OUTSOURCING IN THE HOTEL INDUSTRY:
A MANAGEMENT ACCOUNTING PERSPECTIVE

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ABSTRACT

The broad objective of this thesis is to develop an understanding of factors affecting outsourcing in the hotel industry and also the role played by management accounting in hotel outsourcing. The thesis draws on transaction cost economics (TCE), agency, contingency, and labour process theories in the context of appraising factors motivating outsourcing.

Two empirical phases have been undertaken in the study. The first phase involved a series of interviews with general managers and financial controllers in large South East Queensland hotels. The second phase involved two distinct questionnaire surveys of large Australian hotels. The first was administered to hotel general managers, and the second was administered to hotel financial controllers.

Significant findings arising from the study include:

1. In light of the substantial international literature describing hotel outsourcing, it appears that outsourcing in Australian hotels is relatively limited. This appears to be particularly the case with respect to food and beverage related activities.

2. Mixed support is offered for the TCE model. Both the survey and interview data provide some support for TCE’s prescription that frequently conducted activities will not tend to be outsourced. Two specific extensions are offered to this aspect of the model, however. Firstly, where activities are conducted to a minimal extent, it can be uneconomic to outsource. Secondly, where large activities are undertaken by a group of organisations, their enhanced purchasing power can result in inexpensive outsourcing arrangements. With respect to TCE’s uncertainty proposition, support is offered for the view that the propensity to outsource will be greater where behavioural uncertainty is lower. No support has been offered with respect to environmental uncertainty. The interview data provides some support for TCE’s asset specificity proposition, however, minimal support was found in the survey phase. Despite this, the many dimensions of asset specificity (e.g. site specificity, human asset specificity, etc) provided a useful checklist of issues to be considered in relation to the outsourcing decision.

3. Negligible support was found for labour process theory (LPT) in the interview phase of the study. In light of this, and the need to narrow the study’s focus in the survey phase, LPT was not pursued further. LPT is a difficult construct to operationalise, given the social desirability error that may result. This may partially account for the absence of significant LPT findings in the interview phase.

4. The survey data provides some support for the agency theory view that risky activities will tend to be outsourced.

5. Considerable cross-hotel variation exists in management of, and accounting’s involvement in, outsourcing decision making and control systems. Accounting appraisal of outsourcing proposals rarely includes long term oriented, sophisticated techniques such as “net present value”. It appears this may be because outsourcing decisions are not conducted in the context of the formal capital budgeting process.

6. High performing hotels and hotels that conduct their outsourcing decisions in the context of a long term outsourcing strategic agenda have more sophisticated outsourcing management systems.
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STATEMENT OF ORIGINALITY

This work has not previously been submitted for a degree or diploma in any university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

Dawne Lamminmaki
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CHAPTER 1
INTRODUCTION

1.1 Introduction

“Outsourcing is one of the most important management ideas and practices of the past 75 years” (Bromage, 2000, p. 23).

The broad objective of this thesis is to develop an understanding of factors affecting outsourcing in the hotel industry and also the role played by management accounting in hotel outsourcing. Following the lead of a growing number of management accounting researchers, transaction cost economics theory is drawn upon in the study (eg., Demski and Sappington, 1993; Colbert and Spicer, 1995; Gietzmann, 1996; Jonsson and Gronlund, 1988; and Widener and Selto, 1999). Other theories informing the work are agency theory, contingency theory and labour process theory. Triangulation of theories and research methods have been used as part of a strategy to develop a relatively comprehensive understanding of hotel outsourcing.

1.2 Motivation

Motivation for the study comes from several sources. The research topic appears highly appropriate given the recent organisational trend towards outsourcing and corporate downsizing (Domberger, 1998). The fact that cost relativity is a fundamental issue in the outsourcing decision highlights the potential significance of management accounting in outsourcing decision making. In addition, the need to develop management control systems for sub-contracting places demands on management accounting and its broadening influence in terms of financial as well as non-financial accountability. Although some management accounting studies concerned with outsourcing are noted above, it would still appear to be a relatively under-researched area.

Milgrom and Robert (1992) asked the question “does organisation matter?” and by drawing on a handful of historical cases, they provide a convincing argument that organisation is as important as technology, cost, and demand in determining an organisation’s success. They see the study of organisation as:

“... not about how berries are arranged on a tree of authority but about how people are coordinated and motivated to get things done” (p. 16).
As organisational form affects an organisation’s success, it is important to understand why organisations are outsourcing, and which organisational form may be best and why. Management accountants will then be better equipped to support outsourcing decision making and control.

Over the last two hundred years, firms have been organised in almost every way imaginable (see Johnson and Kaplan, 1987 for a review). Organisations have evolved from a focus on a single activity, to vertically integrated businesses, to multi-divisionalised diversified businesses, and now many firms are returning to a narrower focus by outsourcing non-core activities. Similarly, the role of the worker has also evolved. Since the industrial revolution, workers have become employees of organisations, originally “hired for life”, then “hired for a few years”, and now the outsourcing trend signifies a step back to what it was before the industrial revolution. This thesis can be considered in the context of this latest “down-sizing” corporate epoch.

In this study, outsourcing is defined “.... as the process whereby activities traditionally carried out internally are contracted out to external providers.... ” (Domberger, 1988, p. 12). Outsourcing comes in various forms of inter-firm relationships such as joint ventures, alliances, partnerships, shared service arrangements (K&K, 2000), franchising (Roh and Kwag, 1997), and virtual organizations which involve a core of executives and workers supported by outside contractors and part-time help (Domberger cites Handy, 1989). Domberger (1988) sees a distinction between downsizing and outsourcing. He feels the former involves doing the same job with fewer people, and the latter concerns changing organizational boundaries.

The hotel industry has been chosen as the subject of study for two reasons. Firstly, the literature review has revealed no prior empirical study investigating management accounting’s role in hotel outsourcing. In addition, there are few management accounting studies concerned with the hotel sector (Collier and Gregory, 1995). Despite many practitioner commentaries suggesting outsourcing is a significant aspect of hotel management, it has been the subject of minimal academic research.¹ Secondly, the study is facilitated by the fact that the researcher’s place of work is in close proximity to one

¹ Since 1995, annual reviews of hospitality research have been conducted by The International Journal of Contemporary Hospitality Management (covering papers since 1989).
of the most concentrated areas of Australia’s hotel industry. Gaining access to data can be a problem for management accounting researchers. Therefore, ensuring ease of data access was seen as a significant factor at the outset of the study.

In addition, the study was motivated by comments in the literature encouraging outsourcing and also service sector research. Domberger comments that “the movement towards smaller, fragmented organizations demands explanation” (1998, p. 16). With respect to the importance of service sector research Chenhall notes that “there is a need for more research into service and not-for-profit organisations as these entities become increasingly important within most economies” (2000, p. 5). The following section outlines the study’s objectives.

1.3 Research objectives

The specific research objectives pursued are detailed in Table 1.1.

<table>
<thead>
<tr>
<th>Objective number</th>
<th>Objective</th>
<th>Research orientation</th>
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<tr>
<td>1</td>
<td>Appraise the extent of outsourcing in large Australian hotels.</td>
<td>Qualitative and quantitative methods.</td>
</tr>
<tr>
<td>2</td>
<td>Describe the nature of outsourcing management and management accounting systems.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Appraise TCE theory in the context of hotel outsourcing.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Appraise alternate theories in the context of hotel outsourcing.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Appraise other factors motivating the outsourcing decision.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Investigate for contingent factors affecting outsourcing orientations.</td>
<td>Primarily pursued through quantitative research methods</td>
</tr>
<tr>
<td>7</td>
<td>Investigate for contingent factors relating to the sophistication of outsourcing management and management accounting systems.</td>
<td></td>
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</table>

The choice of theories informing the study should not be taken as an inference that other theoretical models may not also provide useful insights. To empirically appraise all theories that might inform outsourcing is beyond the scope of one research project. The decision to drop certain ideas or theories highlights the extent to which a study such as this involves a series of somewhat arbitrary decisions with respect to scope. Potential
avenues for further work that builds on this study will be noted in the concluding chapter.

1.4 Thesis structure

Miles and Huberman (1994) note that it is important that researchers make their philosophical positions clear in order that the reader knows where the researcher is coming from. Similarly, Easterby-Smith et al. (1991) note that the analysis approach taken depends on the philosophical position of the researcher:

“the world view of the researcher can influence both the selection of methods and judgements about the quality and value of outcomes” (p. ix).

It is therefore important to note that this researcher’s view of the world relates most closely to a positivist ontological perspective. Accordingly, the main research method used in this study is quantitative and the philosophical position is predominantly positivist.

![FIGURE 1.1 Thesis Overview](image)

Adapted from: Bryman and Cramer (1990, p. 3)
Bryman and Cramer (1990) present a useful model of the quantitative research process. This figure is drawn on as the basis for providing an overview of the thesis’ structure (see Figure 1.1). As already noted, research method triangulation has been used. In addition to a survey questionnaire, a series of interviews have been conducted with hotels managers and accountants. Consequently, the research process presented in Table 1.1 highlights both quantitative and qualitative stages of the study. Each of the subsequent chapters will now be described in turn.

Chapter 2 reviews the main theories informing the study. The main theoretical framework reviewed is transaction cost economics (TCE). By drawing on Johnson and Kaplan (1987), this chapter provides an insight into how TCE may explain management accounting’s evolution. In addition, agency theory, labour process theory (LPT), and contingency theory are reviewed. Although there is some overlap between agency theory and TCE, some key distinctions appear relevant to the outsourcing decision. A historical perspective on how LPT may explain the history of organisational form and the boundaries of the firm is also given. Contingency variables considered are strategy, competition intensity, size and performance.

Chapter 3 provides an overview of the management accounting and general management literature concerned with outsourcing. This chapter serves three roles for the thesis. Firstly, it places the study in the context of prescriptions in management accounting textbooks. Secondly it informs the study by outlining normative and empirical insights provided by the general management outsourcing literature. Thirdly, it explores other reasons that may explain the outsourcing phenomenon and management thereof, that do not fit within the theories described in Chapter 2.

Chapter 4 reviews the hotel literature concerned with outsourcing. The main focus concerns what hotel activities lend themselves to outsourcing.

Chapter 5 draws on Chapters 2 - 4 to develop the research objectives pursued. It also operationalises key issues to facilitate the conduct of interviews. The chapter also describes the relative merits of the research methods used.
Chapters 6 and 7 describe the interview findings. Chapter 6 assesses the degree to which TCE, agency theory and LPT explain outsourcing behaviour, and the degree to which outsourcing decisions are made within the context of a long term strategic agenda. Chapter 7 addresses other factors that may motivate the decision to outsource, and also explores the nature of outsourcing management systems in hotels.

Chapter 8 develops the propositions to be tested and the questionnaire survey used in the quantitative phase of empirical enquiry. Two surveys have been developed: one for hotel accountants, and one for general managers. The former appraises accounting tools employed and accounting involvement in outsourcing decisions. The latter appraises non-accounting factors in the outsourcing decision. Propositions are developed concerned with the relationship between:

- “degree of outsourcing” and various independent variables, and
- “degree of outsourcing management system sophistication” and various independent variables.

Chapter 9 describes the administration of the two surveys, tests for non-response bias, data screening steps taken and also descriptive statistics. Chapters 10 and 11 present the data analysis and findings emanating from the general manager survey (Chapter 10) and the financial controller survey (Chapter 11).

Chapter 12 discusses the study’s main findings, its contributions, and shortcomings. In addition, opportunities for further research are outlined.

1.5 Conclusion

This chapter has introduced the thesis by outlining the topic of this study, the motivation for the work, the research objectives pursued, and the thesis structure. At the outset of the study, it was believed the research had the potential to provide several significant contributions. These include:

1. contributing to the limited management accounting literature on outsourcing
2. contributing to the hotel literature in several ways:
   - no prior work has considered hotel outsourcing from a management accounting perspective,
few management accounting studies are reported in the hotel literature,
despite commentaries noting the importance of hotel outsourcing, it has commanded minimal academic attention,
hotel management outsourcing decisions can be expected to be better informed following the conduct of this survey.
3. Enhancing our understanding of the explanatory power of several theoretical models.
CHAPTER 2
THEORETICAL FRAMEWORKS INFORMING THE STUDY

2.1 Introduction

A large portion of this chapter provides a review of transaction cost economics, the primary theory drawn upon in the study. In addition, an overview is given of other theories potentially relevant to the outsourcing decision, namely: labour process theory, agency theory, and contingency theory.

2.2 Transaction cost economics

Coase (1937) was the first to consider the question of what drives organisational form. The theoretical framework that he developed in response to this question has become widely referred to as transaction cost economics (TCE). He developed the idea that “economising on transaction costs would determine the organisation of economic activity, and the division of activity between firms and markets” (Milgrom and Roberts, 1992, p. 51). The relevance of this idea to outsourcing underlines its pertinence to this study. Supporting this view, Lohtia, Brooks and Krapfel (1994) note:

“Between the extremes of market and hierarchies, firms use a variety of hybrid governance mechanisms…. Given the wide array of options from which a suitable governance structure needs to be selected, the guidance offered by the TCE framework is found very useful” (p. 261).

In light of this study’s management accounting orientation, it is pertinent to note the growing recognition given to TCE in management accounting. Walker (1998), in his review of Zimmerman’s (1997) text, comments:

“Zimmerman argues, correctly in my view, that management accounting cannot be properly understood without a prior theory of the nature of organisations….. Zimmerman’s essential contribution is to show how the transaction costs approach provides a simple general framework to which all the standard and not so standard, techniques and procedures of management accounting can be related….. By mastering the general theoretical framework they (accounting students) will find that they can more easily relate the various, apparently disjointed, topics of management accounting to each other” (1998, pp. 24-25).

The relevance of TCE to management accounting and outsourcing is also apparent from the writings of Johnson and Kaplan (1987) (henceforth referred to as J&K). In their book “Relevance lost: The Rise and Fall of Management Accounting” J&K outline the
Chapter 2: Theoretical frameworks informing the study

evolution of management accounting and organisational form in the United States. They note how before the industrial revolution, most transactions were external, i.e., virtually all of an organisation’s work was outsourced. J&K then describe organisational evolution from their narrow business focus to vertically integrated organisations, and then multi-divisionalised and diversified organisations. This organisational evolution can be explained using TCE. Although not stated explicitly, the use of TCE theory is apparent in J&K’s book as they compared and contrasted:

“the corporate form with the market system, viewing them as alternative ways of ordering the whole process of production and distribution” (Loft, 1991, p. 20).

A lively debate ensued from J&K’s provocative stance, with Hopper and Armstrong (1991) and Loft (1991) claiming labour process theory provides a better framework than transaction cost economics theory for understanding management accounting history and organisational evolution (discussed further later). Despite these criticisms, as will be noted below, TCE is still widely used to explain organisational form.

2.2.1 Transaction costs and efficiency

Coase (1939) suggests that a firm will replace the market when the costs of transacting within the firm are less than the costs of transacting through the market. Williamson (1979) and Colbert and Spicer (1995) modified this notion slightly by proposing that economic activity will be conducted through whatever organisational form minimises the sum of production and transaction costs. From these perspectives, it is apparent that the notion of cost minimisation, or efficiency, is a fundamental aspect of TCE. Milgrom and Roberts’ comment:

“People will seek to achieve efficiency in more than just day-to-day conduct of their economic affairs. Efficiency also must exist at a systemic level, in the organisation of people’s activities and in the design, management, and governance of the institutions they create” (1992, pp. 21-22).

The central role that efficiency plays in TCE theorising is also evident in Robins’ (1987) writings. He notes that where conducting economic exchange through the market is “cumbersome and costly”, other modes of transaction governance, such as bureaucratic organisation and third-party arbitration (eg., real estate agent activity), may be more efficient. He feels such non-market forms of exchange will arise where markets “fail”, i.e., when alternative forms possess greater efficiency (p. 69).
Robins (1987) notes how Ouchi (1980) takes a slightly different perspective noting how the organisation of exchange by bureaucracies can be costly (e.g., the “red tape” phenomenon), and that organisational efficiency can be achieved through forming teams and reaping the benefits of clan-like modes of control.

2.2.2 What are transaction costs?

Coase (1937) recognised that in addition to production costs, a cost arises in connection with how transactions are organised within markets or organisations (hierarchies). While this appears intuitively appealing, definitions of transaction costs are surprisingly rare in the literature (Robins, 1987). Robins (1987) defines transaction costs as follows:

“In basic terms, transaction costs are those costs associated with an economic exchange that vary independent of the competitive market price of the goods or services exchanged” (p. 69).

For example, two hotels may purchase food products from the same supplier, but have different transaction costs due to different transportation distances and differences in the way their purchasing and receiving departments are organised.

Robins sees transaction costs as including all search and information costs, as well as the costs of setting up contracts and monitoring and enforcing contractual performance. There are slightly different emphases evident in the interpretation of transaction costs, however. For example, Ouchi (1980) highlights the cost of ensuring expectations are met, Spicer and Ballew (1983) focus on lack of information, Baiman (1990) introduces computational costs in addition to contracting costs and Domberger (1998) comments on switching costs (i.e., the cost of moving from inhouse to external provision), costs of searching for a new supplier, loss of inhouse skills, loss of innovation and loss of control, which can all be viewed as transaction costs. Despite the contrasting orientations of these definitions, all fall within Robins’ view of transaction costs.

Milgrom and Roberts see transaction costs as “the costs of negotiating and carrying out transactions” (1992, p. 29). They classify transaction costs into two categories: the costs of coordinating and the costs of motivating. In fact, they feel “the main tasks of economic organisations are to coordinate the actions of the various individual actors so that they form a coherent plan and to motivate the actors in accordance with the plan” (p. 49). They define coordination costs as “the costs of monitoring the environment,
planning and bargaining to decide what needs to be done” (p. 49). Coordination costs include costs involved in bringing the buyer and seller together. They can include market research, advertising and marketing, price setting procedures, and the effort expended by the buyer to find a product. This perspective reinforces the fact that transaction costs can be considered from the seller or buyer’s perspective. Motivation costs comprise two elements: costs relating to incomplete/unreliable information and costs relating to imperfect commitment. Information is considered incomplete or unreliable because one party to a transaction can never be sure that the other party is providing complete and reliable information. Similarly, commitments can be considered imperfect because parties in a transaction can never be sure that commitments/threats made will be followed through. Costs are therefore incurred in trying to get both parties to a transaction to behave in the manner desired by the other party. Eight of Milgrom and Roberts’ (1992) chapters revolve around the ideas of coordination and motivation.

TCE assumes that individuals will always act in their own interest. Domberger (1998) elaborates on this, noting implicit, as well as explicit, costs. Implicit costs relate to the incompleteness of contracts which can trigger expensive renegotiation costs and opportunistic behaviour. It is difficult to foresee every event and contract renegotiation time can be significant. As unexpected events unfold, “contractual hazards” can emerge in which opportunistic behaviour can result.

TCE theory holds that where there are high appropriable quasi rents, it is expected that transactions will be shifted from markets to hierarchies. An asset’s quasi rent is the excess of its value in a specific use over its value in its next best use (Klein et al., 1978). Deegan (1997) notes quasi rents are:

“…. situation specific and are represented by the difference between the resource’s current returns and the returns which would be generated in its next best use. The greater the specificity of a factor, the greater the quasi rent stream” (p. 3).

In the presence of appropriable quasi rents, there is the problem of an opportunistic party capturing a high proportion of the asset’s excess value without risking contract termination by the other party. For example, if a hotel contracts out the management of a restaurant, and the restaurant’s manager incurs restaurant promotion costs, then the advertising benefit has minimal transferability, i.e., if the restaurant manager moved away, he would lose the benefit derived from the marketing expenditure. If the hotel
forced the restaurateur out by increasing the rent, the benefit of the advertising would transfer from the restaurant manager to the hotel owner.

2.2.3 Other transaction cost issues

Milgrom and Roberts discuss a range of contract types that may be designed to address the problem of incomplete contracting. For simple short term contracts, contracts with blanket provisions (“spot market contracts”) may be used. For long term complex contracts, “relational contracts” may be used that clarify the relationship by detailing goals and objectives and criteria to be used if eventualities do arise.

As incomplete contracts fail to provide full protection for parties to a transaction, the parties may take other steps to show their commitment. Milgrom and Roberts cite the example of Apple, which built a factory in such a way that it could only produce Macintosh. By demonstrating commitment to employees and customers this represents an implicit contract.

The theoretical literature depicts organisations as lying on a continuum ranging from market to hierarchy. A variety of hybrid forms lie between these extremes, eg., long term contracts (Goldberg, 1976; Joskow, 1985), franchise contracts (Williamson, 1976), joint ventures (Kogut, 1988; Lohtia, Brooks and Krapfel, 1994), and strategic alliances (Lohtia, Brooks and Krapfel, 1994). As we move from hierarchy through hybrid to market there is an increase in transaction costs (i.e., cost of negotiating and renegotiating contracts, as well as monitoring and enforcing contractual performance).

2.2.4 Transaction attributes

As already noted, the manner in which a transaction is organised depends on particular attributes of the transaction. There is some debate on what constitutes an appropriate classification of transaction attributes affecting transaction cost. Williamson (1985, p. 58) discusses three critical transaction attributes: (i) asset specificity, (ii) uncertainty, and (iii) frequency (combined with duration). Most commentators limit discussion to these three attributes. Milgrom and Roberts (1992), however, also refer to “difficulty of performance measurement” and “connectedness” as two further attributes. In the
interest of completeness, the five attributes referred to by Milgrom and Roberts are discussed here.

2.2.4.1. Asset specificity

Lohtia et al. (1994) describe asset specificity as “an asset, either tangible or intangible, that has little value outside of a particular relationship” (p. 261). Williamson (1985) sees the significance of asset specificity to TCE theorising as difficult to exaggerate. This view appears to have widespread in the theoretical literature and also the empirical literature as asset specificity is generally the main attribute appraised. Colbert and Spicer (1995) cite several studies with an asset specificity focus in attempts to explain the boundaries of the firm, strategy, make or buy decisions, as well as vertical, horizontal and diversification decisions (Monteverde and Teece, 1982; Alchian, 1984; Masten, 1984; Walker and Weber, 1984; Levy, 1985; Riordan and Williamson, 1985; Teece, 1986; Alchian and Woodward, 1987; Jones and Hill, 1988; Klein, 1988; Masten et al., 1989; Reve, 1990; Williamson, 1991).

In describing asset specificity, Colbert and Spicer (1995) comment:

“As the investments required to produce a particular component become more transaction-specific, the production cost advantages will be less between sellers and buyers but they will face contracting hazards which will result in additional contracting costs. These costs include transaction costs of writing, monitoring and executing contracts. Because production cost advantages of buying externally decrease and the comparative transaction costs of markets increase as assets involved in the transaction increase in specificity, it becomes increasingly likely that the end user will bring the transaction inside the firm and make the component” (p. 426).

Supporting this view, Milgrom and Roberts (1992) note when large specific investments are made, parties will organise themselves “in ways that safeguard those investments” (p. 49). Where an asset is highly specific to a particular trading relationship, its value is determined by the continuance of the trading relationship since the asset has limited value in an alternative use. Palay (1984) remarks:

“.... the more specialised the investment, the lower its value in its next best use. This heightens the risk of opportunistic behaviour during both the performance and renegotiation of the contract” (p. 277).

TCE holds that the greater the asset specificity, the more likely a transaction will be internally managed (vertical integration). As will be noted below, this view receives
support from several empirical studies (eg., Monteverde and Teece, 1978; Palay, 1984; Colbert and Spicer, 1995).

Asset specificity is fairly complex, however. Williamson (1985, 1988, 1991) notes six asset specificity dimensions. These are: human, physical, site, dedicated, brand capital, and temporal asset specificity. These dimensions are now considered in turn.

(i) Human asset specificity
This encompasses any particular knowledge or skills that an employee develops through training, and represents specialised know-how or experience specific to a particular employer/employee relationship, i.e., it is not easy to transfer this skill to other transactions. Related to this, Deegan (1997) appraised whether a manager’s expertise affects his/her remuneration plan and Widener and Selto (1999) considered the relationship between the specificity of internal audit expertise and its degree of outsourcing. According to Lohtia et al. (1994), this category has received the most attention both conceptually and empirically.

(ii) Physical asset specificity
This concerns investments in physical assets relating to a particular trading relationship. For example, Milgrom and Roberts (1992) refer to a wing producing facility investment made by a Boeing supplier. These wings are specific to that transaction and cannot be used by another airplane manufacturer.

(iii) Site specificity
This relates to an investment in a site that is close to a buyer or seller in order to facilitate a transaction. For example, Toyota has suppliers set up beside them and conveyor belts move products from the supplier directly to Toyota. Site specificity applies where an asset may have an alternative use, however plant relocation costs are prohibitively high, eg., laundry equipment and custom made restaurant fittings.

(iv) Dedicated asset specificity
This relates to a general-purpose asset, as opposed to a specialised asset, that has been purchased in connection with a specific long term contract trading relationship. Should the long term contract relationship be terminated, excess capacity will result. For
example, a hotel expands its facilities on the assumption that delegates from a neighbouring conference venue will use its facilities.

**(v) Brand capital**

This refers to reputation investment (Lohtia et al., 1994). Problems can arise where one party has control over assets that can be used to damage the brand reputation of a second party.

**(vi) Temporal specificity**

This concerns asset investment where timing and coordination of activities is critical, i.e., the timing and coordination is the specific asset. Masten et al. (1991) and Lohtia et al. (1994) elaborate on this form of asset specificity, using shipbuilding as an example. If all activities necessary for completion of a ship have been coordinated and scheduled, failure to deliver one (potentially cheap) item required for the ship could be costly to the ship manufacturer. There may be an alternative supplier of the part, however, the two weeks that it might take to procure the part, could represent a significant transaction cost for the shipbuilder. This exposes the shipbuilder to the possibility of “strategic hold-ups”. For hotels temporal specificity is apparent when outsourcing laundry, cleaning or pre prepared food ingredients.

In addition to Williamson’s six aspects of asset specificity, a seventh aspect can be included as Colbert and Spicer (1995) refer to “intellectual asset specificity”. This relates to research, design, development, and patents.

Further complicating matters, Williamson refers to two dimensions affecting the categories referred to above: degree of asset specificity (highly specific, mixed, and non-specific) and the magnitude (i.e., the amount invested) of the asset. Williamson suggests that where there is mixed asset specificity, firms might outsource or use tailored bilateral agreements (e.g., strategic alliances). In such arrangements, both parties have an incentive to sustain the relationship.

Building on Williamson’s work, Lohtia et al. (1994) introduce several other dimensions of asset specificity. They identify a problem with asset specificity claiming:

“... absence of a commonly accepted operationalisation (i.e., dimensions) of transaction-specific assets - a fundamental construct on which the propositions of TCE are based” (p. 261).
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Noting that different dimensions of asset specificity have been used in the past, Lohtia et al. attempt to synthesise and refine some widely used constructs. Criticising the way some researchers treat asset specificity as unidimensional, Lohtia et al. (1994) draw out the following asset specific dimensions: magnitude (Heide and John, 1988), risk (Gatignon and Anderson, 1988), importance (Joskow, 1987), and value to the firm (Anderson and Coughlan, 1987). The notion of risk appears closely linked to the TCE uncertainty attribute discussed in the next section. Lohtia et al. conclude that:

“magnitude and risk are the most salient dimensions of site-specific assets, magnitude is the most salient aspect of dedicated assets, magnitude and durability are the most salient dimensions of physical assets, and importance is the most salient aspect of human assets” (p. 267).

A more detailed explanation of these dimensions is provided in the appendices of Lohtia et al.’s study.

Most of the foregoing discussion has been conducted from a seller’s perspective. As noted by Colbert and Spicer (1995) however, asset specificity is pertinent to buyers as well as sellers. For example, a buyer may make specific investment in equipment or personnel that is based on the continued use of the supplier’s product, eg., Apple Computer buyers can only use Apple specific hardware and software.

2.2.4.2 Uncertainty

The second TCE attribute is uncertainty. Uncertainty in transactions underlines the inherent incompleteness of contracts. The greater the difficulty in foreseeing events affecting a trading relationship, the greater the uncertainty and therefore the greater the potential for incomplete contracting and opportunistic behaviour. Widener and Selto (1999) classified uncertainty as environmental (variation in activity demand) and behavioural (inability to monitor activities). In connection with uncertainty, Milgrom and Roberts (1992) discuss the complexity of decisions when it is difficult to predict what performance will be required. They also note that uncertainty increases as the length of time required to complete a transaction increases. Milgrom and Roberts (1992) summarise the implications of uncertainty in the following manner:

“Uncertainty about the conditions that will prevail when a contract is being executed together with complexity of the task, make it impossible, or at least uneconomical, to determine in advance what should be done in every possible contingency, so the contract that is written will generally be less determinate
than in a simpler setting. Rather than specifying how much of what is to be delivered when, the contract may specify who has the right to make which decisions and within what limits” (p. 32).

It can thus be seen that with greater uncertainty contracts designed to govern a transaction will tend to be more incomplete. To avoid the problems (costs) associated with incomplete contracting, TCE holds that in the presence of greater uncertainty, there is a greater likelihood for transactions to be internally mediated.

### 2.2.4.3 Frequency

Frequency refers to the repetitiveness (and volume) of similar transactions. When referring to this notion, Colbert and Spicer (1995) use the term “extent” in order to capture both “frequency” and “volume”. The greater the extent of a transaction (i.e., for large and recurring transactions), the more likely the transaction will be internally managed due to the production economies that can be obtained.

### 2.2.4.4 Difficulty of performance measurement

Milgrom and Roberts highlight the problems encountered in providing effective incentives when it is difficult or costly to measure performance accurately. When measuring performance is difficult, people commonly arrange their affairs to make measurement easier or to reduce the importance of accurate measurements. While in some situations steps can be taken to mitigate the problems associated with the governance of activities that do not lend themselves to measurement, in many situations little can be done to mitigate the problem. Where transactions concern activities that do not lend themselves to performance measurement, transaction cost theory holds that the transaction will tend to be internally mediated. This idea appears closely related to Widener and Selto’s (1999) behavioural uncertainty described earlier.

### 2.2.4.5 Connectedness

Connectedness relates to whether transactions are dependent on other transactions. To illustrate, Milgrom and Roberts (1992) note the importance of compatibility in computer manufacturing. There is little point in rushing the manufacture of keyboards, if the manufacture of screens is delayed. Similarly, the capacity or capability of one part of
the computer system should be planned in accordance with the other parts of the system. In the presence of high connectedness between transactions, it is expected that the transactions will tend to be internally mediated rather than outsourced. The idea of connectedness appears closely related to temporal asset specificity described above.

### 2.2.4.6 TCE Interactions

Rather than considering TCE attributes independently of one another, Widener and Selto (1998) discussed how TCE attributes may interact creating conditions that favour insourcing or outsourcing. For example, frequent conduct relating to non-specific assets may be outsourced, whereas frequent activities relating to highly specific assets are likely to be insourced.

### 2.2.5 Review of empirical studies employing the TCE framework

Having described TCE theory, this section reviews empirical studies that have employed the TCE framework. There is a growing body of TCE empirical research concerned with organisational structure and the way transactions are managed (eg., Monteverde and Teece, 1982; Palay, 1984; Nickerson et al., 2001). Despite this, a computerised literature search using the *Accounting & Tax Database* and *ABIinform*, reveals little TCE research in management accounting. Management accounting papers reviewed here include: Spicer and Ballew (1983), Colbert and Spicer (1995), Gietzmann (1996), Deegan (1997), and Widener and Selto (1999). As these papers failed to refer to other TCE motivated management accounting research, they are believed to represent a relatively complete listing of empirical management accounting research that draws on TCE theory. Each of these papers will now be reviewed in turn. Significant empirical papers that draw on the TCE model are reviewed here in chronological sequence.

**Monteverde and Teece (1982)**

Monteverde and Teece appraise TCE theory in the context of the US automobile industry. More specifically, they appraised the role of asset specificity in determining vertical integration. They hypothesised that vertical integration will be adopted when the production process requires specialised know-how and, consistent with TCE rationale, they assert that this would occur in order to avoid opportunistic behaviour that could result if dealing with an external supplier. Monteverde and Teece used a
regression model to appraise the degree of fit between the characteristics of 133 General Motors and Ford component parts and whether their production was outsourced, and found support for their hypothesis. Although not explicitly stated, this study’s prime focus concerns physical and human asset specificity.

**Spicer and Ballew (1983)**

Spicer and Ballew’s work was theoretical rather than empirical, however it is noted here as it is perhaps the most significant theoretical review of TCE conducted from a management accounting perspective. Spicer and Ballew’s stated objective was to introduce TCE as a theory relevant to the design of management accounting and control systems (MACS). To help the reader assess the potential of TCE, they evaluate two other theories widely drawn on in MACS research: the information evaluation approach and contingency models. Spicer and Ballew conclude that TCE has much to offer management accounting research, stating:

“General themes already present in the managerial accounting literature (eg., performance evaluation and control, participation, responsibility accounting and transfer pricing) gain in vitality when rooted in a more substantial theoretical base than is presently the case” (p. 73).

**Palay (1984)**

Palay used TCE theory to investigate the nature of trading relationships between rail freight carriers (railroads) and their shippers. The research involved thirty-five field interviews with rail carriers (marketing and sales departments) and their shippers. The study’s primary focus concerns physical asset specificity and was designed to investigate the relationship between governance structure (i.e. the ownership of boxcars) and the extent to which a trading relationship required a highly specific investment. Materials such as scrap and pulpboard can be shipped using standard boxcars, i.e., low asset specificity; however finished cars required the use of highly customised boxcars. The qualitative data analysis conducted by Palay lies in stark contrast to the quantitative study undertaken by Monteverde and Teece.

Palay classified investments according to three degrees of asset specificity: non-specific, moderately idiosyncratic and highly idiosyncratic. Auto racks, for example, fell into the highly idiosyncratic category because once built, their worth in their next best use was roughly equivalent to their scrap value. Palay structured his findings according to five governance dimensions (drawing on the work of Macneal (1974) and Wachter
and Williamson (1978)), and claimed his observations were largely supportive of the TCE model, i.e., the range of governance mechanisms used in conjunction with investments could be explained by their respective degrees of asset specificity. Palay’s study can be criticised on the grounds that he tended to use categorical variables when continuous variables may have been more appropriate. If he had used a continuous measure such as a Likert scale to measure degrees of information sharing, he could have used more powerful statistical data analysis to investigate data collected.

**Colbert and Spicer (1995)**

Colbert and Spicer developed a TCE-based theory of the sourcing and transfer pricing process. They tested the theory using data collected in a series of case studies conducted in four vertically integrated high technology firms in the electronics industry. The electronics industry was chosen because they believed there would be different degrees of asset specificity and high uncertainty. The paper draws heavily on Spicer’s (1988) premise that internal transfers in organisations can be viewed as transactions, and that TCE can be used to gain an understanding of how companies manage transfers and set transfer prices. Colbert and Spicer believe that:

“Dimensions of the transactions involved (asset specificity, uncertainty and extent) are thought to be positively related to the decision to integrate vertically into component production. With low levels of .... asset specificity .... it is likely that economies of scale play an important role in the make-or-buy decision. At the same time .... the potential transaction costs associated with buying externally are likely to be low. Given these conditions it is less likely that the firm will source the component internally” (p. 426).

From data uncovered in the four case studies, Colbert and Spicer concluded:

“.... there is considerable replication of specific findings consistent with theory. Overall, our findings generally match the pattern of relationships suggested by our theory” (pp. 451-2).

**Gietzmann (1996)**

Gietzmann’s study is largely a theory paper with a small amount of supportive empirical analysis concerned with subcontractor relationships in the Japanese manufacturing industry. Traditionally, the make or buy decision has been viewed as a dichotomous choice between vertical integration and the market. Gietzmann draws on Bradach and Eccles (1989) to propose other modes of organisational form relevant to technological advancement and specialisation. The theory of incomplete contracting is central to much of Gietzmann’s discussion, as non-contractual modes of behaviour are important
whenever maintaining flexibility is important (Macaulay, 1963). Gietzmann also highlights the importance of a governance design that recognises the needs of the subcontractor, rather than conventional approaches that appear heavily oriented to the subcontracting party’s perspective.

Gietzmann devotes a section of his paper to a discussion on incomplete contracting/transaction cost economics and asset specificity. Consistent with other TCE theorists, he notes that in the presence of high asset specificity (either capital or labour), each party may fear opportunistic behaviour by the other party. Gietzmann acknowledges that prior studies have considered this issue, however, he takes the notion down a slightly different tangent, by suggesting subcontracting relationships can still be developed if trust can be established. Drawing on Gambetta (1988), Gietzmann notes that developing trust is difficult, however. He then describes several ways trust can be established (this aspect of the study can be viewed as falling outside the conventional TCE framework). For example, if a company develops a reputation for staying with their contractors, this would engender trust among existing and new contractors. In Japan, if a subcontractor performs poorly, they tend not to be immediately dropped; typically the assembler’s engineers would visit the supplier to see whether they can advise and assist. This allows the company to gain an understanding of the supplier’s business, thus reducing opportunistic behaviour from the supplier. Equally, the supplier benefits by having contact with the engineer and being able to improve their operations. Gietzmann also describes the use of “rank order tournaments” (Sako, 1982) where Japanese businesses rank their subcontractors and reward better performing contractors with better jobs.

The empirical phase of Gietzmann’s work involved a review of how European subcontractors worked with Japanese businesses. A questionnaire was sent to 27 top ranked Japanese subcontractors based in Europe (67% response rate). Gietzmann found that rank tournament procedures were used extensively, that subcontractors provided detailed cost data to the assembler and that assemblers visit subcontractors with a view to sharing information. Demand for future periods was not contractually specified, though suppliers anticipated the relationship to be on going. All subcontractors reported that they had made relational-specific investments. These findings were supportive of Gietzmann’s expectations, i.e., despite high asset specific investments, organisations were able to successfully contract through an environment of trust. This study obviously
extends TCE by emphasising the important role trust can play in the outsourcing decision.

Deegan (1997)
This study won the top paper award for the journal Accounting and Finance in 1997. This accolade provides some testimony of a growing acceptance of TCE research in management accounting. Deegan’s study was designed to appraise whether the specificity of a manager’s expertise affects his/her remuneration plan. The study is highly original as it is one of the few TCE studies specifically addressing human asset specificity.

Deegan’s quantitative data was statistically significant for all but one of his TCE motivated hypotheses. A particular strength of the study concerns the quantitative approach taken which constitutes a relatively rigorous research approach that can easily be replicated. Unlike most works that build on the TCE framework, it was not dependent on the case study interpretative methodology, a factor which has resulted in some criticism of TCE based research.

Widener and Selto (1998, 1999)
Widener and Selto employed a survey questionnaire and archival data from 600 large publicly traded U.S. firms to appraise TCE and competitive strategy as factors explaining the outsourcing of internal auditing activities. Unlike many TCE studies, which tend to focus on one attribute (usually asset specificity), Widener and Selto considered several dimensions of TCE: asset specificity, environmental and behavioural uncertainty, and frequency. They discuss how TCE attributes may interact creating conditions that favour outsourcing (Williamson, 1975 and 1979). Several of their hypotheses were supported, with asset specificity being the main explanatory variable. Widener and Selto (1998) also considered interactions between TCE and strategy, proposing that where there is high asset specificity, uncertainty or frequency, prospectors would be more likely to insource than defenders. They were unable, however, to provide support for this view.

Foster (2000)
Foster (2000) assessed the usefulness of TCE if firms are viewed as complex adaptive systems. Although recognising that neoclassical economics requires simplistic
assumptions, Foster concluded that TCE represents a worthwhile theory when appraising behavioural complexities of opportunism and bounded rationality.

_Gonzalez-Benito et al. (2000)_

Like the Gietzmann (1996) study, Gonzalez-Benito et al. (2000) considered TCE in the context of trust. The study looked at Spanish auto component suppliers to appraise the role of cooperation and trust in the governance of JIT purchasing practices. Empirical tests on 148 suppliers supported their propositions concerned with TCE and trust.

_Park et al. (2000)_

Park et al. (2000) surveyed US firms to evaluate and review the make or buy strategy in the context of the TCE framework. The study found that customer-supplier relationships are deepening, there is a preference for single or dual suppliers, and that internal supplier performance is generally disappointing in relation to quality, on-time delivery cost and cooperation.

_Yang and Huang (2000)_

Yang and Huang (2000) looked at outsourcing of information systems, and argued that five factors (management, strategy, TCE, technology and quality) should be considered when considering the outsourcing decision. Based on these factors, they propose a decision model to assist managers when deciding whether to outsource individual IS systems.

_Nickerson et al. (2001)_

Like Widener and Selto, Nickerson et al. (2001) draw on TCE and strategy to explain outsourcing of international courier and small package (IC&SP) services in Japan. They describe their study as informed by a “positioning-economising perspective” when attempting to link strategy, resources (IT), governance and performance (delivery speed). The main TCE aspects appraised concerned physical asset specificity (information technology is a key aspect of courier differentiation) and temporal specificity (delivery time sensitivity). Their propositions were threefold: 1) that for each IC&SP segment, document specialists rely on more idiosyncratic IT and vice versa; 2) The greater the idiosyncrasy of IT in any particular IC&SP segment, the greater the likelihood of vertical integration and 3) Vertical integration reduces delivery time.
Support was provided for the study’s propositions, however the study’s small sample size (13 couriers and 16 shippers) should be seen as a significant threat to its validity.

2.2.6 Limitations and criticisms of transaction cost analysis

Robins (1987) believes that TCE’s underlying assumptions have not been examined sufficiently and that this has resulted in some serious logical and empirical weaknesses in published works. Despite this, he believes TCE is a powerful tool for organisational analysis but that it should be interpreted at a fairly generalisable level of abstraction.

Robins identifies two streams of TCE research. The first stream concerns a macro perspective that focuses on prevailing institutional structures at particular points in time (eg., Johnson and Kaplan’s (1987) work). The second stream is focused at the individual organisation level and the organisational form assumed in response to environmental conditions.

Robins feels that a significant shortcoming of the macro-level research stream stems from researchers’ apparent assumption that a decentralised market structure represents a natural order (i.e., that outsourcing is the normal order and TCE explains where insourcing will occur). He notes that large scale market activity is a relatively recent phenomenon and that it is arguably still a relatively rare means of organising exchange. He refers to structures that predate market organisation, eg., feudalism, city-states and cave-dwelling tribes (one could also add slavery) and criticises the Williamson (1979) and Williamson and Ouchi (1981) studies that use transactions cost theory to explain historical transformations in social institutions.

Robins also claims that as TCE builds on basic microeconomic theory (i.e., a perfect market), its capacity to capture reality is constrained by the limits of microeconomic theory (the limitations of perfect market assumptions). In effect, Robins feels TCE is compromised when considering organisational form in imperfect markets. He feels that historical institutional TCE researchers:

“Have paid insufficient attention to the distinction between theory and its applications, with the result that they have failed to give reality the sort of priority over theory that is required by an empirically grounded field” (p. 74).
Robins also notes that while economic pressures may push business to adopt efficient forms of exchange, such pressures are constrained by social and political context. For example, alternative political and social structures such as those apparent in Russia and China will impact on organisational form. Consistent with this view, Walker (1998) comments:

“Issues such as the influence of social and cultural factors on organisational structures cannot be easily captured by models which assume economic agents are bloodless super-calculators” (p. 28).

With respect to TCE research conducted at the individual organisation level, Robins feels that as transaction costs represent only a subset of the total costs of conducting business, it is overly simplistic to suggest firms are only interested in minimising transaction costs. It would appear more appropriate to say firms are interested in an organisational form that minimises all costs. Despite these criticisms, Robins feels that more modest applications of TCE can provide useful insights into organisational behaviour.

A further criticism of TCE concerns the possibility that the opportunism problem may be exaggerated (Domberger, 1998). There may be only one chance for a party to behave opportunistically as the resulting loss of reputation may be highly damaging. Domberger cites Ghoshal and Moran who feel the need to “caution against this growing tendency of applying the transaction cost economics logic for such normative purposes” (1996, p. 15). In addition, Ghoshal and Moran argue that “while transaction costs may help explain the phenomenon of vertical integration, the presence of transaction costs does not imply *ipsa facto* that integration is the appropriate normative response” (Domberger, 1998, p. 62). This is because opportunism is as likely to occur within organisations, as it is between organisations. Domberger notes that transactions between or within firms may not be particularly different, arguing that a firm is just ‘a nexus of contracts’ between the organisation and its employees.

Walker (1998) cites criticisms of TCE made by Hopper and Armstrong (1991), who ascribe to a labour process theory (hereafter “LPT”) of economic organisation. Hopper and Armstrong see four main problems with TCE:

1. the notion of “transaction cost” has not been defined in precise terms,
2. the theory fails to appraise the links between product market power and the design of economic organisation,
3. the theory fails to recognise the role of social and political processes on the development of firms,
4. the theory fails to consider the potentially exploitative nature of the relationship between commercially motivated firms and the employees that work for these firms.

Of the four criticisms Walker comments:

“I find the first three less convincing, but I do believe that there is something to be said for the fourth…. In a world of costless decision making, perfect labour markets and perfect risk sharing markets, there would be no scope for any individual to exploit individual workers. In reality individual workers need the countervailing power of trade unions to protect their position in bargaining conditions where the firm has all the bases stacked in its favour” (1998, p. 29).

