Since January 2020 Elsevier has created a COVID-19 resource centre with free information in English and Mandarin on the novel coronavirus COVID-19. The COVID-19 resource centre is hosted on Elsevier Connect, the company's public news and information website.

Elsevier hereby grants permission to make all its COVID-19-related research that is available on the COVID-19 resource centre - including this research content - immediately available in PubMed Central and other publicly funded repositories, such as the WHO COVID database with rights for unrestricted research re-use and analyses in any form or by any means with acknowledgement of the original source. These permissions are granted for free by Elsevier for as long as the COVID-19 resource centre remains active.
A study of outsourcing strategy: a case involving the hotel industry in Shanghai, China

Terry Lam*, Michael X. J. Han

School of Hotel and Tourism Management, Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong

Abstract

Hotels in China are attempting to adopt outsourcing. However, they are not always successful. This study investigated outsourcing strategy as perceived by hotel managers in Shanghai, and identified the relationship between the determinant factors in the adoption of outsourcing and types of hotel ownership and job levels of managers. In-depth interviews and self-administered questionnaires were used to collect the data. The results show that in China the outsourcing market is still immature. The incompleteness of laws is a hindrance to the adoption of outsourcing and the compatibility between the corporate cultures of the hotels and the outsourcing vendors is critical.

Keywords: Outsourcing; Adoption factors; Hotel ownership; Outsourcing supplier

1. Introduction

Outsourcing has become a commonly adopted strategy in the hotel industry as managers attempt to squeeze operating costs in a tough business environment. Outsourcing by hotels is a growing trend in China. The purpose of such a strategy is to improve productivity, increase revenues, lower operating costs, and reduce risks.

The hotel industry in China has been growing enormously since Deng Xiao-Ping introduced the open-door policy in 1978. This resulted in the recognition by the Chinese government of the economic importance of tourism. Other large events such as China’s accession to the World Trade Organization in 2001, the 2008 Olympic...
Games and the 2010 World Expo to be held in Beijing and Shanghai, respectively, project an image of potential to hotel investors. However, the hotel industry is not as promising as hotel investors may expect. First, the supply of hotel rooms has increased exponentially due to the lack of long-term plans on hotel development in most tourist attractions (Lam and Mao, 2001). Second, many hotels in China are run by the management of individual hotels, not international hotel chains. Therefore, they do not enjoy a prestigious brand name, an efficient reservation system and economies of scale, such as centralized advertising. For example, hotels in Shanghai are faced with an enormously competitive environment. Given the depression in the real estate market, many real estate developers have changed their original development plans for building offices, apartments and villas into building hotels. And numerous guesthouses and large-scale training centres were reconstructed to become hotels. This means there is presently an imbalance between supply and demand. Consequently the profit margins of hotels, particularly four and five-star hotels have dropped significantly. In responding to these challenges, some hotels have attempted to adopt a range of strategies to sustain competitiveness, such as reducing operating expenditures by downsizing and laying off employees. Others are attempting to develop strategic relationships with external agents that have the necessary expertise to operate certain functions through franchising, contracting out or by leasing arrangements.

Outsourcing is not always successful in China’s hotels. There have been instances where the outsourced function failed or where the mutual agreement between the hotel and the agent was terminated within a short time. However, outsourcing remains popular in China. Hotel managers are trying to learn from each other how to outsource hotel functions to outside experts, even though they do not necessarily fully understand the strategy. If they fail to adopt this strategy, they will be considered or perceive themselves as laggards and will lose “face” in front of others.

There are few research studies that consider outsourcing in China. Although some studies address outsourcing (e.g., Hemmington and King, 2000; Lankford and Parsa, 1999; Embleton and Wright, 1998; McIvor, 2000; Khatri and Budhwar, 2002; Jennings, 2002), they rarely do so in relation to hotels in China. Therefore, the significance of this study is to identify outsourcing strategy as perceived by hotel managers in Shanghai. The objectives were fourfold:

1. to investigate the perceptions of managers about the purposes of outsourcing;
2. to investigate factors preventing hotels from using outsourcing;
3. to identify the determinant factors in the adoption of an outsourcing strategy; and
4. to identify the relationship between the determinant factors and the types of hotel ownership and the job levels of managers.

2. Study background

Outsourcing refers to a management pattern where a hotel combines and utilizes the specialized resources of outside agents. It can be considered a form of...
predetermined external provision with another enterprise for the delivery of goods and/or services that would previously have been offered in-house (Elfing and Baven, 1994; Domberger, 1998; Klien, 1999; Finlay and King, 1999). Outsourcing may be a result of market competition, with enterprises aiming to obtain selected goods and services from an outside organization to become cost-effective (Engelke, 1996). In this study hotel outsourcing is defined as a management strategy in which a hotel utilizes a specialized outsourcing supplier, forming strategic alliances with it to have the supplier operate certain hotel functions, in an attempt to reduce costs and risks and improve efficiency. This allows the hotel to focus efforts on its core competency and strengthen its ability to adapt in the ever-changing business environment.

