OUTSOURCING WITHIN THE SOUTH AFRICAN HOTEL INDUSTRY

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ABSTRACT

As a result of increased competition, an increasingly business environment causing fluctuating hotel occupancies, South African hotels have had to rely more on outsourcing activities to remain competitive.

The aim of this study was to identify the major differences between regular outsourcing activities and those done in South African hotels. The research was conducted amongst senior managers involved in outsourcing in the hotel industry.

The results of the study indicate cost advantages to be the main reason for hotels embarking on outsourcing activities with location also a contributing motivator. Several challenges associated with outsourcing present themselves in the operation causing longer term challenges for hotels.

DECLARATION

I, John McCosh, declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted for any degree or examination to this or any other university.

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to determine and understand the challenges and benefits facing South African hotels that outsource various hotel functions, and to identify their success factors. It is thus a priority of this study to gain a broader knowledge of outsourcing within the hotel industry in South Africa.

1.2 Context of the study

Outsourcing has become a commonly adopted strategy for hotel companies as managers attempt to reduce operating costs in a challenging business environment. Hotel outsourcing is a growing trend with the aim of improving productivity, increasing revenues, lowering operating costs and reducing risk. (Lam and Han 2005)

With the World Cup approaching, tourism in South Africa has been growing steadily and is expected to continue to grow despite the global economic outlook. This has led to the development of new hotels. The contribution of tourism to South Africa's GDP is estimated to have increased 15% to R160 billion in 2007 and the number of jobs created in the economy by tourism increased by 5% in 2007 (Van Schalkwyk 2007).

South Africa currently has approximately 40700 hotel rooms with less than a quarter of hotels outsourcing one or more components of their business. This leads us to believe that, following on from international hotel trends, there are opportunities for hotels to increase financial performance and productivity and to lower risk through outsourcing.

It seems however, that while a substantial amount of research exists on outsourcing in general, there is a gap in research on hotel outsourcing. Due to the limited amount of literature available on the topic in a South African context, the objective of this study is to explore and join the international literature with the interpreted results from the semi-structured interviews.

1.3 Problem statement

1.3.1 *Main problem*

The purpose of this research is to determine and understand the challenges and benefits facing South African hotels that outsource various hotel functions, and to identify their success factors.

1.3.2 *Sub-problems*

- The first sub-problem is to identify reasons why hotels outsource activities.
- The second sub-problem is to determine what challenges hotel managers face when outsourcing.
- The third sub-problem is to establish the potential key success factors for outsourcing in South African hotels.

1.4 Significance of the study

With many new hotel developments underway in South Africa, the industry has matured and is becoming increasingly competitive. The continued profitability of the hotels depends on their ability to adapt, shape and sharpen their offerings to ensure they stay ahead of the competition.

The aim of this study is to develop further insights into outsourcing activities in the hotel industry in South Africa. Implications of the findings of this study will inform, guide and assist hotel owners, directors and decision makers in their decisions to outsource activities or functions of the hotel. The results of the study will add to the knowledge base and understanding of outsourcing in South African hotels and the paper will provide first hand insight and a deeper look at reoccurring outsourcing problems faced by South African hotels.

Outcomes should include ideas on: cost implications, operational challenges, management flexibility and control, the building of sustainable relationships, organisational culture, competency issues and access to capabilities and knowledge.

1.5 Delimitations of the study

- The study will focus on the hotel business and will not examine other elements of the hospitality industry.
- Hotels can outsource many activities such as laundry, cleaning, security, catering, food and beverage, maintenance services, etc. This study does not focus on individual activities but broader trends within the outsourcing industry.
- The interviews conducted will be limited to three, four and five star hotels within South Africa.

1.6 Definition of terms

Outsourcing; this activity happens when all or part of an organisations activity is turned over to an outside vendor (Lever 1997).

Vertical integration; occurs when one firm carries out two or more consecutive stages of the production-distribution chain. A firm can be integrated forwards (downstream) into distribution or retail functions or backwards (upstream) into supply functions. (Hobbs 1996).

Service Level Agreement (SLA); this is a negotiated agreement between two parties, one being the customer and the other the service provider. An SLA can be legally binding in the form of a formal or informal 'contract' (Lamanna, Skene and Emmerich 2003).

Agency Theory; refers to a contract in which one party is designated as the principal, and the other, the agent. The agent contracts to carry out certain activities for the principal and the principal contracts to reward the agent accordingly (Perrow 1986).

Discernment; Encyclopedia.com (2009) quotes: “the ability to judge well”

Resort Hotels: Hotels which are located outside of a city typically in the countryside, seaside or mountains and which cater for leisure travellers. Resort hotels tend to experience higher fluctuations in occupancies due to seasonality and holiday periods.

1.7 Assumptions

- The assumption is made that hotels operate in a similar manner in South Africa as they do internationally.
- Due to the positions held by interviewees in their respective hotels, it is assumed that they will have sufficient knowledge to clearly articulate in depth accurate answers to the semi-structured interview questions.

2 LITERATURE REVIEW

2.1 Introduction

The purpose of this literature review is to provide an overview of the current literature relating to outsourcing with specific reference to the hotel industry. Several studies on hotel outsourcing suggest that it enables a company's capabilities and resources to be improved by achieving improved quality of services and increased performance thus achieving competitive advantage (Hemmington and King 2000; Espino-Rodriguez and Padrón-Robaina 2004; Espino-Rodríguez and Padrón-Robaina 2005; Lam and Han 2005; Lamminmaki 2005; Donada and Nogatchewsky 2008). The reasons for this are well documented and are explored in greater detail in this study.

Traditionally when business is booming, the temptation is to hire more staff, expand facilities, and bring more of the business in-house. However, today's knowledge and service based economies offer innumerable opportunities for companies to increase profits through outsourcing (Jiang et al 2006).

Ravi et al (2006) claims that the global outsourcing market has grown rapidly in recent years and expectations of a further two-digit growth in coming years are predicted by market experts. They explain that business environments are no longer seen as stable and predictable due to economic globalisation, market maturity, and technological change. The need exists to respond to customers' high expectations and fiercer competition in an increasingly difficult to predict, complex environment.

The following topics will thus be reviewed from the literature: Cost implications, managing relationships, labour and management flexibility, access to specialized capabilities, organisational culture and increased business focus.

2.2 Outsourcing and its impact on operational objectives.

Several definitions on outsourcing have been proposed, however several authors believe that there is no general definition or measurement of outsourcing, but broadly describe it as: “different kinds of corporate action related to all subcontracting relationships between firms and the hiring of workers in non-traditional jobs”. (Barthelemy 2003), (Gilley and Rasheed 2000), (Gorg and Hanley 2004), (Lever 1997), (Bendor-Samuel 2000).

In the attempt to closely link the definitions to the hotel industry, we can simply suggest that outsourcing takes place when an organisation transfers the ownership of a business process to a supplier. The key to the definition is the aspect of transfer of control.

In a study conducted questioning why outsourcing activities often fall short of management expectation, research has found one or more of seven ‘deadly sins’ underlie most failed outsourcing contracts: (1) outsourcing activities that should not be outsourced, (2) selecting the wrong vendor, (3) writing a poor contract, (4) overlooking personal issues, (5) losing control over the outsourced activity, (6) overlooking the hidden costs of outsourcing and (7) failing to plan an exit strategy (Barthelemy 2003). These are discussed in more detail in this study.

2.2.1 Cost reduction as a result of outsourcing

There is every reason to support the idea that if contracting something out is cheaper than doing it yourself, then outsource (Hendry 1995). Given this statement, one not only saves money through greater efficiency but one also becomes more effective by focusing more on core activities.

Empirical evidence has found that outsourcing firms have a significant advantage in cost efficiency over their counterparts who do not outsource any activities. These companies obtain more valuable resources to invest in other productive capacities (Jiang et al 2006). Similar literature has recognised that the chief motivator for most companies to consider outsourcing begins with an anticipated cost advantage. However, there is a need to caution this motivator as it should by no means be the sole reason to outsource and it must be recognized that outsourcing can simplify the operation allowing one to focus on core strengths that will lead to product and service improvement which will result in increased profits in the long run (Outsourcing Institute 2009).

Quelin and Duhamel (2003) similarly agree that outsourcing has long been considered a means to reduce costs, but these can only be achieved in specific conditions, e.g. the external provider has access to economies of scale or a specialized skill which the outsourcer does not. The issue here is that managers often find that costs savings are not achieved due to high switching costs incurred in the transaction such as selection, negotiations, reorganisation and ongoing control.

Hidden costs are also often overlooked, Barthelemy (2001) argues that companies often overlook costs that can seriously threaten the viability of outsourcing efforts. It therefore becomes a matter of considerable importance to select the right vendor to avoid opportunistic expropriation by writing up an accurate, flexible and simultaneously precise contract based on a mutually trustworthy agreement. The examination of various studies strongly presents the cost advantages of outsourcing provided that the pros and cons of all options are considered (Gilley and Rasheed 2000). A further noteworthy point mentions that costs decline and investment in equipment is reduced which lowers fixed costs and leads to a lower break-even point.

Conceivably one may suggest that in the long run, cost advantages are achieved.

