

The Mediating Effect of Satisfaction on Customer Loyalty in Outsourcing Relationships and its Determinants

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Abstract

The increase in the number of hotel guests indicated that hotels in Malaysia needed to provide more services to their guests. Since hotels are exposed to high fixed costs, they need to outsource some specific services in order to reduce their internal costs. The increase in the number of hotel guests has led to a larger demand for outsourcing of services, and hotel managers have now been exposed to a wider choice of service providers that are willing to provide the specific services they require. This situation has made it easier for hotels to switch from one service provider to another. Therefore, service providers should try to increase the loyalty of existing customers (hotel managers) because it costs less to maintain an existing customer than attracting new customers. While the key objective of relationship marketing is to maintain customer loyalty there is, however, little agreement as to which antecedents should be used to achieve this objective. In response, this study proposed a model of relationship marketing that empirically investigates, in one single model, the effect of perceived value, switching costs, and satisfaction on customer loyalty. This study examined the relationships between perceived value and switching costs on satisfaction and customer loyalty in the Malaysian hotel outsourcing relationships. The mediating effects of satisfaction on the links between perceived value and switching costs on customer loyalty will also be tested. A total of 158 managers from hotels ranging from 1 to 5 Star hotels participated in the study via questionnaire. Data collected were analyzed using SPSS for descriptive statistics while hypotheses testing were conducted using Partial Least Squares with SmartPLS. With the exception of switching costs, results of this study revealed that perceived value significantly influenced customer loyalty while satisfaction was found to mediate the relationship. The findings suggested that perceived value and customer satisfaction play important roles in influencing customer loyalty towards the service provider. The results of this study will assist scholars and practitioners in terms of developing appropriate programs in relationship management.

Keywords: Customer loyalty; Outsourcing; Partial least squares, Perceived value; Satisfaction; Switching costs.



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1. Introduction

In Malaysia, the hospitality industry has become the major pillars of national economy. The hospitality industry is a people-oriented industry and involves employers, employees, and customers. The hospitality can be divided into two main sectors which included accommodation and foodservice (Jones *et al.*, 2002). Hospitality industry has provided the shelter for people staying away from home and provides food and beverages for people eating away from home or not prepares their own meals. In the first quarter of 2016, the food and beverage segment had recorded an increase of 7.4%, which is due to increase in the expenses at restaurants especially during the festive seasons. The accommodation segment recorded a 3.6 percent increase which is due to increase in tourism related activities (Malaysia, 2016). According to Muslim *et al.* (2013), people travel for various purposes including business, visiting relatives and friends, and leisure. Basically, the accommodation segment is supported by the hotel industry, in which its contributions to the nation's growth should not be underestimated. According to the Malaysian investment development authority, under the Tenth Malaysia Plan (2011-2015), the services sector was expected to grow at 7.2% annually until 2015, raising its contribution to GDP to 61% by the end of the plan's period (Mazuri *et al.*, 2016). As one of the most promising and extremely competitive industries in Malaysia, hotel industry requires some key strategies to meet the nation's agenda. The increase in competitions between hotels and increase in costs have caused many hotels to choose outsourcing – utilizing external rather than internal suppliers and service providers to reduce costs (Leeman and Reynolds, 2012). By getting other companies to undertake their core services, hotels can focus on other more pressing matters for better decision-making and business focus (Nurulain *et al.*, 2013). This way, hotels can improve their competitive advantage and reduce their in-house operating facilities fixed investments (Donada and Nogatchewsky, 2009). Firms that involve in outsourcing relationships have the power to terminate their service providers' contracts if they do not achieve the performance standards. Therefore, hotels' image and profits depend on the efficiency and achievement of the service providers. However, with the nature of the hotel services being intangible, it is difficult to implement service differentiation. Therefore, as opined by Parasuraman and Grewal (2000), there is a greater need by service providers to develop close relationships with their customers. However, with the larger selections of service providers, it is a great challenge by service providers to develop loyal customer

