

## THE OUTSOURCING ISSUES IN THE HOSPITALITY INDUSTRY: IDENTIFYING THE BENEFITS AND CHALLENGES

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### ABSTRACT

*Outsourcing is a very popular strategy among the hotels worldwide because of its capability to provide numerous benefits to the hotel like cost savings, competitive advantages, efficient operations, expertise in performing certain activities and the access to the latest technology. But despite many advantages the outsourcing is also known for posing many issues and challenges for the hotels such as inferior product and service quality due to lose of control over the operations, and outsourcing is also seen as impacting the perception and the motivation levels of hotel employees. An exhaustive examination of the existing literature on the practice of outsourcing in the hotel industry. This study conducts a broad analysis of the various benefits and difficulties linked with outsourcing in the hotel sector by going through pertinent literature. The study further showcases case studies of hotels that have successfully employed outsourcing strategies and others that have encountered difficulties. The study reveals that outsourcing provides advantages in terms of cost reduction and achieving access to specialized expertise. Nevertheless, hotels need to remain vigilant on the possible obstacles and device measures to assuage them. This includes thorough selection of outsourcing partners, effective interaction with employees, and continuous supervision and review of outsourcing contracts. This study is aimed at enhancing understanding of the advantages and difficulties linked with outsourcing in the hotel sector. It offers valuable insights for hotels planning the implementation of outsourcing as a strategic approach to enhance their working efficiency.*

**Keywords:** Outsourcing, Hotel Industry, Hospitality, Employee Perception.

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### Introduction

The hotel industry around the globe is characterized by strong competition and a dynamic nature, as it functions within a swiftly developing context. Hotel industry in India is also growing at a very good pace and consistently contributing to Indian economy. The lodging sector encompasses a diverse array of accommodations, such as high-end hotels, affordable hotels, resorts, and guest homes, which satisfy to the requirements of both local and foreign tourists. In recent years, the hotel sector in India has experienced substantial transformations, described by heightened competition and a transition towards the outsourcing of non-essential activities. The practice of outsourcing has gained significant traction among hotels as a means to mitigate expenses, enhance operational effectiveness, and concentrate on their fundamental strengths. A range of services, such as general cleaning, laundry operations, maintenance, security services, are regularly outsourced by hotels in India. The practice of outsourcing enables hotels to emphasize on the provision of delivering better guest experiences while simultaneously keeping cost-efficiency.

Outsourcing is defined as a process of contracting out the non-core activities to the external service provider, who possess all the required expertise to perform those activities to the satisfaction of the hotels. Activities such as general cleaning, laundry operations, etc. to external service providers with better expertise to perform those tasks. The practice of outsourcing has also generated job prospects for

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individuals in India, namely within the domains of hospitality and service industries. The occurrence of service outsourcing has given rise to the establishment of expert service providers that specifically cater to the distinct requirements of hotels.

In the Indian hotel sector, outsourcing has appeared as an important component, enabling hotels to enhance their operational efficiency and deliver superior guest experiences, all while maintaining competitiveness within a saturated market.

### Objectives

This paper aims to examine the scenario of outsourcing in India and how Indian hotels are trying to use outsourcing as a strategic approach to improve the hotels effectiveness. The paper aims:

- To explore the prevalence of outsourcing in the hotel industry and identify the types of services that are commonly outsourced.
- To examine the benefits of outsourcing in the hotel industry
- To discuss the challenges of outsourcing in the hotel industry
- To present case studies of hotels that have successfully implemented outsourcing strategies
- To provide recommendations for hotels considering outsourcing as a strategy to improve their operations.

### Data Sources and Research Methodology

The study incorporates various academic journals, case studies and industry reports on outsourcing in hotel industry. The methodology for the study entails conducting a systemic review of the available literature regarding the outsourcing in the hotel business. The issues and challenges with respect to outsourcing in hotels were identified and to determine the effective strategies for overseeing agreements for outsourcing. The initial phase of the research consists of doing an extensive exploration of pertinent scholarly databases, including JSTOR, ProQuest, and EBSCO. This can be conducted via the use of particular keywords. Business journals and research papers from most respected sources such as Deloitte, PwC, and HVS were also included in the study.

The data sources that have been found will subsequently undergo a screening process to determine their aptness to the research inquiries and the capability of the research technique employed. The sources that satisfy the specified inclusion criteria will undergo a thorough assessment and analysis process in order to discover prevalent themes and patterns pertaining to the advantages and difficulties associated with outsourcing within the hotel business. The analysis of hotels that have used outsourcing techniques will be conducted through the application of a comparative case study methodology. This approach entails the examination and comparison of various examples in order to get valuable insights and lessons from them.