2.2.2 Management control and relationships with outsourcing partners

Many outsourcing attempts have proven unsuccessful which recent articles blame on failed outsourcing relationships (Logan 2000). Two possible solutions are suggested, firstly to diagnose the relationship from both sides of the contract and secondly to engage agency theory to help design the contracts and relationships necessary to provide and support an environment of trust. The latter emerges as the dominating idea in this section.

Moreover, it is important to note that well defined services and their associated service levels are fundamental components to any successful outsourcing contract for the management or operation of an organisation's services by an external source (Larson 1998). Given this statement, we point to the notion of service level agreements (SLA) and their importance in ensuring mutual understanding of both parties' expectations thus maintaining trust, control and sustainable outsourcing relationships.

It has emerged in literature that using SLA's as a proxy for formal control, elements characterized as foundation, governance and change management are positively related to the trust and relationship commitment among the parties. Consequently, trust and commitment positively influence relational outcomes which contribute to outsourcing success (Goo and Huang 2008).

The above point is central to Heikkila and Cordon's (2002) explicit recognition that time and resources are needed to manage outsourcing relationships, and to clarify contracts and expectations to align objectives with the supplier which frequently become difficult and exorbitant. They explain that the choice of partners and the approach to co-managing the relationship become central factors in the outcome of an outsourcing arrangement and companies need to consider both strategic and operational issues.

More generally, and similar to a friendship or marriage, Goo and Huang (2008) state that not all outsourcing relationships work well and a deteriorating relationship can result in higher costs, operational disruption and lost business opportunities. The findings of a study conducted by Kakabadse and Kakabadse

(2005) strongly indicate that partnership alliances and performance-driven contracts will become as important as the current preferred, trusted supplier relationships.

In short, the examination of different studies leads us to believe that the development of trust is compatible with the development of tighter controls and contracts provided that these controls develop in a supportive manner involving both parties (Langfield-Smith and Smith 2003). Also, if control of an activity is critical to the company then it should choose not to outsource this activity.

2.2.3 Labour flexibility in outsourcing

A growing body of literature is evident that well established companies are increasingly developing new staffing policies by strategically using contract labour to reduce costs as competition grows (Purcell and Purcell 1998). Advantages are the ability to staff flexibly in order to meet business volume demands as well as to reduce training needs (Downey 1995). One might be tempted to argue that developing these policies would hinder employee loyalty and negatively affect services provided or production. This raises the question of long term quality of the workforce.

Indeed, while there may be short term cost benefits associated with outsourcing, there appear to be long term costs associated with skill loss, reduced commitment and declining trust, loyalty and commitment (Hall 2000).

However, analysing this from a different dimension, Munger (2008) suggests that managers find it difficult to motivate in-house staff as watching each employee is expensive and tiresome. He adds that it is easy to fire contracted employees as you can easily sign a new contract with a competitor supplier.

Similarly, Jiang et al (2006) explains that the use of independent contractors provides employers with the flexibility to hire help only when they need it, for as long as they need it, and this also allows firms to avoid having to provide costly benefits. They state that the outsourcing firm will demonstrate an improvement of employee productivity.

Despite increased flexibility, potential risks involved do present themselves including longer lead times, communication barriers, co-ordination difficulties, lower demand fulfilment as well as unexpected transportation and expediting costs (Gilley and Rasheed 2000).

The corollary from this contribution is that it would be wise to suggest that each decision to outsource staff needs to be assessed individually from a risk and benefit perspective.

2.3 Outsourcing in the hotel industry

Business environments nowadays are no longer seen as stable and predictable because of economic globalisation, market maturity, technological change and the need to respond to the customers' increasing demands and fiercer competition. This has led to an increase in outsourcing of hotel support services (Espino-Rodriguez and Padrón-Robaina 2004).

A lack of research interest in hotel outsourcing is surprising, as outsourcing has become a significant facet of modern hotel management (Lamminmaki 2005). According to a study done by Espino-Rodriguez and Padron-Robaina (2004), hotel managers consider outsourcing to have great potential to exert an influence, not only on cost reduction, but also on other objectives of operations strategy making outsourcing more strategic in nature. They explain that it has been seen that outsourcing significantly influences hotel performance, which empirically corroborates aspects that had only been previously analysed theoretically. In support of this, Donada and Nogatchewsky (2008) explain that studies into the impact of outsourcing have highlighted how it helps to improve firm's performance by focusing on core competencies, by increasing the competitive advantage and by reducing the internal costs. The latter issue is central in the hotel industry which is known for its high fixed costs.

Hotel outsourcing therefore only makes sense when it has a positive influence on the different operations objectives and on hotel performance. Moreover, the impact on customer perceptions of the hotel product and their satisfaction needs to be carefully considered. (Hemmington and King 2000)

2.3.1 Tactical and Strategic outsourcing

Several authors have recognised that outsourcing is strategically important for an hotel and similar to any strategic decision it must be assessed for its influence on competitive advantage and congruence with decisions that affect the company's environment (Espino-Rodriguez and Padrón-Robaina 2004).

One can now address each of the two main broad categories of outsourcing:

Tactical – This type of outsourcing is relatively simple as the decision is often intuitively taken and based on costs, with little consideration of the other benefits and risks involved in the decision. An example of tactical outsourcing would be the decision to outsource the cleaning of bed linen as opposed to cleaning them in-house purely for cost saving purposes.

Strategic – Here the analysis is more detailed and involves all managers and also involves a rational decision-making process. Strategic outsourcing takes into consideration improved quality of operations, unavailability of resources and abilities to develop activities to access capabilities and knowledge (Espino-Rodri´guez and Padrón-Robaina 2004).

It would be fair to state that most outsourcing decisions are strategic by which those services not part of core business activities essential to the operation can be acquired outside the firm. This can be done using contracts or agreements with companies more qualified to improve the competitive advantage.

In view of the above it is important to note that hotel companies need to be certain about which activities to outsource and which not to. They also need to establish whether outsourcing is justified on the basis of the company's resources and capabilities (Rodríguez 2001).

2.3.2 Competitive advantage increased capabilities and focus

Forming a strategic alliance with a specialized outsourcing partner to operate certain hotel functions in an attempt to reduce costs and risks and to increase efficiency allows the hotel to concentrate on core strengths to maintain competitive advantage (Lam and Han 2005). Given these benefits, it has become increasingly important in the hotel sector where an increasing amount of specialist suppliers offer services covering virtually all activities necessary to the hotel product including laundry, cleaning, maintenance services, etc (Espino-Rodríguez and Padrón-Robaina 2005).

However, we query whether specialist suppliers are available to meet the demands of operational and business expectations of hoteliers. Indeed, Lam and Han (2005) explain that hotel management had difficulty identifying reliable and capable suppliers. They emphasize the attributes that hoteliers should consider: supplier's expertise, past performance as well as company culture and values.

The key to establishing an efficient operations strategy lies in the ability to create and add value to the customer which can be achieved by emphasizing the different competitive priorities. Companies must possess competitive advantages to excel operationally of which four main types were identified: (1) cost reduction, (2) improved quality, (3) flexibility and (4) increased service and meeting deliveries (Espino-Rodri´guez and Padrón-Robaina 2004).

Heikkila and Cordon (2002) suggest that managers commonly support their outsourcing decision with the familiar argument that they keep core competencies in-house and outsource the non-core. They also need to consider both strategic and operational issues.

When we look at one particular example in the food and beverage division we notice that restaurateurs, as opposed to hoteliers, are generally able to offer more exciting, interesting concepts in comparison with most hotels whose dining lacks interest as their core business is selling rooms. If these views are true reflections of the divergence of core competencies between hotels and in this case restaurants, then it provides a compelling case for alliances between hotels and outsourcing companies to bring together their own set of core competencies in the business (Hemmington and King 2000).

Now the argument arises as to which hotel activities are core and which are non core. A hotel guest sees every part of the hotel service as a component of their experience as a whole regardless whether it is the restaurant, bars, laundry or concierge. (Hemmington and King 2000) supports this view stating that most hotel services are viewed by customers as an integral part of the hospitality product as they all contribute to the hotel image and overall experience.

2.3.3 Reduce and control operating costs

Literature has identified financial performance as the overwhelming reason for outsourcing, in terms of reducing costs as well as increasing revenue. A study done by Hemmington and King (2000), shows that most hotel food and beverage departments are operating below potential and making losses after overhead costs are taken into account. Contrary to expectations, some studies have found cases where outsourcing has increased costs (Lam and Han 2005).

Hotel managers consider outsourcing to have a great potential to exert an influence on cost reduction and other objectives of operations strategy making outsourcing more strategic in nature (Espino-Rodriguez and Padrón-Robaina 2004). Furthermore, in tough business environments, managers commonly adopt the strategy to outsource in an attempt to squeeze operating costs. One might be tempted to argue that quality operating standards are jeopardised as a result of squeezing costs, yet literature has shown that senior managers were well aware of the long term benefits of outsourcing and the strategic factors such as suppliers' capabilities in delivering quality service, maintaining service standards as well as developing new markets in the long run (Lam and Han 2005).

During economically difficult times a need to maximise cash flow leads to close scrutiny of the financial performance of every square meter of hotel space. When we look at an example of a non-core activity, hotel restaurants are often considered lazy assets with poor performance leading to an increased attention to the bottom line (Hemmington and King 2000). Additionally, when sales are down, firms are not tied to unrealistic salary costs (Jiang et al 2006).