Outsourcing has been in a continuous use in numerous industry sectors in China since it gained impetus in the latter half of the 1980s in the emerging service sector (Whang, 1992; Quinn and Hilmer, 1994; Reyniers and Tapiero, 1995; Cheon et al., 1995; Ang and Straub, 1998). The main operational functions to be outsourced are normally related to accounting, maintenance, security, promotion and storage (Burt and Pinkerton, 1996). Previous studies have shown that the decision of “make-or-buy” or “in-source versus out-source” is related to organizational behaviour (Loh and Venkatraman, 1992; Elfing and Baven, 1994; Venkatraman and Loh, 1994; Alpar and Saharia, 1995; Carlson, 1989; Hart, 1995), and transactional cost economics (Benko, 1993; Boon and Verberk, 1991; Lacity and Hirschheim, 1993).

Lonsdale and Cox (1997) argued that few organizations treated outsourcing as a strategy for long-term development. Gilley and Rasheed (2000) had a similar opinion and commented that outsourcing does not always involve a real strategic long-term approach to management. On the contrary, Lonsdale and Cox stated that many used it for reducing short-term operating costs. However, some studies have found that contrary to expectations, outsourcing does not actually decrease costs and in some cases, it increases costs (Hall and Domberger, 1995; Domberger, 1998). In China the business environment for hotels is enormously competitive. To survive hotels have to think strategically in terms of lifting productivity, improving the bottom line and satisfying hotel guests. Unfortunately there is a serious lack of know-how among hotel managers. Contracting out certain hotel functions to external experts can be a way to achieve such goals. Yet, the hotel managers are generally shortsighted, hoping that the experts can share the costs and management risks, and generate profits for the hotels in a short period of time. Some scholars argue that outsourcing is more than cost cutting. Tom (2001) argued that outsourcing is where an organization and an outsourcing expert put their limited resources into the most important project, and each side makes great efforts to utilize its strength to obtain a win–win result.

When an organization determines to outsource some of its operations, this often involves reductions in personnel (Cameron, 1994), and redundancies and layoffs (Mishra and Mishra, 1994). Such initiatives usually generate internal fear and employee resistance (Domberger, 1998) as job security is jeopardized. And, the existing organizational culture is disturbed when an external outsourcing agent enters the hotel (Hemmington and King, 2000). Thus it will affect collaboration between the hotel and the agent when the respective cultures are not compatible to
achieving their objectives (Goolsby, 2001). Such cultural clashes are usually regarded as a factor contributing to the failure of outsourcing. Zhao (2001) states that Chinese organizational culture is power-driven and emphasizes emotions, relationships and harmonious working conditions. This is distinguished from Western organization culture which he sees as putting more weight on mutual respect and the actual performance of individual entities. A successful outsourcing supplier is likely to be one that can adapt to Chinese organizational culture.

In China, as a result of the legacy of the traditional “iron rice bowl” system and of the changes brought about by the open-door policies, different types of hotel ownership exist. They can be categorized as follows: state-owned, collectively owned, shareholding ventures, Sino-foreign joint ventures and wholly foreign-owned enterprises. According to He (1994) state-owned enterprises are publicly owned in the sense that the manufactured products are totally owned by the workers. Collective-owned enterprises are similar to state-owned ones except that the ownership of the enterprise and its products are owned by certain groups of workers, but not all. Shareholding enterprises, as the name depicts, are owned by shareholders who are responsible for their own profits and losses. Sino-foreign joint ventures are co-invested and co-managed by the Chinese and the foreign parties that jointly share the profits and losses. The last type of hotel ownership is the wholly foreign-owned. These enterprises are wholly invested in and independently managed by the foreign investor. It may be reasonably assumed that the disparity of hotel ownership types, business missions and objectives normally leads to different perceptions towards the adoption of an outsourcing strategy. Some people may focus on contractual prices while others emphasize the quality of production and services delivered by outsourcing suppliers.

3. Methodology

3.1. Samples and procedures

The sampling frames of this study consist of four and five-star hotels in Shanghai. There were 38 four and five-star hotels in Shanghai in 2001 (Yearbook of Shanghai, 2001). The sample population was the departmental managers and senior executives of all of these hotels. In stage one invitation letters were sent to the human resources managers of the hotels inviting them to participate in the survey. The letter indicated that all departmental managers and senior executives would be invited to complete a self-administered questionnaire. Thirty-one of the hotels accepted the invitation. In view of the practical difficulties of employing a systematic random sampling technique in choosing the target samples, a non-probability convenience sampling method was used. In stage two a briefing session about the objectives of the survey, collection procedures and confidentiality of the information was given to the responsible persons designated by the human resources managers. In stage three the human resources manager of each hotel helped collect the completed questionnaires and returned them to the authors.
3.2. Instrument

The questionnaire consisted of three sections. Section 1 comprised 46 statements of investigating factors affecting the adoption of outsourcing. This section was divided into four sub-sections that measured the respondents’ understanding of outsourcing, reasons for adopting or avoiding it, and factors to be considered when implementing it. Section 2 gathered the respondents’ demographic data as well as data about the hotels, such as type of hotel ownership, number of hotel rooms, etc. Section 3 consisted of eight open-ended questions assessing the respondents’ opinions and comments about the outsourcing strategy.

