THE OUTSOURCING OF CORE AND NON-CORE SERVICE OPERATIONS AND ITS IMPACT ON THE PRIORITIES OF THE OPERATIONS' STRATEGY

Tomás Fco. Espino-Rodríguez
Victor Padrón-Robaina
University of Las Palmas de Gran Canaria
Departamento de Economía y Dirección de empresas
E mail: Tespino@dede.ulpgc.es

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The purpose of this work is to determine the factors influencing the outsourcing of hotel service operations. We take specificity and substitutability as our reference, as well as the performance of the operations, which enables us to determine the core or non-core character of the service operation. Secondly, and based on the classification of the operations depending on their importance to competitive advantage, we analyze the influence of outsourcing on the operational objectives. The results reflect that hotels have a greater propensity to outsource service operations that do not affect competitive advantage. These are the operations that are less specific, more substitutable and have lower performance. It can also be seen that the outsourcing of non-core services is determined by cost reductions, while in the case of core or complementary services, outsourcing has greater potential to influence the non cost-related objectives of the operations strategy.

Key words: outsourcing, core and non-core operations services, operational objectives.
INTRODUCTION.

In recent years many hoteliers, moved by the belief that outsourcing may provide a quick, low-risk way of improving competitiveness, have shown an unusual amount of interest in that strategy. By means of an outsourcing strategy they hope to: reduce fixed costs in order to moderate price increases, make the organizational structure more simple and flexible in order to mitigate the effects of seasonal variation in demand, introduce new technologies through specialist companies, diversify the offer by incorporating external services, and improve quality by concentrating their efforts on the business’s key activities. One of the aspects that the company must take into account when developing an operations strategy is the extent of outsourcing versus internalization; the extent to which the resources needed to perform the operations originate externally or internally. The outsourcing of materials, services and components has been recognized as a source of competitive advantage (Gupta and Zhender, 1994, Jenning, 1997, Quinn, 1999) able to influence the competitive priorities of the operations strategy.

However, such interest has not been reflected at an academic level or in research works that establish the relationships between outsourcing and the operations strategy. This work examines those relationships from a core competences perspective. There is an attempt to identify the factors explaining the outsourcing of service operations from the core competences perspective considering the different attributes that form the service operations. The company that undertakes an outsourcing process ceases to manage internally a series of functions or processes that are not generally related to its core competences and acquires them from an outside supplier. In order to
do that, it is necessary to analyze which services are core and which do not constitute the core competences of hotels.

The literature on service operations, above all in the tourist industry, lacks empirical works that analyze the influence of outsourcing on the competitive priorities of the operations strategy according to type of service (i.e. whether it is a core or non-core service).

In light of this gap, the aim of this research is to design and validate a theoretical model that analyzes the factors determining outsourcing, outsourcing and its influence on the hotel operations’ objectives (See Figure 1).

Figure 1.- Outsourcing, the attributes of the resources and their effect on the operation objectives

![Diagram of outsourcing, attributes of resources, and their effect on operation objectives]

**FACTORS DETERMINING THE OUTSOURCING OF HOTEL SERVICE OPERATIONS**

The core competences approach provides one of the most powerful frameworks for explaining why companies turn to outsourcing (Gilley and Rasheed, 2000). That approach suggests that an
organization should invest in the activities forming the core competences and outsource the rest of them (Prahalad and Hamel 1990; Quinn 1992; Quinn and Hilmer 1994); since it is the former that provide growth and direction (Peteraf 1993). Prahalad and Hamel (1990) define core competences as the organization’s specific resources that have additional characteristics and enable different markets to be exploited. These core competences contribute to the creation of new capabilities and the strengthening of existing ones by guiding the company as a whole in the creation of a logical command, thus defining the road to be taken and its future positions in the market (Bettis and Prahalad, 1995; Nelson, 1991). Moreover, Hamel and Prahalad (1994) use the term core competences to describe the strategies that comprise those operations that the company performs better than its competitors. The core competences will be formed by resources that are valuable, specific, non-substitutable or inimitable, as well as being activities with a good result. According to Cheon et al. (1995), the activity resources can be more, or less, strategic and therefore, may give rise to, or not, core competences contributing to competitive advantage. Hence, the core competences will comprise those resources that are valuable, specific, non-substitutable or inimitable (Barney, 1991), as well as permitting the appropriation of rents (Peteraf, 1993).

