It’s all about Trust and Loyalty: Partner Selection Mechanisms in Tourism Networks

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Abstract

Does expected partner or task related criteria affect how trust and loyalty is developed between tourism firms? This paper poses a model, which is developed on the assumption that well defined partner and task related partner expectations and experienced trust, should build loyalty between tourism firms. The model provides a more precise assessment for scholars, which believes that trust is related to the risk that is associated with personal relationships between two or more firms, and that risk depends on expectations that are derived from personal relationships. The model also integrates the role of experienced trust in transforming different partner selection criteria into loyalty. The contribution of the model is that it provides insights into cooperative relationships by examining the role of trust between small tourism firms when cooperation is established. Data from a sample of 96 tourism firms in the Northern U.S. is used to test the model. The findings provide implications for tourism scholars and policy-makers who are interested in developing managerial strategies that are based on personal relationships.

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Introduction

No firm, particularly a tourism firm, is an island (Håkansson and Snehota, 1990). (Morrison, 2002). When providing the fragmented activities that tourists request, tourism firms benefit from coordinating operations with other tourism firms (Ingram and Roberts, 2000). Crotts, Buhalís and March (2000) have argued that tourism firms form networks to become more competitive vis-à-vis other networks of firms. Regardless of the formality in an attempt to form a network, we know that a tourism firm is dependent on other tourism firms (see for example Buhalís, 2000, for a tourism stakeholder model). Tourism firms share critical information, resources and decisions without knowing an exact outcome of it, and often market their supply of products and services together with other local tourist firms. They also depend on other tourism firms to recommend their products and services and to share approaches on how to manage conflicts that arise from locals regarding shared rights to obtain access to fishing, hunting and other public resources. To cope with this kind of social risk, tourism firms establish different processes that are dependent on loyalty and trust. While research has demonstrated the importance of constructs such as loyalty and trust in the relationships between the tourism firm and the tourist, there is limited work on such constructs within networks of tourism firms. In tourism studies, both customer loyalty and destination loyalty have been studied from the perspective of the tourist (see for example Oppermann, 2000). Here we propose additional benefits for the loyalty construct in tourism research by examining it into a networking situation.
In examining how trust and loyalty are created between tourism firms within a network, we hypothesize the importance of different partner selection criteria. We justify such modelling from the large number of scholars that acknowledge cooperative strategies as highly important for tourism firms (see for example, Palmer and Bejou, 1995). In this study, cooperative strategies are referred to as partner selection criteria that are likely to influence how tourism firms cope with the social risks that are inherent in producing and delivering products and services to tourists. Tourism firms select partners carefully because they want predictable outcomes that match their expectations. They also select partners because they have different roles. Inherent in this process, is the desire to determine whether or not a potential partner can contribute to the relationship (Geringer, 1991) or merely be a good friend (Ingram and Roberts, 2000).

Earlier research draws on several important aspects in understanding how this process is likely to work. One important consideration is that firms select partners because they believe that these partners can deliver a specific task, resource or learning experience that may contribute to the firm’s performance (Hitt, Dacin, Levitas, Arregle and Borza, 2000). This first link is the expectancy, which the partner has regarding a potential partner. Another aspect is uncertainty and how firms conduct a systematic selection of a partner according to given contextual circumstances (Das and Teng, 2000). These hypothesized relationships with expected performance plus contextual uncertainty, have been modelled and tested by structural equation modelling within the tourism industry (Huang, 2006). Our research builds upon these previous findings and explores how loyalty is influenced by expectations regarding trust, which ultimately has an effect on loyalty. Our primary focus then is the extent to which expected partner or task related criteria affect how trust and loyalty are developed between small tourism firms. We particularly focus on tourism firms that are located in remote areas because we believe that efficiency in relationships, such as trust and loyalty, can be an important aspect of coordination and will facilitate exchanges across the physically long distances between the firms.

