Hotel Outsourcing: 
Using Critical Incident Technique to 
Identify Factors Influencing the Decision

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Introduction

Outsourcing has assumed an increasingly important role in the hotel industry. It involves a wide range of activities such as laundry, cleaning, spas, security and food and beverage outlets (Espino-Rodriguez and Padron-Robaina, 2004). However, there has been limited previous research into hotel outsourcing and the research undertaken has been geographically restricted mainly to the Canary Islands (see Espino-Rodriguez and Padron-Robaina, 2004; 2005a; 2005b; Espino-Rodriguez and Gil-Padilla, 2005a; 2005b) and Australia (see Lamminmaki, 2005; 2007). This paper adds to this research by investigating outsourcing in a different geographical area.

An exploratory study of outsourcing was conducted using Critical Incident Technique (CIT). CIT was selected as it is highly effective at eliciting constructs from respondents that may not have previously emerged in the literature. Moreover, this approach had not been adopted before with regards investigating hotel outsourcing. The CIT study contributed to an analysis of outsourcing based on the Transaction Cost Economics (TCE) framework. TCE is a well established theory. It is widely used by researchers to interpret organizational reality (Lacity and Willcocks, 1995) and is claimed by various scholars such as Gronhaung and Haugland (2005), to describe this phenomenon better than other theories. In the hotel sector, outsourcing has been dominated by the utilisation of the strategic approach (Espino-Rodriguez and Padron-Robaina, 2004; 2005a; 2005b; Lam and Han, 2005). Thus, application of TCE to hotel outsourcing is still at the infancy stage. There have only been two such studies, which have been conducted by Lamminmaki (2005; 2007) in Australia.

The objectives of the CIT study reported here were to verify TCE variables and to identify new variables, if any, that influence outsourcing decisions in the hotel industry. The term ‘outsourcing’ has been defined in various ways by scholars (such as Lankford and Parsa, 1999; Domberger, 1998; Espino-Rodriguez and Padron-Robaina, 2006). In this paper, the term is used to refer to ‘contracting out hotel’s work to external providers’.

Outsourcing in Hotels

Transaction cost economics (TCE) seeks to explain not only the existence of the firm, but also its size and boundary choices (Shelanski and Klein, 1995). Outsourcing in the TCE context is organized for efficiency maximization. TCE theorists view a firm as a governance structure that organizes its transactions to achieve economic optimum of both production expenses and transaction costs (Williamson, 1975). Outsourcing to the external markets and operating in-house are alternative sources for completing the firm’s transactions. Williamson (1975; 1981) argues that outsourcing provides lower production costs due to external specialist’s economies of scale and scope. However, the transaction costs are higher because it is more difficult for the firm to coordinate, monitor and control the external contractors than the firm’s employees.

By analyzing the costs of transactions of each different activity, TCE suggests that managers carry out all activities that possess high transaction costs and outsource all others whose transaction costs are low. TCE has received widespread empirical support in explaining outsourcing decisions (such as Bigelow and Argyres, 2008; Everaert et al., 2006; Morill and Morill, 2003; Coles and Hesterly, 1998; Pisano, 1990; Walker and Weber 1987, 1984). TCE
proposes four circumstances under which markets will not be used (i.e. outsourcing will not occur) when the transactions are high in asset specificity, high in uncertainty, high in frequency, and in less competitive supplier markets.

**Asset specificity** refers to the degree to which transactions are supported by durable and transaction-specific investments (Williamson, 1975). This denotes the extent of customization or specialization of the asset required for a particular transaction or user. High asset specificity indicates that the asset must be specially designed for the use of just one particular transaction or user. This asset cannot be used for other buyers without huge adaptation. Asset specificity has been identified in the literature from various sources to comprise at least seven elements as follows:

- **Site specificity**, which pertains to the investment made to locate the operations within physical proximity of each other to save on transportation and inventory expenses (Williamson, 1991).
- **Physical asset specificity**, which refers to investment in equipment that is specific to the transaction and will have low values at the end of the contract because it can be virtually of no use to other transaction (Joskow, 1988).
- **Dedicated assets**, which refer to “a general purpose asset, as opposed to a specialised asset, that has been purchased for a specific long-term trading relationship. Should the relationship expire, excess capacity will result” (Lamminmaki, 2005:518).
- **Human asset specificity**, which addresses the specialization of skills that arises from learning-by-doing (Williamson, 1991).
- **Brand name capital**, which relates directly to reputation investment. It is the situation where one party can damage the brand name reputation of another party, if entering into a contract. In the situation where high brand name capital asset specificity is present, companies will not outsource an activity that allows its supplier to damage its reputation (Lohtia et al., 1994).
- **Temporal**, introduced by Masten et al. (1991), refers to the investment where timely performance and coordination of activities is critical. This means timing and coordination represents the specific asset (Lamminmaki, 2005). For example, the timing of laundry delivery from the laundry company to the hotel is a critical cost of transaction.
- **Procedural asset specificity**, proposed by Zaheer and Venkatraman (1994), refers to the degree of the contractor's work processes that are customized in accordance with the outsourcing company's requirements. This is particularly imperative to the service transactions as service performance is characterized by procedures and processes.