Specificity and the propensity to outsource

From the theoretical point of view, the specificity of resources determines a capacity to be sources of competitive advantage (Cox, 1996). Recent strategic theories, such as the resource and capability or knowledge theories, refer in their approaches to resource specificity, especially the human resources involved in routines specific to the organization, the language and skills.
Investment in specific resources is a source of valuable knowledge and capabilities\(^1\). Recent theoretical works (Argyres, 1996, Barney, 1999, Quinn, 1999) have examined how the choice of company limits (i.e., outsourcing versus internalization) influences the creation and transfer of knowledge and capabilities. From a strategic perspective, the specific resources can be defined in terms of their contribution to the creation or maintenance of competitive advantage (high, medium or low uniqueness) (Cox, 1996). This means that the resources are not transferable in the market since the high transaction costs involved in the exchange of this type of resource limit their mobility, as occurs in the case of knowledge-based tangible assets. We have found few works in the service sector that analyze the specificity of services and outsourcing (e.g., Erramilli and Rao, 1993; Murray et al., 1995; Murray and Kotabe, 1999). Therefore, for service operations based on specific resources, the relationship with the propensity to outsource\(^2\) should be negative.

In this respect, we propose the following research hypothesis:

**Hypothesis 1.**

The more specific the service operations are, the lower the propensity to outsource them.

**Substitutability and the propensity to outsource**

For the resources that constitute the service operations to be a source of competitive advantage, besides being specific, they must also be inimitable and non-substitutable (Barney, 1991). In other words, there must be what Peteraf (1993) called *ex-post* limits to the competition which postpone, prevent or increase the cost of established and potential competitors to copy or

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1. The transaction costs theory argues that outsourcing is related to the specificity of the assets when there is uncertainty and with costs, without explaining other causes and without solving the problem of choice. If we accept only the explanation of transaction costs, we consider that the company does not react to the changes and new conditions of the market. Therefore, a new approach is required to know what specific assets are involved in competitive advantage.

2. In the propensity to outsource, we have considered not only the actual level of outsourcing the activity, but also the tendency to outsource or the desired level of outsourcing and the potential increase in the outsourcing of an activity performed in-house.
substitute the service operations’ valuable resources. Therefore the duration of the competitive advantage will depend on how easy it is for competitors to identify the competitive advantage, replicate it or overcome it. Rumelt (1984) states that these limits are created with the existence of certain attributes or isolation mechanisms in the company, which include unique historical conditions (Barney, 1991), socially complex interactions, tacit knowledge (Reed and DeFillippi, 1990; Amit and Schoemaker, 1993) and co-specialized assets (Teece, 1986). In that way, the limits are established by the idiosyncratic nature of the resources used in the operations. Those resources are developed over a substantial length of time and, therefore, entail high costs. However, as an activity is outsourced, the resources lose the ex-post limits making them easier to imitate and substitute because, simply by a competitor acquiring the resources from the same supplier, they will be imitable. Then, the competitive advantage of those resources is compromised because outsourcing them removes any differentiation from other competitors because there is no generation of unique processes that may form determined organizational routines. The operations that can be outsourced are those comprising resources that are easily substituted by competitors and those that a supplier can perform as well as or better than the company (Dyer and Singh, 1998). Therefore, it seems reasonable that companies will tend to perform in-house those service operations that require staff that are more difficult to replace and scarcer in the market. This leads us to propose the following hypothesis:

Hypothesis 2

The more difficult it is to substitute the service operations, the lower the propensity to outsource.
The competitiveness of service operations and the propensity to outsource

For a service operation to be a source of competitive advantage, its resources, besides being unique and non-substitutable, must also enable the rents to be appropriated. Along those lines, Poppo and Zenger (1998) analyze those rents as the competitiveness of the operation. When companies opt to outsource their operations, the suppliers can take advantage of the exchange rents, which leads to a decrease in company performance. This is so because the costs of acquiring the operations are the same as the value generated in the transaction and, hence, no rents would be obtained (Barney, 1986). In this respect, Perry (1992) suggests that efficiency is questionable when services are outsourced because there is the risk that suppliers lower the quality to counteract lower profit margins resulting from the lack of entry barriers, or that they are too interested in economies of scale. However, in the case of resources that are not specific, the cost of developing the capabilities needed to perform the operations may be excessively high, which means that the resources must be acquired externally since their in-house performance would not compensate the organization (Argyres 1996; Barney 1999). Furthermore, the company would not need outside suppliers for those operations that it can perform at lower cost and better quality. However, in an attempt to improve their capabilities and focus on what they really can do well, companies will tend to outsource the service operations whose performance they are more dissatisfied with because they do not have the suitable resources and capabilities to carry out the activities. Some empirical works, such as those of Loh and Venkatraman (1992), and Teng et al. (1995) have studied the relationship between results and outsourcing, but only in the case of Information Systems. Those authors showed empirically that the decision to outsource is related to the management’s perception of the performance of the resources used since the outsourcing strategy may be considered to reduce the costs of operations, especially those with higher costs. In that case, the company will obtain results as good as, or better than, their competitors.
Therefore, the outsourcing of service operations will initially be practiced by those hotels affected by lower efficiency. On the basis of those two arguments, we put forward the following hypothesis:

**Hypothesis 3.** The less competitive the service operations are (cost and quality), the greater the propensity to outsource.

