

Factors Influencing the Selection of an Activity to be outsourced in the Sri Lankan Hotel Industry

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1. Introduction

Outsourcing occurs when a company uses an outside firm to provide a necessary business function which would otherwise have been done in-house. It is a strategic management strategy of transferring part of the business process to another company.

The hotel industry in Sri Lanka is crucial because of its direct link to the tourism industry. Tourism contributes substantive percentage of the GDP. Customer satisfaction is the most important part to attract more customers. It should maintain the least possible cost in operations. This requires hotels to change the way they do business in order to remain competitive.

In Sri Lanka outsourcing is popular in the hotel industry and selecting an activity to be outsourced is a most critical decision since there are a number of factors to be considered prior to making a decision. The relative importance of each factor when selecting an activity for outsourcing has not been identified for the Sri Lankan context.

2. Objectives

The overall objective of this research was “to develop a relationship diagram which supports the selection of an activity to be outsourced”.

This objective was achieved by fulfilling the following five objectives:

- a) Identify mainly outsourced functions in hotels.
- b) Identify the most significant factors influencing outsourcing decisions in the hotel industry
- c) Identify the relative importance (weights) of each factor
- d) Identify the relationship between influencing factors and outsourcing decision
- e) Develop a formula according to weights and relationships.

3. Methodology

The research was conducted in 9 steps and the data collection methods and analysis technique use are mentioned below. The sampling technique was convenience sampling since time and cost restricted the use of other techniques.

- Step 1: Reviewing literature and identifying factors influencing selection of activities to be outsourced in hotel industry
- Step 2: Collecting secondary data on industry& selecting the target population as 3 to 5 star hotels in Western Province
- Step 3: Conducting an in-person interview to identify the applicability of factors identified in the first step to Sri Lankan context
- Step 4: Conducting the first survey to identify most prominent factors
- Step 5: Reducing the outsourcing adoption attributes and identifying the most significant factors using Pareto analysis
- Step 6: Conducting the second survey to gather data for Analytic Hierarchy Process analysis
- Step 7: Using Analytic Hierarchy Process to compute weights of each factor
- Step 8: Identifying the correlation between identified factors
- Step 9: Developing the relationship diagram

4. Results and analysis

4.1. Most commonly outsourced hotel activities

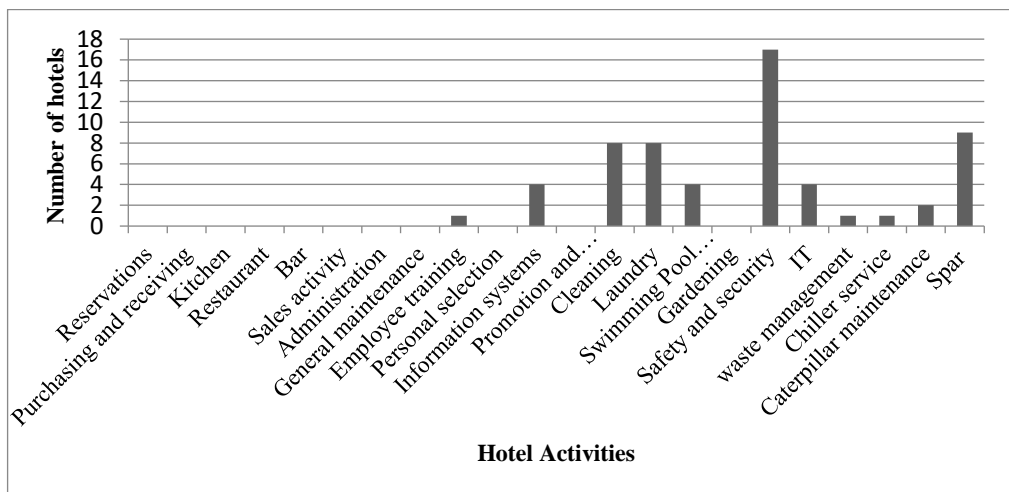


Figure 1: Most commonly outsourced hotel activities

This result revealed that currently outsourced activities are employee training, cleaning, laundry, swimming pool maintenance, IT, waste management, so on. It

indicates that firms currently outsource activities which have minimum direct contact with the hotel customers.