**Uncertainty** entails the inability of decision makers to specify a complete contract (Williamson, 1975). It refers to the level of unforeseen changes in conditions surrounding a transaction (Grover and Malhotra, 2003) and thus indicates a lack of information (Aubert et al., 1996b). Grover and Malhotra (2003) and Reindfleisch and Heide (1997) classify uncertainty into two dimensions: **environmental** and **behavioural**.

- **Environmental uncertainty** denotes the unpredictability of the environment and demand volume. It poses an adaptation problem including difficulties with modifying agreements to change circumstances. Similarly, Walker and Weber (1984) identify two elements of this construct that include technological and volume.
  - **Technological uncertainty** relates to the likelihood of change in component specifications. This element is referred to as **operations requirement uncertainty** in this paper to reflect the nature of hotel operations.
  - **Volume uncertainty** involves the fluctuation level of demand for the component or activity.
• **Behavioural uncertainty** refers to difficulties in performance evaluation or in verifying whether there has been compliance with established agreements. It is generally perceived as being difficult and costly to measure the actual performance of suppliers, particularly in the case of services (Aubert et al., 1996a).

The **frequency** with which transactions occur refers to the repetitiveness and volume of similar transactions (Lamminmaki, 2007). For the purpose of this paper, only reoccurring activities are examined. Therefore, frequency refers to the job volume required in the hotel throughout the year.

**Supplier availability** refers to the degree of availability of the company’s current and potential suppliers in the market (Vining and Globerman, 1999; Bello et al., 1997; Walker and Weber, 1984).

A few outsourcing studies in the hotel industry have adopted the TCE concept. As predicted by the theory, the asset specificity factor has been mainly used to explain hotel outsourcing. Lamminmaki (2005) based on research in Australia, found that insourcing was generally preferred in the activities that require high specific asset investments in her initial qualitative study; and later on in 2007 provided partial support to this variable in her further quantitative phase. Likewise, leisure activities, that are highly specific to hotels in Spain, perform better when they are carried out in-house (Espino-Rodriguez and Gil-Padilla, 2005b).

In addition, Lamminmaki (2007) also addressed frequency and uncertainty as key factors influencing hotel outsourcing decisions. They concluded that activities conducted frequently and, to some extent, in an uncertain environment tend not to be outsourced. There has been research into hotel outsourcing in developing countries but none of them is based on TCE. Lam and Han (2005) examined outsourcing strategy as perceived by hotel managers in Shanghai. They found that the outsourcing market in the city was immature. This was as a consequence of it being hindered by two key factors. First, the incompleteness of local laws to protect hotel investors when outsourcing conflicts arise; and second, the business cultural incompatibility between hotels dominated by Chinese managers and outsourcing suppliers.

In addition, Lai (2007) researched the application of outsourcing in the Taiwanese hotel industry. A low level of hotel outsourcing in Taiwan was observed due to the uncertainty of the quality of outsourcing services available in the market.

**Research Design**

Critical Incident Technique (CIT) was employed because it allows researchers to study areas that are not well researched and adequately documented (Grove and Fisk 1997, cited in Gremler, 2004). Mallalieu (1999:196) defines CIT as a method which “involves gathering self-reported data about memorable experiences within a specified social context”. Therefore, for an incident to be critical, it has to be memorable and easy to evoke by the interviewee. In this research, a critical incident was defined and explained to the interviewee as an important decision, whether to outsource or internally perform an activity in their hotel. Each interviewee was asked to recall three such incidents in their hotel. They were encouraged to freely talk about their decisions and experience. These three incidents included: (1) an activity that has been outsourced, (2) one that was not outsourced although outsourcing was possible and (3) one that the sourcing decision was being decided or under a review. In total, this study identified 64 useable incidents. This was considered adequate for preliminary research as indicated by Gilbert and Lockwood (1999) who suggested that at least 50 incidents were sufficient to allow researchers to build categories for analysis.

CIT interviews with senior managers from 22 hotels in Phuket were conducted. 64 usable incidents were identified. The choice of a single destination was preferred because outsourcing of services depends greatly on the available services in the area. Further, joint
analysis of various geographic areas can bias the results (Espino-Rodriguez and Padron Robaina, 2005a). Phuket was chosen as the location of the study due to the fact that it is one of the most concentrated areas of Thailand’s hotel industry consisting of more than 200 non-budget hotels.

The mid-market and luxury hotels in Phuket formed this research population. The Phuket hotel list was based on Tourism Authority of Thailand’s accommodation directory as of January 2006. The population comprised hotels rated 3 – 5 stars. Lower rated hotels and guest houses were not included in this study because they offer a small number of services and would provide limited sourcing decisions. Twenty-two hotels covering all sizes from small, medium and large were selected for the interviews. As argued by Richie et al. (2003), qualitative techniques like CIT attempt to retain a depth of data collection rather than breadth of sample sizes. In order to enable the sample to be most representative of the population, quotas based on hotel size were assigned as the sampling basis. Quota sampling is highly favourable in this research as it is a quick method that fairly allows sample representation and hence eases the problem of time and budget constraint (Clark et al., 1998). The hotels were classified into three different categories based on hotel size as indicated by the number of guest rooms (less than 100 rooms for small, 100 – 299 rooms for medium and more than 300 rooms for large). This classification was also used by Sahadev and Islam (2005) in their study of ICTs adoption in the Thailand hotel industry. The hotels were conveniently selected as systematic probability random sampling was unpractical.