**OUTSOURCING AND ITS INFLUENCE ON THE OPERATIONAL OBJECTIVES**

The key to developing an effective operations strategy lies in knowing how to create or add value for the customers. This added value can be achieved by emphasizing different competitive priorities (Krajewski and Ritzman, 2000; Davis et al., 2001). These priorities are the capabilities that are desirable for a company to have in order to achieve a competitive advantage. The literature on operations management mainly distinguishes five types of competitive priorities, which refer to: cost reduction, quality improvement, flexibility, increase in the service, and fulfilling the deliveries\(^3\) (Skinner, 1969; Hayes and Wheelwright, 1984; Adam and Swamidas, 1989; Leong et al., 1990; Domínguez Machuca et al., 1995; Davis et al., 2001). The competitive advantages of leadership in cost or in differentiation can be achieved by attaining these operation objectives.

Cost reduction. This competitive priority means that a company is using its resources efficiently. All businesses, including those competing through differentiation, need to achieve low costs. A low cost strategy also involves an advantage from the customer’s point of view as it means a

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3 In this work we have ignored the objective of delivery compliance because it is considered another part of the objective of improved service and quality, since in the case of service companies, it is related with performing the service in the shortest possible time and directly affects the perception of quality.
cheaper service. One of the benefits of outsourcing is cost efficiency (Jennings, 1997). Outsourcing can produce an immediate cost reduction by decreasing the capital investment required to improve processes. So, the objective of cost reduction is achieved by the supplier taking advantage of economies of scale, since the companies sub-contracted to supply the service are more specialized, with the consequent flexibility of the client company’s cost, and the fixed cost becoming variables depending on seasonal needs. Organizations that outsource their activities can have the latest technology at their disposal without needing to invest (Lei and Hitt, 1995). Blumberg (1998) considers that outsourcing can generate economic advantages that may reduce costs by between 20% and 40%. Moreover, outsourcing may mean the transfer of assets from the client company to the supplier (e.g. computer hardware, vehicles, washing machines, etc.). Depending on the value of such assets, their sale may mean significant incoming cash-flow for companies opting to outsource. The activities carried out by the suppliers represent their core competences and so those companies are more likely to be able to provide the service at a lower cost than the client company could. In that way, the suppliers are specialists in their businesses and generally have access to more advanced technology, but only by purchasing it.

Improved quality. Quality is an objective that enables the company’s operations to be improved. From the customers’ point of view, quality means obtaining a product or service that meets their needs, while the company sees it as meeting specifications and doing things well the first time (Garvin, 1988). If companies choose to outsource their processes, it means that they recognize that there are companies in the market capable of carrying out part of their operations better than they themselves can. Following that argument, cost reduction must not be the only benefit of outsourcing; there must also be an improvement in quality. The better capacity of the suppliers is often the result of a high investment in technology, methodology and human resources over a
period of time. In many cases, the suppliers’ capabilities include a specialized knowledge of the industry resulting from working with many clients. The suppliers’ knowledge can be transferred to companies opting for outsourcing, since, with their abilities, processes or technology; they will be especially able to satisfy the needs of the customers (Johnson, 1997). Those aspects have led to outsourced services of a quality higher than that which would have been achieved had they been carried out in-house and which therefore influence the end customers’ perception of quality. In line with the above, hotels will be more inclined to outsource when they perceive that it can improve the quality of their operations.

Increased flexibility. Flexibility refers to the ability to respond to changes and to the degree of adaptability when facing changing circumstances. In the world of services, new technologies have appeared, customer culture has changed and competition is fiercer. This ever changing environment has caused many organizations to reduce their size, as well as the degree of vertical integration, and so focus on their main business or core competences, in other words, they outsource secondary services. This approach makes today’s company flexible, dynamic and, in short, virtualizes it (Chesbrought and Teece, 1996). Outsourcing makes organizations more flexible, more dynamic, and better able to face the changes and opportunities that appear. Flexibility is very important in the hotel sector because companies are able to reduce their risks because the supply company can spread the risk over several other suppliers to improve service and technology and does not have to invest constantly in production capabilities. Furthermore, low or irregular demand may cause the in-house supply of services to be inefficient and unfeasible (Coe, 2000), while outsourcing can give greater flexibility to operations. It should also be borne in mind that high levels of outsourcing are linked to a higher concentration of core competencies (Dess et al., 1995; Kotabe and Murray, 1990; Quinn, 1992). Outsourcing non-
essential processes enables the organization to direct more managerial attention to the tasks it can do well while entrusting those that can be done better by a supply company to the management of other companies. Blumberg (1998) states that outsourcing frees time for management to devote to priorities of a strategic nature and so have resources available for other purposes, giving greater flexibility in operations. Companies may outsource the activities that do not fall within their core competences, resulting in increased attention to their strategic activities. This may lead to greater functional or numerical flexibility, or even to using temporary employment agencies.