Based on an extensive review of the literature a draft of the questionnaire was prepared. As the target samples were Chinese the survey instrument was translated into Chinese using a blind translation-back-translation method as described by Brislin (1976), followed by focus group interviews with the hotel managers in Shanghai. The latter was used to improve the validity and reliability of the measuring instrument. For example, the two items of “reducing business risk” and “raising the ratio of resources utilization” were added, and three of the original items in Section 1 were deleted because of possible ambiguous meaning to the respondents. The revised questionnaire was used in a pilot test with 19 hotel managers. The reliability coefficients (Cronbach’s alpha) for the questionnaire constructs ranged from 0.72 to 0.75, which were close to or exceeded the recommended significant level of 0.70 (Nunnally and Bernstein, 1994).

3.3. Measures

Section one—Hotel outsourcing: The four constructs measuring hotel outsourcing were based on the studies by Quinn and Hilmer (1994), Domberger (1998), and Hemmington and King (2000). Altogether there were 31 attributes and the response format for each attribute was a seven-point Likert scale ranging from strongly disagree (1) to strongly agree (7). The four constructs were as follows:

- Meanings of outsourcing: There were five attributes in this construct. An example of the attributes is “Outsourcing means the downsizing of a hotel’s organizational structure”. The coefficient alpha obtained for this construct was 0.71.
- Reasons for adopting outsourcing: This construct is comprised of nine attributes. A representative item is “A hotel using an outsourcing supplier does so to reduce costs”. The coefficient alpha obtained for this construct was 0.72.
- Reasons for avoiding outsourcing: There were six attributes in this construct. An example of the attributes is “A hotel does not use an outsourcing supplier because it is difficult to identify a reliable supplier in the market”. The coefficient alpha obtained for this construct was 0.75.
- Outsourcing supplier: There were 11 attributes assessing the factors to be considered when choosing an outsourcing supplier. A representative item is “One of the factors to be considered is the reputation of the outsourcing supplier”. The coefficient alpha obtained for this construct was 0.71.
Section two—Demographic characteristics: Personal data such as types of hotel ownership, gender, job position and year of service were requested in this section.

3.4. Analytical method

A scale reliability analysis was used to measure the internal consistency of each construct and the Cronbach’s alpha was set at 0.70 (Robinson et al., 1991). The respondents’ opinions about the outsourcing project implemented in their hotels were analysed based on frequency tabulations. Although frequency analysis cannot be generalized to a large population, it does provide some basic information and some directions for further analysis (Lewis, 1984). A One-way Analysis of Variance (ANOVA) and an Independent-samples T-test were used to assess for significant differences in the seven outsourcing adoption factors among types of hotel ownership and demographic variables. Duncan’s Multiple-Range (Hair et al., 1998) test was used to uncover outstanding groups for the nature of each hotel type and demographic item. A principal component analysis with VARIMAX rotation was used to extract factors that attempted to reduce the number of original variables to a smaller set of uncorrelated variables for subsequent analysis. The VARIMAX proved to be very successful as an analytical approach to obtaining an orthogonal rotation of factors (Hair et al., 1998). Factor loadings greater than 0.50 were considered significant in the study. A series of Analysis of Variance (ANOVA) was conducted to investigate the statistical significance of differences between the extracted factors related to outsourcing and types of hotel ownership and the respondents’ demographic characteristics. The significant correlation was set at a p-level less than 0.05 (Hair et al., 1998).

4. Findings

Two hundred and ten self-administered questionnaires were distributed to the target sample through the human resources manager of each participating hotel. The returned questionnaires numbered 172, accounting for a response rate of 81.9%. Eight questionnaires were discarded because of missing data or ambiguous answers. A total of 164 questionnaires were used for the study. Divisional managers, directors of executive offices, and assistants to the general manager dominated the sample, accounting for 64.6%, followed by departmental managers at 26.3%. Thirty-two (19.5%) respondents had more than 10 years of service in hotels while 52 (31.7%) had 5–10 years of service. Male respondents accounted for 61.6% versus 38.4% for female respondents. Thirty-eight (23.2%) respondents were from state-owned hotels, 30 (18.3%) from joint-venture hotels, and 26 from collectively owned hotels (Table 1).

