Predictors of Customer Loyalty in the Malaysian Hotels’ Outsourcing Relationships

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ABSTRACT

The success of a firm in an outsourcing relationship depends on the loyalty of a business customer towards its service providers. Therefore, it is crucial for service providers to focus on relationship marketing strategies to increase their customers’ loyalty. However, there is little agreement as to which relationship marketing strategies that should be used to maintain customer loyalty. This study intends to examine the relationships between relational norms, relationship quality, and customer loyalty. Data collected from 159 hotel managers were analyzed using partial least squares. Results of this study revealed that relational norms and relationship quality are positively related to customer loyalty.

Keywords: Customer Loyalty, Outsourcing, Partial Least Squares, Relational Norms, Relationship Quality

JEL Classifications: M31, M39

1. INTRODUCTION

The emergence of new tourists’ destinations increases in competitions between hotels, and increases in costs have caused hotels to rethink of their survival strategies. Faced with high levels of fixed costs, hotels are forced to outsource their operations to outside service providers (Lam and Han, 2005). By outsourcing their activities such as laundry, security services, and lawn maintenance, hotels can focus on core competence. This will increase hotel’s competitive advantage and reducing their in-house operating facilities fixed investments (Donada and Nogatchewsky, 2009). In an outsourcing relationship, firms have the power to terminate their service providers’ contracts if they do not achieve the performance standards. Therefore, firms’ image and profits depend on the efficiency and achievement of the service providers. However, since services including in the hotel industry are intangible in nature, service differentiation is difficult to implement. This has caused a greater need by service providers to establish close relationships with their customers (Parasuraman and Grewal, 2000). With the larger selections of service providers, it is a great challenge by service providers to develop loyal customer base. Service providers are now facing pressure to maintain good relationships with their existing customers. Several benefits and economic advantages can be achieved by service providers that are able to retain their customers such as increased profits, costs reduction in acquiring new customers, and lowering customers’ price sensitivities. According to Reichheld and Sasser (1990), to achieve superior performance and long-term profitability, customer loyalty is an easier and more reliable strategy. In developing and maintaining long-term relationships, numerous authors (e.g., Crosby et al., 1990; Hennig-Thurau and Klee, 1997; Zhang et al., 2011) have suggested focusing on relationship quality. Even though relationship quality has received remarkable attention from practitioners and academics, however, little attention has been given to the issue of relationship quality in the business-to-business relationships and supply chain management (Lam et al., 2004). Although several research has examine the influence of relationship quality on customer loyalty and that of relational norms on relationship quality, however, less often they are studied in a single framework. According to Berthon et al. (2003) little attention was given on relational norms particularly in the area of marketing relationships. Therefore, it is crucial to investigate the influence of relational norms and relationship quality to customer loyalty in the business-to-business settings.
Results from several studies (e.g., Crosby et al., 1990; Lin and Ding, 2006; Zhang et al., 2011) revealed that relationship quality to be a mediator variable. Thus, this study aims to investigate the impact of relational norms on relationship quality and the impact of relational norms and relationship quality on customer loyalty. This study will also investigate the mediation effect of relationship quality on the link between relational norms and customer loyalty. This examination allows the service providers to enhance their understanding the interrelationships between relational norms, relationship quality, and customer loyalty, so that more effective strategy can be formulated in retaining their customers.

2. LITERATURE REVIEW

2.1. Customer Loyalty
In relationship marketing area, customer loyalty has been identified one of the primary outcomes (Koech et al., 2015) and has consistently been recognized as a key determinant of customer retention (George and Stavros, 2013). It is an important variable because of its contributions to long-term benefits (Ribbink et al., 2004). Through loyal customers, organizations can improve their profitability by reducing costs and increasing per customer revenues (Hennig-Thurau et al., 2002). Moreover, they have high willingness to pay premium prices and are easier to satisfy since suppliers are well verse with their behavior (El-Manstry et al., 2011; Lawson-Body and O’Keefe, 2006). Loyalty has been examined from behavioral and attitudinal perspectives. The behavioral approach conceptualized loyalty as the intention or behavior to repurchase. This is in line with the definition given by Oliver (1997). According to Dick and Basu (1994) attitudinal loyalty refers to “a psychological state (affective and/or cognitive) that the customer may attain as a result of the firm’s strategy.” This led to the voluntarily action by the customer to maintain the relationship with the service provider based on the benefits he receives from the relationship. Therefore, to ensure an accurate conceptualization of loyalty, this study follows the attitudinal approach of customer loyalty since customers have to express positive attitude towards service provider and its services before deciding to continue the relationship.