Improved service. The life cycle of services is becoming shorter, with a company’s services tending to resemble those of other companies. In fact, they almost reach the point of being standardized and price is the basic factor in making a decision to purchase (Davis et al., 1999). For that reason, companies provide services with added value in order to achieve competitive advantage. Organizations using outsourcing can improve the service that constitutes another of the basic objectives of operations strategy, which have recently taken on an extremely important role in the hotel’s competitive priorities. Some studies point out that outsourcing is more to do with difficulties in obtaining good service than with cost related aspects (Teng et al., 1995). If, by outsourcing, a company achieves a better, faster and more efficient service, it can increase the services offered to, and consequently the value received by the customer. Outsourcing permits a company to take on new projects by making more resources available, especially for the company to add other functions to its basic service. These could be complementary services (in the case of hotels, these might be thalossotherapy, health and sports facilities, etc.) which the customer perceives as value added to the end service.
Based on the above mentioned advantages of outsourcing, we can state that outsourcing service operations has an influence on the operation objectives, which leads us to propose the following hypothesis:

**Hypothesis 4**

The propensity to outsource core and non-core service operations influences the operation objectives (cost reduction, more flexibility, improved quality and increased service).

**METHODOLOGY**

**Sample**

The setting chosen for the research was the Canary Islands, one of the most important winter tourist destinations in Europe, where the main source of income is tourism. Income generated by tourism in the Canary Islands totals some 10,903 million euros, and the number of foreign tourists visiting the Islands was over ten million in the year 2002, all of which highlights the economic importance of this sector in terms of global tourism. The reason for choosing a single destination was because outsourcing depends, to a great extent, on the offer of services available in a region (Ono, 2001) and to analyze various regions jointly could bias the results.

After determining where to set the research, the next step was to find out the number of 1-star to 5-star hotels\(^4\). By consulting various data bases (Canarian Institute of Statistics, The Las Palmas Federation of Entrepreneurs, Hotels and Tourism), we compiled a list of 58 hotels in the region, with the name, address and telephone number of each establishment. We then contacted the

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\(^4\) In this work, we include hotels, but exclude guesthouses and boarding houses since these offer very limited services.
managers of these hotels in order to carry out a personal survey and obtained a sample of 50 hotels, giving a reliability rate of 95.5% with a sample error of 5.2%. Version 11.5 of the SPSS program was used for the statistical treatment of the data.

**Measurement of variables**

*Propensity to outsource.* In order to achieve our objective, we were interested in finding out the hotels’ propensity to outsource. We attempted to assess not only a given hotel’s current level of outsourcing, but also its inclination or desire to outsource, irrespective of whether it was actually outsourcing or not at that particular moment in time. Based on the interviews carried out in the sector and on the different studies of outsourcing, we decided to ask the managers to indicate the level of outsourcing of the service on a 7-point Likert type scale, with 1 indicating “not outsourced” and 7 “totally outsourced”. This outsourcing measurement is used by Hamilton (1997) and Patry et al. (1999). Some authors, such as Gilley and Rasheed (2000) and Poppo and Zenger (1998) ask for the percentage of the service that is outsourced, but faced with the difficulty of fixing a percentage, we opted for a numerical scale.

We obtained an indicator for each dimension of the inclination to outsource (actual level and desired outsourcing or inclination to outsource), in other words, the company’s predisposition to turn to the market to carry out its operations. As in the work of Gilley and Rasheed (2000), this indicator was obtained by calculating the arithmetical average of each of the activities.

We have taken into account the service operations that are frequently carried out in the hotel and that are necessary to the hotel’s service. After our reviews of the literature (Cerra et al., 1997; Kasavana and Brooks, 1995) the interviews and the pre-test, we decided on 20 service operations
for our study. These operations belonged to different hotel departments (reception, housekeeping, food and beverage, maintenance, administration and accounting, leisure activities, security and surveillance).

Core competences. As previously mentioned, core competences will be made up of resources that are valuable or specific, non-substitutable or inimitable, as well as being operations that have a good result. In this respect, we have measured the specificity of the resources used in service operations, the substitutability and the competitiveness of service operations.