When respondents were asked to rank the purposes of hotel outsourcing, the results as depicted in Table 2 revealed that they expected that external outsourcing suppliers would be able to help reduce risk of business failure ($m = 5.88$) because the suppliers were supposed to be experts in the outsourcing function and able to operate it successfully. Furthermore, if a hotel function was outsourced to a supplier,
Table 1
Profile of the respondents (n = 164)

| Variable                      | Frequency | Percentage (%) |
|-------------------------------|-----------|----------------|
| **Position**                  |           |                |
| General Manager/Deputy General Manager | 15        | 9.1            |
| Divisional Manager/Director of Executive Office/Assistant to General Manager | 106       | 64.6           |
| Departmental Manager          | 43        | 26.3           |
| **Years of service**          |           |                |
| More than 10 years            | 32        | 19.5           |
| 5–10 years                    | 52        | 31.7           |
| 5 or less than 5 years        | 80        | 48.8           |
| **Gender**                    |           |                |
| Male                          | 101       | 61.6           |
| Female                        | 63        | 38.4           |
| **Types of hotel ownership**  |           |                |
| State-owned                   | 38        | 23.2           |
| Joint-venture                 | 30        | 18.3           |
| Wholly foreign-owned          | 14        | 8.5            |
| Shareholding                  | 24        | 14.6           |
| Collectively owned            | 26        | 15.9           |
| Others\(^a\)                  | 32        | 19.5           |

\(^a\)Others refers to those not belonging to the above five types of hotel ownership. For example, some hotels were state-owned but their management functions were contracted out to external vendors.

Table 2
Purposes of outsourcing (n = 164)

| Purposes of outsourcing                                      | Mean  | Ranking\(^a\) | Standard deviation |
|--------------------------------------------------------------|-------|---------------|--------------------|
| 1. Reducing risk of business failure                         | 5.88  | 1             | 0.97               |
| 2. Allowing hotel to better utilize internal resources       | 5.77  | 2             | 1.08               |
| 3. Generate more revenues                                   | 5.64  | 3             | 1.27               |
| 4. Reducing operating costs                                 | 5.32  | 4             | 1.50               |
| 5. Using the well-known brand name of the outsourcing supplier | 5.18  | 5             | 1.25               |
| 6. Utilizing the management expertise provided by the outsourcing supplier | 5.04  | 6             | 1.26               |
| 7. Using the outsourcing supplier to develop new markets     | 4.96  | 7             | 1.42               |
| 8. Using the outsourcing supplier’s expertise to meet challenges of hotel globalization | 4.79  | 8             | 1.53               |
| 9. Utilizing the advanced production technique provided by the outsourcing supplier | 4.77  | 9             | 1.48               |

\(^a\)Rankings were based on mean scores measured on a Likert scale from 1 to 7 (1=strongly disagree and 7=strongly agree).
respondents believed that the hotel could better utilize the resources previously devoted to that function in other operations \((m = 5.77)\), and the supplier could generate more revenues for the hotel \((m = 5.64)\). It seemed that technology was not greatly demanded of outsourcing suppliers from hotel operations. Normally, if hotels intended to introduce technology to support a production or service, they would approach technology consultants who have genuine specialist knowledge in this area rather than outsource to a supplier. Therefore, it was not surprising to find that “utilizing the advanced production technology technique provided by outsourcing supplier” \((m = 4.77)\) was ranked the lowest in this study.

Table 3 describes the factors preventing hotels from using outsourcing suppliers. It was found that respondents were most concerned about the incomplete laws for protecting hotels if the outsourcing suppliers failed to fulfill their duties \((m = 4.99)\), followed by the lack of reliable outsourcing suppliers in the market \((m = 4.74)\). Lacking experience \((m = 4.65)\) and understanding of outsourcing \((m = 4.58)\) were other important hindrances to adoption of outsourcing. In fact, outsourcing is a new concept for hotels in China nowadays. It is uncommon for hotels, particularly the state-owned type, to consider outsourcing part of their hotel functions to external providers. There are two possible reasons. First, labour costs are perceived to be low in China when compared to those in developed countries or regions. Hotel management may have rarely thought of relying on outsourcing suppliers to run the business for them for cost-saving purposes. Second, outsourcing seems to be impossible in state-owned hotels where employees are protected by the “iron rice bowl” employment system. Given the system, employees are assigned to hotels by the state. This promises permanent employment, and job security. The recruitment, allocation to firms, issue of employment permits, and transferal or dismissal of employees under the “iron rice bowl” system are all subject to official approval of the state personnel departments (Zhu, 1995). Thus, outsourcing is not commonly adopted by hotels in China where laying off employees is still very difficult.

### Table 3
Factors preventing hotels from using outsourcing suppliers \((n = 164)\)

| Preventing factors                                                   | Mean\(^a\) | Ranking | Standard deviation |
|---------------------------------------------------------------------|------------|---------|--------------------|
| 1. Incomplete laws to protect hotels if outsourcing suppliers fail to fulfill duties | 4.99       | 1       | 1.15               |
| 2. Difficult to identify reliable outsourcing suppliers in the market | 4.74       | 2       | 1.26               |
| 3. Lack of experience in monitoring outsourcing suppliers           | 4.65       | 3       | 1.21               |
| 4. Lack of understanding of outsourcing                              | 4.58       | 4       | 1.32               |
| 5. Risks of laying off employees and causing instability in society | 4.13       | 5       | 1.40               |
| 6. Worrying about losing entire control over the outsourced functions | 4.03       | 6       | 1.38               |

\(^a\)The maximum score is 5 and the minimum score 1; the higher the score, the greater the extent to which the respondents agreed.
A principal component analysis followed by a VARIMAX rotation was used to reduce the 25 outsourcing adoption attributes to a smaller set of uncorrelated factors. Factor loadings greater than 0.50 and eigenvalues of more than 1 were considered to be significant in this study. Based on respondents’ answers to the questionnaire, the seven outsourcing adoption factors extracted were Costs (5 items), Supplier’s Performance (5 items), Outsourcing Risks (5 items), Supplier Brand Name and Capability (3 items), Contractual Price and Duration (2 items), Corporate Culture (3 items), and Revenue and Resource Redistribution (2 items). The cumulative percentage of the total variance extracted by the seven factors was 67.15 per cent. The Cronbach’s alpha of the total scale was 0.80. Based on the eigenvalues, the most likely factor to be considered in adopting outsourcing was Costs, and the least likely was Revenue and Resources Redistribution (Table 4).