2.2. Relational Norms
Instead of relying on market forces, relational norms, a form of behaviour control rely on cooperation, trust, common goals, and communication to organize the relationships (Morgan and Hunt, 1994). According to Gundlach and Achrol (1993), relational norms play crucial roles as governance mechanism and significant organizational and social ways of monitoring and maintaining business-to-business relationship, and curtailing behaviour promoting individual parties’ goal orientation. The harmony of both parties can be reflected from the existence of relational norms that reduced the risk of opportunistic behaviour (Ivens, 2006). While certain authors have conceptualized relational norms as a single variable, others conceptualized relational norms as a second-order construct that gives rise to different dimensions (Ivens, 2006). Consistent with Heide and John (1992), this study defines relational norms as a higher-order construct comprising of flexibility, information exchange, and solidarity. These dimensions were adapted due to their appropriateness in the context of outsourcing that is being studied. Heide and John (1992) defined solidarity as “a bilateral expectation that a high value is placed on the relationship” (p. 36). Solidarity is expressed through behavior of parties involved that contributes directly towards maintaining their relationships (Bordonaba-Juste and Polo-Redondo, 2008; Ivens, 2004). Flexibility is “a bilateral expectation of willingness to make adaptations as circumstances change” (Heide and John, 1992, p. 36). It refers to modifications that occur either in practices and policies during unexpected situational changes (Boyle et al., 1992). According to Heide and John (1992, p. 35) information exchange is “a bilateral expectation that parties will proactively provide information useful to the partner.”

2.3. Relationship Quality
Hennig-Thurau et al. (2002) suggested relationship quality one of the most important tool used to develop and preserving relationships. Even though there is increasing research interest in relationship quality, only a few scholars share a common definition and measure of relationship quality (Huntley, 2006). As a result, a formal definition of this concept is non-existence (Wang et al., 2004; Athanasopoulou, 2009). Crosby et al. (1990) refers relationship quality to the situation when the customer can rely on the salesperson’s integrity and future performance based on his satisfactory past performance. Huntley (2006) defined relationship quality as “the degree to which customers are satisfied over time with the overall relationship as manifested in product quality, service quality, and price paid for value received, and the degree to which the relationship functions as a partnership” (p. 706). A variety of dimensions that have been employed to measure the level of relationship quality was identified in the literature (Seo et al., 2005). However, no clear consensus emerged in the literature on the sets of dimensions that made-up relationship quality (Hennig-Thurau et al., 2002; Athanasopoulou, 2009). However, it is agreeable by most researchers that relationship quality is a higher-order construct consisting of several distinct but related dimensions. Different researchers have proposed a different set of dimensions (e.g., trust, commitment, communication, and satisfaction) to measure relationship quality. However, some dimensions (e.g., trust, commitment, and satisfaction) have been suggested more frequently than others in the literature (Lang and Colgate, 2003). This study defined relationship quality as a second order construct comprises of trust, commitment, and satisfaction.

3. HYPOTHESES DEVELOPMENT
According to Lee and Hiemstra (2001), when a firm and its service provider increase their levels of information sharing the higher the quality of relationship between them. A study conducted by Bordonaba-Juste and Polo-Redondo (2008) in the franchise relationships also found that a relationship that is governed by relational norms will result in high levels of commitment that resulted in both parties preserving the relationship. Lancastre and Lages (2006) found that if the information exchange from the supplier is relevant, timely, and reliable, a buyer’s trust will be greater. Ivens and Pardo (2007) found relational norms directly influenced relationship quality among German purchasing managers. Relational norms, a mechanism that govern the behavior of parties involved are crucial in developing long-term
relationships (Paulin et al., 1998; Tangpong et al., 2010; Anuar, 2016). Relationship quality measured by trust and satisfaction directly affects customer repurchase intentions in the business-to-customer e-commerce market (Zhang et al., 2011). Jamal and Anastasiadou (2009) found that customer loyalty toward the services offered by the Greek banks was influenced by the level of customer satisfaction with the service. Chen et al., (2013) found that relationship quality positively influenced continuance attention in the hospital e-appointment system in Taiwan. Relationship quality was found to be a mediator variable in several studies (e.g., Crosby et al., 1990; Lin and Ding, 2006; Zhang et al., 2011). Based on the preceding discussion, it is hypothesized that: H$_1$: Relational norms have a positive influence on relationship quality in the context of outsourcing in the Malaysian hotel industry.