All attempts were made to include only interviewees who were highly experienced in hotel operations management in Phuket. Either the hotel General Manager or Resident Manager was initially invited to participate. In cases where these managers were unavailable, they were asked to invite a department head who had extensive managerial experience and familiarity with the hotel sourcing decisions to participate. The General Manager’s office of each hotel was contacted by phone to establish interest in partaking in the research and accordingly to set up appointments. In total, 65 hotels were contacted based on the quotas and 22 hotels consented to partake. Therefore, the response rate was 33.85%.

The majority of the sampled hotels were local, small and three-star hotels. This was followed by medium sized and four star properties, then by large and five star categories. Six international chain hotels participated in the study. The profile appropriately reflected the actual mix of the property types in the studied area. The number of years the sampled hotels had been in operation ranged from less than five years to more than 20 years. Over half of the respondents were General Managers and three were Resident Managers. Eight of the interviewees were owner managers. Out of a total of 64 incidents, the most frequently selected activities for discussion were: security (13), laundry (10) and spa (9). This represented 50% of all incidents. Twenty-five outsourcing decisions and twenty-three in-house examples were reported. The remaining sixteen incidents consisted of eight incidents that were being planned to outsource, five incidents being planned to insource, and three incidents which were decided to continue to be performed by the hotel. All incidents were content analysed using a predefined coding method which is explained by Miles and Huberman (1994) as a coding method where a provisional start list of the codes is developed prior to the fieldwork. For this study, an initial code list was created based on the TCE factors identified in the literature. Categories of factors influencing hotel outsourcing decisions were derived for coding the incidents. Two coders independently coded the incidents by reading the samples of interview transcripts. The two sets of factors were compared to identify disagreements which were later resolved by discussion.

Findings

The results reported in this section verify TCE factors and also discover non-TCE factors some of which have not been identified in the outsourcing literature previously. These factors
include asset specificity, environmental uncertainty, behavioural uncertainty, frequency, supplier availability, guest contact, capital requirement, hotel experience and level of profit. Each factor is now explored in more detail.

**TCE factors**
The first part of the findings illustrate the effects of TCE factors and how they were relevant to the outsourcing decisions.

**Asset specificity**
Broadly speaking, asset specificity was vital to outsourcing decisions in the majority of the incidents. Overall, the findings of asset specificity provide support to TCE as high specific invested activities were generally kept in-house. Among the seven elements of asset specificity, comments relating to procedure specificity were most frequently made, followed by temporal and site specificity. Physical asset, brand name and human assets were rarely mentioned while dedicated asset specificity was not brought up at all. Hence, only the former three will be further discussed.

1) Procedure specificity
Comments with regard to procedure specificity were discovered in 37 incidents where 20 of them were operated in-house. These activities include spas, public area cleaning and gardening, among others. The procedures of operation required for these jobs were unique to each of the sampled hotels’ requirements. If outsourced, external companies would be required to make certain adjustments in terms of service delivery and operating procedures specifically for the hotel which were hard to accept by outsourced staff. This was foreseen as a major problem to many hotels and as a result internal performance was adopted. Two examples can be illustrated below in relation to procedure specificity of the gardening jobs which were operated in-house.

Staff of the outside companies would not do anything beyond the prior written agreement because they feel that they are not members of the hotel. We do not want our gardening staff to feel that their job is just to mow the lawn. We want them to feel that they are part of the hotel and be willing to help out any other tasks as requested by other functions of the hotel such as providing assistance in carrying tables and chairs when the hotel has a large F&B function. Gardeners from an external company would never do that and they would argue that it isn’t their job. *(Corporate and Yield Manager, Hotel 8, incident 23).*

Having our own gardeners means that we can train them to do more than gardening job such as greeting the guests and checking on safety and security as to whether there are some strangers who are not supposed to be there in the area. We can’t do this with external companies. And external gardening operator keeps sending us different gardeners so the guests are unfamiliar with them. *(General Manager, Hotel 21, incident 60).*

Another procedure specificity example was noted in hotel 18 in connection with public area cleaning (incident 52). The Resident Manager of this hotel explains the reason that his hotel operates public area cleaning in-house as follows:

They (a cleaning company) wouldn’t seem to be able to meet our requirements. They offer us cleaning for 1 – 2 hours a day but cannot work for extended periods of time. They offered to send their cleaners in to work between 8 – 10 a.m. while we want the cleaners to be present there for a much longer period and can work whenever required. ... Our restaurant is closed at 11 pm. They could adjust their work time to be 3 - 4 p.m. at best. End of discussion. We need cleaning all the time. We use
cleaning staff on duty to cover two work shifts and will clean the area whenever it gets dirty till late.

Moreover, a relationship between procedure specificity and requirement uncertainty was noted in several incidents. In situations where the hotel was uncertain about the operation requirements of a certain activity, it simultaneously required a high degree of operation procedure adjustments in response to the requirement uncertainties. Hence, operation procedure customization by external companies was to a large extent specific to certain hotels. This relationship was evident in hotel 14 with regard to foreign language training. English training was performed internally, while all other foreign languages were intended to be outsourced. That was because the tasks for foreign language trainers were set out more clearly and they were required less frequently than English teachers. The Guest Service Manager of this hotel explained how the requirements of this job are very uncertain and the English teachers must be extremely flexible to respond to the hotel’s unique requirements below:

Our English teachers have to do more work than simply teaching English to our staff. As English is the hotel’s official language, the work requirements of English trainers were more than training staff but to do with proofing all official documents in English such as memos, notices or leaflets. … In times of high occupancy, they are required to perform on-site training by observing the work and the use of English by the service staff and then develop English lessons for certain duties. …. The external company might develop a course for us, say, 40 hours and it ends when the course is complete. We want more than that. It would be too difficult for any external language company to really meet our requirements.