One-way ANOVAs and a Duncan’s test were used to examine the relationship between the outsourcing adoption factors and hotels’ ownership status and respondents’ demographic characteristics. As shown in Table 5, two significant results were found. First, the factors of contractual price and contract duration were significantly related to the ownership status of a hotel. Shareholding hotels were more concerned about contractual prices and contract duration than were state-owned and collectively owned hotels. The result can be explained by the fact that in China, shareholding hotels, unlike the latter two types of hotel ownership, do not receive any subsidies or support from the government in the case of deficits in the balance sheet leading to possible business failure. Therefore, costs and incurring risks were the most important areas of concern if outsourcing was adopted. Second, state-owned, collectively owned, and shareholding hotels would place more emphasis on whether their corporate culture supported the smooth adoption of outsourcing than would wholly foreign-owned hotels. Zhao (2001) stated that traditional Chinese corporate culture emphasizes power, authority, stability, and relationships among employees. However, transferring management power and authority from a hotel to an external outsourcing supplier may imply that some unfavorable measures such as lay-offs, early retirement, and reallocation of manpower that may deteriorate the corporate culture may go along with the outsourcing. Therefore, these three types of hotel ownership as dominated by Chinese management rated corporate culture a higher degree of concern.

Results of additional ANOVA analysis were depicted in Table 6. It was found that senior managers (i.e., level of divisional manager or above) would consider more seriously the supplier’s past performance, brand name and capability than would departmental managers when outsourcing suppliers were chosen. Possibly, there was a difference in perception on outsourcing strategy between senior managers and departmental managers. It appeared that senior managers were more aware of the long-term strategic purpose of outsourcing and the long-term strategic factors such as suppliers’ capability in delivering quality service, maintaining service standards, and developing new markets in the long run. Such different perceptions should be handled carefully to ensure that a common goal is reached. Otherwise, conflicts between these two groups of managers may arise.
Table 4
Principal component and VARIMAX factor analysis for job attributes

| Outsourcing adoption factors | Factor loadings | Eigenvalue | % of variance | Cumulative % | Reliability |
|-----------------------------|----------------|------------|---------------|--------------|-------------|
| **F1: Costs**               |                |            |               |              |             |
| Reducing operating costs    | 0.857          | 4.856      | 12.572        | 12.572       | 0.8046      |
| Reducing costs              | 0.769          |            |               |              |             |
| Downsizing the organizational structure | 0.728 |            |               |              |             |
| Contracting-out decision    | 0.683          |            |               |              |             |
| Utilizing supplier’s advanced techniques | 0.589 |            |               |              |             |
| **F2: Supplier’s performance** |            | 3.122      | 12.007        | 24.579       | 0.7941      |
| Past performance of the outsourcing suppliers | 0.844 |            |               |              |             |
| The service level and well-defined standard provided by the outsourcing suppliers | 0.820 |            |               |              |             |
| Reputation and ability of the supplier | 0.665 |            |               |              |             |
| The mechanism for continuous improvement defined in the contract and agreement | 0.619 |            |               |              |             |
| Outsourcing supplier being able to respond promptly to the Hotel’s inquiries | 0.516 |            |               |              |             |
| **F3: Outsourcing risks**   |                | 2.573      | 10.716        | 35.295       | 0.7512      |
| Inadequate experience in monitoring outsourcing supplier | 0.772 |            |               |              |             |
| Difficult to identify a reliable outsourcing supplier in the market | 0.708 |            |               |              |             |
| Incomplete laws for protecting the Hotel when outsourcing suppliers are used | 0.681 |            |               |              |             |
| Concerned about over reliance on supplier | 0.666 |            |               |              |             |
| A possible but undesirable risk of terminating employees | 0.666 |            |               |              |             |
| **F4: Supplier’s brand name and capability** |              | 2.081      | 8.974         | 44.269       | 0.7203      |
| Utilizing the recognized brand name of the outsourcing supplier | 0.824 |            |               |              |             |
| Developing new markets      | 0.777          |            |               |              |             |
| Utilizing the advanced management expertise provided by the outsourcing supplier | 0.666 |            |               |              |             |
| **F5: Contractual price and duration** |              | 1.494      | 8.299         | 52.568       | 0.6665      |
| The low price/fees charged by the suppliers | 0.761 |            |               |              |             |
| Contractual duration offered by the supplier | 0.609 |            |               |              |             |
| **F6: Corporate culture**   |                | 1.447      | 7.856         | 60.424       | 0.6054      |
| A foundation of compatible organizational culture established between a Hotel and its supplier | 0.693 |            |               |              |             |
5. Conclusion and implications

