



Exploring service outsourcing in 3–5 Star hotels in the Accra Metropolis of Ghana



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ABSTRACT

Outsourcing is one of the strategic tools used by organisations to meet a myriad of objectives in the Western world and Asia. Hotels in Ghana are engaged in one form of outsourcing or the other. However, little is known of what actually happens in these hotels as existing literature on the subject matter is from the perspective of Western and Eastern industries. It is for this reason that the study set out to explore how hotels in the Accra Metropolis of Ghana employed outsourcing as a business strategy. The study specifically sought to examine how managers understood outsourcing, the activities outsourced, the reasons for outsourcing and the challenges faced by these hotels. The findings indicate that outsourcing is well understood and although there are important reasons for outsourcing, there are also teething challenges that must be overcome if outsourcing is to become a strategy of choice in the hotels.

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1. Introduction

Firms gain by vertically integrating many processes in their operations (Guan & Rehme, 2012; Rothaermel, Hitt, & Jobe, 2006; Ruzzier, 2009). By carrying out as many value adding-functions as possible in-house, they retain control of the production process through technological efficiencies and synergies among processes (Corbett, 2004; Harrison & Enz, 2005). With the unpredictable nature of global business environment, due to globalisation, technological change, the need to respond to customers' increasing demands and fiercer competition (Espino-Rodriguez & Gil-Padilla, 2005a,b; Wan & Su, 2010), there is the realisation now by many firms that occasionally an outside company is better placed to accomplish a process more resourcefully than they can and this is leading to outsourcing (Harrison & Enz, 2005).

Outsourcing is not new to the hotel industry and it may vary according to the size, location, market level and ownership of hotel (Hiamey, 2012; Lamminmaki, 2003). Generally, the reasons for outsourcing in hotels can be grouped under five main headings. These are cost reduction, improving quality, flexibility, and improving service, which translates into improving performance hence competitive advantage (Espino-Rodriguez & Gil-Padilla, 2005a,b; Hemmington & King, 2000; Lam & Han, 2005; Wan & Su, 2010).

Significant parts of hotel operations and management have been outsourced and documented in some parts of the world; mainly

Europe, North America and Asia (Donada & Nogatchewsky, 2009; Espino-Rodriguez & Gil-Padilla, 2005a,b; Espino-Rodriguez & Padron-Robaina, 2004; Lam & Han, 2005; Lamminmaki, 2005, 2008; Paraskevas & Buhalis, 2002). Although outsourcing is gradually becoming one of the business strategies adopted by hotels in the 3–5 Star categories in the Accra Metropolis of Ghana, a developing country outside the Western world and the emerging economies of Asia, there was no documentation on the issue. There was, therefore, a need to explore the use of outsourcing as a business strategy among hotels in the Accra Metropolis, by looking at how managers understand outsourcing as a business strategy; explore reasons for outsourcing decisions by hotels; examine functions that are outsourced by hotels; and the challenges faced by hotels that engage in outsourcing.

Organisational forms affect an organisation's success. Thus, it is important to understand why hotels are outsourcing, and which organisational form may be best and why (Lamminmaki, 2003). Practically, this study is expected to provide other hotels that are not into outsourcing with the opportunity to look at the outsourcing phenomenon from the perspectives of hotels that outsource. This could influence their decision to outsource or not.

As regards to theoretical contribution, the study would build on the transaction cost economics (TCE) and resource-based view of the firm (RBV) theories by bringing to the fore issues relating to the application of TCE and RBV theories in outsourcing decision making process in the study hotels.

The study would also provide the Ghana Tourism Authority and Ghana Hotels Association with information on the activities of outsourcing suppliers in the hospitality industry, which could guide policy directions on how to regulate the hospitality outsourcing industry.

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1.1. Overview of the hotel sub-sector of Ghana's tourism industry

The accommodation sub-sector of Ghana's tourism industry has seen tremendous growth in recent years leading to the establishment of hostels, resorts, spas and multinational hotels in the national stock (Mensah, 2009). The growth in the accommodation sub-sector can be linked to the growth in tourists arrivals in Ghana from 1986 to date since commercial accommodation is seen as the most observable and corporeal form of tourism development anywhere in the world (Akyeampong, 2007; Mensah, 2009).

The changes taking place in the accommodation sub-sector are a reflection of government policy, within specific time periods in the history of Ghana. The pre-independence and colonial times did not see any significant commercial accommodation development as neither the indigenes nor the colonial administrators ventured into hotel operations because of a virtually non-existent demand (Akyeampong, 2007).

The development of tourism in post-independence Ghana can be categorised into three periods; era of socialism-inspired development (1957–1973), constrained development (1973–1986) and market-oriented development (1986-to-date) (Akyeampong, 2007). The beginning of the market-oriented period marked the start of the structural adjustment programme and the opening up of the Ghanaian economy for private and multinational investment. The liberalisation of Ghana's economy which started in 1986 can be seen as contributing to the increase in demand for and supply of commercial accommodation in Ghana as more businessmen/women came into the country and the re-establishment of diplomatic relations with several countries; a relationship which was halted during the years of military coup d'états.

