exchange, provides and manages assets and services for monetary returns over an agreed time period (Kern and Willcox, 2001). The B2B customers set performance standards and have the power to terminate the service providers. In this respect, the profitability and image of the B2B customers are dependent on the effectiveness and the success of the service providers.

The intense competition among hotels leads to a larger demand for outsourcing. B2B customers (i.e. hotels) are now exposed to a larger number of service providers. As a result, they are free to switch to other service providers that are willing to provide better services to them. Previous researched on B2B relationship have never captured the gap in outsourcing relationship, practically nothing has been published about outsourcing relationship in Malaysia. Except for prior studies by Donada and Nogatschewsky (2009), Beatson et al., (2009), and Farn and Huang (2009), researches that have examined customer loyalty towards their service providers in the context of outsourcing is limited. The majority of studies on outsourcing focused on outsourcing success (Lee and Kim, 1999) and partnership (Grover et al., 1996). Despite of the rise in popularity of outsourcing as a business strategy, Lamminmaki (2003) noted there is limited prior research concerned with outsourcing relationships.

Past literatures have stressed the importance of perceived value and relationship quality in determining customer loyalty. Several studies had been found to use relationship quality as a mediating variable in their models (Crosby et al., 1990; Kim et al., 2001; Woo and Ennew, 2004; Lin and Ding, 2005; 2006; Zhang et al., 2011). While relationship quality has been identified as an important predictor of customer loyalty, perceived customer value, is also likely to influence customer loyalty (e.g., Anuwhichanont and Mechinda, 2009; Moliner et al., 2007). The effect of perceived value on customer loyalty is quite apparent and has been proven by several studies in the B2C markets (Yang and Patterson, 2004). However, studies focus on the relationship between perceived value and customer loyalty in the B2B market is quite limited. Given the considerable interest in perceived value, it is crucial to determine the contribution of perceived value to customer loyalty in the B2B settings. In addition, study that was conducted to investigate the mediating
effect of relationship quality on the link between perceived value and loyalty is limited (Maria, 2014). To fill the gap, there is a need to study this relationship.

In the context of hotel services outsourcing, where two parties are involved in complex transactions, further investigations may be useful to gain better understanding of the reasons for the B2B customers to remain loyal to the existing service providers, or switch to alternative service providers. Therefore, in this present study, perceived value and relationship quality as the important sources of customer loyalty will be investigated. This study seeks to understand how the variables of perceived value and relationship quality explain customer loyalty in the context of outsourcing relationships in the Malaysian hotel industry.

LITERATURE REVIEW

Customer loyalty

Loyalty has been defined in various ways by different authors. The most common definition of customer loyalty is given by Oliver (1997, p. 392) as “a deeply-held commitment to rebuy or repatronize 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 behaviour”. In other words, it refers to the buyers’ overall attachment or strong intentions to stay with an organization or continue buying a product, service, or brand. Customer loyalty can be reflected in various positive behaviours including repeat purchase and willingness to recommend the service provider to other customers (Lam et al., 2004). By retaining current customers, service providers may gain benefits and economic advantages, including increasing profits, reducing costs to acquire customers, and lowering customers’ price sensitivities (Hallowell, 1996). Thus, customer retention has been suggested as an easier and more reliable source of superior performance and long-term profitability (Reichheld and Sasser, 1990).