### Review of Literature

Through the systematic review of the available literature on the topic, the study aims to offer a thorough examination of outsourcing within the hotel business. The investigation will be structured built on prominent topics and research studies. The literature review of the study is further ordered into the classifications discussed below:

- Definition of outsourcing in the hotel industry
- Prevalence of outsourcing in the hotel industry
- Benefits of outsourcing in the hotel industry
- Challenges of outsourcing in the hotel industry

**Table 1: Category-wise Review of Literature**

Sr. No.	Category	Findings from Studies
1	<b>Definition of Outsourcing in Hotel industry</b>	Erkoc and Erdem (2011), in their study states outsourcing in the hotel industry as the process through which hotels outsource their activities such as laundry, general cleaning, security to an external service provider having specialized expertise in performing that particular activity. Other researchers like Choi and Mattila (2008) define outsourcing the act of engaging outside vendors to carry out services or perform operations which go beyond the establishment's primary area of expertise.

2	<b>Prevalence of outsourcing in the hotel industry</b>	<p>Research indicates that outsourcing is a very popular strategy among hotels and in fact has grown as a widely adopted approach by hotels to enhance their competitive edge and financial performance. An investigation conducted by Huyton and Stewart (2007) revealed that outsourcing is rising among hotels. Hotels were seen to engage in the practice of outsourcing a diverse range of services, such as laundry, cleaning, and security. Deery and Jago (2015) had undergone a study which disclosed that outsourcing was a prevalent strategy in the hotel business across Australia. Numerous hotels choose to outsource various services, including IT, accounting, and marketing.</p> <p>Moreover, outsourcing has also been getting popular worldwide and not just in Indian hotel. For instance, a study conducted by Hayes and Miller (2011) found that outsourcing was a common practice in the global hotel industry, with hotels outsourcing services such as catering, housekeeping, and security. Similarly, a study by Goulas and Theriou (2009) found that outsourcing was prevalent in the Greek hotel industry, with hotels outsourcing services such as laundry and housekeeping.</p>
3	<b>Benefits of outsourcing in the hotel industry</b>	<p>A review of the available literature regarding the benefits of outsourcing in the hotel sector.</p> <ul style="list-style-type: none"> <li>● <b>Cost Savings</b></li> </ul> <p>The most important benefit of outsourcing to hotels is the cost saving it provides to hotels. By outsourcing the non-core tasks to outside service provider's hotels can save on many costs like manpower, technology and the maintenance cost.</p> <p>Huyton and Stewart (2007) in their study stated that outsourcing provides the financial benefits to the hotels through outsourcing of security, cleaning and laundry operations. In a research conducted by Deery and Jago (2015), it was further revealed that outsourcing provides many benefits to the hotels and it is seen as the cost saving practice by the hotels across Australia.</p> <ul style="list-style-type: none"> <li>● <b>Improved Quality</b></li> </ul> <p>Hotels can improve their performance and quality by outsourcing their non-essential tasks to third party providers who are specialists in performing those tasks, they possess all the skills and experienced in performing these tasks efficiently</p> <p>A study by Erkoc and Erdem (2011) reveals that outsourcing improves the quality of the operations and the areas where it is most effective are cleaning services, laundry, security and maintenance. Similarly, in a study conducted by Choi and Mattila (2008) establish that service in the hotel sector is improved due to outsourcing.</p> <ul style="list-style-type: none"> <li>● <b>Increased Flexibility</b></li> </ul> <p>Outsourcing is found to be very capable of providing the hotels more flexibility. Hotels can concentrate on delivering their best on providing the best services to their guest and improve the guest guest satisfaction by emphasizing on their core activities and outsourcing their non-core activities to the external service providers. This assists hotels in quickly and efficiently adapting to dynamic marketplace conditions. Goulas and Theriou (2009) found in their study that outsourcing in the Greek hotel occupational improved hotels' flexibility, allowing them to promptly adapt to instabilities in demand.</p>
4	<b>Challenges of outsourcing in the hotel industry</b>	<p>The following is a review of relevant literature on the challenges of outsourcing in the hotel industry.</p> <ul style="list-style-type: none"> <li>● <b>Quality Control</b></li> </ul> <p>Apart from several benefits of outsourcing, some issues have also been identified and one such issue is the control over the quality. It is seen that hotels lose control over the quality of operation once it is outsourced. In the study conducted by Zheng and Yang (2010) it is disclosed that various</p>