2. Theoretical perspectives

Transaction cost economics (TCE) theory and the resource-based view (RBV) theory of the firm, are the foremost theories used to explain the decision to 'make' or 'buy'. Even though these two theories have been widely used in the study of outsourcing, both in theory and practice (Mclvor, 2005, 2009), there is a growing list of authors who argue that none can adequately explain the dynamics and complexities of outsourcing alone and hence, the two should be used in tandem (Espino-Rodriguez & Padron-Robaina, 2006; Mclvor, 2005, 2009).

2.1. Transaction cost economics

Transaction cost economics (TCE) theory is the most influential theory on outsourcing (Espino-Rodriguez & Gil-Padilla, 2005a,b; Espino-Rodriguez & Padron-Robaina, 2005; Holcomb & Hitt, 2007; Lamminmaki, 2008; Mclvor, 2005, 2009). The theory combines economic theory and management theory (Dekkers, 2011; Mclvor, 2009) to determine the best type of relationship that a firm should develop in the market place. The ultimate aim of a firm is to minimise total cost, comprising transaction costs; costs of seeking suppliers, inspection of goods, and establishing and formalising the terms of the agreement (Espino-Rodriguez & Gil-Padilla, 2005a,b; Wan & Su, 2010) and production costs. This forms the basis for organising an economic activity either within the boundaries of the firm or using the open market (Grune-Yanoff, 2007).

TCE theorists argue that organisations would consider the level of transaction specific investments in an economic exchange as the principal determinant of whether an economic exchange should be managed internally or not (Arnold, 2000; Mclvor, 2005, 2009). Decisions on how to produce are made more difficult and costly due to the characteristics of players within an organisation's industry and the environment in which it operates (Donada & Nogatchewsky, 2009). These difficulties include frequency of transaction, asset specificity, uncertainty in demand, bounded rationality, information asymmetry, opportunism and the presence of few suppliers (Dekkers, 2011; Donada & Nogatchewsky, 2009; Mclvor, 2009). Therefore, where the cost of conducting a transaction outside of the firm is less,

most organisations will look to externalise rather than internalise (Donada & Nogatchewsky, 2009; Mclvor, 2009).

2.2. Resource-based view

Edith Penrose's (1959) book, *The Theory of the Growth of the Firm* which sought to find out how firms made decisions on what to produce, at what price and how and why a firm moves from one product and market to another, is credited with making the resource-based view (RBV) of the firm theory popular (Fahy, 2000; Mclvor, 2005). RBV theorists perceive the firm as a distinctive collection of assets and resources that if engaged in idiosyncratic ways can create competitive advantage (Mclvor, 2005).

The unique ways in which a firm manages its assets and resources can result in superior performance and act as a durable source of competitive advantage. For resources to be sources of sustained competitive advantage, they must have four attributes, namely, value, rarity, inimitability and organisation (Barney & Clark, 2007; Mclvor, 2005). Competitive advantage comes about when firms employ strategic resources which are both assets and capabilities (Kristandl & Bontis, 2007).

Based on the theories and the literature on outsourcing, the following propositions were developed to guide the exploration into reasons why hotels outsource or do not outsource:

Proposition 1. *Hotels will outsource if they do not have the internal capability to perform all functions.*

Proposition 2. *Cost and resource availability are the only reasons accounting for outsourcing in hotels.*

Proposition 3. *Outsourcing will be higher for those activities that are perceived to be non-core.*

3. Methodology

An exploratory research design was deemed appropriate for investigating the phenomenon in a more detailed way and by so doing, variables that could be measured were identified (Creswell, 2002, 2007) for further studies. This was necessary due to the paucity of literature on outsourcing in hotels in the Accra Metropolis of Ghana.

The phenomenological approach to qualitative research which has traditionally relied on in-depth interviews to collect data (Lopez & Willis, 2004) was adopted. Phenomenology involves studying a phenomenon within the context in which the phenomenon occurred and from the perspectives of the participants (Titchen, 2008). The aim of phenomenology is to describe the meaning of a concept or phenomenon from several individuals who have experienced it (Creswell, 2007, p. 57). Through a description of the phenomenon, the researcher reduces all the individual experiences into a collective whole, which could become the basis for understanding of the phenomenon. Hence, a phenomenological study was seen as providing the opportunity to look at the ways in which the hotels were outsourcing by enquiring directly from managers who by the nature of their jobs are involved in outsourcing on a daily basis or literally lived outsourcing.

At the time of conducting the study, a total of thirteen (13) hotels were identified within the 3–5 Star categories of hotels in the Accra Metropolis (GTA, 2009). Nine hotels out of this total, comprising three 4-Star hotels, three 3-Star hotels that outsource and one 4-Star hotel and two 3-Star hotels that do not outsource participated in the study. The non-outsourcing hotels were included in the study in order to perform a comparative analysis of their reasons for not outsourcing and the constraints faced by outsourcing hotels. Hotels within the 3–5 Star categories were primary targeted because they have better management and operations structure in place to facilitate outsourcing. One of the key tenets of the resource-based view theory of the firm is organisation. It is the element of 'organisation' that binds the other elements (value, rarity

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