It I possible to conclude this section by emphasizing that costs should not be the sole reason to outsource. As the potential for competitive advantage can be transferred to companies acquiring services in terms of lower costs, greater professionalism and higher quality of outsourced services it must be cautioned that in a situation where hotels opt to outsource due to a lower than corporate-average profitability, it may lead to a loss of competitive advantage.

2.3.4 Managing the outsourcing relationship

It makes sense to suggest that long term relationships enhance value above and beyond any gains from short-term market transactions. In outsourcing relationships, norms are developed among parties and firms co-operate over time to achieve mutual gains rather than behaving opportunistically. These norms commonly presented are multi-dimensional: perfect exchange of information, expectation of continuity, communication, cooperation, flexibility towards unforeseen changes and assistance to each other (Donada and Nogatchewsky 2008).

The above-mentioned statement seems ideal in a perfect hotel outsourcing relationship, however it raises the question whether this is the reality. Available research does not provide sufficient evidence of the reality and may be a recommendation for further research. On this note, results of an empirical study in hotels conducted by Donada and Nogatchewsky (2008) indicate that emotional aspects such as happiness, satisfaction and pride influence the continuity of a relationship with a supplier.

Different perceptions should be handled carefully to ensure that a common goal is reached and to prevent unnecessary conflicts between the two groups of managers (Lam and Han 2005). It is important that the relationship is treated as more than merely the contracting-out of support services (Hemmington and King 2000). From this it may be suggested that front-of-house hotel departments play an important role in the hotel product and the complexities of relationships between the hotel and outsourcing company, particularly issues such as brand association, operational issues and organisational culture should not be underestimated.

Lynch (2004) states that error free, prompt deliveries and unique business and service requirements, and customer service has to be the most important consideration for any firm. It is suggested that outsourcing is not a business transaction but rather a relationship that lasts for several years (The Outsourcing Institute 2009).

Following on from this section, it is clear that the advantages of outsourcing go far beyond financial aspects. Both parties should focus attention on developing the relationship to gain maximum benefit, strengthen two-way communications between the hotel and supplier and hold regular formal and informal meetings. Problems, opinions, comments, suggestions and compliments should be addressed openly in a timely manner before they erupt into conflict. Senior management should empower departmental managers to get involved in the whole outsourcing process which will allow understanding of the mechanisms allowing them to work together and enable monitoring of the exercise (Hemmington and King 2000).

2.3.5 Flexibility and competency issues

Flexibility refers to the ability to be able to respond to changes and to adapt when faced with changing circumstances. As technology has advanced, customers' expectation and culture has evolved making competition fiercer which has led to outsourcing. Outsourcing has helped hotel companies achieve their goal of becoming more flexible, dynamic, responsive and it has also helped reduce risk (Espino-Rodriguez and Padrón-Robaina 2004). They further explain that the outsourcing of services enables a company's resources and capabilities to be improved by achieving better quality services and better performance. Outsourcing gives greater flexibility to operations as low or irregular demand may cause in-house services to be inefficient and unfeasible.

Wang et al (2005) explain that service outsourcing may have a negative effect on innovation and differentiation and create challenges in renewing skills, which can affect the hotel's performance. On the contrary, it may give access to innovation, knowledge and create conditions for capacity-building mechanism (Donada and Nogatchewsky 2008).

The question may arise of the issue of training and whose responsibility it would be to ensure an adequate transfer of skills. Lamminmaki (2005) explains that much of the training necessary is hotel specific and often much communication is needed within various departments thus requiring constant interdepartmental communication.

2.3.6 Brand capital

The rationale for outsourcing through co-branding is very much about linking two strong brands together through association and enhancing the quality of each. When we look at the idea of company reputation, we relate this to brand capital and its connection to outsourcing more of the front-of-house departments such as restaurants, bars and catering who have direct contact to the customer (Hemmington and King 2000). In the hotel industry is it very unforgiving to have a bad tag against a particular outlet; a bad reputation tends to stick and makes it difficult for that outlet to become successful (Lamminmaki 2005).

In recent years there has been an increasing concern that hotel restaurants have been under-achieving and have become unprofitable. There is a widely held view that hotel restaurants have become support amenities to the core business of accommodation. Hotel guests chose not to dine in a hotel restaurant but rather at a restaurant name that they recognise and trust (Hemmington and King 2000). Outsourcing is a possible solution to this weakness.

2.3.7 Organisational culture

Studies have shown that the ‘soft’ issues in hotel outsourcing relationships are often neglected such as organisational culture, brand association and operational tensions (Hemmington and King 2000). When a separate organisation intends working in close proximity of a hotel, the matching of organisational cultures becomes very important and the convergence of these cultures needs to be carefully managed. They emphasize that the potential for cultural mismatches are significant and notes that hoteliers are often set in their ways and often do not provide enough support. These cultural differences have an impact on staffing. In a study done by Lam and Han (2004) on hotels in China, they note that the incompatibility of corporate cultures between hotels and outsourcing suppliers prevented the adoption of successful outsourcing strategies. It is noted that the incompatibility was because of different business missions and objectives and hence weakened relationships.

To summarise, this section illustrates the importance for both the hotel and outsourcing company working together closely to respect each others organisational cultures and find a way to integrate and merge around the common goal.

2.4 Overview of the hotel industry in South Africa

Outsourcing has become increasingly a part of the international hotel business environment. In South Africa, the contribution of tourism to South Africa's GDP is estimated to have increased 15% to R160 billion in 2007 and the number of jobs created in the economy by tourism increased by 5% in 2007 (Van Schalkwyk 2007). It is not surprising that there are opportunities for South Africa's hotels to take advantage of the business benefits that outsourcing can offer.

According to Grant Thornton (2009), there are currently approximately 40700 hotel rooms in South Africa. However, less than a quarter of hospitality enterprises outsource one or more components of their business, and in general these are not core components of the business. Most of these entities outsource firstly security (12% of organisations in the sector) followed by catering (3% of total organisations). Only 1% of organisations in the sector outsource housekeeping/ cleaning.

Table 1: Outsourced services in South African hotels

Outsourced Services as Reported by Survey Respondents in the Hospitality Sector		
Service	Number of companies that outsource	% of total
Security	117	12%
Catering	24	3%
Staff Recruitment	15	2%
Bar Services	13	1%
Payroll	13	1%
Cleaning/Housekeeping	12	1%
Training/Skills development	5	1%

Source: Prodigy-Grant Thornton (2009)

Information technology and postal services are not outsourced by the respondents or a very low percentage of respondents utilise these outsourced services.

In 1998, Southern Sun Hotels became the world's first hotel operator to implement central reservations and property management systems by outsourcing them to IBM. The system helped the company to handle its room stock far more efficiently, allowed the ability to confirm reservations worldwide almost immediately, implement yield management packages and the ability to monitor real time data activities throughout all the hotels (Hotel Online special report, 1998).

2.5 Conclusion of Literature Review

The over-riding conclusion of this literature review is that the benefits of outsourcing go beyond just financial benefits. It is made clear to us that both the hotel and outsourcing company should pay attention to the wider elements of the relationship to maximize a win-win situation. It shows both parties need to appreciate each others commitments and see venture more than just the contracting out of another non-core function or support service.

Summary of Propositions

2.5.1 Proposition 1

Outsourcing of activities to an external vendor demonstrates significant advantages. These include: cost reduction, labour flexibility and access to capabilities.

2.5.2 Proposition 2

Outsourcing activities presents itself with a number of challenges which need to be considered in the decision to outsource. These include: increased long term costs, competency issues, decrease in guest satisfaction levels and brand jeopardy.

2.5.3 Proposition 3

The decision to outsource offers significant advantages to the performance of South African hotels.

3 RESEARCH METHODOLOGY

3.1 Qualitative Research

Qualitative research is a form of social enquiry that focuses on the way people interpret and make sense of their experiences and the world in which they live. Different approaches exist within the wider framework of this research however most have the same aim which is to understand the social reality of individuals, groups and cultures (Holloway 1997).

Qualitative research is a form of exploratory research involving small samples of non-structured data collection procedures. It is an enquiry process of understanding based on distinct methodological traditions of enquiry that explore a social or human problem.

The research problem required the researcher to identify challenges and benefits of outsourcing hotel activities. The research approach adopted was qualitative and conducted in the interpretive paradigm as it allows for the development of an in-depth understanding and exploration of individual worlds. It is subjective and dependant on the individual's social construct and personal experience (Creswell 1998).

The research uses documentary evidence and qualitative interviews, builds a holistic picture, analyses words and reports detailed views of informants and conducts the semi-structured interviews in a natural setting with senior managers from leading hotel companies (Leedy and Ormrod 2005).

The primary reason for choosing the qualitative methodology was to be able to extract a richness of detailed information and to gain a deep understanding of the issues involved in outsourcing. Additional reasons for the qualitative approach:

- Contexts can be broken down further to explore and interpret
- Flexible guidelines help extract a deeper personal view
- Analyses are adaptable as more information emerges

The qualitative approach also presents challenges. It may be time consuming particularly when analyzing the data, researcher presence may influence interpretations and findings, intelligent questioning skills and good listening technique are required to obtain true and accurate answers (Leedy and Ormrod 2005). Dey (2005) adds that qualitative research is often dismissed as too subjective as assessments are not made in terms of established standards.