H$_2$: Relationship quality has a positive influence on customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

H$_3$: Relational norms have a positive influence on customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

H$_4$: Relationship quality mediates the relationship between relational norms and customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

4. RESEARCH METHODOLOGY

4.1. Sampling Design

This study focuses on the Malaysian hotels that outsourced their activities to external service providers. The primary source of hotels for this study was the online database of the Ministry of Tourism Malaysia. Only hotels with the ratings of 1-5 star were included in the sampling frame. A pure random sampling is almost impossible to be conducted because there was no official list of hotels that outsourced their operations (Han et al., 2011). Therefore, non-probability sampling was used in this to collect data on hotels that outsource their operations. A filter question was included in the questionnaire to identify hotels that do not outsource. Since the data collected was analyzed using the partial least squares (PLS) path modeling, the “10 times rule” suggested by Chin and Newstand (1999) was employed as a method to determine the minimum sample size. A total of 583 questionnaires were distributed to all 583 hotels and 265 questionnaires were successfully returned. 16 sets of questionnaires were not usable because they had more that 25% of the items unanswerd and 90 questionnaires were excluded from further analysis because it involve hotels that do not outsource their activities. A final sample of 159 or 27.3% of the overall questionnaire distributed was identified as representing as hotels that involved in outsourcing.

4.2. Research Procedure

This study is predominately a quantitative approach in which its main purpose is to investigate the relationships between relational norms, relationship quality, and loyalty towards the service providers from the hotel managers’ perspectives. Questionnaires with Likert scale anchored on 1 “strongly disagree” and 7 “strongly agree” were developed and distributed to respondents. The instrument used to collect the data in this study was divided into two sections. Section A includes questions measuring the demographic background of the respondents, while section B consists of questions measuring the constructs. The items used to measure the constructs were adapted from previous studies and modified to suit the context of the study. 16 items were adapted from Heide and John (1992) to measure relational norms, 22 items to measure the relationship quality were adapted from Kumar et al. (1995) and Ivens (2005). Loyalty was measured by seven items adapted from Zeithaml et al. (1996). To ensure that the wording of items was clear and understandable by the respondents, a pre-test was conducted on five hotel managers prior to the actual data collection process. All comments from the pre-test were taken into considerations and changes were made on the measurement items. A pilot test was then conducted on 30 hotel managers to assess the reliability of the items. The results of the pilot study revealed that the values of Cronbach’s alpha for all constructs in this study exceeded the threshold value of 0.7 as suggested by Nunnally and Bernstein (1994).

5. DATA ANALYSIS

5.1. Demographic Profiles of Respondents

Majority of the respondents of this study were female with the frequency level at 52.8%. In terms of respondents’ age, most of the respondents were in the age bracket of 20-29 years of age (32.1%) followed with the age bracket of 30-39 years of age. Only 2.2% were 60 years and above. In terms of academic qualification, majority of the respondents (71.7%) had acquired Certificate/Diploma and Bachelor’s degree as their highest academic qualifications. Most of the respondents earned between RM2,001 and RM4,000/month followed with the respondents earning between RM4,001 and RM6,000/month. The majority of the respondents are human resource managers (28.9%) followed with the general manager (17.6%). Majority of the hotels have been in operation for more than 15 years (28.3%) and the largest percentage of hotels that took part were independent hotels (43.4%). Most of the hotels that participated in this survey were 3 star hotels (43.5%).

5.2. Confirmatory Factor Analysis (CFA)

All items developed for this study were subjected to a CFA. This study follows two-step approach suggested by Anderson and Gerbing (1988) in conducting CFA. The approach involved the assessments of measurement and structural models. PLS approach using Smart PLS Version 2.0 (Ringle et al., 2005) was used to analyze the data.