Specificity of service operations. Specific assets are those human and physical assets that have no other use. Given the importance of human resources in the hotel sector, and the strategic nature of outsourcing, the variables to measure specificity are especially focused on human resources and knowledge. In line with Poppo and Zenger (1998) we set the following questions on a 7-point Likert type scale for each of the service operations:

a. To what extent must the staff performing the service have specific knowledge and information about the hotel’s way of working?

b. To what extent do the operations constituting the service require a degree of adaptation to the peculiarities of the hotel?

c. What would be the cost of outsourcing the service or of changing supplier if the service is already outsourced? (considering the money and time spent on seeking outside service companies, on negotiating contracts, on monitoring the supplier’s compliance and on working together).
With the three above items, we performed a principal components analysis whose internal reliability showed a Cronbach’s alpha of 0.68, which, although not high, is considered acceptable given the preliminary character of the study. The extracted factor explained 62.35% of total variance with an $\chi^2= 565.46; p(0.00)$ and a Kaiser-Meyer-Olkin (K.M.O.)=0.638, which reflects the suitability of using this technique.

*Substitutability of service operations.* For each of the service operations, and as in the case of specificity, we created a 7-point scale referring to a single item regarding staff. To what extent are the staff performing the service operation substitutable, where 1 represents easily substitutable and 7 substitutable with difficulty.

*Competitiveness or performance of the service operations.* To measure the performance of service operations, two items were used; one referring to the cost of the operation and the other to the quality (Poppo and Zenger, 1998). A 7-point scale was used to measure the expectations regarding the competitiveness of the operations. This form of measurement is used to obtain the imbalances produced in the operation results and was used in the work of Teng et al (1995). To measure satisfaction with cost, we used a 7-point Likert type scale where 1 indicated “much worse than expected” and 7 “much better than expected”. To measure satisfaction with quality, we asked those surveyed the extent to which the quality must improve. On the scale 1 indicated “need not improve at all”, while 7 indicated “must improve totally”. This last item was recoded to obtain a mean score for the overall performance of the operation formed by the average for the items measuring competitiveness.
Operations objectives. The purpose of this construct is to identify the main advantages of outsourcing activities related to the operations objectives, as perceived by the hoteliers. After reviewing the theoretical and empirical literature on the main strategic and tactical advantages of outsourcing (Ford and Farmer, 1986; Johnson, 1997; Saunder et al., 1997), we designed a multi-dimensional scale that included information about the main advantages perceived by hoteliers. We included the various advantages of outsourcing related to the main operations objectives dealt with in this work (cost reduction, quality improvement, increased flexibility and improved customer service). We asked those surveyed to indicate their level of agreement or disagreement with a number of statements on a 14-item, 7-point Likert type scale.

The internal reliability of the 14 items referring to the operations advantages obtaining a Cronbach’s alpha of 0.851, so we can consider the scale to be fairly reliable. As the scale comprised a large number of items, we reduced its size by means of a principal components factor analysis. However, before we ran that analysis, we carried out Bartlett’s sphericity test and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy which, with values $\chi^2=339,915$ ($p=0.000$) and 0.703 respectively, verified the suitability of the correlation matrix structure and confirmed the need to carry out the factor analysis. The results show that there are four dimensions jointly explaining 74.19% of total variance, with a Cronbach’s alpha of 0.851 and which we label: improved quality, flexibility, increased service, and cost reduction (see Table 1).

ANALYSIS AND RESULTS

Testing hypotheses 1, 2 and 3. In order to test these hypotheses, we performed a correlations analysis between the different dimensions of the propensity to outsource (actual level and desired
level) and the different factors determining that a service is a core competence (the specificity, substitutability and competitiveness of the service). We also ran two logistic regression analyses with the aim of confirming the joint effect of the different variables.

**Table 1. Factorial analysis and degree of reliability of the scales measuring the advantages related to the operations objectives**

<table>
<thead>
<tr>
<th>FACTOR 1: IMPROVED QUALITY</th>
<th>ITEMS</th>
<th>Com.</th>
<th>Factor loading</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to experienced personnel</td>
<td>0.892</td>
<td>0.935</td>
<td>0.843</td>
<td></td>
</tr>
<tr>
<td>Obtain a better quality service</td>
<td>0.894</td>
<td>0.923</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilitate the carrying out of internal operations</td>
<td>0.534</td>
<td>0.578</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free resources for other purposes</td>
<td>0.679</td>
<td>0.57</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EIGEN VALUE**