However, unlike English, the work procedures required for the training of all other languages were much more certain and did not require much adaptation from the suppliers. He further explained below:

I don't expect all of my staff to speak Russian fluently but may need just one or two persons who are responsible for taking care of Russian guests to be able to communicate Russian well enough. The other 20 students from the front office, sport and spa need just to be able to greet, have some basic vocabularies and have simple conversations like “how are you?”, “what is your room number?”, and “this is your bill”. I wouldn’t worry about grammar. The company will propose us the courses, for instance, the first 10 hours will be these lessons and then the other 10 hours will be about this and this. This is the price. If we are happy, it can go ahead.

2) Temporal asset specificity
Overall, laundry, security, engineering and public area cleaning were considered high in temporal asset specificity since timing and coordination was critical to these activities. Temporal asset specificity was a major issue for laundry in many hotels. However, it was not significant enough for all small hotels to invest in the facilities and operate them in-house as the capital investment required was far too high for small scale operations. Furthermore, laundry outsourcing was considered more appropriate for them since all other aspects of asset specificity were low. Site specificity was unimportant because unlike a people-processing-service, a possession-processing-service like laundry need not be operated in-house but can be delivered at a distance (Lovelock, 2001). Also, contractors would not require any special investments in terms of equipment and machines specific to any particular hotel. Thus, physical asset specificity was also irrelevant. The only specific investment the laundry contractor needed to make was with regards to temporal asset where pick-up and delivery timing together with coordination must be adjusted specifically to suit the preferences of each individual hotel. Indeed, timely delivery of linens was a key issue for many hotels as it affected their hotel operations considerably, especially during times of high
occupancy. Despite this, due to the laundry’s level of capital investment required coupled with the hotel being small in size, outsourcing was still a preferred option.

On the other hand, large hotels preferred their laundry service to be operated internally in order to avoid temporal specificity problems by the supplier. For example, hotel 4 (incident 11) chose operating laundry in-house for their whole hotel group in the Phuket area which comprised over 1,000 rooms. Two observations were noted in hotels 15 and 17 which were at present small in size. These hotels were outsourcing their laundry operations and had to put up with delivery problems. Insourcing laundry was planned in the near future in these hotels along with their hotel expansion plan. This was mainly because they needed to overcome temporal specificity problems and perceived that the temporal problems would disappear once operating internally.

Another issue pertaining to temporal asset specificity was noted in most hotels, being that outsourcing guest laundry was more a concern than hotel linen. Hotels normally work with three sets of linens but this is not the case for guest’s clothes. Guests normally require express services and demand their clothes are returned to them clean and on time. A serious incident of a temporal problem with the guest laundry was observed in hotel 21 as this was explained by the hotel General Manager:

“The delay of delivery can be a serious problem with guest laundry. For example, a guest dropped us off their clothes in the morning and requested to have them back before the evening. The laundry contractor told us they can manage it and will deliver them back on time. But then it turned out that they couldn’t complete the job and failed to deliver the guest’s clothes on time and caused him to miss a party.”

To avoid guest laundry temporal problems, this hotel was planning to run guest laundry service in-house following the forthcoming hotel renovation while hotel linens would remain outsourced. Operating guest laundry in-house but outsourcing hotel linen was practiced in hotels 6 and 18 for the same reason.

In addition, temporal asset specificity was also apparent in other activities such as engineering. Timely engineering service is essential for the hotel particularly when problems are experienced in guestroom such as air conditioning breaking down which may cause a severe dissatisfaction if the problem is delayed. For this reason, hotel 19, although with only 60 rooms, decided to have their own engineering staff on duty 24 hours a day. The manager of this hotel emphasized the need to solve all engineering problems immediately. This job could not be outsourced mainly due to potential temporal problems by external engineering companies as delays were common for engineering outsourcing.

3) Site specificity
Many activities required the contractor to be present and operate on-site at the hotel. This was particularly the case in most of people processing activities which provided services directly to the hotel guests such as spa, guest taxi service, restaurant, and nightclub. Staff canteens (incident 34) where service was delivered to hotel employees also belonged to this group since it was operated by an external company inside the hotel. These jobs needed the service facilities to be located inside the property. To some extent gardening and security also possess some degree of site specificity as these jobs must only be carried out at the hotel site.

Site specificity normally arose in conjunction with physical asset specificity. However, physical asset specificity was less often commented upon because several hotels decided to invest in the facilities themselves rather than by the supplier. This was particularly the case for spas. A spa located inside the hotel implied site specificity. Moreover, a number of facilities and equipment for spa operations were investment-specific because they were
built-in permanently or at least for a period of the contract and would become useless after contract termination. Thus, a high level of asset specificity was normally present in any hotel spa operation. However, to avoid the trading parties being locked into the contract due to physical asset specificity and site specificity, most hotels chose to invest in the specific physical assets themselves rather than ask the suppliers to do so. Hence, the hotels could terminate the contracts prematurely if necessary and keep the equipment, while the spa contactors had no major investment to lose.