5.3. Measurement Model

The first step in conducting the (CFA) is to evaluate the measurement model. The purpose of evaluating the measurement model is to evaluate the adequacy of measures which is to access whether the items show sufficient reliability and validity. The measurement model estimates the convergent validity, discriminant validity, and reliability. Convergent validity was assessed to ensure the items are and measuring the same concept (Ramayah et al., 2011). The tools frequently used in assessing convergent validity are factor loadings, average variance extracted (AVE), and composite reliability (CR). As shown in Table 1, loadings of all items should
exceed the recommended value of 0.5 (Hair et al., 2011) in order to be retained. To justify using a construct, AVE should be >0.5 (Barclay et al., 1995). The AVE measures the variance captured by the indicators relative to measurement error. A value of AVE exceeding 0.5 demonstrates that more than 50% of the variance of the construct is due to its indicators (Liu et al., 2011). Results show that the AVE is between 0.596 and 0.771. The CR values are between 0.869 and 0.933, which are >0.7 as suggested by Fornell and Larcker (1981). The CR values indicate that all items have adequate reliability assessment scores. In sum, all items comply with convergence validity and reliability requirements.

The next step is to assess the discriminant validity; the extent that items is measuring different concepts (Garver and Mentzer, 1999). Discriminant validity can be assessed by comparing the square root of all AVE for each construct so that they exceeded all the inter-factor correlations between each construct. Results from Table 2 indicated the measurement model has adequate level of discriminant validity. It is proven from the values of the square root of all AVE values for each construct that exceeded all the inter-factor correlations between that and each other construct for each construct. It can be concluded that all items has sufficient validity and reliability and can be used for further testing the structural model.

5.4. Structural Model

The second step in conducting CFA is to assessment the structural model. The structural model was assessed after the validity and reliability of the measurement model was established. The purpose of assessing the structural model was to test the research hypotheses using the bootstrap re-sampling procedure. In this procedure, the strength of associations between the independent and dependent variables were evaluated and the values were demonstrated through the β values and t-statistics. Results from the structural model in Table 3 indicated that relational norms exhibited a strong positive influence (β = 0.800, t-value = 23.797,

| Table 1: Results of reliability and convergent validity analyses |
|-----------------|--------|----------------|--------|--------|----------------|
| Constructs      | Items  | Loadings       | AVE\(^b\) | CR\(^a\) | Cronbach’s alpha |
| Flexibility     | FX2    | 0.898          | 0.771    | 0.910   | 0.851         |
|                 | FX3    | 0.901          |          |         |               |
|                 | FX4    | 0.833          |          |         |               |
| Information exchange | IE1   | 0.858          | 0.667    | 0.857   | 0.748         |
|                 | IE2    | 0.853          |          |         |               |
|                 | IE4    | 0.732          |          |         |               |
| Solidarity      | SO2    | 0.884          | 0.769    | 0.869   | 0.699         |
|                 | SO3    | 0.870          |          |         |               |
| Satisfaction    | ST2    | 0.817          | 0.701    | 0.933   | 0.914         |
|                 | ST3    | 0.884          |          |         |               |
|                 | ST4    | 0.909          |          |         |               |
|                 | ST5    | 0.805          |          |         |               |
|                 | ST6    | 0.766          |          |         |               |
|                 | ST7    | 0.834          |          |         |               |
| Trust           | TR1    | 0.810          | 0.596    | 0.930   | 0.915         |
|                 | TR2    | 0.845          |          |         |               |
|                 | TR3    | 0.718          |          |         |               |
|                 | TR4    | 0.807          |          |         |               |
|                 | TR5    | 0.767          |          |         |               |
|                 | TR6    | 0.764          |          |         |               |
|                 | TR7    | 0.752          |          |         |               |
|                 | TR8    | 0.710          |          |         |               |
|                 | TR9    | 0.767          |          |         |               |
| Commitment      | CO1    | 0.835          | 0.649    | 0.879   | 0.811         |
|                 | CO2    | 0.850          |          |         |               |
|                 | CO3    | 0.885          |          |         |               |
|                 | CO5    | 0.624          |          |         |               |
| Customer loyalty| LO1    | 0.863          | 0.705    | 0.877   | 0.790         |
|                 | LO2    | 0.861          |          |         |               |
|                 | LO3    | 0.792          |          |         |               |