In defence of TCE, with respect to the last three points made by Hopper and Armstrong, one can ask to what extent do proponents of alternate organisational theories accommodate TCE in their thinking. Surely each theory represents a particular perspective and seldom (or more probably, never) has an all-powerful theory of social order been found. It appears reasonable to conclude that, across different situations, each theory will demonstrate varying degrees of explanatory power.

Hopper and Armstrong (1991) feel the development of organisations and accounting systems were driven by employers’ attempts to gain control over labour and not, as Johnson and Kaplan (1987) suggest, by market factors or technology. Loft, referring to Tinker’s criticisms of TCE feels TCE legitimises:

“a status quo where the vast majority of the planet’s population are exploited in order that a dominant elite can enjoy the fruits of labour” (Loft, 1991, p. 26).

Hopper and Armstrong feel TCE is flawed because it assumes that organisations and control systems change only as they try to become more efficient whereas “there are also gains to be made from the extension and intensification of labour and from the monopolisation of product markets” (Hopper and Armstrong, p. 407). They refer to several researchers who suggest organisation mergers were motivated by a desire to create monopolies, rather than efficiencies (eg., Nelson, 1959; Perrow, 1981), and that the majority of mergers between 1895-1904 were horizontal mergers. Williamson and Ouchi (1981) dispute this argument claiming that any profit increases derived from monopolistic power would be more than offset by increased inefficiencies. In addition, Johnson and Kaplan (1987) discuss how Dupont specifically set minimum prices so as
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not to create a monopoly but so it could permanently run at full capacity. This enabled Dupont to pass economic fluctuations onto their competitors.

Hopper and Armstrong refer to several researchers (eg., Pollard, 1965; Thompson, 1967; Marglin, 1974; and Marginson, 1986) who put forward the thesis that:

“Hierarchy reflects the ability of those who own and control the firm to ensure that their goals dominate the goals of those employed in the firm” and that “the institution of hierarchy through the factory system had its origins in a search by employers for more effective means of coercing workers to work” (p. 410, Hopper and Armstrong quoting Marginson, 1986, p. 5).

Hopper and Armstrong cite several historians and radical political economists in support of their stance against the view that increased efficiency has dictated organisational change (p. 412). They feel that social conflict accounts for much of the change and that this perspective has been ignored by TCE theorists.

TCE can also be criticised for ignoring trust and cooperation which can be important factors in successful buyer-supplier relationships (Ring and van de Ven, 1992; Gietzmann, 1996). Similarly, Kakabadse and Kakabadse (1999, 2000) criticise TCE as having its limitations “as it does not account for the leadership and management capabilities to structure and manage co-operative relationships crucial to the effective working of outsourcing arrangements” (2000, p. 670).

A further management accounting commentary on TCE is provided by Kaplan (1984). Kaplan feels that TCE has provided little explanation for the functioning of management accounting systems. One could question this view especially in light of Colbert and Spicer’s (1995) theorising on transfer pricing (reviewed earlier). Despite this, Kaplan acknowledges that TCE has provided a vocabulary and some intuition for understanding the development of organisation structure. Spicer (1992) has perhaps made the greatest mark as a management accounting researcher who has applied TCE in management accounting research. He expresses surprise that TCE has not been drawn upon more by management accounting researchers and characterises the role of TCE in management accounting research as:

“…. frequently cited, sometimes attacked, but not often used in a meaningful way” (1992, p. 8).

Despite his support for TCE, Spicer (1992) outlines a concern that TCE theorists have little to say about alternative business strategies. Much might be achieved by integrating
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TCE theorising with strategic modelling such as the strategic cost management framework developed by Shank (1989). In light of Spicer’s comments on strategy, it would appear appropriate to include strategy as a variable to assess outsourcing in the hotel industry. Strategy as a contingency variable will be discussed later in the chapter.

2.3 Agency theory

Agency theory overlaps considerably with TCE. They are similar with respect to the assumptions of self-interest, goal conflict, bounded rationality, information asymmetry, and pre-eminence of efficiency (see Eisenhardt, 1989). One distinction between the two theories is that TCE focuses on the boundary of the organisation, whereas agency theory focuses on the contract between agent and principal, regardless of the boundary. TCE also focuses on asset specificity, whereas agency theory focuses on risk attitudes, outcome uncertainty and information systems.

Eisenhardt (1989) provided an overview of agency theory, concluding that it is a useful organisational theory, especially when combined with other theories. In support of this view he cites Hirsch et al. (1987) who comment:

“Agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organisations. Additional perspectives can help to capture the greater complexity” (p. 71).

In light of Eisenhardt’s recommendation that agency theory be used as a complementary theory, it seems particularly appropriate to consider the aspects of agency theory pertinent to outsourcing that fall outside the TCE framework.

Agency theory addresses two issues of particular interest to the outsourcing decision. The first is the problem of goal incongruence that may exist between the principal and agent, and the problem of verifying that the agent has behaved appropriately. This issue relates closely to the TCE behavioural uncertainty attribute. The second issue concerns how the principal and agent may have conflicting risk perspectives.

Jensen (1983) sees two streams of agency theory: principal-agent and positivist (cited by Eisenhardt, 1989). Principal agent research is abstract and mathematical, and concerns the identification of efficient contracts (eg, behavioural vs outcomes) in relation to uncertainty, risk aversion, information, and other variables. Positivist agency
theory focuses on goal incongruence and controls that are put in place to encourage appropriate agent behaviour. If there is complete information, a contract that is based on behaviour is most efficient. If information is incomplete and it is difficult to assess behaviour, the contract should be outcome based. Again, this relates to TCE’s behavioural uncertainty attribute.

Research has determined that agents and principals vary in risk aversion (Eisenhardt cites Harris and Raviv, 1979 and MacCrimmon and Wehrung, 1986). If an agent is less risk averse than a principal, an outcomes based contract is more attractive. Research has also found that goal conflict can vary (Eisenhardt cites Ouchi, 1979 and Demski, 1980), in which case the issue reduces to one of risk-sharing. If outcomes are difficult to measure, behaviour based contracts are more attractive.

Large public corporations and the owner/CEO relationship have been the main arenas of agency research. The two propositions in the positivist stream are that goal incongruence will be reduced (1) through the use of information systems to verify agent behaviour or (2) by using a contract that is outcome based (eg commissions, stock options). Eisenhardt notes that although this positivist view has been criticised as minimalist (Errow, 1986; Hirsch et al., 1987), tautological and lacking rigour (Jensen, 1983), it has resulted in considerable research and interest (Barney and Ouchi, 1986).

Two agency problems outlined in the literature concern moral hazard (lack of effort by the agent), and adverse selection (the agent misrepresents his/her ability). A third proposition in agency theory is that “information systems are positively related to behaviour-based contracts and negatively related to outcome-based contracts” (Eisenhardt, 1989, p. 61). Where outcome based contracts are used, risk gets transferred to the agent because it is unlikely an outcome will be completely under the agent’s control. Only if the risk is low (i.e., the agent has significant control over the outcome), are outcome based contracts attractive. Eisenhardt comments:

“the heart of principal agent theory is the trade-off between (a) the cost of measuring behaviour and (b) the cost of measuring outcomes and transferring risk to the agent” (p. 61).

Agency theory holds that contracts should be designed to take into account outcome uncertainty and risk aversity of the principal and agent. Eisenhardt refers to Walker and Weber (1984), however, who found that the make/buy decision was not affected by
technological and demand uncertainty. Eisenhardt draws on agency theory to provide an alternative rationale for this finding. He feels that if the principal is risk neutral they would be relatively uninfluenced by outcome uncertainty; i.e., “according to agency theory, we would predict that such a risk-neutral principal is relatively uninfluenced by outcome uncertainty, which was Walker and Weber’s result” (p. 65). According to agency theory, we would predict that risk averse principals would be uncomfortable with outcome uncertainty and would outsource in order to transfer the risk to the agent; i.e., “agency theory predicts that risk-neutral managers are likely to choose the “make” option (behaviour based contract), whereas risk-averse executives are likely to choose “buy” (outcome based contract)” (p. 65). This apparent contradiction to TCE’s view of uncertainty (i.e., TCE proposes that where there is high uncertainty, organisations will tend to insource) is an interesting issue to address in this study.

The agency theory issues described above are relevant to the outsourcing decision and, given the relationship between TCE and agency theory, it appears appropriate to consider agency theory in this study. As noted by Eisenhardt (1985):

“Agency theory makes contributions to organisation theory, is testable, and has empirical support. Overall, it seems reasonable to urge the adoption of an agency theory perspective when investigating the many problems that have a principal agent structure.... Agency theory is most relevant in situations in which contracting problems are difficult. These include situations in which there is .... substantial goal conflict between principals and agents, such that agent opportunism is likely (eg., owners and managers, managers and professionals, suppliers and buyers)” (p. 70, italics added).

Like TCE, agency theory is not without criticism. For example, Kaplan (1984) criticises agency theory as “focusing entirely on an effort-aversion or conflict of interest” when “in practice, managers do not seem to have much effort aversion”. The limitations of agency theory “should be well recognised and should not supplant other efforts to improve management accounting systems....” (Kaplan, 1984, p. 415). Like TCE, agency theory is also criticised as being one-sided because it ignores the exploitation of workers (Perror, 1986). Despite this, the level of interest shown in agency theory motivates consideration of its aspects relevant to outsourcing in this study. Chapter 5 will elaborate further on these aspects and how they will be drawn upon in this study.

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2 Eisenhardt claimed that the Walker and Weber’s (1984) findings were not explained using TCE. This view is contrary to the interpretation given by Colbert and Spicer (1995) who felt that Walker and Weber’s findings support the TCE asset specificity proposition. It appears Eisenhardt had meant that the TCE attribute of uncertainty did not explain the outsourcing decision.
2.4 Labour process theory

Labour process theory (LPT) was discussed earlier in this chapter in relation to criticisms of TCE. As noted by Young and Selto (1991), a weakness of many research studies is that researchers ignore the power and control issues involved in relation to organisational change. This study will therefore also explore issues proposed by LPT proponents. Hopper and Armstrong (1991) suggest the decision to outsource will depend on management’s need to control and manipulate labour. LPT may therefore provide some useful theoretical insights into what motivates hotel outsourcing.

2.5 Contingency theory

Contingency theory has been widely used in management accounting research. It is based on the premise that managers “adapt their organisations to changes in contingencies in order to attain fit and enhanced performance” (Chenhall, 2000, p. 3). Citing Sheppard and Houghland (1978), Spicer and Ballew (1983) comment:

“There are two major types of contingency models in the organisation theory literature: (a) those with a complex human perspective which have been primarily concerned with developing strategies for motivating participants in organisations, and (b) those with a complex organisation perspective which have been concerned with determining effective organisational structural arrangements on the basis of their technological and environmental contexts” (p. 75).

The latter type has been the most popular topic for accounting researchers.

Chenhall (2000) provides a critical review of findings of contingency based studies conducted over the last 20 years. Widely appraised factors in contingency research include technology, environment, organisation size, structure, culture, and strategy. Although some of these factors can be linked to the theories already discussed (eg., environment can be linked to TCE’s environmental uncertainty, size can be linked to TCE’s frequency attribute, and technology can be linked to various dimensions of asset specificity), the general thrust of contingency research falls outside TCE and the other theoretical frameworks outlined above.

Chenhall (2000) feels that the most important recent stream of contingency research relates to strategy. As noted earlier, Widener and Selto (1998) and Nickerson et al. (2001) used strategy in combination with TCE to explain outsourcing. In justifying the
use of both TCE and strategy, Nickerson et al. (2001) refer to Day and Klein’s (1987) view that the “weaknesses of [Williamson’s] market failure approach are the strengths of [Porter’s] strategic perspective and vice versa” (p. 252); i.e. combining these two perspectives can be seen as a way to overcome their individual deficiencies. Williamson (1999) feels that combining strategy and TCE will result in “a lively research future for these two perspectives, individually and in combination” (p. 1087). Williamson (1999) also notes that “Both are needed in our efforts to understand complex economic phenomena as we build towards a science of organisation” (p.1106). In light of these comments, it appears most appropriate to include strategy as a contingency variable in this study. Other contingency variables that will be addressed in this study include competition intensity, performance and size. Each of these will be elaborated on below.

As will all theories, contingency theory is not without criticism. Covaleski et al. (1996), for example, criticise contingency theory as “presenting a deterministic, ahistorical view of organizations which provides limited insight as to the mediating processes of organizations” (p. 8). Nonetheless, contingency theory is seen by many researchers as a useful way to explain organisational governance, and given its widespread use in management accounting research, it would appear to be a useful perspective to draw on in this study.

2.5.1 Strategy

Langfield-Smith (1997) provides a valuable overview of the way strategy has been considered in the management accounting literature. Significant interest has been shown in the way strategy affects management control system design (eg., Khandwalla, 1972; Miles and Snow, 1972; Porter, 1980; Merchant 1985; Simons, 1995; Langfield-Smith, 1997). Different research approaches and perspectives adopted make it hard to build a coherent body of knowledge, however.

Strategy has proven to be an elusive term to define as is evident from the broad-ranging nature of the definition offered by Langfield-Smith (1997). She feels strategy is:

“Concerned with the long-term direction of the organisation, the scope of an organisation’s activities, the matching of organisational activities to its environment and resource capabilities, the allocation of major resources within the organisation, and consideration of the expectations and values of the organisation’s stakeholders” (p. 209).
Three of the concepts noted by Langfield-Smith appear pertinent to outsourcing (scope, matching and allocation). The scope of the organisation’s activities can be expected to affect the propensity to outsource, i.e., the narrower the organisation’s scope, the more it will tend to outsource. The matching of organisational activities to the environment and resource capabilities relates to outsourcing, e.g., constrained resource capabilities can be expected to result in more outsourcing. The allocation of major resources is fundamental to outsourcing, as the decision to outsource can be seen as a resource allocation decision.

A problem confronted when researching strategy arises due to inconsistencies between intended and realised strategy. Langfield-Smith feels this issue is usually not addressed in empirical research. She believes the real strategy of an organisation is not necessarily what is stated in the mission statement, but what is in the minds of key managers. Related to this problem, Quinn (1980) and Mintzberg (1987) see strategic decisions as messy and ambiguous. They do not see strategy as occurring in a planned way, but evolving in an ad hoc and unstructured manner.

Langfield-Smith describes four ways in which to measure strategy: textual description, partial measurement, multivariate measurement, and typologies. She feels the first three are difficult to appraise, and prefers to use typologies which she sees as: “comprehensive profiles of different strategic types and have the advantage of emphasising the integrative components of each strategy” (p. 211). Similarly Hambrick (1984) sees strategic typologies used in empirical research as having the ability to “bring order to an incredibly cluttered conceptual landscape” (p. 28, cited by Langfield-Smith, 1997).

Four strategic typologies have been found in the literature (Miles and Snow, 1978; Porter 1980, 1982; Govindarajan and Gupta, 1985; Miller and Friesen, 1985). The dimensions of these typologies are somewhat blurred and overlap considerably. Snow and Hrebiniak’s (1980) developed a typology based on Miles and Snow’s (1978) four strategic archetypes: “prospector”, “analyser”, “reactor” and “defender”. This measure has been operationalised in prior accounting studies (e.g., Simons, 1987; Abernethy and Guthrie, 1994). At the two extremes of the measure are defenders and prospectors. Defenders focus on maintaining a narrow product range and market, and minimal product or market development. Contrasting with this, R&D and market development is
of key importance to prospectors. Snow and Hrebiniak see the “prospector” strategy as apparent in firms that value being ‘first in’ in new product and market areas, and also firms that respond “rapidly to early signals concerning areas of opportunity, and these responses often lead to a new round of competitive actions” (1980, p. 336). From these distinctions, it is expected that defenders would be less likely to outsource than prospectors. Prospectors’ need to move quickly into new areas of opportunity would seem to suggest a heightened disposition towards outsourcing. In contrast, the defender archetype appears more predisposed to pursuing tight internal control, and this disposition appears compatible to insourcing. It should be noted that this view counters Widener and Selto’s (1998) expected relationship between outsourcing and strategy types. Their results did not support their hypothesis, however.

Porter’s (1980, 1985) typology comprises three organisation strategies: cost leadership, differentiation and focus. Underlying this typology is the approach an organisation adopts to pursuing competitive advantage. Cost leadership may be achieved through economies of scale or advanced technology. Differentiation is achieved by offering customers additional product value which may include quality, dependability and service. A focused strategy involves identification of a particular market niche. This strategy can employ either a cost leadership or a differentiation perspective. Teresko (1990) used Porter’s differentiator term in his consideration of outsourcing at Kodak. He proposed that as data processing was not a significant differentiator for Kodak, the activity would be outsourced. Applying Porter’s typology to hotel management, Hum (1997) notes that a cost leadership strategy will translate into a no frills hotel, with standard rooms (e.g., all furniture wall mounted to facilitate cleaning and standard queen size beds to simplify linen chores), high volume operations (processing groups for example), and computerisation. A hotel following a differentiation strategy, however, would focus on tailoring service to customer needs.

Comparing the Porter and the Snow and Hrebiniak typologies, the cost leadership strategic archetype most closely resembles the defender strategy, and the differentiation strategic archetype resembles the prospector strategy. In light of the earlier discussion, it is expected that a propensity to outsource will be positively related to firms adopting a differentiation strategy and negatively related to firms adopting a cost leadership strategy.
Miller and Friesen’s (1982) typology comprises two organisation types: conservative and entrepreneurial. This typology has product innovation as its primary focus. Comparing Miller and Friesen’s typology with Snow and Hrebiniak’s, it appears the conservative archetype is most closely related to the defender strategy, and the entrepreneurial archetype is most closely related to the prospector strategy.

Govindarajan and Gupta (1985) introduced the idea of “build versus harvest”, i.e., the trade-off between short and long term earnings. The hold and harvest archetypes appear most closely related to Snow and Hrebiniak’s defender strategy, while the build archetype relates more closely to the prospector strategy.

When we turn to consider how strategy might be best operationalised in this study, it is pertinent to note that in today’s highly competitive environment, some organisations (e.g., some Japanese consumer electronics and automobile companies) exhibit several strategies (e.g., low cost, high quality, wide product variety, flexibility and timely delivery). Hum (1997) suggests hotels may need to exhibit such strategic breadth if they wish to remain competitive. Hum refers to Ferdows and De Meyer (1990) when describing the sequence in which such a mixed strategy should be implemented. He feels that an organisation should initially learn:

“.... how to make the present set of products really well; and then it ensures that it can deliver the products dependably as promised; and then it will be ready to enhance itself in terms of innovation and flexibility capacities. Then overall low operations cost will follow” (Hum, 1997, p. 179).

The operationalisation of strategy in this study will be discussed in Chapter 5.

2.5.2 Competition intensity

The first management accounting researcher to consider competition intensity was Khandwalla (1972). Tymon et al. (1998) see a close relationship between competition intensity and environmental uncertainty which has also been the subject of several contingency studies (Chenhall and Morris, 1993, 1986; Govindarajan, 1984; Gul and Chia, 1994). In light of the degree of interest commanded by competition intensity in the management accounting literature, and given the varying degrees of competition intensity experienced by hotels (i.e. competition intensity is affected by market segment and location), competition intensity appears potentially pertinent to this study.
Heightened competition intensity is consistent with organisations’ needing to apply increasingly appropriate management techniques to survive. As outsourcing can facilitate greater specialisation, and greater specialisation can result in higher degrees of efficiency, it is anticipated that in the face of greater competition more activities will be outsourced.

2.5.3 Performance

Another commonly researched contingency variable is performance, which has been used as both a dependant variable and an independent variable (Langfield-Smith, 1997; Chenhall, 2000). This study explores whether hotel performance relates to a propensity to outsource and also to investigate whether hotel performance has an impact on management accounting sophistication.

2.5.4 Size

One of the first contingency variables explored by accounting researchers was size (Otley, 1978; Chenhall, 2000). There appears to be a fairly robust finding that size is positively associated with accounting sophistication (Bruns and Waterhouse, 1975; Merchant, 1981). Appraising for a relationship between size and propensity to outsource appears appropriate as it provides us with insight concerning the frequency attribute referred to in TCE theorising. As already noted, according to TCE, activities conducted frequently (or with a high volume) will tend to be insourced. It follows that, according to TCE, large organisations should undertake less outsourcing than small hotels. Considering size also provides an opportunity to appraise whether the positive association between size and accounting sophistication documented in the literature is evident for accounting information systems used in outsourcing decision making and control.

2.6 Conclusion

The objective of this chapter has been to provide an overview of the main theories informing the thesis. Recognising that no theory is all encompassing and that theories suffer from a variety of limitations, a triangulation approach has been adopted. The
Chapter 2: Theoretical frameworks informing the study

Theories described are transaction cost economics, agency theory, labour process theory and contingency theory. These four theories were chosen as they were all seen as having significant relevance to the outsourcing decision. This is not to infer, however, that other theories may not also inform an understanding of outsourcing decision making and control systems. This highlights the fact that in a study such as this, it would be naive to claim that all potentially relevant theories have been considered. As it is beyond the ability of one researcher to attempt such an ambitious undertaking, it appears more reasonable to suggest that our appreciation of the full breadth of theories affecting a phenomenon such as outsourcing management develops slowly over time, as a range of researchers with a range of philosophical perspectives and research methods address the issue.3

Transaction cost economics (TCE) is the main theory drawn on in this study and therefore has commanded the bulk of the chapter’s discussion. In outlining the nature of the transaction cost economics model, the key notion of efficiency has been highlighted. The significance of key transaction attributes (i.e., asset specificity, uncertainty, and frequency), as well as the limitations of transaction costs, have been discussed. A review of empirical work has also been conducted. The risk aversion aspect of agency theory has been highlighted as potentially of interest as it contrasts with the TCE perspective on uncertainty. Similarly, the way that labour process theory contrasts with the TCE perspective has also been described.

Each of these theories can be seen to have a distinct focus. TCE theory focuses on the attributes of particular activities, agency theory focuses on managers’ incentives and motivation, while LPT has a focus on the control and potential exploitation of labour. With respect to contingency theory, particular attention has been given to the variables that appear worthy of enquiry in a study concerned with outsourcing, i.e., strategy,

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3 A challenge in conducting a study of this size is balancing breadth and depth as well as ensuring one is up-to-date with all relevant pieces of work. Integrating recent research into the study presents a particular challenge, as one’s research focus and appropriateness of direction chosen can evolve as new pieces of research are published. In light of this, subsequent to preparing the literature search, the following relevant refereed publications have been identified that have researched outsourcing in conjunction with TCE and other theories: Birnberg (1998), Seal, Cullen, Dunlop, Berry and Ahmed (1999), van der Meer-Kooistra and Vosselman (2000), Mouritsen, Hansen and Hansen (2001), Speklé (2001), Tomkins (2001) and Vosselman (2002). With the benefit of hindsight, in light of the recent attention commanded by trust in connection with inter-company relationships (Zaheer and Vankatraman, 1995; Nooteboom, Berger and Noorderhaven, 1997; Seal and Vincent-Jones, 1997; Das and Teng, 1998; and Das and Teng, 2001) it may have been productive to have also introduced a “trust” theoretical perspective to the study. To have done so, however, would have likely diluted the focus attached to the transaction cost economics, agency theory, labour process theory and contingency theory perspectives pursued.
competition intensity, performance and size. Unlike TCE theory, which can be seen to have a transaction-level perspective, contingency theory has an organisational-level focus. It should be noted that a difficulty of operationalising the risk aversion construct of agency theory and also the LPT construct is the social desirability error that may result; i.e., interviewees may be reluctant to admit that they are averse to risk, or that they attempt to control and exploit labour. In the next two chapters other literary perspectives pertinent to the study are outlined.
CHAPTER 3
MANAGEMENT ACCOUNTING AND GENERAL MANAGEMENT
LITERATURES ON OUTSOURCING

3.1 Introduction

This chapter provides an overview of management accounting textbooks and literature concerned with outsourcing. The chapter provides three distinct contributions to the thesis:

- it enables prescriptions provided in management accounting textbooks to inform the design of the study’s empirical phase,
- it enables the study to be informed by outsourcing writings provided in the broader general management literature,
- it explores for other factors pertinent to the study that do not fit within the theories described in Chapter 2.

Accordingly, the chapter can be viewed as broadening the literary context of the study prior to addressing the narrower hotel management outsourcing literature, which is the focus of Chapter 4.

A computerised literature search using the Accounting & Tax Database, and ABIinform conducted in the initial phase of this research in 1998 yielded very little in the management accounting literature, despite the use of a host of key words (eg., outsourcing, make or buy, relevant costing, subcontracting, contracting out). By contrast, a review of the general management literature yielded more than a thousand references.

In recent years, brief one or two page discussions on outsourcing have become more commonplace in management accounting professional journals (see for example Bromage, 2000; and Simke, 2000; Cameron, 2001; Mise, 2001; Hayward, 2002), and some of these journals have featured outsourcing in a series of articles (eg., the February 2000 issue of CMA Management, Canada). Occasionally, more extensive discussion of outsourcing have appeared in these journals (eg., Chalos, 1995; Stacey, 1998).

This chapter is structured according to two main sections: the normative literature on outsourcing (comprising the management accounting literature and the general management literature), and empirical studies concerned with outsourcing.
3.2 Theoretical literature on outsourcing

3.2.1 Outsourcing guidelines: Management Accounting textbooks

Four widely used management accounting texts have been reviewed (Barfield et al., 1998; Langfield-Smith et al., 1988; Hansen and Mowen, 2000; Horngren et al., 2000). In these texts the outsourcing decision tends to be characterised as an overly-simplified dichotomous choice between conducting an activity within a firm, or contracting it out. The decision is also somewhat simplified as it is typically considered in the short-term only. Shank and Govindarajan (1988) criticise this approach to decision-making. Further, Gietzmann (1996) notes this dichotomous view fails to capture the breadth of governance structures that may be employed.

The term outsourcing appears to be used interchangeably with the “make or buy” decision in these texts. Recent editions of these texts now include a section on outsourcing, though this generally represents little more than a cursory review. The books generally discuss outsourcing from a relevant costing or make/buy perspective, and include some discussion of strategic and qualitative issues. Langfield-Smith et al. (1998), for example, devote one page to outsourcing, emphasising the importance of a long term focus, consideration of qualitative issues and the use of ABC to determine insourcing costs. Barfield et al. (1998) report the top ten reasons why businesses may outsource (see Table 3.1), and provide examples of companies and their varying successes/failures with outsourcing.

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<tr>
<th>Table 3.1</th>
<th>Top ten reasons to outsource</th>
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<tr>
<td>1. Improve company focus</td>
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<tr>
<td>2. Gain access to world-class capabilities</td>
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<td>3. Accelerate the benefits of reengineering</td>
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<td>4. Share risks</td>
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<td>5. Free non-capital resources</td>
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<td>6. Make capital funds available</td>
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<td>7. Reduce operating costs</td>
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<tr>
<td>8. Obtain cash infusion</td>
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<td>9. Obtain resources not available internally</td>
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<td>10. Eliminate a function that is difficult to manage</td>
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Source: - Fortune (December 12, 1994, p. 58), cited in Barfield et al. (1998)

Surprisingly, none of the management accounting texts consider outsourcing discussions in the context of capital budget decision making. It will be noted in a later
chapter that the discounting principles of capital budgeting appear relevant to outsourcing given the long term nature of many outsourcing decisions and the uneven nature of cash flows over the long term. Gietzmann’s (1996) study described in Chapter 2 criticised traditional management accounting prescriptions on outsourcing as inappropriate due to too much emphasis attached to the short-term and insufficient attention given to the development of trust. Equally surprising, little discussion is given to issues of control and performance measurement of subcontractors. A potential for change in this literature is evident from comments provided by Langfield-Smith et al. (2000), however:

> “ Outsourcing situations may create a new set of control issues for the firm; the design of traditional management control systems is based on the assumption that all activities are within the direct control of the firm” (p. 5).

The traditional make or buy scenario generally depicted in management accounting texts can also be criticised on the grounds that the product or activity considered is standard and unchanging. The only variable of interest appears to be price. However, if businesses want to motivate suppliers to develop new designs, incentives other than short-term prices need to be considered. Gietzmann claims that sub-contracting to the lowest cost provider may be sub-optimal as subcontractors would have little incentive to view the relationship as long term. Consequently, there would be little incentive to make asset specific investments which might result in improved product quality and tailoring. Along this vein, a Financial Times Survey (July 12, 1994) of the automotive industry stressed that businesses must “change or die”, and that “the focus has sharpened on the relationship between the vehicle maker and its suppliers” (Gietzmann, 1996).

The importance of the accountant’s role in the outsourcing process is captured by Stacey (1998) who notes that “the role of the accountant is key .... in providing the relevant analysis, decision-making support and pricing and control mechanisms for the contract. The skill sets for the accountant are also enhanced by developing new skills in service and relationship management” (p. 44). Given the significant shift to outsourcing by many companies internationally, it is surprising that outsourcing does not command more attention in management accounting textbooks today.

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4 Domberger’s (1998) Table 2.1 shows that surveys in Australia and G5 countries, indicate steady growth in both public and private sector outsourcing.
3.2.2 Outsourcing guidelines: Management accounting and general management literatures

Few management accounting papers outlining guidelines for successful outsourcing have been found (a handful of exceptions include: Stacey, 1998; Mise, 2001; and p. 34 of an untitled article in October 1996 issue of *Management Accounting*). Mise (2001) presented guidelines relating to the outsourcing of HR, and Stacey presented management accounting techniques for the entire outsourcing process. In 1994 the Canadian Society of Management Accountants issued guidelines for outsourcing information systems.

Stacey’s (1998) series of three papers covering 1) the outsourcing decision, 2) supplier selection process and 3) transition and supply management, represents one of the larger reviews of outsourcing management appearing in a professional accounting periodical. She notes that as companies try to become more efficient, many are outsourcing, but that “outsourcing is a new area of business development which has had less clarification in terms of tools, techniques and best practice” (1998a, p. 14). To achieve successful outsourcing, Stacey recommends the use of “lifecycle sourcing”, a method developed by outsourcing consultants Morgan Chambers. This “uses management accounting techniques in support of the delivery of business objectives” (Stacey, 1998a, p. 14). This life cycle sourcing model comprises six phases: sourcing strategy, sourcing preparation, supply selection, transition, supply management and supply reselection.

Given the limited attention afforded to outsourcing in the management accounting periodicals, the literature search was broadened to include more general management commentaries. Two works in this field appear particularly significant: a paper prepared by Kakabadse and Kakabadse (2000) (henceforth referred to as K&K) and the monograph ‘The Contracting Organization: A Strategic Guide to Outsourcing’ prepared by Domberger (1998).

K&K (2000) note that although the outsourcing debate involves deciding whether, what and how to outsource, the most sensitive issue concerns what to outsource. They examined strategic drivers for outsourcing, the outsourcing market, the impact of outsourcing on organisational configuration, the client/supplier interface, performance management and client satisfaction/dissatisfaction with outsourcing. They refer to a new outsourcing paradigm in which competitive advantage is achieved through good
relationships with business partners and customers. This extended enterprise is similar to the Japanese *keiretsu* model where inter-company cooperation and cost sharing is key. *Keiretsu*, the traditional subcontracting culture in Japan, “is built on the principle of long term partnership, trust, information exchange, and the utilisation of limited competitive pressure on suppliers (K&K, 2000, p. 713 refer to Diggins, 1991). Even in a *keiretsu* system, however, it is noted that interdependency between contracting parties is reinforced by organising asset specific investments including site specificity, physical asset specificity and human asset specificity (K&K, 2000, refer to Dyer and Ouchi, 1993). In light of this new paradigm, it is interesting to note the continuing relevance of TCE.

Consistent with earlier criticisms made of conventional management accounting perspectives on outsourcing, Domberger believes a simple cost analysis is superficial as it ignores opportunity costs, strategic issues (such as the loss of expertise), and effects of organisational change. Domberger (1998) criticises management and economics literatures, and comments:

“There is an amusing story about an economist who, seeing something working in practice, immediately asked whether it would work in theory” (Domberger, p. 12).

Domberger’s (1998) monograph comprises four sections. The first considers the make/buy decision in the context of the shifting boundaries of the firm, both horizontally and vertically. Within this discussion a TCE perspective is also given. The second section concerns the costs and benefits of contracting, and the third section takes a strategic perspective. The final section considers structural change that results from contracting. In his overview of outsourcing, Domberger draws on the field of economics, management and public administration as well as over thirty case studies spanning several countries including UK, USA Australia and New Zealand, Germany, Italy, Japan, Korea and Brazil.

3.2.2.1 Strategy and outsourcing

Many papers discussing outsourcing in the context of strategy have been found (eg., Shank et al., 1988; Teresko, 1990; Quinn and Himler, 1994; DiRomulando and Gurbaxani 1998; Stacey, 1998; K&K, 2000; Park et al., 2000; Simke, 2000). K&K (2000) identified strategic outsourcing as one of two main reasons for outsourcing, the
other being scale economies. Commenting on emerging trends in outsourcing, Simke notes that:

“Organizations are starting to view outsourcing strategically, as a broad management strategy rather than just as a cost reduction tool” (2000, p. 26).

DiRomualdo and Gurbaxani (1998) identified three strategic reasons why organisations may outsource: strategic improvement (cost reduction, increase efficiency); strategic business impact (improving performance) and strategic commercial exploitation.

The significance of strategy was noted by Teresko (1990) in relation to the outsourcing of information technology at Kodak. Outsourcing of IT at Kodak was described as:

“....doing more than saving money. It is innovating - establishing a precedent that is triggering new practices among users and vendors alike” (Teresko, 1990, p. 54).

Strategic value was seen as important in Kodak’s “make or buy” analysis. Kodak viewed IT as appropriate to outsource as it was not “.... a significant differentiator for its products” (p. 54). Quinn and Himler (1994) note that:

“By strategically outsourcing and emphasizing a company’s core competencies, managers can leverage their firm’s skills and resources for increased competitiveness” (p. 43).

This can include the outsourcing of activities traditionally insourced and considered integral to the business, or integral to a firm’s strategy (Langfield-Smith et al., 2000). Quinn and Hilmers comment:

“The key strategic issue in insourcing versus outsourcing is whether a company can achieve a maintainable competitive edge by performing an activity internally - usually cheaper, better, in a more timely fashion, or with some unique capability - on a continuing basis” (1994, p. 48).

3.2.2.2 The importance of coordination

Business activity requires immense coordination and cooperation (Domberger, 1998). The importance of a cooperative relationship is emphasised by Langfield-Smith et al. (2000) who note that:

“a mismanaged relationship between a firm and its outsourcer may have serious implications for the firm’s long term strategy, continued competitiveness and profitability, even when the initial outsourcing decision was well conceived” (p. 3).
Successful coordination however can be hampered by self-interest (Domberger, 1998). To enhance cooperation control mechanisms such as financial penalties, longer contracts, legal enforcement, or trust, can be used.

Domberger (1998) sees self-interest as constrained by the fact that non-cooperative behaviour will restrict market opportunities for those players in future periods. The Japanese *keiretsu* philosophy appears related to this and K&K (2000) note that it is not the complexity of managing staff in virtual organisations that is the challenge “but the mindset shift towards being more stakeholder oriented” (p. 715).

### 3.2.2.3 Outsourcing, downsizing and related terminology

Domberger (1998) notes outsourcing should not be confused with downsizing. Outsourcing concerns changing organisational boundaries, whereas downsizing involves reducing the number of people employed to do the same job. Either or both can occur. Although many organisations are downsizing and outsourcing, many large organisations are also merging. While outsourcing tends to be vertically oriented, mergers are typically horizontally oriented and can be justified on the grounds of gaining greater market strength. Other modes of outsourcing include joint ventures, alliances, partnerships and shared service arrangements (K&K, 2000).

“Virtual organisations” is another widely used term relevant to outsourcing. Virtual organisations involve a core of executives and workers supported by outside contractors and part-time help (Domberger cites Handy, 1989). Ansley (2000) differentiates outsourcing from virtual organisation noting that virtual organisations rely on immense internet usage. Internet:

> “fosters an intimate degree of partnership among all companies involved and enables the operation of a smooth and efficient integrated corporation” (p. 32).

### 3.2.2.4 Reasons for outsourcing

There are many reasons for outsourcing. Discussion of these reasons is structured below under two main headings: to maintain competitive advantage, and to focus on core/non-core activities.
3.2.2.4.1. Reasons for outsourcing: maintenance of competitive advantage

Domberger (1998) sees two strategic issues related to an outsourcing decision: where the organisation’s boundaries lie, and what sort of contracts should be in place. The first issue relates to competitive advantage (the contracts issue is discussed later in the chapter).

Domberger (1998) cites several examples of companies outsourcing to sharpen their focus on their source of competitive advantage. For example, Microsoft considers its competitive advantage as software and operating system development. It has outsourced peripheral functions such as customer support of new software releases, production, and distribution. The outsourcing of customer support and production, given the highly specialised knowledge that would be required to carry out these activities (i.e., human asset specificity) appears to conflict with what would be expected from a TCE perspective. Microsoft’s rationale for outsourcing customer support of new software releases, however, was to buffer inhouse staff from a short-term influx of queries.

Formidable barriers against competition can be achieved by organisations focussing on what they do best, and outsourcing to suppliers who can in turn focus on developing their own specialisations. This enables each activity to be conducted in a “state of the art” manner. To achieve this internally would be difficult to manage. Langfield-Smith et al. (2001) cite a manager who comments:

“.... you really have to understand what are your core competencies .... what are the things that you are good at, that you do have an edge on. No matter what business you are in, there are some things that you can do better than others. It is a matter of identifying and really understanding those things. If you go back a few years, we probably did not really have a feel for that - we continued to do things because we had always done them .... It is a matter of sitting down and saying ‘What are we good at?’” (p. 9).

Hayward (2002), quoting a managing director of a consultancy firm states:

“There are only two things that give enterprises sustainable competitive advantage: their brands and their people. Everything else can be copied” (p. 26).

Virgin’s core competency, for example, is its brand name and its marketing flair; through joint ventures it outsources production and capital (Domberger, 1998).
3.2.2.4.2. Reasons for outsourcing: Focus on core activities

Related to the idea of competitive advantage is the issue of core activities. In determining which activities should be outsourced, it is widely suggested that core activities should be insourced and non-core activities outsourced. Non-core activities are peripheral to a company’s competitive advantage (Quinn and Himler, 1994). Bromage (200) notes:

“The reason for outsourcing becoming so popular may well be the increasing recognition that activities which are not core competencies are often not cost effective” (p. 23).

Like strategy and competitive advantage, what is meant by “core” can be ambiguous and confusing. K&K (2000) claim “Defining what is core competency for any one organisation is fraught with many ambiguities” (p. 674). To aid the identification of core activities K&K (2000) refer to Alexander and Young’s (1996) four characteristics generally associated with a core activity:

1. it is traditionally performed inhouse,
2. it is critical to business performance,
3. it creates current or potential competitive advantage, and
4. it will drive further growth innovation and rejuvenation.

Domberger, citing Prahalad and Hamel (1990) comments:

“Core competence is essentially a bundle of corporate skills that can be put to work in producing different products, both current and future. ….they (Prahalad and Hamal) urge companies to cultivate the competencies which will be more enduring than the products they currently produce, will not diminish with use, and will be the platform from which they will launch new and successful products in the future” (Domberger, 1998, p. 36).

Core competence analysis goes well beyond looking at traditional products or functional strategies to the fundamentals of what the company can do better than anyone else. According to Quinn and Hilmer (1994), maintaining a competitive edge means focussing on intellectual skills and management systems, not products or functions which can be easily duplicated or replaced. Prahalad and Hamel warn against outsourcing core competencies, as “.... contracting the provision of key parts and components can lose an organization its core competence, or the opportunity to create one” (Domberger, 1998, p. 37).
Quinn and Hilmer (1994) identify three issues to consider when deciding whether to outsource non-core activities. These are: transaction costs, vulnerability if there is market failure, and controls that can be used to reduce vulnerability. They note that most organisations focus on two or three activities in the value chain, and that suppliers:

“by specializing in the specific skills and technologies underlying a single element in the value chain, can become more proficient at that activity than virtually any company spreading its efforts over the whole value chain. … Managers should consciously develop their core competencies to strategically block competitors and avoid outsourcing these or giving suppliers access to the knowledge bases or skills critical to the core competencies” (pp. 46 - 47).

Understanding and serving the customer should also be regarded by organisations as a core competency (Quinn and Hilmer, 1994). The chief executive of a UK budget airline comments:

“We wouldn’t consider outsourcing areas where we spend time with our customers. For example, we would always employ our own cabin crews” (Hayward, 2002, p. 26).

This comment appears particularly relevant for a customer-oriented industry such as the hotel industry.

3.2.2.4.3 Conclusion to reasons for outsourcing

In the context of the breadth of reasons provided for outsourcing, it is interesting how frequently reference is made to TCE concepts. For example, following an extensive 50-page discussion on why organisations outsource, K&K (2000) conclude that:

“The effect of outsourcing depends on the activities being outsourced, and the value and “specificity” of the physical assets required to produce the desired service” (p. 705).

3.2.2.5 Benefits of outsourcing

In addition to the benefit of specialisation noted above, Domberger (1998) identifies three other benefits of outsourcing: market discipline, flexibility and cost savings. These are overviewed in Table 3.2 and will be elaborated upon below. Following this, other advantages not falling within this framework are discussed.
### Table 3.2
A summary of the benefits of contracting

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Definition</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialisation</td>
<td>Concentrating on those activities in which the organisation has established a distinctive capability.</td>
<td>Specialisation yields demonstrable economic benefits. By concentrating on activities in which an organization is relatively more efficient, total value added is maximized.</td>
</tr>
<tr>
<td>Market discipline</td>
<td>Identified conditions in which the purchaser is separated from the provider and a formal transaction takes place under contract.</td>
<td>Market discipline provides a range of benefits, namely focus by the purchases on outputs not inputs, competition between suppliers, choices by purchases and innovative work practices</td>
</tr>
<tr>
<td>Flexibility</td>
<td>The ability to adjust the scale and scope of production upwards or downwards at low cost and rapid rate.</td>
<td>Networks of small organisations linked to their clients via contract can adjust more quickly and at lower cost to changing demand conditions compared to integrated organisations.</td>
</tr>
<tr>
<td>Cost Savings</td>
<td>Lower costs compared to inhouse production.</td>
<td>International studies show that significant cost savings are achieved by contracting. Efficiency gains need not lead to lower quality</td>
</tr>
</tbody>
</table>

*Source: Domberger (1998)*

#### 3.2.2.5.1 Specialisation

As noted above, a major benefit of outsourcing is specialisation (Domberger, 1998; Ansley, 2000; Langfield-Smith and Smith, 2001). Specialisation refers to entire organisations focusing on specific activities. K&K (2000) see specialisation as the main outsourcing advantage:

> “Perhaps the greatest advantage of outsourcing is the full utilisation of external suppliers’ investments, innovations and specialised professional capabilities that otherwise would have been the case, which for any one organisation would be prohibitively expensive to replicate” (p. 680).

Specialist outside suppliers are able to achieve greater volumes than that possible if the activities are spread across a number of companies performing them inhouse. This signifies that the specialist supplier can reap the benefits of economies of scale that may be unattainable by an inhouse provider. Domberger (1998) notes:

> “The benefits of specialization come from the economies of scale and the investment intensity of functional specialists.... ” (p. 91).
Larger volumes also enable outside suppliers to make more sophisticated investments in assets, labour, and technology thus enhancing efficiency and productivity. Hotel reservation systems, for example, are outsourced for this reason.

The significance of specialisation is captured by Quinn and Hilmer (1994) in the following comments:

“In certain specialised niches, outside companies have grown to such size and sophistication that they have developed economies of scale, scope, and knowledge intensity so formidable that neither smaller nor more integrated producers can effectively compete with them…. Because of greater complexity, higher specialization and new technological capabilities, outside suppliers can now perform many such activities at lower cost and with higher value added than a fully integrated company can. In some cases, new production technologies have moved manufacturing economies of scale toward the supplier. In others service technologies have lowered transaction costs substantially, making it possible to specify, transport, sort, and coordinate inputs from external sources so inexpensively that the balance of benefits has shifted from insourcing to outsourcing” (p. 51).

Information technology (IT) and Human resource management (HRM) are two examples where inhouse providers have difficulty competing with specialists (Domberger, 1998). In the UK, 70% of all outsourcing contracts relate to IT (Hayward, 2002). IT activity has now become so specialised, that even IT suppliers are outsourcing, eg, software suppliers are outsourcing the supply and management of remote applications (K&K, 2000). With respect to HRM, areas of expertise include outplacement assistance, career transition management, and remuneration consulting services (K&K, 2000).

3.2.2.5.2 Market discipline

The second outsourcing benefit referred to in Table 3.2 concerns the market discipline that it introduces. As noted by Domberger:

“Competition adds powerful incentives to raise productivity, to improve quality, and to innovate…. The combination of specialisation and market competition is particularly powerful: it ensures that every latent opportunity for efficiency gain is vigorously pursued” (1998, pp. 81 and 91).

In addition to instilling a sense of competition, maintaining several suppliers facilitates the collection of benchmarking data (Domberger, 1998; Ansley, 2000). K&K (2000) cite examples of organisations that have successfully developed world class
competencies in non-core skills by exposing the inhouse service provider to external competition. It is notable that the Holiday Inn now serves the entire hospitality market with its hotel reservation IT business (K&K, 2000). A further factor supporting the maintenance of several suppliers concerns the opportunity to switch source of supply should a problem arise with one supplier (Domberger, 1998).