	<p>issues with respect to quality of services have been noticed. The quality issue arises because the hotels don't have proper control over its outsourcing partner. Javed, Rashid, and Siddiqui (2019) revealed in their study on outsourcing that in the departments such as housekeeping and food and beverage service the issues of quality control will be a challenge.</p> <ul style="list-style-type: none"> <li> <p><b>Communication</b></p> <p>The most important factor in the outsourcing relationship between hotel and its outsourcing partner is the communication between the two. According to a study by Choi and Mattila (2008), it has been revealed that the most important challenge of the outsourcing relationship is the communication between the hotel and its outsourcing partner. Likewise, a study conducted by by Erkoc and Erdem (2011) found that in the process of outsourcing the hotels in Turkey identifies communication between the outsourcing partners as the major issue in the success of outsourcing.</p> </li> <li> <p><b>Employee Resistance</b></p> <p>Outsourcing can affect the employee's perception negatively towards outsourcing and can also transform into resistance if they perceive outsourcing as something which can risk their jobs. As per the study by Deery and Jago (2015), the employees in Australian hotels employees perceived as outsourcing as a risk for their jobs and resisted the process of outsourcing. Likewise, in a study conducted by Goulas and Theriou (2009) it was stated that employees in Greek hotels resisted outsourcing of certain activities as thy deemed it dangerous for their jobs and also for the control over the operations.</p> </li> </ul>
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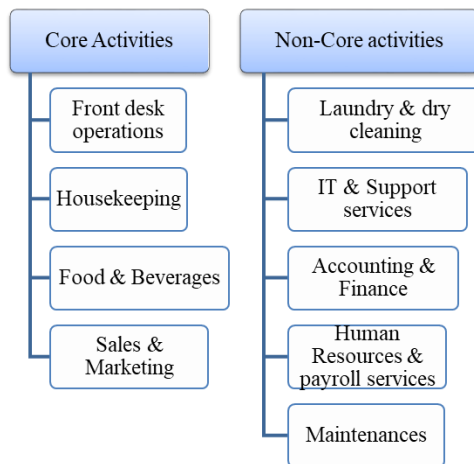
Hence, the research above point that outsourcing in the hotel business provides certain benefits, although it also creates certain difficulties such as ensuring control in quality, easing communication, and managing employee conflict. In order to guarantee the success of outsourcing in the hotel business, it is needed to confront and overcome these problems.

**Outsourcing in Indian Hotels industry**

The activities in the hotel industry are classified into two types of categories.

- Core Activities
- Non-core activities

Core activities are those activities which are related to the primary business of the organization and non-core activities are those which act as the supporting activities and are not the primary business function. These non-essential activities are outsourced by the hotels to external service providers in order to focus on the core activities and increase the guest satisfaction and achieve various advantages for the business.



**Figure 1: Core and Non-core activities in hotel industry that can be outsourced**

Outsourcing the non-core activities enables hotels to concentrate on their primary activities and help them achieve the efficiency and cost benefits while also enhancing the guest experience. The activities which are outsourced by hotels these days are explained below:

- **Housekeeping:** hotel chain such as the Leela palaces hotels and resorts, which outsourced Housekeeping services to ISS Facility services India and significantly decreased its labour expense by 20-25%. Other hotels chains are also observed to be outsourcing certain housekeeping activities such as laundry, public cleaning, maintenance, etc. (Source: Business Standard).
- **Food and Beverage:** hotels in India have been outsourcing their certain F&B activities to the external companies which are experts in handling F&B operations to enhance guest experience and to also improve the service quality and profits. One such example is the Oberoi group which outsourced its Bar operations and restaurants to a company named International Traders (ITC) in 2012 and the hotels witnessed great rise in guest experience as well as an increase of revenue by 20%. (Source: The Economic Times).
- **Security:** Outsourcing of security services is very popular among the hotels in India For example; the Taj Group of Hotels outsourced its security services to Tops Security Limited, which is a leading security service provider in the hotel industry. (Source: Topsgroup).
- **Front Desk and Reception:** hotels in India are also outsourcing some of the front office activities too and Radisson Blu hotel Ahmedabad is an example where the hotel outsourced its front desk activities to QX Limited and witnessed a rise in the efficiency of its operations by 15%. (Source: QX Global Services).
- **Spa and Wellness:** Indian hotels generally participate in the outsourcing of spa and wellness services. The JW Marriott Mumbai Sahar contracted The Four Fountains Spa to arrange for its spa and wellness services, which resulted in an upswing in client satisfaction and income. (Source: The Four Fountains Spa).
- **Engineering and Maintenance:** many hotels in India subcontract their engineering and maintenance activities to expert service providers in order to guarantee speedy upkeep of their facilities. As an illustration, the Marriott Hyderabad property and Convention Centre contracted JLL to handle its engineering and maintenance services, achieving a reduction of 15-20% in the expenses incurred in the maintenance of the property. (Source: JLL).
- **Sales and Marketing:** Indian hotels nowadays are very often outsourcing the sales and marketing activities to expert providers. Park hotels are a prime example which outsourced its sales and marketing to Amadeus, which deals in travel technology. And with this outsourcing it has witnessed a great rise in its brand and also increased its income. (Source: Amadeus).
- **Accounting and Finance:** many hotels in India are outsourcing account and finance activity to expert firms for achieving great benefits and Taj Group of Hotels is one such group which has contracted its accounting and financial management function to EY India resulting in improved efficiency and a cost reduction of 20-25%. (Source: EY India).
- **IT Services:** a number of hotels in India outsource their IT services to expert For instance, The Lemon Tree Hotel Company outsourced its IT services to IBM India and enhanced its efficiency in operations as well as a decrease in costs by 25-30%. (Source: IBM India).