\(^a\)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: Results discriminant validity analysis |
|----------------|----------------|----------------|--------|--------|----------------|----------------|
| Constructs      | Commitment | Customer loyalty | Flexibility | Info exchange | Satisfaction | Solidarity | Trust |
| Commitment      | 0.805      | 0.839           | 0.878    | 0.817   | 0.837         | 0.877       |
| Customer loyalty| 0.579      | 0.480           | 0.631    | 0.461   | 0.448         | 0.473       |
| Flexibility     | 0.465      | 0.526           | 0.637    | 0.636   | 0.735         | 0.739       |
| Info exchange   | 0.578      | 0.749           | 0.631    | 0.636   | 0.735         | 0.739       |
| Satisfaction    | 0.619      | 0.295           | 0.414    | 0.461   | 0.448         | 0.473       |
| Solidarity      | 0.273      | 0.548           | 0.689    | 0.735   | 0.739         | 0.772       |

Diagonals (in bold) represent the square root of average variance extracted while the other entries represent the correlations.
**Table 3: Results of structural model**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationships</th>
<th>Standard beta</th>
<th>Standard error</th>
<th>t-value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁</td>
<td>Relational norms→relationship quality</td>
<td>0.800</td>
<td>0.034</td>
<td>23.797</td>
<td>Supported*</td>
</tr>
<tr>
<td>H₂</td>
<td>Relationship quality→customer loyalty</td>
<td>0.716</td>
<td>0.091</td>
<td>7.893</td>
<td>Supported*</td>
</tr>
<tr>
<td>H₃</td>
<td>Relational norms→customer loyalty</td>
<td>-0.023</td>
<td>0.097</td>
<td>0.241</td>
<td>Not supported</td>
</tr>
</tbody>
</table>

*P<0.05

P < 0.05 on relationship quality. Relationship quality also exhibited a strong positive influence (β = 0.716, t-value = 7.893, P < 0.05) on customer loyalty. Thus, we find support for H₁ and H₂. However, relational norms do not have any significant influence on customer loyalty (β = -0.023, t-value = 0.241, P > 0.05). Thus, H₃ is not supported.

**5.5. Testing for Mediating Effect of Relationship Quality**

This study follows steps suggested by Preacher and Hayes (2004) when testing the mediating effect of relationship quality on the link between relational norms and customer loyalty. An estimation of the indirect effect ab, standard error, and both the indirect effects interval at 95% confidence level was conducted using bootstrapping procedure. Path a and b represent the β values of the relationships between relational norms and relationship quality, and relationship quality and customer loyalty, respectively. According to Hair et al. (2014) the significance of each individual path a and b is a requirement to test the mediating effect. Based on Table 4, the bootstrapped estimate of the indirect effect is estimated to lie between 0.406 and 0.740 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 H₄ is supported, in which relationship quality mediates the link between relational norms and customer loyalty. The value of variance accounted for of 51.02% indicates that relationship quality is a partial mediator (Hair et al. 2014).

**6. RECOMMENDATIONS AND CONCLUSION**

Results of this study reveal the importance of relational norms and relationship quality in influencing customer loyalty in the hotel industry. Findings of this study also show that relationship quality is a mediator variable in the relationship between relational norms and customer loyalty. This result provide additional support to the findings in previous empirical studies (e.g., Chen and Lin, 2011; Lin and Wang, 2006; McDougall and Levesque, 2000; Ulaga and Eggert, 2006). It is found that in the customer market, customer loyalty is mediated by relationship quality (see McDougall and Levesque, 2000; Lin and Wang, 2006). Ulaga and Eggert (2006) also found that customer loyalty is mediated by relationship quality in the business-to-business relationship. The service providers must practice high relational norms to in order to build high quality relationship with the hotels. Consequently, loyalty among hotel is increased when there are high quality relationships between hotels and the service providers. In order to improve customer loyalty, relational norms which comprise of solidarity, flexibility, and information sharing should be considered when choosing a marketing strategy. The result implies that service providers that practice more relational norms would create trust, satisfaction, and commitment among the customers. Customer loyalty will develop if the formation of relational norms and relationship quality is well managed. However, it should be noted that relational norms will increase customers’ trusts, satisfaction, and commitment before loyalty can be achieved. It is crucial to understand the influence of relational norms and relationship quality from the customers’ perspectives as their experience will provide some insights on ways to develop customer loyalty toward the service providers.

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