In summary, a qualitative research paradigm seemed to allow one to learn the most about the research topic. It allows a broad and open-ended study with the aim of answering questions about the complex nature of phenomena, often with the purpose of describing and understanding phenomena from the participant's point of view (Leedy and Ormrod 2005).

3.2 Interview method

3.2.1 Semi-structured interviews

Interviews are an essential source of the study evidence about human affairs which should be reported and interpreted through the eyes of specific interviewees. Well-informed respondents can provide insightful views into a situation (Yin 1984). Interviews can discover the latest insights directly from industry expertise.

In semi-structured interviews the research may follow the standard questions with one or more individually tailored questions to get clarification or probe a person's reasoning (Leedy and Ormrod 2005).

The advantages of semi-structured interviews include the following:

- They provide a large amount of useful information (Leedy and Ormrod 2005).
- Respondents can provide historical information (Creswell 1998).
- Due to the ability to establish a rapport with participants and gain their co-operation, these yield the highest response rate in survey research (Leedy and Ormrod 2005).

The disadvantages of semi-structured interviews include the following:

- They are not practical with very large sample sizes due to time and expense involved (Leedy and Ormrod 2005).
- The researcher's presence may bias the responses (Creswell 1998).
- The data may be misinterpreted by the researcher relative to the intended meaning of the respondent (O'Sullivan, Rice and Saunders 1994).

This research uses semi-structured interviews guided by open-ended questions that focused on specific themes. Respondents will be asked follow-up questions based on their answers to the themed questions.

3.3 Population and sample

3.3.1 *Population and sample*

Due to the exploratory nature of the research, a small sample size was used consisting of seventeen respondents. The questionnaire will seek articulation of individual perceptions by extracting knowledge from years of experience in the hotel industry.

It is recognised in the industry that a lack of knowledge exists in hotel outsourcing activities globally and in South Africa.

Interviewees are in senior management level and will include chief executive officers, operations directors, human resources directors and hotel general managers.

3.3.2 Sample and sampling method

Semi-structured interviews, each containing open–ended questions lasting approximately one hour, will seek articulation of individual perceptions by extracting knowledge from years of experience in the hotel industry.

The study will focus on three to five star hotels which will prevent us from causing a possible bias towards a particular category. Additionally, all findings will be relevant to each category of hotel.

Senior hotel managers and directors will be interviewed whose careers have come into contact with outsourcing activities. The respondents will have had exposure to more than one of the following areas: Operations, Human Resources, Finance, Food and Beverage or Rooms. The nominated respondents will be contacted by telephone, email or in person to inform them of the purpose of the study, themes to be covered, research process and expected duration of the interview.

3.4 The research instrument

Leedy and Ormrod (2005) define the validity of a measurement instrument as the extent to which the instrument measures what it is expected to measure. However it is important that the data collection is consistent with the design, purpose and focus of the research.

A letter of motivation will be used to describe the benefits that the research will have and motivate the respondent to contribute as much knowledge to the research as possible. Both the interview questionnaire and cover letter are included in the appendix.

Respondents' industry insights and views will be asked and specific examples of actual events will be probed. This will be done in a natural, friendly, relaxed manner to encourage maximum participation and flow of ideas. Although a schedule of interview questions has been developed, a flexible approach will be taken whereby interviewees will be invited to talk in general terms about their hotel's degree of outsourcing and approach.

3.5 Procedure for data collection

Semi-structured interviews (Appendix B) will be the basis of the data collection instrument and will be conducted by the researcher using a dictaphone at the site of the interviewees. The interviewer will avoid taking notes during the interview in order to focus purely on gaining as much insight and depth from their experiences. Respondents will be expected to give specific examples which will be explored.

Thereafter, the data collected will be transcribed. The richness of the context will mean that the study cannot rely on one data collection method but may need to use several sources of evidence and thus documentation provided by the interviewees will be included in the data collection process.

Creswell (1994) suggests a protocol format to be followed for each interview (Refer to Appendix B for a copy of the Interview Protocol).

Finally, respondents will be assured that their identities will remain confidential and that a copy of the final thesis will be available to them.

3.6 Data analysis and interpretation

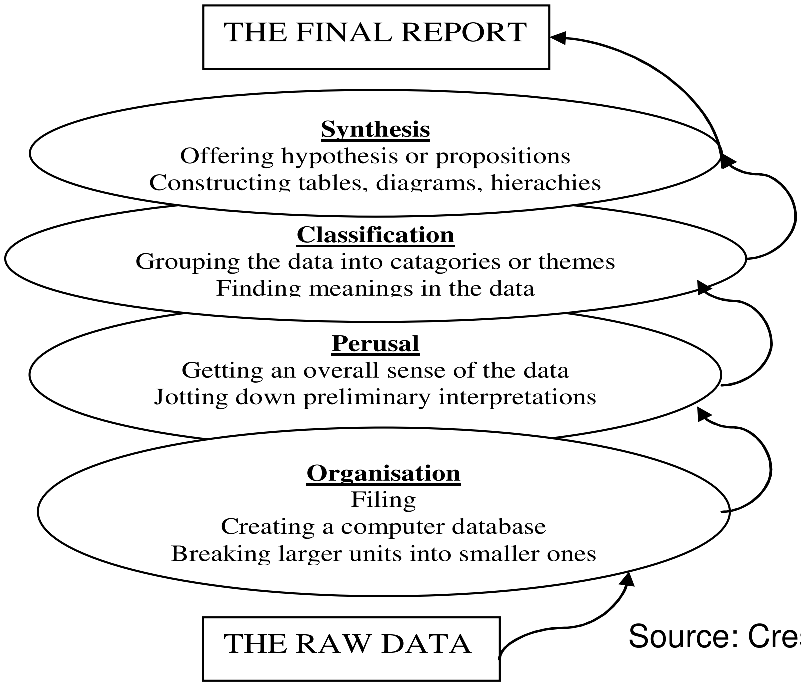
Leedy and Ormrod (2005) suggest that when analyzing data, the researcher should by inductive reasoning, begin by sorting through and catagorizing the information to gradually boil it down to a small set of underlying themes.

Therefore, the notes from the interviews will be transcribed, content will be analysed for themes and subcategories. The data will then be summarised and integrated into the research report.

For this research, these themes are highlighted in the various sections of the literature review and include: motivations to outsource, cost implications, managing relationships, management flexibility, specialized expertise, organisational culture and brand jeopardy .

Analyzing text and multiple forms of data presents a formidable task for the qualitative researcher. Creswell (1998) believes that the analysis process conforms to a general contour. The contour is best represented in a spiral image, a data analysis spiral. As shown in the figure below, to analyse qualitative data, the researcher engages in the process of moving in analytic circles rather than using a fixed linear approach. One enters data and exits with an account or a narrative. In between, the researcher touches on several facets of analysis and circles around and around.

Figure 1: Creswell data analysis spiral



Source: Creswell (1998)

The analysis was displayed mostly in a network format, depicting the relationship between various elements that were uncovered during the data collection phase.

The interpretation of data is the essence of research. Since the interpretive paradigm was chosen in this qualitative research through the interview phase, several other interpretations will occur during the data analysis phase after interviews have taken place.

3.7 Limitations of the study

Political and business conditions in South Africa and globally are undergoing rapid changes which have had a significant impact on the business environment. What works for hotels today may not work for them tomorrow and success today will not necessarily guarantee success tomorrow.

3.8 Validity and reliability

Validity of the research report refers to the “accuracy, meaningfulness and credibility” of the study as a whole (Leedy and Ormrod 2005)

3.8.1 *External validity*

According to Leedy and Ormrod (2005), there are three ways to enhance external validity of a research study:

- A real life setting: this research is conducted in the outside world and may be more valid in the sense that it yields results with broader applicability to real life contexts.
- A representative sample: The sample will be restricted to people with a set of specific characteristics and professional experiences from which we will draw research conclusions.
- Replication in a different context: The study relies on the expertise of senior managers with experience of outsourcing which should result in its wider replicability. (Leedy and Ormrod 2005)

Finally, external validity deals with the ability of the research to be generalised across the population and it is reliant on the use of a truly random and representative sample. The sample used for this study will be convenient in nature. Aspects of the bias have been identified and will be taken into consideration during the interpretation. The literature from prior studies included in this paper will act as a support and hence increase external validity.

3.8.2 *Internal validity*

The concept of validity is described by a wide range of terms in qualitative research (Golafshani 2003). In a sense one is advised to rather consider trustworthiness of the research, credibility, consistency, and the interpretation should be representative of the data analysed. In order to establish this research report as credible and transferable, the researcher must adhere to ethical guidelines and ensure that any bias is accounted for. Hence, for this study, based on the seniority of interview participants and number of years of experience gained in their respective roles, one naturally assumes that information provided is accurate and valid for the purposes of this study.

Various types of internal validity exist: construct, content, face and criterion-related validity (Leedy and Ormrod 2005). In this study, construct validity is deemed more relevant. Additionally, the researcher will be able to draw accurate conclusions from the study and the extent to which the instrument allows inferences about the casual relationships between data elements.

