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EXPLORING HOW EMOTIONS INFLUENCE SWITCHING DECISIONS IN HOTEL OUTSOURCING MANAGEMENT

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Abstract

Due to emotional factors being neglected in supplier-switching decisions by previous research, this study aim to analyze how positive and negative emotions influence switching decisions in hotel outsourcing management. Data were collected in Taiwan and regression analysis were run to estimate the data. The results indicated that as well as switching costs and relational norms, positive emotions such as happiness, satisfaction and pride also act as switching barriers. Moreover, this research also provide evidence that emotional factors moderate the influence of economic and relational factors. This study also provide implication that positive emotion has both a direct and indirect impact on supplier switching. If a supplier induce positive emotions in its buyers, it can continue to work with a buyer firm, not only reducing switching costs but also fostering strong relationships.

Keywords: Emotion, Supplier switching, Switching costs, Outsourcing

Introduction

Over the past decade, there has been a dramatic proliferation of research concerned with supplier switching decisions in outsourcing management. Two theoretical perspectives were provided as their main models: Transaction Cost Economy (TCE) and Relational Exchange Theory (RET). TCE focus on the impact of switching costs and regarded these acts as switching barriers. On the other hand, RET claimed the positive effects of relationalism, indicating that long- term relationships enhance value in business-to-business. Therefore, previous research in outsourcing management emphasized that outsourcers make largely rational decisions based on utilitarian product/services/relationships attributes and benefits. (Haugland, 1999; Wathne et al., 2001). However, a potential influencing factor, emotion, seems to be ignored. Although the research regarding behavior theory argued that the role of emotions in purchasing do not give enough consideration to the role of emotions in buyer–supplier relationships (Chebat and Slusarczyk, 2005; van Dolen et al., 2004; Zeelenberg and Pieters, 2004), Fongberg (1986) emphasized that emotions are ''fuels for drives, for all motion, every performance, and any behavioral act''. Therefore, the purpose of this study is to address this gap and analyze how positive and negative emotions influence switching decisions in hotel outsourcing management.

Literature Review

Two conflicting forces drive supplier-switching decisions. On the one hand, the purchasing agents are pressed by their hierarchy to take maximum advantage of each supplier by switching to the most efficient at any one time. On the other hand, quality and delivery agreements call for sustainable relationships with competent suppliers. These are probably not the cheapest ones but are more likely to give a helping hand in the event of unforeseen circumstances. Consequently, the purchasing agents are also pressed by the operators to favor the suppliers whom they have come to appreciate over the course of their interactions and are happy to work with.

Over the past decade, a number of empirical studies based on the Transaction Cost Economy (TCE) and Relational Exchange Theory(RET) According to Rindfleisch and Heide (1997), TCE is the implicit and explicit fundamental behind most research into supplier- switching decisions. This framework indicates that the characteristics of transactions, as well as the characteristics of the parties and the environment in which they entail transaction costs. Transaction costs include both the direct costs of managing exchanges and the opportunity costs incurred by inferior decisions. Opportunity costs include switching costs that result from prior partner-specific investments in physical assets, organizational procedures, and/or employee training (Heide and John, 1990). Switching costs encompass both financial expenses and the psychic costs incurred in the expenditure of time and effort to end a relationship and secure an alternative one.

In the context of outsourcing relationships, a firm that has invested in idiosyncratic assets and developed organizational routines for dealing with its existing supplier will be motivated to maintain its relationship to save on switching costs (Monteverde and Teece, 1982). Therefore, the level of switching costs is a disincentive for buyer firms to explore new suppliers. Lower switching costs enable buyers to replace a current supplier more easily. Conversely, higher switching costs reduce the attractiveness of alternatives and act as a switching barrier for the buyer. Under such conditions, the likelihood of supplier switching is negatively related to the buyer's switching costs. This leads to the first hypothesis of the current study.

H1. The likelihood of supplier switching is negatively related to the buyer's switching costs.

Building on research conducted by Macneil (1980), relational exchange theorists develop a social conception of exchange. They postulate that firms cooperate over time to achieve mutual gain rather than behaving opportunistically to satisfy their own immediate economic interest. In this context, the concept of relational norms receives a great deal of attention. Relational norms are defined as shared values and expectations about appropriate or inappropriate behavior by suppliers. The norms commonly presented in the literature are multi- dimensional: perfect exchange of information between partners, expectation of continuity, communication, solidarity, cooperation, flexibility allowing adaptations to unforeseen changes, and assistance to partners (Aulakh et al., 1996).