This paper examined the outsourcing strategy as perceived by hotel managers in Shanghai, and investigated the relationship between determinant factors in adoption of an outsourcing strategy and types of hotel ownership and job levels of the managers. The findings of this study indicated that external outsourcing suppliers were expected to help hotels reduce the risk of business failure. The incompleteness of laws to protect hotel investors when business conflicts occur between hotels and outsourcing suppliers, and the incompatibility of corporate cultures between hotels dominated by Chinese managers and outsourcing suppliers were a hindrance to the adoption of a successful outsourcing strategy. Furthermore, shareholding hotels were found to be more concerned about contractual prices and contract duration than state-owned and collectively owned hotels. Senior hotel managers were also more aware of the long-term strategic purpose of outsourcing.

Adoption of outsourcing may help realize a hotel’s short-term goals of reducing costs and improving financial gains. However, outsourcing usually incurs redundancy of employees or reallocation of internal resources that may lead to high employee turnover, poor morale, and low productivity in the mid-term period. In the long run, the hotel industry in China may be affected since the outsourcing industry is expected to grow exponentially in the future. Hotel talents and specialists will then be drawn from hotels to outsourcing suppliers. Having said that, the expanding hotel market has become very competitive in China nowadays. The unforeseen severe acute respiratory syndrome (SARS) breaking out in Asia in early 2003 has forced the hotel management to focus on every possible short-term cost saving strategy immediately. Thus, it is expected that outsourcing activity will gradually become popular among hotels in China. Meanwhile, increasing demands for outsourcing will urge the Chinese government to introduce complete laws to protect all parties involved in outsourcing activities in the future.

| Outsourcing adoption factors                                      | Factor loadings | Eigenvalue | % of variance | Cumulative % | Reliability |
|-------------------------------------------------------------------|-----------------|------------|---------------|--------------|-------------|
| The cultural differences between the Hotel and outsourcing supplier | 0.665           |            |               |              |             |
| Meeting the challenge of IT development                           | 0.656           |            |               |              |             |
| F7: Revenue and resource redistribution                          |                 | 1.215      | 6.724         | 67.148       | 0.6078      |
| Maximizing revenue                                                | 0.817           |            |               |              |             |
| Redistribution of resources                                       | 0.773           |            |               |              |             |
| Total variance explained                                          |                |            |               | 67.148       |             |
| Total scale reliability                                           |                |            |               |              | 0.8044      |
Table 5
Analysis of the impact of hotel ownership on factors in adopting outsourcing

|                  | State-owned (n = 38) (a) | Joint venture (n = 30) (b) | Wholly foreign-owned (n = 14) (c) | Shareholding (n = 24) (d) | Collectively owned (n = 26) (e) | Others\(^a\) (n = 32) (f) | F     | Sig. (p) | Sig. diff. between groups (Duncan) |
|------------------|--------------------------|---------------------------|---------------------------------|--------------------------|-------------------------------|---------------------------|-------|---------|-----------------------------------|
| Costs            | 4.99                     | 5.55                      | 5.00                            | 5.05                     | 5.33                          | 1.50                       | 0.206 | —       |                                   |
| Supplier’s performance | 5.33                     | 5.05                      | 5.29                            | 4.91                     | 5.25                          | 5.46                       | 1.45  | 0.208   |                                   |
| Outsourcing risks | 4.39                     | 4.53                      | 4.59                            | 4.88                     | 4.25                          | 4.51                       | 1.39  | 0.231   |                                   |
| Supplier’s brand name and capability | 5.18                     | 5.03                      | 4.48                            | 5.26                     | 4.70                          | 5.33                       | 2.25  | 0.052   | d > e, a                          |
| Contractual price and contract duration | 4.45                     | 4.87                      | 4.86                            | 5.50                     | 5.10                          | 4.72                       | 3.67  | 0.004\(^b\) | d > e, a                      |
| Corporate culture | 5.03                     | 4.78                      | 4.45                            | 5.40                     | 5.30                          | 5.03                       | 2.37  | 0.042\(^b\) | d, e, a > c                   |
| Revenue and resource redistribution | 5.84                     | 5.73                      | 5.43                            | 6.00                     | 5.46                          | 5.63                       | 1.13  | 0.345   |                                   |

The results were presented as the mean scores of the adoption factors; the higher the mean scores, the higher the degree of agreement (1 = strongly disagree, 2 = disagree, 3 = somewhat disagree, 4 = neutral, 5 = somewhat agree, 6 = agree, 7 = strongly agree).

\(^a\)State-owned, collectively owned or shareholding hotels fully managed or franchised by foreign hotel management corporations are categorized as “Others”.