In addition to the interviews with hoteliers, outsourcing companies will also be interviewed and this will add another dimension to the data collected and hence will increase validity.

3.8.3 ***Reliability***

Reliability of a particular research has to do with the consistency of results within the study. It is defined as the extent to which similar research conducted in future results in similar outcomes. To enhance the reliability of a study, definitions and explicit explanations on the purpose of the study will be provided to all interviewees in the interview brief (Leedy and Ormrod 2005).

As a semi-structured interview guide is used, reliability is ensured as much as possible. Given that the research will be conducted in the interpretive paradigm, the role and interpretations of the researcher will play a significant part in the final interpretations and even in the initial observations.

Similar findings by a different researcher may therefore result in different conclusions being reached, however this could add richness to the theory building.

In addition, multiple listening of the audio recorded interviews will take place to further increase reliability. Additional interpreters as source of verification will be involved and thus different approaches to the collected data may be discovered.

4 RESEARCH RESULTS

4.1 Introduction

The purpose of this chapter is to evaluate the results obtained from the semi-structured interviews with the respondents who are all based in South Africa. A total of seventeen respondents contributed to the study. Throughout the discussion, quotes from respondents are included to emphasize the findings and to provide additional insight.

4.2 Profile of the respondents

The sample in the research study comprised seventeen individuals including hotel general managers and directors, a hotel management company owner and outsourcing company directors. It should be noted that this sample was chosen due to their experience within the industry. Hotel general managers have the most experience within the hotel operations and at least a decade of experience in this field. Only one of the hotel groups, Southern Sun, had two interviewees from the company.

Answers to their questions were drawn from their overall experiences in hotels and not just experience from their current hotel. The interviews ranged from one to one and a half hours and were flexible to ensure interviewees could openly discuss their reasons for outsourcing without being directed in a particular direction. Depending on their answers, interviewees were probed on existing literature and and theories in later parts of the interview. All interviews were recorded and subsequently transcribed into an excel format listing all the questions in the rows and interviewees names in the columns and answers in the cells. This allowed the researcher to analyze and categorize answers, identify themes and group the sections.

The nature of the sample design was such that respondents with the relevant experience were chosen who had the best required knowledge to answer the research questions (Creswell 1994). Additionally, it was intended that the selected interviewees were representative of the target population of hotels in South Africa, and who would provide their own perceptions and perspectives from their working experience (Leedy & Ormrod, 2001). Most interviewees had more than 10 years of working experience with discussions drawing on experience gained throughout their career in several hotels including resort hotels. Discussions were not based only on experience with their current employer.

Interviews were conducted in the Johannesburg area only although many interviewees had a sound knowledge of outsourcing practises in other areas of South Africa were they had previously worked.

Our findings seem indicate that hotels are not as concerned about long term disadvantages but are rather focused on the shorter term cost savings that outsourcing brings to the business. Long term intangible cost disadvantages are: higher staff turnover through decreased employee loyalty, decreased guest satisfaction and loyalty, constant training costs associated with training new employees, lower morale of managers due to constantly having to retrain and deal with non-fitting employees, theft.

4.3 Results

All of the hotels visited, the finance department and reception departments were always conducted in house. These are two areas which hotels indicated as crucial to retain full control. Within the food and beverage division, several pre prepared food items were outsourced as the small volumes of production would not be justified for items such as pastries, breads or ice creams as pastry chefs often command high salaries and was thus a more economical option.

In terms of housekeeping and public area maintenance such as window and carpet cleaning, most respondents outsourced these areas due to the volumes that the outsource company was able to handle many of which are done overnight to reduce disturbance to the guest. All interviewees mentioned that they did have a small in house maintenance team to see to last minute breakages or immediate guest needs.

Interviewees found it fairly easy to outsource the cleaning of linen to a laundry specialist as they were currently operating at large volumes with a very efficient, focused expertise in the area. The linen would get sent off and be returned cleanly folded within a couple of days. The only disadvantages to this appeared to be a slight loss in stock resulting from careless counting or breakage of the material. Hotels that were part of a chain benefited from even greater cost savings from negotiating reduced prices.

When it came to outsourcing cleaning of the rooms, challenges presented themselves especially with guest contact staff, who do not fully understand the hotel standards and thus do not adhere to the companies standards.

4.3.1 Motivation for hotel outsourcing

From the interviews held, it is clear that cost reduction is the dominant reason for outsourcing in most hotels in order to please shareholders and to remain competitive within their market. Several general managers brought up the concern that fluctuating occupancies result in increased costs as higher turnover is experienced and training of casual labour is then necessary. If fluctuations in occupancy levels are continuously experienced then it made sense to outsource an activity related to occupancy as described by the general manager of the Radisson Blu:

> “by outsourcing an activity related to occupancy flutuations, we outsource that problem to the supplier who should be capable of managing this issue of volatility and providing us with a service or staff when needed”

Despite this, city hotels had less of an inclination to outsource than resort properties for three main reasons:

1. Obtaining qualified, skilled staff in isolated areas was difficult.

2. Staff transportation to resort properties was more difficult. Thus, by outsourcing the staff, you are outsourcing this problem also.

3. Fluctuations due to seasonality were higher in resorts as opposed to city hotels who experienced more constant business levels. For example, one manager stated this explicitly as:

> *"The higher the year round occupancies, the less inclination we have had to outsource and therefore employ staff on a permanent basis up to our maximum average occupancy"*

However, this noted, city hotels were more confined to availability of space and would therefore often outsource functions that were space intensive such as the laundry operation. This often led to unexpected expenses such as theft, damage and reliability. Additionally, a busy external laundry which delays delivery of linen has an impact on the hotel's internal par levels and rotational system causing possible challenges in having rooms ready with clean linen and restaurant tables set with table cloths.

4.3.2 Cost reduction as a result of outsourcing

The majority of respondents generally accepted that the results from outsourcing had a significant cost benefit. This was attributed mainly to variable factors such as ability to control labour costs through periods of peaks and troughs in occupancy levels.

Nine of thirteen hoteliers/respondents explained that outsourcing staff reduced their payroll burden. By reducing full time positions off the payroll, hotels are able to eliminate the costs associated such as sick leave, holiday and UIF payments. Hoteliers have thus been able to cut labour costs when occupancies are low. The General Manager of the Santdon Sun explains:

> *"Outsourcing has allowed me to cut my labour cost which is our biggest expense. We retain a skeleton structure of staff at our minimum average occupancy and then add according to demand"*

Resort hotels however experience greater variances in occupancies due to seasonality. As labour is the biggest expense of the hotel, hotels have been able to easily alter staffing levels according to occupancies and thus save costs.

To challenge all of the above, three respondents, all of five star hotel operators disagreed that there was a cost saving.

> *"For our new hotel in Sandton (Radisson Blu) we did the numbers and they weren't convincing enough to go the route of outsourcing. Having full control, we are able to train, develop, retain and build a solid team of experts who will go from strength to strength."*

To support this, the GM of a five star hotel in Westcliff explains:

> *"I believe that it is not a good idea to outsource especially for five star hotels. Often it makes most sense only for financial reason which may look attractive initially but these favourable figures get eroded as accompanying complications start to present themselves."*

The three respondents mentioned above are all general managers of five star hotels which do not experience large fluctuations in business levels apart from the weekends which is when staff are able to take their regular days off. Respondents cautioned that several hidden costs appeared when choosing a new outsourcing partner or during transition from one to another.

These findings support the studies conducted by Barthemlemy (2003), Espino-Rodriguez and Padrón-Robaina (2004), Hendry (1995), Jiang et al (2006) and Quelin and Duhamel (2003) who explain that empirical evidence has shown that outsourcing has significant cost efficiencies over their counterparts who do not outsource, however they emphasize the fact that outsourcing can only be achieved in certain conditions.

4.3.3 Operational challenges in outsourcing activities

It is clear that five star hotels should focus less on outsourcing and only engage only when necessary and ensure that these employees are fully trained and possess hotel service delivery, communication, presentation and skills.

From the nature of the responses, it is evident that many operational challenges present themselves when embarking on an outsourcing partnership. Constant mention was made about quality of staff obtained having insufficient skills as well as the frustration of having to constantly train and monitor the employees. They tend to lack guest service skills, food and beverage service skills and communication skills are often unreliable. The GM of a local five star hotel and casino stated:

"When guests receive a service that is not in line with our company values and value proposition, then the guest associates that experience with the hotel brand and not the outsourcing company."

Across the board, respondents added that additional pressure was placed on supervisors and hotel managers to train, monitor and supervise these staff when they could be focusing on developing their own employees, on the guest or on developing the product. Hotels which had been more successful with staff had records of long relationships with their business partners, had made extensive efforts to integrate them by training, welcoming and involving them in all aspects of the business by making them feel valued and a part of the team. Hotel managers of higher category hotels placed an increased emphasis and were adamant on bridging the gap between permanent employees and outsource staff as mentioned by one of Johannesburg's most respected luxury hotels:

> *"Differences in treatment between employees need to be closed. Outsourced staff should not be segregated, but rather engaged, helped and supported."*

Theft was also evident due to the lack of sense of belonging and loyalty to the company. On fluctuations in occupancy levels, respondents emphasized that when their hotel was fully occupied, it was very likely that other hotels were also fully occupied. This causes all of the hotels to require staff and often they are not able to meet this demand which frustrates hotel operators. The General Manager of Palazzo Palace Hotel explained his view:

> "*Outsourcing is often referred to as an 'amputation' of that department, it's vital that this does not happen, you still have to monitor, control and oversee the operation otherwise quality will deteriorate*."