3.2.2.5.3 Flexibility

The third outsourcing benefit referred to in Table 3.2 is flexibility. Large vertically integrated and diversified organisations tend to be bureaucratic, slow to react and senior management are limited in their ability to obtain and process relevant information. Commenting on the advantage of flexibility within a manufacturing firm, Ansley (2000) notes that a supplier:

"... can readjust manufacturing capacity ... far more quickly and effectively than a vertically integrated manufacturing facility" (p. 35).

By spreading operations over a variety of suppliers, risk can be reduced and shared as the more focussed organisations are better able to react to changes in the market. Using a network of suppliers also enables an organisation to rapidly change the scale and scope of production as demand changes, and for lower cost (K&K, 2000). Multiple suppliers can also reduce product/process design cycle time due to each supplier being a specialist with sophisticated knowledge of their area (K&K, 2000). Outsourcing can also assist with meeting seasonal demand (Bromage, 2000) or for managing incremental demands beyond a core capacity that has been maintained inhouse (Ansley, 2000). Flexibility can also be achieved as outsourcing enables access to rapidly developing new technologies or complex systems (K&K, 2000, refer to Carlson, 1989, and Harrison, 1994).

3.2.2.5.4 Cost savings

The fourth benefit noted in Table 3.2 is the cost savings that can be achieved through outsourcing. Cost savings relate to several of the benefits described above (specialisation leads to economies of scale, market competition drives efficiencies, and flexibility means businesses react in more efficient ways. Cost savings have been realised by many businesses as noted by Domberger (1998), Ansley (2000), Simke...
management accounting and general management literatures on outsourcing (2000), Deans (2001), Syvret (2001), and Hayward (2002). According to a PriceWaterhouseCoopers partner, 45% of cost savings have been realised through outsourcing by clients (Hayward, 2002). It is interesting to note that in 2001, the second highest performing Australian company (ranked on return on net assets) was an outsourcing provider of security, cleaning, catering and courier services (Deans, 2001).

In addition to the outsourcing benefits described above, other benefits include:

- replacement of unsatisfactory inhouse services (Teresko, 1990),
- a way to facilitate change (Domberger, 1998; Mise, 2001),
- reduced staff, modified employment terms (K&K, 2000),
- improved balance sheet by freeing up cash for more lucrative investments (Kayward, 2002, p. 27),
- Quickly set up and grow a business (Kayward, 2002),
- enhanced customer satisfaction and loyalty (Ansley, 2000),
- decreasing time taken to introduce new products, through collaboration with suppliers specialising in prototyping, design change, testing etc (Ansley, 2000).

3.2.2.6 The Costs of outsourcing

The main costs cited by Domberger are transaction costs and loss of control. The bulk of Domberger’s discussion on outsourcing costs can be related back to TCE theory. Other costs worthy of mention include social costs (K&K, 2000), loss of inhouse skills, and loss of innovative capacity Domberger (1998).

3.2.2.6.1 Transaction costs

Consistent with the discussion in Chapter 2, Domberger (1998) details many transactions costs involved in transacting with the market. He feels, however, that incomplete contracting and opportunism have been exaggerated in the literature and that TCE does not explain why transaction costs should be less in vertically organised businesses. Outsourcing IT, for example is said to result in reduced transaction costs through outsourcing [K&K (2000) cite Clemons et al. (1993) and Mahe and Perras (1994)]. Referring to Malone et al., 1987, K&K (2000) comment:
“From the IT view, networks encourage vertical de-integration of firms by lowering the costs of “buying” compared to “making” in-house” (p. 672).

Despite this, K&K (2000) note that outsourcing can also increase costs. They refer to a survey of 1,000 managers worldwide which revealed only 5% achieved high levels of outsourcing benefits, and 39% only mediocre results.

It is important that internal as well as external transaction costs are considered when considering outsourcing (Quinn and Himler, 1994). Internal transaction costs such as head office costs, support costs, R&D, staff development and investment in infrastructure required to provide a service need to be assessed. These costs can be significant, yet are often overlooked (Chalos, 1995). Despite the difficulty of assessing internal costs, Domberger (1998) notes that some theorists feel transaction costs between or within firms are not that different as a firm is just ‘a nexus of contracts’ between the organisation and its employees. Stigler (1951) comments: 

“.... too numerous people .... believe that transactions between firms are expensive and those within firms are free.... ” (cited by Domberger, p. 53).

3.2.2.6.2 Social costs

The emerging wisdom is that outsourcing has a negative impact on people (K&K, 2000, p. 695). Social costs relating to retraining, redeployment and redundancy can be considerable (K&K, 2000 refers to Hall and Domberger, 1995; and Domberger, 1998).

Employees who remain within the organisation following a round of outsourcing suffer from job insecurity, decreased employee morale, distrust, drop in productivity, increased absenteeism, and increased employee turnover (K&K, 2000, refer to Brockner et al., 1987, 1988; Labib and Abbelbaum, 1993; Appelbaum et al., 1997, 1999). This is known as the “survivor syndrome” and is said to be a significant reason affecting organisations’ failure to achieve anticipated downsizing benefits (K&K, 2000, refer to Labib and Appelbaum, 1993). As individuals seek out new employment due to a fear of being forced out in a subsequent outsourcing round, an organisation’s key people can disappear (K&K, 2000, refer to DeVries and Balazs, 1997).
It appears, therefore, that a consequence of outsourcing can be the loss of organisation loyalty (K&K, 2000, refer to Korac-Kakabadse et al., 1999). Citing Moskal (1993) and Morrison (1994), K&K (2000) claim:

“The implicit psychological contract held with employees concerning job security in exchange for ‘loyalty’ is changing, if not being destroyed” (p. 696).

To mitigate negative consequences of outsourcing, significant investments must be made in both displaced employees and survivors (K&K, 2000). Referring to Forst (1999), K&K (2000) note:

“Accountability and responsibility for human resources, especially, cannot be simply outsourced, but shared (pp. 692-3).

The relevance of social costs should not be understated, as:

“... the use of outsourcing, though it may be considered a legitimate and viable business strategy, has more wide-ranging implications than just economic considerations, as the resultant psychological and social implications have the potential to adversely or positively affect tangible business results” (K&K, 2000, p. 695 refer to Rousseau, 1989; Rousseau and Greller, 1994; and DeVries and Balaza, 1997).

Social costs can thus be seen as another important outsourcing cost to consider. This is not explicitly addressed in the TCE literature. The issue of worker loyalty is obviously key to the hotel industry given its high labour intensity. In light of the nature of these social costs, it is obviously difficult to quantify them.

3.2.2.6.3 Loss of control

It is widely held that outsourcing may lead to a loss of control (Domberger, 1998; K&K, 2000). However, maintaining control can be difficult whether an activity is outsourced or insourced. Domberger (1998) notes: “Control of employment is not synonymous with control of outcomes” (p. 68).

Loss of control was not found to be relevant by two firms investigated by Langfield-Smith et al. (2001). However, Langfield-Smith et al. (2001) described differing cultures as a potential barrier to control. An advantage of an inhouse provider is it is more likely to be in tune with an organisation’s culture resulting in enhanced control: “within a firm

5 For an insightful overview of the changing social contract with workers, see the table on page 696 in Kakabadse et al. (2000).
shared cultural values are an important source of control” (Langfield-Smith et al., 2002, p. 6).

### 3.2.2.6.4 Difficulty in evaluating performance

It was noted in Chapter 2 that TCE recommends insourcing activities when performance evaluation is difficult. However, inhouse performance evaluation is not necessarily easier. This can give the inhouse provider latitude for performing less than at its best, and attempts to create remuneration packages that mimic the driving force of market incentives have proved difficult to design (Domberger, 1998). Langfield-Smith and Smith (2001) noted problems of “funny” transfer prices to an inhouse IT provider. A senior manager commented:

“A business would ask IT&T for something to be done, but they were not being charged the true cost. There was no discipline in the management of costs. One of the drivers in the move to outsource the IT&T area was to introduce that discipline, so that if you do ask for something to be modified or changed, someone comes back to you and says ‘You know it’s going to cost you $20,000’” (p. 9).

From this discussion, it appears that evaluating performance can sometimes be easier when an activity is outsourced. Nonetheless, Quinn and Hilmer (1994) describe the difficulty of evaluating discretionary responsibility centres such as R&D, regardless of whether they are outsourced.

### 3.2.2.6.5 Costs of monitoring and evaluating performance

Outsourcing is seen as a trade-off between lower production costs (assuming economies of scale and specialisation can be achieved by suppliers) and higher monitoring costs (K&K, 2000 refer to Lewis and Sappington, 1991). It is recommended by Stacey (1998) that on average, 4 - 7.5% of the total value of a contract should be spent on control and management costs. Stacey (1998) warns that failure to make adequate investment in an effective supply management team can result in higher costs combined with increased business risk.

Although control costs are widely cited as a negative aspect of outsourcing, one should question why, given internal operators also have to be monitored (Domberger, 1998; Langfield-Smith, 2001). Although some believe external providers are less trustworthy,
the principal-agent problem exists whether dealing with an employer-employee relationship or a purchaser-service provider relationship. The incentive-risk tradeoffs are the same and:

“.... there is nothing in the (agency) theory that would help explain why it is easier to monitor the output of an employee than that of an independent contractor” (Domberger, 1998, p. 67).

Increased control costs often result because inhouse service providers typically are not monitored to the same degree as outsiders, often because clearly defined specifications have not been drawn up (Domberger, 1998). Consistent with this view, Stacey (1998b) notes that the process usually involves organisations moving from informal reporting to formal reporting mechanisms. Stacey (1998b) also notes that costs may increase because new skills are required to deal with new and sophisticated relationships that outsourcing brings.

3.2.2.6.6 Loss of inhouse skills

It is widely noted that outsourcing is risky because if a supplier’s performance is unacceptable, it is difficult to bring the activity back inhouse due to the lost skill base. Domberger (1998) believes this concern to be overstated and feels that a more pertinent issue is whether the expertise can be effectively acquired in the marketplace. He feels that rather than fearing a loss of skills, potential outsourcers should focus on the improved skill set that can result from outsourcing.

3.2.2.6.7 Loss of innovation

Similar to the concern over lost inhouse skills is the issue of loss of innovation. Domberger (1998) cites many examples where innovation was not lost through outsourcing however, and that with proper incentive contracts innovation need not be reduced. Sharing the benefits of innovation is obviously key and Domberger notes a 50/50 split is common in contracts. With specialist suppliers, innovation may in fact be enhanced by outsourcing.
3.2.2.7 Achieving control and ensuring compliance

As noted earlier, according to Domberger (1998) there are two strategic issues to consider in the outsourcing decision. The first issue (determining whether to outsource) has been discussed in connection with an outline of the advantages and disadvantages of outsourcing. The second strategic issue relates to the type of outsourcing controls that should be in place. This section reviews the literature concerned with control of outsourcing parties.

3.2.2.7.1 Control through competition

As noted earlier, Domberger (1998) describes how companies can achieve control by exposing suppliers to competition. Survey findings have indicated that significant cost savings (an average of 20%) ensue from exposing inhouse services to competitive tendering from outside. An additional reason for potential cost savings is that innovative solutions may be proposed by tendering companies.

A downside of introducing competition is the view that prices may be driven down at the expense of quality. Few studies have been conducted that assess the relationship between competition, price and quality however. Domberger (1995) compared competitively tendered cleaning contracts with those tied to a monopoly supplier. He found that the competitively tendered contracts cost less (48.2% per square metre cleaned) and provided better quality (12.5% more).

3.2.2.7.2 Control through contract length

There are competing views on what contract length is appropriate. A long contract can reduce subcontractor effectiveness due to the potential of complacency. On the other hand, long-term contracts can increase loyalty and cooperative relationships. The subcontractor may also feel more secure knowing that a longer term commitment is made by the business, especially if there high asset specific investment is involved. It therefore appears difficult to provide strong prescriptive advice with respect to contract length. Domberger (1998) comments:

“Because every organizations’ resources, skills, priorities and risk aversions differ, each is likely to approach the contracting decision somewhat differently” (p. 207).
3.2.2.7.3 Control through trust

Domberger (1998) sees cooperation and trust as key for a successful supplier-buyer relationship. He comments:

“The role of trust goes beyond individual economic relationship; .... it is a pre-condition for successful economic adjustment and prosperity.... Since trust is essential to successful economic transactions, where it lies in abundance, business will also flourish” (p. 58).

The need to carefully maintain trust is particularly apparent from Domberger’s (1998) following comment: “It may take a long time to build up trust, but very little to destroy it” (p. 208).

Trust and social makeup also has important implications for the degree to which activities are outsourced as:

“A nation’s well being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in the society. The ability of companies to move from large hierarchies to flexible networks of smaller firms, will depend .... on the degree of trust and social capital present in the broader society” (Fukuyama, 1995, pp. 7 & 25-26).

This may explain variations in outsourcing levels across countries. In Japan and Germany, less emphasis is placed on shareholder wealth and:

“…. enterprises behave as coalition firms, where investments are the outcome of a cooperative bargaining process....” (K&K, 2000, p. 714, referring to Thomas and Waring, 1999).

3.2.2.7.4 Controlling risks

Risk can be divided into two areas: the risk of outsourcing, and the risk of the activity itself (Domberger, 1998). The loss of control is also perceived as increasing risk, as is the distance that is created between the buyer and supplier. Strategic outsourcing can spread a company’s risk by shifting it to the supplier (Bromage, 2000) and outsourcing through partnership or alliances can be viewed as a way to share risks and benefits (Quinn, 1999; K&K, 2000).

To reduce outsourcing risk, it should be ensured that the provider stays up to date with best practice and that the benefits of technological and process advancements are shared
(Stacey, 1998b; Mise, 2001). Risk sharing strategies can be developed by building variable and fixed components into the contract. If a variable contract is used, the contractor may feel unduly exposed, whereas if a fixed fee contract is used, the buyer may feel exposed. Predetermined rates can be set for different services, and “gainsharing contracts” can be used which require suppliers to share productivity improvement gains with the buyer. Domberger (1998) notes that the party that has the greatest control over the activity should be allocated the greater portion of risk and that if neither has control, or control is equal, the greatest risk should be borne by the partner most able to absorb it.

The buyer can control risk in three different ways: 1) during the selection process, 2) contractually, and 3) through careful monitoring. Risk is initially reduced during the selection process when suppliers are screened out based on reputation and experience. Incentives and penalties for good and bad performance are other measures used to reduce risk to the buyer, as is careful monitoring of performance.

Risk also depends on the nature of the service. Aspects relevant to the hotel industry include industrial relations risk (due to high labour intensity), confidentiality or intellectual property risks, environmental risks, and commercial and financial risks. Bidders are often asked to prepare risk management plans that identify and quantify potential risk factors and outline how they would be managed (Domberger, 1998; Mise, 2001).

3.2.2.7.5 Managing organisational change

Relating to the social cost theme discussed earlier, several commentators note the importance of involving inhouse staff in the outsourcing decision. Outsourcing is almost bound to result in some discontent as people are invariably resistant to change. The importance of effectively managing employees cannot be understated. Change can cause significant problems and has been referred to as the “perennial gale of creative destruction” (Schumpeter, 1943, p. 84, cited by Domberger, p. 133). A move to outsourcing may cause significant anxiety and internal resistance which must be appropriately managed before, during and after implementation.
Staff can be managed in a combination of ways: redeployment, transfer or redundancy. To avoid negative publicity, redundancies, and the legality of employee rights, organisations often transfer all affected staff to the supplier (K&K, 2000). Although this may be more costly in the short-term it might be less costly than the negative goodwill resulting from poor management of staff.

Domberger (1998) sees three elements necessary to successful transition management: communications, planning and support. Once management’s outsourcing intention is known, communication strategies should be in place to mitigate employee unrest. This can be achieved through presentations, forums, written communications, and should involve the contractor once chosen. Discretion concerning what is communicated is key when negotiations are still underway.

### 3.3 Empirical studies

Previous sections in this chapter have focussed on normative discussions of outsourcing. The focus of this section concerns the empirical literature concerned with outsourcing. Many studies have been conducted internationally over the last decade to assess the nature and motives of outsourcing. An overview of some of the major studies is presented in Table 3.3

#### 3.3.1 International surveys

K&K (2000) note the extent to which the largest employers in UK, Australia, USA, Canada and New Zealand have externalised employees, both unskilled and professionals, in the last 20 years. Anderson Consulting (Teresko, 1990) predicted that by mid 1990’s more than half of major multi-national businesses will be involved in outsourcing. The most popular activities outsourced worldwide include payroll, claims and credit card processing; with 60% of all IT outsourcing is in this area (K&K, 2000) refer to research by International Data Corporation (Marphy et al., 1999).
### Table 3.3

**Major outsourcing surveys worldwide**

<table>
<thead>
<tr>
<th>Date of Study</th>
<th>Reference</th>
<th>Study</th>
<th>Major findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Quinn and Hilmer (1994)</td>
<td>Survey of 100 major US companies that outsourced extensively</td>
<td>The main reason for outsourcing is to save on overhead or short-term costs.</td>
</tr>
<tr>
<td>1995</td>
<td>Williams-Kathy (1996)</td>
<td>KPMG Peat Marwick surveyed 80 of the Fortune top 500 executives</td>
<td>95% of respondents outsourced, 86% expect to outsource additional processes in next five years. HRM was the most common activity outsourced. Loss of control and inhouse expertise were main disadvantages.</td>
</tr>
<tr>
<td>1997</td>
<td>K&amp;K (2000)</td>
<td>Currie and Willcocks (1997) surveyed 140 UK and US organisations</td>
<td>Cost savings and to focus on core activities were main reasons for outsourcing IT. HR aspects overlooked and mismanaged.</td>
</tr>
<tr>
<td>1999</td>
<td>K&amp;K (2000)</td>
<td>International Data Corporation (IDC)</td>
<td>The most popular activities outsourced worldwide include payroll, claims and credit card processing; 60% of all IT outsourcing is in this area.</td>
</tr>
<tr>
<td>1999</td>
<td>K&amp;K (2000)</td>
<td>PriceWaterhouse Coopers: 300 largest global companies surveyed</td>
<td>73% outsourced, 95% satisfied, 63% had realised anticipated cost savings. Most common activities outsourced were benefits administration, payroll, logistics, real estate management and internal audit.</td>
</tr>
<tr>
<td>2000</td>
<td>Hayward (2002)</td>
<td>Morgan Chambers survey FTSE 100 companies</td>
<td>More than 50% outsource non-core functions. Cost savings and to focus on core activities were main reasons.</td>
</tr>
</tbody>
</table>

The fastest growing sector of outsourcing is in business process management, where IT suppliers take over billing, cheque processing and accounting (K&K, 2000, refer to Jones, 1994). The value of this trade was $US6.1 billion in 1997 and is expected to be $14.7 billion in 2002. This has lead to shared service centres, where businesses within an industry share the same service provider. Cost savings up to 50% can be realised. For example Andersen Consulting set up a centre in Scotland to service BP Amoco in 1991. This centre now services 10 oil companies and houses 340 Andersen staff (K&K, 2000, refer to Jones, 1994).

K&K (2000) also note that in the public sector in the UK, Australia and New Zealand, a significant shift to outsourcing and exposing inhouse operators to market forces has resulted in improved client responsiveness and improved government decision making.

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6 For a detailed listing of empirical findings, trends and developments for IT outsourcing, see Table II, pp. 680-682, in Kakabadse et al. (2000).
In this sector it is felt that although accountability may have improved by outsourcing, public accountability has been undermined (K&K, 2000).

PriceWaterhouseCoopers (1999) surveyed 300 of the largest global companies and found that 73% were outsourcing to some degree. The most common activities outsourced were benefits administration, payroll, logistics, real estate management and internal audit. 95% of respondents reported satisfaction with outsourcing, 63% had realised anticipated cost savings, and 50% believed outsourcing had, in the three years prior to the survey, increased in importance. The primary reasons cited for outsourcing were: to focus on core competencies, enhance shareholder value, and avoid technology investment required to enhance efficiencies (Simke, 2000). A major trend identified is that:

“Outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater shareholder value across the enterprise. ….in effect, emphasis is shifting from outsourcing parts, facilities and components, towards outsourcing the intellectual based systems, exemplified by customer response handling, procurement and management” (K&K, 2000, p. 673).

According to an International Data Corporation (IDC) study which involved interviews in 53 European and North American companies, 50% of respondents outsourced some or all of their support processes, with the most popular being payroll, IT support and accounts payable (Marphy et al., 1999). In the late 1990s, research on IT outsourcing and global best practice found that the main reasons for outsourcing were pursuit of cost savings and to focus on core activities (Currie and Willecocks, 1997). Similarly, Quinn and Hilmer (1994) note that the Boston consulting group 1991 survey found that the main reason for outsourcing in Western business was a quest for overhead and short-term cost savings. The IDC survey also revealed that the top ten outsourcing IT deals in Europe were in the service sector, with banks and governments particularly prominent.

### 3.3.2 North American surveys

In the US, KPMG Peat Marwick surveyed 80 Fortune 500 top executives in 1995 and found that 95% of the respondents’ companies outsourced, and that over the next five years, 86% expect to outsource additional processes. Human resource-related processes were found to be the most commonly outsourced activity (Williams-Kathy, 1996). Outsourcing disadvantages found in the KPMG study included a loss of control and a
loss of in house expertise. It was also noted that dependency on the vendor though business partnerships can help to alleviate these disadvantages (Williams-Kathy, 1996).

3.3.3 UK surveys

In the UK, research by outsourcing consultants Morgan Chambers revealed that more than half of the FTSE 100 outsource non-core functions (Hayward, 2002). Consistent with findings reported above, the main reasons cited for outsourcing were pursuit of cost savings, and to focus on core activities. It was also found that many industries such as banks, aerospace, defence industries, oil and gas are outsourcing with banks representing 22% of outsourcing contracts.

A report prepared by the ICAEW (entitled “Outsourcing Finance Activities”) notes that the outsourcing of finance in the UK was restricted to non-core finance activities such as tax management, wage payments and internal audit. Core finance activities such as financial accounting, management accounting and treasure were rarely outsourced (Lewis, 1997). Fear of loss of control was cited as the main reason why these activities were not being outsourced. In the February 1996 issue of Accountancy, it was reported that Andersen Consulting had won the largest outsourcing contract to provide accounting and IT services to Sears plc (UK) (Anonymous, 1996).

3.3.4 Outsourcing case studies

Langfield-Smith and Smith (2001) conducted case study research on two Australian organisations in the electrical industry that were outsourcing IT. The case studies investigated the issue of outsourcing management and control, what elements must be controlled, and how outsourcing management compares with controlling an inhouse activity. Key areas identified included trust, contract specifications, performance measures and incentives; the management and control of the transition period, different cultures, employee impact, new communication processes, relationships and management skills. Loss of control was not found to be an issue. Many of these findings have been elaborated on earlier in this chapter.
Ansley (2000) reports on a case study of Cisco Systems, an original equipment manufacturing company that has saved millions of US dollars annually and has achieved enhanced customer satisfaction through a networked supply chain linked via the internet. It was found that although the bulk of manufacturing is performed by outside suppliers, Cisco maintains its competitive advantage of innovative product design and process development by designing the production methods used by its suppliers, monitoring operations of its suppliers 24 hours a day, and extensively using internet with customers and suppliers. Advantages of outsourcing cited in this study include enhanced profitability, expanding without capital investment, quick geographic expansion, speeding up time-to market for new product developments, flexibility, and specialisation.

3.3.5 Outsourcing failures

With reference to outsourcing, Hayward comments:

“Fans of the approach rave about cost savings; its critics point to high-profile disasters” (2002, p. 26).

Two extreme disaster examples are the Hatfield (UK) rail crash in October 2000 and the September 11 2001 terrorist attack on New York. Both of these events resulted in substantial criticisms levied against outsourcing. Railtrack UK has been criticised for the outsourcing of its maintenance, and the US airline industry for outsourcing security and baggage handling (Hayward, 2002, p. 27). Several other less calamitous outsourcing failures are noted by Domberger (1998), Forst (1999) and K&K (2000). A theme in the accounts of these outsourcing failures is the lower level of care taken by sub-contracting employees. As Bing (1996) comments:

“It is becoming a trend in today’s business environment to ditch loyal gifted employees for cheap, shoddy outsiders-for-hire” (p16).

3.4 Conclusion

This chapter has provided an overview of the outsourcing decision and the management of outsourcing by drawing on management accounting and general management literatures. It is structured according to two main parts: the normative literature, and the empirical literature.

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7 It was reported Cisco had saved $75 million US annually, with the end result estimated at a savings of $500-800 million in 2000.
The first part of the normative section reviewed a set of widely used management accounting texts. It was noted that, despite the significant growth in outsourcing activity in the last decade, it commands little attention in this literature. A more extensive discussion of outsourcing benefits and costs has been found in the broader “general management” literature, however. The main benefits of outsourcing referred to in this literature concern specialisation, market discipline, flexibility, cost savings and the opportunity to focus on core activities. The consensus view appears to be that specialisation is the most significant outsourcing benefit. Costs of outsourcing widely discussed in the literature relate to transaction costs and loss of control. It was noted that identifying all transaction costs can be difficult given many are hidden and often underestimated. The importance of social costs was also discussed. This appears to be an important cost that falls outside the TCE model. In terms of theories described in Chapter 2, it would appear to relate most closely to labour process theory. The final aspect of the normative literature discussed related to control of a supplier once a decision to outsource has been made. The implications of competition, trust and risk discussed earlier in the chapter were also noted in the context of control.

The chapter’s final section provided an overview of empirical studies concerned with outsourcing. It has been noted that IT appears to be an extensively outsourced activity. Despite the importance attached to strategy in the normative literature, there is little explicit reference to strategy in empirical findings. The main reasons cited for outsourcing are the pursuit of reduced costs and the enhancement of a core competency focus. Despite the relative absence of “strategy” in the empirical literature, one could of course argue that pursuit of minimum cost (Porter, 1985, refers to “cost minimisers”) and a focus on core competencies do represent organisational strategies.

The next chapter presents the last of the three literature review chapters. Having described the main theories informing the study in the last chapter, management accounting and general management literatures in this chapter, the next chapter turns to overview the hotel management literature concerned with outsourcing.
CHAPTER 4
THE HOTEL MANAGEMENT OUTSOURCING LITERATURE

4.1 Introduction

The purpose of this chapter is to provide an overview of the hotel management literature concerned with outsourcing. This aspect of the literature search is important as it provides an initial appreciation of the scope and nature of hotel outsourcing.

In this introductory section, the literature search techniques used to conduct the review are described. Following this, an apparent gap between professional commentaries outlining the significance of outsourcing in the hotel sector and academic research concerned with outsourcing is highlighted. This section concludes by describing the remainder of the chapter’s structure.

Both manual and computer-based literature searches have been conducted. The manual search was based on the *Lodging and Restaurant Index* and the computer databases used were ABI-Inform, Proquest Direct, the *International Hospitality and Tourism Database*, as well as the *Accounting & Tax Database*. It is noteworthy that several of the journal papers found on the computer databases were not identified in the *Lodging and Restaurant Index*, despite the fact that many of the same words were used in the search.

The key words used in the *Lodging and Restaurant Index* search were generated from reviewing the *ABI-Inform* thesaurus and also the key words published annually in the *Lodging and Restaurant Index* manual. Key words used included: “outsourcing”, “make or buy”, “contracting” (including “contract cleaning”, “contract feeding”), “subcontracting”, “independent contractors”, “management companies”, and “service contracts”.

The significance of outsourcing in the hotel industry is apparent from comments made by Hottman and Adams (1996) who are accounting consultants with a hospitality industry specialism. They believe outsourcing has:

“… become a common facet of the business operations for lodging properties and clubs. As the market for outsourcing grows, it will have a dramatic impact on how businesses are structured, managed and viewed by owners, employees, and customers” (p. 23).
They feel all areas of a hotel’s business should be reviewed, both generic functional activities as well as industry specific activities. Despite the strength of their convictions, they provided no recommendations on how such reviews should be conducted.

A further testimony of the significance of outsourcing in the hotel industry is apparent from Rowe’s (1994) review of the Hyatt’s 1993 comprehensive restructuring of hotel operations. An outcome of this restructuring was an increased proportion of jobs outsourced. Rowe believes that this is merely a start and that an increasing proportion of hotel activities will be outsourced. In a similar vein, Sieburgh (1992) notes that activities can be outsourced regardless of whether they are profit centres (eg., space can be leased out to third parties to run health clubs, retail shops, bars) or cost centres (eg., advertising and marketing).

DeMicco and Williams (1996) provide further evidence of increased hospitality outsourcing internationally. Table 4.1 shows estimates of contract foodservice market penetration for 1994 in the US and Table 4.2 shows projected market penetration figures in Europe for 1990 and 2000. A projected increased market penetration by contract caterers is apparent for all countries appraised. DeMicco and Williams (1996) note that Eastern European markets also represent potential targets for contract caterers, while in Japan, around 50% of foodservice in institutional markets is outsourced.

### Table 4.1

<table>
<thead>
<tr>
<th>Approximate Estimates of Contract Catering’s Market Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentages</td>
</tr>
<tr>
<td>Contract</td>
</tr>
<tr>
<td>Healthcare</td>
</tr>
<tr>
<td>Business Dining</td>
</tr>
<tr>
<td>College &amp; Universities</td>
</tr>
<tr>
<td>Schools</td>
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</tbody>
</table>

Table 4.2

<table>
<thead>
<tr>
<th></th>
<th>1990 Percentage</th>
<th>2000 Percentage</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>15.9</td>
<td>24.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>11.6</td>
<td>23.0</td>
<td>11.4</td>
</tr>
<tr>
<td>UK</td>
<td>15.3</td>
<td>21.7</td>
<td>6.4</td>
</tr>
<tr>
<td>France</td>
<td>18.0</td>
<td>21.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Portugal</td>
<td>14.1</td>
<td>21.3</td>
<td>7.2</td>
</tr>
<tr>
<td>Germany</td>
<td>3.0</td>
<td>18.3</td>
<td>15.3</td>
</tr>
<tr>
<td>Switzerland</td>
<td>12.8</td>
<td>17.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>12.6</td>
<td>17.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>8.8</td>
<td>14</td>
<td>5.2</td>
</tr>
<tr>
<td>Spain</td>
<td>6.9</td>
<td>14.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.9</td>
<td>9.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Austria</td>
<td>4.4</td>
<td>7.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.1</td>
<td>2.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Adapted from: Jacobs (1994), cited by DeMicco and Williams (1996).

These commentaries highlighting the importance of outsourcing in hotel management lie in stark contrast to the level of research interest shown in hotel outsourcing. In 1995 *The International Journal of Contemporary Hospitality Management* initiated an annual issue providing a review of hospitality research. Of these reviews (e.g., Ingram, 1995 and 1996; Teare, 1995 and 1996; Blum, 1996; Bowen, 1996; Costa et al., 1997; Teare et al., 1997), only one referred to outsourcing (Prabhu, 1996). Prabhu’s (1996) review briefly refers to Goldman and Eyster’s (1992) study which concerned hotel F&B leases. It is particularly revealing that in one of these reviews, Okumus and Hemmington (1998) considered barriers to change in hotels, however, they failed to identify outsourcing as one of the main change issues confronting hotel management.

A similar gap was also apparent in the International Hotel Association’s “*Into the New Millennium: A White Paper on the Global Hospitality Industry*” (1997). In this extensive 76 page document, only one small paragraph referred to the importance of core business management and the divesting of peripheral businesses. The failure of hospitality research and also the White Paper to examine the nature of outsourcing highlights the degree to which this study has the potential to make a significant research contribution.
The remainder of the chapter is structured as follows. A review of general issues pertaining to hotel outsourcing is presented in the next section. Following this, an outline of the main hotel activities outsourced is provided. The concluding section provides a summary of key points raised in the chapter.

4.2 General hotel outsourcing issues

It was noted in the general management literature concerned with outsourcing that a key issue related to whether an activity is perceived as core to a business. This theme is also evident in the hotel management literature. Hottman and Adams (1996) note how outsourcing should pertain to operations that are not within its core business or specialties. Non-core hotel activities can be outsourced to companies that possess the specialised people, knowledge, resources, and management expertise to perform these functions in a more effective manner. Hottman and Adams (1996) comment:

“You give up control on one hand, but gain specialised knowledge on the other” (p. 22).

Guerrier and Lockwood (1989) also note the significance of core hotel activities and feel outsourcing is:

“…. useful when dealing with ancillary activities or activities which are not at all firm-specific” (p. 10).

The dangers of outsourcing core hotel activities are highlighted by Hemmington et al. (2000) who note that:

“The delivery of a core dimension of the hotel product in association with a partner is likely to be more complex and potentially threatening to the hotel’s image and brand” (p. 256).

Guerrier and Lockwood (1989) see outsourcing as one of four personnel strategies that may be adopted in the hotel industry. Although they found most hotels outsource laundry and pastry, there was little consistency of practice in other areas. From their study they conclude that core activities tend to be insourced, although they note some outsourcing of key hotel activities. This may suggest a changing view of what can be outsourced. Allmendinger (1994) notes a growing reluctance among hotels to employ staff on a full-time basis and expresses surprise at the range of activities outsourced. He comments:

“Folks are deciding that the darndest things lie outside of their core business these days, and they’re getting out of the business of doing them” (p. 6).
Although most commentators adhere to the view that outsourcing should be limited to non-core activities (e.g., Guerrier and Lockwood, 1989; Hottman and Adams, 1996), it is questionable what qualifies as “core”. Johns and Lee-Ross (1987) note:

“Restaurants may produce and serve, produce or serve, or do neither” (p. 15).

Johns and Lee-Ross (1996) suggest a hotel activity should not be outsourced if it satisfies one or more of the following criteria:

1. the activity is core to the business,
2. the activity needs no specialist or technical skills or knowledge,
3. required resources exist within the organisation (i.e., labour and equipment), and
4. no additional risk is likely to be incurred by insourcing.

Two of these criteria can be linked to the TCE model. The criterion of specialist knowledge or skills relates to asset specificity (and was also discussed extensively in the previous chapter), and the risk criterion can be linked to TCE’s uncertainty theorising (see Lohtia et al.’s 1994 discussion).

Also consistent with the literature reviewed in the last two chapters, the significance of strategy in hotel outsourcing is evident in Johns and Lee-Ross’s (1998) work. They see the outsourcing decision as part of a wider strategic framework, which includes the concepts of decentralisation and empowerment. They look at operational strategy, a subclass of business strategy, as the way in which organisations react to environmental risk and feel that:

“One of the most important areas of organisational development is that of decentralisation. This strategy has always been available to the hospitality industry, through contract services....” (p. 14).

A final general issue commented on concerns hotel subcontractor selection. Sieburgh (1992) feels that the three most important aspects to appraise are the subcontractor’s integrity, independence and accessibility. Although a contractor’s expertise and experience is important, if these three criteria are not met, the service is bound to be compromised (Sieburg, 1992).
4.3 Activities outsourced in the hotel industry

The remainder of the chapter is structured primarily around a focus on specific activities. The relative size of the discussion devoted to each activity reflects the volume of discussion found in the literature. The activities receiving most commentary in the literature relate to food and beverage, with restaurant activities receiving the greatest amount of attention. In light of this, these activities are discussed first.

4.3.1 Food and Beverage

Food and Beverage (F&B) covers a wide range of activities, many or all of which may be outsourced (e.g., restaurants, pre-prepared ingredients, room service, in-room bar fridges, catering, employee dining room, vending machines). The reasons for outsourcing F&B appear to vary according to size, location, market level and ownership of the hotel. Smaller hotels with limited management capability, for example, may lack the skills to effectively manage F&B (Hallam and Baum, 1994). Contracting out F&B may also vary in degree from buying in pre-prepared pastries, vegetables or entrees (Alva, 1995), to contracting out entire F&B operations. Harmer (1994) reports on a London based four star hotel as an example of how the entire F&B operations can be successfully outsourced.

4.3.1.1 General issues in F&B outsourcing

4.3.1.1.1 Factors affecting F&B outsourcing

Hemmington and King (2000) conducted semi-structured interviews concerned with F&B outsourcing with 55 key individuals. They identified five key issues that need to be considered in outsourcing: core competencies, organisation culture, systems of review, evaluation and control, brand compatibility, and operational tension. The first three issues were discussed in the previous chapter and appear relevant for all organisations and activities. The brand compatibility and operational tension issues, however, appear to be more specifically pertinent to the hotel industry. This is because of the importance of hotel service differentiation through branding and the degree to

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8 These included hotel and restaurant companies, consultants and academics with hotel outsourcing experience.
which F&B is intertwined with room sales and other hotel services. Hemmington and King (2000) comment:

“The provision of food and drink is an important and integral part of the hotel product and the complexities of the relationship between the partners, particularly in terms of issues such as brand association, organisation culture and operational tension, should not be underestimated” (p. 259).

Table 4.3 summarises the advantages and disadvantages of F&B outsourcing noted by Goldman and Eyster (1992). Goldman and Eyster (1992) see three key success factors for a successful F&B operation: rent structure, banqueting and catering sales, and the ability to attract local customers. In addition to the issues listed in Table 4.3, other reasons for F&B outsourcing cited in the literature include a quest for improved profitability (Chaudhry, 1993; Rowe, 1993; Hemmington et al., 2000), lower price dining, and reduced risk when renovating a restaurant (Chaudhry, 1993).

<table>
<thead>
<tr>
<th>Table 4.3</th>
<th>Advantages and disadvantages of F&amp;B outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Disadvantages</strong></td>
</tr>
<tr>
<td>Access to prime locations</td>
<td>Banqueting restrictions</td>
</tr>
<tr>
<td>Built-in customer base</td>
<td>Complementing hotel F&amp;B</td>
</tr>
<tr>
<td>High margin banquet trade</td>
<td>Difficulty attracting locals</td>
</tr>
<tr>
<td>Hotel’s name recognition</td>
<td>Extended operating hours</td>
</tr>
<tr>
<td>Lower capital requirements</td>
<td>Fluctuating occupancy</td>
</tr>
<tr>
<td>Opportunity for growth</td>
<td>Hotel management turnover</td>
</tr>
<tr>
<td>Product development opportunities</td>
<td>Improper hotel maintenance</td>
</tr>
<tr>
<td>Steady flow of business</td>
<td>Negative hotel dining perception</td>
</tr>
<tr>
<td>Synergistic relationship</td>
<td>Poor hotel managers</td>
</tr>
<tr>
<td></td>
<td>Slow reimbursement</td>
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</tbody>
</table>

Adapted from Goldman and Eyster (1992)

A study conducted by Hallam and Baum (1996) compared UK and US trends in F&B outsourcing and reviewed reasons why hotels are outsourcing. The study involved a survey questionnaire (which yielded a disappointing 13% response rate) and interviews with hotel managers. The study’s main findings are summarised in Table 4.4.

Hallam and Baum distinguish between why hotels may and should outsource F&B. They comment:

“Contracting out may allow some managers to provide better service to the lodging guest, it may help attract more lodging guests to the hotel, …and it may help hotel restaurants to compete with the outside market. However, none of the above alone should be reasons to contract out. Contracting out should only be for financial reasons, to gain financial stability or financial investment in the
Chapter 4: The Hotel management outsourcing literature

operation, or know-how, to gain a proven concept that will meet your hotel guest’s needs and help attract local customers. These concepts can be a branded restaurant chain, or a local specialty chef” (p. 49).

<table>
<thead>
<tr>
<th>Table 4.4 Reasons for outsourcing F&amp;B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Potential motivation for outsourcing</strong></td>
</tr>
<tr>
<td>• Insufficient skilled managers</td>
</tr>
<tr>
<td>• Poor management incentive programmes</td>
</tr>
<tr>
<td>• Increase hotel guests by going with a branded restaurant</td>
</tr>
<tr>
<td>• Outsourcing F&amp;B allows hotels to focus on core activity (i.e., rooms)</td>
</tr>
<tr>
<td>• Not meeting customers’ changing needs</td>
</tr>
<tr>
<td>• To boost low image</td>
</tr>
<tr>
<td>• The only way to attract local guests is with branded F&amp;B</td>
</tr>
</tbody>
</table>

Source: Hallam and Baum (1996)

Given the range of outsourcing issues noted in the previous two chapters, this conclusion may appear somewhat simplistic. A comprehensive outsourcing analysis would consider all costs and benefits and attempt to quantify softer issues such as social costs, risk, operating tension, etc. Consistent with this view, Hemmington et al. (2000) note that:

“The benefits of outsourcing go beyond the purely financial aspects and the parties should pay attention to the wider dimensions of the relationship to reap the maximum benefits” (p. 260).

4.3.1.1.2 Outsourcing to increase profits

Hemmington et al. (2000) note that an increased emphasis on the bottom line may account for increasing outsourcing levels. The possibility of improving mediocre hotel restaurant profits by outsourcing is noted by many commentators (eg., Chaudhry, 1993; Rowe, 1993; Wexler, 1994; Hottman and Adams, 1996; Hemmington et al., 2000). Hemmington et al. (2000) found improved financial performance in terms of enhanced revenues and decreased costs to be the “overwhelming reason for outsourcing” (p. 257). Supporting this, Wexler (1994) comments:
“Let a recognised branded restaurant chain or restaurant management company take over your dining room and watch your costs decrease. Every day, success stories of hotels cooperating with outside operators prove this works” (p. 67).

There are several reasons why outsourcing F&B can increase profitability. Firstly, wage rates from hotel collective agreements are often higher than external markets. A 1992 Coopers and Lybrand study found that F&B employee costs were 39% of sales for hotel restaurants, but only 33% for the average restaurant (Chaudhry, 1993). Secondly, savings can also be made by outsourcing kitchen operations, as it results in smaller kitchen space, less kitchen equipment, and less labour (Liberson, 1995b). When restaurant activities are outsourced to a branded restaurant, the subcontractor frequently redesigns the typically large hotel kitchen into a smaller, more user friendly production area. The hotel can then benefit by utilising vacated space for other activities. Thirdly, revenues will increase as the restaurant can build a regular local clientele.

4.3.1.1.3 F&B: Core or Non-core?

F&B has been traditionally viewed as key to a hotel’s success (Brennan, 1987, cited by Hallam and Baum, 1994; Harmer, 1994). Gordon and Lefever (1990) comment: “The food service department is a critical area in every organisation” (p. 1). In light of this, it is interesting to consider increased levels of F&B outsourcing in the context of the view that core activities should not be outsourced.

Rowe (1993) notes that many practitioners and consultants feel hotels are not “expert foodservice operators”, and that the hotel manager is trying to wear “too many hats” (Rowe, 1993). Brombalt feels that:

“In the hotel business, food and beverage is considered a necessary evil rather than a profit center” (1992, p. 76).

These comments suggest there is a tendency for hotels to view F&B in an ancillary way (Hemmington et al., 2000).

Hallam and Baum (1996) note, however, that for some hotels:

“Food and beverage services are viewed by customers as an integral part of the hospitality product and in many situations they support and steer the hotel’s image and are elements of the client’s overall expected hotel experience” (p. 257).

This leaves the hotelier with managing the dichotomy of:
“…. the perceived need to offer food and beverage and the difficulty of generating profits out of it” (p. 257).

It is noteworthy that Lombardi and Miner’s (1995) survey of US restaurant chains found that although administrative activities were being downsized and outsourced, operations were not (i.e., back-of-house and front-of-house operations). One rationale for this is that F&B can be seen as the core activity for restaurant chains, whereas it may not be for some hotels.

**4.3.1.2 F&B: Restaurants**

Traditionally, large hotels have had expensive and luxurious restaurants open for breakfast, lunch and dinner. However, this type of service does not meet the needs of many customers who want to dine at low or medium-priced restaurants. Hotel restaurants have also typically suffered from a poor image that includes overly priced meals (Hallam and Baum, 1996; Rowe, 1993) and stuffy ambience. Part of the problem is that many hotels provide one restaurant which by default attempts to meet the needs of all customers. As a result, hotel restaurants are often bland and lacking a target market (Chaudhry, 1993).

In light of the growth of choice in restaurant dining, hotel restaurant managers have had to become more attuned to meeting customer needs. Hemmington et al. (2000), note how increased competition from the independent restaurant sector may explain increased restaurant outsourcing by hotels. Outsourcing provides the opportunity to develop specialty restaurants which allow customers to feel like they are dining out, rather than simply being housed in a hotel restaurant. Illustrative of this development, Rowe (1993) describes how one hotel realised its customers were having pizza delivered to their rooms, and so the hotel set up a pizza delivery outlet and encouraged customers to “order out” by using the inhouse pizza establishment.

Related to competitiveness is the issue of core competency. Hemmington et al. (2000) note that problems with poor performing hotel restaurants can be related to the different core competencies that are required for hotels and restaurants. One of the respondents in their study commented:
“Hoteliers know room sales but there is always something wrong with food and beverage; they should not pretend to know how to operate food and beverage” (Hemmington et al., 2000, p. 258).

The globalisation of restaurant chains has created opportunities for hotels to develop partnerships with established restaurants. Such joint venture arrangements facilitate marketing to the international, as well as local, diner (Brumback, 1992; Rowe, 1993; Hallam and Baum, 1996). A branded restaurant appears to represent an easy way for a hotel to quickly change its F&B image. Rowe (1993) comments:

“Despite the best efforts of some of the finest chefs over the years, ‘the hotel restaurant’ still carries a certain stigma. But slap a brand name on it and let somebody else run it, and your problems are over” (Rowe, 1993, p. 57).