Environmental uncertainty

Environmental uncertainty has been identified to include volume uncertainty and requirement uncertainty, however, the latter was much more often commented upon. Requirement uncertainty appeared to drive in-house operation decisions in many activities and this was apparent in gardening for hotels 8, 17 and 21 (incidents 23, 48, 60) as the managers of these hotels felt that they needed to make frequent changes and adjustments in the gardening operations. Internal performance was perceived to give them more control and a better response to their uncertain operation requirements in comparison to using external suppliers. For example, the manager of hotel 17 (incident 48) strongly preferred gardening to be performed in-house because he was uncertain about his requirements. He felt having his own gardeners would give him much more flexibility to meet these uncertainties as he noted:

I like to have the control and telling them what I want. If I change my mind after a month and I said “ok it’s going to be a different timing, it’s going to be a different way of working”, it is still easy for me to control them.

Furthermore, comments regarding requirement uncertainty were frequently found in various spa operations. The respondents felt it was necessary to have spa operations under their control and operated in-house so that adjustments in spa operations and management could be made as often as needed. Two examples of requirement uncertainty can be illustrated below with reference to the spas of hotel 2 and hotel 3.

... when we sell our hotel package on our website, we can offer one of our spa services free of charge to our return and long stay guests, say one month, who negotiate for a lower hotel room rate. Instead of reducing the hotel room price, we offer them a complementary airport transfer, spa service, and dinner. Most guests will happily accept it. We don’t have to touch the room rates and be able to maintain the hotel prices. (General Manager, Hotel 2).

If outsourced, we would have to get stuck with the prices that are set by the spa company, so we have no control over the spa prices. We just can’t always follow their prices. ... I used to work for a hotel that outsourced spa. I was under a lot of pressures because I could not control the spa prices. They told me not to lower the spa prices because it could affect their reputation so on and so forth. Before I could do anything to their spa, I had to write to the company and it took too long time for them to answer and negotiate. There were too many steps and it was too complicated. (General Manager, Hotel 3).

Volume uncertainty also had a strong link with insourcing. This was particularly the case for engineering (incidents 26 and 54). Engineers were scheduled on duty 24 hours a day, seven days a week in these luxury hotels in order to provide immediate engineering services in times of unexpected events. In addition, the job was perceived as high in temporal asset specificity because timely service was crucial to guest satisfaction.

Behavioural uncertainty

Behavioural uncertainty relates to the complexity of activity that makes the job more complicated for the hotel to monitor the contractor’s performance. As a result, assessing
whether the contractor has performed effectively and complied with the established contractual agreements can become a difficult task for the hotel. Behavioural uncertainty was relevant to a number of high asset specific incidents with a majority being spa operations. The spa performance was complex for the management teams of the sampled hotels to evaluate due to the intangibility of the services provided by spa therapists to different guests. An observation was made in incident 39 by the Guest Service Manager of the hotel as he explained:

It is hard to measure and evaluate the outcome of spa services. We could evaluate from the guest comments but, as I told you earlier, one guest may judge the same service differently to another. A guest receiving the same spa service from the same therapist may reward the therapist with a big tip while another guest may complain. It is hard to evaluate the performance based on guest satisfaction.

Also, monitoring difficulties of the spa performance were raised by the Manager of Hotel 20 (incident 58):

We feel that the spa is an activity that needs a lot of detailed attention, more than housekeeping. It is harder to monitor as the operation takes place in the situation where we can’t observe it. If we can’t control, there could be many serious problems. The service is conducted in private between the service provider and the guest. The service is subject to individual guest judgment.

These reasons, to some extent, caused these hotels to avoid outsourcing their spas. Two more observations of behavioural uncertainty were made about training (incident 32) and guest laundry (incident 16). Training services were perceived to be complex by hotel 11 because it was hard to assess and evaluate the training results. The level of staff performance improvement as a result of training was also difficult to quantify. Judging the performance of the external trainers was noted as problematic in this hotel and thus all training programmes were conducted internally. On the other hand, guest laundry in hotel 6 (incident 16) was performed in-house because, to some extent, investigating into a problem was difficult to conduct. The manager of this hotel commented:

When problems occur, it would be very difficult and time consuming to track down the root of the problem as to identifying who should be responsible for the problem. For instance, damages to the guests clothes like a coat button is missing or a shirt gets dirty require us to go through a long investigation process as to who should be held accountable.

However, different results of behavioural uncertainty were found in some incidents. Behavioural uncertainty in spa was of no concern to hotels 10 and 22 because they were confident in the performance of the external spa operators. Furthermore, it was commented on by the manager of hotel 9 (incident 27) that evaluating the performance of in-house spa staff would in fact be more complex than the outsourced spa management company in terms of cash monitoring. Outsourcing was thus chosen by these hotels. Additionally, a similar comment to incident 16 (discussed above) regarding the investigation problems of outsourced hotel laundry was made in incident 41. However, outsourcing was still chosen due to the small size of the hotel coupled with the high capital investment of the laundry.