The respondent added that another major challenge is the lack of consistency in the staff that is received from the outsource company, as many of them work in several different categories of hotels within the same month and cannot keep adjusting to all the differences in standards."

To summarise the findings:

- Quality of staff – communication, service ability, knowledge of the job, reliability.
- Guest complaints
- Pressure placed on in-house supervisors and managers to monitor.
- Theft – due to lack of sense of ownership

The results of the interviews in this section are not mentioned in the literature review which leads us to believe that these challenges that hotels face in the operation have not been investigated in an academic context.

The general view of hotel operators was that outsourcing hotel restaurants will become more and more common as hoteliers become more comfortable and trust the restaurant brands. Generally, hotel restaurant dinner business tended to under perform as operating restaurants is not their core business and thus better alternatives exist for guests elsewhere. Breakfast business however is profitable. Despite this, hotel restaurants are necessary as the hotel needs a venue to serve breakfast and guests may choose not to stay in the hotel if it does not have a restaurant. Bringing in a specialist restaurant company to rent the space would make sense, however there are other operational concerns that would arise, such as additional kitchen requirements, technological systems, sharing of employees and equipment. The literature supports and provides evidence that in recent years there has been an increasing concern that hotel restaurants have been under achieving and have become unprofitable. There is a widely held view that hotel restaurants have become support amenities to the core business of accommodation and suggests outsourcing as a possible solution to this weakness (Hemmington and King 2000).

4.3.4 Outsourcing partner relationships

Respondents' feedback varied on this topic due to the vast differences in calibre of companies that exist to choose from.

An element that transpired from the research was the perceived impact of staff turnover on the nature of the personal relationship between the hotel and business partner. Respondents mentioned personalised service as more apparent in situations where a relatively long relationship existed with the outsource company. Several General Managers discussed the importance of their outsourcing business partners needing to be more guest orientated rather than simply getting a job done. A Crowne Plaza manager explains:

> *"It really depends on the outsourcing company, often they did not do enough to meet expectations, they need to understand our culture; not only to clean a room but also to understand the culture in the sense of interacting with guests and staff."*

Only three of thirteen hotelier respondents expressed a positive sentiment towards having maintained good working relationship with an outsourcing partner for longer than three years. These mentioned that the partners got to know their business patterns and expectations of standards, cared about their business and therefore took the time to train their staff according to the needs of the hotel. Four respondents commented that the outsourcing industry had improved over recent years due to increased competition. The sustainable partners were also shown to pay above average wage and treat their employees with respect and belonging.

When deciding on which outsourcing company to use, the companies are benchmarked against certain criteria in the Basic Conditions of the Employment Act. They must provide some sort of pension fund, and allow accrued paid-for leave. In addition to this the hotel would provide uniforms and meals. All these factors help to build and solidify strong working relationships with business partners. The General Manager of Montecasino Palace explicitly mentions:

> *"There are good ones and there are awful ones, the good ones are interested in your business, are on site often and genuinely care about your business. Bad ones promise you the world, come and see you once a year and don't care about their staff."*

Additionally, evident amongst most respondents was the infrequent contact or presence they have with the senior managers of the outsourcing partner in their hotel suggesting they had other business priorities. This resulted in increased reliance on in-house managers to oversee the outsource operation.

As seen in the literature review, incompatibility was because of different business missions and objectives and hence weakened relationships (Lam and Han 2004). Literature also suggests that there seems to be a major area of concern as building relationships are the foundation of a successful outsourcing engagement. Donada and Nogatchewsky (2008) importantly articulate that long term relationships enhance value above and beyond any gains from short-term market transactions. Both partners should hence understand that these norms are developed among parties and firms co-operate over time to achieve mutual gains rather than behaving opportunistically.

4.3.5 Labour solutions and flexibility

Despite the lack of existing good outsourcing companies, respondents were appreciative of having the service available to simply pick up the phone and 'order' staff when needed without all the administrative tasks attached to hiring. However additional pressure is added to hotel supervisors and managers within the hotel who have to constantly follow up, train and monitor outsourced staff. A Southern Sun General Manager explains his concern:

> *"The staff we receive are not familiar with your property, there is no loyalty, they don't know your standards, the service. Their level of English is limited and petty theft occurs as they realise they are not here very long."*

On the other hand, three respondents mentioned that there are outsourced staff who make an concerted effort, perform well, have great attitudes and work ethics and strive to become permanently employed. The same manager ads:

> *"Outsourced staff has allowed us to some great talent, many of which we have employed on a full time basis."*

This fact has lead to a high turnover amongst staff in outsourcing companies adding to the daily challenges for both partners. If hotels did not have the flexibility that outsourcing companies provided many hotels would start to go bankrupt.

These points reflect the literature which state the advantages: ability to staff flexibly in order to meet business volume demands as well as reduced training needs (Downey 1995). On the contrary, respondents have clearly indicated that training needs have increased as outsource staff are unskilled in South African hotels.

4.3.6 Specialised skill and competencies of outsourcing partners

Thirteen out of fifteen hoteliers disagreed that outsourcing companies brought in a specialised skill to effectively add value and manage a particular function. Four hoteliers commented, explaining that the spa operation and security were functions that needed specialised skills and were best and effectively outsourced by business partners. It is clear that security was highlighted as the most effective activity outsourced. The function least effectively outsourced was guest contact staff within the food and beverage division. Most explained that food and beverage staff needed service delivery, guest contact, communication skills and common sense to effectively deliver the minimum standards to guests. These remarks were more evident in four and five star categories than three star hotels where less emphasis was placed on the guest experience. An outsourcing company director respondent advised only outsourcing a very specialised activity which skills are not possessed in-house.

> *"At the end of the day hoteliers want full control over all aspects of their operation. However, due to financial reasons and in current uncertain times with fluctuating business levels, hotels have had to resort to outsourcing."*

One respondent commented that having a business partner on site has allowed for an external pair of eyes to assist in maintaining and increasing service standards. Additionally, star employees of outsourcing companies are identified and often offered full time positions.

When it comes to outsourcing restaurant operation, a respondent of a prominent five star property manager in Sandton explained that it made sense to outsource their restaurants to specialists rather than competing with the many other quality establishments within walking distance. However, this was a rare case. He added:

> *"it is very important to select carefully as they are representative of your brand."*

Five star hotels tended to have a lower frequency need to outsource due to the requirements in skilled staff with the required consistent service offering and ability to take the initiative to meet and exceed guests' expectations in a friendly and efficient manner. Five star hotels aimed at creating more of an experience and effortless stay for their guests hence required employees with necessary people skills. In addition to the skills, it was noted by 40% of respondents that employees need to possess common sense and a good attitude. Having these, the specifications of the job were then quickly learnt.

Three and four star hotels were more inclined to outsource due to less emphasis on creating a guest experience and more on selling beds.

A need exists for generally better outsourcing companies in terms of their staff, skill, training, reliability, industry knowledge, efficiency.

> *"Our managers spend more time training outsourced staff than our own"*

4.3.7 Organisational culture

It appears that most outsourced staff are those who have been retrenched from other hotels. Four of thirteen respondents explained that a certain culture in the company exists, by bringing in partners who do not fit with that hotel's culture will have negative consequences in the long term which will eventually have an impact on guest satisfaction.

The literature similarly suggests that indeed, while there may be short term cost benefits associated with outsourcing, there appear to be long term costs associated with skill loss, reduced commitment and declining trust, loyalty and commitment (Hall 2000).

Ethics and values of the CEO/directors, alignment of corporate culture, how they treat their staff in terms of payment, training, development, benefits and transportation were very important factors in deciding on a partner. One hotelier makes a point of interviewing several of the outsource staff before committing to any contracts to ensure that the staff they were taking on would be compatible with their culture.

The General Manager of a prominent five star hotel advised:

> *"take the time to find out as much as possible about the outsourcing company including what they are paying their staff, their profits for this particular contract, staff benefits and previous clients. Look for the heart of the company, do background checks, cover everything, questioning all details such staff turnover, do they listen to their staff, do they get transport, as these are all issues that annoy the staff who will eventually rub this off onto the guest*."

To draw on the literature one finds that the studies have shown that 'soft' issues in hotel outsourcing relationships are often neglected, such as organisational culture, brand association and operational tensions (Hemmington and King 2000). Additionally, Lam and Ham (2004) emphasize that matching organisational cultures becomes very important and the convergence of these cultures needs to be carefully managed.