Although franchises generally perform better when run as independents (Brumback, 1992), linking up with a hotel is still a profitable option because the capital investment is smaller. In contrast, Rowe (1993) notes that combining branded hotels with branded restaurants maximises returns for both parties as:

“These carefully arranged marriages (between hotels and franchise restaurants) seem to work, judging from operators contacted by Lodging Hospitality” (1993, p. 57).

Similarly, Hemmington et al. (2000) note:

“The rationale for outsourcing through co-branding .... is very much about linking two strong brand names and, through association, enhancing the quality and profile of each” (p. 258).

Though the majority of examples of restaurant outsourcing are a move away from high class dining, some hotels are also linking up with top chefs or upmarket independent restaurants (Wexler, 1994). Outsourcing represents an opportunity for hotels to link up with aspiring restaurateurs who can give individuality to a hotel restaurant. For the restaurateur it can be an easy way to gain access to prime sites, without requiring capital (Goldman and Eyster, 1992). One hotel’s business more than doubled two years after the hotel restaurant was outsourced in this way (Brumback, 1992).

Brumback (1992) reviewed how responsibility was divided when hotels subcontracted restaurants. Hiring of staff was usually found to be arranged by the operator, however this was not always the case. Similarly, opening expenses and promotion costs may be

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9 As a side issue, it is interesting to note that some hotels are becoming subcontractors. For example, several Hyatt Hotel affiliate companies provide off-premise food servicing restaurants, and a hotel chain won a contract to open a restaurant in a US International Airport (J.C., Hotels, 1994).
the responsibility of the hotel, the restaurateur, or both. In relation to decor, in many
cases joint approval is required, with hotels frequently building restaurants to the
chain’s specifications. In the UK it was found that hoteliers were more willing to
outsource restaurants if subcontractors were willing to share refurbishment and start-up
costs (Hemmington et al., 2000). Although the hotel kitchen can be shared between the
subcontractor and the other hotel restaurants, problems can arise especially when the
hotel is busy (Brumback, 1992). These capital investment and space sharing issues can
be seen to relate to TCE’s physical asset specificity and temporal specificity.

The literature also addresses shortcomings of restaurant outsourcing. One down-side is
the hotel’s loss of control. Outsourcing breakfasts, for example, may mean losing
pricing and promotional flexibility. This can be a significant factor as many hotels’
room pricing strategy includes breakfast (Hemmington et al., 2000). Despite this, it is
important that contractors are given the control needed to do the job (Harmer, 1994).
The general manager of one hotel comments:

“It is important …. that the general manager understands the philosophy of the
outside company running the restaurant and is quite prepared to stand back and
hand over its control” (Harmer, 1994, p. 60).

The mismatching of organisational cultures can be another problem, as hotels are often
rigid and slow to adapt, whereas restaurant companies, especially celebrity chefs
operate in a flexible and autonomous style (Hemmington et al., 2000). One restaurateur
commented:

“It is difficult to change an existing restaurant or food and beverage department
to reflect your style. Hoteliers are set in their ways, comfortable and even
complacent. We disturbed this environment and their lack of support created
more problems” (Hemmington et al., 2000, p. 259).

Another contentious issue can be the division of F&B responsibilities. Most hotels do
not want to outsource F&B entirely and wish to maintain control of those areas that are
profitable. One restaurateur cited by Hemmington et al. (2000) commented: “Hotels
want to have their cake and eat it” (p. 257). Sharing F&B activities is likely to result in
operational tensions in relation to receiving, storing and food production. Another of
Hemmington et al.’s (2000) respondents stated:

“The only practical way around this problem is for one organisation to adopt the
entire food and beverage service, taking the ‘good with the bad’.” (p. 259).
4.3.1.3 Restaurant outsourcing: Further themes for discussion

4.3.1.3.1 F&B Leases and contracts

Gordon and Lefever (1990) discuss the importance of appropriately drafted “win-win” food service contracts. They feel that:

“When a food service contract is properly negotiated and administered by both parties, there is a third winner - the customer” (p. 2).

Key to a successful contract is the planning and analysis of needs stage. It is suggested that using an outside consultant may be preferable to an internal party so that needs can be objectively assessed (Gordon and Lefever, 1990). Also of importance are detailed specifications and guidelines in order that contractors are bidding towards the same level of service and in the same format. Gordon and Lefever (1990) are critical of the fact that the organisation seeking to outsource often withholds information that is key to a successful contract. If needs are not properly assessed, and specifications not properly detailed, it is unlikely a “win-win” relationship will result.

Goldman and Eyster (1992) examined leasing agreements between “limited-service” hotels and restaurant operators. They were specifically interested in provisions which could result in conflict (i.e., terms of the lease, rent structure, banquet services and facilities, room service, operating hours, operating expenses, and marketing and advertising). In their review of a particular lodging company’s outsourcing arrangements they found several lease agreements that favoured the hotel. These included: no connection between occupancy rates and rent payable and biased clauses that specify that the restaurateur will not hand over operations to another party without the hotel’s approval.

4.3.1.3.2 F&B: Restaurant franchises and TCE

The hospitality literature search uncovered one paper that touched on TCE and the decision to franchise restaurants (Roh and Kwag, 1997). The paper appraised empirical data from capital market theory and agency perspectives in an attempt to identify major determinants of organisational structure of restaurant chains. Capital market theory proposes that if a firm has limited capital, franchising enables it to expand quickly. Although capital constraints have been proposed by many commentators as an
Chapter 4: The Hotel management outsourcing literature

explanation for franchising (eg, Keisser 1989; George, 1992; and Power, 1992), Roh and Kwag reject the capital market theory, arguing that franchising is an inefficient way to raise capital. Roh and Kwag provided statistical support for agency theory but not capital market theory. They concluded that:

“The essential economic rationale for the ownership structure of franchising is that it is an efficient form of organisation. As such, a franchisor chooses franchising as a strategic alternative to reduce costs of monitoring company-owned unit managers” (pp. 82-83).

Roh and Kwag discuss monitoring costs as a potential motivating factor in the franchise decision (i.e. it was hypothesised that where there are low monitoring costs, activities should be outsourced, and vice versa). Although Roh and Kwag do not specifically refer to TCE, monitoring cost is an example of a transaction cost. Another TCE idea discussed by Roh and Kwag is asset specificity and quasi rents. To ensure performance, franchisors would get franchisees to invest in highly asset specific investments in order that a stream of quasi rents is generated:

“The magnitude of the quasi rent, the difference between the value of the asset for the use of the franchise system and alternative uses, acts as an implicit bond that insures performance of the franchisee” (Roh and Kwag, 1997, p. 78).

This strategy shifts some of the risk to the outsourcee, and may cause the outsourcee to behave in a way that is more congruent with the goals of the firm. As many of the ideas explored in Roh and Kwag’s paper, especially those relating to TCE, could be applied to the hotel industry, further discussion of the paper is provided in Chapter 5.

4.3.1.3.3 F&B: Administration and evaluation of foodservice

Some organisations outsource the administration and evaluation of contracted foodservice. Schechter (1994) describes how AT&T have an entire department that oversee and administer contracted services. Individuals within the department advise how to contract foodservice, choose contractors and evaluate and monitor food subcontractors. This evaluation includes audits and meeting with contractors as frequently as once a week:

“Our objective is to get these suppliers to foresee potential problems, such as customer complaints, resolve them without our intervention and offer innovations that mirror the commercial sector .... we will work to develop different incentives to create win-win partnerships” (Schechter, 1994, p. 81).

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Roh and Kwag (1997) feel a more efficient way is to raise capital through shares, as the risk-return trade-off is lower for a shareholder than for a franchisee.
Although this example is not specifically related to the hotel industry, it was deemed worthy of inclusion as it is an activity that a hotel could consider if it is outsourcing a significant portion of its activities.

4.3.1.4 Other F&B activities outsourced

Although restaurant operation is the most extensively discussed outsourcing activity in the hotel literature, other food and beverage activities were also afforded attention. This section considers the outsourcing of catering, employee dining, in-room bars, pre-prepared ingredients, and room service.

4.3.1.4.1 F&B: Catering

In his study of US hotels, Liberson (1995a) observed a variety of methods used to manage conferences and catering services. These methods included outsourcing. Some hotels are creating a multi-disciplinary labour force so that rather than having to outsource for catering support, internally trained staff from other departments can be called on (examples include Ritz-Carlton, Florida; and Westin Hotels, Chicago). This approach is consistent with Brumback’s (1992) and Hemmington et al. (2000) finding that most hotels prefer to retain control of banqueting. Liberson (1995) observed both insourcing and outsourcing of pre-prepared ingredients. Many banquet managers preferred to keep tight control by insourcing ingredients, whereas other managers take the view that:

“If staff can be better utilised and local products exist, than it’s feasible to outsource” (p. 78).

4.3.1.4.2 F&B: Employee dining room

Some papers reviewed considered F&B activities that are not hotel specific, such as the employee dining room. In the US and UK it has been found that a growing proportion of companies are outsourcing staff catering activities and that foodservice contractors are progressively increasing their market share (Evans, 1993; Mitchell, 1994; DeMicco and Williams, 1996). Contract caterers allow businesses to divest staff canteen management resulting in reduced costs, improved quality, flexibility, new ideas, and an increased percentage of employees using the dining facilities (Evans, 1993).
4.3.1.4.3: F&B: In-room bars and safes

Several manufacturers of safes and minibars install and maintain their product at no cost to the hotel, and the hotel shares in the revenue earned (*Lodging-Hospitality*, 1991). The Sentry Group, for example (a safe company), incurs all costs of the product, freight, installation and training, and the room guest pays a nominal amount for the use of the safe (*Lodging-Hospitality*, 1991).

4.3.1.4.4 F&B: Pre-prepared ingredients

There is a growing trend for restaurants to buy pre-prepared ingredients (Alva, 1995). Buying in pre-prepared ingredients is also used by some hotels in their catering function (Liberson, 1995). This may provide the sub-contracting party with certain specialisation advantages.

Some hotels use the skills of culinary experts from a variety of food manufacturing companies. On site chefs become production managers that generate recipes and control the products. Significant savings have been achieved, such as Manor Care hotels who claims that outsourcing has provided savings in kitchen space (25%) direct labour (50-75%), and energy (15-20%) (Liberson, 1995b).

4.3.1.4.5 F&B: Room service

Most respondents to Hallam and Baum’s (1996) survey felt that room service should not be contracted out. This view was supported by Brumback (1992). Hemmington et al. (2000) reported that most restaurateurs do not want room service, viewing it as a “24-hour liability”. Nonetheless, there are several examples of room service outsourcing. McDonalds has struck an agreement with Hospitality Franchise Systems hotels to provide room service (Hallam and Baum, 1996), and in some hotels, room service is handled by the outsourced hotel restaurant (Rowe, 1993).
4.3.1.5 F&B: Summary of findings

A summary of those papers that have described F&B outsourcing in hotels is presented in Table 4.5. As noted earlier, the most widely discussed activity that is described in the literature is the outsourcing of restaurants.

<table>
<thead>
<tr>
<th>Study</th>
<th>North American hotels</th>
<th>Restaurant contractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brennan (1997)</td>
<td>Days Inn</td>
<td>Wendys</td>
</tr>
<tr>
<td>Biagini (1993)</td>
<td>Choice Hotels</td>
<td>50% of restaurants outsourced</td>
</tr>
<tr>
<td>Chaudhry (1993); Romano and Romeo (1993); Rowe (1993)</td>
<td>Embassy Suites</td>
<td>Lease out 2/3rd of restaurants</td>
</tr>
<tr>
<td>Boone (1997); Strate and Rappole (1997); Hemmington et al. (2000)</td>
<td>Hilton</td>
<td>Benihana and Trader Vics</td>
</tr>
<tr>
<td>Boone (1997); Strate and Rappole (1997); Hemmington et al. (2000)</td>
<td>Holiday Inn</td>
<td>TGI Fridays and Dennys</td>
</tr>
<tr>
<td>Liberson (1995b)</td>
<td>Holiday Inn (strategy is to use branded restaurants)</td>
<td>Red Lobster</td>
</tr>
<tr>
<td>Rowe (1993)</td>
<td>Holiday Inn Crowne Plaza, Branson, Missouri.</td>
<td>All F&amp;B outsourced to McGuffey’s Restaurants</td>
</tr>
<tr>
<td>Romeo (1985)</td>
<td>La Quinta Motor Inn</td>
<td>McDonalds, Burger King, Wendys</td>
</tr>
<tr>
<td>Chaudhry (1993); Romano and Romeo (1993); Rowe (1993)</td>
<td>Marriott Hotels (&quot;a leader“ in using branded franchise restaurants)</td>
<td>Pizza Hut, Nathan’s, TCBY, Popeye’s, Burger King</td>
</tr>
<tr>
<td>Boone, (1997); Strate and Rappole (1997); Hemmington et al. (2000)</td>
<td>Marriott</td>
<td>Pizza Hut, TGI Fridays, and Ruth Chris Steakhouse</td>
</tr>
<tr>
<td>Liberson (1995)</td>
<td>Ramada Inn</td>
<td></td>
</tr>
<tr>
<td>Brumback (1992)</td>
<td>Radisson Hotels (St. Louis, Missouri, Philadelphia)</td>
<td>TGI Fridays</td>
</tr>
<tr>
<td><strong>UK hotels</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Young (1993); Hallam and Baum (1996)</td>
<td>Forte - The Grosvenor House Hotel – London</td>
<td>Leased to top chef</td>
</tr>
<tr>
<td>Young, (1993); Hallam and Baum (1996)</td>
<td>Forte - Hyde Park – London</td>
<td>Leased to top chef</td>
</tr>
<tr>
<td>Hallam and Baum (1996)</td>
<td>Forte</td>
<td>Considering Wheelers Fish and Seafood Eateries</td>
</tr>
<tr>
<td>Hallam and Baum (1996)</td>
<td>Bailey’s Hotel – London</td>
<td>The Restaurant Partnership</td>
</tr>
<tr>
<td>Hallam and Baum (1996)</td>
<td>Hilton</td>
<td>Zen</td>
</tr>
<tr>
<td>Wexler (1994*)</td>
<td>Hilton</td>
<td>Baskin Robbins</td>
</tr>
</tbody>
</table>

* Wexler (1994), Boone (1997), and Strate and Rappole (1997) provide overviews of branded hotel-restaurant relationships
4.3.2 Outsourcing of other hotel activities

4.3.2.1 Accounting

Only one paper addressing the outsourcing of the hotel accounting function has been found. Despite this, Hottman and Adams (1996) believe that outsourcing the accounting function may be particularly viable for hotels located in remote locations as in these regions it can be difficult to attract and retain qualified accounting staff.

4.3.2.2 Business centres

Only one paper has been found that described the possibility of outsourcing this activity (Carper, 1994).

4.3.2.3 Cleaning: Housekeeping

A few papers discussed housekeeping as an activity that could be outsourced (eg, Hottman and Adams, 1996), however no empirical papers documenting the outsourcing of housekeeping have been found.

4.3.2.4 Cleaning: Night

As with housekeeping, many papers discussed night cleaning in general in relation to outsourcing, (eg., Rowe, 1994; Seal, 1995) but no relevant empirical studies have been noted.

4.3.2.5 Concierge

Seal (1994) notes that in order to reduce labour costs, a number of hotels in the US and Canada have outsourced concierge services to tour operators. Professional concierges have expressed concern over this development, complaining of poor remuneration packages and problems of a biased service (the outsourced concierges had an incentive to promote their own tour services). From the hotel’s perspective, Seal (1994) sees some merit in this type of outsourcing as it can save hotel expenditure on recruitment and training.
4.3.2.6 Laundry

Guerrier and Lockwood (1989) found that very few hotels insource laundry. A practical guide to selecting a laundry subcontractor is provided by Giancola (1995). Giancola discusses different costs to be considered, steps to follow in the selection process, and tips on drafting a contract and developing a good working relationship with the contractor. The cost analysis is similar to the typical relevant costing exercise advocated in the normative management accounting literature. The laundry subcontractor selection process is very important given the close working relationship and daily interactions that will arise between hotel and subcontractor (i.e. high temporal specificity), and the reputation of the hotel that must be safeguarded.

As an alternative to outsourcing laundry, some hotels have set up remote laundry facilities which can be more cost effective than on site facilities or outsourcing (Lodging-Hospitality, 1995). An off site laundry frees up valuable hotel space, and the greater space that off-site facilities can provide makes the process easier to operate. Also, in some cases, some of the off-site laundry capacity is being sold to competing hotels (Lodging-Hospitality, 1995).

4.3.2.7 Management companies

Different management structures may affect the way an outsourcing decision is approached. There is a large literature concerned with the outsourcing of hotel management to hotel management companies. Hotel management agreements began over 40 years ago and since the early 1990’s there has been a growing supply of hotel management companies (Rainsford, 1994). Of all the decisions a hotel must make, choosing a management company is probably the most critical (Berger, 1996). In light of this, Berger warns against the danger of putting too much emphasis on price and insufficient attention to factors such as quality of service. Consistent with earlier comments on contract design, hotel management outsourcing contracts should be designed with a “win-win” philosophy in mind.

There is a trend towards shorter contracts, making management companies more accountable, and an increased use of termination clauses which gives greater owner
power (Rainsford, 1994). Performance is frequently compared to budgeted standards on dimensions such as market penetration. In 1994, Rainsford conducted a survey of management company outsourcing in the US and examined selection criteria, performance criteria, and reporting expectations of owners. Rainsford found the five most important selection criteria to be: past performance, reputation for integrity, accessibility to senior management, and marketing strength. Other key factors were the management companies’ willingness to receive performance related pay, good communications between owner and management company, and ensuring that high quality managers run the hotel.

The three most important evaluation criteria were found to be comparing actual results to budget, delivering what was agreed, and actions taken by the company when actual results fall below budget (Rainsford, 1994). Rainsford warns of budget gameplaying and that management companies should not “promise more than they can deliver”.

Rather than hiring a hotel management company, some owners are franchising. The implications of hotel franchising on strategic decision making have been investigated by Roberts (1997).

### 4.3.2.8 Parking facilities

While parking facilities may appear peripheral to a hotel’s main activities, parking can be a major source of revenue. Outside parking management firms can operate at lower costs because of their scale of operations and typically lower wage rate structures (Rockman, 1994). If a hotel is considering outsourcing the management of parking facilities, it should be remembered that:

“Because parking is a visitor’s first and last experience … the parking facility should deliver the highest quality of customer service” (Rockman, 1994, p. 60).

Many parking facilities are poorly managed with the result that traffic jams can be a common occurrence. To provide a subcontractor with an incentive to provide high quality service, the management fee can be tied to customer satisfaction. Although the main focus of Rockman’s discussion concerned healthcare institutions, there appears little to suggest that the issues he discusses are not also pertinent to hotel car park management.
4.3.2.9 Sales and marketing

Due to corporate downsizing in the US, many marketing managers have lost full-time positions and are now setting up cross-disciplinary consulting teams specialising in sales, public relations, marketing and advertising. Consistent with this, some hotels are outsourcing the provision of sales and marketing services and discovering that this results in a cost saving and provides greater expertise than what could be achieved inhouse or under ad hoc consultancy arrangements (Lodging-Hospitality, 1994). In connection with the opening of a Californian hotel, a consultant commented:

“The pre-opening marketing budget .... is about $300,000, some $200,000 less than it might have been in a traditional, in house arrangement ..... We’ve been able to allow the general manager to focus on the most important thing: getting the hotel ready. .... (the hotel) could not afford to duplicate the talent we put together with this outsourced team” (Lodging-Hospitality, 1994, p. 9).

“Not being able to duplicate” talents relates to the specialism advantage of outsourcing noted in Chapter 3.

4.3.2.10 Customer satisfaction research

Customer satisfaction appraisal in the hotel industry has traditionally been dependent on comment cards, information on reservation systems, or casual market research which has frequently been delegated to support staff to manage in their free time (Ravenel, 1992). This data frequently suffers from incompleteness and inaccuracies as inhouse staff lack the expertise and time to conduct an effective programme. Hotels are now hiring professional firms to provide “guest satisfaction programmes”. Staff at these firms are hospitality trained, good communicators, and trained researchers. Ravenel comments:

“As an enhancement or complement to existing survey programs, outsource suppliers can significantly increase guest loyalty and decrease customer defection” (1992, p. 32).

Ravenel suggests six factors that should be taken into account when selecting a company to conduct customer satisfaction research: 1) Dedication to hospitality (i.e., does the company have specialists with an exclusive focus on hospitality); 2) Experience in hospitality marketing; 3) Up-to-date technology and personnel skilled with the technology; 4) Professional communicators; 5) Ability to create follow through programmes; and 6) Hospitality association involvement.
4.3.2.11 Security

A Florida Hilton Hotel outsourced security to Pinkerton Security and Investigation Services and security related costs dropped by 20-30% (Hotel/Motel Security and Safety Management, 1995). The key to successful outsourcing of security, according to the Hilton general manager includes: 1) holding the contractor accountable for the quality and training of staff which should be tailored to the needs of a hotel environment, 2) having the same security officers on a permanent basis so that they are familiar with the hotel, 3) ensuring officers are included in hotel orientation programmes and relevant departmental meetings, 4) that hotel staff are informed on safety and security issues and work closely with security officers.

4.3.2.12 Information system management

Consistent with the discussion in Chapter 3, outsourcing information technology can be especially beneficial given its highly specialised nature, substantial cost, and rapidly changing technology (Sieburgh, 1992; Calfas, 1994). Further, as staff computer skills can vary immensely in the hospitality industry, Sieburgh (1992) suggests information system management should be outsourced. This can be done on a full or partial basis. Sieburgh (1992) comments:

“Data processing installations, upgrades, and day-to-day operations are being performed faster, smoother and at less expense than ever before by handing over the operations technology to outsourcing firms” (p. 57).

Jensen (1994) looked at the pros and cons of outsourcing information systems in the hospitality industry and raised issues consistent with those discussed in the previous chapter. Many major hotels have outsourced significant parts of their computerised information systems such as Holiday Inn (Johnson, 1992), Hyatt (Brown, 1990; Halper, 1993; Caldwell, 1996), and Best Western International (Adhikari, 1996).

The design and management of hotel information systems can be regarded as a highly asset specific function. If information systems are extensively tailored to the needs of a particular hotel business, much of the knowledge of the system and its workings would reside with the designers and managers. This exposes the hotel to considerable risk. Where the activity is managed inhouse, the risk is managed by the unlikelihood of all
employees possessing knowledge of the system leaving the firm at the same time. This idea, which is broadly based on TCE theory, suggests that where there is a need for a tailored information system, management of the system will tend to be insourced.

4.3.2.13 Reservation system management

Software reservations system management has been outsourced in hotels for many years. As reservation system software can be critical to the success of hotels, especially international hotel chains, the importance of developing tight contracts is extremely important (Anthes, 1996). The subcontractor of IT to Radisson Hotels, for example, was going out of business but did not plan to provide the source code to Radisson. This would have effectively prevented the hotel continuing with its daily operations. A tight contract had been formulated with the supplier, however, and the problem was averted.

4.4 Conclusion

The objective of this chapter has been to provide an overview of the hotel management literature concerned with outsourcing. Although an extensive review of activities that can be outsourced has been undertaken, it should be acknowledged that this does not represent an exhaustive list of all hotel activities that can be outsourced. Many other activities that could be outsourced by hotels have received negligible attention in the literature.

In light of the large number of hotel activities that can be outsourced, it appears appropriate, as part of the conclusion to this chapter, that a summary overview be provided of the activities that are, or could be, outsourced. Many of these activities are specific to hotels. Table 4.6 provides this overview. It is structured according to an alphabetical listing of activities that can be outsourced. For each activity referred to, an indication is provided as to whether the activity is hotel specific (referred to as “H” in the Table) or not specific to the hotels industry (referred to as “G”, i.e., general). In addition, to highlight the relative comprehensiveness of this literature, the Table’s final column records those activities where an outsourcing paper has been found in the literature.
Table 4.6
Overview of outsourcing activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>General (G) / Hotel specific (H)</th>
<th>Relevant papers found in literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>G</td>
<td>x</td>
</tr>
<tr>
<td>Business Centre</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Childcare - for employees</td>
<td>G</td>
<td></td>
</tr>
<tr>
<td>Childcare - for guests</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>Cleaners - day</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>Cleaners - night</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Conferences - labour</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Conferences - prepared ingredients</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Customer satisfaction research</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Food &amp; Beverage (generally)</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Admin. &amp; evaluation of F&amp;B contractors</td>
<td>G</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Catering</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Employee dining room</td>
<td>G</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Pre-prepared ingredients</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Restaurants generally</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Restaurant franchises</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Room service</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>F&amp;B: Vending machines</td>
<td>G</td>
<td>x</td>
</tr>
<tr>
<td>Golf course</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>Gift shops</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>Head office</td>
<td>G</td>
<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Human resources</td>
<td>G</td>
<td></td>
</tr>
<tr>
<td>Interior plant service</td>
<td>G</td>
<td></td>
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<tr>
<td>Janitorial</td>
<td>G</td>
<td></td>
</tr>
<tr>
<td>Landscaping</td>
<td>G</td>
<td>x</td>
</tr>
<tr>
<td>Laundry</td>
<td>H</td>
<td>x</td>
</tr>
<tr>
<td>Lobby reception</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>Mail service</td>
<td>G</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>G</td>
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<td>Valet Parking</td>
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It has been found that the most widely discussed activity in relation to outsourcing is F&B, with the majority of attention focused on restaurants. Other F&B activities discussed include catering, employee dining room, in room bars, pre-prepared ingredients, and room service. Activities outsourced that fall outside the F&B area
include accounting, business centres, cleaning, concierge, customer research, laundry, management companies, parking facilities, sales and marketing, security, and software. Activities that can be outsourced, but were not found in the literature include: childcare facilities, vending machines, golf courses, gift shops, human resource management, interior plant service, janitorial services, landscaping, mail service, and maintenance.

In addition to furthering our appreciation of what activities can and are being outsourced in the hotel industry, a second objective of this chapter has been to ascertain what is known about how hotel outsourcing is managed, i.e., what comprises the elements of the hotel outsourcing management process. Phases of this process referred to in the literature include outsourcing decision-making models, determining what the outsourcee’s needs are, the bidding process, selection process, contractual arrangements entered into, performance measurement, and remuneration. Unfortunately, only a few papers addressed these issues. It has been found that most of the discussion in the literature is conducted in a general manner, with little in the way of prescriptive guidelines on how to manage the outsourcing decision. Of particular interest to this thesis is the outsourcing decision making process when considered from management accounting and TCE perspectives. Limited attention was given from a management accounting perspective, although one paper on outsourcing laundry services provided a relatively detailed discussion that amounted to a relevant costing analysis. Though transaction cost economics was never specifically mentioned, TCE related issues were specifically referred to in one paper (i.e., asset specificity, quasi rents), and several ideas relating to TCE were also evident in other works (e.g., frequency, monitoring costs, risk, and efficiency).

Perhaps the most illuminating outcome of the literature review conducted here, is that despite there being many papers relating to outsourcing, the idea has failed to command significant attention in any of the papers reviewing research trends and published in the International Journal of Contemporary Hospitality Management.\textsuperscript{11} This shortcoming highlights the degree to which this study has the potential to offer a valuable contribution to the literature.

This chapter concludes the study’s literature review. Chapter 2, the first of the three literature chapters, discussed the theoretical frameworks used to inform the study;

\textsuperscript{11} Since 1995, this journal has provided an annual review of hospitality research.
namely, transaction cost economics, agency theory, labour process theory and contingency theory. Each theory provides contrasting perspectives on outsourcing. Used in combination, it is believed this triangulation approach facilitates a more complete appreciation of the nature of hotel outsourcing management. Chapter 3 reviewed management accounting texts and management literatures on outsourcing to explore other potentially relevant avenues for research that were not captured in Chapter 2. It was noted that little attention has been given to outsourcing in management accounting texts, which highlights the need for additional work in this area. Important outsourcing issues identified in the general management literatures that fall outside the theoretical framework included specialisation, market discipline, flexibility, core activities and social costs. By outlining what is known about hotel outsourcing management systems and also what hotel activities tend to be outsourced, this chapter has both informed this study’s empirical phase and enabled an appreciation of how the study can contribute to the hotel management literature. The next chapter will discuss the study’s research method, objectives and interview schedule design.
5.1 Introduction

“If you don’t know what matters more, everything matters. …. Conceptual frameworks and research questions are the best defence against overload” (Miles and Huberman, 1994, p. 55).

Having reviewed the literature most pertinent to this study in the last three chapters, this chapter now describes the study’s research objectives and the research method used. Following a description of the relative merits of the different research methods employed, a description of the seven primary research objectives will be provided. In the course of this description, the way in which key constructs have been operationalised in the interview phase of the study will also be described.

5.2 The research method

5.2.1 The relative merits of quantitative and qualitative research

The study comprises two empirical phases: a qualitative stage involving interviews conducted with hotel managers and accountants, and a quantitative stage involving two mailed questionnaire surveys. The survey questionnaires were administered to general managers and accountants in large Australian hotels. The use of two distinct questionnaire surveys facilitates validation of some data collected and allows questions to be tailored according to the functional area addressed.

Just as no theory is all encompassing, neither is any single empirical method. Gill and Johnson (1991) note:

“The main approaches to management research …. are all imperfect. Each has advantages and disadvantages” (p. viii).

Young and Selho (1990), referring to Birnberg et al. (1990), note that multiple methods of research have much to offer management accounting. Therefore, just as a triangulation approach has been adopted by drawing on more than one theoretical perspective, triangulation is again evident in this study due to the use of more than one research method. Miles and Huberman (1994) refer to Rossman and Wilson (1984 and
1991) when noting that a triangulation approach can offer elaboration, confirmation, richer detail, and new lines of thinking. Abernethy et al. (1999) comment:

“Use of multiple methods may provide a means of not only achieving the objectives of generalisability and limiting interview bias but also of enhancing the meaningfulness of the measures to those completing the survey. This is at the heart of issues relating to construct validity” (p. 7).

Qualitative oriented studies frequently err towards a phenomenological perspective, i.e., the view that:

“The world and reality are socially constructed and given meaning by people” (Easterby-Smith et al., 1992, p. 24).

Quantitatively oriented studies, however tend towards a positivist approach, i.e., the social world exists externally, and therefore can be measured and observed (Easterby-Smith et al., 1992). Because the two methods have distinct perspectives, when used together they can be seen as complementary.

Qualitative and quantitative methods can enrich one another in the design, data collection and analysis stages when they are used together (Miles and Huberman, 1994, cite Sieber, 1973). Both methods can be used at any stage in the research process, as each can be useful in providing descriptive, exploratory, inductive, opening up information, as well as explanatory, confirmatory, and hypothesis-testing purposes. Miles and Huberman refer to Jick (1979) who notes that qualitative methods can be “…. the glue that cements the interpretation of multi-method results” (p. 42).

The relative merits of qualitative and quantitative research methods were reviewed in the March 1999 special issue of Accounting and Finance. Abernethy et al. (1999) outlined strengths and weaknesses of experimental, survey and field research with the goal of highlighting shortcomings associated with each method. They note that although key research goals are to achieve construct validity, internal validity and external validity, trade-offs are made when choosing between and within research methods. Noting that construct validity is generally held to be most advanced in survey research, and given least attention in field research, Abernethy et al. (1999) question why field research should:

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12 Though it is noted later in the chapter that qualitative research can also have a positivist orientation.

13 Construct validity concerns whether constructs have been effectively operationalised, internal validity concerns the extent to which we can correctly draw conclusions concerning inter-variable relationships, and external validity relates to the generalisability of research findings to other settings (Abernethy et al., 1999).
“…. have construct validity requirements that are any different than research addressing the same issues with a survey questionnaire? Arguably the concerns should be the same” (p. 14).

Threats to internal validity are present in both quantitative and qualitative research, as one can never be sure that all relevant variables have been assessed. In relation to quantitative studies: “Covariation does not necessarily imply causality” (Abernethy et al., 1999, p. 18). With qualitative studies:

“…. given the significant threats to internal validity in field studies, it is questionable whether attempts to test causal hypotheses are appropriate” (Abernethy et al., 1999, p. 20).

A quest for high external validity is a significant factor supporting survey research in management accounting (Abernethy et al., 1999). Nonetheless:

“Claiming high external validity is no defence against low internal validity, as there is no justification in attempting to generalise questionable or spurious results. Thus the weights placed on internal and external validity when judging a given study should reflect the research agenda being pursued” (Abernethy et al., 1999, p. 23).

5.2.2 Qualitative research

In comparison to quantitative studies:

“Qualitative researchers usually work with small samples of people, nested in their context and studied in-depth - unlike quantitative researchers, who aim for larger numbers of context stripped cases and seek statistical significance” (Miles and Huberman, 1994, p. 27).

Qualitative methods are:

“…. useful as aids or tools to help the respondents think about their own worlds and consider, possibly for the first time, the way they construct their reality” (Easterby-Smith et al., 1991, p. 71).

In addition:

“With qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations” (Miles and Huberman, 1994, p. 1).

Interviewing is seen as:

“…. the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience” (Burgess, 1982, p. 107, cited by Easterby-Smith et al., 1991, p. 73).
There are also relative merits with respect to the particular types of qualitative research method that can be adopted. For example, in field research, a trade-off between breadth and depth is made, and the option selected should be influenced by the nature of the research question. A focus on breadth may assist in refining and/or extending well-established theory but limits one’s ability to build theory as the lack of depth signifies a lack of richness (Abernethy et al., 1999).

Disadvantages of qualitative research include:

“.... the labour-intensiveness (and extensiveness over months or years) of data collection, frequent data overload, the distinct possibility of research bias, the time demands of processing and coding data, the adequacy of sampling when only a few cases can be managed, the generalizability of findings, the credibility and quality of conclusions, and their utility in the world of policy and action” (Miles and Huberman, 1994, p. 2).

In addition, subjects’ comments may be influenced not only by the form and wording of questions but also by interviewer characteristics (Mishler, 1986). Another shortcoming relative to quantitative research is that because data sets do not comprise multiple measures using Likert-type scales, reliability tests are not possible (Abernethy et al., 1999).

5.2.3 Quantitative research

Quantitative research focuses on hard data rather than opinions, looks for regularities in the data obtained; and attempts to produce propositions that can be generalise from the specific example to the wider population of organisations (Pugh, 1983).

Compared to the interview, the mailed questionnaire has many advantages which can be viewed as the opposite of the qualitative research disadvantages described above. Firstly, the mailed survey has a low administration cost compared to the personal interview, especially if the sample population size is large and geographically dispersed. Secondly, the mailed questionnaire may result in a more carefully considered response as the respondent will not feel pressured to give an immediate answer as may be the case with interviews. Thirdly, the respondent may give a more candid response in light of the anonymity of a mailed questionnaire. Despite this anonymity, the potential for survey respondents to respond in “socially desirable” ways should not be underestimated. Finally, the mailed questionnaire eliminates potential interviewer bias.
Mailed questionnaires also have their disadvantages, however. Although survey work is the most popular method in management accounting, Brownell (1985) believes it is frequently weak in measurement, scaling and instrument development. In addition, response rates tend to be poor, it can be difficult to ascertain if there is non-response bias, and maintaining respondent interest and motivation to complete the questionnaire can be a problem (Brownell, 1995). Although survey research is best used for simple constructs, Abernethy et al. (1999) note how it is often used for complex constructs in management accounting research.

Regardless of the method chosen, research is a:

“…. messy interaction between the conceptual and empirical world, with deduction and induction occurring at the same time” (Bechhofer, 1974, p. 73, cited by Gill and Johnson, 1991, p. 3).

Miles and Huberman feel that:

“.... research is actually more a craft than a slavish adherence to methodological rules. No study conforms exactly to a standard methodology; each one calls for the researcher to bend the methodology to the peculiarities of the setting” (1994, p. 5).

In a similar vein, Yin (1989) notes that research should be flexible and adaptive, as few studies will end up as planned. Thus, the researcher, the interviewee, the questions, the topic, the setting and time available will all influence what is revealed from the research.

In light of the complementary nature of qualitative and quantitative research, both approaches have been adopted in this study: qualitative research in the form of interviews, and quantitative research in the form of two mailed questionnaire surveys. This is not to infer, however, that qualitative research is always in the form of interviews or quantitative research is always in the form of surveys. There are many types of qualitative and quantitative research, and many of the data collection methods can be described as qualitative or quantitative depending on how they are used. For example, interviews and case study data can be used in a quantitative way by analysing phrases and keywords using software such as Nudist. Questionnaire surveys can include open-ended style questions, and can be used in case studies and interviews.
Discussion on experimental research was not included as this research method was not used in this study.

Findings made in the interview phase have informed the design of the survey research instruments. Given the challenge of operationalising the many aspects of TCE and other theories discussed earlier, interviewing appeared to represent an appropriate starting point in the empirical phase of this study. The interview stage is particularly useful:

“.... to understand better the variables considered in prior research and to identify other variables which may be important” (Abernethy et al., 1999, p. 20).

Having discussed the relative merits of the two research methods used in this study, the chapter will now describe the research objectives and the interview questions developed in connection with the pursuit of these objectives.

5.3 The research objectives

Insights derived from the literature findings described in Chapters 2-4 provided the basis for developing the seven research objectives listed in Table 1.1. A range of theories have informed the study’s design. A decision made early in the study was to attach importance to the TCE perspective. As already noted, other theories informing the work are labour process theory, agency theory and contingency theory.

There is a daunting breadth of questions that could be addressed in a thesis concerned with hotel outsourcing. A quest for breadth must be tempered by a need for depth, however. Nonetheless, at the start of a project, it is difficult to know which questions will be most relevant, and therefore the interview phase was intentionally broad, addressing many questions. This gave the interviewer considerable flexibility to allow each interview to be tailored to the knowledge base of the interviewee (the merit of this type of approach is noted by Patton, 1990). With each subsequent interview, the interview questions became more focussed, with a view to identifying the most relevant and interesting factors to be addressed at the survey stage of the study.

The multiple theory triangulation approach has thus resulted in a large array of questions (see Appendix 1). The many hotel activities that could be outsourced (see Table 4.6) complicated the operationalisation of some objectives. Scope to address a
range of activities was considered important, however, as the relative significance of a theoretical issue might be activity specific.\textsuperscript{14} In light of this complication, as the largest volume of hotel literature on outsourcing related to food and beverage (F&B), it was initially anticipated that the empirical phase would focus primarily on F&B. However, as will be noted later, in the interview findings it was found that F&B outsourcing is minimal in Australian hotels. This finding highlights the danger of prematurely narrowing a study’s focus.

The remainder of the chapter is organised around a discussion of the formulation of each of these research objectives and also the interview schedule developed in light of the research objectives (Appendix 1).

5.3.1. Objective 1: Appraise the extent of outsourcing in large Australian hotels (Questions 1.1-1.4)

It has been noted that despite extensive commentaries on hotel outsourcing, little empirical work has been conducted in this area. The literature review did not reveal any studies concerned with hotel outsourcing in Australia. In light of this, the incidence of outsourcing specific hotel activities has been appraised.

Table 4.6 provides an overview of the activities considered in the initial interviews. In the course of conducting the interviews, this listing was refined and the less significant activities were deleted from further analysis. In addition, any significant activities that were not identified previously were added. For those hotels with minimal outsourcing an attempt was made to determine why, and also the extent to which outsourcing deliberations have occurred. An attempt was made to determine the rationale for outsourcing particular activities. To promote consistent interpretation of the term “outsourcing”, Domberger’s (1998) definition was given to interviewees.\textsuperscript{15} Questions 1.1 to 1.4 in Appendix 1 were posed in connection with the pursuit of objective 1. For the remainder of this chapter, a cross-reference to the relevant question numbers in the interview schedule appear next to sub-headings.

\textsuperscript{14} For example, the relevance of TCE attributes, or the nature of outsourcing management systems, may depend on the particular activity under consideration (eg., the issue of temporal specificity may be relevant for laundry and housekeeping, but not for landscaping).

\textsuperscript{15} “Outsourcing refers to the process whereby activities traditionally carried out internally are contracted out to external providers” (Domberger, 1998, p. 12).
5.3.2. Objective 2: Describe the nature of outsourcing management systems (Questions 2.1 - 2.18)

Determining what management processes are in place and what constitutes appropriate outsourcing management processes is an important aspect of the study. As Domberger (1998) observes, outsourcing contracts may fail as a result of a systematic failure (inability to yield mutually beneficial outcomes), or as a result of poor contract management.

Reviewing the management of outsourcing is challenging as it encompasses a breadth of decisions, control issues and processes. This problem has been dealt with by considering the management of outsourcing from two main perspectives. Firstly, the decision-making processes relating to the decision whether to outsource and which subcontractor should be engaged are considered. Secondly, how control is maintained over the subcontractor will be considered.

5.3.2.1 The decision to outsource

The decision to outsource is of fundamental significance. It has long-term implications and therefore parallels capital budget decision-making which is widely recognised as a critically significant management decision-making area. The decision-making process has been sub-divided into five underlying dimensions: initiation of the outsourcing decision, formalisation of outsourcing decision-making processes, appraisal of the hotel’s needs, contract price determination and the analysis of bids.

5.3.2.1.1 Initiation of the outsourcing decision (Questions 2.1- 2.3)

For an activity to be outsourced someone in the organisation must initiate the process. Some hotels may outsource in an ad hoc and reactive manner, while others may be more proactive and pursue a long-term outsourcing agenda.

5.3.2.1.2 Formalisation of outsourcing decision-making processes (Questions 2.4 - 2.6)

The extent to which hotels have formalised procedures for making outsourcing decisions has been appraised. One would anticipate that a more formalised procedure is
likely to result in better decision making as a more thorough analysis is likely to take place. Following Lamminmaki et al. (1996) and Scapens, Salke, and Tikkas (1982), assessment of formalisation was divided into pre-decision and post-decision controls (see below for discussion on control of the subcontractor).

As little research has been conducted on hotel outsourcing, we know little with respect to the extent to which hotels have formalised outsourcing procedures. Given the overall subject matter and the nature of the access sought in hotels during the qualitative phases of the study, it appears appropriate to seek a better understanding of how outsourcing decisions are made and evaluated. It is noteworthy that formalisation of outsourcing management does not necessarily signify outsourcing management sophistication, however. According to Domberger (1998), an outsourcing manual may be inappropriate because a manual is prescriptive and cannot allow for the many different scenarios that call for management judgment.

5.3.2.1.3 Appraisal of needs (Questions 2.7-2.8)

As discussed in Chapters 3 and 4, it is important that the subcontractor knows exactly what the hotel needs and wants. Detailed specifications and guidelines need to be prepared by the hotel so that subcontractors can prepare appropriate bids. A common set of specifications and guidelines also means that appropriate comparisons between bids can be made (Gordon and Lefever, 1990).

Bidders should be asked to prepare “risk management plans” which can be useful to assess a supplier’s ability to anticipate potential problems that may arise and how they would be managed (Domberger, 1998). Similarly “transition plans” are useful in order to assess issues such as how the supplier proposes to manage the transfer of staff from the principal organisation to the agent (Domberger, 1998). Questions 2.7 and 2.8 appraise the degree to which hotel’s specify their needs and seek risk management plans from potential subcontractors.

5.3.2.1.4 Contract price determination (Questions 2.9-2.11)

As noted by Domberger, one of three options can be taken when searching for suppliers: 1) competitive bidding where any supplier can bid; 2) competitive bidding where
vendors are invited to bid; and 3) direct negotiation with one or more vendors. Competitive tendering is said by Domberger to be the most popular method.

A contract price can be fixed, variable, or both. Due to the problems of incomplete contracting, a mixed contract price may be preferable so that controllable aspects of the activity can be given a variable price, and noncontrollable aspects a fixed price (Domberger, 1998). Provisions should also be made for variations that may arise during the life of the contract. Another way of viewing an appropriate split between variable and fixed price arises in connection with risk, as pricing can be designed to recognise the relative amounts of risk assumed by the two parties. Risk can be divided into two areas: the risk of outsourcing, and the risk of the activity itself. If an entirely variable contract was put in place, the contractor may feel unduly exposed, whereas if an entirely fixed fee contract is used, the buyer may feel unduly exposed. Questions 2.9-2.11 assess contract pricing and the tendering process.

5.3.2.1.5 Analysis of bids (Question 2.12)

Once bids are received, an analysis must be conducted to determine the preferred subcontractor. This analysis should cover financial and nonfinancial aspects. In the financial analysis, a relevant costing appraisal together with a discounted cash flow analysis can be conducted. This is because most outsourcing decisions would tend to relate to the long term.

A review of the normative literature reveals that TCE does not appear to be recognised in most treatments of relevant costing or capital budgeting (eg., McLaney, 1991; Horngren et al., 1994; Gietzmann, 1996; Langfield-Smith et al., 1998; ). This appears to signify a gap in the literature, as TCE revolves around the decision to outsource, which is also closely related to relevant costing and capital budgeting scenarios. For example, if a hotel is considering improving its laundry facilities, one alternative is to upgrade, another is to outsource. This would typically be classified as a capital budgeting decision. Yet the normative literature on capital budgeting fails to draw attention to the attributes of asset specificity, frequency and uncertainty generally appraised in such analyses. Question 2.12 was designed in an open-ended manner with no prompts given to financial, non-financial, TCE, or other issues.
5.3.2.2 Achieving control and ensuring subcontractor compliance

Many approaches concerned with achieving subcontractor control were described in the previous chapters. As noted by Langfield-Smith (1997), controls can be categorised in many ways: formal and informal (Anthony et al., 1989), output and behaviour (Ouchi, 1977), market, bureaucracy and clan controls (Ouchi, 1979), administrative and social controls (Hopwood, 1976), and results, actions and personnel controls (Merchant, 1985). Formal controls are visible and easy to research but informal controls are also important as:

“The effectiveness of formal controls may be dependent on the nature of the informal controls that are also in place” (Flamholtz, 1983; cited by Langfield-Smith, 1997, p. 209).

