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Emotions in outsourcing. An empirical study in the hotel industry

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ABSTRACT

This research aims to analyze the role of positive and negative emotions in decisions about supplier switching in the hotel industry. It shows how, in addition to switching costs and relational norms, positive emotions, such as happiness, empathy, gladness and satisfaction, also act as switching barriers and influence the likelihood of supplier switching. The findings also provide evidence that psychological factors moderate the influence of economic and relational factors. The empirical study was conducted in hotels and restaurants in two tourist areas of Asia and Europe: the Antalya Coast in Turkey and the French Riviera.

1. Introduction

For decades, research conducted into outsourcing has significantly improved our understanding of the determining factors in "make" or "buy" decisions (Walker and Weber, 1984), the most appropriate modes of inter-firm governance (Heide, 1994), as well as the consequences on organization's boundaries (Holmström and Roberts, 1998). Studies into the impact of outsourcing have highlighted how it helps to improve firm's performance; by focusing on core competencies, by increasing the competitive advantage, and by reducing the internal costs (Jennings, 1997). The latter issue is central in the hotel industry, which is known for its high level of fixed costs. With sales and profit margins decreasing, due to the economic recession in Western countries and the intense rivalry between resorts in the tourist areas, hotel managers are attempting to lower their operating costs (Lam and Han, 2005). This explains why outsourcing is occurring more frequently in this industry, bringing in its wake both the potential for superior performance and the overall consequences of increased buyer–supplier dependence.

The buyer–supplier problem of dependence is central for the supply-chain managers in many industries. For instance, a purchasing manager in the automobile sector attested on this issue: "*Our market is hyper-competitive and since we have outsourced 75% of our product manufacturing, our suppliers are the ones that set profit margins. Needless to say, decisions to switch suppliers are very strategic*". Although the hotel industry is less advanced in outsourcing management compared to the automobile industry, it is still necessary to define an effective supplier switching decision-making process in order to limit the negative influence of suppliers' action and benefit from outsourcing.

Over the past years, a number of researchers have analyzed supplier switching decisions in business-to-business (B2B) contexts. Two theoretical perspectives frame their models: Transaction Cost Economics (TCE) and Relational Exchange Theory (RET). TCE scholars have emphasized the influence of switching costs and claim these act as switching barriers. For their part, RET scholars draw upon the positive effects of relationalism, suggesting that long-term relationships enhance value above and beyond any gains from short-term market arms' length transactions. Hence, previous conceptual and empirical studies in strategic management and channel marketing assume that outsourcers make largely rational decisions based on utilitarian product/services/relationships attributes and benefits. They weight both economic and relational factors before any supplier switching decisions (Anderson and Weitz, 1989; Ganesan, 1994; Haugland, 1999; Wathne et al., 2001).

Surprisingly, the potential influence of emotional factors has never been considered in previous studies. Their authors seemed to neglect the fact that positive and negative emotions are "*fuels for*

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drives, for all motion, every performance, and any behavioral act" (Fonberg, 1986, p. 302). While existing consumer behavior research acknowledge the role of emotions in purchasing and post-purchasing decision-making (Chebat and Slusarczyk, 2005; van Dolen et al., 2004; Zeelenberg and Pieters, 2004), strategic management and channel marketing scholars do not give enough consideration to the role of emotions in buyer–supplier relationships.

This study addresses this gap by analyzing how positive and negative emotions, such as happiness, empathy, anger or frustration, influence supplier switching, just as much as economic and relational factors. Because recent work in hospitality management has called for attention to both outsourcing challenges (Espino-Rodríguez and Padrón-Robaina, 2004, 2005a,b; Lam and Han, 2005) and the importance of emotions in a service environment (Kim, 2008; Lin, 2004), this research aims to analyze the role of positive and negative emotions on supplier switching decisions in the hotel industry. An empirical study has been conducted in two tourist areas of Asia and Europe: the Antalya Coast in Turkey and the French Riviera.

2. Conceptual framework

2.1. Outsourcing strategy

Outsourcing is the transfer of control of an activity to a supplier. It is a challenging decision differing from contracting in at least three aspects. First, the decision to outsource is taken at a strategic level. Second, it involves the restructuring of the organization around its core competencies. Finally, the transfer of control to an external supplier leaves the firm performance issues to the supplier.

Reasons for outsourcing often include both tactical and strategic dimensions (Espino-Rodríguez and Padrón-Robaina, 2004). Tactical outsourcing is mainly based on a cost-cutting maneuver, with little consideration about risks linked to the decision. Strategic outsourcing deals with firm boundaries (Jacobides, 2005) and value chain structure (Leiblein et al., 2002; Quinn, 1999). More precisely, the strategic outsourcing literature highlights four specific issues:

Financial issues: Firms outsource in order to lower fixed costs, gain tighter control of budget through predictable costs, transfer the burden of specific investments, decrease working capital, and enhance economic performance.
Operational issues: By getting work done more efficiently or effectively by specialists outsourcing may improve quality, flexibility, and deliveries. It transfers the operational constraints onto the suppliers and sustains the competitive advantage.
Resources and competencies issues: Outsourcing gives the ability to focus on core assets by ridding itself of peripheral ones. It may give the access to innovation, knowledge and create the conditions for relational capability-building mechanism. It also facilitates strategic change.
Organizational issues: Outsourcing responds to internal power issues. It facilitates the diffusion of new practices and forces to expand globally.

For a decade strategic outsourcing is growing and the scope of suppliers' responsibilities continues to expand (Holcomb and Hitt, 2007). The buyer–supplier relationship strategy is the golden key for getting the best of suppliers. Therefore, the selection and the renewal of suppliers need to be regularly assessed. This calls for a specific focus on supplier switching decisions.

2.2. Supplier switching decisions

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) frameworks have examined this dilemma. On the one hand, assuming the TCE hypothesis, scholars such as Anderson and Weitz (1992), Heide and John (1990), Jap (2001), and Joshi and Stump (1999) have tested the influence of investments and specific assets in determining the switching costs. On the other hand, Crosby et al. (1990), Doney and Cannon (1997), and Grayson and Ambler (1999) have taken the position of the RET model, examining the quality of the relational process and trust. The findings offered mixed results which called for further research to consider the interaction of economic and relational factors. More recent studies fail to settle the issue, although their results emphasize the importance of the economic factors. For instance, Cannon and Homburg (2001) claim that the growth in purchases from one supplier always depends on its capacity to cut the buyer firm's costs. A similar conclusion is drawn by Wathne et al. (2001) who state that pricing, breadth of product range and transfer costs trump relational variables.

Such debate among scholars calls for a research model that integrates the most important economic (i.e. switching costs) and relational (i.e. relational norms) factors in supplier-switching decisions in equal measures. In addition, and in line with previous studies in business-to-consumer research, it is necessary to explore the influence of emotional factors and introduce such factors into the model.

2.3. Switching costs

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 (uncertainty, frequency, and degree of specific assets), as well as the characteristics of the parties and the environment in which they occur (small numbers, opportunism, and bounded rationality) 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 (Heide and Weiss, 1995; 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