4.3.8 Service level agreements

A general consensus on service level agreements (SLA's) indicated that all respondents place high emphasis on firstly, establishing thorough criteria and agreeing to every detail of the partnership and scrutinizing every detail of the fine print to avoid any future misunderstandings. Secondly, the SLA is to be reviewed periodically from daily to quarterly depending on the nature and involvement of the partnership. It was highlighted by one respondent that it is critical to have complete transparency and thus it can take three to six months to finalise a contract. The hotelier was adamant on details not only of the service he would receive but also details such as the rate which the outsourcing partner was paying his staff, what benefits they received such as details on transportation, meals, uniforms and sick pay. Being aware of all this information, he explained that it gave him an idea of the calibre of the staff he was getting and it was important to know that they were being treated well as they are the ones who are serving the guests. He added that guests could feel when staff were not happy and this had an impact on guest satisfaction and loyalty.

> *"We place a big emphasis on congruency and alignment between their standards and ours. Their values and work ethics need to synchronize with what we stand for."*

In considering the research results of SLA's, literature explains the importance to ensure a mutual understanding of both parties' expectations thus maintaining trust, control and sustainable outsourcing success. Additionally, trust and commitment positively influence relational outcomes which contribute to outsourcing success (Goo and Huang 2004, Larson 1998, Heikkila and Cordon 2002).

4.3.9 Integrating the teams

The data collected indicated that hotel operators are adamant in ensuring a smooth integration of business partners into their operation and all claimed to provide training of the hotel company's standards. Respondents also emphasized the importance of involving the staff in hotel social activities, allowing them to eat meals in the employee canteens and generally make them feel a part of the team with equal treatment. The Westcliff manager explains:

> *"Every other month we have a staff indaba which gives all staff including outsourced staff the opportunity to speak about their concerns. We make sure that we get back to them with solutions to their concerns. When it involves the business partner then they will be informed of the situation and a solution is expected from them.*"

Similarly, the Southern Sun hotel group has a programme 'Siakanya' which involved outsourced staff equally as much as permanent employees.

A buddy system was present in three hotels interviewed which allows them to work with designated trainers whom they shadow on their first days on the job which makes them feel looked after rather than just being thrown into the deep end. Additional points to consider which add to a successful integration are: daily interaction and updates with the outsource company's on-site management and ensuring all details are accurately specified in the SLA.

One respondent spoke about his success with outsourcing explaining that it was the smallest concerns or issues that eventually lead to failure or success. Employees need to be treated the way they want to be treated and hoteliers need to have a deep understanding of what motivates them, provide the tools they need to do the job, give them what they need to ensure they continue to work for the hotel and to ensure they give their best, reward and simply congratulate them on work well done.

4.3.10 Brand compatibility

Although respondents generally perceived the brand to be at risk as a result of outsourcing, it did not seem to be a major concern within the three star categories. Most four and five star hotel respondents tended to agree more that their brand was put at risk due to the loss of control of the activity, and the issue of outside staff having guest contact.

The manager of a five star Rosebank hotel elaborated on the importance of reputation and linked the brand directly to reputation. Having brought in a partner to run their restaurant as a separate entity has had financial benefits as the space is rented from the hotel and many of the liabilities reduced such as staffing, marketing, food cost and control. Despite this, he relies on the partner to maintain consistent high levels of quality which will not tarnish the hotel's reputation as the restaurant has its own reputation to maintain within their company.

For hotel guests, interaction with employees is ultimately what creates an emotional connection during their stay and determines whether the guest will return or not. Generally, outsourcing companies were described as 'rough around the edges' and in most cases if a particular function was completely handed over to them, standards would drop.

"Having a constant flow of different staff flowing through the hotel is not good for the guest experience and loyalty as they do not know and follow our standards of service thus affecting the brand"

According to one respondent, a initiative which they adapted from Four Seasons Hotels and Resorts to develop a designated trainer program. Each department has appointed members of the team who are in charge of training new employees irrespective of in house or outside employees. They are taken under their wing and a structured training program is followed alongside their day to day duties.

The literature explains that while international hotel companies have experienced success with outsourcing services such as laundry, maintenance and security, the partnership with an outsourcing partner is likely to be more complex and could pose a threat to the hotel's brand. Contractual issues may also arise when one party has control over activities that can damage brand reputation for the second party. (Lamminmaki 2005, Hemmington, N. and King, C. 2000).

4.3.11 Conclusion to research results and interpretation

Following the research results from the interviews with hotel operators, one is led to believe that South African outsourcing companies are not so well established yet to be able to meet the expectations of hotel operators.

From the literature review and interviews it is clear that outsourcing does not necessarily improve capabilities. Hotel departments play an important role in the hotel product and the complexities of relationships between the hotel and outsourcing company, particularly issues such as brand association, operational issues and organisational culture should not be underestimated.

4.4 Discussion Research proposition 1

Interpreting interview results relating to the research propositions.

Research proposition 1 states: "*Outsourcing of activities to an external vendor demonstrates significant advantages. These include: cost reduction, labour flexibility and access to capabilities"*

On a broad level, it is clear that outsourcing is able to reduce labour costs of hotels experiencing larger fluctuations in business levels and helps to control variable labour costs. Hotels with constant business levels should be discouraged from outsourcing.

We have found that this research proposition holds true, more so in developed countries where the literature originated. In South Africa, once outsourcing companies have matured to the next level, these advantages will be seen to increase.

Literature has suggested that outsourcing enables access to capabilities however within the hotel industry this is true only in rare cases. Hotels outsource to control costs. When the volume of an activity is low there is less frequency to outsource as it is not feasible for the hotel.

4.5 Discussion Research proposition 2

Research proposition 2: *'Outsourcing activities presents itself with a number of challenges which need to be considered in the decision to outsource. These include: reliability and control of outsourced activity, increased long term costs, competency issues, decrease in guest satisfaction levels and brand jeopardy.'*

On reliability it has been demonstrated that as a result of lack of quality outsourcing companies, hotels have needed to provide their own supervisors and managers to support the activities of outsourcing partners.

The increased long term costs are intangible and not always apparent. Through outsourcing, the long term negative effects of bad guest service, theft, a lack of sense of belonging and a non cultural fit can lead to a decrease even in permanent employees which will in the long term jeopardize the brand. Managing the relationships also adds to the costs involved with outsourcing.

4.6 Discussion Research proposition 3

Research proposition 3*: 'The decision to outsource offers significant advantages to the overall performance of South African hotels.*

The results of outsourcing have had a significant financial benefit to South African hotels. Hotels are thus able to continue to be profitable by utilizing outsourcing companies to manage variable costs.

Economies of scale reduce costs especially for the hotels who are part of a group and are able to negotiate very competitive rates.

It should be cautioned that when competition increases, service levels need to increase to remain competitive as guests will shift towards those hotels where they feel most comfortable. To keep service levels high, a more strategic approach needs to be looked at for outsourcing.

5 CONCLUSION

The outsourcing business for hotels in South Africa is immature as there are few quality companies servicing all of the existing hotels. It was clear that hotel operators found it difficult integrating reliable and skilled suppliers.

When comparing findings of the study to the literature, it seems that hotels face bigger challenges than other industries. Where a company may decide to outsource a specialised activity such as IT or a call centre with standardised operating procedures, hotels on the other hand are very people-intensive with unpredictable day-to-day variables presenting themselves.

5.1 Summary of results

The research objective was to identify and evaluate the main benefits and challenges to outsourcing activities in the South African hotel industry. An examination of the relevant literature on outsourcing assisted the study to establish research propositions with expectations to fulfil these with interviews from industry operators.

Like most qualitative work, this study may have been subject to the some shortcomings such as the interviewer bias as well as the lack of sufficient data from a small sample size. The interviewer found some of the interviewees to lack richness and depth to their discussions. However, most of the data proved to be of great benefit to this study.

This section summarises the findings of the research and puts forward recommendations to the relevant hoteliers regarding outsourcing activities and possible areas of improvement to the management of the outsourced activities are proposed. The final section makes recommendations for future research that may be conducted in order to increase the understanding and dynamics involved in outsourcing.

Based on the perspectives of respondents regarding the advantages and disadvantages of using outsourcing companies in hotels, managers view quality of the service received as the critical factor in their satisfaction surrounding the business partnership. It is clear that guest contact activities were at highest risk such as food and beverage and cleaning of rooms. The performance of supplies has a great influence on the overall short and long term success of hotels. Additionally, as a result of this uncertainty, the frequency for hotels to outsource is not very high in comparison to international counterparts.

Outsourcing whole entities of food and beverage departments such as restaurants and bars was not a good idea. It was explained that too much can go wrong in terms of freshness of ingredients, ordering, preparation, storage, service delivery or individual pricing.

It is clear from this study that many different macro and micro factors contribute to the decisions leading to whether or not a particular hotel should outsource and it is recommended that hoteliers use discernment in their decisions following the vast number of variables present.

It was found that outsourcing companies often lack the ability to service hotels' demand volatility and supply their service or labour demands when required during high levels of occupancy. Respondents answers have varied to the extent that an uncertain activity or department in one hotel is not necessary uncertain in another and each should evaluate its own environment to determine whether to outsource or not without relying on what other hotels are doing.

5.2 Recommendations

This study provided some recommendations for management to consider in overcoming the major challenges identified.

5.2.1 Labour

It would thus be a recommendation for five star hotels to invest in a casual pool of trusted people who can be called upon for additional support. These people will be trained over time and have a solid understanding of service standards, guest interaction skills, communication skills and most importantly have a good attitude towards the work.