Aspects of control have been structured under three headings: performance measurement, contractual arrangements, and non-contractual methods. As there are many ways that approaches to control can be organised, it becomes apparent that any particular way chosen is somewhat artificial. The relationship between these three aspects of control should therefore be borne in mind and consideration given as to whether these methods complement or supplant one another.

The first two aspects of control relate to agency theory, as the positivist agency model proposes that goal incongruence will be reduced (1) through the use of information systems (i.e., adopting appropriate performance measures) and (2) by using a contract that is outcome based (Eisenhardt, 1989). If the agent knows performance is assessed through an information system, there will be a strong incentive to act in a manner that will result in higher achievements in relation to the measures chosen. Related to this, if a contract is outcome based, the agent will be rewarded by having to behave in a way that is aligned with the goals of the principal (assuming the outcomes match the goals of the principal).

5.3.2.2.1 Performance measurement (Questions 2.13 and 2.17)

Performance evaluation is fundamental to the notion of control as it serves as a motivator for subcontractors. Question 2.13 is an open-ended question designed to appraise the nature of measures used without guiding the interviewee to a particular response.
It is widely-documented in the literature that care must be taken with respect to what measures are used. Inappropriately designed measures can result in dysfunctional behaviour in other areas that are difficult to measure (for example, a laundry contractor may be able to reduce the unit cost of laundering, but the quality of the laundered goods may deteriorate).

A novel way to evaluate performance was discussed by Gietzmann (1996), who described “rank tournaments” to appraise relative performance of suppliers. This type of analysis can be conducted with respect to quality, delivery, and cost. With a view to gaining a sense of rank tournament usage, question 2.17 was posed.

5.3.2.2.2 Contractual arrangements (Question 2.14)

Interview question 2.14 is designed to appraise the nature of hotel outsourcing relationships. Milgrom and Roberts (1992) discuss two main types of contracts: simple short term contracts which have blanket provisions and long term complex contracts, which are flexible and outline goals, objectives and criteria. A more detailed consideration of contract types is given by Domberger (1998) who described outsourcing contracts as classical or relational. Classical contracts attempt to eliminate opportunism by including all terms, conditions, obligations, and courses of action. They are inflexible and can be cumbersome documents. Relational contracts (also known as ‘partnering’ or ‘alliance’ contracts) are flexible, not legally binding, are often long term (in information technology services, for example, ten years is common), and focus on trust, cooperation and mutual goals. A dual contract structure can be used where relational contracts have the back up of a classical contract, in case problems arise. According to Kay (1993):

“Relational contracts work best when all parties recognise that they are bound into a repeated game” (p. 57).

By appraising the nature of outsourcing relationships in the hotel industry, the interview phase of the study provides an opportunity to extend the work of Domberger, 1998; Teresko, 1990; and Lohtia et al., 1994. Hybrid relationships can be expected to be quite common, yet few researchers have studied this area (Lohtia et al., 1994).
5.3.2.2.3 Non-contractual methods (Questions 2.15, 2.16 and 2.18)

Langfield-Smith (1997) notes the shortcoming of studying formal controls without due regard for informal controls. The nature of informal controls means they are difficult for the researcher to assess. Despite this, given the focus of this study, it appears important that an attempt be made to develop our understanding of the nature of informal controls used in hotel outsourcing.

Requiring the agent to invest in asset specific investments is a means by which short term opportunism by the agent can be reduced, as the agent would incur significant costs if the relationship were to terminate (Domberger, 1998). Roh and Kwag (1997) discussed how some restaurant franchisers, to ensure performance of the franchisee, would get franchisees to invest in highly asset specific investments in order that a stream of quasi rents would be generated. It should be noted, however, that in the case of restaurant outsourcing, there may not be a need for requiring asset specific investment by the outsourcing agent as in many situations the restaurant will be bound to make asset specific investment in building up its patronage (i.e., goodwill investment). Interview question 2.15 was posed to determine the extent to which hotels attempt to tie their outsourcing agents into providing good service by requiring them to make investments that are specific to the trading relationship.

An alternative approach to achieving non-contractual outsourcing control involves creating competition between agents (Domberger, 1998). As noted in Chapter 3, competition can encourage suppliers to aggressively seek and specialise in niche market services. This idea is related to Gietzmann’s (1996) “rank tournaments” discussed above. A further advantage is that alternative sources of supply are maintained. Interview question 2.16 addresses this issue.

Another way in which compliance can be achieved is by building trust. Several of the commentaries reviewed in the literature chapters note the potential significance of trust (eg., Gietzmann, 1996; Domberger, 1998). Domberger feels trust:

“.... goes beyond individual economic relationships .... it is a pre-condition for successful economic adjustment and prosperity” (1998, p. 58).

Interview question 2.18 is designed to determine the extent to which trust plays a role in hotel outsourcing relationships.
5.3.3 Objective 3: Appraise TCE theory in the context of hotel outsourcing

As noted in Chapter 2, several studies have used the TCE model to examine outsourcing (e.g., Monteverde and Teece, 1982; Palay, 1984; Colbert and Spicer, 1995; Widener and Selto, 1998). TCE holds that three attributes impact on the decision to outsource, i.e., outsourcing is less likely where:

- uncertainty is high
- frequency is high
- asset specificity of the activity in question is high

Each of these attributes were discussed in detail in Chapter 2. In order to provide an initial appraisal of the validity of the TCE model in the context of hotel outsourcing, interviewees were asked why activities are outsourced or insourced (questions 1.2a and 1.2b). It is believed these questions may be illuminating as it provides an opportunity to see whether interviewees refer to TCE concepts without being prompted. In addition, in the interview phase of the study an attempt was made to refine and pilot test the TCE attributes of uncertainty, frequency and asset specificity. Interview questions (3.1 - 3.9) were developed to appraise the extent to which each of the attributes affects the hotel’s propensity to outsource.

5.3.3.1 Uncertainty (Questions 3.1 - 3.4)

Uncertainty gives rise to incomplete contracts. Contracts can be expected to be more incomplete where the task is 1) unpredictable and 2) performance evaluation is difficult. Widener and Selto (1998) described uncertainty as environmental (variation in demand for the activity) and behavioural (the inability to monitor activities). This perspective on uncertainty was drawn on in developing questions 3.1 – 3.4. The first two questions were adapted from Widener and Selto’s (1998) study. The relationship between uncertainty and outsourcing was appraised by posing questions 3.3 and 3.4

5.3.3.2 Frequency (Question 3.5 and 3.6)

The TCE frequency attribute refers to the repetitiveness (and volume) of similar transactions. In order to capture the notion of both volume and frequency of
transactions, Colbert and Spicer (1995) use the term “extent”. The greater the “extent” of a transaction (i.e., large and recurring transactions), the more likely the transaction will be internally managed due to the economies of scale that can be obtained. In order to capture the notions of volume and frequency, the construct has been operationalised in questions 3.5 and 3.6 using the terms “extent” and “volume of work”.

5.3.3.3 Asset specificity (Questions 3.7 - 3.9)

In prior TCE research, asset specificity has been the attribute subjected to most inquiry (e.g., Monteverde and Teece, 1982; Palay, 1984; Gietzmann, 1996). In addition, when asset specificity has been studied in combination with other TCE attributes (i.e., uncertainty and/or frequency) it has provided the most significant results (see for example Widener and Selto, 1999). Asset specificity is nevertheless a challenging construct to operationalise (Lohtia et al., 1994). Lohtia et al. (1994) draw attention to their view that appropriate operationalisation of the attribute can only be achieved once due consideration has been given to context.

Williamson (1985, 1988, 1991) discussed six categories of asset specificity: human, physical, site, dedicated asset, brand capital, and temporal specificity. Colbert and Spicer (1995) added intellectual asset specificity to this list. Lohtia et al. (1994) discussed different dimensions that can be assessed in relation to asset specificity: the degree of asset specificity, the magnitude of the investment, the importance of the investment, the value of the investment to the other party, the visibility of the investment, the durability of the investment, and the risk assumed by the investing firm. In an attempt to determine appropriate dimensions of asset specificity, interviewees were asked two questions. Question 3.7 is concerned with refining what dimensions of asset specificity are most pertinent to each of the activities under study. Question 3.8 is concerned with eliciting an indication of the extent to which asset specificity is present in the areas under study. The relationship between asset specificity and outsourcing was appraised by posing question 3.9.

5.3.4 Objective 4: Appraise alternate theories in the context of hotel outsourcing

While the primary theoretical framework appraised in this study is TCE, two alternate theories have also been drawn upon: agency theory and labour process theory. Similar
to the examination of TCE theory, question 1.2 may also represent a partial appraisal of these alternate theoretical perspectives on outsourcing. Again, question 1.2 is pertinent to these an appraisal of these perspectives as it provided an initial insight into what drives the decision to outsource.

5.3.4.1 Appraisal of agency theory (Questions 4.1 - 4.7)

As noted in Chapter 2, there is significant overlap between agency theory and TCE. Agency theory has tended to be used to investigate relationships between organisations’ owners and managers (i.e., the owners represent the principal and managers represent the agent). When applied to outsourcing, it can be seen that the party seeking to outsource is the principal and the party performing the outsourcing service is the agent.

Agency theory provides a perspective for also considering the relationship between management and operational employees. If management (i.e., the principal) is appraising whether to outsource a function, the operational employees who hold responsibility for completing the function at the time the appraisal is undertaken (i.e., the agents) have interests conflicting with management’s interest. This is because employees may feel threatened by reduced job security. This problem of superior/subordinate conflict is common to many organisational change situations, however, it appears to be particularly evident in the case of a potential outsourcing decision.

In analysing an outsourcing decision, employees involved with the activity are an obvious source of information. However, as their future employment may hinge on the results of the decision, they may bias information in a manner designed to promote a decision to insource. The potential for this type of gameplaying is heightened the greater the degree of information asymmetry between principal and agent. In addition, the potential of negative morale developing amongst retained staff following the development of an outsourcing arrangement needs to be considered (Kakabadse et al., 2000). These agency issues have been appraised by posing questions 4.1 and 4.2.

A further dimension of agency theory pertinent to this study relates to risk aversity of managers and the outcome uncertainty of activities. This issue was discussed by Eisenhardt (1989) who suggested that:
“According to agency theory, we would predict that … a risk-neutral principal is relatively uninfluenced by outcome uncertainty .... (and therefore) .... agency theory predicts that risk-neutral managers are likely to choose the ‘make’ option, whereas risk-averse executives are likely to choose ‘buy’” (p. 65).

Investigation of Eisenhardt’s proposition is important as it is a perspective that draws from agency theory, yet counters TCE theory. TCE theory dictates that higher uncertainty of an activity increases the likelihood of it being insourced, yet Eisenhardt’s interpretation of agency theory suggests that high uncertainty of the activity increases the likelihood of it being outsourced when the agent is risk-averse. This apparent contradiction is significant because, as has already been noted, the TCE and agency theory perspectives are largely compatible.

The significance of this contradiction provides a strong motivation for its investigation in this study. Risk aversity was measured at two levels: the extent to which the organisation has a risk averse culture, and the risk aversity of the manager who exercises greatest influence over whether activities are outsourced. Questions 4.3 and 4.4 relate to the organisation’s risk averse culture. Questions 4.5 - 4.7 concern the risk aversity at the individual manager level.

**5.3.4.2 Appraisal of labour process theory (questions 4.8 - 4.13)**

Unlike agency theory which is largely compatible with TCE, labour process theory (LPT) represents a distinctly different rationale for outsourcing. According to LPT proponents (eg., Hopper and Armstrong, 1991), management’s need to control and manipulate labour will determine whether or not an activity is outsourced. Following this theory, the activities we would expect to see insourced are those where management perceives a need to keep tight controls on the operating labour. Appraising this theory in the context of hotel management would appear to be appropriate due to the labour intensive nature of much hotel activity. Slightly different labour perspectives discussed in Chapter 3 relate to the issue of social costs and Domberger’s (1998) view that labour needs to be controlled regardless of whether an activity is outsourced or insourced.

Consistent with the approach taken to appraise agency theory, two perspectives were taken to appraise LPT. The first perspective is at the organisational level, and the second is at the level of the manager who has greatest influence over whether certain activities are outsourced. Questions 4.8 - 4.10 relate to the organisational level and are designed
to appraise the extent to which the organisation has a culture that seeks to control and exploit labour. The third question provides an assessment of the basic LPT proposition.

Questions 4.11 and 4.12 relate to the most influential manager in the outsourcing decision. The first two questions are designed to appraise the extent to which the manager has a managerial philosophy of seeking to control and exploit labour. The third question provides an assessment of the basic LPT proposition. A weakness of the operationalisation of this construct arises due to the potential of social desirability error, i.e., interviewees might respond in a way that they feel is socially most acceptable. For this reason, terms such as “labour exploitation” were not used in the interview schedule; instead terms such as “close and extensive control of labour” were used.

5.3.5 Objective 5: Appraise other factors motivating the outsourcing decision (Questions 5.1-5.8)

The TCE framework, agency theory and LPT all provide motives for outsourcing. Although support may be found for one or more of the theories, it is unlikely that they can capture all motives for outsourcing. Recognition of this has resulted in the pursuit of objective 5.

Many reasons for outsourcing were given in the literature reviewed in Chapters 2 - 4. The strength of the following seven reasons was appraised in the interview phase of the study:

- core vs non-core activities
- flexibility
- promoting competition
- the availability of sophisticated specialist suppliers
- the availability of multiple suppliers
- avoidance of financial investment
- a quest for efficiency.

5.3.5.1 Core/Non-core activities

One of the most widely-cited factor affecting outsourcing is the extent to which an activity is perceived as core to the business (Allmendinger, 1994; Guerrier and
Lockwood, 1989; Hottman and Adams, 1996; Domberger, 1998). While the most common view was that outsourcing should be restricted to non-core activities, this view was not upheld by all commentators. Domberger (1998) for example, feels that seeking out specialisation opportunities and efficiencies is more important than focussing on core competencies. The potential significance of the core/non-core dimension in the outsourcing decision appears similar to one of Lohtia et al.’s (1994) dimensions of asset specificity, i.e., the importance of the investment. In the hotel literature it was found that many activities that could be described as key to the success of the hotel were frequently outsourced (e.g. food and beverage). Similarly, in the management accounting literature, Gietzmann (1996) described Japanese companies that specifically gave contractors asset specific type components to design and/or manufacture.

The breadth of commentary concerning the significance of the core/non-core dimension affecting outsourcing has motivated its appraisal during interviews conducted. Given the problems of interpreting what is meant by the term “core” (Quinn and Hilmer, 1994; Domberger, 1998; Kakabadse et al., 2000) interviewees will be told core activities involve:

“…. the specific skill the company has or must have to create unique value for customers” (Quinn and Hilmer, 1994, p. 44).

To measure the extent to which the core/non-core dimension affects the propensity to outsource, question 5.1 was posed.

5.3.5.2 Flexibility (Question 5.2)

Outsourcing has been described as providing organisational flexibility (Domberger, 1998). An organisation managing many activities may react slower than an organisation that specialises in a few activities. Associated with this, Quinn and Hilmer (1994) note that outsourcing allows the buyer to quickly access rapidly developing technologies. Furthermore, contractors can provide greater flexibility in meeting unexpected demand. The ability to spread the provision of service across many customers facilitates an ability to meet short-term peak demand periods from a particular client. Alternatively, if the buyer has several suppliers, the additional demand can be spread across the suppliers. Question 5.2 is designed to measure the extent to which outsourcing is pursued in order to secure greater flexibility.
5.3.5.3 Promoting competition (Question 2.16)

As noted earlier in the chapter, exposing the supplier (whether the supplier is inhouse or external) to competition may motivate the supplier to maintain high quality service, to be continually innovative and to strive for efficiency. Without competition, there can be a complacency tendency (Domberger, 1998). This outsourcing incentive is addressed by question 2.16 (n.b. this question was also referred to in section 5.3.2.2.3 in relation to non-contractual methods of control).

5.3.5.4 Availability of sophisticated specialist suppliers (Question 5.3)

Large sophisticated, technology-driven, suppliers are now available, and further technological advancements are likely to increase the importance of these subcontractors (Quinn and Hilmer, 1994; Domberger, 1998). Relative to inhouse suppliers, the size of the supplier’s business facilitates investment in advanced technology, thereby allowing it to offer products and services that the typical inhouse service provider cannot compete with. To appraise the extent to which outsourcing is pursued to secure the benefits of dealing with specialist suppliers, question 5.3 was posed.

5.3.5.5 Availability of a choice of suppliers (Question 5.4)

Domberger (1998) argues that the loss of in house skills through outsourcing is not a concern if skills can be competitively obtained in the market and if there are many potential suppliers. With many suppliers, the risk of opportunistic behaviour by the supplier is constrained. To measure the extent to which the availability of a choice of suppliers is a significant factor in the determination of whether an activity is outsourced, question 5.4 was asked.

5.3.5.6 Avoidance of financial investments (Question 5.5)

Roh and Kwag (1997) describe how franchising of restaurants within hotels provides hotels with an ability to expand quickly without the need to make significant capital investments. It could be that this factor explains much of the outsourcing undertaken by
newer hotels or hotels with limited access to additional capital. Question 5.5 appraises the merit of this idea.

5.3.5.7 Quest for efficiency (Question 5.6)

Fundamental to the TCE model is the premise that organisations will seek a structure that minimises costs. Question 5.6 was developed to appraise the strength of this notion in hotels. Posing this question allows the significance of TCE’s underlying theme to be considered relative to other outsourcing motives.

5.3.5.8 Alternative perspectives pertaining to factors affecting outsourcing (Question 5.7 and 5.8)

Finally, two slightly different approaches were taken to determine what factors lie behind the outsourcing decision. The first (question 5.7) involves an appraisal of why some outsourcing arrangements have been discontinued, and the second (question 5.8) concerns factors that may constrain outsourcing. It is believed that this line of questioning may be fruitful, as it will cause the interviewee to consider outsourcing from a different perspective.

5.3.6 Objectives 6 and 7

As noted in Table 1.1, objectives 6 and 7 were pursued predominantly in the survey phase of the study. In the interests of completeness, however, a brief discussion of these objectives will be provided here. To assist with the development of the survey questionnaire, some of the variables pertinent to objectives 6 and 7 were explored in the interview phase. The development of specific propositions relating to objectives 6 and 7 is deferred to Chapter 8, as their development was informed by interview data collected.

5.3.6.1 Objective 6: Investigate for contingent factors relating to outsourcing orientations.

An analysis was conducted to ascertain whether there is a relationship between organisational characteristics and a tendency to outsource. While a significant theme in this thesis builds on TCE studies that consider whether transaction attributes determine whether a transaction is outsourced, we can also turn to question whether organisational
level factors (as opposed to transaction level) affect the extent to which organisations outsource. Four potentially contingent factors that have been appraised are:

- Strategy
- Competition intensity
- Performance
- Size

5.3.6.1.1 Strategy and propensity to outsource (Questions 6.1 and 6.2)

As noted in Chapter 2 much has been written on strategy, its relationship to TCE and its relevance to the outsourcing decision. Motivation to include this variable in this study was provided by Spicer (1992) who sees the limited attention afforded to strategy in TCE theorising as a limitation of the model. Strategy was explored in a relatively general manner in the interviews by posing questions 6.1 and 6.2.

5.3.6.1.2 Competition intensity and propensity to outsource (Questions 6.3 and 6.4)

As outsourcing can facilitate greater specialisation, and greater specialisation can result in higher degrees of efficiency, it is anticipated that in the face of greater competition more activities will be outsourced. Appraising the impact of competition intensity allows this study to build on a stream of management accounting research that was initiated by Khandwalla (1972). The interviews were used as an opportunity to explore whether and how competition intensity may be related to outsourcing. During the interview phase of the study, questions 6.3 and 6.4 were posed.

5.3.6.1.3 Size and performance affecting a propensity to outsource

In addition to competition intensity and strategy, performance and size have also been considered. The TCE “frequency” attribute underlines the significance of appraising size. Size was appraised in the interviews by the first question in Section A.\(^\text{16}\) Given the obvious importance of organisational performance, its potential relevance to outsourcing has also been appraised in the questionnaire survey phase of the study.

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\(^{16}\) Section A concerns general company and respondent background information.
5.3.6.2 Objective 7: Investigate for contingent factors relating to the sophistication of outsourcing management systems.

Much has been written on the use of contingency theory in management accounting research (e.g., Otley, 1980; Chenhell, 2000). In light of this research stream, in order to further our understanding of management systems used in conjunction with outsourcing, an analysis of the relationship between the four contingency variables described in the preceding section and the sophistication of outsourcing management systems will be undertaken.

Measures of the sophistication of outsourcing management systems used in the questionnaire survey were refined during the interview phase of the study in connection with pursuit of research objective 2 (describing the nature of outsourcing management systems). In addition, the mailed survey questions drew on Lamminmaki et al.’s (1996) study which involved an investigation into the formalisation of capital budgeting systems.

5.4 Conclusion

This chapter initially provided a review of the relative merits of the research methods employed in the study. Following this, the seven research objectives pursued were used to provide the chapter’s main underlying structure. For each objective, a brief synopsis of the most relevant literature has been provided and a reference given to the interview questions relating to the objective.

The qualitative phase of the study serves a distinctly different purpose to that pursued in the questionnaire phase of the study. Miles and Huberman (1994) feel that an understanding of fieldwork comes in layers and that:

“Three types of knowledge are considered in the revision process which propel the project forward: firstly, refining the conceptual structure, or ‘feeling their way’ with a grounded approach; secondly, the field site becomes more understandable and meaningful as more time is spent there; and thirdly, a continuous stream of ideas emerge from the field site that will not perfectly fit with what has been done so far” (p. 62).

Miles and Huberman’s comments appear particularly pertinent to the approach taken in this study. Many interview questions have been described in this chapter. The extent of these questions signify that, in most interviews, time would not permit the pursuit of all
questions developed. This was seen as a strength rather than a weakness of the interview schedule. It enabled interviews to be managed flexibly by tailoring them to the knowledge base of each interviewee, i.e., the focus of each interview was allowed to be influenced by the expertise and interest of the interviewee. Prior to the conduct of interviews, it was difficult to determine which issues would be most worthy of inquiry. The approach taken in the study can be seen to have involved casting a net widely and then narrowing the research focus as greater insights were obtained.
CHAPTER 6
INTERVIEW FINDINGS - PART A: APPRAISING THE TCE, AGENCY AND LABOUR PROCESS THEORIES

6.1 Introduction

This is the first of two chapters describing the findings of interviews conducted with financial controllers (FCs) and other senior management in large South East Queensland hotels. In this chapter, findings relating to the following three perspectives are presented:

• what activities tend to be outsourced (objective 1),
• the degree to which outsourcing decisions are made in an ad hoc or longer-term strategic manner (relates to pursuit of objective 2),
• assessing the validity of TCE, agency and labour process theories in the context of hotel outsourcing (objectives 3 and 4).

Fifteen interviews were conducted with managers representing eleven hotels. Nine interviewees were financial controllers, three were general managers, two were Food and Beverage (F&B) managers, and one was a project engineer. An overview of the interviewees and the hotels they represent is provided in Table 6.1. In the first column of the Table each interviewee is given a reference code. This coding scheme is used in the chapter when citing a specific interviewee’s comments. Interviews were conducted with more than one interviewee in Hotels 1 and 5. These interviewees have been differentiated by using an abbreviation of their title, eg., “FC” (Financial Controller).

Most interviewees had more than ten years experience in the hotel industry. As a result, they frequently drew on career experiences rather than just experience with their current employer. The particular selection of interviewees from a relatively small geographic area enhanced the reliability of data collected. This is because many interviewees commented on outsourcing issues arising in hotels where other interviews were being conducted. A high degree of networking between General Managers (GMs) and Financial Controllers (FCs) in competing hotels was apparent. This facilitated a richer understanding of the dynamics at play in hotel outsourcing in the Gold Coast. One could actually argue that the interview phase of the study constitutes a small industrial case study where the case under investigation is the management of hotel outsourcing in the Gold Coast.

17 Ten hotels are in the Gold Coast, one is in Brisbane.
Table 6.1
List of Hotel Interviewees

<table>
<thead>
<tr>
<th>Interviewee Code*</th>
<th>Position of Interviewee</th>
<th>Owners of hotel</th>
<th>Management company of hotel</th>
<th>Number of restaurants</th>
<th>Number of Rooms</th>
<th>Number of Stars (RACQ rating)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-FCa**</td>
<td>Financial Controller</td>
<td>Domestic publicly traded company</td>
<td>Overseas publicly traded company</td>
<td>6</td>
<td>609</td>
<td>5</td>
</tr>
<tr>
<td>1-FCb</td>
<td>Financial Controller</td>
<td>Domestic publicly traded company</td>
<td>Overseas publicly traded company</td>
<td>5</td>
<td>134</td>
<td>5</td>
</tr>
<tr>
<td>1-FB</td>
<td>F&amp;B Manager</td>
<td>Overseas publicly traded company</td>
<td>Overseas publicly traded company</td>
<td>2</td>
<td>298</td>
<td>4-1/2</td>
</tr>
<tr>
<td>1-PE</td>
<td>Projects Manager</td>
<td>Privately owned</td>
<td>Large international company</td>
<td>3</td>
<td>350</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Financial Controller</td>
<td>Overseas publicly traded company</td>
<td>Run by owner (Wholly owned subsidiary)</td>
<td>6</td>
<td>330</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>General Manager</td>
<td>Overseas publicly traded company</td>
<td>Overseas publicly traded company</td>
<td>2</td>
<td>298</td>
<td>4-1/2</td>
</tr>
<tr>
<td>4</td>
<td>F&amp;B Manager</td>
<td>Privately owned</td>
<td>Large international company</td>
<td>3</td>
<td>350</td>
<td>5</td>
</tr>
<tr>
<td>5-FC</td>
<td>Financial Controller</td>
<td>Overseas publicly traded company</td>
<td>Run by owner (Wholly owned subsidiary)</td>
<td>6</td>
<td>330</td>
<td>5</td>
</tr>
<tr>
<td>5-GM</td>
<td>General Manager</td>
<td>Overseas publicly traded company</td>
<td>Run by owner (Wholly owned subsidiary)</td>
<td>6</td>
<td>330</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Financial Controller</td>
<td>Large overseas publicly traded company</td>
<td>Run by owner</td>
<td>3</td>
<td>300</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Financial Controller</td>
<td>Hotel part of chain - hotels in chain are owned by different owners</td>
<td>Overseas publicly traded company</td>
<td>1</td>
<td>302</td>
<td>4-1/2</td>
</tr>
<tr>
<td>8</td>
<td>General Manager</td>
<td>Owned 50/50 by an overseas company and an Australian company</td>
<td>Both owners are also managers.</td>
<td>1</td>
<td>405</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Financial Controller</td>
<td>Two owners, a small overseas company and small domestic company</td>
<td>Run by the overseas owner</td>
<td>2</td>
<td>403</td>
<td>4-1/2</td>
</tr>
<tr>
<td>10</td>
<td>Financial Controller</td>
<td>Small domestic company</td>
<td>Run by owner (Subsidiary of owning company)</td>
<td>3</td>
<td>205</td>
<td>6</td>
</tr>
<tr>
<td>11</td>
<td>Financial Controller</td>
<td>Large overseas publicly traded company</td>
<td>Large overseas publicly traded company</td>
<td>1</td>
<td>405</td>
<td>4-1/2</td>
</tr>
</tbody>
</table>

* Multiple interviewees from one hotel have been differentiated by an abbreviation of their title (eg., FC: Financial controller, GM: General Manager).
** This hotel provided two Financial Controllers (FC-a and FC-b). FC-a was a University contact who gave a 2.5 hour interview shortly after leaving the hotel.
As noted in the conclusion to Chapter 5, a flexible approach was used with respect to the interview schedule (Appendix 1). The course of the typical interview was as follows. The interview commenced with the interviewee being informed that the research concerned furthering our understanding of what hotel activities are typically outsourced, why they are outsourced and what management accounting techniques are used to support the management of outsourcing. The interviewee was then invited to talk in general terms about his/her hotel’s degree of outsourcing and approach to outsourcing. At this stage, the interviewees were not prompted about TCE or any other theoretically based issues. Depending on what course the interview took, probes relating to the theories under enquiry were introduced by the interviewer later in the interview. Interviews varied in length from one to two and a half hours. When meeting with Financial Controllers, more time was spent discussing the accounting procedures information used to support outsourcing decision making and management.

The first interview was conducted in the context of a personalised tour and discussion with the project manager of Hotel 1. By observing many “back of house” operations, this heightened the researcher’s appreciation of the physical context relating to many of the issues under enquiry.

The organisation of the remainder of the chapter is as follows. In the next section, the findings relating to how outsourcing decisions are initiated are presented. Subsequent sections address findings relating to the appraisal of TCE, agency theory and labour process theory. The final section provides a concluding commentary.

6.2 Initiation of the outsourcing decision

Some hotels clearly had a long term strategy with plans to progressively outsource more activities (eg., Hotels 3 and 5), while others had little or no intention to outsource or wanted to outsource as little as possible (eg., Hotels 4 and 8). While most hotels seemed to be characterised by an ad hoc, reactionary approach to outsourcing, some saw outsourcing in the context of a long term strategic agenda.
6.2.1. Decisions to outsource made in the context of a long term strategic agenda

Outsourcing appeared to be conducted in the context of a strategic agenda in Hotels 1, 3 and 5. It was particularly apparent in Hotel 3 where the GM commented:

“It has taken 10 years to get to 10% and will take another two years to get to 50% .... There are many hotels in our chains and a lot of the outsourcing ventures have been delegated out to different parts of the company, so while we concentrate on one factor, another may be concentrating on another factor”.

With respect to how outsourcing opportunities are identified, this GM explained:

“We run accounts every month and .... we go through it line by line .... to see what opportunities exist. At the same time we are getting information and ideas from (the management company) which tells us what people are doing in different parts of the empire, as well as within Australia. We have a lot of interaction with the other hotels”.

From these comments, it is evident that hotels that are part of a group have the advantage of being able to share in the experiences of sister hotels. This idea is explored further later in the chapter.

FCa in Hotel 1 also saw decisions to outsource being taken in the context of a long term strategic agenda. He commented:

“There would be several levels .... of management that would need to be brought in to that decision both domestically as well as overseas, and they would have to be convinced .... in the context of a longer term strategy”.

It is noteworthy that the FC in Hotel 2, which is in the same group as Hotel 1, did not see the outsourcing decision in terms of a strategic agenda. This underlines the fact that different strategies can be apparent to managers operating at different levels within the same organisation and supports Langfield-Smith’s (1997) comments concerning the messy and ambiguous nature of strategy and the differences between intended and realised strategy. The FC in Hotel 2 commented:

“It could happen formally or informally, a lot of the ideas just pop into someone’s head, and may discuss it with myself or the GM, or amongst themselves, and with (names the owners)”.

The FC of Hotel 5 felt his senior management viewed outsourcing as a strategic imperative to allow greater focus on core activities. This focus on core activities resulted from a recent change in the hotel’s management. The hotel managed a breadth of activities (hotel, golf and condominium management), and the new management
team felt that the most appropriate way to manage this breadth was to outsource all activities that were not seen as core to the business.

6.2.2 Decisions to outsource made in an ad hoc, reactionary, manner

For many hotels, the decision to outsource appears to be initiated by different individuals and frequently triggered by a specific event. Different parties who were noted as having initiated the outsourcing decision included the owners, head office, general manager, financial controller, department heads and suppliers.

Particular examples of different parties’ involvement in initiating the outsourcing decision include the following:

- In Hotel 1, FCa felt that major outsourcing decisions tended to be initiated by the management company.
- The FC of Hotel 2 estimated that 60% of decisions were initiated by department heads.
- In Hotel 7, the outsourcing of housekeeping had been initiated by the owner.
- In Hotel 9, the management was required to consider the outsourcing of laundry by its head office.
- In Hotel 3, the decision to outsource customer satisfaction research was initiated by a supplier of the service.

In Hotels 1 and 11, interviewees explained how the decision to outsource followed employee resignation. This approach lessens adverse employee relations that can arise following a decision to outsource.

In Hotels 1, 3 and 11 interviewee comments highlighted how the capital budgeting process can result in activity outsourcing. The GM in Hotel 3 cited a specific example of how the capital budgeting process had determined that instead of replacing laundry equipment, the activity should be outsourced.

The FC in Hotel 10 commented on how an outsourcing analysis had resulted from her knowledge acquired in the course of signing purchase orders and perusing cheque runs. If she felt that a particular activity was costing too much, she initiated an outsourcing analysis. Like capital budgeting, the signing of purchase orders and perusal of cheque
Chapter 6: Interview Findings – Part A
Appraising the TCE, Agency and Labour Process Theories

runs are routine activities and therefore less “ad hoc” in nature than an event such as employee resignation.

From the above, it appears that the presence of a strategic agenda promoting the initiation of outsourcing might be an important contextual factor affecting the manner in which outsourcing decisions are made. In light of this, the relative presence of such a strategic agenda was investigated further in the study’s survey phase.

6.3 Examination of TCE, agency and labour process theories

This section presents findings relating to the appraisal of the TCE, agency and labour process theories. Initially, findings relating to the TCE model are presented.

6.3.1 Transaction cost economics

In each interview an attempt was made to ascertain whether the TCE attributes of frequency, uncertainty, and asset specificity were relevant to the outsourcing decision making. Findings pertaining to the frequency attribute will be outlined first.

6.3.1.1. Appraisal of the frequency attribute

As noted in Chapter 2, TCE theory holds that the greater the frequency with which an activity is conducted, the more likely it will be insourced. Comments made by interviewees suggest that the frequency attribute is pertinent to many of the outsourcing decisions taken by the hotels. Related to this, the availability of specialist suppliers, and the ability to hire a specialist employee full time were two issues commonly discussed by interviewees.

Commenting on the frequency and specialist supplier idea in general, FCa in Hotel 1 noted that the typical subcontractor:

“…. pride themselves on bringing to the organisation something to the equation that you cannot do all that well yourself. So in the financial world, a fine example of outsourcing is the managing of foreign exchange. Organisations cannot manage their own foreign exchange very well. Why? They are exposed. A bank can do it because they have hundreds of international transactions”.
The Financial Controller in Hotel 9 also provided support for the significance of the frequency attribute. He noted that as volume increases, after a certain point it will no longer make sense to outsource. Examples he gave included housekeeping, payroll, and gardening.

The remaining findings relating to TCE’s “frequency theory” have been organised according to three broad classifications of activities: F&B, administrative and professional services, and cleaning and maintenance services. The section concludes with observations that appear to conflict with TCE’s frequency expectation, and an attempt to extend earlier theorising on the frequency attribute by considering it in the context of volatility.

6.3.1.1.1 Frequency and Food and Beverage activities

All hotels that provided a banqueting service conducted the activity inhouse. The primary reason given for this arrangement concerned the need to maintain sufficient control. In Hotel 1, however, FCa felt that banquets were not outsourced because: “We are large enough to be able to do that ourselves”.

Liberson (1995) and Alva (1995) discuss the benefits of outsourcing pre-prepared ingredients. Many of the hotels interviewed had moved to outsourcing pre-prepared ingredients and this decision appears to have been motivated from a mass-production, frequency perspective. Within Hotel 3’s group, hotels were developing kitchens in which all food will be pre-prepared:

“The kitchens will not be like our kitchens, but will be a reconstituted kitchen. .... so you will see less chefs, but the product is always the same”.

The connection between specialisation and frequency is apparent from the following two comments provided by the FC in Hotel 2 in connection with bread and chocolate production. The degree to which these tasks were perceived as specialised appears related to their volume levels:

“To have a kitchen set up and a chef to make bread to the quality we want, we cannot justify on the volume”.

“Chocolates is a specialised skill. We could set up a chef and give him space but if he was working a 40 hour week he would make more chocolates than we would ever have a use for. What skills do we need and have we got the volume to justify having that person inhouse”.

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Other pre-prepared ingredients widely outsourced include pre-cut vegetables and pre-prepared french fries. The GM in Hotel 8 believed around 80% of hotels currently outsource the preparation of vegetables. This is because of the time consuming, labour intensive nature of vegetable production. The GM in Hotel 3 claimed his chef was always on the look out for products that he could buy in better and cheaper:

“There are a whole range of ingredients which we outsource eg., mayonnaise, cake flans .... It really comes down to the chef. If he can pre-make it at a certain price and quality, well it is all economic”.

This GM acknowledged a quest for securing economies of scale by outsourcing pre-prepared ingredients and felt that a shortage of appropriate suppliers had inhibited their degree of outsourcing. He commented:

“We cannot get a good one yet .... the day we can get a good one, we will (outsource it)”.  

Further supporting the frequency dimension of TCE, it was noted that pastry production was conducted inhouse in the largest hotel interviewed (Hotel 1) and outsourced in most others. Pastry volume was consistently referred to as the factor driving the decision to outsource. Pastry production is viewed as relatively specialised and pastry chefs command high salaries. Engaging a full-time pastry chef can only be justified where pastry production is sufficient to occupy the chef full time. Hotel 4 had insufficient output of pastries in connection with its normal activities, and, as a result, it opened a retail pastry shop. This managed the volume issue by channelling its excess capacity into retail sales.

6.3.1.1.2 Frequency and Administrative and Professional services

Hotel 11 outsourced its computer support when its employee responsible for computer support resigned. The hotel felt that they could no longer justify a full time person, as they could get expert service for about a quarter of the cost.

Although the bulk of interviewees were reluctant to outsource the management of marketing strategy, FCa in Hotel 1 described how aspects of strategy development had been outsourced. Hotel 8’s GM felt that smaller hotels may outsource certain marketing activities because they do not have the capacity to manage them inhouse.
It was found that customer satisfaction research, a particular marketing activity, was generally outsourced. Hotel 3’s decision to outsource customer satisfaction research appeared to be motivated primarily by frequency and specialist supplier issues. Related to this, the FC in Hotel 2 commented:

“They (the research company) have the right skills to do it and it would not be cost effective to do it (in house). If we hired one or two bodies we would still not have the appropriate cross section of skills to handle that work”.

Hotel 3’s GM noted that the main reason for outsourcing customer satisfaction research was the need to achieve independence. However, he also noted other reasons including cost, sophistication and speed:

“Theyir technical ability to do the job quickly for 70 hotels in Australia. It was not very sophisticated before this. This offered sophistication for little money”.

The frequency attribute is also apparent in comments made by FCa in Hotel 1 in connection with merger and acquisition analysis:

“If we do not have these skills, I would quickly have to avail myself of a team of people. You certainly would not put those people on because you could not afford them on a regular basis.... If we were Hilton USA, where they are forever on an acquisition path, they have a mergers and acquisition team in place. I don’t, I do it sporadically and therefore .... subcontract out to someone else”.

6.3.1.1.3 Frequency and Cleaning and Maintenance services

Most hotels outsourced carpet and window cleaning due to the economies of scale that a supplier can achieve. It was widely-claimed that cleaners can specialise and offer superior service than what could be achieved by the hotel providing the service inhouse. Despite this, all hotels maintained an inhouse capacity to complete one-off small jobs.

Frequency appears to be the primary reason driving the decision to outsource chef uniforms in Hotel 11. Cleaning chef uniforms represented the biggest expense in relation to laundry and the FC estimated that excluding the capital outlay saved, it was about 35% cheaper to rent the uniforms under a contract that included laundering.

Conflicting influences with respect to two of the TCE attributes were apparent in comments made by the F&B manager in Hotel 4. This manager felt it would be easy to outsource F&B cleaning because the tasks required are straight forward and easy to contract for (i.e., low uncertainty). However, he believed that as the hotel had a large
inhouse housekeeping department, it made sense to continue with the operations being managed inhouse. In this case, it appears that scale economies associated with managing the housekeeping function inhouse were sufficient to outweigh the low transactions costs that would arise if the service was outsourced.

At the time of the interview, Hotel 8 outsourced about half of its linen ownership to a laundry specialist, and was planning to outsource the remainder in the next six months. Cost savings due to the additional economies of scale that could be reaped by the laundry specialist appear to have motivated this decision. It was ascertained that the savings were significant because the laundry outsourcer could buy in bulk. As will be noted later in connection with the need to maintain brand reputation, given the linen quality concerns raised by most of the hotels, it is interesting to note that this was not a concern for the GM in this 5 star hotel.

6.3.1.1.4 Observations countering TCE’s frequency theory

Being part of a large group of hotels appears to carry two conflicting “frequency” effects. Firstly, a hotel that is part of a group benefits from the ability to share in group support services. For example, Hotel 11 moved to insourcing gardening as they were able to share a full time gardener with a sister hotel. This observation supports the TCE frequency proposition. Secondly, all interviewees in hotels that were part of groups (eg., Hotels 1, 2, 3, 6, 7, and 11) referred to enhanced purchasing power from being part of a group. This highlights how greater frequency associated with being part of a group, signifies cheaper outsourcing opportunities. As size increases purchasing power, increased size signifies a discounted cost of outsourcing. This second frequency perspective clearly counters the conventional TCE prescription.

A second observation that also counters the TCE model was made in Hotel 8 where the GM felt that garden maintenance was worth outsourcing if the grounds were big enough. He commented:

“Once you start changing 10-50 plants every month, then you start to outsource”.

This observation suggests that where frequency of a non-specialized activity is very low, it is uneconomic to outsource. In this gardening example, it appears that if less than 10 plants are being replaced per month, the size of the activity is insufficient to make it
worthwhile for a subcontractor. In this type of situation, it appears appropriate to permanently employ a general handyman. If the jobs completed by the handyman comprised 20 activities which could be outsourced independently of one another, then the hotel is saving transportation costs associated with 20 visits by 20 separate subcontractors.

Following these two noted departures from the TCE frequency proposition, we can modify the TCE model along the lines outlined in Table 6.2.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Outsourcing Implication</th>
<th>Consistency with TCE model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small activity</td>
<td>Insource</td>
<td>Inconsistent</td>
</tr>
<tr>
<td>Mid-range sized activity</td>
<td>Outsource</td>
<td>Consistent</td>
</tr>
<tr>
<td>Large activity</td>
<td>Insource</td>
<td>Consistent</td>
</tr>
<tr>
<td>Large activity undertaken by group of organisations</td>
<td>Outsource</td>
<td>Inconsistent</td>
</tr>
</tbody>
</table>

6.3.1.1.5 Extending TCE’s frequency theory

Another particular aspect of frequency relates to demand volatility. Hotel 9’s FC discussed room occupancy volatility. He explained room occupancy volatility results in additional costs due to the management and training of casual labour which has a high turnover rate. He felt that if occupancy levels are volatile and unpredictable, it makes sense to outsource occupancy related activities (e.g., housekeeping). In effect, the hotel was outsourcing the problem of volatility management to the supplier. Due to its size, a speciality supplier is more capable of managing this volatility problem, i.e., it has greater scope to smooth peak demand across a larger workforce. Hotel 9’s FC also noted that in his earlier experiences he had not seen housekeeping outsourced. He noted that his previous experience was in a CBD where occupancy was less volatile.

Although this aspect of volatility may appear related to environmental uncertainty discussed in the next section, the connection between volatility and size of the subcontractor relative to a hotel has resulted in its consideration in this “frequency” section.\(^{18}\) Contrasting with the conventional TCE prescription, from the perspective outlined here, it appears greater volatility can increase the likelihood of outsourcing.

\(^{18}\) Volatility relates to the environmental uncertainty construct referred to by Widener and Selto (1999).
Another pertinent issue is the degree to which volatility is predictable. Where volatility is less predictable, greater outsourcing would appear to be justified.

Another example of a connection between frequency and volatility relates to the sourcing of certain ingredients. By many hotels pooling their volatile purchasing patterns through one agent, the agent may be more capable of managing the volatility. For example, if certain foods have high price variability, it may be that a specialist supplier can smooth prices through bulk buying and buying from around the world. FCa in Hotel 1 commented:

“It depends on the nature of the organisation you could outsource to, if that organisation was capable of smoothing out the volatility for you. Lets say it was a highly volatile area like seafood. If that organisation had an incredible buying power throughout the world, which you at (the hotel) could not achieve through your 2-3 people in purchasing, volatility would therefore drop if you were to outsource.... We can fly you in the abalone from around the world in 24 hours and it will be fresh .... and we will still do it at the price because it would do two things.... It would make sure that you meet customer demand. It would lock in to profit margins by you being able to lock in certain prices which you can negotiate with them, and that would be great. So uncertainty (or rather volatility) in some situations may actually drive you to outsource”.

In summary, it appears appropriate to consider “volatility” in the context of frequency, as the relative size and specialization of subcontractors may equip them to manage the volatility problem. This perspective does not appear to have been pursued in the TCE literature. In light of this, volatility has been included as a factor appraised in the study’s survey phase.