**Frequency**

Observations with regard to the size and volume of the job were made in 28 incidents, notably with regards to laundry operations. Highly frequently conducted activities were often perceived as best operated in-house. Hotels 15 and 17, which were small, outsourced their laundry operations at the time of the interviews and had to put up with many delivery (temporal) problems. Insourcing laundry was planned in the near future in these hotels, as
they also planned to expand their size. Another example was provided by Hotel 4 (incident 11). This hotel on its own was a medium-sized hotel but it had two other properties that belonged to the same group in Phuket which altogether comprised over 1,000 rooms. The manager of this hotel group preferred to operate their own laundry, because they had specific laundry operations and delivery procedures that were difficult to provide by the laundry operators in the market. Furthermore, the sheer volume of the group allowed this hotel company to operate laundry cost efficiently. Hence, these two reasons led this hotel to internalise the laundry operations and serve the other hotels in the group.

Smaller hotels, exhibiting low laundry work volume, were unwilling to commit themselves to a huge investment in a laundry operation of their own. An example can be illustrated by the comment made by the hotel manager in incident 41:

The first thing is our size. Our hotel has only 77 guestrooms so it isn’t cost effective to make the investment and operate the laundry. The linen quantity including those in the housekeeping department, restaurant and guest clothes, is too few and makes it uneconomical to operate. We calculated the break even point and felt that operating in-house was definitely uneconomical.

Supplier availability
Comments with regard to the availability of viable contractors in the market were made in 12 incidents. A number of hotels complained about the small number of suppliers to select from. In addition, existing ones were seen to provide low quality of services together with numerous temporal asset specificity problems of laundry, security and limousine services. Three hotels including hotels 2, 17 and 21 reported that they were considering insourcing security due to the limited number of competent service providers in the area. These hotels were outsourcing this service at the time of the interviews but no longer wanted to put up with the low quality services they were receiving. Even though outsourcing would ideally be preferred, they needed to consider internalizing security operations because of a limited number of competent security operators in the market that could provide the expected service standards they required.

Further, because of the lack of competent laundry contractors, larger hotels found it difficult to outsource the laundry operations. A comment was made by the manager of a 400-room hotel as follows:

... if we were sitting in Vienna, in Paris, we would not even have to discuss this because none of the hotels there would have a laundry. You would have huge laundry provider specialists who are so specialised, their services and their costs are still affordable, cheaper. ... umm..., I am not sure if the hotel of our size can outsource laundry either. I think we would have to do a serious research if there is a laundry available in Phuket who could meet our qualifications, who could meet our standards. (General Manager, Hotel 22, incident 64).

In contrast, smaller hotels did not have the same problem as there were more laundry providers to smaller hotel properties. Moreover, some temporal problems in terms of laundry delivery and the low quality service they were commonly facing, these smaller hotels were willing to outsource their laundry. In addition, the available service providers were competing to provide cost efficient and affordable services and it was relatively easy to switch provision if necessary.
Non-TCE factors

In addition to the above TCE variables confirmed in this study, new variables have emerged from the findings. The following variables are additional to the TCE framework, and they are based solely on the findings of this study.

Guest contact

Guest contact refers to the degree of contact the guest has with a service provider of a particular activity or the level of guest involvement in co-producing a particular service transaction. This factor was noted in a number of incidents and mixed results were also observed.

Guest contact was considered a relatively important factor in the more complex activities like spa. The following comments in incident 36 and 58 illustrate this point.

We also think that spa is a high guest contact service so it is better that we have full control by not outsourcing it. If we outsource it, we would not be sure if any other companies would be able to treat our guests the way we do. (Resident Manager, Hotel 12, Incident 36).

… what I can think of is our concern with the performance standard. The service performance would vary from one person to another. … If anything goes wrong or the guest is unhappy which can happen any time, we are not sure whether the contractor would be able to solve the problem and take it seriously as they might not be committed to the job that much. This can cause an immediate and serious guest dissatisfaction. (General Manager, Hotel 20, Incident 58).

The managers of the hotels felt there was a need for having full control of spa operations to ensure guest satisfaction and hence decided to operate spa internally.

Another example in connection with customer contact was noted in two gardening jobs (incidents 35 and 60) of hotels 12 and 21. One might argue that gardening might be a low contact service and most guests do not have much expectation from the gardeners. These hotels, however, considered guest contact to be one of the key elements of their gardening jobs as the gardeners are seen in public and thus represented the hotel’s reputation. Therefore, all gardeners in these hotels were trained about grooming, appearance and attitude. The managers ensured that their gardeners would enhance the hotel’s goodwill by politely greeting and smiling at guests every time they came into contact with them. This is a procedure specific to these hotels as no gardening companies in the market could match this requirement. This guest contact factor combined with all other needs, convinced the managers to select to operate gardening in-house.

However, guest contact was not part of hotel 22’s outsourcing consideration despite the high contact nature of the spa business (incident 62). The manager of this hotel had no concern with customer contact issues because he trusted in the quality of the supplier he selected. Similarly, other hotels such as hotels 10 and 18 rejected guest contact as a relevant factor for consideration in their decision to operate a spa internally. They were confident in the professionalism of the spa companies in the market but decided to operate in-house due to other factors including specific requirements and profitability.