**Why tourism firms develop precise expectations as they develop loyalty**

When modelling the efforts of tourism businesses to build strong brand names for a destination, loyalty is an important construct. One question is why should firms be loyal to other firms? A possible explanation is that firms have to cope with risk owing to uncertainty. Uncertainty is a consequence of the experienced complexity that firms encounter in their everyday business operations (Thompson, 2004). However, complexity is a difficult concept that many researchers do not consider. In mathematical modelling, complexity is defined as something that relates to situations in which it is impossible to find an optimum for a model. Mathematical models often include many variables, and because of the large number of variables the model becomes complex and thus it becomes impossible to find an optimum solution. This lack of an optimum solution, therefore, justifies a research question.

In a cooperative situation we have only two variables – to either compete or cooperate. The rationality to compete could easily find an optimum solution, if the discount variable is high enough (Axelrod, 1984). This means that if, by letting a partner down instead of cooperating, a firm can gain a larger portion of total value, while there is little rationality to cooperate. A problem arises, however, because the discount variable is unknown and cooperation is an ongoing process with endless situations that also affect a firm’s reputation. These endless cooperative processes are still based on the same two variables – to compete or cooperate. The endless repetitive situations also closely reflect real situations (Gulati, 1995). Such situations are mostly explained by the extent to which a firm is willing to trust the other firm (Axelrod, 1984). In the best case, the firm is also loyal to the other firm (Mavondo and Rodrigo, 2001). Because of the difficulty in mathematically simulating the situation, researchers have increasingly examined empirical settings in which trust and loyalty play a detailed role.

In this paper we propose a model that examines how firms cope with risk that is associated with this kind of uncertainty (See Figure 1). We posit that trust begins with a process of selecting partners carefully. The first part of the model represents the expectations that firms have of future partners. These criteria can include many things. Two of the most relevant criteria, based on the number of citations in this field (see Social Citation Index), are partner related (Geringer and Herbert, 1991) and task related criteria (Geringer, 1991) for partner selection. We believe that these criteria have an effect on experienced trust, which is necessary to achieve a loyalty orientation (Mavondo and Rodrigo, 2001).

![Figure 1: The Gap of Trust and its Effect on Loyalty Orientation](image-url)
Loyalty Orientation

Loyalty is one of the most important constructs in understanding inter-organizational relationships (Guest, 1995; Morgan and Hunt, 1994). Some scholars believe that loyalty is beneficial in understanding how inter-organizational relationships evolve (Mavondo and Rodrigo, 2001). Indeed, it has been suggested that loyalty in inter-organizational relationships can explain firm performance (Gardner, 2005). In our research, loyalty is an orientation, which means that firms act cautiously in order to maintain their inter-organizational relationships (Mavondo and Rodrigo, 2001). In acting cautiously, Mavondo and Rodrigo (2001) suggest that four items are relevant for measuring cautious actions – avoiding uncomfortable situations, no public confrontations, providing avenues out of difficult situations and resolving conflicts in an agreeable way. Loyalty is, therefore, an important construct in research on inter-organizational relations in tourism.

The loyalty construct is useful in both internal and external affairs (Huang, 2006). In internal affairs, a loyalty orientation is evident in how tourism firms, in different practical situations, pursue loyalties. For example, a firm exhibits loyalty when it bargains for common network resources within a specific strategic or geographical domain. Particularly in small communities, where the social proximity of firms is high, firms are reluctant to confront someone without having a strong loyal backup (Axelrod, 1984). In external practical situations between tourism firms, loyalty sometimes also performs the function of bridging between structural holes (Ingram and Roberts, 2001). This external function means that a firm opens avenues for excess capacity within its own system. When a hotel’s rooms are all booked, they pass on a guest to another hotel. The literature presents several possible antecedents to loyalty (Gardner, 2005). Here we examine one of the constructs that is proposed to be most prominent in understanding loyalty in the networks of tourism firms.