Perceived Value and Relationship Quality

The ability to deliver superior value to customers proves that a firm has successful competitive strategies that enable the firm to survive and compete in the market. Superior customer value is considered to be one of the most important tools to maintain customer loyalty that leads to the success of the firm (Wang et al., 2004). This study follows the concept of perceived value as a multidimensional construct by Woodruff (1997), Sweeney and Soutar (2001) and Sanchez et al., (2006). This approach has gained popularity due to its ability to overcome the excessive concentration on economic utility from the traditional benefit-sacrifice approach (Sanchez et al., 2006). Moreover, a multidimensional scale can overcome the validity problem by operationalizing perceived value into several components (Chen and Chen, 2009).
This study combined the dimensions of perceived value by Sweeney and Soutar (2001) and Petrick (2002) and came out with five dimensions, which are the perceived service benefits, emotional value, social value, value for money, and image. According to Whitaker et al. (2007), service benefits are related to the perceived performance or utility of the products or services (e.g., the ability of the services provided by the service providers to fulfil the requirements of the customer firms). Emotional value refers to the benefits obtained from a service’s ability to arouse feelings and/or affective states. Social value refers to the benefits derived through interpersonal and group interaction. Value for money is related to the price paid, time, and effort to maintain relationships with the business partners. Image refers to benefits derived from the relationship with business partners and it also relates to the service provider’s reputation in the market.

Based on a quantitative study among purchasing managers in the manufacturing industry, Ulaga and Eggert (2006) found that value is positively correlated with relationship quality. Findings from their study on relationships between managers of the Taiwanese bookstores and their customers showed that perceived value positively influenced the quality of relationships. Ryu et al. (2008) found that perceived value is a direct and positive antecedent of customer satisfaction in the Korean restaurant industry. Thus, based on these study findings, the following hypothesis was developed:

H1: Perceived value positively affects the relationship quality of outsourcing practices in the Malaysian hotel industry.

**Relationship Quality and Customer Loyalty**

Over the past two decades, relationship quality has gained in importance as a key factor in maintaining and strengthening a long-term relationship and developing successful B2B relationships (Dorsch et al., 1998; Kumar et al., 1995a; 1995b; Lee and Hiemstra, 2001; Rauryen and Miller, 2007). While several empirical studies (Boles et al., 1997; Wong and Sohal, 2002; Ndubisi, 2005) examined relationship quality as a pure single construct, many studies (Dwyer et al., 1987; Crosby et al., 1990; Kumar et al., 1995a; Dorsch et al., 1998; Naude and Buttle, 2000) regarded relationship quality as a meta-construct composed of several distinct, although related, dimensions that support each other. Following Boles et al., (1997), Wong and Sohal (2002), and Ndubisi (2005) this study treated relationship quality as a single construct.

A review of relationship marketing literature reveals that relationship quality is one of the key predictors of customer loyalty (Crosby et al. 1990; Hennig-Thurau and Klee, 1997). Tsaur et al. (2006) found that relationship quality has a significant direct influence on retailers’ loyalty. Lin and Ding (2005) concluded that customer loyalty towards their service provider is positively influenced by the quality of
the relationship between the Internet Service Provider and their customers in Taiwan. In the marketing literature, several studies had been found that used relationship quality as a mediating variable in their models (Crosby et al., 1990; Kim et al., 2001; Woo and Ennew, 2004; Lin and Ding, 2005; 2006; Zhang et al., 2011). Lin and Ding (2005) studied the mediating effects of relationship quality on the link between relational selling behaviour, network quality, and service recovery on loyalty. In another study, Lin and Ding (2006) also investigated the mediating effects of relationship quality by extending the previous study and including expertise as an independent variable. Based on the results of these empirical studies it is hypothesized that:

H2: Relationship quality positively affects customer loyalty of outsourcing practices in the hotel industry.

H3: Relationship quality mediates the relationship between perceived value and customer loyalty of outsourcing practices in the Malaysian hotel industry

**RESEARCH METHODOLOGY**

This research focuses on the relationship quality between hotel managements and their service providers, therefore the population of this study are hotels that are involved in outsourcing activities. The list of hotels for this study was obtained from the Ministry of Tourism Malaysia. It provides the most comprehensive list of hotels in Malaysia. The sampling frame of this study is 583 hotels rated from 1 to 5 Stars according to the Ministry of Tourism. The hotels were classified according to their star ratings.