6.3.1.2 Appraisal of the uncertainty attribute

As discussed in Chapter 2, uncertainty relates to contract incompleteness. According to TCE, uncertain activities are difficult to contract for and will therefore tend to be insourced to avoid the risk of opportunistic behaviour. Interview findings relating to the uncertainty attribute are organised under three headings: F&B activities, non-F&B activities and observations that counter the TCE uncertainty prescription.

6.3.1.2.1 Uncertainty and F&B activities

When interviewees were asked if it was difficult to outsource any activities due to their instability, unpredictability or complexity, most referred to “F&B”. A review of the
interview data revealed that the main concern revolves around a problem of maintaining sufficient control over F&B. It was widely seen to be too important an activity to pass to an external party. As control and the issue of uncertain contracting are so inextricably linked, many of the insights concerning control provided by the interviewees appear worthy of note.

Hotel 8’s GM saw F&B as unstable because of the many activities involved, i.e., purchasing, receiving, storing, preparing, and the logistics of getting food into the kitchen. He felt that the production line is very long, that quality is key, and that so many things can go wrong. Consequently, he did not wish to outsource F&B as it warranted close control. He felt that no contract could provide the same control as managing F&B inhouse.

Hotel 9’s FC expressed a similar view:

“Potentially you can have a lot of very upset hotel guests because they do not get their breakfast on time, it is not up to scratch, and so on. Although you can try and contract in, if things go wrong, you are not able to do whatever you see fit to manage the situation, and have to rely on the subcontractor to behave appropriately, or have the hassle of enforcing the contract... F&B in general is just a huge hassle. It is labour intensive, you get the biggest problems out of food and beverage, and it is a high cost operation.... There is lots of activity, you spend lots of time administering F&B, and at the end your profit margins are next to nothing”.

This view of F&B being problematical due to its low profitability was noted by several interviewees. Despite this, most saw it as too important to contract out. Hotel 6’s FC commented:

“The view from a lot of hotel companies is that F&B are a necessary evil, they do not make you a lot of money, but it is a service that you have to have”.

From the interview data collected it was clear that the majority of interviewees were opposed to outsourcing F&B activities. This is in contrast to what was found in the hotel outsourcing literature, as F&B was the most widely cited activity. It therefore appears there may be a significant international difference in F&B outsourcing practices. The view that Australian hotels outsource F&B to a relatively limited degree was also held by Hotel 8’s GM who had a significant amount of overseas experience. He viewed Australia as lagging behind most of the Western world in terms of F&B outsourcing and anticipated increased F&B outsourcing by Australian hotels in the future.
6.3.1.2.2 Uncertainty and non-F&B activities

The concerns raised by hotels not wishing to outsource frequently related to the idea of behavioural uncertainty, i.e., the inability or difficulty in evaluating performance. From comments made, if a hotel is not satisfied with performance, it appears easier to get an inhouse employee to change their ways (or fire them), than having to negotiate with a supplier.

Different views were expressed by interviewees with respect to what could be outsourced. Landscaping was described by Hotels 5 and 12 as being difficult to outsource due to the problems of ensuring landscape work is completed satisfactorily. Hotel 1, however, was happy to outsource landscaping, noting that it “was not their core business”.

Other areas described as unstable and difficult to contract for included public area cleaning and room cleaning. Hotel 15’s GM was considering outsourcing public area cleaning, but acknowledged that it was difficult to contract for due to the variability of the activity. He noted it was difficult to set prices and prepare contract specifications as it was unclear how much cleaning would be required:

“How can I write a specification when the amount of use of a particular area varies. And you cannot just do it by the number of guests who come through, because some guests are dirtier than others …. A bunch of accountants are a lot cleaner than the miners. When the miners come in they make a mess”.

In contrast, Hotel 9’s FC saw public area cleaning as relatively stable and that it was an easy activity to contract for. This hotel had previously contracted out public area cleaning, but it appeared that due to the “frequency” rationale it had reverted to being managed inhouse. Due to the different nature of events and activities undertaken by hotels, it appears that what might be uncertain and unstable in one hotel is not necessarily uncertain and unstable in another.

6.3.1.2.3 Observation countering the uncertainty TCE theory

One commentary provided by Hotel 8’s GM counters the TCE view of uncertainty. He said he preferred to outsource where there is specialised work or specialised equipment:
“Where we want to shy away is where you have to constantly upgrade your equipment, constantly retrain the people. We would rather give it to you, a 3 year contract, we know the costs we are up against, and we know we get it done”.

Constantly having to retrain and upgrade due to technological advancement highlights behavioural as well as environmental uncertainty. The behavioural uncertainty arises because in a field subject to technological change, the hotel’s lack of expertise may signify it is not well equipped to monitor a specialist’s performance. In light of this, the TCE model would lead us to expect insourcing of activities subject to technological change. Yet it appears in this example, it is the activity’s instability that results in outsourcing. It appears that evolving fields can result in greater outsourcing.

To summarise this discussion in connection with uncertainty, it was found that F&B was the most referred to activity in connection with instability and contracting difficulties. Some hotels also saw difficulties with outsourcing landscaping, public area cleaning, and room cleaning due to their perceived uncertainty. Finally, contradicting the TCE model, one manager saw a particular dimension of uncertainty, technological change, as motivating a desire to outsource.

6.3.1.3 Appraisal of the asset specificity attribute

It was noted in Chapter 2 that asset specificity is the TCE attribute that has commanded the most research interest. Lohtia et al. (1994) describe it as “an asset, either tangible or intangible, that has little value outside of a particular relationship” (p.261).

Following the categorisation adopted by Williamson (1985, 1988, 1991), in this chapter, interview observations relating to asset specificity have been structured according to five categories:

1. site specificity,
2. dedicated asset specificity,
3. temporal asset specificity,
4. human asset specificity, and
5. brand capital.

Williamson’s sixth category, physical asset specificity has not been used as no physical asset specificity observations were noted. This may be due to the service oriented nature
of the hotel industry. For some observations, it appeared an observation related to more than one of Williamson’s asset specificity categories. In these cases, the observation has been discussed under a distinct heading that combines two asset specificity categories.

6.3.1.3.1 Site specificity

Site specificity relates to assets that are located in close proximity to the outsourcer. Site specificity is present where the subcontractor would incur prohibitively high transportation costs shipping to an alternate customer or the cost of relocating production equipment is high. Much hotel activity relates to the provision of services, therefore, transportation is frequently not an issue. Accordingly, with respect to hotels, it appears that the prohibitively high nature of costs associated with relocating an asset is a key characteristic of site specificity. Several site specificity observations were made. It appears that site specificity is frequently used by hotels to secure a subcontractor’s commitment to a trading relationship. This is similar to the finding of Roh and Kwag (1997) in relation to franchising.

The most common activity where site specificity was evident was in relation to shops. It appears that shop retail was generally viewed as outside hotel management’s span of expertise. Hotels 1, 7, 8, 9 and 10 outsourced their shop management. Site specificity was evident in Hotels 1, 8, 9 and 10 as they had required the shop operator to pay for all shop refurbishments. By requiring this investment, the hotel had tied the subcontractor into the relationship.

Site specificity was also apparent with respect to the management of a disco in Hotel 8. The Hotel’s GM indicated that he did not want hotel staff to manage the disco due to late night management issues that can arise. It was desirable that the disco had separate entrances from the hotel so that disco guests, disco staff, and deliveries of disco supplies did not have to pass through the hotel. The GM explained that this necessitated an investment of around a hundred thousand dollars. The GM required the disco operator to finance this investment, and acknowledged it as a strategy designed to secure commitment to the relationship from the disco operator. The hotel extended a five year contract to the disco operator. The length of this negotiated contract appears consistent with the TCE model. In order to protect the hotel’s interest, an asset specific investment was made by the subcontractor, and to protect the subcontractor’s interest, a long
contract was drawn up. The GM viewed the arrangement as a “win-win situation” benefiting both parties.

Site specificity also appears to have been used to gain commitment from the subcontractor in Hotels 9 and 10 where restaurant management was outsourced. In both cases the hotel required the subcontractor to finance refurbishment. This again signifies that, if the restaurant fails, the restaurateur will have lost the refurbishment investment. An alternative approach was taken to the outsourcing of an Asian restaurant in Hotel 1. The hotel preferred to finance the investment so that the subcontractor was not exposed. In this case, however, it appeared that the hotel did not feel particularly exposed, as the restaurant subcontractor had a strong brand name to protect. The FC commented:

“If you say .…. come in and you will need to furnish the kitchen, and your capital investment is $7 million dollars, they would feel very uncomfortable. But if you say, no, you tell us what you want and we will put it in …. All we want is your managerial experience. You wheel in the people .... You need to make sure that it is attractive to them”.

In light of the particular nature of hotels, it appears that site specificity may be a highly significant dimension of asset specificity. This is because, unlike most trading situations, the hotel customer conducts transactions while on the vendor’s premises. This signifies that any service-related activity that is subcontracted has to be located on the hotel’s site (eg., shop, restaurant, disco). From the findings noted above, it appears that site specificity is widely used by hotels to gain subcontractor commitment. The need for this commitment is considerable. If the subcontracted service is poorly delivered, the hotel’s image will suffer.

Other noted examples of site specificity relate to dedicated asset specificity. These are discussed under the following heading.

**6.3.1.3.2 Site specificity and dedicated asset specificity**

Dedicated asset specificity concerns a general purpose asset that has been purchased for a particular trading relationship. If the relationship ceases, excess capacity will result. Three examples of dedicated asset specific investments that also carry site specificity implications were noted: inhouse entertainment, the provision of safes, and laundry chemical dispensers.
Subcontracting the provision of inhouse movie entertainment appears to signify the presence of dedicated asset as well as site specificity. Hotel 6 outsourced the provision of inhouse movies. The subcontractor wanted to introduce improved technology but would not do so without the protection of a seven year contract. This investment signifies site specificity as, once installed, it would be difficult to relocate the asset. It also appears to signify dedicated asset specificity. If the contract with the hotel ended, the subcontractor would probably be left with excess capacity. In Hotel 6, every time the inhouse entertainment provider added a new technological feature, he tried to protect his interests by increasing the length of the contract. Due to rapidly changing technology, however, the hotel was reluctant to enter into a long contract. As a result, a month by month contract had been negotiated.

A second site/dedicated asset specific example was noted in Hotel 11. In this hotel, a specialist company owned the safes and a commission based on safe usage was paid to the hotel. Because the safe company had made a site specific investment of around $1.5 million installing the safes, a five year contract had been negotiated. Again, it appears site specific asset investment was used as an opportunity to gain commitment from the supplier. Dedicated asset specificity also appears to be present as cancellation of the contract would result in excess capacity for the subcontractor.

A third example of site/dedicated asset specific was noted in Hotel 1 in connection with the provision of laundry chemicals. This hotel had its own laundry facility and its supplier of chemicals had made an on-site investment of approximately $35,000 in chemical dispensing equipment. Because of this investment, the subcontractor was trying to negotiate a longer contract. FCb was comfortable with this arrangement, commenting that:

“At the end of the day you have to say are we being reasonable in what we are asking our supplier to do. I would not ask them to do anything that I would not ask myself to do as a supplier”.

The FC’s willingness to enter into a long term contract with this supplier is consistent with the TCE model.
6.3.1.3.3 Dedicated asset specificity

Only one observation relating solely to dedicated asset specificity was noted. Hotel 9 outsourced the ownership and maintenance of indoor plants. Although this is an example where the subcontractor’s investment is physically located on the hotel site, it does not appear to constitute high site specificity as the asset removal costs would probably not be prohibitively high. Dedicated asset specificity appears to be present, however, as if the subcontractor’s relationship with the hotel ended, the supplier would be left with an excess supply of plants. This arrangement also appears significant as it again highlights an example of a hotel capitalising on asset specificity to secure commitment from the supplier. By requiring the subcontractor to own the plants, it provided an inducement for the supplier to provide effective plant maintenance.

6.3.1.3.4 Temporal asset specificity

Temporal asset specificity arises when timely provision of a good or service is essential. Masten et al. comment:

“Even though the skills and assets necessary to perform the task may be fairly common, the difficulty of identifying and arranging to have an alternative supplier in place on short notice introduces the prospect of strategic holdups” (1991, p. 9).

Two interview observations appear pertinent to temporal asset specificity.

FCb in Hotel 1 indicated that public area cleaning was too important to outsource. As the hotel was open 24 hours a day, it was felt important that staff were on call to attend quickly to any cleaning required (i.e., the timing and coordination of this activity was important).

Comments made in Hotels 10 and 11 highlight a perception that it was risky to outsource laundry due to the importance of timely return of clean laundry. Hotel 10’s FC elaborated on early experiences where laundry operators had lost linen and also returned it to the wrong hotel. Hotel 11, which was physically unable to provide its own laundry service, was experiencing problems with timely laundry delivery especially during times of high occupancy. In this hotel the management wanted a greater stock of linen, however the owners were unwilling to make the investment.
6.3.1.3.5 Human asset specificity

Human asset specificity arises when employees require firm specific knowledge or experience. This dimension of asset specificity has commanded considerable attention in the literature, however interviews conducted in this study uncovered only four observations pertinent to human asset specificity. This might be because a large proportion of hotel staff are relatively low skilled.

One could argue that strategic marketing is highly asset specific i.e., specialised knowledge and experience specific to a hotel is developed. Most interviewees felt that this activity would not be outsourced as it is a sensitive area that raises confidentiality issues. As already noted, Hotel 1 took a different approach as it had contracted out to a marketing consultant. FCa rationalised this decision explaining that the consultant was a specialist in the field. While Hotel 1’s action might appear to counter TCE theory, it is noteworthy that FCa felt that careful preparation of a contract was key to the relationship. Overall (apart from Hotel 1), these observations lend support to TCE.

In Hotel 1, FCb described a desire to outsource the IT function due to high salaries and high labour turnover in the area. She recognised that significant training was warranted for the IT staff and that much of the training was unique to the hotel’s particular needs. On several occasions the hotel had reviewed the outsourcing option, however on each occasion it decided to continue to insource. There were several reasons behind this decision, each of which can be linked to TCE:

1. Any supplier of IT would also have to incur human capital investment costs (asset specificity) by training personnel in matters specific to the needs of the hotel. If the IT contract were to cease, this investment would effectively be lost, so the subcontractor is exposed.

2. The supplier faces the same problem as the hotel, i.e., the risk of staff leaving. Connected to TCE’s frequency idea, however, a specialist company appears better placed to manage this problem. Nonetheless, Hotel 1’s FCb felt many potential suppliers declined to quote, or quoted a prohibitively high price.

3. A further issue noted by FCb was that as the hotel was open for 24 hours a day, IT expertise may be required at any time. This problem relates to
temporal specificity. The high human asset and temporal specificity, apparent in this case appear to limit Hotel 1’s ability to outsource IT.

Many hotels have restaurants run by top chefs, with the restaurant bearing the chef’s name. The hotel suffers exposure in this situation as the restaurant’s continued success is dependent on the chef remaining with the hotel. To secure increased commitment from the chef, some hotels outsource the restaurant’s management to the chef. Although this practice was not applied in any of the hotels where interviews were conducted, Hotel 8’s GM commented on it as a practice applied in overseas hotels. This practice can be seen to contradict TCE’s human asset specificity prescription, as it is an example of high asset specificity resulting in outsourcing.

6.3.1.3.6 Human asset specificity and dedicated asset specificity

A final human asset specificity example that also carries implications for dedicated asset specificity was noted. At the time of the interview, Hotel 7 had recently outsourced housekeeping to a cleaning subcontractor that had no prior hotel cleaning experience. Two types of asset specificity are evident here. Firstly, there is human asset specificity as the subcontractor had to train staff in a new form of cleaning. Secondly, if the housekeeping contract ended, the subcontractor would probably be left with excess cleaning capacity. This signifies “dedicated asset specificity”.

Because of the investment made by this subcontractor, a penalty clause guaranteeing a certain level of occupancy was included in the outsourcing contract. Although this penalty clause reduced the subcontractor’s risk, the hotel’s risk was minimal as it was only required to provide three months notice if terminating the contract. According to the FC, the subcontractor was keen to secure the contract, as it was seeking an opportunity to move in to hotel cleaning.

6.3.1.3.7 Brand capital

Brand capital refers to reputation investment. Brand capital asset specificity arises when one party has control over assets that can be used to damage the brand image of a second party.
The issue of core/non-core activities, which was a key issue in the literature and also in interviews conducted, appears related to the brand capital asset specificity dimension. A widely quoted reason for not outsourcing particular activities concerned the perception that they are core. When elaborating on this view, interviewees indicated a reluctance to lose control of activities where the hotel’s reputation was at stake.

Hotel 10’s FC noted that if an outsourced restaurant were to fail, it could have grave consequences on a hotel’s reputation:

“A bad reputation tends to stick, and it could also be very difficult for that outlet to become successful when it has a bad tag against it. In our industry it is very unforgiving”.

The importance of maintaining the guarantee of a quality F&B service appeared to result in some hotels outsourcing a restaurant only if they had a second restaurant that they could control. This appeared to be the case in Hotels 7 and 9.

In addition to the hotel’s brand capital, it is also important to consider the restaurant’s brand capital (reputation). Hotel 1 outsourced the management of a restaurant to a chain with a strong high quality reputation. The hotel found it easier to sub-contract as the restaurant’s need to maintain its reputation ensured maintenance of the hotel’s reputation. As the restaurant’s brand capital appears to have facilitated and not inhibited the outsourcing arrangement, this is an observation that contradicts the TCE asset specificity principle.

The issue of brand capital and bed linen ownership was apparent in some hotels. Hotels that outsource laundry have the option of the laundry provider owning the linen. Most hotels that outsourced laundry owned their own linen, however (eg., Hotels 9, 10, and 11). The main reason given for this was that linen ownership enabled the hotel to replace it when needed. Interviewees felt that contracting out linen ownership was problematic as linen replacement decisions are subject to judgement. The contractor can be expected to extend the life of the linen, which might result in a tarnished reputation for the hotel.
6.3.1.3.8 Conclusion to asset specificity analysis

Although two of the observations noted above conflict with the TCE asset specificity prescription, it appears asset specificity represents a useful framework to interpret hotel outsourcing. The asset specificity categories that appear most pertinent to hotels appear to be site specificity and brand capital. The significance of site specificity likely results from the fact that hotels sell their services on site. The significance of brand capital can be related to the fact that a hotel’s reputation is a critically important asset that must be protected.

6.3.2 Labour process theory

As noted in the literature review, labour process theory (LPT) relates to the idea that some activities may be insourced as part of an attempt to control and exploit labour. Very few observations supportive of this perspective were noted in the interviews.

Although the GM in Hotel 8 appeared conduct himself in a manner consistent with LPT, a review of the interview transcript revealed that this impression resulted more from personality type, rather than particular comments he made. Nevertheless, this manager was resistant to outsourcing, and a concern for loss of control appeared to motivate this position. Other hotel managers acknowledged that LPT may have a degree of relevance, but that at the end of the day cost issues would be a stronger and overriding factor when deciding whether to outsource (eg., Hotels 1, 2, and 11).

When asked of his view of the LPT perspective, Hotel 3’s GM expressed the opinion that it was not particularly pertinent, as he felt suppliers had too much to lose if they did not keep tight control over staff:

“You have to be selective obviously, and you have to make sure that the principles and objectives of the company are very much similar to your own. But we find they have a lot more to lose as this is their business. Like when the owner outsourced the management of the hotel to us. Now unless we do a really good job and hear what they are saying and warm to their needs, well we would be doing ourselves a huge disservice. So it does not tend to be a big issue”.

This GM was a strong believer in outsourcing. He noted continuing influence exercised by hotel managers over staff following the outsourcing of an activity. For example, his
F&B manager still exercised close control over room service, even though it was an outsourced activity. He commented:

“I do not really see this as an issue. The chef for example - if we continue to go the way we are going and the production of food is reduced down …. there is less of a need to have an executive chef at all. You will have kitchen managers, and they will graduate to F&B managers. We are speaking to him right now and we are saying that in the future there will not be executive chefs, and you need to outsource room service, you need to become a business person, and he is embracing it and accepting it, and breaking off bits of the business. So do we need an executive chef to run the pastry/kitchen, or do we need the pastry chef to run it? No not really, so what do we need you to do, what do we not need you to do. So your job is becoming redundant. But the plan is we don’t have an F&B manager, you are going to be the F&B manager. So he has embraced that. You will be the driver of change and so these are the benefits for you”.

One is bound to question however, whether the chef would hold the same views on this matter.

Despite the lack of observations supportive of LPT, maintenance of control was a common reason put forward as a factor motivating insourcing. This notion of control appears to relate more to the ability to take immediate corrective action should it be warranted, rather than any of the exploitative notions evident in LPT, however. When appraising the potential of LPT, considerable care was taken not to use emotive terms (the term exploit was not used in any of the interviews). Despite this, it might be that failure to find any support for LPT stemmed from interviewees’ concern with what most would see as a socially undesirable management style.

A view that directly contradicts with LPT is that owners or managers may be able to gain greater control over workers by outsourcing. If the subcontractor does not perform satisfactorily, it may be easier to terminate the contract than it is to fire an employee. This perspective received negligible support from the interview data, however. With the exception of Hotel 2’s FC, interviewees felt that it is easier to replace an employee than a subcontractor. Despite this view, the period of notice to terminate a subcontractor was generally found to be quite short (eg., 3 months for housekeeping in Hotels 7 and 9).

In light of the minimal support offered for LPT in the interview phase of the study, it was not appraised in the study’s survey phase.
6.3.3 Agency theory

As noted in Chapter 2, a key difference between agency theory and TCE concerns the way that uncertainty is viewed. Unlike TCE, agency theory proposes that when an activity is uncertain, risk averse managers will be motivated to outsource. Two interview observations support the agency theory perspective. The first concerns housekeeping and the second concerns information technology. Other observations made signify contrasting perspectives, however. These findings are elaborated upon in this section.

When deciding to outsource housekeeping in Hotel 7, liability management associated with injuries sustained at work was considered. Outsourcing the function moved an aspect of responsibility for workplace health and safety outside the hotel. Further risk dimensions that could be moved to the subcontractor were also noted in this outsourcing decision, as the uncertainties associated with labour intensive activities are particularly apparent in room cleaning. Outsourcing in the face of these issues is consistent with the agency theory perspective on risk. Hotel 7’s FC commented:

“We are talking about 50-60 staff. …. You rely on those staff. It can be a fairly volatile market in the sense that people are checking in and out very quickly. …. It (the benefit of minimising risk) was in the back of my mind but we did not quantify it, nor the payroll or HR savings”.

Also consistent with the agency theory perspective was Hotel 1’s desire to outsource IT. Supply of this activity was unstable (due to high staff turnover) and therefore viewed as risky. This risk appeared to be a significant factor accounting for the hotel’s desire to outsource the function. It also appears, however, to have been a significant factor constraining the hotel’s ability to secure an IT subcontractor.

Competing with the agency “risk” perspective on outsourcing, several FCs (Hotels 1, 6, and 11) believed that a manager seeking to outsource primarily because of their risk aversity would be unlikely to succeed. They felt that more substantial factors (eg., cost savings) would have to be apparent in order for the outsourcing decision to be ratified. Commenting on the role of a manager’s risk aversity, Hotel 1’s FCb said:

“That happens but hopefully in your analysis that you do we are able to determine whether it is that, or is it financial. So we would look at all those factors”.

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A second perspective that counters the agency theory concerning risk was apparent in comments made by Hotel 3’s GM. He felt that the managers and owners of his hotel were not risk averse and that they were willing to outsource and try new things. As noted earlier, this hotel was part of a group that had made a strategic decision to outsource more activities. In connection with his view that his hotel group were “fairly strong risk takers”, he commented:

“It is more the nature of the business that we are risk takers, that we are reinventing menus and products all the time and we go into areas where no hotel has gone before; come in early and secure a big part of the market”.

It appears that parallels can be drawn between this risk taking characteristic and the prospector strategy discussed in Chapter 2.

It appears that although outsourcing may reduce a hotel’s risk exposure, it results in a new dimension of risk, i.e., the risk of outsourcing failure. Hotel 7’s FC commented:

“(although risk aversity) may have been an issue that the GM may have looked at, .... there was obviously the other side of it too; the potential for it not to work. To have to go out and find all the staff again because we had terminated their contracts”.

Similarly, Hotel 1’s FCa commented on the risk of outsourcing a themed restaurant:

“You may have potential problems if you have a heavily themed restaurant …. it is not just a matter of marching in your employees or another subcontractor and saying get on with it. Can you use the name? No you cannot. You have Planet Hollywood. So you may need to refurbish it; litigations involved. So these are the risks of outsourcing”.

These final two comments relating to the risk of a failed outsourcing venture add a further important dimension of risk when considering outsourcing. This risk of outsourcing failure might be viewed as a transaction cost. If an outsourced activity fails, transaction costs will be incurred finding a new supplier or bringing the activity inhouse. An activity may be deemed too risky to outsource because if it does go wrong, these potential transaction costs might be considerable. It is believed that this is a distinct aspect of TCE that has not been discussed in the literature.

The observations noted above highlight the complexity of risk. In summary, some interviewees felt that risk aversity may cause a manager to want to outsource, but that a decision to outsource would have to be motivated by more substantial factors, most notably, the “financials”. An alternative view was that hotels that are risk takers are
more likely to outsource. The notion of risk of failure with the outsourcing venture was
introduced. In light of these observations, the role of risk in outsourcing was appraised
further in the study’s survey phase.

6.4 Conclusion

Drawing on the findings of interviews with fifteen managers from eleven hotels, this
chapter has commented on what hotel activities tend to be outsourced and also the
degree to which hotel outsourcing decisions are made in the context of a long term
strategic agenda. In addition, the degree to which TCE, agency theory and labor
process theories explain hotel outsourcing has been assessed.

There appears to be little F&B outsourcing by Australian hotels. This was an
unanticipated finding, as F&B was found to be the most widely cited activity in the
hotel outsourcing literature. By way of contrast, housekeeping which has been accorded
minimal discussion in the literature, was referred to extensively as an activity that is, or
could be, outsourced in Australian hotels.

It seems that most hotels take an ad hoc approach to outsourcing, although three of the
eleven hotels appeared to view outsourcing in the context of a long term strategic
agenda. As a long term strategic outsourcing agenda might lead to relatively
comprehensive outsourcing analyses, this issue was considered further in the study’s
survey phase.

Many interview observations relevant to the TCE attributes of frequency, uncertainty,
and asset specificity were made. Although most observations supported TCE’s
frequency prescription, several observations enabling an extension of this aspect of TCE
were noted. Firstly, hotels that are part of a group may be more likely to outsource due
to the additional purchasing power resulting from group membership. Secondly, if the
volume of work associated with an activity is very low (e.g., gardening or maintenance),
it may be uneconomical to outsource. Both these observations counter the TCE model
with respect to frequency. In addition, it was noted that subcontractors might be better
equipped to manage demand volatility. This is because the subcontractor can specialise
and spread demand volatility across a larger workforce. This may represent an extension
to the TCE model as no discussion of volatility in the context of frequency has been noted.

Many observations pertinent to environmental and behavioural uncertainty were noted. F&B is widely viewed as unstable and, as already noted, this activity tends to be insourced. The interviewees generally felt a need to maintain control over what was widely perceived to be a key hotel activity. One observation countering TCE’s uncertainty prescription was noted. In some situations a supplier might be better placed to manage uncertainty, eg., where equipment needs to be continually upgraded. In these situations uncertainty can motivate a decision to outsource, an observation that counters the conventional TCE uncertainty view. Two examples of actions that appear to contradict the TCE asset specificity prescription were also noted. Firstly, one interviewee commented on the practice of outsourcing restaurant management to a celebrity chef. In this type of arrangement, it appears that high human asset specificity has resulted in outsourcing. Secondly, it appeared that one hotel was motivated to outsource its restaurant management because the subcontractor was a chain with a strong brand image. The hotel felt protected in this arrangement due to the restaurant’s need to protect its own reputation. In this case, it appears the restaurant’s brand capital resulted in, rather than prevented, the outsourcing arrangement.

Minimal evidence supportive of labour process theory (LPT) has been noted. As a result LPT has not been investigated in the questionnaire phase of the study. A mixture of evidence has been found with respect to the agency theory view that risk averse managers will seek to outsource uncertain activities. Some managers saw the risk aversity issue as potentially no more than a weak effect, and one interviewee felt that a risk-taking stance might actually result in a greater propensity to outsource. A new dimension of risk was also noted: the risk of failure. This risk has been described as a potential transaction cost that might constrain outsourcing.

The next chapter presents the second part of the interview findings. These findings relate to the design of outsourcing management systems and general issues motivating outsourcing.
CHAPTER 7
INTERVIEW FINDINGS - PART B:
DESIGN OF OUTSOURCING MANAGEMENT SYSTEMS AND GENERAL
ISSUES MOTIVATING OUTSOURCING

7.1 Introduction

The previous chapter presented interview findings concerned with appraising the TCE, labour process and agency theories. This chapter presents interview findings concerned with:

- appraising other factors that might motivate the decision to outsource (research objective 5),
- describing the nature of outsourcing management systems (research objective 2).

Factors affecting the in sourcing / outsourcing decision can be classified into three groups:

- those relating to both insourcing and outsourcing,
- those relating to outsourcing only,
- those relating to insourcing only.

This classification has been used to structure the chapter’s description of interview findings relating to general issues motivating outsourcing. The second half of the chapter presents interview findings concerned with outsourcing management systems. It should be borne in mind that the nature of the material presented is such that some interview observations could be presented in connection with more than one of the chapter’s sections. Like many social science studies, the issues under enquiry in this study do not always lend themselves easily to classification schemes.

7.2 General issues affecting the decision to insource or outsource

Three general issues are considered under this heading. These are: whether an activity is viewed as core / non-core to the business, whether an activity is profitable, and owner / management company issues.
7.2.1 Core / non-core activities

The core / non-core issue has been found to be a significant factor affecting what is outsourced. Interviewees held a strong conviction that core activities should not be outsourced. Unprompted with respect to the core / non-core issue, Hotel 1’s FCa commented:

“How does (hotel named) deliver it’s competitive advantages? It is through the core activities: gaming and the provision of a style of, and quality of, F&B delivery and entertainment. To outsource the core activities of an organisation is almost to relinquish your ability to control one of the most important processes through which the organisation competes in the market place. .... The outsourcing of core activities has never really been seen as a palatable option to management. It is all about identifying your core activities and being able to make sure that you control the way in which your organisation can compete in the provision of the core competitive activities that you see fit”.

Although these sentiments appeared to capture the views of most of the interviewees, particular exceptions were noted. These frequently arose where there is a “specialist supplier”. In Hotel 1, an Asian restaurant was outsourced as was marketing strategy. The Asian restaurant appears to be a particular situation, as the hotel had five other restaurants that it managed inhouse. With respect to the outsourcing of market strategy, Hotel 1’s FCa commented:

“Absolutely (it is core) but .... the hotel business is a very unsophisticated business ….. If you asked someone ‘do we outsource this?’, the answer would be ‘no way’. But the truth of the matter is that the work is being done by somebody outside the organisation. He has had a long standing relationship with the company, .... he is a consultant that helps us with marketing strategy”.

As will be noted later in the chapter, a further factor facilitating this outsourcing decision was the strongly branded nature of the restaurant chain.

Hotel 3’s GM also talked extensively of the importance of the core attribute. In summing up the main reasons for outsourcing, he discussed three areas: core business, economies of scale, and the owners’ preference. He commented:

“We would outsource areas that are not identified as our core business. We have resources and those resources are best employed in maximising things that are important to us and add the most value which is ‘brand distribution’”.

In Hotel 5, which was a resort, the GM was conducting a major review of non-core activities that could be outsourced. The FC and GM in this hotel appeared to differ on what was considered core, however. The FC saw housekeeping as close to the core and
therefore an activity that should not be outsourced, whereas the GM was willing to
outsource it. The FC felt landscaping should be insourced because quality control issues
would be too difficult to contract for, the GM, however, felt it was non-core and was
looking to outsource it. The FC saw public area cleaning as an area that could be
outsourced, the GM felt it was too difficult to contract for, however, because of its
variability and unpredictability. Despite these differences, both managers felt that only
non-core activities should be considered for outsourcing.

In determining what is core, it is important to consider the hotel’s market segment or
strategy. Interviewees in Hotels 8 and 10 noted that a budget or mid-quality hotel would
be more willing to outsource housekeeping (as did Hotels 7 and 9) than a five star hotel.
The five star hotel may view housekeeping as a core activity (i.e., one that can affect the
hotel’s brand capital), because it is part of the service provided to guests. The ability to
interact with the guest and provide information when requested in a professional and
informative way is more important to a five star hotel. Hotel 10’s FC noted:

“Most people have found that there is a lack of control in outsourcing
housekeeping, and they are in our rooms, all the time, and it is our guests that
they are coming in to contact with”.

It was noted in the previous chapter that the issue of core / non-core activities can be
linked to TCE’s asset specificity dimension of brand capital. Factors that have the
potential to affect a hotel’s brand reputation are frequently seen by senior management
as important and therefore “core”. This relationship may be useful in offering insight
with respect to outsourcing housekeeping. A top hotel has more to lose in terms of
reputation. One could theorise that a high quality hotel tends to insource more activities
because of the need to protect its brand capital. This issue of brand capital and what
represents a core activity was apparent in Hotel 3. This hotel’s GM did not see
housekeeping as a core activity, and was happy to outsource it. He commented:

“What we sell is a sales and marketing distribution network. So the owner has
invested in the building and they want that building to produce an income. And
we come in (the management company) .... The thing we put the most value on
is the brand. We put a brand on the building and it adds value to that brand ....
Owners do not necessarily procure our services to get core people to clean the
room. Their needs are pretty basic - they are not so much emotional. We have
this building - maximise its return. .... We put a lot of their funds in our brands
and our distribution network”.
Brand maintenance and the distribution network are clearly viewed as core activities for this hotel. The GM made it clear that activities not directly related to these aspects of the business could be outsourced.

In conclusion, the core attribute appeared significant as it was one of the most widely referred to issues in the interviews. Similarly, one of the most significant of TCE’s attributes identified in Chapter 6 was brand capital. Given the link between core attribute and TCE’s brand capital it is not surprising that brand capital and the core attribute were the aspects most widely discussed in the interviews. In addition, what is perceived to be core is affected by a hotel’s star rating. This is because a greater range of factors might carry a more significant impact on a five star hotel’s brand capital (eg., the way housemaids conduct themselves) relative to a three star hotel’s brand capital.

7.2.2 Profitability

Several examples were noted where a quest for greater profit was cited as the main motivation for outsourcing, eg., room service in Hotel 3 and the tour desk and disco in Hotel 8. Although close to the core, Hotel 9’s FC justified outsourcing a Chinese restaurant on financial grounds:

“Let someone else do the hard work …. and every month you get a cheque and you bank it. And that money is going to be more than the profit you would ever make”.

Cost reduction was also a widely cited reason motivating outsourcing (Hotels 1, 6, and 7). Hotel 1’s FCb commented:

“I guess that is the main thing that leads you (to outsource); you believe that you can get better service, for perhaps the same money, as what it was costing you inhouse”.

Some activities are seen to be highly profitable when managed inhouse. This can be a factor that constrains outsourcing. Despite Hotel 3’s outsourcing strategy, in relation to two inhouse restaurants, the GM noted:

“Both are profitable and make money so we would not outsource. At this stage the market rental value for those facilities would not be as high as what we are getting out of them. The day they are not we would change it over”.
Interviewees in Hotels 7, 8, 9, 10 and 11 felt that low profitability can also inhibit outsourcing opportunities. Typifying this view, Hotel 10’s FC felt that F&B could not be outsourced in his hotel, as it would not provide sufficient profit to the restaurateur:

“I don’t believe you would be able to lease a hotel concept restaurant to a restaurateur as such, because they are not trendy, upmarket concepts. They are a given that when you go into a hotel you must have a buffet breakfast, buffet dinner, a la carte. There is an expectation that there is a restaurant there. It does not mean that it is always a great opportunity for someone else to operate”.

The cost saving motive was not always seen as an over-riding objective, however. Hotel 5 had outsourced its shuttle bus service even though estimates indicated no saving would result. The GM explained that in this case outsourcing non-core activities was the primary outsourcing motive. He commented:

“Outsourcing to us is not a cost cutting measure. If anyone goes for outsourcing as a cost cutting measure they will probably be disappointed”.

Further examples were given where activities were outsourced, even though it was acknowledged that it was more expensive than providing the service inhouse. For example, Hotel 10’s FC noted that most hotels outsource landscaping, despite the fact that this was more expensive than insourcing. Hotel 8’s GM also felt that landscaping was costly to outsource. According to Hotel 10’s FC, the main factor for outsourcing landscaping was driven by the chief engineer’s preference. She felt chief engineers were typically against the insourcing of landscaping because of equipment and material requirements that would be necessary.

In conclusion, it appears that a quest for greater profitability is a fundamental factor in much outsourcing decision-making. This quest has to be considered, however, in the context of other objectives such as the desire to outsource non-core activities.

7.2.3 Implications of owner / management head office involvement

Outsourcing may be affected by whether the hotel is run by a management company, the degree of owner involvement, and also the nature of the management contract that is in place.
Hotel 1’s FCb felt that hotel owners may be resistant to outsourcing when the hotel is run by a management company. He presented the owner’s perspective in the following manner:

“We are already paying you a fat management fee to be an outstanding manager of hotels. Why should we pay you a fee for you to then pay our money to another operator to run a restaurant .... otherwise you are telling us that you are not really up to running it, and we should have another look at the contract”.

This view contrasts with an opinion expressed by Hotel 3’s GM. He felt that owners would be happy with outsourcing arrangements if they resulted in increased profits.

Outsourcing may also be influenced by the managers’ and owners’ cultural background. It was evident in Hotel 5, which had Japanese owners and some Japanese senior managers, that a Japanese management culture prevailed. For example, when deciding which subcontractors should be invited to quote for a subcontracting job, the Japanese FC noted that a factor would be whether the potential subcontractor uses the hotel facilities.

Some hotels had outsourced because they had been required to do so by the management company’s head office. Hotel 9’s management did not want to outsource housekeeping, but they were required to do so by their Sydney head office. On several occasions the hotel’s FC approached the head office with his financial analysis demonstrating that insourcing would save $350,000 per annum. The FC felt that the head office did not wish to overturn its earlier decision, however. He commented:

“Head office egos; … ‘oh no, we cannot have been wrong like that’ .... The ego thing is my assumption because .... I was told that obviously my figures must be wrong. Because they could not make such a big mistake”.

Some hotels were also required to outsource because outsourcing was happening elsewhere in their group (eg., Hotels 3, 6, 7, and 9). In addition, owners sometimes placed restrictions on which suppliers could be used (this was evident in Hotels 1, 7, 9, and 11).

From this discussion, it can be seen that the nature of the owner’s involvement, or the management company’s head office involvement, can be a key contextual factor affecting outsourcing decision making.
7.3 General issues affecting the decision to outsource

The previous section discussed issues motivating a decision to insource or outsource. In this section interview findings relating more exclusively to the outsourcing perspective are presented. These findings are presented under the following four headings: existence of specialist suppliers, services offered by sister or competing hotels, availability of a choice of suppliers, and creating supplier competition.

7.3.1 Existence of specialist suppliers

The literature referred to specialist suppliers as a factor motivating hotel outsourcing. While this can be seen as related to human asset specificity, a specialist supplier also relates to a particular skill required to complete an activity that might be common to many hotels. Human asset specificity relates more to a particular skill required at a particular hotel.

Two situations appear to arise in connection with the notion of a specialist supplier: organisations may outsource because specialist suppliers can do the job better, or organisations may outsource to specialists because economies of scale allow them to do the job more cheaply. The second idea was discussed under the “frequency” heading, in connection with appraising TCE. The first idea is the subject of the interview observations noted in this section. The specialty supplier observations relate to:

- specialty restaurants,
- housekeeping,
- inhouse entertainment,
- audio visual conference services, and
- IT and reservation systems software.

Hotel 1 outsources one of its six restaurants because it does not have expertise in that area. It is an Asian restaurant, much of the clientele is Asian and to achieve authenticity, it is run by an Asian restaurant. It was believed that authenticity could not be achieved if the restaurant was run by the hotel. Consistent with this view, other hotels (i.e., 2, 9, and 11), although reluctant to outsource their main restaurants, saw it as feasible to outsource specialty restaurants. Hotel 2’s FC commented:
“It is very difficult unless you are Japanese to establish a restaurant of qualified staff ….. The only sort of outsourcing I have seen is either the fast food outlets or the specialised restaurants”.

Hotel 3’s GM was “seriously” considering following other hotels in the group by outsourcing housekeeping. Commenting on a sister hotel in Sydney that was outsourcing housekeeping successfully, the GM said:

“They (the subcontractor) just tend to be more efficient. Because this person’s core business is cleaning the room. Like the majority of shopping centres outsource cleaners. They are specialists and well trained. They do not necessarily work harder they just work smarter and are up to date with use of chemicals and cleaning agents”.

In addition to housekeeping, this GM noted the need to outsource specialised cleaning services:

“When it comes to specific issues such as cleaning out the vents and oil filters, we outsource that. We do this because they have the specialised equipment and they guarantee timing”.

Provision of inhouse entertainment can also be seen as a specialised activity. Hotel 8’s GM felt that all hotels would outsource inhouse entertainment. It is interesting to note, however, that the provision of internet services and email was conducted inhouse. According to Hotel 8’s GM, this was because it is very simple.

All hotels interviewed outsourced conference audio visual support. Hotel 9’s FC felt that this was common practice. It appears that the main reason for this stems from the need for a specialist who understands the latest technology. Hotel 3’s commented:

“They are specialists who can guarantee that the machinery will work perfectly .... technology is racing ahead all of the time”.

When commenting on software for the hotel’s reservation systems, however, Hotel 3’s GM indicated that he would always insource. When asked about the problem of a fast changing technology, he felt this issue was effectively managed:

“We have an IT core that is very interested in making sure that we are ahead of the game. .... We have IT people in the organisation and that is all they do”.

It appears that the ability to stay “ahead of the game” stems from the fact that the hotel is part of a group and is therefore large enough to support its own specialist IT function.

Specialist suppliers was a factor discussed by most interviewees. With respect to activities involving high technology, despite their size, large international hotel chains
may not be able to compete with the service provided by specialist suppliers. In the case of F&B, it appears that a desire for authenticity may result in outsourcing.

### 7.3.2 Services offered by sister or competing hotels

Some hotels outsource to a sister hotel that provides a particular activity. For example, Hotel 3 had outsourced its children’s club activities to its sister hotel which had made a significant investment in an on-site children’s club. Similar arrangements were also apparent with respect to laundry arrangements in Hotels 2, 7, 8, 9, and 10. Hotels 1 and 3 had their own inhouse laundry facilities and serviced some of the laundry needs of sister hotels. Several interviewees noted problems that can arise with this type of arrangement, however (eg., comments made in Hotels 7, 9, 10, and 11). During periods of high demand, the subcontractor might service its own needs first. The potential for this problem appears to have limited the extent to which hotels outsource to sister and competing hotels.

### 7.3.3 Availability of a choice of suppliers

Several observations made suggest the issue of an alternative source of supply is a significant factor when considering whether to outsource. Hotel 10’s FC noted that when she worked in a hotel in Cairns there was only one laundry operator. This operator had maintained its monopoly position by buying out all other laundry operators. She noted that when one of the large Cairns’ hotels refurbished, it established its own laundry facility, in order to break out of this monopolistic situation.

Hotel 9’s FC discussed this issue in relation to the Gold Coast. He noted the Gold Coast’s small size relative to Sydney and Melbourne. As a result, the choice of Gold Coast suppliers is relatively limited. He saw this to be an issue that could result in Gold Coast hotels outsourcing a lower proportion of activities relative to Sydney and Melbourne hotels.

### 7.3.4 Creating supplier competition

Although the idea of creating supplier competition by buying from more than one supplier was not discussed widely by the interviewees, a couple of pertinent
observations were made. Hotel 3’s GM felt that for those activities involving contact with customers, it was inappropriate to outsource to more than one supplier. This was because each of the suppliers would have to be given training concerned with appropriate guest interaction.

Hotel 1’s FCa felt it was more important to foster a good relationship with one supplier and commented: “To be honest I have never witnessed it in my life”. Hotel 2’s FC held a similar view. This view appears consistent with Gietzmann’s (1996) Japanese findings concerning the importance of maintaining good supplier relations. Hotel 2’s FC felt that her hotel would be moving:

“…. more towards the opposite in terms of maintaining a relationship with one supplier. Long term contracts, for example of up to three years. It is typically our large volume suppliers that if we give the business and they are assured of it; a minimum of 12 months, some 2 to 3 years. They are comfortable and know they have the business for that period and typically give us more marketing support”.

Despite these comments, later in the interview Hotel 2’s FC presented an opposing view, explaining that multiple suppliers are used for supplying F&B ingredients. She commented:

“Where we do have that concern, we do use more than one supplier and it is more the exception than the rule. That is typically in the meat and fruit and vegetable area. We do have a preferred supplier. …. We put the prime business with one but we do use the others as a check. So you would do some benchmarking”.

### 7.4 General issues affecting the decision to insource

The previous section discussed factors relating to a decision to outsource. In this section, interview findings relating more to factors motivating a decision to insource are presented. This section is structured around three headings: “Avoiding over-dependency on a single supplier”, “Avoiding loss of control”, and “Employee morale and commitment issues”.