Experienced trust

Trust in a partner is likely to create positive behavioural intentions toward that partner and result in loyalty. Boon and Holmes (1991) have demonstrated these behavioural intentions with an illustration that in individual relationships, trust in a life partner can be an important predictor of marriage intentions. Drawing from such arguments, we propose that firms experiencing trust in relationships with their partners, will also exhibit a loyal orientation towards these partners (Mavondo and Rodrigo, 2001). Trust is a key factor in establishing long-term relationships between tourism firms (Ingram and Roberts, 2001). Earlier research has identified the many different roles that trust has for developing strong, lasting and beneficial relationships (for an extensive discussion on this matter, see Lane and Bachmann, 1998; and Rousseau, Sitkin, Burt and Camerer, 1998). Trust is perceived as a matter of risk with direct effects on loyalty (Brockner, Siegel, Daly, Tyler and Martin, 1997). Trust reflects the confidence and positive expectations that a firm has about another service provider (Gounaris, 2005). We, therefore, define experienced trust as mutual honesty and confidence that includes few negative surprises and is established on the basis of similar values. Substantial evidence in the literature supports the role of experienced trust as being an antecedent to loyalty (Morgan and Hunt, 1994; Brockner, Siegel, Daly, Tyler and Martin, 1997; Mavondo and Rodrigo, 2001). As a result, we propose the following hypothesis:

Hypothesis 1: Loyalty is positively related to trust within networks of tourism firms.

Partner selection and trust

Geringer (1991) has argued that the selection of a partner is an important task since it reflects the primary needs of a firm. In our research we explore two different partner selection criteria – task and partner related criteria. We propose that both criteria are related to experienced trust. Task related criteria include the active search for specific kinds of skills (namely same or different) that are consistent with the objective to make money and assume risk. The objective to make money and assume risk is an extension of Geringer (1991) and better illuminates how risk perception relates to expectations. Task related criteria were found to effect cooperation (Ylimaz and Hunt, 2001), as well as be important in a firm’s strategic efforts to become successful (Geringer, 1991). Therefore, when firms find partners that match these needs, they also expect that these needs will help the firm to pursue their strategic goals. Geringer (1991) has defined this process as task related, in which complementary skills and capabilities are desirable. Therefore, we propose the following hypothesis:

Hypothesis 2: Trust is positively related to task related criteria for partner selection within networks of tourism firms.

Partner related criteria relates to the search for familiarity, similar values and recognizable, reliable, expected behaviour. Initiating similar values (Ylimaz and Hunt, 2001, familiarity (Gulati, 1995) and an expected behavioural reliance, is crucial for inter-organizational relationships (Rousseau, Sitkin, Burt and Camerer, 1998) and is likely related to experienced trust (Gulati, 1995). We, therefore, propose the following hypothesis:

Hypothesis 3: Trust is positively related to partner related criteria for partner selection within networks of tourism firms.
Methods

Sample and data collection

This paper is based on a sample of tourism firms in Northern Minnesota. In Northern Minnesota there is a group of 15 local networks of firms, which compete against other networks of firms. The networks are formally organized, based on a 3 percent sales-based membership. The income from members is used for shared interests such as events, marketing, signs, policies and shared web. Data for this paper was collected from the best performing two networks (Ely and Lutsen Tofte Tourism Association), where performance was judged based on sales growth. The sampling procedure was also complemented with a pilot study, which encircled these networks as the most reputable in the area of tourism.

A questionnaire was administered to a sample of 254 tourism firms. A total of 99 firms have responded and 96 responses were usable for this purpose, which resulted in a usable response rate of 38 percent. About 58 percent of the respondents were male and about 83 percent were 41 years or older. The typical tourism firm that responded had 27 employees, while the number of employees ranged between one and 450. The distribution of types of tourists for the typical firm was 27 percent local tourists, 42 percent regional tourists, 25 percent national tourists, and 6 percent international tourists.