Capital requirement

Capital requirement refers to long term general assets such as property, plant, or equipment required in order to operate an activity. It appeared to be a major factor and the second most frequently coded in the data. It seems clear from the results that the level of capital required to operate a certain activity went in an opposite direction to the asset specificity in terms of the effects on the sourcing decision. In fact, TCE theorists rarely take the level of required
general investment as a factor in explaining sourcing decisions as it is perceived to be more related to production costs rather than the costs of transaction. However, the results from this study affirm that ignoring this factor would no doubt make hotel sourcing behaviour explanation incomplete. TCE theory predicts an increase in propensity to outsource in lower specific transactions and less outsourcing likelihood in high specificity. This suggests a negative relationship between specificity and outsourcing.

Conversely, in this research, outsourcing tendency is enhanced by high capital investment. This is opposite to the asset specificity and outsourcing relationship. Capital requirement was a substantial driver of the outsourcing decisions in a number of cases particularly in the laundry operations of smaller hotels. The manager of hotel 1, one of the small hotels that outsourced laundry, commented:

Investing in the facilities is simply uneconomical for a small property of 21 villas. Even if we have a 100% occupancy, 21 villas per day, the total amount of linen would not exceed 120 - 130 pieces per day. If we want to invest in the equipment, we are talking about millions of Baht.

Furthermore, the investment in laundry operations was considered unnecessary because the physical assets required were nonspecific and the external laundry specialists had already made extensive investment into their operations which would be hard for small hotels to match. Since the assets were nonspecific to the suppliers, additional investment was needless for them. This was mentioned by hotel 19 manager as follows:

They (the laundry contractor) already have a very high standard laundry operation, good system, good work procedures and good machines and equipment. It would cost enormously if we made such an investment.

Hotel experience
Prior experience contributed to outsourcing decisions most notably with regards to spa, housekeeping and restaurant. Several hotels decided to outsource these because they lacked expertise, knowledge and experience in running these operations. For example, hotel 20 decided to outsource housekeeping function because the manager lacked operations know-how and experience. After one year once adequate expertise was gained from observing the supplier’s operation, the hotel decided to insource the job in order to have full control of the housekeeping staff. In addition, the restaurant in hotel 9 was outsourced also due mainly to the lack of restaurant operations knowledge and experience.

The results also suggested that where the hotel was rich in technical know-how in operating a certain job, there was a tendency towards in-house production. With regard to spa operations hotels 2, 12 and 14, considered themselves experts. These hotels were not confident that other companies would treat the guests by the standards of the hotel. This was particularly apparent in hotel 12 who claimed that because of their extensive experience, a range of hotels have increasingly requested that they run their spas.

However, measures were imposed to safeguard the parties being locked into contracts due to asset specificity. The asset specificity levels of these jobs were greatly reduced by the hotels investing in all machines and equipment rather than the contractors. Furthermore, these jobs were planned to be insourced once experience was gained. The results suggest that where the hotel management team were rich in knowledge and experience in operating these asset specific activities, it would generally result in in-house production. This was obvious in hotel 22 in spa operations as the General Manager explained below.

Decision to outsource the spa is because we felt that we have great expertise in running a hotel but we do not consider ourselves expert in running a spa operation.
So we always felt that we would rather work with a company who has track record of running, operating spas. …. The hotel owner actually made all the investment…. we could do it ourselves but we would be very dependent on the Spa Manager we would hire. If he or she walks off, there is not a back up system. I mean the risk is that we don’t have the expertise ourselves and we would be depending on one person. By now after 5 years, I think we would have insider experience and actually realized that we would have enough knowledge doing it ourselves. And from the profit point of view, I think, it will be more beneficial to us running it ourselves.

**Level of profit**

Level of profit of the activity has not been identified in previous outsourcing literature. This factor may seem insignificant as it appeared in only 12 incidents from the total of 64, however, many activities selected in the interviews by the managers were non-revenue generating such as gardening jobs and hotel laundry. In this study, level of profit emerged as an influential factor in the sourcing decisions of revenue generating activities most particularly, spa and guest laundry services.

Overall, level of profit had a strong link with in-house operations. Several hotels preferred the spa operated in-house because the profits of spa operations were promising despite a considerable level of initial investment required. The interviewees revealed that spas have relatively low operating costs while the guests are normally willing to pay high prices for the service. This is strongly relevant to hotel 12 where the Resident Manager emphasized one of the main reasons of operating the spa in-house as follows:

Profit is great if managed properly. The running costs of spa are quite low but the guests are prepared to pay premium. Investment is relatively low when you compare it with other services but the return is magnificent.

Furthermore, most hotels refused to outsource their spa partially because they did not want to share their profits. This is because, although outsourced, most of the investments which were mostly specific would be made by the hotels. Generally, if outsourced, up to 50% of the profits would be shared by the contractor. This was perceived as unacceptable by several interviewees. Another observation was noted in relation to the level of profit in hotel 22’s spa. This hotel chose outsourcing because it lacked expertise. However, it fully recognized the high profitability of the spa and thus planned to insource the spa in the near future. Hotel 9, in contrast, needed to outsource their spa because they continued to make a loss.