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base. With the increase in competition, service providers are now facing great challenges to maintain their relationships with their existing customers. Service providers that are able to retain their customers will achieve several benefits and economic advantages such as increased profits, costs reduction in acquiring new customers, and lowering customers' price sensitivities. Reichheld and Sasser (1990), suggested customer loyalty as an easier and more reliable strategy for an organization to achieve superior performance and long-term profitability. Satisfaction and customer loyalty have been widely accepted as the most important sources of gaining competitive advantage for manufacturing and service organizations (Parasuraman, 1997). For service firms the challenge is identifying the critical factors that determine customer satisfaction and loyalty. Previous studies have shown that perceived value been considered as determinants of satisfaction (Alamgir and Nedelea, 2016; Alizadeh and Parhizkar, 2015; Malik, 2012; Tu *et al.*, 2013) and customer loyalty (Demirgünes, 2015; McDougall and Leveque, 2000; Tu *et al.*, 2013) in various industries such as banking (Malik, 2012) telecommunication (Mohd Shoki *et al.*, 2012), shoe (Tu *et al.*, 2013), food (Utami *et al.*, 2016), tourism (Alamgir and Nedelea, 2016). However, limited study was conducted to study the influence of perceived value on satisfaction and customer loyalty in the outsourcing relationships in the hotel industry. While studies on the influence of switching costs on customer loyalty have been studied by various authors e.g. Afsar *et al.* (2010); Beerli *et al.* (2002) limited studies have been conducted to examine the influence of switching costs on satisfaction, with the exception of a study by Sanjeepan (2017). In addition, review of literature revealed that perceived value, switching costs, satisfaction and customer loyalty have been less studied in a single framework in the business-to-business context. Therefore, it is crucial to investigate the influence of perceived value and switching costs on satisfaction and customer loyalty in the business-to-business setting, particularly in the outsourcing relationships. Results from several studies e.g. (Crosby *et al.*, 1990; Lin and Ding, 2006); (Zhang, 2011) revealed that satisfaction to be a mediator variable in several relationships. However, limited studies have tested the mediating effect of satisfaction on the relationship between perceived value and customer loyalty, and between switching costs and customer loyalty. Thus, this research aims to test a more comprehensive model of customer satisfaction and customer loyalty in service settings; one that incorporates perceived value and switching costs. The model proposes that perceived value and switching costs influence satisfaction which, in turn, influences customer loyalty (Figure 1). This examination allows the service providers to enhance their understanding the interrelationships between perceived value, switching costs, satisfaction, and customer loyalty, so that effective strategies can be formulated in retaining their customers.

2. Literature Review

Each of the components of the model, perceived value, switching costs, customer satisfaction and customer loyalty will be discussed in this section. Review of these constructs will provide the basis for both the methodological approach taken and measurements used to test the model.

2.1. Customer Loyalty

Customer loyalty has been identified as one of the primary outcome in relationship marketing studies (Koech *et al.*, 2015). In addition, according to George and Stavros (2013) customer loyalty has been consistently recognized as key predictors of customer retention. Caruana (2003), stress the importance of distinguishing customer retention, which refers to strategies implement by firms to retain their customers, with customer loyalty which is a psychological state a customer has. A loyal customer should be considered as a valuable sources that may assist organizations to make future plans (Badara *et al.*, 2013). By having loyal customers, organizations can increase their profitability through per customer costs reductions and increase in revenues (Hennig-Thurau *et al.*, 2002). Loyal customers tend to have high willingness to pay premium prices and their needs are easier to satisfy by the organizations since the organizations are well verse with their behaviors (El-Manstry *et al.*, 2011; Lawson-Body and O'Keefe, 2006). In addition, loyal customers are able to provide positive word of mouth, which is known to have great advantage over other types of promotion (Caruana, 2003). However, customers are also loyal due to attachment and commitment with the service providers even though they are unsatisfied with their service providers. In these cases, trust and commitment is crucial in retaining them with the service providers (Afsar *et al.*, 2010). Loyalty has been examined from behavioral and attitudinal perspectives. Oliver (1997), defined loyalty in line with the behavioral approach, as the intention or behavior to repurchase or repatronize in the future. On the other hand, Dick and Basu (1994) defined attitudinal loyalty as "a psychological state (affective and/or cognitive) that the customer may attain as a result of the firm's strategy". A psychology state in a customer led to the voluntarily action 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. Satisfaction