In outsourcing relationships, the existence of such norms is an ex-ante indicator of the harmony of the parties' interests, which, in turn, reduces the risk of opportunistic behavior. Ex-post, relational norms enable the conformity of parties' actions to establish standards (Ivens and Blois, 2004). From the buyer's point of view, relational norms favor the supplier's conformity and commitment, operate as safeguards against opportunism, limit the negative effect of the parties' asymmetrical dependence and improve the effectiveness of cooperation over time (Joshi and Stump, 1999). Similar to switching costs, relational norms represent a disincentive to explore new suppliers. This suggests a negative relationship between the likelihood of supplier switching and the strength of the relational norms governing the exchange.

H2. The likelihood of supplier switching is negatively related to the relational norms governing the exchange.

Emotion is a complex term that has no single, universally accepted definition. Commonly defined, emotion corresponds to a spontaneous mental state arising from an appraisal of events. It is expressed positively through, for example, love, happiness, and empathy, and negatively through, for example, hate, sadness, or anger (Zeelenberg and Pieters, 2004). Consumer behavior researchers have highlighted the role of consumer's emotions in post-purchase decisions such as expressing their loyalty to a service provider [14], complaining (Chebat and Slusarczyk, 2005), and displaying satisfaction or dissatisfaction (Phillips and Baumgartner, 2002).

With regard to the specific topic of supplier switching decisions in

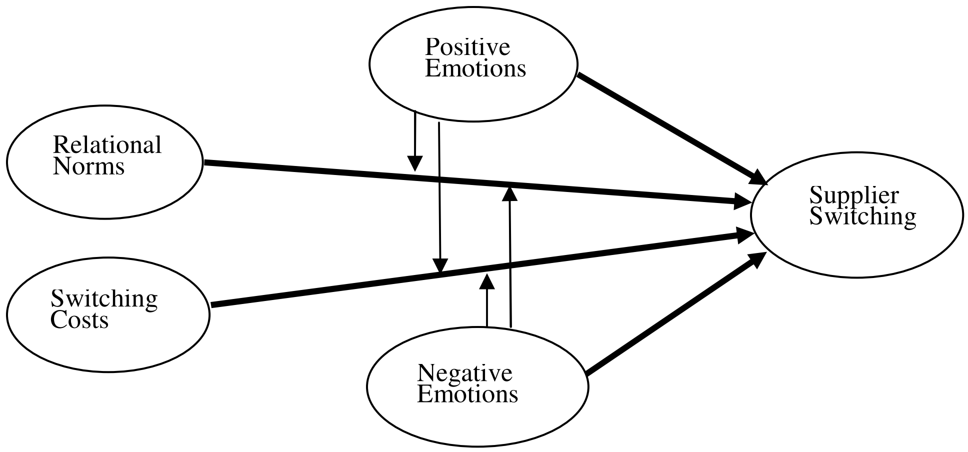

Figure 1. Antecedents of Supplier

outsourcing contexts, researchers have uncovered broad emotional factors. However, it seems relevant to examine the nature and importance of emotions in supplier switching decisions more closely.

The model proposed in this study suggests two effects: the direct effect of emotions on the likelihood of supplier switching; and moderating effects of positive and negative emotions on the buyer's switching costs and relational norms. These suggest the following hypotheses:

H3. The likelihood of supplier switching is negatively related to the buyer's positive emotions towards their current supplier.

H4. The likelihood of supplier switching is positively related to the buyer's negative emotions towards their current supplier.

H5. Positive emotions moderate (a) a buyer's switching costs and (b) relational norms.

H6. Negative emotions moderate (a) a buyer's switching costs and (b) relational norms.

These hypotheses lead to the model as Figure. 1.

Methodology

The unit of analysis for this study is the relationship between a buyer and a supplier. Data were collected in Taiwan. We used a three-step method to conduct the empirical analysis. First, we conducted a short exploratory qualitative study to comprehend the drivers of the industry, to select the outsourced activities, and to elicit factors affecting supplier-switching decisions. This qualitative approach helps to design a questionnaire.

In the second step, we pre-tested the first version of the questionnaire during a professional conference on

Table 1 Correlations

	SS	SC	RN	PE	NE
Supplier switching					
Switching cost	-.338**				
	.006				
Relational norms	-.251*	-.329**			
	.043	.008			
Positive emotions	-.345*	.146	.282*		
	.005	.247	.023		
Negative emotions	.062	-.203	-.016	-.525**	1
	.622	.105	.898	.000	

Table 2 Regression Analysis

	Model 1			Model 2		
	β	t	Sig	β	t	Sig
Constant		.000	1.000		.000	1.000
Switching cost	-.376	-.3.534	.001	-2.828	-2.720	.009
Relational norms	-.261	-2.457	.017	-.247	-2.392	.020
Positive emotions	-.327	-3.072	.003	-.306	-2.987	.004
Negative emotions	-.070	-.659	.512	-.126	-1.210	.232
Switching cost * Negative emotions				-.009	-.085	.933
Switching cost * Positive emotions				-.239	-2.294	.026
Relational norms * Negative emotions				.199	1.895	.063
Switching cost * Positive emotions				-.229	-2.215	.038

hospitality management. Twenty managers, who were involved with purchasing decision for their unit, were asked specifically to comment on the clarity of the items and their relevance. This pilot study provided a basis for a thorough statistical evaluation, including consideration of item response distributions, estimates of scale reliabilities, item-total correlation, and item scale discrimination.