\(^b\)Denotes significant differences in mean score between sub-group testing at \(p < 0.05\) level.
Based on this study, a number of implications can be drawn from the findings:

- To be successful in outsourcing, managers should adopt cross-cultural management approaches. Since outsourcing involves external suppliers helping to operate certain functions of the hotel, the corporate cultures of the hotel and the supplier may be incompatible because of different business missions, objectives, and strategies between the two parties. Therefore, cultural conflicts may occur to weaken their relationship. Two-way communication should be strengthened between the hotel and the supplier to improve mutual understanding and develop a relationship of trust. Regular meetings should be held, and formal and informal gatherings can be organized. All problems, opinions, comments, suggestions, and even compliments should be addressed openly and frankly between the two parties. This will help to resolve possible hidden problems, if any, in a timely manner, before they erupt into conflict.

- Senior management should try to get departmental managers involved in the whole process of implementing outsourcing, from the planning to controlling stages. Involvement may help the managers understand the strategic purpose and mechanism of outsourcing, and allow them to work together to monitor the exercise of outsourcing.

- The outsourcing market is immature, indicating that there are few quality outsourcing suppliers in China at the moment. Hotel management had difficulty identifying reliable and capable suppliers. Yet, it is important that hotel management should consider the supplier’s expertise, past performance, and

---

**Table 6**

Analysis of respondent positions on factors in adopting hotel outsourcing

| General Manager / Assistant Manager | Divisional Manager / Director of Executive of Assistant to General Manager | Departmental Manager (n=43) (c) | F | Sig. (p) | Sig. diff. between Groups (Duncan) |
|-------------------------------------|------------------------------------------------|---------------------------------|---|---------|-----------------------------------|
| Costs                              | 5.33 | 5.28 | 5.03 | 0.82 | 0.444 | — |
| Supplier’s performance             | 5.68 | 5.30 | 4.87 | 6.08 | 0.003 | a, b > c |
| Outsourcing risks                  | 4.95 | 4.42 | 4.57 | 2.41 | 0.093 | — |
| Supplier’s brand name and capability | 5.58 | 5.17 | 4.61 | 6.72 | 0.002 | a, b > c |
| Contractual price and contract duration | 5.10 | 4.47 | 5.10 | 2.3 | 0.102 | — |
| Corporate culture                  | 5.08 | 5.07 | 4.91 | 0.43 | 0.651 | — |
| Revenue and resource redistribution | 6.00 | 5.73 | 5.55 | 1.23 | 0.294 | — |

The results were presented as the mean scores of the adoption factors; the higher the mean scores, the higher the degree of agreement (1 = strongly disagree, 2 = disagree, 3 = somewhat disagree, 4 = neutral, 5 = somewhat agree, 6 = agree, 7 = strongly agree).

* Denotes significant differences in mean score between sub-group testing at p<0.05 level.
company culture and values. The senior management of a hotel should make site visits to other hotels where the supplier is operating to gather background information for consideration. Word-of-mouth and website searches are other means of collecting more information about the potential suppliers.

- In this study, it was found that managers lack understanding about outsourcing. However, it is important that not only hotel managers, but also every junior employee be aware of the objectives of outsourcing and other relevant information such as the implementing process, possible arrangements for laid-off and remaining employees, the changing roles and responsibilities of hotel employees, and the background of the outsourcing supplier. Training is one means to achieve this purpose.

- A committee consisting of the hotel managers should be formed to help monitor the outsourcing process. This committee will serve as a central point between the hotel management and the supplier. The committee members should be responsible for handling the partnership, evaluating the supplier’s performance, investigating service quality and guest satisfaction, and providing feedback to the supplier.

Several limitations of this study should be considered together with the conclusion drawn above. First, the small sample size may limit the generalizability of this study. Second, some respondents found that certain questions were sensitive, particularly those relating to monetary terms. It might not have been possible to obtain comprehensive opinions from the respondents. Third, the results may not have been representative of the whole sample population because convenient sampling was employed to collect data in this study.

References

Alpar, P., Saharia, A.N., 1995. Outsourcing information systems functions: an organizational economic perspective. Journal of Organizational Computing 5 (3), 197–217.
Ang, S., Straub, D.W., 1998. Production and transaction economies and is outsourcing: a study of us banking industry. MIS Quarterly (December) 22 (4), 535–548.
Benko, C., 1993. Outsourcing evaluation: a profitable process. Information Systems Management (Spring) 10 (1), 45–50.
Boon, C., Verberk, A., 1991. Strategic management and vertical disintegration: a transaction cost approach. In: Thepot, J., Thietart, R.A. (Eds.), Microeconomics Contributions to Strategic Management. Elsevier, North-Holland, Amsterdam, pp. 185–205.
Brislin, R.W., 1976. Comparative research methodology: cross-cultural studies. International Journal of Psychology 11 (3), 215–229.
Burt, D., Pinkerton, R., 1996. Producing or outsourcing? http://www.amteam.-org/ outsource/produce_outsource0317.htm.
Cameron, K.S., 1994. Strategies for successful organizational downsizing. Human Resources Management 33 (2), 189–211.
Carlson, B., 1989. Strategies for successful organizational downsizing. Human Resource Management 33 (1), 179–203.
Cheon, M.J., Grover, V., Teng, J.T.C., 1995. Theoretical perspectives on the outsourcing of information systems. Journal of Information Technology (December) 10 (4), 209–219.