In this study, survey was selected as the method of data collection. A questionnaire was developed and distributed to the hotel managers as they are the most qualified informants on outsourcing relationships. With the exception of demographic variables, all other variables in this study were measured using a seven-point Likert scale ranging from “strongly disagree”, 1 to “strongly agree” 7. Of the 583 questionnaire distributed, 265 questionnaire were returned. Sixteen questionnaires are not usable because they had more that 25 percent of the items unanswered, resulting in an effective sample of 249 usable and completely answered questionnaires. This represented an effective response rate of 42.7 percent. Data gathered from the field survey were analyzed for descriptive statistics using Statistical Package for Social Science (SPSS) version 19. In addition, research hypotheses were tested using Partial Least Squares (PLS) methodology. PLS is a component-based Structural Equation Modeling (SEM) that is quite robust against skewed distributions and able to overcome some of the limitations in the first generation multivariate statistical analysis. SmartPLS 2.0 (Ringle et al., 2005) software was used in testing the hypotheses.
FINDINGS

Respondents’ Profiles

Majority of the respondents of this study are females (52.5 percent) with most of the respondents are in the age bracket of between 20-29 years of age (32.3 percent) and only 1.3 percent aged sixty and above. Majority of them are highly educated with 82.2 percent have qualifications of Certificate/Diploma and higher, with majority earning the monthly income levels between RM2,000 and RM4,000 (44.9 percent). The results indicate that most of the participating hotels have been more than 15 years in operations (28.5 percent). The majority of the hotels are located in the central region (39.9 percent) with the independent hotels being the largest number of hotels that participate in this study (43.2 percent) and almost half (43.7 percent) of the participating hotels are rated 3 Stars by the Ministry of Tourism Malaysia.

Confirmatory Factor Analysis

Measurement Model

To conduct the CFA, data collected were analyzed using Partial least Squares (PLS) approach. PLS considers all path coefficients simultaneously (Hutchinson et al., 2009). The PLS path analysis predominantly focuses on estimating and analyzing the relationship between latent variables in the inner model. However, latent variables are measured by means of a block of manifest variables (indicators).

First, the construct validity (convergent and discriminant validity) and reliability of the measurement model was assessed using confirmatory analysis (CFA) using PLS software. The convergent validity, discriminant validity, and reliability (individual and construct or inter-item reliability) of the scales were analyzed based on the guidelines by Fornell and Larker (1981). Second, the structural model was assessed to test the research hypotheses using the bootstrapping procedure.