#### **Benefits of Outsourcing in Hotel Industry**

There are numerous benefits those are related with outsourcing in the hotel industry, which are explained below:

- **Cost Savings:** Outsourcing facilitates hotels to cut the operating expenses by engaging external service providers that have expertise in performing certain tasks for hotels. By outsourcing these activities, hotels can reduce the financial burden incurred in recruitment and providing the training to employees for handling the activities for the hotels, and also curtailing the expenses incurred in maintaining equipment and facilities.
- **Improved Efficiency:** hotels are improving their operational efficiency and quality by outsourcing their non-core activities and thus focusing on performing their core functions. The external service providers are experts in their area of specialization and they are capable of performing those tasks in better way than the internal staff.

- **Flexibility:** Outsourcing provides hotels with the much needed flexibility in their day to day operations with outsourcing they can hire the manpower from an external service provider for an individual project basis and manage their human resources as per their specific needs.
- **Access to Specialized Expertise:** through outsourcing the hotels get the access to expert service providers and their expertise in performing a particular task, which otherwise they don't receive from their internal staff.
- **Risk Management:** Outsourcing can help mitigate the risks for the hotels. The service providers are specialized in mitigating certain risks with respect to data security, and regulatory agreement.

#### Impact of Outsourcing on Service Quality

Outsourcing can bring both positive and negative impacts with respect to service quality in hotel industry. Here are some points that examine the influence of outsourcing on the quality of services in the hotel industry:

- **Positive Impacts**
  - **Improved Efficiency and Productivity:** Outsourcing is witnessed to have increased the efficiency and quality of services provided by the hotels and it allows the hotels to focus on their primary business activities while leaving the non-core activities to be performed by an external provider. (Bhatnagar, 2012).
  - **Access to Specialized Expertise:** by outsourcing the activities to external service providers hotels get the access to latest technology and expertise to perform certain tasks more efficiently, which otherwise they don't receive internally. Outsourcing is known to improve the quality of operations and guest satisfaction. (Fornell et al., 2010).
  - **Cost Savings:** Outsourcing is known to provide financial advantage to the establishment through its capability to reduce expenses. The external vendors can perform an activity in lower cost as compared to performing the similar task internally, and hotels can utilize the savings by investing it into other activities which may help it to enhance the guest experience. (Mishra & Agrawal, 2013).
- **Negative Impacts**
  - **Reduced Control Over Service Quality:** the control over the quality of services is known to vanish when the activity is outsourced to some outside vendor, which sometimes may lead to dissatisfaction among the guests. (Ayoun, 2007).
  - **Communication and Cultural Barriers:** Outsourcing may result in communication and differences in culture which might affect the quality of service. Such challenges can arise as a result of disparities in language, time zones, or work culture. (Kshetri, 2007).
  - **Quality Risks:** hotels can face risks with respect to quality of service offered by the outside vendors because they may not perform the activity by ensuring the service quality and may not share the same service standards as the hotels itself (Lashley & Lincoln, 2008).

