



An examination of factors motivating hotel outsourcing

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ABSTRACT

The broad range of activities undertaken in a hotel, combined with its high labour intensity and volatile demand, signify a predisposition particularly suited to outsourcing. In this paper, transaction cost economics (TCE) theory, agency theory and the broader outsourcing literature are drawn upon to inform the distillation of 20 outsourcing/insourcing motives. The relative significance of these motives is examined using interview and survey data. While broad support is provided for the TCE model, it is apparent that the model does not constitute a robust framework with the capacity to comprehensively account for outsourcing behaviour.

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1. Introduction

Outsourcing has become common place in recent years across a broad range of organisational types (Domberger, 1998). The nature of hotel operations signifies that hotels are particularly suited to outsourcing activities. Particular characteristics predisposing hotels to outsourcing include the broad range of activities undertaken, the high labour content associated with many hotel activities, and the volatile nature of demand for a hotel's services. High hotel demand volatility is apparent over the course of an economic cycle, during a year, over the course of a week and also within a single day (Guilding, 2009). Indeed, outsourcing has been described as "part of the fabric of hotel operations" (Wood, 1999, p. 2).

This paper reports the findings of a study concerned with identifying the range of factors motivating a hotel to outsource particular activities and to gauge the relative strength of these factors. The determination of the range of factors impinging on outsourcing decisions has been informed by a review of transaction cost economics (TCE) theory, agency theory and more generic commentaries on outsourcing. Further insights concerning particular factors motivating a hotel to outsource or insource activities were sought via the conduct of 15 interviews with hotel managers. It is notable that the interview data provided some perspectives that are inconsistent to those espoused by the theories. Following the distillation of 20 outsourcing/insourcing motives, the relative strength of the motives has been investigated using survey data collected from 110 hotel general managers.

The study can be seen to be built on prior research on hotel outsourcing conducted by Bolat and Yilmaz (2009), Chatzoglou and Sarigiannidis (2009), Donada and Nogatchewsky (2009), Espino-Rodríguez and Gil-Padilla (2005), Espino-Rodríguez and Padrón-Robaina (2004, 2005a,b), Lam and Han (2005), Lamminmaki (2005, 2007, 2008, 2009), and Paraskevas and Buhalis (2002). Few empirical studies have provided an investigation of the breadth of activity related factors impinging on a hotel's decision to outsource, however.¹ A key novel dimension of this study concerns its explicit attempt to provide a ranking of factors that motivate a hotel's decision to outsource.

The remainder of the paper is structured as follows. The next section outlines how the literature search and interview observations have informed the distillation of a 20 item listing of factors motivating a hotel to outsource or insource its activities. The subsequent section describes the approach taken in the mailed questionnaire survey of hotel general managers. This is followed by an analysis of the survey findings. The paper's concluding section interprets the study's findings, comments on its limitations and offers some suggestions for further research.

2. Distillation of factors impinging on hotel outsourcing decisions

The first phase of the study involved the distillation of a listing of factors that impinge on the decision to outsource. An attempt has been made to enhance the robustness of the listing by taking the two step approach of undertaking an extensive literature search followed by the conduct of exploratory interviews with

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¹ Notable exceptions to this include Hemmington and King's (2000) investigation of food and beverage outsourcing and Espino-Rodríguez and Gil-Padilla's (2005) hotel activity focused study.

practicing hotel managers.² The literature search involved a review of the TCE and agency theory literatures and also the broader general management and hotel literatures concerned with outsourcing. The interviews were undertaken with 15 hotel managers representing 11 large hotels (smallest hotel contained 134 rooms) in South East Queensland (Australia).

A flexible method of interviewing was adopted so that interviewees could elaborate on their hotel's rationale for outsourcing, without being prompted in any particular theoretical direction or towards a focus on any particular hotel activity. Depending on the course taken in an interview, probes relating to the theories informing the study were introduced by the interviewer in the latter stages of the interview. These probes focused on factors that motivate the outsourcing decision as well as factors that constrain outsourcing. The overall approach taken afforded flexibility, as each interview could be tailored to the knowledge base of the interviewee (the merit of this approach is expounded upon by Patton, 1990). Employing a predominantly non-directive (Fontana and Frey, 1994) approach in interviewing facilitated the development of a broad appreciation of factors impinging on a decision to outsource. This approach also reduces data validity threats emanating from preconceived researcher notions towards the subject under examination (Easterby-Smith et al., 2002). To promote consistent interpretation of the term "outsourcing", Domberger's (1998) definition was provided to interviewees.³

The duration of the interviews ranged between 1 and 2.5 h. The interviewees comprised three hotel general managers, nine hotel financial controllers, a food and beverage manager and a project engineer. These managers had accumulated significant hotel industry experience, typically having worked in a variety of hotels, and were able to draw on their career experiences to provide insight into factors impinging on the outsourcing issue. Conduct of the interviews proved to be particularly useful in securing a more applied understanding of issues discussed in the literature and also identification of issues not found in the literature search. All of the interviews were transcribed and a thematic approach focusing on factors affecting the decision to outsource or insource was taken in analysing the collected data.