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. 2011, 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. 2011). The AVE is in the range of 0.514 and 0.733. 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 between the range of 0.887 and 0.952, which are above 0.7 as suggested by Fornell and Larcker (1981). Thus, indicating an adequate level of convergent validity.
Discriminant validity refers to the degree to which items measure different concepts (Garver and Mentzer, 1999). It can be assessed (1) by examining whether items were loaded strongly on their own constructs in the model, and (2) by comparing the square root of all average variance extracted values (AVE) for each construct so that they exceeded all the inter-factor correlations between that and each other construct or by comparing the average variance extracted with the squared correlation estimates. From Table 1, all alpha values are above 0.6 as suggested by Nunnally and Bernstein (1994). The CR values ranged between 0.790 and 0.947, which is greater than 0.7, and these values are considered acceptable by Fornell and Larcker (1981). The Cronbach’s alpha coefficient and CR are used to assess the inter-item consistency of the measurement model.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Loadings</th>
<th>AVE</th>
<th>Composite Reliability</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>IM1</td>
<td>0.905</td>
<td></td>
<td>0.791</td>
<td>0.816</td>
</tr>
<tr>
<td></td>
<td>IM2</td>
<td>0.899</td>
<td></td>
<td>0.726</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IM3</td>
<td>0.756</td>
<td></td>
<td>0.678</td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>LO1</td>
<td>0.864</td>
<td>0.705</td>
<td>0.877</td>
<td>0.790</td>
</tr>
<tr>
<td></td>
<td>LO2</td>
<td>0.862</td>
<td></td>
<td>0.717</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LO3</td>
<td>0.791</td>
<td></td>
<td>0.688</td>
<td></td>
</tr>
<tr>
<td>Emotional Value</td>
<td>PEV1</td>
<td>0.851</td>
<td>0.657</td>
<td>0.905</td>
<td>0.869</td>
</tr>
<tr>
<td></td>
<td>PEV2</td>
<td>0.821</td>
<td></td>
<td>0.725</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PEV3</td>
<td>0.799</td>
<td></td>
<td>0.687</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PEV5</td>
<td>0.818</td>
<td></td>
<td>0.801</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PEV6</td>
<td>0.761</td>
<td></td>
<td>0.701</td>
<td></td>
</tr>
<tr>
<td>Value for Money</td>
<td>PVFM1</td>
<td>0.829</td>
<td>0.633</td>
<td>0.894</td>
<td>0.846</td>
</tr>
<tr>
<td></td>
<td>PVFM2</td>
<td>0.861</td>
<td></td>
<td>0.770</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PVFM3</td>
<td>0.895</td>
<td></td>
<td>0.805</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PVFM4</td>
<td>0.805</td>
<td></td>
<td>0.679</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PVFM5</td>
<td>0.538</td>
<td></td>
<td>0.528</td>
<td></td>
</tr>
<tr>
<td>Service Benefits</td>
<td>PQV1</td>
<td>0.859</td>
<td>0.566</td>
<td>0.884</td>
<td>0.839</td>
</tr>
<tr>
<td></td>
<td>PQV2</td>
<td>0.864</td>
<td></td>
<td>0.785</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PQV3</td>
<td>0.764</td>
<td></td>
<td>0.678</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PQV4</td>
<td>0.559</td>
<td></td>
<td>0.569</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PQV5</td>
<td>0.802</td>
<td></td>
<td>0.732</td>
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</tr>
<tr>
<td></td>
<td>PQV6</td>
<td>0.609</td>
<td></td>
<td>0.540</td>
<td></td>
</tr>
<tr>
<td>Social Value</td>
<td>PSV2</td>
<td>0.782</td>
<td>0.662</td>
<td>0.887</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PSV3</td>
<td>0.841</td>
<td></td>
<td>0.769</td>
<td></td>
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<tr>
<td></td>
<td>PSV4</td>
<td>0.828</td>
<td></td>
<td>0.715</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PSV5</td>
<td>0.802</td>
<td></td>
<td>0.646</td>
<td></td>
</tr>
</tbody>
</table>

contd. table 1
Table 2 shows the correlations for each construct are less than the square root of the AVE of the constructs, indicating adequate discriminant validity. Therefore, we can conclude that the measurement model is valid and reliable. The highest square root of average variance extracted is 0.856 (image) while the lowest square root of variance extracted is 0.717 (relationship quality). Therefore, in this study discriminant validity or “the propensity of a measure to be distinct from measures of unrelated concept” (Steward et al., 2010, p. 137) was confirmed using the Fornell and Larker’s (1981) procedure.

Structural Model

Structural model evaluation is the assessment of the predictive or causal relationship between constructs in the model (Kijsanayotin et al., 2009). The structural model was assessed after checking for validity and reliability of the constructs in the measurement model. Firstly, the measurement model was evaluated by running the PLS Algorithm to examine the β-value of the path coefficient and R2. In the next stage, a bootstrap re-sampling procedure (500 sub-samples) was used to generate the standard errors and t-values, which permits...
the β values (path coefficients) to be made statistically significant (Sanchez-Franco et al., 2009). This step involved testing the statistical significance of each path coefficient and to provide confidence intervals for all parameter estimates.