Finally, we compiled the list of hotels in the chosen areas. Following Lam and Han (2005), we used a non- probability convenience sampling method. Because we personally given and collected the questionnaire, we easily obtained in the week 66 usable questionnaires, giving a reliability rate of 91%. Doing like that, we have no non- response bias and no difference between early and late respondents.

Results

All independent variables were factor analyzed prior to the introduction into a moderated multi-linear regression. Table 1 reports the correlations between the variables. Due to multiple correlation problems, we re-input the independent variables in a factor analysis with a Varimax rotation. Following this, regression analyses were run to estimate the resulting model (Table 2).

In the first regression analysis (Model 1), only the four main effects (switching cost, relational norms, positive emotions, and negative emotions) were input into the regressions to examine their direct impact on supplier switching. The set of independent variables explained 56.7% of the total variance. As expected, switching cost, relational norms, and positive emotions were found to be negatively related to supplier switching. Negative emotions had no significant effect.

In the second regression analysis (Model 2), we added the moderator variables and noticed that the coefficients of the regression increased. The set of variables explained 69% of the total variance. Again, negative emotions had no significant effect(neither a direct nor a moderating effect).

With regard to Hypothesis 1, which suggests that the likelihood of supplier switching is negatively related to the buyer's switching costs, it may be confirmed that if a firm predicts that switching suppliers will cost them time, money and effort, they will be motivated to maintain their relationship with their current supplier. This result is in line with the TCE assumptions and previous empirical studies on switching costs (Wathne et al., 2001).

The evidence supporting H2 stresses the relational exchange assumptions about the importance of relational norms in relationship continuity. It suggests that the likelihood of supplier switching is negatively related to the relational norms governing the exchange. Relational norms represent a disincentive to explore new suppliers and limits switching because operators favor relational exchanges with a few selected suppliers that they have come to trust and appreciate over the course of their interactions. They are reluctant to switch suppliers and retain those who they believe will not hesitate to ‘‘give a helping hand’’ in the event of unforeseen circumstances. Finally, relational norms favor the supplier's conformity and commitment. Therefore the findings coincide with the RET assumptions and studies in industrial marketing (Ivens and Blois, 2004).

With Hypotheses 3–5, the model provides partial results relating to the role of emotions in supplier switching. While positive emotions influence supplier switching negatively (H3), the direct effect of negative emotions is not validated (H4). The results also strengthen the evidence that positive emotions moderate the influence of economic and relational factors. However, they do not emphasize the moderating role of positive emotions (H5). The reason why Hypothesis 5 is not supported may be because, according to emotional theorists, it is always very difficult to accept the negative emotions.

These findings have several implications for managers in charge of buyer-supplier relationships. For those who are primarily assessed according to high performance criteria, this study and pride influence the continuity of a relationship with a supplier. From a supplier's perspective, this study shows that a low performance supplier can compensate for its economic weakness and continue to work with a buyer firm if it knows how to handle positive emotions.

Conclusions

This paper sets out to contribute to both practice and theory in several respects. Firstly, this study has several implications for practitioners. The findings must be put into the context of hotel managers in charge of outsourcing decisions and forming relationships with suppliers. We have noticed in previous research that most purchasing agents state that they base their decisions on suppliers on economic criteria alone. Some managers recognize that they also manage their relationships with suppliers by establishing trust and relational norms. Notably, they mention the role of interpersonal relationships in avoiding opportunistic behavior and in fostering a kind of ‘‘relationalism’’ with their suppliers. In contrast, managers who acknowledge their sensitivity to factors stemming from their emotions are few and far between. In general, they concede that emotions may play a role in other firms but that, in their case, emotions have no influence. Yet, these findings show that positive emotions such as happiness, satisfaction or gladness have both a direct and indirect impact on supplier switching. Likewise, from a supplier’s perspective, this study shows how a supplier can continue to work with a buyer firm if it induces positive emotions in its buyers, in addition to reducing switching costs, and fosters strong relationships.

The results of this study has several implications for researchers. It complements numerous research papers on strategic management and marketing channels that test the influence of the economic and relational factors in decisions to switch suppliers. It demonstrates the need to include Emotional Theory in conceptual models. From a methodological viewpoint, this research also addresses the need for more studies on service organizations, where the processes are very different from those of manufacturing industries.

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