#### 7.4.1 Avoiding over-dependency on a single supplier

In connection with room sale outsourcing, Hotel 3’s GM described how hotels will outsource to a degree, but not too much otherwise the subcontractor (eg., travel agent, airline, etc) may try to force the hotel into offering a better price. He commented:

“You have to be careful; there are three stages. You want the business with (a travel agent is named). You have the business with (a travel agent is named).
Stage 3, you want to avoid ‘they have you’. …. So you really have to make sure that your allotment distribution is sound. ..... Lets say they perform very well with 40 rooms up to 80% utilisation. And their yields are growing. There is this feeling that they are a good client. So if they come back to you saying they want 50, you will give them 50 rooms, 60 .... some hotels are up to 120 rooms with this. Then what happens when they come to you and say “Right …. we need to lower the rates”..... You really have to make sure that you are balanced not only in those allotments, but for all markets as well”.

7.4.2 Avoiding loss of control

The previous section “avoiding over-dependency on a single supplier” can be seen to represent a particular case of losing control. In this section, the term “loss of control” is used more generally.

Fear over possible “loss of control” was widely commented upon in the interviews. It was the reason given by many hotels as to why they did not want to outsource F&B (Hotels 1, 4, 6, 8, and 9), housekeeping (Hotels 8, 9, and 5), and landscaping (Hotel 8 and FC in Hotel 5). Hotel 4’s F&B manager felt that, unless an activity relates to highly specialised work, large hotels prefer not to outsource because of a loss of control.

When asked to explain “control” further, Hotel 9’s FC indicated that although an attempt is made to retain control through the way contracts are prepared, in reality it is difficult to achieve. He noted that if there is a problem in housekeeping that results in a hotel manager speaking to the subcontractor’s employees, the hotel manager is generally referred to the subcontractor who is typically off site. This can result in a series of phone calls and a meeting with the subcontractor to discuss the problem further. Significant time is lost managing the problem and during this time the activity is out of control.

Quality is a widely used term in connection with control, yet in a service context, an acceptable level of quality is difficult to define. Because quality can be a problem with laundry and housekeeping, many hotels prefer to insource these activities. To avoid the control problem of determining what is a satisfactory level of quality, Hotel 9 decided to bring its housekeeping executive inhouse.

Several of these control issues are apparent in the following comments provided by Hotel 4’s F&B manager:
“If I was opening a hotel I would never subcontract because I like to do everything myself …. You can only do so much when you are contracting, you only have so much control over it. The contractor can come and give you a .... clear picture .... he looks at the positive side of it, but he does not look at the negative side of it. He says, yes I can make $X a week for me. For me (the F&B manager) it looks great, that guy will do a good job. He comes in and of course things don’t work the same way that you expect it to work. So instead of using eye fillet steak he is using rump steak. Difference between $19 per kilo vs $5 per kilo. .... In here we have the chef working for us, I can finish him off tomorrow, and hire a new chef. I cannot do that with a contractor. Because I have to go through the terms and conditions, 6 months notice, buy him out, whatever. He has contracted his own staff, so I have to start again from scratch. So most hotels do not subcontract that much because it is not easy to control the actual contract. The chef works for you, he does what you tell him to do. The contractor does not work for you. He works for himself”.

7.4.3 Employee morale and commitment issues

Related to control is the issue of employee commitment. Hotels 3 and 8 did not want to outsource because they felt staff would be more committed if they were employed inhouse. With respect to the outsourcing of housekeeping in a sister hotel in Sydney, Hotel 3’s GM commented:

“Where we have had problems is having that seamlessness between the outside operator who is so integrated in the operation”.

Although he was aware of high degrees of outsourcing in overseas hotels, the problem of ensuring a satisfactory level of staff commitment was a fundamental issue to Hotel 8’s GM. He felt that he achieved employee commitment by offering staff a career path in the hotel, which is not something he could do with outside workers. With respect to housekeeping, he commented:

“Because they are not your employees, .... we struggle with the loyalty, the commitment of the people. That is why sometimes we have a little problem ..... Commitment, what do they really know about us. You walk through the lobby or room area and you say to a girl ‘excuse me, which restaurant is open’ and she says ‘well I don’t know, I am only cleaning the rooms’. …. I want them to share my vision and my passion towards customer service, and what it is all about, and that is my biggest problem when I talk about this outside company. Because I need to have access to my people. I need to talk to my people. I need to reward them, and not just pay a monthly salary. I need to have a monthly meeting with them and talk to them, and say look this is how we are going”.

Related to staff commitment, Hotel 3’s GM did not want to outsource employee dining rooms because he felt it fostered good employee relationships. He commented:

“I would not consider outsourcing because it is a communal thing. The people have been running it since day one, there is an emotional factor. They are doing a good job, it is working well, no complaints, a huge salad bar. It runs well. We do not run it as a profit centre we look at it as a ‘lets look after our people thing’”.

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Hotel 9’s FC raised an issue concerning staff job security. He felt that staff would feel more secure knowing that they were employed by the hotel rather than the subcontractor. Hotel 9 had outsourced housekeeping, however it was partly for the job security reason that had it brought the executive housekeeper inhouse, and a few years later the housekeeping staff.

Another issue relating to employee morale concerns providing labour with the opportunity to raise job satisfaction by performing a range of activities. In connection with the TCE discussion related to frequency, it was noted that where a hotel could not justify hiring a person full time, the activity will tend to be outsourced. With respect to relatively low-skilled activities, however, some hotels (8 and 10) saw insufficient frequency as providing the opportunity to give an employee a range of tasks. Multi-skilling was described by Hotel 10’s FC as having the advantage of providing more job satisfaction to the employee. This highlights a particular situation where the frequency principle of TCE may not hold; i.e., low frequency may result in insourcing due to job satisfaction that can be created my multi-skilling.

While it appears employee morale can be a significant issue, its importance is put into perspective by the following comments made by Hotel 6’s FC:

“The overriding focus .... is on profitability as opposed to employee satisfaction”.

The issues raised in this section can be seen to relate to the notion of social costs described in Chapter 3. Nonetheless, some of the key social costs that might arise from outsourcing (eg., insecurity, decreased employee morale, distrust, reduced productivity, increased absenteeism, and increased employee turnover) were not discussed by interviewees. Despite the difficulty of quantifying these costs, they are seen as significant as they have resulted in many organisations not realising their anticipated outsourcing benefits (Kakabadse and Kakabadse, 2000).

7.5 Outsourcing management systems

Having discussed the variety of reasons motivating insourcing and outsourcing, discussion will now move to consider management systems used in connection with the decision whether to outsource and also the management of subcontractors.
Chapter 7: Interview Findings - Part B
Design of outsourcing management systems and general issues motivating outsourcing

7.5.1 Accounting involvement in the outsourcing decision

Accounting involvement in the outsourcing decision varied greatly between hotels. Hotel 11’s FC felt that accounting involvement was minimal at his hotel and that he simply ratified proposals. He reviewed paperwork once a decision to outsource had been made, but was not really involved in the decision. Other financial controllers saw their role as more significant. Factors affecting financial controller’s involvement and also the sophistication of the accounting analysis appeared to be the financial controller’s desire to be involved, and also what was required by the management company, general manager and hotel owners. Hotel 10’s FC commented:

“I like to be involved. …. I believe .... a financial controller can truly make a difference in the operations and participate in the outcome. There are controllers that do not .... It could go straight from the department head to the GM, and the GM just says to the FC ‘process this’, and they complete the final form and send it off to the owner. Now that happens, and I have had situations where that has happened to me”.

With respect to her experience when employed at another hotel, this FC described how she had completed an outsourcing analysis herself, eg., getting quotes from suppliers, compiling the information, etc. In her current hotel, however, she indicated that line managers tended to be more involved. If the line manager was able to produce a comprehensive analysis, the FC indicated that she was happy to wait and then review the analysis. She believed her involvement was important noting that she could help identify any hidden costs or issues that may have been overlooked.

In contrast, Hotel 1’s FCa felt that his accounting department was “fairly mundane”:

“The people involved in the accounting are more akin to bookkeepers rather than business thinkers who could ask themselves why. They are seen more as bean keepers”.

It appeared some financial controllers were content to play a minimal role in outsourcing decision making while others sought to orchestrate the decision making process.

7.5.2 Sophistication of the accounting analysis

With respect to the sophistication of accounting analysis conducted as part of the outsourcing decision making process, Hotel 10’s FC felt that it varied considerably
Design of outsourcing management systems and general issues motivating outsourcing

across hotels and was influenced by owner and management expectations. Some owners like to be involved and require full feasibility studies of any proposed change, whereas others leave decisions to the local management team. She commented:

“Your GM may want you to do an analysis, or your GM may be so convinced that it would work that he knows he is going to do it anyways. GMs have changed quite a lot, and most of them are more inclined to do the analysis and make the decision, but there are many that say ‘that is what I want to do, and we are doing it’”.

Some owners were described as tough and very involved, thus requiring a lot more preparation and a lot more discussion. Hotel 10’s FC commented:

“They would be furious if decisions went ahead without their involvement”.

Accounting sophistication also appears to depend on who is involved in the decision. Hotel 1’s FCA noted:

“If you have people that are sufficiently astute and intelligent, you will have an astute and intelligent analysis. If you don’t, quite frankly not even holy water will help you”.

When appraising an outsourcing proposal, Hotel 9’s FC highlighted the importance of understanding the activities under analysis. He noted that managers affected by the proposal may be economical with the truth in their attempt to secure greater resources. He felt he had a particular advantage in this regard as he had prior experience in other hotel positions such as F&B and front office. He commented:

“My background is operations. For the last number of years I have been in Finance. Before that I worked as …. front office manager, …. F&B, and all over the place. So I know roughly what the requirements are in the operation and what you would need in terms of payroll and miscellaneous costs. …. I found that helps in some extent more than a degree. Degree means you can go more upmarket than an FC, but actually knowing the operation because no one can feed you bull shit. So if you speak to an operations manager you can say what about this …. If you don’t actually know how they operate, then it means ‘ooh ah, we better give you some extra credit’”.

Hotel 8’s GM felt his accounting staff were very involved and did a full costing analysis when outsourcing decisions were being considered. As an example, he explained how vending machines used to be outsourced in the hotel, but that two are now managed inhouse because the accounting department had ascertained that 300% more profit would result. Noting that a range of issues including labour, machine cost, stock requirements, and turnover need to be appraised, he commented:

“You need to look at all facets”.

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7.5.3 Formalisation of the outsourcing decision making process

Formalisation of outsourcing decision making processes varied considerably between hotels. Most operated relatively unformalised outsourcing decision making process. It was generally felt that the process involved for each outsourcing decision varied greatly and that a degree of flexibility in procedures followed may be desirable. This is consistent with Domberger’s (1998) view.

Hotel 1 had no manual or formal body responsible for screening outsourcing decisions. Outsourcing decisions would informally come to the GM, departmental head, and the FC. Similarly Hotel 10’s FC noted that the hotel had no procedures manual outlining how outsourcing decisions should be made and indicated that she had never seen one in her hotel career. She felt it would be difficult to compile such a manual, because each decision can raise a range of issues. She commented:

“It depends on what the exercise itself is. I think that is why it would be difficult to standardise it. I have lots of different analyses that I have kept over the years. They all vary. They also vary not only on the project itself but on the needs of the people that are wanting the information. You learn that certain people like things a certain way, or they like too much detail, which is fine. You give it if that is what they prefer. Others don’t want to be bogged down in too much detail”.

Despite these comments, because this FC was considering outsourcing a range of activities, she intended to compile a standard format to facilitate her analyses. She noted that this would result in all line managers using a consistent framework when preparing outsourcing proposals.

The head office of the group of hotels that included Hotel 7 prepared “outsourcing kits” on particular activities. These kits represented an information pack that documented the experiences of other hotels in the group. Hotel 7’s FC indicated that the hotel had acted as a test case when it had outsourced housekeeping, and their experience was being used as the basis of a “housekeeping outsourcing kit” compiled by the head office. In addition, the national purchasing office was developing a standard national tender document to ensure consistency amongst bids. This document encompassed areas such as public area, restaurant and room cleaning.
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Hotel 2 had developed a purchasing procedures manual, which encompassed outsourcing and included four pages on tendering. As a consequence, Hotel 2’s FC viewed their approach to outsourcing as sophisticated. The procedure included standard forms to be completed by department heads and detailing job specifications and requirements of the subcontractor. These forms were reviewed by the finance function and also the VP before distribution to potential suppliers. All tenders had to be submitted directly to the VP office before being passed to purchasing and the relevant operating department for their evaluation. A degree of formalisation in this hotel's outsourcing decision making process is evident in the following comments made by the FC:

“Prior to the tender going out we talk about how that tender would be evaluated and we have a standard set of criteria: financial, reputation, etc., pricing, and then we would look at other criteria that are relevant to that particular contract. .... That document we have created would be used when the tender comes in. Purchasing do an initial evaluation and comparison, they would call a meeting of the relevant parties, to go through that document. Everyone would have access to the tender document prior to that meeting, but it is maintained by purchasing. Come back, have a discussion on it, if there is a need to get the suppliers in at that stage, we might have suppliers come in and meet with the group and do another presentation, and then from that meeting decide what is best. Adjustments were also made where necessary to ensure appropriate comparisons between tenders. In some instances it can be difficult to know the differences between products (eg., pest control) and so an independent specialist may be brought in to advise accordingly”.

Hotel 5 did not standardised forms for outsourcing, although a specific format in the preparation of tenders had to be observed. According to the FC, a net present value analysis was done, and the discount rate was adjusted for the riskiness of the activity in question. Every three years, activities were reviewed to ensure the best way of managing them was still in place.

Again, the degree of formalisation appeared to be heavily affected by the owner / managers. According to Hotel 10’s FC, who used to work at Hotel 3, the owners and management company associated with Hotel 3’s group allowed decision making to take place at the property level. She felt this to be desirable as:

“(The owners) do not bombard you with procedures. .... They allow some decision making flexibility at the property level which I think is very important. The big international hotel chains tend to have so many rules and regulations, you are very tightly controlled on what you are allowed to do. Every accounting thing is outlined, and what I think that encourages is people to do things that are hidden”.

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With respect to risk management, while several interviewees acknowledged it to be a significant issue, there appeared little in the way of standardised risk appraisal procedures. Most interviewees felt that they would conduct some sort of analysis to assess how the subcontractor would manage risk. They also would include in the contract contingency clauses relating to risks such as strikes (Hotels 1 and 2). Hotel 1’s FCa explained that although formalised risk management plans were not required of subcontractors, this was achieved through other means, eg., ascertaining if the supplier was ISO9000 accredited, understanding the supplier’s culture, and reviewing their employee policy.

In summary, it has been found that the degree of outsourcing decision making formalisation varied considerably between hotels. From comments made in Hotel 10, it appears standardised procedures tend to be more established in larger hotel chains.

7.5.4 Financial analysis

This section has been structured according to the following headings: “general issues relating to financial analysis”, “significance of the nature of the activity”, “significance of the owner / management relationship”, “significance of the finance department and financial controller’s style”, “potential for applying a long term financial analysis” and “conclusion to financial analysis”.

7.5.4.1 General issues relating to financial analysis

Hotel 10’s FC acknowledged that qualitative, as well as financial, issues, are important when appraising an outsourcing opportunity. She felt that key factors that need to be appraised relate to cost as well as the likely effects on customer service:

“We can save x amount of money by doing this, but what potential problems are there for us in making that decision. …. The savings alone will not do it. …. Hotels like to keep control because we are providing a service. …. Will the service be sacrificed by saving money. If it will, then it will not happen, and that is always the case in our industry”.

Several interviewees discussed the advantages of sharing outsourcing experiences with sister hotels (Hotels 3, 6, 7, 9, and 11). In these organisations it was common for the hotels to benchmark performance against one another. Hotel 6’s group had recently developed a corporate team to review their hotels internationally. Benchmarking was
seen as a fundamental aspect of this review. Similarly, Hotels 3 and 7 were part of a group that conducted extensive benchmarking. Hotel 5’s GM, which was not part of a group, acknowledged that his hotel’s inability to benchmark against group members represented a disadvantage.

7.5.4.2 Significance of the nature of the activity

In relation to housekeeping, several financial controllers (Hotels 7, 9, and 10) commented on the ease of conducting an outsourcing analysis when the activity is currently being conducted inhouse. Hotel 10’s FC commented:

“The analysis is easy to do because if you are currently doing it inhouse you can easily get an idea of what it is costing you to provide that activity. Some of the costs are hidden and a ‘guesstimate’ is required such as associated training, HR, printing, stationery”.

Hotel 10’s FC noted that laundry requires a complex analysis that appraises kilowatt hours, loads, etc. As a result, she had worked closely with engineering when appraising a laundry outsourcing decision. She commented:

“It is outside the realm of my understanding. So I have to work with somebody to show me how. .... And that is how we end up knowing a lot about other parts of the hotel”.

7.5.4.3 Significance of the finance department and financial controller’s style

The degree of integration between accounting and other departments can be dependent on organisational politics. Hotel 1’s FCa had experienced departments behaving in non-constructive and secretive ways. He commented:

“Under the previous regime it was all finger pointing, and ‘aren’t we clever’. And therefore we were never let in”.

He noted how this political climate had changed, however.

“My management style is very much I want to look because I want to be helpful. I never ever embarrass you. ..... Over the 4 years our relationship really grew like this. ..... Finance departments often set themselves up badly, the bearer of bad news always. The finger pointer.... you need to be very careful with that. The organisation health, cultural health, can really affect the decisions which the organisation will take and they can be not only outsourcing but all sorts of decisions”.

Comments made by this FC also suggested he had a particular style with respect to appraising outsourcing proposals, as he attempted to view the contract from the
subcontractor’s perspective. He claimed that “all methods are used”, both financial and nonfinancial. He commented:

“How does it fit within the marketing context of the organisation? The subcontractor’s ability to deliver what you really want them to deliver, an assessment of their own financials. …. You would look at the generation of “free cash flow” which is an important indicator of the service you yourself want to employ plus …. of the company’s ability to deliver the service. ….. Would it be a good deal for them and if not, why would I do it if I was them?”

**7.5.4.4 Potential for applying a long term financial analysis**

Few FCs referred to long term oriented appraisal techniques such as those prescribed in the capital budgeting literature (eg., Lamminmaki et al., 1996). Hotel 10’s FC referred to payback, and 1FCa and 5FC referred to discounting techniques, only once the long term perspective was prompted by the interviewee. It was noted with respect to assessing the costs of internal housekeeping, that the focus was on annual operating costs and excluded capital investments (eg, uniforms and equipment), or a long term financial perspective. Several interviewees felt discounted techniques were not relevant to outsourcing decisions (eg., Hotel 1’s FCb) as they felt outsourcing cash flows related to operating costs and would be the same every year.

Some of the analyses conducted in the place of discounting techniques appeared somewhat questionable, eg., earning multiples used to value investments. For example, Hotel 3’s GM commented:

“There really would be a fairly thorough analysis. …. As far as the capital expenditure arm of (owner named), they really do look very closely at what value it will add to this building and to the operations. Generally it is very easy, if you add 17 million in the revenue and add 1-1.5 m on the bottom line and then multiply by 10, then they figure you have added 10 million dollars of value on the building. So it is quite thorough”.

This failure to apply generally prescribed long term oriented financial appraisal techniques may result from the fact that many outsourcing decisions involve no capital outlay. The absence of a capital outlay signifies that the outsourcing decision may not be subject to the discipline associated with the capital budgeting cycle. Absence of a capital outlay does not signify, however, that the cash flows associated with an outsourcing decision will be the same every year. Although the decision to outsource may require no immediate outlay, it can signify an initial cash saving (eg., expenditure saved as a result of not having to overhaul existing equipment), or an initial cash inflow
due to the sale of surplus assets (eg., sale of housekeeping uniforms and equipment, or laundry linen). Further examples of irregular cash flows that can result from a decision to outsource include the following:

- initial costs associated with redeploying inhouse staff,
- social costs (as described in Chapter 3, problems of quantification arise here)
- future cashflows resulting from outsourcing failure (eg., costs of finding a new supplier, or bringing the activity inhouse).

With respect to failure costs, the decision to outsource will result in one of three outcomes: successful relationship, failure and switching to another supplier, or failure and moving inhouse. The cash flows and probabilities associated with each of these three outcomes could be factored into an analysis. Table 7.1 represents one possible way of presenting the probabilities associated with each of these scenarios.

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Possible outcomes</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Insource</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Outsource</td>
<td>a) Successful venture</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>b) Unsuccessful venture - Change suppliers</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>c) Unsuccessful venture - Insource</td>
<td>20%</td>
</tr>
</tbody>
</table>

Relative to capital budgeting, outsourcing decision making may be less sophisticated due to the ad hoc manner in which outsourcing decisions appear to be taken. The capital budgeting process is conducted in a routine manner (usually annually). It appears that a more formalised approach to outsourcing might result in the application of more sophisticated analytical models such as net present value.

### 7.5.5 Contractual arrangements

In this section, contractual arrangements are discussed under the headings: “Housekeeping”, “Restaurants”, and “Other activities”.

#### 7.5.5.1 Housekeeping

Hotels 7 and 9 had outsourced housekeeping and both had a three month cancellation clause. There was a significant difference in the subcontractor’s fee structure, however.
Hotel 7’s subcontractor was remunerated based on a fixed and variable formula related to occupancy, whereas Hotel 9’s subcontractor had an all variable fee structure. Initially it appeared that Hotel 7 had assumed more risk because it had to pay a fixed amount regardless of occupancy levels. Hotel 7’s FC felt however, that the fee structure was unlikely to penalise the hotel, as their normal room occupancy was well above the minimum level specified in the contract.

Contrasting with this view, Hotel 9’s FC preferred the variable rate formula. He elaborated on a variety of factors that could affect his hotel’s occupancy levels and concluded that a fixed plus variable fee structure would be risky for his hotel. It appears that a factor affecting what type of contract is signed is a hotel’s occupancy volatility. Hotel 9 experienced greater occupancy volatility than Hotel 7. This was partly because Hotel 7 was part of a large group and could benefit from nationwide advertising and international loyalty clubs.

In relation to the choice between the fixed and variable remuneration formula, Hotel 2’s FC indicated that a variable fee would be negotiated if the volume of work to be performed was variable. She commented:

“Where possible we actually go for fixed, unless we cannot reasonably say what the volume is going to be”.

### 7.5.5.2 Restaurants

Contractual variations were also evident with respect to restaurant outsourcing. Hotel 1 shared in the restaurateur’s profits and revenues, while Hotels 9 and 10 simply required the restaurateur to pay a fixed lease. One could rationalise that the arrangement in Hotel 9 stemmed from it being a lower quality hotel, however this rationalisation cannot be applied to Hotel 10 which was a top quality hotel. Hotel 1’s FCa viewed the restaurateur as a business partner, and felt that:

“If you outsource, always focus on the issue that matters most and that is profit. In an outsourcing issue you always have to be sure that it will be as good for you as it will be for the other party. …. I will always favour a profit sharing arrangement”.

In connection with this arrangement, Hotel 1’s FCa stressed the importance of a tightly worded contract, especially the definition of profit:
“When you are looking at the review of performance of contractors, we have audit provisions. If we have profit sharing, let’s make sure we understand what profit is. That is very important. …. You need to be absolutely certain that you do not have loose arrangements. …. The only exception to that would be if we were to become involved with an organisation that already has an established product (eg., Planet Hollywood). You will run it like Hollywood. So once again you are being very specific, but you are using them as an example of being specific rather than developing it”.

When Hotel 9 was opened, one of its two restaurants, a Chinese restaurant, was outsourced. Surprisingly, the restaurateur was given a fifteen year lease, with no termination clauses if performance was inadequate. The FC felt this was inappropriate, but nothing could be done until the lease expired. He indicated that on occasions hotel guests had complained about the service at the restaurant, but there was little the hotel could do other than speak to the restaurant and hope they would take the comments on board.

7.5.5.3 Other activities

Hotel 8’s GM described how a remuneration fee with a fixed and variable component had been negotiated with a disco operator. The variable component was dependent on the disco’s revenue. The GM indicated that the variable component was to help the subcontractor during quiet periods.

A variety of contracts appeared to be set up with respect to laundry outsourcing. Hotel 11 had negotiated a flat price per piece, regardless whether the piece was a napkin, jacket, or shower curtain. While Hotel 11’s FC recognised the inappropriateness of the fixed price per item formula, he felt that the rate paid was reasonable relative to the quotes received from other laundry suppliers. Hotel 9 also paid a flat fee per piece, however they felt it was cheaper to do their own laundry inhouse whenever possible.

In Hotel 9, a shop was leased under similar conditions to the Chinese restaurant referred to above. It was a long lease and gave little control to the hotel. It was interesting to observe that the area around the restaurant and shop, which adjoined the hotel’s lobby, had become run down. The FC noted there was little the hotel could do to rectify this situation. Although the hotel’s management appeared to view itself as detached from the restaurant and shop, guests can be expected to assume both were part of the hotel. It appeared surprising that the hotel had left itself to become exposed to the potential
damage that could result from poor subcontracting arrangements. In light of the length of the contracts entered into by this hotel, it was particularly interesting to note that Hotel 11’s FC felt that the 3-1/2 year laundry contract his hotel had entered into was too long.

7.5.6 Trust

The importance of trust in securing successful outsourcing relationships has been commented on by Milgrom and Roberts (1992), and Gietzmann (1996). Trust appeared to be a particularly strong factor with respect to Hotel 1’s outsourcing of strategic marketing. Although strong confidentiality provisions were built into the contract, the relationship’s success appeared to be heavily reliant on the strength of the informal relationship developed with the consultant. With respect to the type of contract appropriate for such a situation, Hotel 1’s FCa commented:

“If it was to straight jacket you too much, you can guarantee that something else would follow. People typically who add a real value in terms of their thinking are not prepared (to follow strict contracts). .... They will work for you in a professional manner, and will do so confidentially. You will sign some contracts accordingly, but they are not real.... ”

Trust therefore appears to be particularly important when high human asset specificity exists. Despite this, Hotel 1’s FCa also noted the importance of a strong contract:

“Trust and contractual relationships go hand in hand. We can have trust but still need to develop a sound contract that will underlie that. I personally would never ever go into a business transaction on the basis of trust. I would obviously need to feel comfortable with the individual, and have an underlying strong contract for both parties”.

Consistent with these views, Hotel 3’s GM commented:

“If we find out that their (a subcontractor’s) response time was not good, we bring them in and say we need to talk about this. Forget the contract, we need to talk about it. Is this going to happen again? So the relationship is contractual and there is a trust. Trust is very important. Lots of communication, absolutely critical”.

Hotel 2’s FC also highlighted the importance of trust when outsourcing:

“We are also looking at building long term relationships with suppliers, and working with them to further the relationship. We expect them to get something out of it and for us to get something out of it. And if they are happy and cooperative and can give a better level of service, which goes back to our customer satisfaction at the end of the day. So we work very closely with them to manage that. We do not try to enforce our volume and power onto them
unreasonably. .... We feel if we can build up the relationship they will give us good service. .... We have had situations where there was no trust on either side and so it ends up everyone spends way too much time managing the relationship, meetings, disputes, and we prefer to get away from that. .... So we are really looking at developing a two way relationship with people”.

Although these FCs saw trust as important, this was not the case for all interviewees. Many of the FCs focussed on minimising cost, and most seemed to talk from the perspective of what was best for their hotel, rather than what was best for both parties (eg., Hotels 7 and 9).

7.6 Conclusion

This chapter has described interview findings pertaining to general factors that might motivate a decision to outsource or insource. In addition, it has described interview observations relating to the nature of accounting’s involvement in outsourcing decisions and outsourcing management issues in general.

The core attribute appears particularly important when determining what can be outsourced. The consensus view was that core activities should not be outsourced. A connection between the core attribute and TCE’s asset specificity category of brand capital as well as a hotel’s quality (star rating) has been noted. A high quality hotel can be viewed as more vulnerable to factors that could damage its brand capital. Therefore, one might expect greater insourcing by a high quality hotel as part of a brand protection strategy. A further factor widely recognised by the interviewees as motivating outsourcing is the pursuit of increased profitability.

It has also been noted that the nature of owner and head office involvement in a hotel’s management can affect its degree of outsourcing. Other factors that have also been found to impinge on a hotel’s outsourcing decisions include: the availability of specialist suppliers, services offered by sister or competing hotels, availability of a choice of suppliers, the need to create supplier competition, avoiding over-dependency on a single supplier, avoiding loss of control, as well as employee morale and commitment issues.¹

¹ As was noted in section 7.4.3, some hotel interviewees felt that employees would be more committed if they were employed inhouse.
From the picture painted in the last two chapters, it is clear that the outsourcing decision is complex. There are a large number of factors affecting a decision to outsource or insource. Some of these may be accounted for by the theories examined in the previous chapter, however many fall outside these theoretical frameworks. It is evident from the range of issues raised that it would be inappropriate to focus alone on the TCE, agency and labour process theories in trying to understand hotel outsourcing. The survey phase of the study has been designed to explore further which of these factors have the greatest impact on hotel outsourcing decisions.

With respect to outsourcing management systems, the interview observations suggest accounting’s involvement varies greatly. Likewise the sophistication of accounting analyses and formalisation of outsourcing decision making processes also vary greatly. The main focus of financial analyses appears to be on operational costs, with no consideration given to transaction costs. It was noted that, despite the long term implications of an outsourcing arrangement, discounting techniques are generally not used. It is felt that this may be because outsourcing decisions tend to be ad hoc. In addition, they generally do not require an initial capital outlay, and this results in them being made outside the context of a formalised capital budgeting process.

Considerable differences in outsourcing contractual arrangements have also been noted. A particular factor affecting the way that a contract governs an outsourcing relationship is the degree to which trust is nurtured. Some interviewees appeared to dismiss the notion of building trust and a “win win” situation, and attached a much greater importance to what was best for their hotel.

Drawing on the interview findings presented in the last two chapters and also the literature reviewed earlier, the next chapter outlines issues addressed in the questionnaire survey phase of the study.
CHAPTER 8
PROPOSITION DEVELOPMENT AND QUESTIONNAIRE DESIGN

8.1 Introduction

Drawing on material presented in the literature review sections and interview findings of this study, this chapter develops the specific propositions for testing using data collected in the questionnaire phase of the study. This outline of the propositions is followed by a description of the design of the two questionnaire instruments used in the study:

1. A questionnaire survey of General Managers in large Australian hotels.
2. Using a different questionnaire, a survey of Financial Controllers in large Australian hotels.

8.2 Proposition development

Propositions have been developed concerning relationships between the dependent variable, “degree of outsourcing” and variables relating to TCE theory, agency theory, and other contingent factors discussed in earlier chapters. Propositions have also been developed to test for relationships between a second dependent variable, i.e., “degree of outsourcing management system sophistication” and contingent factors discussed in earlier chapters.

An overview of the relationships examined is provided by the three models presented in Figures 8.1, 8.2 and 8.3. Figure 8.1 depicts Model 1 which is concerned with factors affecting a hotel’s general level of outsourcing. Figure 8.2 depicts Model 2 which is concerned with factors affecting the degree of outsourcing of four specific hotel activities. These two models relate to objectives 3 - 6 of the study and will be tested using data collected from the general manager questionnaire survey. Although we would expect that Model 1’s dependent variable “hotel outsourcing generally” and Model 2’s dependent variable “degree of outsourcing of four specific hotel activities” would relate to one another, they are presented separately in two different models. This is because the significance of an independent variable may depend on which activity is being considered. Consequently, degree of outsourcing has been measured at two distinct levels:
• degree of outsourcing in general (captured in Model 1),
• degree of outsourcing relating to four hotel activities (captured in Model 2).

Figure 8.3 depicts Model 3 which concerns the relationship between outsourcing management system sophistication and various independent variables. This model relates to objective 7, and the relationships outlined in the model will be appraised using the data collected from the financial controller questionnaire survey.

8.2.1 Model 1: Independent variables and a hotel’s general level of outsourcing

Model 1’s independent variables are discussed here in the order in which they appear in Figure 8.1

8.2.1.1 Transaction cost economics

Objective 3 of this thesis concerns an appraisal of TCE theory in the context of hotel outsourcing. The dimensions of the TCE theory outlined in Model 1 concern the environmental uncertainty and frequency TCE attributes. Asset specificity and behavioural uncertainty are not included in Model 1, as these attributes can only be considered at the individual activity level and not the general level of a hotel’s outsourcing. The asset specificity and behavioural uncertainty attributes will be discussed in connection with Model 2. As discussed in earlier chapters, TCE theory suggests a negative relationship between the TCE attributes and outsourcing.²

It should be noted that the primary investigation of the relationship between frequency and degree of outsourcing will be conducted at the activity level (i.e., Model 2). This is because the idea of frequency is most apparent at the individual activity level (it is possible that a large hotel may conduct a particular activity relatively infrequently). However, as measures of hotel size will be collected in the questionnaire phase of the study, there is an opportunity to investigate whether larger hotels outsource less. If it is found that large hotels outsource less, some support would be evident for the TCE theoretical model.

² The TCE model holds that outsourcing will be greater in the presence of low asset specificity, low uncertainty, or low frequency.
Proposition 1a: *Outsourcing will be higher in hotels that have lower levels of environmental uncertainty.*

Proposition 1b: *Outsourcing will be higher in hotels that are smaller.*

**FIGURE 8.1**

**Model 1: Independent variables and general level of hotel outsourcing**

<table>
<thead>
<tr>
<th>Proposition Number</th>
<th>Theoretical perspective</th>
<th>Independent Variables</th>
<th>Dependant Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 1a</td>
<td>Transaction Cost Economics</td>
<td>Environmental Uncertainty</td>
<td></td>
</tr>
<tr>
<td>Proposition 1b</td>
<td></td>
<td>Frequency *</td>
<td></td>
</tr>
<tr>
<td>Proposition 1c</td>
<td>Agency Theory</td>
<td>Risk Culture</td>
<td></td>
</tr>
<tr>
<td>Proposition 1d</td>
<td>Contingency theory</td>
<td>Strategy</td>
<td>General level of outsourcing</td>
</tr>
<tr>
<td>Proposition 1e</td>
<td></td>
<td>Competition Intensity</td>
<td></td>
</tr>
<tr>
<td>Proposition 1f</td>
<td>Other Factors</td>
<td>Hotel quality Level</td>
<td></td>
</tr>
<tr>
<td>Proposition 1g</td>
<td></td>
<td>Proximity to large city</td>
<td></td>
</tr>
<tr>
<td>Control Variables</td>
<td></td>
<td>Market Segment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Owner/operator structure</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Performance</td>
<td></td>
</tr>
</tbody>
</table>

* In this model frequency is the same as size.
FIGURE 8.2
Model 2: Independent variables and outsourcing of specific hotel activities

<table>
<thead>
<tr>
<th>Proposition Number</th>
<th>Theoretical perspective</th>
<th>Independent Variables</th>
<th>Dependant Variable</th>
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</thead>
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<tr>
<td>Proposition 2a</td>
<td>Transaction Cost Economics</td>
<td>Asset Specificity</td>
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<tr>
<td>Proposition 2b</td>
<td></td>
<td>Uncertainty</td>
<td>Degree of Outsourcing in relation to four different Activities</td>
</tr>
<tr>
<td>Proposition 2c</td>
<td>Agency Theory</td>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>Proposition 2d</td>
<td>Contingency theory</td>
<td>Risk Culture</td>
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<tr>
<td>Proposition 2e</td>
<td></td>
<td>Strategy</td>
<td>Housekeeping</td>
</tr>
<tr>
<td>Proposition 2f</td>
<td></td>
<td>Competition Intensity</td>
<td>Food &amp; Beverage</td>
</tr>
<tr>
<td>Proposition 2g</td>
<td></td>
<td>Size</td>
<td>Laundry</td>
</tr>
<tr>
<td>Proposition 2h</td>
<td>Other Factors</td>
<td>Core activity</td>
<td>General Maintenance</td>
</tr>
<tr>
<td>Proposition 2i</td>
<td></td>
<td>Hotel quality Level</td>
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</tr>
<tr>
<td>Proposition 2j</td>
<td>Control Variables</td>
<td>Proximity to large city</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market Segment</td>
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<td>Owner/operator structure</td>
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<td></td>
<td></td>
<td>Performance</td>
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</tbody>
</table>
FIGURE 8.3
Model 3: Independent variables and degree of outsourcing management system sophistication

<table>
<thead>
<tr>
<th>Proposition Number</th>
<th>Theoretical perspective</th>
<th>Independent Variables</th>
<th>Dependant Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 3a</td>
<td>Contingency theory</td>
<td>Strategy</td>
<td></td>
</tr>
<tr>
<td>Proposition 3b</td>
<td>Other Factors</td>
<td>Competition Intensity</td>
<td></td>
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<tr>
<td>Proposition 3c</td>
<td>Other Factors</td>
<td>Size</td>
<td></td>
</tr>
<tr>
<td>Proposition 3d</td>
<td>Other Factors</td>
<td>Degree of outsourcing</td>
<td>Degree of Outsourcing Management System Sophistication</td>
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<td>Proposition 3e</td>
<td>Control Variables</td>
<td>Hotel quality Level</td>
<td></td>
</tr>
<tr>
<td>Proposition 3f</td>
<td>Control Variables</td>
<td>Professional qualification</td>
<td></td>
</tr>
</tbody>
</table>

Control Variables
- Owner/operator structure
- Performance
- Outsourcing part of long term strategic agenda
8.2.1.2 Agency Theory

Following the discussion in Chapter 2, an agency theory perspective suggests high risk aversity will be associated with increased outsourcing as the risk averse principal will attempt to pass the risk of conducting activities to the agent; ie “agency theory predicts that risk-neutral managers are likely to choose the “make” option (behaviour based contract), whereas risk-averse executives are likely to choose “buy” (outcome based contract)” (Eisenhardt, 1985, p. 65). This view appears to contradict TCE which suggests that the presence of high risk will lead to insourcing, due to the problem of incomplete contracting. In order to highlight the distinct perspective of the agency model, proposition 1c has been worded in a manner consistent with the agency perspective.

Proposition 1c: Outsourcing will be higher in hotels that have a risk averse culture.

8.2.1.3 Contingency theory variables

As noted in Chapter 5, in addition to testing TCE and agency theory, the role of other variables that have been the subject of a substantial amount of prior accounting contingency research will be investigated. These variables are: strategy, competition intensity, size and performance. Strategy and competition intensity are discussed now. Size was discussed earlier in connection with the frequency aspect of the TCE model (proposition 1b) and performance will be discussed below in section 8.2.1.5 in connection with control variables for Model 1.

8.2.1.3.1 Strategy

Several commentaries discuss outsourcing in the context of organisational strategy (eg., Teresko, 1990; Quinn and Himler, 1994; Domberger, 1998; Widener and Selto, 1998; Kakabadse and Kakabadse, 2000). Given the widespread use and theoretical robustness of the Miles and Snow (1978) measure (Abernethy and Brownell, 1999), this typology was adopted in the questionnaire survey phase of the study. Following the discussion in Chapter 2 (section 2.5.1) it is proposed that due to the importance that prospector companies place on being ‘first in’, prospectors will have a greater propensity to
outsource. Outsourcing can be seen to facilitate prospectors’ strategy of being ‘first in’. This proposition counters Widener and Selto’s (1998) expectation. Widener and Selto’s results did not support their expectation, however. While an argument could be made that defenders may have a cost efficiency induced propensity to outsource, it is felt that the prospector ‘first in’ philosophy argument is more persuasive.

Proposition 1d: *Outsourcing will be higher in hotels that have a prospector type orientation.*

**8.2.1.3.2 Competition Intensity**

It was noted in Chapter 6 that outsourcing can facilitate greater efficiency due to heightened specialisation. It is anticipated that the drive for cost savings in a highly intense competitive market will result in more outsourcing.

Proposition 1e: *Outsourcing will be higher in hotels that experience higher levels of competition intensity.*

**8.2.1.4 Other factors**

Two other independent variables that do not fit under the TCE, agency and contingency theory headings are quality and proximity to a large city.

**8.2.1.4.1 Quality**

From the interviews it was evident that quality is a significant factor in the hotel industry. This is also apparent from the importance of the star rating system in hotels. It is expected that those hotels that attach particular importance to maintaining high quality standards will be less inclined to outsource activities. This is because outsourcing might signify a loss of control over quality (this view is consistent with the TCE “brand capital” proposition). Proposition 1f is worded in a manner consistent with this expectation. Quality of hotels will be measured using the RACQ star rating.

Proposition 1f: *Outsourcing will be less in higher quality hotels.*
8.2.1.4.2 Proximity to large city

It was noted in the literature search and in the interviews chapters that the availability of a choice of suppliers can be a factor affecting degree of outsourcing. If there are a limited number of potential suppliers, a hotel that outsources will have to bear the risk of limited choice, should a change of supplier be warranted. This problem of a limited choice of suppliers will be most evident in regional areas, particularly in a country such as Australia with its large land mass and relatively small population. Proposition 1g is worded in a manner consistent with the expectation that there will be more outsourcing undertaken by hotels in large metropolitan areas such as capital cities.

Proposition 1g: Outsourcing will be higher for hotels located close to a large capital city.

8.2.1.5 Factors to be controlled for in Model 1

In addition to the independent variables referred to above, from the literature and/or interview findings other factors were identified that may relate to the degree of outsourcing. These factors will be controlled for in the statistical analysis of the propositions. This represents a strategy to ensure that the statistical model is not under-specified. In Model 1 these factors are: market segment, owner/operator structure, and performance. Performance is a variable that has been subjected to extensive examination in the contingency literature as a dependent variable. In Model 1, however, as the focus is on factors affecting degree of outsourcing, and in light of the possibility that a hotel’s performance affects its tendency to outsource, performance has been included in Model 1 as a control variable. As noted in Chapter 2, performance has been used in prior accounting studies as both a dependant and an independent variable (Langfield-Smith, 1997; Chenhall, 2000; ). As no prior studies linking these variables to outsourcing have been found and there is no strong expectation with respect to a directional relationship for these control variables, no propositions relating to them have been developed.

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3 Market segment has been operationalised according to two dimensions. Conference, business, tour and leisure guests are the four categories comprising the first dimension. The second dimension concerns the proportion of overseas and domestic guests.
8.2.2 Model 2: Independent variables and outsourcing of specific hotel activities

It was noted in Chapter 4 that there are many hotel activities that can be outsourced. In order to keep the questionnaire to a manageable size, it was not possible to test for relationships between independent variables and all of these activities. It was decided that a manageable number of activities to explore was four, namely:

1. housekeeping,
2. food and beverage,
3. laundry,
4. general maintenance.

These activities were selected as they were widely discussed in the literature and/or interviews. The first three activities represent significant areas of activity for most hotels, and the fourth activity, general maintenance, is an activity that would be undertaken in all hotels. These activities were chosen because they are relevant for most hotels, they are significant in terms of size and resources required to complete the task, and from the literature review and interviews it appears there is a significant degree of variability in terms of their outsourcing. Variability in the degree of outsourcing is obviously a key factor in light of the focus of the analysis.

8.2.2.1 Transaction cost economics

The three TCE attributes of asset specificity, uncertainty and frequency have been assessed at the activity level. As noted earlier, TCE theory suggests a negative relationship between the TCE attributes and outsourcing.

Earlier discussion has highlighted that asset specificity is a multi-dimensional construct. In light of this, more than one measure of asset specificity at the activity level will be used in the general manager questionnaire. Proposition 2a is applicable to all dimensions of asset specificity, however.

Proposition 2: Specific activity outsourcing will be higher when the activity is seen to involve low asset specificity.

In Model 1, environmental uncertainty was the only dimension of uncertainty appraised due to the difficulty associated with attempting to view behavioural uncertainty at the
total hotel level. In the testing of Model 2, both environmental uncertainty and
behavioural uncertainty will be appraised at the individual activity level. In addition, a
measure of environmental uncertainty at the total organisational level will be included.
Proposition 2b has been drafted in a form that is applicable to all these dimensions of
uncertainty.⁴

Proposition 2b: Specific activity outsourcing will be higher where the activity is seen to
have low uncertainty.

As noted in section 8.2.1.1, the main investigation assessing frequency and the degree
of outsourcing will be conducted at the activity level when testing Model 2. Proposition
2c is worded in a manner consistent with the expectation of TCE theory in connection
with the “frequency” attribute.

Proposition 2c: Specific activity outsourcing will be higher where the activity is seen to
involve a small amount of work.

8.2.2.2 Agency theory

Consistent with the agency perspective outlined in connection with Model 1, in Model 2
the risk culture of the hotel will be appraised as a factor potentially affecting the degree
of outsourcing of the four activities.

Proposition 2d: Specific activity outsourcing will be higher in hotels that have a risk
averse culture.

8.2.2.3 Contingency theory variables

Consistent with Model 1, strategy and competition intensity will be included in the
investigation of Model 2. In addition, hotel size will be included as a factor potentially
related to degree of activity outsourcing (size was included in Model 1, however it was
discussed in the context of the TCE frequency attribute). The following three
propositions are drafted in a manner consistent with their equivalent propositions in
Model 1.

⁴ Although most of the interview findings supported TCE’s view of uncertainty, as detailed in 6.3.1.2.3,
one finding countered it (one general manager identified technological change [an aspect of behavioural
uncertainty] as a reason for outsourcing). As the evidence supporting the TCE proposition appears
stronger, the proposition has been written in a manner consistent with TCE’s view of uncertainty.
Proposition 2e: *Specific activity outsourcing will be higher in hotels that have a prospector type strategic orientation.*

Proposition 2f: *Specific activity outsourcing will be higher in hotels that experience higher levels of competition intensity.*

Proposition 2g: *Specific activity outsourcing will be higher in smaller hotels.*

### 8.2.2.4 Other factors

Three other independent variables that do not fit under the TCE, agency and contingency theory headings are degree to which an activity is core, hotel quality and hotel proximity to a large city.