### Table 2

Results of Discriminant Validity

<table>
<thead>
<tr>
<th></th>
<th>Customer Loyalty</th>
<th>Emotional Value</th>
<th>Image Quality</th>
<th>Relationship Quality</th>
<th>Service Benefit</th>
<th>Social Value</th>
<th>Value for Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Loyalty</td>
<td>0.839</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Value</td>
<td>0.429</td>
<td>0.810</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Image</td>
<td>0.577</td>
<td>0.657</td>
<td>0.856</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship Quality</td>
<td>0.711</td>
<td>0.611</td>
<td>0.706</td>
<td>0.717</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Benefit</td>
<td>0.440</td>
<td>0.695</td>
<td>0.504</td>
<td>0.479</td>
<td>0.752</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Value</td>
<td>0.277</td>
<td>0.524</td>
<td>0.310</td>
<td>0.284</td>
<td>0.521</td>
<td>0.813</td>
<td></td>
</tr>
<tr>
<td>Value for Money</td>
<td>0.468</td>
<td>0.603</td>
<td>0.574</td>
<td>0.621</td>
<td>0.455</td>
<td>0.374</td>
<td>0.796</td>
</tr>
</tbody>
</table>

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

Results from the structural model in Table 3 indicate that perceived value exhibited a strong positive influence (β = 0.686, p < 0.01), on relationship quality. Relationship quality also exhibited a strong positive influence (β = 0.711, p < 0.01) on customer loyalty. The results gave a t-value of 13.894 from perceived value to relationship quality. Thus, we find support for H1. In addition, H2 is also supported. Relationship quality has a significant impact on customer loyalty with the t-value of 17.307.

### Table 3

Results of Structural Model

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationships</th>
<th>Beta</th>
<th>Std Error</th>
<th>t-value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Perceived Value -&gt; Relationship Quality</td>
<td>0.686</td>
<td>0.049</td>
<td>13.894*</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>Relationship Quality -&gt; Customer Loyalty</td>
<td>0.711</td>
<td>0.041</td>
<td>17.307*</td>
<td>Supported</td>
</tr>
</tbody>
</table>

*p<0.05

**Testing for Mediating Effect of Relationship Quality**

In order to test the mediating effect of relationship quality (MV) on the link between perceived value (IV) and customer loyalty (DV), this study follows steps suggested by Preacher and Hayes (2004). An estimation of the indirect effect ab, an estimated standard error, and both the indirect effects interval at 95% confidence level was conducted using bootstrapping procedure. Path a and b represent the values of the relationships between perceived value (IV) and relationship quality (MV), and relationship quality (MV) and customer loyalty (DV), respectively.
Based on Table 4, the bootstrapped estimate of the indirect effect is estimated to lie between 0.0381 and 0.595 with 95% confidence. Because zero is not in the 95% confidence interval, it can be concluded that the indirect effect is indeed significantly different from zero at p < 0.05 (two tailed) (Preacher and Hayes, 2004). Thus, hypothesis H3 is supported, in which relationship quality mediates the relationship between perceived value and customer loyalty.

**RECOMMENDATIONS AND CONCLUSION**

The research findings indicate that relationship quality is a mediator for the relationship between perceived value and customer loyalty. This result added to the literature by providing additional support to the findings in previous empirical studies (e.g., McDougall and Levesque, 2000; Lin and Wang, 2006; Ulaga and Eggert, 2006). Studies by McDougall and Levesque, 2000 and Lin and Wang (2006) found that customer loyalty is mediated by relationship quality in the customer market. In the business-to-business relationship, Eggert and Ulaga (2006) also found that customer loyalty is mediated by relationship quality. These results also confirm that perceived value is a contributing factor to high quality and long-term relationships.

This study highlights the importance of service providers in enhancing relationship quality that will increase customer loyalty, particularly in the context of outsourcing in the Malaysian hotel industry. Customer loyalty will develop if the formation of perceived value and relationship quality is well managed. Therefore, service providers should implement customer loyalty improvement programs that will develop potential and maintain existing relationships with customers that will result in competitive advantage and increased profitability. Customer loyalty should be pursued as a marketing strategy to improve firms’ performance, and this can be achieved through focusing on these psychological processes. Understanding of perceived value, and relationship quality from the customers’ perspectives on their experience toward the service providers are the requirements needed to develop customer loyalty.
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