Forecasting and scheduling ahead would be a recommendation to hotels to better prepare themselves for unforeseen surprises which may add additional costs to the operation.

5.2.2 The relationship

The relationship should be clear from the beginning for both parties involved. Soft issues form an integral part of the relationship and in particular: culture, operational tensions and brand awareness. Also to be considered are risks assumed by each party, liabilities involved, the effects on the hotels guests and the day-to-day involvement and management of the activity.

It is important that both the hotel and outsourcing partner mutually benefit from the relationship and each is willing to learn from the other. Senior management needs to practise continuous involvement in the operation, honest feedback and two-way communication is essential. Hoteliers need to consider past performance, skills and most importantly the culture, values and ethics of their hotels.

5.2.3 Cost control

General managers and hotel owners should not turn to outsourcing purely for cost advantages. It is made clear from the data that long term intangible disadvantages will occur. Some examples are: higher staff turnover, administrative costs, training costs, theft and a declining guest service which will impact on guest loyalty.

If a hotel is part of a hotel chain or management group then it should take advantage the buying power ability it has by jointly consolidating their demands to their suppliers. If not part of a hotel group then joining forces with sisters hotels or other hotels in the area with similar challenges. It is also important to remember that when there is volatility in one hotel, others are likely to be experiencing similar concerns.

5.2.4 Operational challenges

Senior managers should try to get department heads more involved in the decision-making process of choosing as well as integrating the right supplier. These managers tend to have a solid understanding of the operation and hence add great value to the implementation process.

In the study it was identified that general managers lack a solid understanding about outsourcing and is thus important for less senior managers to be aware of the objectives of outsourcing and its relevant processes such as replacing staff, training and other administrative arrangements.

Finally, it is recommended that hotel general managers form an outsourcing committee to share thoughts and experiences on the various suppliers which will serve as a central point between both parties. This committee would monitor performance and provide constant feedback to the outsourcing companies.

5.3 Areas for future research

In spite of the results of this study, there were limitations to this study that may be further investigated. A further look at outsourcing activities at a broader level within tourism should be undertaken in order to appreciate the diversity of strategies followed in outsourcing decisions. Also, as a result of increased development in Africa, it would be interesting to compare our results with those of other African countries which may have similar dynamics and challenges.

Future research should also examine outsourcing companies in more depth and identify their reasons for success or failure in delivering adequate services. A comparison may be done between successful international outsourcing companies with those locally based, to identify differences.

Future research should seek to identify the short and long term financial savings and expenses which would give a better indication of actual savings or losses as a result of outsourcing.

Further, to enable a more complete understanding of outsourcing in the South African hotel industry, variables that might be worthy of consideration are issues of trust, employee development, effective recruitment of employees for outsource companies and long term vision.

To that end, future research is finally needed to enhance the connectivity between hotel and outsource company throughout the value chain of the hotel in order to manage the risks.

5.4 Consistency matrix

Table 3: Consistency matrix

The purpose of this research is to establish and understand the challenges and benefits facing South African hotels that outsource activities, and to identify their success factors.					
Sub-problem	**Literature Review**	**Propositions**	**Source of data**	**Type of data**	**Analysis**
The first sub-problem is to identify reasons why hotels outsource activities.	(Purcell and Purcell 1998; Gilley and Rasheed 2000; Hall 2000; Hemmington and King 2000; Logan 2000; Barthelemy 2001; Reilly 2001; Heikkila and Cordon 2002; Baitheiemy 2003; Quelin and Duhamel 2003; Espino-Rodriguez and Padrón-Robaina 2004; Görg and Hanley 2004; Kakabadse and Kakabadse 2005; Lam and Han 2005; Lamminmaki 2005; Jiang, Frazier and Prater 2006; Donada and Nogatchewsky 2008)	Outsourcing of activities to an external vendor demonstrates significant advantages. These include: cost reduction, management control, labour flexibility and access to capabilities.	Semi structured interviews, Convenience sampling	Qualitative data, Opinions, and commentary	Thematic analysis
The second sub-problem is to determine what challenges hotel managers face when outsourcing.	(Hendry 1995; Larson 1998; Purcell and Purcell 1998; Gilley and Rasheed 2000; Hall 2000; Hemmington and King 2000; Barthelemy 2001; Baitheiemy 2003; Quelin and Duhamel 2003; Espino-Rodriguez and Padrón-Robaina 2004; Lamminmaki 2005; Jiang et al. 2006; Shang 2007; Donada and Nogatchewsky 2008)	Outsourcing activities presents itself with a number of underlying challenges which need to be considered in the decision to outsource. These include: increased short and long term costs, competency issues, potential of increased business risk, clash in organisational cultures and brand jeopardy.	Semi structured interviews, Convenience sampling	Qualitative data, Opinions, and commentary	Thematic analysis
The third sub-problem is to establish the potential key success factors for outsourcing in South African hotels.	(Purcell and Purcell 1998; Heikkila and Cordon 2002; Quelin and Duhamel 2003; Kakabadse and Kakabadse 2005)	The decision to outsource offers significant advantages to the overall performance of South African hotels.	Semi structured interviews, Convenience sampling	Qualitative data, Opinions, and commentary	Thematic analysis

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APPENDIX A: COVER LETTER

Dear Sir/Madam,

As a final year MBA student at Wits Business School, I am undertaking research into the success factors of outsourcing activities within the South African hotel industry. The study is for a research report which will contribute towards my MBA and is being conducted under the supervision of Prof. John Luiz.

The objective is to investigate the factors that contribute to successful outsourcing engagements within the South African hotel industry. As the business environment becomes less predictable, outsourcing is increasingly considered as a feasible option.

A panel of prominent people involved in the hotel industry, including yourself, are being approached to be interviewed on your experiences with hotel outsourcing. It is to this end that I am requesting your help.

Once the study is complete, the report will be accessible at the Management library and I would be happy to arrange for you to have a copy also.

Your valued contribution would be greatly appreciated and will significantly enhance the value of our findings.

Yours sincerely,

John McCosh

APPENDIX B: PROFILE OF RESPONDANTS

List of Interviewees	Position / Hotel	No. of stars
Jesper Hendrikson	General Manager - Radisson Blu Sandton	5
Henk Brodenhoord	Owner - Status Hotels	4
Andrew Cook	General Manager - The Westcliff Hotel	5
Johan Troskie	General Manager - Michaelangelo Towers and Raphael Suites	5
Trevor Latimer	General Manager - Crowne Plaza The Rosebank Hotel	5
Peter Davidson	General Manager - The Sandton Sun	5
Andrew Davidson	General Manager - Palazzo Palace Hotel Montecasino	5
Ronald van Tonder	General Manager - City/Town Lodge Sandton	3
Pierre Delfou	General Manager - Intercontinental Hotel OR Tambo	4
Johan van Heerden	General Manager - Southern Sun OR Tambo	4
Wayne Hill	General Manager Hotel and Resort Operations - Emporors Palace	3,4,5
John Rutherford	Food and Berverage Manager - Southern Sun Hotels	4
Mario Flanagan	Deputy General Manager - Park Hyatt Hotel Rosebank	5
Peter Czakan	Managing Director - Instaff	
Wayne Troughton	CEO - HTI Hospitality Consulting	
Grant Durone	Director - Prestige Hospitality Division KZN	
Pieter van der Westhuizen	CEO - Afriboom Hospitality Outsourcing	

APPENDIX C: INTERVIEW QUESTIONS

Section A: Details of the Respondent

Name of Hotel: ____

Name of Interviewee: ___________________________________

Position of Interviewee: _________________________________

Email address: ____

Date/Time: ____

Opening Statement to the Respondent:

Thank you for your contribution to this research. The objective of this study is to identify success factors in outsourcing activities for South African hotels. Current literature suggests a number of expected benefits linked to outsourcing decisions and also points out several challenges faced.

The aim of the following interview questions is to get an understanding of your experiences with outsourcing focusing on benefits and challenges faced.

Section B: Interview questions

Question 1: Briefly describe the main reasons that lead you to outsource activities in your hotel.

Question 2: To what extent has outsourcing helped reduce short and long term costs for the hotel?

Question 3: When we look at the operation of an outsourced activity, function or department, what are the main challenges faced on a day to day basis?

Question 4: What efforts do you feel that the outsourcing company makes to build and maintain sustainable relationships?

Question 5: As a result of outsourcing, do you feel that you are able to focus more attention and allocate more resources to core areas of the hotel?

Question 6: In your experience, what flexibility advantages and disadvantages has outsourcing brought to your managements day to day duties?

Question 7: What are the short and long term benefits that your believe outsourcing has been able to bring to your hotel?

Question 8: How do you ensure outsourced staff integrates well and adheres to the hotel company's core and cultural standards?

Question 9: Does outsourcing effectively bring in specialised expertise to run a particular function of the hotel?

Question 10: What activities have you outsourced most and least successfully?

Question 11: How do you successfully integrate them into your organisation?

Question 12: Do you have concerns of your brand name being put at risk from outsourcing activities?

Question 13: Looking back on your experiences with outsourcing, what advice would you give to hoteliers to help guide them in their decision to outsource

Question 14: What experiences have you had with service level agreements and contracts?