In today's dynamic and competitive environment, the importance of customer satisfaction is obvious since it influences customers' repurchase intentions and brand loyalty (Chiou, 2004). Customer satisfaction has long been considered an important determinant of long-term customer behaviour including customer loyalty and retention (Sawmong and Omar, 2004), and consequently, firms have dedicated substantial effort in identifying customer satisfaction. In general, customer satisfaction refers to an affective reaction to the appraisal of a supplier (Babin and Griffin, 1998). High customer satisfaction has always been the key goal of an organization. In the business-to-

business relationships, customers' level of satisfaction is likely to influence on an industrial customers' loyalty towards their service providers (Lam *et al.*, 2004). While various authors have found significant influence of satisfaction on customer loyalty e.g. (Bloemer and Odekerken-Schröder, 2002; Oliver, 1997), there are several studies (e.g. (Dimitriadis, 2006) that found satisfied customers do defect an buy from other suppliers In the business context, satisfaction is often defined as a positive affective state that results from the experience learned from each partner in achieving their common goals (Simona-Mihaela, 2013). Review of literature revealed that satisfaction have been studied in a variety of industries such as banking (Boonlertvanich, 2011), tourism, restaurant, telecommunications (Lin and Ding, 2006), and mobile service (Edward and Sahadev, 2011). Nonetheless, despite the fact that a number of studies have investigated customer satisfaction, limited research has been conducted in the outsourcing relationships. Hence, this study is an attempt to introduce satisfaction in the hotel outsourcing relationships.

2.3. Perceived Value

There are various interpretations of perceived value which have resulted in distinct definitions (Hu *et al.*, 2009). Earlier studies by Zeithaml *et al.* (1996) suggested that perceived value is a comparison between the benefits received and sacrifices made on a product or service. On the other hand, several authors (e.g., (Moliner, 2009; Sanchez *et al.*, 2006; Sweeney and Soutar, 2001; Ulaga and Chacour, 2001) consider perceived value to be multidimensional construct. These authors argue that apart from the technical benefits and monetary costs of a product, value also includes social, emotional, and economic counterparts. Sweeney and Soutar (2001), considered perceived value as combinations of functional, monetary, social and emotional dimensions. In the marketing literature, perceived value is generally determined by customers' perceptions, and not the suppliers' assumptions, and result from customers' pre-purchase expectation, evaluation during the transaction, and post-purchase evaluations (Khalifa, 2004). Therefore, perceived value is a dynamic, complex, subjective and personal concept. As pointed out by Bolton and Drew (1991), perceived value is a "richer, more comprehensive measure of customers' overall evaluation of a service than service quality". In order for a firm to survive and compete, it is crucial for the firm to deliver products and services that offer superior customer value. As a result, understanding a customer's value position is the greatest concern of managers, and many firms have adopted perceived value as a tool to improve customer service delivery and gain a better position in the market (Parasuraman, 1997); (Ravald and Gronroos, 1996). Therefore, improving perceived value is important since value becomes related to long-term relationships between customers and the service providers. This study, the multidimensional approach to perceived value used by Sweeney and Soutar (2001) was employed. Sanchez *et al.* (2006) posit this approach is able to overcome the excessive concentration on economic utility from the traditional benefit-sacrifice approach (Sanchez *et al.*, 2006). Moreover, the validity problem a multidimensional scale can be overcome by operationalizing perceived value into several components (Chen and Chen, 2009).