#### Challenges of Outsourcing in Hotel Industry with Citations

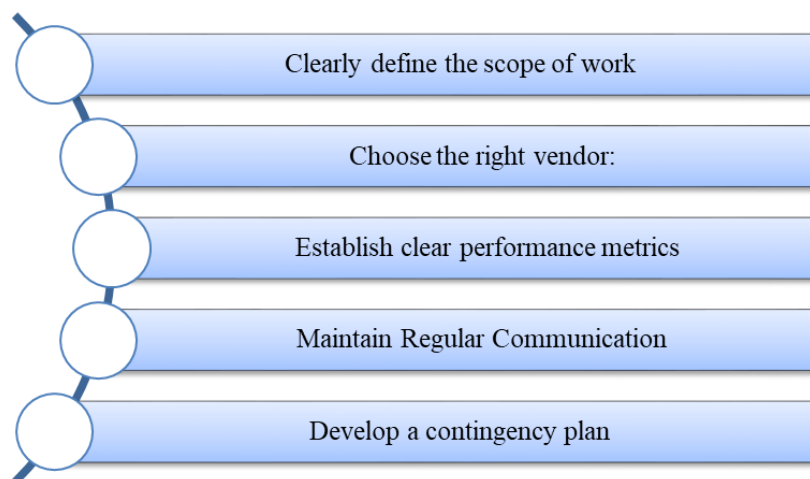
Outsourcing has become a very popular strategy among the hotels these days as it is known to provide many advantages to the hotels but it also come with certain challenges which are briefly explained here:

- **Quality Control:** the major challenge which is related to outsourcing in the hotels is the maintenance of the service quality by the outside vendors. So in order to achieve the service standards, hotels need to ensure that no deviation from the established standards by the vendor and provide adequate training to the outsourced staff so that the guest receives good services. In a study by Briscoe et al. (2004), control of service quality was revealed as the major challenge of the outsourcing practice in hotel industry.
- **Communication Barriers:** As per a study conducted by Morrison and Jang (2010), communication barriers was seen as the major obstacle in the with respect to outsourcing in hotel industry. And it becomes more problematic when the outsourced services are situated in the separate countries and the language barrier is present.

- **Data Security:** Outsourcing presents a potential threat with respect to data security in hotel industry, because the guest data which is considered very sensitive information is handled by the outside vendors and it can pose a significant challenge for the hotels. (Garay and Siems, 2013)
- **Coordination:** Coordinating external providers in line with the hotel's aims and objectives is a significant difficulty in the hotel sector. According to a study by Rajaobelina and Salles (2015), coordination between the external and internal staff is also one of the important challenge posed by the outsourcing.

### Best Practices for Managing Outsourcing in Hotel Industry

Supervision of outsourcing might prove difficult, since it necessitates organizing all of the parties involved and ensuring that quality benchmarks are achieved. Below are a few optimal strategies for successfully handling outsourcing in the hotel industry:



**Figure 2: Best Practices for Managing Outsourcing**

- **Clearly Define the Scope of Work:** the scope of work need to be defined well in order to mitigate any issues arising from the misunderstandings and to ensure that both hotel and the vendor are on the same page with respect to outsourcing in the hotel. (Bhasin, 2018)
- **Choose the Right Vendor:** for success of outsourcing the hotel need to ensure that right vendor is chosen for outsourcing the internal activity. The criteria for selecting the right vendor be established and followed, the vendor need to be selected based on the reputation of providing excellent service as well as ensuring benefits for the hotel. (Bhasin, 2018)
- **Establish Clear Performance Metrics:** Establishing precise standards of performance for the supplier is of the utmost importance in order to guarantee that the job aligns with the hotel's quality requirements. It may comprise multiple measurements, like speed of response, mistake rates, and consumer happiness ratings. (Bhasin, 2018)
- **Maintain Regular Communication:** Frequent interaction among the hotel and the supplier may promote mutual comprehension as well as swift resolution of any issues that arise. It may consist of recurring meetings on a daily or weekly schedule, in addition to regular interactions by email or telephone. (Bhasin, 2018)
- **Develop a Contingency Plan:** Establishing an emergency strategy will help reduce threats and reduce inconveniences in the unlikely scenario that the supplier fails to complete the job as anticipated. It may involve a search of alternative suppliers or the delivery of training to internal staff for handling the tasks. (Abdullah et al., 2019)

### Conclusion

Outsourcing is known for providing several benefits for the hotels, such as reduced expenses, more productivity, and the hotels receives latest technology, latest trends in hotel practices and more adaptability. However, despite providing numerous advantages outsourcing is known for posing many

issues and challenges for the hotels as well such as including relinquishment of authority control over service and product quality, and the threat of cultural indifferences. The consequences of outsourcing can have a considerable influence, including favorable benefits on financial performance and detrimental effects on staff morale and customer satisfaction. In order to achieve successful outsourcing in the hotel sector, the hotels need to identify and select the right vendor who possesses all the required capabilities to work in tandem with the established performance standards by the hotels. By utilizing these optimal methods, hoteliers may optimize the advantages of outsourcing while minimizing its probable drawbacks. In today's rapidly changing business environment, hotels may effectively enhance their competitiveness and adaptability by utilizing outsourcing as a significant strategic tool.

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