5.03

**VARIANCE EXPLAINED BY FACTOR 1A**

35.9%

<table>
<thead>
<tr>
<th>FACTOR 2: INCREASED FLEXIBILITY</th>
<th>ITEMS</th>
<th>Com.</th>
<th>Factor loading</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility in the hotel operations</td>
<td>0.735</td>
<td>0.853</td>
<td>0.743</td>
<td></td>
</tr>
<tr>
<td>Focus on core operations</td>
<td>0.709</td>
<td>0.782</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complement resources and capabilities</td>
<td>0.479</td>
<td>0.625</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Help reduce investments</td>
<td>0.574</td>
<td>0.543</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obtain difficult to get skills and capabilities</td>
<td>0.686</td>
<td>0.488</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EIGEN VALUE**

1.89

**VARIANCE EXPLAINED BY FACTOR 2A**

13.5%

**ACCUMULATED VARIANCE**

49.4%

<table>
<thead>
<tr>
<th>FACTOR 3: IMPROVED SERVICE</th>
<th>ITEMS</th>
<th>Com.</th>
<th>Factor loading</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction of the services</td>
<td>0.647</td>
<td>0.790</td>
<td>0.7017</td>
<td></td>
</tr>
<tr>
<td>Permits hotel services to be improved</td>
<td>0.805</td>
<td>0.785</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The companies in the market offer good services</td>
<td>0.529</td>
<td>0.576</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EIGEN VALUE**

1.561

**VARIANCE EXPLAINED BY FACTOR 3A**

11.2%

**ACCUMULATED VARIANCE**

60.6%

<table>
<thead>
<tr>
<th>FACTOR 4: COST REDUCTION</th>
<th>ITEMS</th>
<th>Com.</th>
<th>Factor loading</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain a cheaper service</td>
<td>0.730</td>
<td>0.809</td>
<td>0.6453</td>
<td></td>
</tr>
<tr>
<td>Enables hotel costs to be reduced</td>
<td>0.659</td>
<td>0.550</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EIGEN VALUE**

1.077

**VARIANCE EXPLAINED BY FACTOR 4A**

7.7%

**ACCUMULATED VARIANCE**

68.3%

**RELIABILITY ANALYSIS**

<table>
<thead>
<tr>
<th>Entire scale</th>
<th>Com.</th>
<th>0.8511</th>
</tr>
</thead>
</table>

Com.= communality
Table 2 shows a negative relationship between specificity and the propensity to outsource (actual and desired levels). Although there is a greater influence on the desired level than on the actual level, what is indicated is that many service operations are specific and are not outsourced to a great extent. Therefore, hotels are less likely to outsource activities requiring specific routines and knowledge and more likely to place in the hands of outside suppliers the more standard and less specialist activities. These results permit us to accept hypothesis 1. A significant negative relationship can also be seen between the substitutability of the operations and the propensity to outsource. In other words, the more difficult it is to substitute the staff performing the operations, the lower the propensity to outsource will be and, therefore, hypothesis 2 is accepted.

Table 2. The correlations between the resource attributes and the propensity to outsource service operations.

<table>
<thead>
<tr>
<th>ATTRIBUTE OF SERVICE OPERATION'S RESOURCES</th>
<th>Specificity</th>
<th>Substitutability</th>
<th>Operation’s competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual level of outsourcing</td>
<td>-0.284*</td>
<td>-0.222*</td>
<td>-0.152*</td>
</tr>
<tr>
<td>Desired level of outsourcing</td>
<td>-0.452*</td>
<td>-0.299*</td>
<td>-0.209*</td>
</tr>
</tbody>
</table>

* p< 0.01

Finally, we observe that there is a negative relationship between the different variables used to measure the propensity to outsource and the operation’s competitiveness. This indicates that hotels are drawn toward an outsourcing process when they perceive that their operations are not competitive or do not generate rents, thus confirming hypothesis 3.
With the aim of analyzing the variables jointly we performed two logistic regressions whose dependent variables are the actual and desired levels of outsourcing service operations. To that end we changed the quantitative variable propensity to outsource into a dichotic qualitative variable where the variable outsourcing took the value of 1 (outsourced) if it was 6 or higher and 0 if it was below 6.

Table 3. Regression analyses of the factors determining the outsourcing of service operations.