2.4. Switching Costs

In general, switching costs refer to one-time costs that prevent customers from switching to a competitor's product or service which can be either monetary or nonmonetary and real or perceived (Caruana, 2003). The customers would not incur these costs continuously and need not incur them immediately upon switching (Burnham *et al.*, 2003). The process of selecting a new supplier is a difficult process involving considerable efforts and costs. Customers that switch service providers have to incur various costs, ranging from the time spent gathering information on the new service providers to benefits from the existing providers that need to be given up when defecting (Jones *et al.*, 2002). Switching costs caused customers to become locked to their banks, which has implication for market competition (Sanjeevan, 2017). Switching costs may reflect loss of loyalty benefits and also buyer's needs to maintain his relationship with a supplier (Lam *et al.*, 2004). Switching costs also include the costs of abandoning existing assets specific to a relationship when a company terminates a relationship with a partner. These penalties for disloyalty act as barriers for customers from switching to another service provider (Aydin and Ozer, 2005).

3. Hypotheses Development

3.1. The Relationship Between Perceived Value and Customer Loyalty

According to Wang *et al.* (2004) firms can maintain customer loyalty through superior customer value that also leads to the success of the firm. Greater perceived value will result in greater levels of customer satisfaction that will lead to greater levels of customer loyalty and retention, and ultimately, a higher market share (Ulaga and Chacour, 2001). According to Tu *et al.* (2013) found that perceived value has a significant influence on customer loyalty in the Taiwan shoe industry. Research conducted by Alizadeh and Parhizkar (2015) on corporate customers in Iran also found that perceived value directly influenced customer loyalty. Based on the preceding discussion, it is hypothesized that:

H1: Perceived value has a significant influence on customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

3.2. The Relationship Between Perceived Value and Satisfaction

Various studies (e.g., (Brontis *et al.*, 2007; Hsu, 2011; McDougall and Leveque, 2000) have found that perceived value positively influenced customer satisfaction. Certainly, customers' satisfaction with a firm's products

or services will increase if these products meet their expectations. Finding from a study conducted by Tu *et al.* (2013) in the Taiwanese shoe industry also found that perceived value have a significant influence on satisfaction. According to Demirgünes (2015) customers' value perception on their mobile phones have positive impact on satisfaction with their products. Based on the preceding discussion, it is hypothesized that:

H2: Perceived value has a significant influence on customer satisfaction in the context of outsourcing practices in the Malaysian hotel industry.

3.3. The Relationship Between Satisfaction and Customer Loyalty

It is well-established in the marketing literature that the major determinant of customer loyalty is satisfaction (Oliver, 1997); (Petrick, 2002; Ryu, 2007). Satisfaction was found to have a direct significant effect on behavioural intention in the Korean restaurant industry (Ryu, 2007). A study conducted by Davis-Sramek et al., (2009) on the loyalty behaviour of retailers to their manufacturers found that satisfaction influenced the loyalty behaviour of the retailers through affective commitment. Jamal and Anastasiadou (2009), found that the level of customer satisfaction with the service had an influence on customer loyalty toward the services offered by the Greek banks. Al-Msallam and Alhaddad (2016), found that satisfaction significantly influence hotel guests' loyalty in Syria. In his study on the banking industry in Malaysia, Arokiasamy (2013) found that customers' loyalty is influenced by customer satisfaction with the financial service providers. Based on the preceding discussion, it is hypothesized that:

H3: Customer satisfaction has a significant influence on customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

3.4. The Relationship Between Switching Costs and Satisfaction

Sanjeevan (2017), found that switching cost has increased customer satisfaction towards Internet banking service in Sri Lanka. According to this study, switching costs can be categorized as internal (e.g. hassle, money, time) and external switching costs (e.g. opportunity, technology, accessibility, benefit, service, security features, risk). When the switching costs increased, customers' satisfaction with the service will also increase. Huang (2016) point out the significant and positive influence that switching costs have on satisfaction. Based on the preceding discussion, it is hypothesized that:

H4: Switching costs have a significant influence on customer satisfaction in the context of outsourcing practices in the Malaysian hotel industry.