**Conclusion**

The findings generally provide strong support to the TCE prescriptions. Asset specificity appears to be the most dominant factor as it explains most of the sourcing decisions. Among the seven elements of asset specificity, procedural asset, temporal, and site specificity were three most pertinent aspects to the hotel outsourcing context in this study. The latter is shared by the findings of Lamminmaki (2005). The other TCE dimensions including environmental uncertainty, behavioural uncertainty and frequency also exert strong influences on the sourcing decisions made by the respondents. In addition, the findings reveal non-traditional TCE factors including guest contact, capital requirement, hotel experience and level of profit that affect the respondent’s outsourcing decisions. All these factors, with exception of capital requirement, tended to drive in-house operations rather than outsourcing in the sampled hotels.

The results have confirmed that traditional TCE on its own could not fully explain the outsourcing phenomenon. This view is shared by various scholars who proposed to adjust TCE and incorporate additional variables or theories to study outsourcing (such as McIvor, 2009; Gulbrandsen et al., 2009; Holcomb and Hitt, 2007; Lamminmaki, 2007; Everaert et al.,
McIvor (2009:45) mentioned that “neither transaction cost economics nor the resource-based view alone can fully explain the complexities of outsourcing” and emphasized the need to integrate the two theories to study outsourcing. Similarly, Bello et al. (1997) stated that using transaction costs alone in determining the governance structures is inadequate and they persisted in incorporating production costs also. In fact, the influence of production costs on sourcing decisions has been empirically evidenced in Walker and Weber (1984) and Ang and Straub (1998). According to Bello et al. (1997), capital requirement, scale effects and experience effects are the key factors that drive production costs. The scale effects factor is similar to the frequency or hotel size variable and the experience effects factor is comparable to the hotel experience variable. Hence, in line with the production cost notion of Bello et al. (1997), capital requirement, frequency and hotel experience were the significant factors of the production costs aspect in this research, although frequency also related to TCE.

Capital requirement played a significant role in determining the sourcing decisions in the study. Traditional TCE does not take the levels of the required generic capital investment into consideration but focuses merely on the specific assets. In this research, the fact that the sourcing decisions were greatly dictated by the level of specific asset investments has been established. However, the results in this study also clearly suggested that general capital requirement, regardless of being specific or nonspecific, was a key concern in many of the incidents discussed by the respondents most particularly the laundry operations of most small hotels as they could not afford high set up costs and needed to rely on external providers who had scale economies. Furthermore, the findings of capital requirement was to some extent in line with the results of Erramilli and Rao (1993) who also demonstrated that capital intensity strengthened the inverse relationship between asset specificity and entry-mode choice but this was only at lower levels of capital intensity. They, however, did not find support at a higher capital intensity level. Furthermore, it was predicted by Bello et al. (1997) that transactions requiring high capital investment would generally relate positively to outsourcing.

It appeared that the sampled hotels that were more experienced in operating the investigated activity tended to adopt insourcing decisions. The hotel experience result is consistent with the empirical findings of Bigelow and Argyres (2008) and Everaert et al. (2006) who found organization’s knowledge and experience having a strong negative relationship with outsourcing. Moreover, it confirmed the production cost hypothesis of Bello et al. (1997) but it contradicted to the Walker and Weber (1984)’s contention for a positive relationship between buyer experience and outsourcing based on the transaction cost perspective. The result of this variable may indicate that the experience of the organization affects its production costs more than transaction costs. Furthermore, prior knowledge and experience of the hotel in operating certain activities is consistent to the capability concept of RBV. The finding of this variable is comparable to the result of RBV-based outsourcing studies in the hotel sector undertaken by Espino-Rodriguez and Padron-Robaina (2005a) and Espino-Rodriguez and Gil-Padilla (2007). These authors confirmed that hotels do not outsource activities where they have greater capability than external suppliers. Hotels would have lower operational capability in the activities they choose to outsource. Other hotel outsourcing research including Lamminmaki (2007) also validated hotel experience as a strong predictor of outsourcing.

Level of profit of the activity has not been identified as an outsourcing factor in previous literature. The lack of attention to this factor is not surprising given that outsourcing of revenue generating transactions have been rarely investigated. Past research (such as Espino-Rodriguez et al., 2008; Espino-Rodriguez and Padron-Robaina, 2005a; Gorg and Hanley, 2004; Gilley and Rasheed, 2000) examined only the relationship between the firm’s overall profit or performance and the level of outsourcing. However, this study has evidently illustrated the reverse relationship between the amount of profit at the activity level and the
outsourcing intention of that particular activity for the restaurant data set. This result reinforced the profit maximization rationale of the hotel managers who aimed to retain all possible premium profits in-house.

Furthermore, the effect of guest contact reflects the nature of high contact service. This is unique to hotel outsourcing. The results of this factor were mixed in this research. To a certain degree, the findings were consistent to Murray and Kotabe (1999)’s study as they discovered that firms would be more likely to source high specific inseparability services internally. However, guest contact was proved to display no effect to the level of outsourcing in many incidents. This was of no concern because hotels would carefully select the most trustworthy contractor in dealing with guest contact service, if outsourcing was preferred.

The key limitation of this study is the small sample size which permits a small number of case observations. This study provides in-depth analysis rather than generalizable results. Therefore, this presents opportunities for future research to test the proposed effects of the discovered variables. Furthermore, there are other theories to explain outsourcing such as resource-based theory and agency. Additional studies would need to extend on the analysis to these themes. Also, further research should seek to broaden these concepts and apply them to other high contact service industries such as hospitals and airlines. These supplementary results could then be compared with the results of this study.

References