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Actual outsourcing</th>
<th>Desired outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.271</td>
<td>1.245*</td>
</tr>
<tr>
<td>Specificity</td>
<td>-0.575*</td>
<td>-0.938</td>
</tr>
<tr>
<td>Substitutability</td>
<td>-0.140**</td>
<td>-0.12**</td>
</tr>
<tr>
<td>Activity competitiveness</td>
<td>-0.330*</td>
<td>-0.404*</td>
</tr>
<tr>
<td>Goodness of fit</td>
<td>$\chi^2=86.14$</td>
<td>$\chi^2=212.94$</td>
</tr>
<tr>
<td></td>
<td>-LL=777.76</td>
<td>-LL=970.32</td>
</tr>
<tr>
<td></td>
<td>p=0.000</td>
<td>p=0.000</td>
</tr>
<tr>
<td>Percentage of classification</td>
<td>84.7%</td>
<td>76.8%</td>
</tr>
</tbody>
</table>

* p<0.01  ** p<0.05

The results shown in Table 3 confirm that hotel activities are less outsourced the more specific the operation is, the less substitutable the activity and the lower the competitiveness of the activity. It can also be seen that the substitutability of operations is the variable that least influences the propensity to outsource. Regarding the two logistic regression models, we see that the model referring to actual outsourcing shows a predictive capability of 84.7%, which is slightly higher than for the model using desired outsourcing as the dependent variable. Those joint results support hypotheses 1, 2 and 3.
Testing hypothesis 4. Before testing hypothesis 4, it was necessary to identify groups of service operations in line with core competences. To form those groups we applied a cluster analysis using the average score obtained by the hotel activities (i.e. reception, reservations, room cleaning, etc.) for each of the theoretical dimensions under consideration (i.e. specificity, substitutability and competitiveness of the activity). That analysis resulted in three clearly defined groups (See Table 4).

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>GROUP 1</th>
<th>GROUP 2</th>
<th>GROUP 3</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation Specificity</td>
<td>0.44</td>
<td>0.05</td>
<td>-0.68</td>
<td>26.71</td>
<td>0.00</td>
</tr>
<tr>
<td>Operation substitutability</td>
<td>5.81</td>
<td>4.83</td>
<td>3.44</td>
<td>61.63</td>
<td>0.00</td>
</tr>
<tr>
<td>Operation competitiveness</td>
<td>4.85</td>
<td>4.39</td>
<td>4.64</td>
<td>4.44</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Table 5 shows the operations comprising each of the groups. Group 1 “core service operations” contains 7 operations that are specific, non-substitutable and highly competitive and that are sources of competitive advantage and suitable to generate the core competences of the hotel. Group 2 “complementary service operations” comprises eight service operations that, in general, have a medium degree of specificity and substitutability. Although they are important to the hotel they are not activities that generate core competences since they are not highly competitive. Finally, Group 3 “non-core service operations” includes the more standardized and less specific operations. This group obtained the lowest score for substitutability and, in the case of competitiveness, a lower score than Group 1 operations.
Table 5. Classification of service operations according to their contribution to competitive advantage

<table>
<thead>
<tr>
<th>GROUP</th>
<th>SERVICE OPERATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1. “Core service operations”</td>
<td>Reception, Reservations, Kitchen, Restaurant, Bars, Sales operation, Administration</td>
</tr>
<tr>
<td>Group 3. “Non-core service operations”</td>
<td>Cleaning of Public Areas, Cleaning of rooms, Laundry, Gardening, Safety and Security</td>
</tr>
</tbody>
</table>

Table 6. Influence of the propensity to outsource on the operations’ objectives depending on the type of operation

<table>
<thead>
<tr>
<th>ACTUAL OUTSOURCING OF SERVICE OPERATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATIONS OBJECTIVES</td>
</tr>
<tr>
<td>Improved quality</td>
</tr>
<tr>
<td>Increased flexibility</td>
</tr>
<tr>
<td>Improved service</td>
</tr>
<tr>
<td>Cost reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DESIRED OUTSOURCING OF SERVICE OPERATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATIONS OBJECTIVES</td>
</tr>
<tr>
<td>Improved quality</td>
</tr>
<tr>
<td>Increased flexibility</td>
</tr>
<tr>
<td>Improved service</td>
</tr>
<tr>
<td>Cost reduction</td>
</tr>
</tbody>
</table>

*p<0.01 **p<0.05 ***p<0.10
As Table 6 shows, there is a significant positive relationship between actual outsourcing of core service operations and the objective of improved quality. There is also a significant positive relationship between outsourcing non-core operations and cost reduction. This indicates that the actual outsourcing of operations influences the operation objectives to certain extent.

With regard to the desired outsourcing, there is a significant positive relationship between the desired outsourcing of core and complementary activities and the operation objectives, with the exception of cost reduction, where the relationship is not significant. Moreover, the desired outsourcing of non-core operations is especially motivated by the achievement of flexibility and cost reduction. These results allow us to accept hypothesis 4 to a certain degree.

CONCLUSIONS

Regarding specificity, we can state that there is a negative, but not strong, relationship between specificity and the propensity to outsource. It is clear that this relationship is stronger in the case of desired outsourcing, which suggests that many standardized services are not currently outsourced. Furthermore, a greater substitutability of the staff performing the activities negatively influences the propensity to outsource.