3.5. The Relationship Between Switching Costs and Customer Loyalty

In the outsourcing context, business customers are frequently faced with switching costs. An outsourcing firm will be highly dependent on a supplier or a service provider if it is costly to switch to an alternative supplier. Therefore, switching costs have a positive effect on customer loyalty (Burnham *et al.*, 2003). As switching costs increases, the likelihood of customers changing their service providers will decrease (Sharma and Patterson, 2000) and yielding less incentive for firms to compete in the market place (Lee *et al.*, 2001). Numerous authors have investigated the influence of switching costs on customer loyalty, and past studies have shown that the role of switching costs in influencing customer loyalty is well-established (Caruana, 2003); Jones *et al.* (2002) suggested and emphasized using switching costs to enhance customer retention since it has been identified as one of the effective strategies to enhance customer loyalty and maintaining relationships. Based on the preceding discussion, it is hypothesized that:

H5: Switching costs have a significant influence on customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

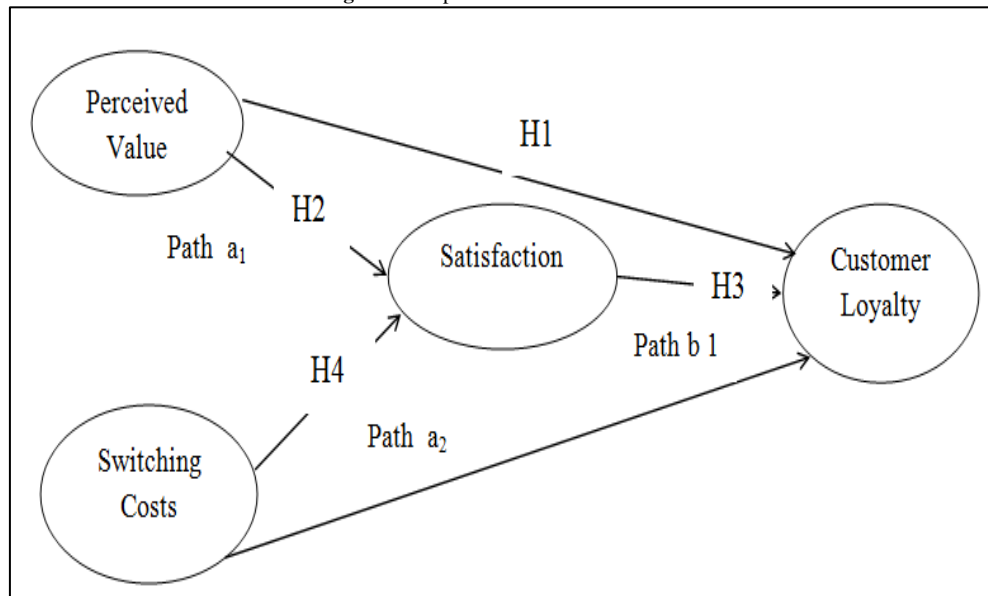
3.6. Mediating Effect of Satisfaction on the Relationship Between Perceived Value and Customer Loyalty and between Switching Costs and Customer Loyalty

Review of literature revealed that satisfaction was found to be a mediator variable between different relationships, which include the following: service quality and customer loyalty (Gorondutsea and Haim, 2014; Keshavarz and Ali, 2015; Lo *et al.*, 2010); (Zahir and Ilham, 2013). However, limited research study has indicated that satisfaction is a mediating variable on the relationships between perceived value and customer loyalty and relationship between switching costs and customer loyalty. Thus, this research proposes the following mediating hypotheses:

H6: Satisfaction mediates the relationship between perceived value and customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

H7: Satisfaction mediates the relationship between switching costs and customer loyalty in the context of outsourcing practices in the Malaysian hotel industry.