Domberger, S., 1998. The Contracting Organization: A Strategic Guide to Outsourcing. Oxford University Press, Oxford.

Elfing, T., Baven, G., 1994. Outsourcing technical services: stages of development. Long Range Planning 27 (5), 42–51.

Embleton, P.R., Wright, P.C., 1998. A practical guide to successful outsourcing. Empowerment in Organizations 6 (3), 94–106.

Engelke, W.D., 1996. The virtual times, outsourcing perspectives, 1–6, http://www.hsv.com/writers/engel.soul.htm.

Finlay, P.N., King, R.M., 1999. It outsourcing: a research framework. International Journal of Technology Management 17 (1–2), 109–128.

Gilley, K.M., Rasheed, A., 2000. Making more by doing less: an analysis of outsourcing and its effects on firm performance. Journal of Management 26 (4), 764.

Goolsby, K., 2001. How to maximize the alliance factor in outsourcing, December. http://www.outsourcing-journal.com/issues/dec2001/everest.html

Hair Jr., J.F., Anderson, R.E., Tatham, R.L., Black, W.C., 1998. Multivariate Data Analysis 5th Edition. Prentice-Hall, Englewood Cliffs, NJ.

Hall, C., Domberger, S., 1995. Competitive tendering for domestic services: a competitive study of three hospitals. In: Domberger, S., Hall, C. (Eds.), The Contracting Casebook: Competitive Tendering in Action. New South Wales, Canberra, pp. 99–126.

Hart, O., 1995. Firms, Contracts and Financial Structure. Clarendon Press, Oxford, 7pp.

He, L., 1994. New Political Economics. Beijing University Press, Beijing, pp. 251–258.

Hemmington, N., King, C., 2000. Key dimensions of outsourcing hotel food and beverage services. International Journal of Contemporary Hospitality Management 12 (4), 256–261.

Jennings, D., 2002. Strategic sourcing: benefits, problems and a contextual model. Management Decision 40 (1), 26–34.

Khatri, N., Budhwar, P.S., 2002. A study of strategic HR issues in an Asian context. Personnel Review 31 (2), 166–188.

Klien, P., 1999. Outsourcing’s third wave. Informationweek, Manhasset (15 November) 761, 126–127.

Lam, T., Mao, F., 2001. A study of international tourism development in China. Pacific Tourism Review 5 (3/4), 113–119.

Lankford, W.M., Parsa, F., 1999. Outsourcing: a primer. Management Decision 37 (4), 310–316.

Loh, L., Venkatraman, N., 1992. Determinants of information technology outsourcing: a cross-sectional analysis. Journal of Management Information Systems 9 (1), 7–24.

Lacity, M.C., Hirschheim, R., 1993. The information system outsourcing bandwagon. Sloan Management Review 34 (3), 73–86.

Lewis, R.C., 1984. Getting the most from marketing research. The Cornell Hotel and Restaurant Administration Quarterly (November), 81–85.

Lonsdale, C., Cox, A., 1997. Outsourcing: risks and rewards. Supply Management (July) 3, 32–34.

Mclvor, R., 2000. A practical framework for understanding the outsourcing process. Supply Chain Management. An International Journal 55 (1), 22–36.

Mishra, A.K., Mishra, K.E., 1994. The role of mutual trust in effective downsizing strategies. Humana Resources Management 33 (2), 261–279.

Nunnally, J.C., Bernstein, I.H., 1994. Psychometric Theory 3rd Edition. McGraw-Hill, New York.

Quinn, J.B., Hilmer, F.G., 1994. Strategic outsourcing. Sloan Management Review (Summer) 35 (4), 43–55.

Reyniers, D.J., Tapiero, C.S., 1995. The delivery and control of quality in supplier-producer contacts. Management Sciences 41 (10), 1581–1589.

Robinson, J.P., Shaver, P.R., Wrightman, L.S., 1991. Criteria for scale selection and evaluation. In: Robinson, J.P., Shanver, P.R., Wrightman, L.S. (Eds.), Measure of Personality and Social Psychological Attitudes. Academic Press, San Diego.
Tom, C., 2001. Outsourcing: the developing trend of service. http://tech.cn.tom.com/Archive/2001/6/26-6936.html.
Venkatraman, N., Loh, L., 1994. The shifting logic of the IS organization: from technical portfolio to relationship portfolio. Information Strategy 10 (2), 5–11.
Whang, S., 1992. Contracting for software development. Management Science 38 (3), 1–17.
Yearbook of Shanghai, 2001. The Yearbook of Shanghai Compilation Committee, July. The Yearbook Publishing House of Shanghai, Shanghai (Chapter 7).
Zhao, Q., 2001. Introspections to the development of Chinese Corporate Culture. http://www.7158.com.cn/qywh103.htm.
Zhu, Y., 1995. Major changes under way in China’s industrial relations. International Labour Review 134 (1), 37–49.