Regarding the relationship with competitiveness, the theoretical suppositions of Loh and Vekatraman (1993) which state that companies outsource when they have higher costs or better quality, in order to improve their services, are fulfilled. Of the three dimensions to determine the core or non-core character of the service operations, the specificity and result of the activity exert the most influence, while substitutability exerts less influence on the propensity to outsource.
In the case of the influence of actual outsourcing on the operation objectives, the actual outsourcing of non-core operations exercises a clear influence on cost reduction, while the outsourcing of core service especially influences quality. This indicates that outsourcing influences the operations’ objectives depending on the type of operation.

The desired outsourcing of core operations only takes place when there is a positive perception that it can improve the operation objectives, except those related to cost reduction, such as improved quality. However, the desired outsourcing of non-core services comes about when there is a positive perception that the strategy can increase flexibility, in other words, focus on the core operations decided by the hotel as well as being able to reduce operation costs.

This study shows that the outsourcing of complementary operations has great potential for the operations strategy, especially for the objectives. This is so because future outsourcing will increase if the managers have a positive perception that it influences non cost-related operation objectives, such as improved quality, increased flexibility and service. Therefore, those three objectives, rather than cost reduction, are the ones that may determine a greater propensity to outsource complementary service operations.

On the whole, hotels do not outsource the sector’s core operations. This type of operation, which is important to the sector, is outsourced when the hotel does not have the suitable resources and capabilities to perform the service in-house or when it has not decided to develop a competitive advantage from the operation. It should also be borne in mind that service operations can easily be separated from one another, and so it is not difficult to develop core competence in other areas where the hotel has decided to obtain a competitive advantage by differentiation (e.g. the kitchen
can be operated by a supplier while the hotel develops superior in-house capabilities in reception). However, outsourcing operations that the sector has defined as important to competitive advantage (Group 1 operations) requires idiosyncratic interorganizational relationships that protect the rents and improve the quality of the services (Dyer and Singh, 1998).

Implications, limitations and future research

This work has enabled us to identify and classify service operations into three types: core, complementary and non-core. Therefore, improvement, investment and strengthening strategies can be established depending on the group to which the operation belongs. Moreover, an outsourcing strategy and the type of relationship to be maintained with the supplier can be established in line with the type of operation (i.e. the level of relationship is not the same for a Group 1 operation as it is for a Group 3 operation). In this way, it is confirmed that outsourcing not only has a positive influence on cost reduction, but also has a favorable impact on other objectives (i.e. quality, flexibility and service). That is the reason why hotels are starting to outsource operations that are important to the business provided that they can find suppliers that offer guarantees (e.g. suppliers that comply with the specifications or norms of quality). Those operations have a significant influence on end customer satisfaction and so can not be left in the hands of just any supplier. Therefore, the relationships between the client company and the supplier must take place in a climate of trust that enables the advantages of outsourcing to be exploited and the operation objectives to be improved. Given the importance of the Canary Islands as a sun and beach tourist destination, it must be stressed that these results may be useful to other tourist regions.
From an academic point of view, this work makes an important contribution to the literature on outsourcing by developing a theoretical frame for the study of outsourcing that uses different variables that complement specificity, such as the substitutability and competitiveness of the operation. Furthermore, it has analyzed the influence that outsourcing may have on the operations’ objectives depending on the type of operation (core, complementary and non core). The study of these operations has not been included in previous empirical literature and has enabled us to identify the operations’ objectives that determine the actual and the desired level of outsourcing.

However, in spite of the effort made in the theoretical review and in the application of the methodology, this work has some limitations. With reference to the representativeness of the results, it is necessary to repeat the methodology in other geographical areas and other sectors. Secondly, other factors should also be taken into account; factors that may influence outsourcing, that have not been analyzed in this work and that permit new hypotheses to be proposed. Thirdly, and referring to methodology, it would be interesting to develop a methodology that not only measures, in a general way, the conditions for the resource comprising the operations to be a source of competitive advantage, as was the case in this study, but also deepens the study of the different capabilities by department. Such an effort means breaking down each activity into different sub-operations or tasks in order to discover the scope of outsourcing in each of them. Lastly, the quantitative techniques chosen for this research, basically the survey, although giving overall results for the selected destination, do not go into the determining factors of outsourcing in depth. In this respect, it is necessary to employ other methodologies, such as the case study, to complement the results attained here. Studies of a longitudinal character should also be carried out in order to know the long-term evolution of outsourcing strategies and how outsourcing will
affect the operations’ objectives. However, this new line of research, which relates outsourcing with operations strategy, needs to be extended. This would permit a more detailed examination of our results, and other aspects of the operations strategy, such as the different strategic, tactical and operational decisions.

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