Figure-1. Proposed Research Model



4. Research Methodology

4.1. Data Collection

The primary participants are managers of hotels that outsource their services to the external service providers. According to, since there was no official list of hotels that outsourced their operations a pure random sampling is almost impossible to be conducted for this study. Therefore, purposive sampling was used in this to collect data on hotels that outsource their operations. According to [Normalini and Ramayah \(2015\)](#) this method is confined to specific types of people who can provide the desired information which are managers of hotels that involved in outsourcing. The primary source of hotels for this study was the online database of the Ministry of Tourism Malaysia (MOTOUR). However, only hotels with the ratings of 1 to 5 Star were included in the sampling frame. The questionnaire consisted of two sections. The first section collected the demographic data, the second section gathered information on the constructs of the study. A filter question was included in the questionnaire with the purpose of identifying hotels that do not outsource. Hotels that do not involve in outsourcing will be excluded from the study. A total of five hundred eighty-three questionnaires were distributed to all 583 hotels listed in the MOTOUR database and 265 questionnaires were successfully returned. Sixteen sets of questionnaires were not usable because they had more than 25 percent of the items unanswered and 90 sets of questionnaires were excluded from further analysis because it involve hotels that do not outsource their activities. A final sample of 159 or 27.3 percent of the overall questionnaire distributed was identified as representing as hotels that involved in outsourcing. The G-Power application (was employed as a method to determine the minimum sample size since data was analyzed using the Partial Least Squares (PLS) path modeling.

4.2. Research Procedure

The main purpose is to investigate the relationships between perceived value, switching costs, satisfaction and customer 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. Twenty items were adapted from [Sweeney and Soutar \(2001\)](#) to measure perceived value, seven items to measure satisfaction were adapted from [Cronin \(2000\)](#), and eight items to measure switching costs were adapted from [Burnham et al. \(2003\)](#). Customer loyalty was measured by seven items adapted from [Zeithaml et al. \(1996\)](#). After conducting a pre-test with five hotel managers, some items were reworded to ensure the wordings are clear and easy to understand. The hotel managers were asked to answer the draft question and were asked to comment on the suitability of time allocation and their understanding. A pilot test was then conducted on 30 hotel managers, following the pre-test 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 (52.8 per cent) were female. In terms of respondents' age, most of the respondents were in the age bracket of 20-29 years of age (32.1 per cent) followed with the age bracket of 30 to 39 years of age. Only 2.2 per cent were 60 years and above. Majority of the respondents (71.7 percent) had acquired

Certificate/Diploma and Bachelor's Degree as their highest academic qualifications and most of the respondents earned between RM2,001 to RM4,000 per month followed with the respondents earning between RM4,001 to RM6,000 per 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 fifteen 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

To analyze results from the study, all items developed for this study were subjected to a confirmatory factor analysis (CFA). [Anderson and Gerbing \(1988\)](#), and [Chin \(2010\)](#). In conducting the CFA, the study follows two-step approach suggested by in conducting CFA. The approach involved the assessments of measurement and structural models. Partial Least Squares (PLS) approach using Smart PLS Version 2.0 ([Ringle et al., 2005](#)) was used to analyze the data. PLS-SEM is a combination of multiple regression and factor analysis, which allows assessing the validity and reliability of the items, as well as testing the relationships between the variables ([Khin and Ho, 2016](#)).

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 greater than 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 above 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.

Table-1. Results of Reliability and Convergent Validity Analyses

Constructs	Items	Loadings	Cronbach Alpha (α)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Customer Loyalty	LO1	0.870	0.790	0.877	0.704
	LO2	0.860			
	LO3	0.785			
Perceived Emotional Value	PEV1	0.852	0.869	0.905	0.657
	PEV2	0.821			
	PEV3	0.801			
	PEV5	0.817			
	PEV6	0.759			
Perceived Functional Value	PFV1	0.861	0.839	0.884	0.566
	PFV2	0.865			
	PFV3	0.766			
	PFV4	0.555			
	PFV5	0.802			
	PFV6	0.605			
Perceived Social Value	PSV2	0.782	0.830	0.887	0.662
	PSV3	0.840			
	PSV4	0.828			
	PSV5	0.803			
Perceived Monetary Value	PMV1	0.853	0.885	0.921	0.744
	PMV2	0.882			
	PMV3	0.903			
	PMV4	0.809			
Switching Costs	SC1	0.609	0.863	0.892	0.515
	SC2	0.663			
	SC3	0.467			
	SC4	0.828			
	SC5	0.807			
	SC6	0.780			
	SC7	0.815			
	SC8	0.694			
Satisfaction	ST2	0.826	0.914	0.933	0.700
	ST3	0.887			
	ST4	0.908			
	ST5	0.790			
	ST6	0.766			
	ST7	0.837			

^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)}

The next step is to assess the discriminant validity; the extent that items are fully distinct from other constructs (Hair, 2013); Garver and Mentzer (1999). Discriminant validity can be measured by comparing the inter-factor correlations of each construct with the square root of all AVE for each construct, so that the square root of the AVEs exceeded all correlations. 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.