It has been found that some of the factors affecting the outsourcing/insourcing decision make more sense when they are presented from the decision to outsource perspective, while others make more sense when they are presented from the decision to insource (i.e., not outsource) perspective. Accordingly, it will be seen that some of the statements developed for examination in the survey phase have been constructed from a "decision to outsource" perspective, while others are constructed from a "decision to insource" perspective.

The remainder of this section of the paper is structured under three headings. Firstly, 10 factors impinging on outsourcing that relate to the TCE theoretical perspective are described. Secondly, two factors impinging on outsourcing that relate to the agency theory perspective are described.⁴ Thirdly, an overview is provided of other factors impinging on outsourcing that do not relate directly to

² The conduct of two empirical phases (an interview phase followed by a survey phase) signifies that a sequential mixed methods approach has been adopted (Tashakkori & Teddlie, 1998). The benefit of this approach stems from its capacity to yield a richer understanding of the phenomenon under examination than if either data source was used in isolation (Creswell and Plano Clark, 2007). Data uncovered in the interview phase greatly informed the design of the questionnaire survey.

³ "Outsourcing refers to the process whereby activities traditionally carried out internally are contracted out to external providers" (Domberger, 1998, p. 12).

⁴ It should be noted that many theories are not 100% mutually exclusive, and one cannot expect all outsourcing or insourcing motives to exhibit exclusive alignment to a single theory in a manner signifying they bear no relationship to any other theories. This factor underscores the fact that the motive/theory connections provided here should be viewed as cast in a relative, and not an absolute, manner.

the TCE or agency theory perspectives. To facilitate identification of each statement with its theoretical origin, and also as an indication of whether it is cast from an outsourcing or insourcing perspective, each statement has been assigned an identifying code. The code for statements relating to an outsourcing perspective begins with the letter "O"; statements relating to an insourcing perspective begin with an "I". The "O" or the "I" is then followed by a "T" if the statement has a TCE theoretical origin, an "A" if it has an agency theory origin and an "M" if its origin is more miscellaneous.

2.1. Transaction cost economics

Transaction cost economics (TCE) has been widely used to explain boundaries of the firm (Espino-Rodríguez and Gil-Padilla, 2005; Lamminmaki, 2005, 2007, 2009; Monteverde and Teece, 1982; Nickerson et al., 2001; Palay, 1984; Widener and Selto, 1999; Walker and Weber, 1984) and represents a valuable framework in any examination of factors relating to outsourcing. TCE proposes that a business will organise itself in a way that minimises transaction costs. A significant facet of the outsourcing decision can be seen to be concerned with the trade-off between lower production costs (assuming economies of scale and specialisation can be achieved by suppliers) and higher monitoring costs that can arise when outsourcing (Kakabadse and Kakabadse, 2000 refer to Lewis and Sappington, 1991). Cost savings represent one of the four main outsourcing benefits identified by Domberger, 1998 (see Table 1).

The literature provides extensive commentary concerned with outsourcing induced cost savings (Ansley, 2000; Deans, 2001; Domberger, 1998; Harrison and Kelley, 1993; Hayward, 2002; Simke, 2000; Syvret, 2001). It should be noted, however, that outsourcing can also increase costs. Kakabadse and Kakabadse (2000) refer to an international survey of 1000 managers which revealed that only 5% achieved high levels of outsourcing cost benefits, and 39% reported only mediocre results. One reason for these reported cost saving differences may stem from inadequate assessment of all transaction costs. Internal transaction costs (such as head office costs, support costs, R&D, staff development and investment in infrastructure required to provide a service) can be significant, yet appear to be often overlooked (Chalos, 1995). Outsourcing as a means of minimising labour costs in the hospitality industry has also been noted by Soltani and Wilkinson (2010). Lamminmaki (2006) provides an overview of costs (as well as benefits) of hotel outsourcing.

The extent of literary exposure given to the cost reduction motive apparent in many outsourcing decisions clearly warrants its inclusion in the present study. In addition, a quest for reduced costs was cited as a primary outsourcing motivation by many of the interviewees. The GM of one hotel, claimed his chef was always on the look out for products that he could buy in better and cheaper:

"There are a whole range of ingredients which we outsource... It really comes down to the chef. If he can pre-make it at a certain price and quality, well it is all economic".

The general TCE theorem of cost minimisation can be seen to lie behind statement O-T1:

Statement O-T1: There are many activities that we do outsource (or would consider outsourcing) because outsourcing can yield significant savings.

TCE proposes that an organisation's decision to outsource an activity is dependant on three attributes of the activity: frequency, uncertainty and asset specificity (Williamson, 1979, 1985, 1996). According to TCE, the likelihood of an organisational activity being outsourced is reduced if the activity is conducted frequently, is associated with high uncertainty or has high asset specificity.

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