The use of Northern Minnesota for sampling has several advantages. One important advantage is that businesses are located in a remote area. In Northern Minnesota, as in other remote areas, there are long distances between households, which results in a relatively low economic activity per square kilometer. Long distances are also present between firms, which mean long distances to each physical meeting. In a relative sense, this results in few companies located close to each other, facilitating a better social control over each other’s businesses and operations. In Northern Minnesota there had been many large mining and forest firms. Presently, a new type of industry has grown around tourism. These new industries demand new service related skills and new types of firm structures and many small and medium sized firms that operate in service intense industries. In tourism, the local product should be focused and in Northern Minnesota the focus is wilderness tourism. There is fishing and boating in the 10,000 lakes, woods filled with wild bears and wolves and a sky of birds that make this area attractive for wilderness tourism. Many people, particularly those from nearby cities, travel there for hunting, fishing, skiing, snowmobiling, boating, canoe safaris, hiking, relaxing and for silence, fresh air and other wilderness-related leisure activities. These activities also have shared policies in which, for example, motorboats and canoes are kept separate to prevent conflicts. The tourism resources include large resorts, spas, hotels, restaurants, camps, guides, outfitters, bait and tackle providers, banks, retailers, souvenir boutiques, different producers of canoes and other producers that provide tourists with unique equipment. Virtually, all firms are, therefore, indirectly related to tourism. If it were not for the tourists, many area businesses would have problems with mere survival.

Measurement

All constructs were measured on five-point Likert scales, ranging from 1 = unimportant to 5 = very important. Loyalty was measured by using four items in which the firm informants were asked to estimate how important they measured loyalty for the firm’s performance, especially considering situations in which the firm wants to (1) avoid uncomfortable situations; (2) not confront inter-organisational partners openly in meetings; (3) give avenues out of difficult situations; and (4) resolve conflicts in an agreeable way. This operationalisation of loyalty was developed from Mavondo and Rodrigo (2001).

The experienced trust construct consisted of six items in which firm informants were asked to estimate how important they regarded trust for the firm’s performance if (1) the partner is honest; (2) truthful; (3) confident; (4) shares mutual trust; (5) has not been negatively surprised; and (6) shares the same values. This operationalisation of trust is almost identical to Mavondo and Rodrigo (2001).

Task related criteria for partner selection were measured by using five items. Respondents were asked to indicate the relative importance they would prefer a potential partner to have, if a potential partner comes from (1) the same line of business; (2) the same ambition to make money; (3) the same competence; (4) different competence; and (5) same willingness to assume risk. This construct was developed on the basis of Geringer (1991).

Partner related criteria for partner selection was measured by using four items. The items were followed by the same situation as the previous question regarding preferable attributes, which a potential partner should have. Sample items include the relative importance that a potential partner is (1) familiar; (2) acts as expected; (3) is trustworthy in his or her behaviour; and (4) he/she shares my values. This construct was developed from Volery (1995).

Results

Table 1 presents means, standard deviations, reliabilities and correlations. The correlations are moderate and significant at p<.01. All composite constructs report Cronbach’s α above .7, which indicate that reliabilities are acceptable (Nunnally, 1978).
In order to test the hypothesized model, we employed structural equation modelling by using Lisrel 8.72 (Jöreskog & Sörbom, 2001). We estimated the relationships between two types of partner expectations (partner and task related) and trust, and the relationship between trust and loyalty. The two independent constructs were correlated in the model test. The results from this test are summarized in Table 2. Overall, the goodness-of-fit value measures are well within recommended values (Hair, 2006). In sum, there is no difference owing to chance between the theoretical model and the observed data. The model explains 30 to 39 percent of the variance in the dependent variables. All path coefficients are significantly (p < .01) related in the hypothesized direction, thereby supporting the hypotheses and the proposed model. The standardized coefficients indicate that partner related partner expectations are the strongest determinant of trust, although task related partner expectations are also an important determinant of trust. In turn, trust is a significant and strong predictor of loyalty. When estimating a model that also considered paths between the partner selection criteria and loyalty, the resulting coefficients were insignificant, reinforcing our assumption that trust is necessary to transform the influence from partner selection criteria to loyalty orientation.