Table-2. Results Discriminant Validity Analysis

	Customer Loyalty	PEV	PFV	PMV	PSV	Satisfaction	Switching Costs
Customer Loyalty	0.839						
PEV	0.429	0.810					
PFV	0.439	0.696	0.752				
PMV	0.448	0.581	0.440	0.863			
PSV	0.277	0.524	0.520	0.322	0.814		
Satisfaction	0.757	0.613	0.489	0.613	0.633	0.837	
Switching Costs	0.254	0.253	0.173	0.224	0.299	0.242	0.718

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

5.4. Perceived Value as a Second order Construct

Perceived value was conceptualized as a second-order construct which is made up of four first order constructs which are social, emotional, functional, monetary values. The purpose of using second order construct is to reduce the number of paths in the model making the model more parsimonious and easier to grasp (Khin and Ho, 2016). Based on the repeated indicators, the degree of explained variance of this hierarchical construct is reflected in its components, which are monetary value (74.4%), social value (66.2%), emotional value (65.7), and functional value (56.6%). All paths coefficients from perceived value to its components are significant at $p < 0.01$. The composite reliability (CR) and average variance extracted for perceived value are 0.933 and 0.52, respectively, which are above the cut-off values (Hair *et al.*, 2011). Table 3 shows perceived value fulfill the criteria as a second order construct

Table-3. Perceived Value as Second order Construct

	AVE	R²	Beta
Monetary Value	0.744	0.534	0.731
Social Value	0.662	0.476	0.690
Emotional Value	0.657	0.811	0.901
Functional Value	0.566	0.731	0.855

5.5. Structural Model

Once the convergent validity and reliability have been established through the assessment of measurement model, the next step is to assess the structural model. The assessment of structural model involved testing 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 are shown in Table 4. With the exception of switching costs, findings of this study show that perceived value exhibited a positive influence ($\beta = 0.616$, t-value = 10.876, $p < 0.05$) on satisfaction. In addition, satisfaction also exhibited a positive influence ($\beta = 0.722$, t-value = 11.413, $p < 0.05$) on customer loyalty. Thus, H2 and H3 are supported while H4 is rejected. However, both perceived value ($\beta = 0.029$, t-value = 0.374, $p > 0.05$) and switching costs do not show any significant influence on customer loyalty, ($\beta = 0.070$, t-value = 1.217, $p > 0.05$). Thus, H1 and H5 are not supported.

Table-4. Results of Structural Model

Hypothesis	Relationship	Standard Beta	Standard Error	t-value	Decision
H1	Perceived Value -> Customer Loyalty	0.029	0.077	0.374	Not Supported
H2	Perceived Value -> Satisfaction	0.616	0.057	10.876	Supported*
H3	Satisfaction -> Customer Loyalty	0.722	0.063	11.413	Supported*
H4	Switching Costs -> Satisfaction	0.058	0.065	0.881	Not Supported
H5	Switching Costs -> Customer Loyalty	0.070	0.058	1.217	Not Supported
* $p < 0.05$					

5.6. Testing for Mediating Effect of Satisfaction

In this study, steps suggested by Preacher and Hayes (2004) has been utilized to test the mediating effects of satisfaction on the links between perceived value and customer loyalty, and switching costs 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. Based on Figure 1, Path a_1 , a_2 and b_1 represent the β values of the relationships between perceived value and satisfaction, switching costs and satisfaction, and satisfaction and customer loyalty, respectively. The significance of each individual path a and b is a requirement to test the mediating effect (Hair *et al.*, 2014). Based on Table 5, the bootstrapped estimate of the indirect effect of perceived value to customer loyalty, and switching costs to customer loyalty are estimated to lie between 0.329 and 0.560 and -0.060 and 0.144 at 95% confidence, respectively. 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 H6 is supported, in which satisfaction mediates the relationship between perceived value and customer loyalty. However, hypothesis 7 is not supported, satisfaction do not mediate the relationship between switching costs and customer loyalty.