4.2. Determinants of which activity to be outsourced

Twenty-three factors identified through literature and in-person interviews are considered as determinants. Pareto analysis was used to identify the most important of the 23 factors. Since the Pareto principle states that 80% of impact is caused by 20% of causes; the following steps were followed in order to select the most prominent factors:

- a. Input the rank given by each respondent for each factor
- b. Give score for each rank (First ranked factor is given score of 15 and the fifteenth ranked factor is given score of 1).
- c. Calculate total score gathered by each factor
- d. Calculate cumulative score
- e. Calculate percentage
- f. Calculate rank
- g. Calculate rank percentage
- h. Draw Pareto chart
- i. Select most prominent factors according to 80/20 rule

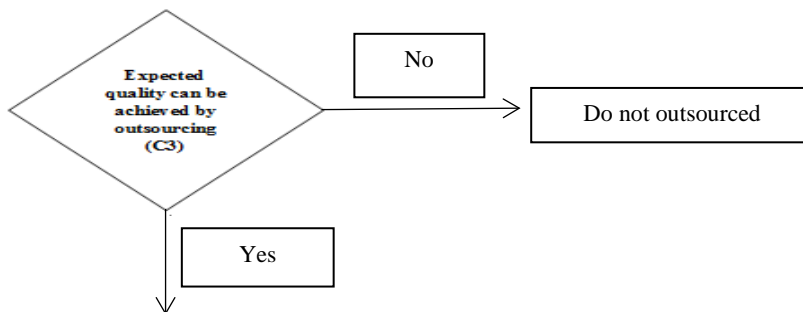
The first five factors account for 21.74 % of factors which have an impact of about 52.98%. Hence (a) Expected quality of service, (b) Risk related to outsourcing, (c) Ability to reduce operating cost, (d) Level of supplier performance, (e) Available capacity were identified as most important factors influencing selection of activities to be outsourced.

The Analytic Hierarchy Process method was used to determine relative weights for each identified factor. Questionnaire 2-part 2 was designed to identify the relationship between each factor and outsourcing decision. The variation in outsourcing decision corresponding to an increase in each factor was examined. Relationships between factors and outsourcing decisions were also identified by analysing the responses to questionnaire 2 –part 2. Relative weights and their relationships are presented in Table1.

According to the findings (Table 1) a relationship diagram is generated (Figure 2). If expected quality can be achieved by outsourcing then that activity will be outsourced. Y (Where Y is tendency to selecting that activity to be outsourced) increases if C1, C4, increase and Y (Where Y is tendency to selecting that activity to be outsource) decreases if C2, C5 increase. These relationships are presented in Equation 1.

Table 1: Determinant on which function is to be outsourced, the relative weights and the relationships

	Factor	Weight	Tendency to selecting that activity to be outsourced (Y)
C1	Ability to reduce operating cost	0.1117	When the ability to reduce operating cost increases, the tendency to select that activity to be outsourced increases
C2	Risk related to outsourcing	0.1499	When the risk related to outsourcing increases, tendency to select that activity to be outsourced decreases
C3	Expected quality of service	0.3973	Whether expected quality of service increases or decreases, the tendency to select that activity to be outsourced is not affected by that variation. Firm must decide for themselves as to how they can achieve the expected quality (by outsourcing or by doing in-house).
C4	Level of supplier performance	0.0999	When level of supplier performance increases, the tendency to select that activity to be outsourced increases
C5	Available capacity	0.0359	When available capacity increases, the tendency to select that activity to be outsourced decreases



$$Y = \frac{0.1117 \times C1 + 0.0999 \times C4}{0.1499 \times C2 + 0.0359 \times C5} \dots \dots \dots (1)$$

Figure 2: Relationship diagram

5. Conclusion

Research reveals that outsourcing is not a new term within the hotel industry. The most commonly outsourced activities are the activities that have minimum direct contact with customers and require technical skills and investment. Therefore, an important part of the hotel’s activities could be managed externally, especially those activities related to laundry, information systems, maintenance, spa and swimming pool maintenance. The operations that have direct contacts with customers are those that have fewer tendencies towards outsourcing, since they are more valued by the guests.

Most significant factors determining which activity is to be outsourced are the expected quality, the ability to reduce operating cost, risk related to outsourcing, supplier performance and available capacity.

Among these factors quality is the most crucial factor. Since the hotel industry is service-oriented, customer satisfaction depends on service quality. Therefore, expected quality of service is the most critical factors. Therefore prior to outsourcing any activity it needs to be decided whether in-house quality and outsourced quality are equal. If the expected quality can be achieved only in-house then that activity is not outsourced. If the expected quality cannot be achieved in-house that activity is outsourced. Furthermore, the other four factors also have a relationship with the decision to select an activity for outsourcing. This relationship is illustrated using the relationship diagram derived in the research.

6. References

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