Table 2: Results from structural equation modelling

<table>
<thead>
<tr>
<th>Path descriptions, explained variance and goodness-of-fit values</th>
<th>Parameter estimate</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner related expectations</td>
<td>0.41</td>
<td>4.53***</td>
</tr>
<tr>
<td>Trust</td>
<td>0.26</td>
<td>2.81***</td>
</tr>
<tr>
<td>Task related expectations</td>
<td>0.62</td>
<td>7.71***</td>
</tr>
<tr>
<td>Trust → Loyalty</td>
<td>.30</td>
<td></td>
</tr>
<tr>
<td>R² – Trust</td>
<td>.39</td>
<td></td>
</tr>
<tr>
<td>R² – Loyalty</td>
<td>.90</td>
<td></td>
</tr>
<tr>
<td>χ²; d.f.; p</td>
<td>1.86; 3; .60</td>
<td></td>
</tr>
<tr>
<td>GFI</td>
<td>.99</td>
<td></td>
</tr>
<tr>
<td>NFI</td>
<td>.98</td>
<td></td>
</tr>
<tr>
<td>RMSEA</td>
<td>.00</td>
<td></td>
</tr>
</tbody>
</table>

Notes: N=96, p < .01, two-tailed tests; Standardized coefficients reported

Empirical results illustrate that both task and partner related criteria are important and positively associated with trust between tourism firms. The results also reveal that trust explains considerable variance in loyalty orientation, demonstrating its importance for transforming partner selection criteria into loyalty.

Scholars have argued that an increased knowledge for tourism firms networking has implications for policy in destination development (Buhalis and Cooper, 1998; Tinsley and Lynch, 2001). Managing networks of tourism firms and destinations are challenging tasks. This is especially true because dependencies between tourism firms with different, but closely related products create a need for loyalties. Based on these assumptions, our findings suggest several important implications for tourism research and practice, perhaps foremost by pointing out the possible dependencies between tourism firms making loyalty orientations indisputably important for maintaining and developing sustainable businesses. We should also consider that the firms represent a wide range of unrelated products, all important for one need – tourist consumption in that area. Loyalty orientations can, in such a context, advance our understanding and explanation of how different firms pass on their excess capacity to loyalties within the local network. Given the importance of loyalty as described, we also contribute to tourism research and policy by demonstrating how loyalty can be formed among tourism firms potentially or currently cooperating. This implication emerges from modelling loyalty as being dependent on expectancies of trust portrayed through partner selection criteria, and transformed through experiences of trust. As such, we recognize that loyalty, in fact, is created from expectancies of partner behaviour rather than through their actual behaviour.

A particularly interesting implication of our results is the notion that tourism firms build trust and, consequently, loyalty in relationships that are based on perceived partner similarities. Some literature suggests the opposite – that firms build relationships that are based on differences and complementariness. Drawing from arguments that similarities help tourism firms align for the same goal (task related criteria) and to better understand each other owing to similarities
(partner related criteria), we found conceptual, as well as empirical support, for the role of similarities in creating trust and loyalty in tourism partnerships.

We also present several other avenues for further research on loyalty between networking tourism firms. It is likely that our results are especially valid for the context in which they have been studied. The sample consists of tourism firms that are located in a remote area with high social proximity. There is a tradition where most firms know each other, which can influence one's social back-up. Some firms may know the structure better than others, while some may, therefore, benefit from using the social system more efficiently and through social ties coordinate different resources and operations.

We also propose the specific complexity of dealing with loyalty over geographic distances. Since the firms included in the sample share joint resources over geographically-long distances, it likely places strains on the role and importance of loyalty when planning financially demanding events (such as, for example a conference). Therefore, loyalty should be highly emphasized for studies in remote areas. Particularly for policy making, we propose that loyalty orientations can be important to consider in expanding tourism programs within remote areas. This is a challenging task since loyalty orientations may be difficult to uncover. However the result would be useful because it could be controlled through joint programs.

Subsidies intended to stimulate an interest such as tourism, can be valuable in fostering expectancies of potential outcomes of networking. As such, and as illustrated by our results, such expectancies, whether task related or partner related, can transform experienced trust in achieving a common goal and ultimately toward a loyal orientation.

Finally, we proposed a theoretical model and obtained strong empirical support. We demonstrated that partner and task related criteria simultaneously support experienced trust, which has an effect on loyalty. We have empirically and theoretically opened a gap of how partner selection expectations relate to experienced trust, which, in turn, have a detailed role in forming loyalty. We hope that our efforts stimulate more research on this topic.

References