Table-5. Results of Mediation Effect of Satisfaction

Hypothesis	Path a	Path b	Indirect Effect		<i>t</i> -value	Bootstrapped Confidence Interval	
			a*b	SE		95%	95%
						Lower Limit	Upper Limit
H6	0.616	0.722	0.445	0.059	7.538*	0.329	0.560
H7	0.058	0.722	0.042	0.052	0.805	-0.060	0.144

* $p < 0.05$

6. Recommendation, Implication and Conclusion

The objective of this study is three fold: to examine the effect of perceived value and switching costs as antecedents of satisfaction; to examine the outcome of satisfaction; and to test the mediating effect of satisfaction on the relationship between perceived value and customer loyalty and between switching costs and customer loyalty.

First, results of this study reveal that perceived value is an important antecedent of satisfaction. This finding supports previous literature with similar findings (McDougall and Leveque, 2000; Wang *et al.*, 2004). It implies that service providers must provide superior services to customers in order to increase their satisfaction. In order to improve satisfaction, elements of value (e.g. emotional value, social value, functional value, monetary value) should be considered when choosing a marketing strategy. From the finding, service providers need to carefully evaluate the emotional value of the service, as it represent the most important elements of assessed by hotel managers. By making customers feel appreciated will increase their satisfaction with the services provided.

Second, the result of this study shows that there is a strong relationship between satisfaction and customer loyalty. This finding support previous study by Afsar *et al.* (2010) which indicated that satisfied customers are positively becoming loyal customers. If the service providers want to increase customer loyalty, they should improvise some specific strategy to satisfy their customers. Since the study shows that customer satisfaction is the key determinant of customer loyalty, subsequently service providers should get the message that they need to get their service right, meet the very essential customer needs, use active listening then take action on it, manage the value of the service effectively, and increase the usage of social networks. By meeting these basic requirements optimally, the company could expect their customer satisfaction that lead to customer loyalty. Customers that are satisfied will not take the risk of switching to other service providers. The service provider should serve as a good partner with the customer by treating the fairly so that the customers will stay loyal with them.

Finally, findings of this study also show that satisfaction is a mediator variable in the relationship between perceived value and customer loyalty. This result provides additional support to the findings in previous empirical studies (e.g., (McDougall and Leveque, 2000)). To elaborate only perceived value influenced customer satisfaction which, in turn, impacted on loyalty. Service providers can have confidence that improvements in value of their services should enhance loyalty through increased satisfaction. However, none of the two independent variables (perceived value and switching costs) influenced loyalty. Perceived value was found to have a non-significant impact on customer loyalty. This result suggests that customers in the outsourcing relationship do not consider value delivered by the service providers when making their decision to stay loyal with the current service providers. The findings do not support the study where perceived value positively and significantly affects customer loyalty. This result suggests that the existence of switching costs will not have any impact on the decision of the business customers to stay loyal with the present service providers. The result of this study is consistent with the research findings by Lee *et al.* (2001) in the mobile phone service in the Swedish telecommunication industry.

According to these authors, once switching costs exceed a certain level, switching becomes difficult and customers accept whatever the service provider has to offer. In addition, a comparatively low switching costs perceived by consumers is not taken into account when customers making decision to consume. Consequently, customers will seek continuation in the relationship, irrespective of switching costs. Although the research findings have shown that the effect of the perceived value on customer loyalty and between switching costs and satisfaction and customer loyalty is insignificant, it is believe that there is a need for further investigations on the relationship between these variables in the hotel industry outsourcing relationships in order to achieve a more comprehensive understanding of the situation.

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