It was noted in Chapter 7 that the importance of the degree to which an activity is perceived to be core is an important variable affecting outsourcing. It is widely held that core activities should not be outsourced. Proposition 2h is drafted in a manner consistent with this view.

Proposition 2h: *Specific activity outsourcing will be higher for those activities that are perceived to be less core to the business.*

Hotel quality and proximity to a large city were discussed earlier in propositions 1f and 1g in connection with Model 1. Propositions 2i and 2j below are worded in a manner consistent with the equivalent propositions in Model 1.

Proposition 2i: *Specific activity outsourcing will be less in higher quality hotels.*

Proposition 2j: *Specific activity outsourcing will be higher for those hotels located close to a large city.*

### 8.2.2.5 Factors to be controlled for in Model 2

Consistent with Model 1, three variables have been controlled for in Model 2. These variables are: market segment, owner/operator structure and performance.
8.2.3 Model 3 - Independent variables and degree of outsourcing management system sophistication

Model 3 focuses on factors affecting the degree of outsourcing management system sophistication. The degree of outsourcing management system sophistication can be seen to be important, given the considerable ramifications arising from a decision to outsource. The degree of outsourcing management system sophistication has been assessed by asking 25 questions in the financial controller questionnaire. These questions will be discussed further in the questionnaire design section. In a manner similar to the discussion of Models 1 and 2 above, this section describes the propositions relating to Model 3.

8.2.3.1 Contingency theory variables

As noted in Chapter 2, there is a growing literature that appraises relationships between various contingency variables (e.g., strategy and size) and management control system design. Several of these variables are the subject of some of the following propositions. In common with Models 1 and 2 above, these include: strategy, competition intensity and size. In addition, other relevant factors identified are: degree of outsourcing, quality level of the hotel and professional training of the Financial Controller.

8.2.3.1.1 Strategy

From the existing literature it appears that prospectors tend to be results oriented (Miles and Snow, 1978) and have decentralised flexible systems to adapt to organisation changes and encourage innovation. As was noted earlier, one way organisations can quickly and effectively adapt to changes and new opportunities is to outsource. In light of the rationale presented above in connection with Models 1 and 2 that anticipated a positive relationship between a prospector orientation and a high propensity to outsource, it is expected that prospector firms will have more sophisticated outsourcing management systems in order to effectively manage their greater outsourcing propensity.

Proposition 3a: Hotels with prospector type strategies will have relatively sophisticated outsourcing management systems.
8.2.3.1.2 Competition Intensity

It was noted earlier that heightened competition is expected to result in the employment of more sophisticated management techniques. Proposition 3b is drafted in a manner consistent with this expectation.

Proposition 3b: *Hotels that face more intense competition will have more sophisticated outsourcing management systems.*

8.2.3.1.3 Size

Several researchers have noted that as size increases, accounting and control systems tend to be more sophisticated (Bruns and Waterhouse, 1975; Merchant, 1981; Libby and Waterhouse, 1996). A rationale for this is that larger firms can spread the cost of more sophisticated accounting systems over a greater revenue making customer base. In light of this rationale and prior work, it is expected that size will be positively related to outsourcing management system sophistication.

Proposition 3c: *Larger hotels will have more sophisticated outsourcing management systems.*

8.2.3.2 Other factors

Three other potentially relevant variables that have received little attention in the contingency literature are: degree of outsourcing, quality level of the hotel, and professional qualification of the financial controller.

8.2.3.2.1 Degree of outsourcing

Those hotels that conduct more outsourcing are expected to have more developed systems with respect to outsourcing management. This expectation has led to the following proposition.

Proposition 3d: *Hotels with higher levels of outsourcing will have more sophisticated outsourcing management systems.*

8.2.3.2.2 Quality level of hotel

Higher quality hotels are expected to have more sophisticated systems to support their higher quality service delivery. Proposition 3e is drafted in a manner consistent with this expectation.
Proposition 3e: Higher quality hotels will have more sophisticated outsourcing management systems.

8.2.3.2.3 Professional qualification of the financial controller

The financial controller was the targeted individual in the mailing of the “financial controller questionnaire”. Hotel’s that are willing to attach greater importance to the accounting function can be expected to have a greater likelihood of employing a professionally qualified financial controller. Further, as the financial controller can be expected to be a key individual affecting the sophistication of a hotel’s outsourcing management system, it is expected that employment of a professionally qualified financial controller is positively related to a hotel’s degree of outsourcing management system sophistication. This expectation has resulted in the development of proposition 3f.

Proposition 3f: Hotels with a professionally qualified accountant as Financial Controller will have a more sophisticated outsourcing management system than those hotels that have a Financial Controller who is not professionally qualified.

8.2.3.3 Factors to be controlled for in Model 3

In an attempt to enhance the explanatory power of the statistical model that will be used to test Model 3, the following variables will be controlled for:

1. owner/operator structure,
2. hotel performance, and
3. the degree to which outsourcing is conducted in the context of a long term, strategic agenda.

The owner/operator structure may impact on management system sophistication as it might be that where the operating company is not the owner of the hotel, the owner may require the operator to prepare a detailed management justification of a proposal to outsource. It appears appropriate to control for hotel performance, as higher performing hotels might develop more sophisticated management systems. Finally, it might be that hotels that take a longer term, strategic view of outsourcing have more developed procedures with respect to outsourcing decision making.
Having outlined the specific propositions tested, we now turn to questionnaire design.

8.3 Questionnaire design

This section of the chapter will describe the design of the two questionnaires used in the study. As already indicated, one questionnaire was sent to hotel general managers (the “GM questionnaire”) and one was sent to hotel financial controllers (the “FC questionnaire”). It was felt that general managers are in the best position to comment on hotel-wide outsourcing issues, and financial controllers are in the best position to comment on aspects of the accounting system pertaining to outsourcing management. As part of an attempt to achieve a high response rate, it was felt desirable to keep the questionnaires to a reasonable size. The GM questionnaire was limited to four pages so that it could be copied onto an A3 paper sheet and then folded. The FC questionnaire was limited to two pages so that it could be printed on both sides of a single A4 size sheet of paper. Using two questionnaires obviously carries the advantage of enabling each to be tailored to the specific knowledge area of the recipient. The two questionnaires and the two sets of covering letters appear as Appendices 2 and 3 (A-C).

8.3.1 General issues in questionnaire design

Wherever possible, Likert scale questions (on a seven point scale) have been used in the questionnaire surveys, in order to allow for more sophisticated data analysis than if categorical measurement scales had been used. As noted by Brownell (1995), Likert scales are the most widely used multiple-item scales in management accounting research. The reasons for their widespread use is not only their relative ease of construction, but also their ability to handle multi-dimensionality. As suggested by Brownell (1995), comparative reference sets were referred to where possible. For example, with respect to the measure of performance, respondents were asked to comment on their hotel’s performance relative to their competitors. Consistent with Merchant’s (1985) study of performance, the end points “well below average and “well above average” have also been used where appropriate, in an attempt to draw out variability in the responses to each questionnaire item.

At the top of each questionnaire survey, a definition of outsourcing was given in order to promote consistent interpretation of the term. This definition was drawn from
Domberger (1998). Throughout the questionnaires, key words were highlighted in bold or underlined to assist the respondent in identifying the key idea in each question.

Many of the guidelines that have been outlined by Hinkin (1995) with respect to developing scales were adhered to. Item generation was predominantly deductive based on TCE theory and the other literatures reviewed. This chapter will note the link between questions and the relevant theory. Following the advice of Hinkin (1995) and others, double barrel questions were not used, nor were reverse scored items. Multiple item scales were used in most cases, but care was taken not to use too many items which can result in respondent fatigue or response bias (Hinkin, 1995). Hinkin (1995) refers to Cook et al. (1981) who note that adequate internal consistency can be achieved with three items. Scales were selected with a view to achieving a variance in answers provided by respondents.

8.3.2 Questionnaire piloting

Sixteen academics and five practitioners piloted the two questionnaires. Many of the academics and practitioners reviewed both the GM and FC questionnaire. Tables 8.1 and 8.2 provide an overview of the backgrounds of the academics and practitioners who reviewed the two questionnaires.

<table>
<thead>
<tr>
<th>Table 8.1</th>
<th>Background of individuals who piloted the General Manager Questionnaire</th>
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<tbody>
<tr>
<td><strong>Academics</strong></td>
<td><strong>Practitioners</strong></td>
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</tr>
<tr>
<td>Accounting academic with TCE interest</td>
<td>1</td>
</tr>
<tr>
<td>Hotel management backgrounds</td>
<td>3</td>
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<tr>
<td>Hotel management and accounting backgrounds</td>
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<tr>
<td>Senior academics with hotel research backgrounds</td>
<td>3</td>
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<tr>
<td>Senior academic with TCE background</td>
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<tr>
<td>Senior academic from Finance area</td>
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</tr>
<tr>
<td>Academic from Economics area</td>
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<td>Financial Controllers</td>
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<td>General Managers</td>
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<td><strong>Total</strong></td>
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Table 8.2
Background of individuals who piloted the Financial Controller Questionnaire

<table>
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<th>Background of Individuals</th>
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</tr>
<tr>
<td>Senior academic from Finance area</td>
<td>1</td>
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<td>Academic from Economics area</td>
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<tr>
<td>Financial Controllers</td>
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<td>2</td>
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<tr>
<td>General Managers</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td><strong>3</strong></td>
</tr>
</tbody>
</table>

The academics came from a variety of backgrounds, the majority, however, had accounting and/or hotel management specialisations. Although it was obviously important to obtain the participation of those with accounting and/or hotel management backgrounds, it was also felt that benefit could be achieved by obtaining comments from some academics outside these disciplines. Austin points out the benefits of being prepared to think outside existing frameworks as:

“Creativity is often born from associations and links made across traditional boundaries” (cited by Easterby Smith et al., 1991, p. 14).

Consistent with recommendations made by Brownell (1995), the survey instrument was also reviewed by experts in survey methods. Several iterations of the questionnaire were pilot tested. The feedback from hotel practitioners, many of them representing large international hotel chains, suggested that the questionnaires are comprehensive and highly relevant.

Piloting was achieved by a combination of e-mail, telephone discussions and face to face meetings. The individual concerned was asked to comment on the questionnaire’s layout, the relevance and appropriateness of questions and also any ambiguities. Changes made to the questionnaires, as a result of piloting, include:

1. next to the section headings in the questionnaires, a brief description of the section’s objective was given,

2. the measure of degree of outsourcing was changed from a Likert measure to a measure based on a percentage recorded by the respondent,
3. the grouping of activities outsourced were re-ordered and grouped according to underlying themes,

4. the performance measure was tailored by introducing items widely referred to in the hospitality industry.

8.3.3 General Manager Questionnaire

The GM questionnaire addresses three main themes. The first theme concerns factors pertaining to the whole hotel. These questions were designed to provide information that will enable testing of Model 1 (Figure 8.1). The second theme relates to the four specific activities (housekeeping, food and beverage, laundry, and general maintenance) selected for specific analysis. These questions provided information enabling an appraisal of Model 2 (Figure 8.2). The third theme appraises the respondents’ views on factors affecting outsourcing in general. These views can be ranked as part of the investigation of factors affecting outsourcing.

From the pilot study with hotel practitioners, it was discovered that it would be helpful if a justification for sections B and C were included in the questionnaire. Concern was expressed that failure to do this might result in respondents thinking the questions were not relevant or unnecessarily invasive and this might adversely affect the response rate.

The questionnaire items’ design is described here in the order that the questions appear in the questionnaire. When information on a variable is being gathered by more than one item, these questions will be discussed together. Before describing the specific GM questionnaire items, however, two measures that were derived from the sample frame, i.e., quality of hotel and proximity to a large city, will be described.

8.3.3.1 Quality Level of Hotel

Hotel quality level is a variable referred to in propositions 1f and 2i. This variable was not measured in the questionnaire as the star rating is provided by the RACQ Accommodation Guide for 2000-2001 which was the source of the sample frame. This guide uses the “5 star rating” system as an indicator of hotel quality.
8.3.3.2 Proximity to a large city

Proximity to a large city is a variable referred to in proposition 1g and 2j. Like hotel quality, this information was derived from the RACQ accommodation guide. A hotel has been viewed as close to a large city if its address signifies it is located in a capital city.

8.3.3.3 Section A - Degree of Outsourcing (Questions 1 - 3)

Questions 1, 2 and 3 in Section A of the GM questionnaire relate to the degree of outsourcing undertaken. Question 1 assesses the degree to which eleven hotel activities are outsourced. The literature review on outsourcing in the hotel industry (Chapter 4) indicated that there is a large array of activities that can be outsourced. From information provided by the literature review, interview findings and also the pilot study of the questionnaires, eleven activities were selected for analysis. Selection of these activities was based on the extent to which they represent activities performed by most hotels, and also the extent that they offer potential variability with respect to outsourcing. Such variability is important in order to facilitate an investigation of the effect of the independent variables under investigation.

The inappropriateness of viewing outsourcing in a dichotomous manner became apparent from the interview phase of the study. It was discovered, for example, that a hotel may outsource housekeeping but not the executive housekeeper, or a hotel may outsource laundry but not the ownership of linen. In light of this, a seven point Likert scale for each of the eleven activities was initially developed. Following comments made during the piloting of the questionnaire, however, this measure was changed to the percentage measure that appears as question 1 in the finalised questionnaire.

Question 2 assesses the degree to which hotels consider outsourcing housekeeping and restaurants. From the interviews it was realised that although many hotels were not outsourcing some activities, strong consideration was being given, or would be given, to outsourcing some activities. As a result, this question was included in order to provide a more complete picture of any unrealised outsourcing tendencies in the hotel industry. The Likert scale question used is similar to that employed in Lamminmaki and Drury’s (2001) measure of consideration given to adopting activity based costing.
Question 3 appraises the extent to which activities are outsourced in general in the respondent’s hotel. While the eleven activities appraised in question 1 might be viewed as an extensive set of hotel activities, they still represent only a subset of activities that could be outsourced. As a result, as part of an attempt to gain a more holistic measure of a hotel’s degree of outsourcing, question 3 was posed.

8.3.3.4 Section B - Factors affecting outsourcing (Questions 4 - 12)

This section comprises two styles of question. Questions 4 - 10 are all designed to measure particular attributes relating to the four specific hotel activities selected for analysis (housekeeping, food and beverage, laundry and general maintenance). All items involve a question followed by a Likert scale measure for the four activities. Questions 11 and 12 are designed to appraise respondents’ views on factors that affect the decision to outsource.

8.3.3.4.1 Core/Non-core (Question 4)

The variable “degree to which an activity is core” was referred to in Proposition 2h. Design of more than one question that measures whether an activity is core was found to be difficult. It was feared that to have done so might have annoyed questionnaire respondents. As a result, the following question was posed with the word “core” underlined and the Likert scale end points “Not at all” and “To a large extent” used:

To what extent are the following activities perceived as core to your hotel’s business?

8.3.3.4.2 Asset specificity - temporal specificity (Questions 5 and 8c)

Proposition 2a relates to asset specificity. As discussed earlier, commentators such as Lohtia et al. (1994) have noted the multi-dimensional nature of asset specificity. From the interviews it was ascertained that temporal specificity was pertinent to the outsourcing of some activities (e.g., laundry, food and beverage, public area cleaning). Questions 5 and 8c were compiled by using wording that is consistent to that used by Masten et al. (1991), as referred to in Lohtia et al. (1994):

“Even though the skills and assets necessary to perform the task may be fairly common, the difficulty of identifying and arranging to have an alternative
supplier in place on short notice introduces the prospect of strategic holdups” (Lohtia et al., 1994, p. 268).

Question 5 focuses on the importance of timing and coordination, and question 8c focuses on the difficulty of arranging an alternate supplier at short notice.

8.3.3.4.3 Uncertainty

Uncertainty is referred to in propositions 1a and 2b. Consistent with Widener and Selto (1999), uncertainty has been broken into environmental uncertainty and behavioural uncertainty. Although different measures of these variables appear in different places in the GM questionnaire, they are described together here.

8.3.3.4.3.1 Environmental uncertainty (Questions 6, 17, 18)

Questions 17 and 18 are designed to appraise environmental uncertainty at the organisational level. Question 6 measures environmental uncertainty at the level of the four specific hotel activities selected for analysis.

Question 17a assesses hotel occupancy volatility and question 17b assesses hotel occupancy predictability. Room occupancy represents a critical dimension of hotel performance as it affects other activity levels such as restaurant and bar sales. The interviews revealed how volatility and predictability independently, and in combination, can affect the degree to which an activity is outsourced. For example, one hotel initially outsourced housekeeping because demand was volatile and unpredictable. As volatility smoothed, however, the activity was brought inhouse.

Question 18 measures environmental uncertainty by focusing on five aspects of the environment: customers, suppliers, competitors, governments/political and technological. This measure was developed by Kren and Kerr (1993) who based it on an earlier instrument used by Govindarajan (1984). It has been modified slightly in this questionnaire by adopting some of the wording changes used by Hoque (2001).

In contrast to these hotel-wide measures of environmental uncertainty, Question 6 focuses on environmental uncertainty at the level of housekeeping, food and beverage, laundry, and general maintenance. Compared to questions 17 and 18, measurement of
environmental uncertainty at this level represents a more refined approach to testing proposition 2b as it concerns outsourcing at the individual activity level.

8.3.3.4.3.2 Behavioural uncertainty (8a, 8b, and 9)

Questions 8a, 8b, and 9 all relate to behavioural uncertainty at the individual activity level. As behavioural uncertainty relates specifically to a particular activity, it would be inappropriate to attempt to appraise the construct at the organisational level. Question 8a and question 8b are slightly related. Question 8a asks whether it is difficult to measure whether the activity has been effectively performed and question 8b asks to what extent it would be difficult to determine if the subcontractor performed according to its contractual obligations. Question 8b is adapted from a question used by Widener and Selto (1999) to appraise environmental uncertainty.

Question 9 asks whether an outsourcing contract would provide the same degree of control as if the activity were managed inhouse. This question relates to the TCE issue of incomplete contracting. It is therefore broader than a measure of behavioural uncertainty. As it appears to relate most closely to the TCE “behavioural uncertainty” attribute, however, it has been described here.

8.3.3.4.4 Asset specificity generally (Question 7a)

The basic idea of asset specificity concerns the possibility that a subcontractor could lose a significant investment (in either physical assets, training, promotion, etc) if the subcontracting relationship were to cease. Question 7a is worded in the following way to pick up this fundamental notion of asset specificity:

If the following activities were outsourced, to what extent could the subcontractor lose a significant investment if the subcontracting relationship ended (eg., in physical assets, training, promotion, etc)?

8.3.3.4.5 Asset specificity - Brand capital (Question 7b)

Lohtia et al. (1994) in their review of the six elements of asset specificity drew specific attention to the importance of brand capital. From the interviews conducted it appeared that protection of brand capital (i.e., investment in reputation) is an important issue
affecting degree of outsourcing undertaken. This issue of brand capital has been operationalised in question 7b which is stated as follows:

If the following activities were outsourced, to what extent could the subcontractor damage the reputation of your hotel?

8.3.3.4.5 General TCE construct (Question 7c)

As noted in the TCE literature, if an activity is outsourced and there is high uncertainty or high asset specificity, the hotel or subcontractor is in a position where it can act opportunistically. Question 7c asks to what extent either the hotel or subcontractor could exploit its position during the performance or renegotiation of a contract. The term “opportunistic behaviour” was not used, as comments made during the pilot study suggested some respondents would be unfamiliar with it.

8.3.3.4.6 Frequency (Question 10)

Frequency is referred to in propositions 1b and 2c. Organisational size (discussed below) will be used as a measure of frequency when testing proposition 1b. Question 10 represents a stronger operationalisation of the construct, however, as it considers frequency at the activity level. The question asks:

To what extent do the following activities involve a large amount of work for your hotel (i.e., significant resources are used up by the activity and it is conducted frequently)?

8.3.3.4.7 Views on factors causing a hotel to outsource (Question 11)

Question 11 comprises ten items (a - j) that are designed to appraise the relative strength of factors causing a hotel to outsource. The question comprises a series of statements, and respondents are asked to indicate the degree to which they agree or disagree with each statement on a 1-7 Likert scale where 1 corresponds to “strongly disagree” and 7 corresponds to “strongly agree”. The items were selected following completion of the literature search and interviews.

The 10 items addressed the following factors that might cause a hotel to outsource:

1. Flexibility afforded by outsourcing.
2. Ability of specialist suppliers to provide a better service.
3. Avoiding the need to raise investment funds.
4. The facilitation of quick expansion through outsourcing.
5. The savings that can be made from outsourcing.
6. Influenced to outsource due to outsourcing activities of other hotels.
7. Outsourcing enables risk to be past to subcontractors.
8. Favourable outsourcing terms can be negotiated for large activities.
9. Subcontractors are better placed to manage volatility and unpredictability.
10. Managers like to delegate risk to subcontractors.

8.3.3.4.8 Views on factors causing a hotel not to outsource (Question 12)

Question 12 parallels question 11. When designing question 11 it was found that some factors only made sense when conceived in terms of reducing the likelihood of outsourcing. For these factors it proved very difficult to develop wording that associated them with a desire to outsource. As a result, question 12 comprises 11 items concerning factors that can be expected to reduce the likelihood of outsourcing. Again, the selection of these items was based on the extent to which they appeared to be potentially significant, following completion of the literature search and interviews.

Following the statement “There are many activities that we do not outsource because:” the following eleven issues were referred to:

1. Difficulty of appraising the subcontractor’s performance,
2. Economies of scale can be achieved inhouse.
3. Subcontractor might feel exposed to potential loss of investment.
4. Subcontractor could act in their own interest to the detriment of the hotel.
5. Reputation of the hotel could be damaged by subcontractor actions.
6. Timing and coordination of the activity is critical to hotel’s success.
7. Activities are unpredictable and therefore difficult to contract for.
8. Activities are viewed as core to the business.
9. Difficulty of finding subcontractors that can be trusted.
10. Back of house operating tension might result from outsourcing.
11. Difficulty of finding subcontractors with a compatible organisational culture.
8.3.3.5 Section C - Background and organisational level contingency factors (Questions 13 - 22)

Section C’s questions are primarily concerned with organisational level contingency variables.

8.3.3.5.1 Organisation size (Question 13 and 16)

Organisation size is referred to in proposition 1b and 2g. Measuring size is problematical as many measures of size have been noted in the literature, eg., sales, assets, number of employees, number of rooms, number of hotels in a chain, etc. In light of this, several measures of size have been included in the questionnaire.

Question 13 comprises three measures of size at the hotel level. These measures are:
1. Number of rooms,
2. Annual sales turnover, and
3. Number of restaurants.

Number of rooms and annual sales turnover require no explanation as measures of hotel size. Number of restaurants has been measured because, as noted in earlier chapters, the degree of outsourcing of restaurants may be affected by the number of restaurants in a hotel.

Question 16 represents a measure of the size of the organisation that the hotel is part of. The question asks respondents to indicate whether their hotel is part of a chain or franchise, and also the number of hotels in the chain in Australia and worldwide. This represents a fundamentally different perspective of size than question 13 which is focused on the size of an individual hotel. During interviews conducted, being part of a large chain was found to be a potentially relevant issue to outsourcing. It was found that some hotels in a chain would share outsourcing analyses, centralise the decision making process, or require more formalised procedures to be followed.

8.3.3.5.2 Market segment (Question 14)

Market segment was referred to earlier as a control variable in Models 1 and 2. Two breakdowns of market segment were requested of respondents. The first breakdown
concerns the conference guest, business traveller, tour group and leisure guest market segments. The second market breakdown concerns domestic vs overseas guests.

In relation to the first breakdown, the work required in a hotel may vary considerably depending on this mix, and therefore it was felt important to control for this variable. For example, hotels focusing on leisure guests will tend to offer more packages, bed and breakfast deals, free dining for children, etc. This may reduce the likelihood of outsourcing restaurants because of the difficulty of organising these special deals through the subcontractor. Hotels with a larger percentage of leisure guests may also have greater volatility in terms of occupancy levels, which may increase the degree to which they outsource in order to pass the volatility problem to the subcontractor (while this factor appears worthy of comment, it should be noted that volatility has been measured in the models through the uncertainty variable). Hotels with a large proportion of tour groups tend to have smaller margins. This suggests a cost minimisation focus, which may also affect the decision to outsource.

In relation to the second market segmentation breakdown (domestic/overseas guests), from the interviews it was found that hotels that have a greater percentage of overseas guests are at greater risk due to exchange rate fluctuations and other international factors that may affect demand from overseas visitors. For example, the 11th September 2001 terrorist attacks in the US no doubt affected American overseas travel. This has been significant as Americans make up 10% of the Australian tourist market.\(^5\) Volatility and/or unpredictability of overseas guests may result in increased outsourcing to pass this risk onto a supplier.

8.3.3.5.3 Ownership structure (Question 15)

Owner/operator structure has been included as a control variable in Models 1 and 2. From the interviews it was ascertained that ownership structure may be relevant to the outsourcing decision, and it was therefore felt worthy to include a question that determined whether the hotel was operated by the owner or a management company.

8.3.3.5.4 Competition intensity (Question 19)

Competition intensity is referred to in propositions 1e and 2f. The widely used Khandwalla (1972) instrument has been drawn on to provide a measure of competition intensity in this study. Khandwalla’s three-item measure has been expanded to four items. Khandwalla’s three items concerned competition intensity surrounding price, promotion and distribution, and product quality and variety. In this study, distribution is not deemed relevant and it has therefore been eliminated. In addition, Khandwalla’s product quality and variety item has been changed to service quality and variety, with quality and variety each being measured separately. This is because in a hotel, quality and variety are not the same thing (e.g., two hotels of the same quality can offer varying degrees of service variety). It was therefore considered important to separate these two ideas. These modifications have resulted in respondents being asked to indicate the intensity of their hotel’s competition with respect to:

1. Price,
2. Promotion,
3. Service quality, and
4. Service variety.

8.3.3.5.5 Performance (Question 20)

Performance has been included as a control variable in Models 1 and 2. A measure based on that used by Hoque (2001) was initially developed. Hoque’s measure drew on the work of Govindarajan (1984), Govindarajan and Gupta (1985), Abernethy and Stoelwinder (1991), Chong and Chong (1997), and Chenhall and Langfield-Smith (1998). Because of the unique nature of the hotel industry, only three of Hoque’s twelve items were eventually used, however. At an early stage in the instrument’s development, five of Hoque’s items were deemed not particularly appropriate. Cash flow from operations was deleted due to the view that general managers would have limited knowledge of their competitors’ cash flow. Relative to other factors, it was also felt that research and development, workplace relations and employee health and safety do not represent particularly pertinent dimensions of a hotel’s performance. Measuring “Market Development” was not deemed to add much information as “market share”, “new product development” and “sales growth” appear to focus on the same notion. In
a service industry, customer satisfaction is a key measure of performance, and therefore "customer satisfaction" was added as an item.

When piloting the questionnaire, several hotel academics and practitioners suggested the deletion of operating profit and return on investment as they felt general managers would not know their competitors’ achievements with respect to these dimensions of performance. In addition, several practitioners and academics were not comfortable with the term “personnel development” and so this was changed to “staff training”. An additional item identified in the pilot study as relevant was revenue per available room (widely referred to in the industry as “revpar”). Following these modifications, the finalised question appraised the following six dimensions of performance:

1. market share,
2. revenue per available room (revpar),
3. new service/product development,
4. customer satisfaction,
5. cost reduction programs, and
6. staff training.

Further piloting of the questionnaire revealed practitioner satisfaction with these six items.

8.3.3.5.6 Strategy (Question 21)

Strategy is referred to in propositions 1d and 2e. Miles and Snow’s (1978) prospector/defender typology has been used, based on the descriptions given by Miles and Hrebiniak (1980), Langfield-Smith (1997), Widener and Selto (1998) and Abernethy and Brownell (1999). As noted by Abernethy and Brownell (1999):

“While the Miles and Snow instrument has been in the literature for a number of years, a recent test of its theoretical robustness provides strong support for its continued use (Doty et al., 1993). The typology continues to be used by numerous researchers and in a variety of industries (Abernethy and Guthrie, 1994; Shortell et al., 1990; Simons, 1987). It has also been subject to considerable psychometric assessment (Snow and Hrebiniak, 1980; Hambrick, 1983 and Shortell and Zajac, 1990)” (p. 201).

Consistent with the instrument used by Abernethy and Brownell (1999), a single seven point Likert scale measure has been used with one end point representing a defender and
the other representing a prospector. To facilitate the respondent’s completion of the question, a description of a prospector hotel and a defender hotel was provided. Minor amendments were made in the wording of these descriptions in order to tailor them to the hotel environment.

8.3.3.5.7 Risk aversity (questions 22)

Risk aversity is referred to in propositions 1c and 2d. The term “risk aversity” was not used as it appeared from questionnaire piloting that many respondents might not understand it. As the notion of risk aversity can be viewed as a relative characteristic, question 22 has been drawn up as a comparative rating scale (i.e., the term “relative to your competitors” is used). The question was stated in the following manner:

“Relative to your competitors, does your hotel have a culture that seeks to avoid risk or copes well with taking risk?”

A concern with this question is that it may lead to social desirability error, i.e., there may be a tendency for respondents to want to claim that their hotel copes well with risk. As noted by Brownell (1995), the concern of this error depends on whether our focus is on the intercept or the slope, and whether the error will be correlated with other variables in our study. As we are using question 22 as an independent variable to explain degree of outsourcing, our interest is in the slope. It is not believed that any bias in responding to question 22 will affect response to the “degree of outsourcing” questions, and therefore the slope, the study’s point of interest, should not change. It is therefore felt that the error, if any, should not pose a problem. Brownell (1995) comments:

“Provided the respondents’ propensity to generally overate or underrate the phenomenon is not correlated with other variables under examination, the problem may be minor” (p. 46).

8.3.4 Financial Controller questionnaire

The variables measured in the FC questionnaire have been designed for testing Model 3’s propositions. Many of the questions in the FC questionnaire are identical to those used in the GM questionnaire. The primary focus of the FC questionnaire, however, concerns Model 3’s dependent variable, degree of outsourcing management system sophistication. An advantage of asking the same independent variable questions in the GM and FC questionnaire is that it enables reliability tests to be conducted.
8.3.4.1 Section A: Outsourcing information

The two questions in this section measure degree of outsourcing and are the same as questions 1 and 3 in the GM questionnaire.

8.3.4.2 Section B: Background information

In section B, questions appraise organisation size (question 3), owner / manager structure (question 4), chain or franchise (question 5), competition intensity (question 6), performance (question 7), and strategy (question 8). All questions used are the same as those used in the GM questionnaire and have already been described.

8.3.4.3 Section C: Outsourcing management system information

This section comprises 4 groups of questions. The first set relates to the extent of accounting’s involvement in outsourcing decision making and control (question 9). The second set concerns management procedures with respect to outsourcing (question 10). The third set concerns financial factors appraised when assessing whether to outsource (question 11-13). The different orientation of these three sets of questions signify that in the data analysis, the degree of outsourcing management system sophistication, can be viewed from three dimensions: degree of accounting involvement, degree of general management sophistication and degree of accounting system sophistication in outsourcing management. The final question is designed to ascertain the respondent’s professional accounting training.

8.3.4.3.1 Degree of accounting involvement in outsourcing (Question 9)

From the interviews, it was revealed that the degree of accounting involvement in outsourcing management varies considerably across hotels. As greater accounting involvement appears consistent with greater management sophistication, it was decided that it should be measured as a variable of potential interest.

The degree of accounting involvement was appraised in connection with the following aspects of outsourcing management:
Chapter 8: Proposition development and questionnaire design

8.3.4.3.2 Degree of sophisticated outsourcing management systems (Question 10)

The degree of sophistication of outsourcing management systems was ascertained by posing eight questions. As noted in Chapter 6, analysis of an outsourcing decision can be compared to the analysis required for capital budgeting decisions. Many of the questions used here therefore represent adaptations of questions used by Lamminmaki et al. (1996) in their study of capital budgeting practices (namely questions 10b, 10c, 10f, 10g and 10h). Question 10b assesses the extent to which the hotel has documented procedures, question 10c assesses the extent to which the hotel has a formal body responsible for screening and reviewing outsourcing proposals, question 10f assesses the extent to which the hotel requires a formal financial evaluation of outsourcing proposals, 10g appraises whether the hotel requires a formal risk analysis of outsourcing to be conducted and question 10h assesses the extent to which the hotel formally monitors outsourcing once operational.

The three remaining question 10 items that do not draw on the Lamminmaki et al. (1996) questionnaire are 10a, 10d and 10e. Question 10a assesses the extent to which outsourcing decisions are made within the context of a long term strategic agenda. As noted earlier, one would anticipate that a more sophisticated outsourcing analysis would take place in those hotels that make outsourcing decisions in the context of a long term strategic agenda. Question 10a will therefore be treated as an independent variable. Question 10d assesses whether three or more subcontractors are required to bid for a contract. The interview phase of the study revealed how this was not always the case and that backhanded deals have been known to occur. The literature revealed the importance of risk management plans and this issue is appraised by question 10e.
8.3.4.3.3 Degree of outsourcing accounting system sophistication (Questions 11-13)

Questions 11a to 11h relate to accounting sophistication in outsourcing management. All of these questions appraise the extent to which a variety of financial factors are appraised when assessing whether to outsource. Questions 11a to 11c all relate to various transaction costs that arise when outsourcing. As noted in Chapter 2, transaction costs include: setup costs (question 11a - eg., setting up the contract, negotiation, legal costs), control costs (question 11b - eg., evaluating, enforcing and renegotiating contracts), and opportunity costs (question 11c). Because some respondents may not understand the term “opportunity cost”, this term was not used. Instead the question was phrased by referring to “costs of the subcontractor acting in their own interest to the detriment of the hotel”. As noted earlier, these three transaction costs are generally not discussed in management accounting texts that review the make or buy decision and also capital budgeting. An additional transaction cost that has not been discussed in the TCE literature, but which was identified as potentially important during the interviews, is failure cost. This form of cost was picked up in question 11d, which asks respondents whether failure costs are considered when assessing whether to outsource.

Question 11e addresses another irregular cash flow that may be relevant to the outsourcing decision. It appraises whether the cost and benefit of disposing of inhouse assets are assessed when deciding whether to outsource (eg., sale of housekeeping equipment and uniforms). Question 11f concerns the appraisal of savings in annual administration costs, and question 11g concerns appraisal of savings in staff turnover costs that would result from outsourcing. Question 11h deals with compatibility of organisational cultures, a key dimension identified by Hemmington and King (2000). This final item does not relate to the measurement of accounting sophistication.

Question 12 asks to what extent discounting methods are used to value future cash flows when appraising whether to outsource. It was found during the interview phase that discounting methods are not used for most outsourcing decisions. Financial controllers interviewed generally felt that for most outsourcing decisions, the only relevant cash flows were annual operating costs and that as these were identical from year to year, discounting was unnecessary. If some hotels do apply discounting analyses when considering whether to outsource, this would appear to constitute a relatively sophisticated accounting practice.
Question 13 comprises two items that assess the degree to which risk is appraised as part of an outsourcing analysis. These questions represent adaptations of questions used in Lamminmaki et al.’s (1996) survey of capital budgeting practice.

**8.3.4.3.4 Qualified accountant (Question 14)**

Whether a hotel’s financial controller is a professionally qualified accountant was discussed in connection with proposition 3f. If they were a member of a professional accounting body, respondents were asked to record the name of the accounting body. As it was felt that a non-qualified accountant might feel offended by this question, it was not posed until the end of the questionnaire, and was posed in a manner that was least likely to offend.

**8.4 Conclusion**

Drawing on the literature search as well as interview findings, this chapter has developed specific propositions for testing through data collected in the questionnaire phase of the study. In the interview phase of the study, minimal support was found for the labour process theory and its implications for outsourcing. As a result, labour process theory has not been appraised in the survey phase of the study.

The chapter has developed propositions relating to three models:

1. Model 1: Factors relating to a hotel’s general level of outsourcing.
2. Model 2: Factors relating to a hotel’s level of outsourcing of four specific activities.
3. Model 3: Factors relating to a hotel’s degree of outsourcing management system sophistication.

In addition to testing these propositions, the views of general managers with respect to factors that may impact on outsourcing have been appraised. As these factors appear particularly pertinent to the general managers, their inclusion in the GM questionnaire enhanced the perceived relevance of the questionnaire. This can be expected to positively affect the survey’s response rate. This issue of relevancy appears important in
light of Gill and Johnson’s (1991) findings with respect to managers’ attitudes towards much research. They found that:

“Managers seemed to believe that management research was not only not cost effective, but also more critically, largely irrelevant to the problems they faced” (p. 2).

Following the outline of propositions tested, the design of the two questionnaires used to collect survey data was described. The GM questionnaire has more extensive measures of the degree of outsourcing and also hotel-wide factors. The FC questionnaire is more focused on accounting systems pertinent to outsourcing management. Chapters 9-11 provide an analysis of the data collected by these two questionnaires.
CHAPTER 9
QUESTIONNAIRE SURVEYS: ADMINISTRATION, DATA SCREENING
AND DESCRIPTION OF KEY VARIABLES

9.1 Introduction

This is the first of three chapters concerned with the collection and analysis of quantitative data. This chapter will describe the administration of the two survey questionnaires, data screening, tests for nonresponse bias and descriptive statistics relating to the degree of outsourcing undertaken by large Australian hotels.

9.2 Sampling procedures

The 2001/2002 RACQ hotel accommodation guide provided the study’s sample frame. All Australian hotels appearing in this directory with one hundred rooms or more were included in the sample. This provided a sample size of 356. Questionnaires (Appendices 2A and 3A), covering letters (Appendices 2A, 2B, 3A, 3B), and a reply paid envelope were sent to general managers (GMs) and financial controllers (FCs) in the 356 hotels. Surveys sent to three of the hotels were returned back marked “return to sender”. The survey response pattern is outlined in Table 9.1. Three weeks after the first mailing a second mailout was sent to non-respondents. Three weeks later, random phone calls were made to 35 hotels where neither the GM or the FC had responded. The objective of the phone calls were twofold:

1. to ascertain why the survey had not yet been completed (to test for nonresponse bias), and
2. to encourage the respondent to respond.

A variety of reasons were given for nonresponse. The most common reasons for not replying were “not enough time” or “against company policy”. Other reasons included

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6 In the interview phase, large hotels were selected as subjects, as it was felt that greater insights concerning what represents a sophisticated outsourcing management system would be found in large hotels. This issue also motivated the selection of large hotels in the survey phase of the study.
“not recalling having received the questionnaire”, and “too many questionnaires being received by the hotel”. Three individuals indicated that they did not respond because their hotel did not outsource. This factor gives rise to a degree of concern for nonresponse bias as the sample of respondents may outsource to a slightly high degree than the non-responding sample. Of the 35 contacts that were made, 8 indicated they were still unwilling to respond to the survey, the other 27 indicated they would try to complete it. For half of the phone call contacts, it was the secretary to the GM or FC that was spoken to.

Several key variables of interest were provided by the RACQ hotel directory. These included: hotel quality level (the RACQ star rating) and location (i.e., capital city or other). Significant efforts were made to obtain as large a response rate as possible in order to increase the power of statistical testing and also the study’s external validity. To enhance measurement reliability and increase the proportion of hotels where key variables were measured (i.e., enhancing external validity), some of the same questions were included in both the GM and FC questionnaires. It is interesting to note that although the GM survey was twice as long as the FC survey (4 pages vs 2 pages), the response rate for the two groups was approximately the same (see Table 9.1).

<table>
<thead>
<tr>
<th>Table 9.1</th>
<th>Summary of Survey Replies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of responses</td>
</tr>
<tr>
<td>FC Survey</td>
<td></td>
</tr>
<tr>
<td>First Mailout</td>
<td>84</td>
</tr>
<tr>
<td>Second Mailout</td>
<td>32</td>
</tr>
<tr>
<td>Third Mailout</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
<tr>
<td>GM Survey</td>
<td></td>
</tr>
<tr>
<td>First Mailout</td>
<td>76</td>
</tr>
<tr>
<td>Second Mailout</td>
<td>31</td>
</tr>
<tr>
<td>Third Mailout</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>111</td>
</tr>
<tr>
<td>Total Number of hotels in sample</td>
<td>356</td>
</tr>
<tr>
<td>Total Number of hotels that responded</td>
<td>189*</td>
</tr>
</tbody>
</table>

* 189 (number of hotels that responded) is not the sum of 119 (FC respondents) and 111 (GM responses). This is because in many instances both an FC and GM from the same hotel responded. Although there were a total of 230 respondents (119 + 111) this represented 189 hotels.

Despite this, a check of addresses revealed that in all instances the addresses were correct.
9.3 Data screening

Following the detailed recommendations of Tabachnick and Fidell (1996), careful data screening was undertaken prior to data analysis. Tabachnick and Fidell’s (1996) (hitherto referred to as “T&F”) checklist for screening data, which was used to structure the screening of data collected in this study, is presented in Table 9.2.

T&F’s first recommended stage in data screening involves ensuring the accuracy of data input. This involves a comparison of the computerised data file with the original data recorded on the returned questionnaires. For both the GM and FC responses, half of the surveys received were compared with the data file and minimal error was detected. Descriptive statistics were run in SPSS to ensure frequencies were complete and reasonable and to identify outliers. Dichotomous variables were assessed to ensure most responses do not fall into one category.8 None of the dichotomous variables in either the FC or GM data suffered from this problem. Small coefficients of variation can underestimate the correlation and so this was also reviewed.9 This was also found not to be a concern for either of the two data sets collected.

<table>
<thead>
<tr>
<th>Table 9.2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Checklist for Data screening</strong></td>
</tr>
<tr>
<td>1. Inspect univariate descriptive statistics for accuracy of input</td>
</tr>
<tr>
<td>a. Out of range values</td>
</tr>
<tr>
<td>b. Plausible means and standard deviations</td>
</tr>
<tr>
<td>c. Coefficient of variation</td>
</tr>
<tr>
<td>d. Univariate outliers</td>
</tr>
<tr>
<td>2. Evaluate amount and distribution of missing data: deal with problem</td>
</tr>
<tr>
<td>3. Check pairwise plots for nonlinearity and heteroscedasticity</td>
</tr>
<tr>
<td>4. Identify and deal with nonnormal variables</td>
</tr>
<tr>
<td>a. Check skewness and kurtosis, probability plots</td>
</tr>
<tr>
<td>b. Transform variables (if desirable)</td>
</tr>
<tr>
<td>c. Check results of transformation</td>
</tr>
<tr>
<td>5. Identify and deal with multivariate outliers</td>
</tr>
<tr>
<td>a. Variables causing multivariate outliers</td>
</tr>
<tr>
<td>b. Description of multivariate outliers</td>
</tr>
<tr>
<td>6. Evaluate variables for multicollinearity and singularity</td>
</tr>
</tbody>
</table>

*Source: Tabachnick and Fidell (1996).*

---

8 Over 90% in one category is unacceptable T&F (1996).
9 .0001 or less T&F (1996).
9.3.1 Reliability of data

There were forty hotels where both the GM and the FC had responded. For all non-dichotomous questions that were posed in both the GM and FC questionnaires, an investigation of the reliability of the data collected has been undertaken. As suggested by Bryman and Cramer (1990), scatter diagrams were first considered to assess for linearity between the two sets of variables. A reliability assessment was then made by correlating the answers provided by the GM with the answers provided by the FC working in the same hotel.\(^\text{10}\) The results of this investigation are presented in Table 9.3.

It can be seen that most variables are significantly correlated at the 1% or 5% level of significance, two variables are significant at the 10% level, and 4 are not significant. For the four variables exhibiting low reliability, it was realised that a few answers given by GMs and FCs varied considerably. As these large variances rendered the data unreliable, these answers were deleted (i.e., replaced with a missing data code). The results of a second correlation analysis following this elimination exercise are presented in Table 9.4.

It was found in this second correlation analysis that two of the four items are significantly correlated at less than the 5% level of significance. For the remaining two insignificant variables, the following should be noted. Although degree of outsourcing of the accounting function comes out as insignificant, if one looks at the frequency distribution of this item it can be seen that 82.5% (i.e. 33/39) of the cases had no variance between the FC and GM answers. Of the 33 cases, the answer given for degree of outsourcing was 0%. In relation to the customer satisfaction variable, 37.5% (15/38) of cases had no variance between the FC and GM answers, and the remaining cases had a variance of only one or two. In light of this observation, it appears that these variables are sufficiently reliable to warrant their inclusion in subsequent data analysis.

\(^\text{10}\) A one tailed test is used because a positive correlation is expected.
Table 9.3
Appraisal of variable reliability
(GM responses compared to FC responses)

<table>
<thead>
<tr>
<th>Variable</th>
<th>n</th>
<th>Pearson Correlation Coefficient</th>
<th>Significance (highlighted when not significant) †</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Degree of Outsourcing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guest room cleaning</td>
<td>40</td>
<td>.9966</td>
<td>.000</td>
</tr>
<tr>
<td>Public area cleaning</td>
<td>40</td>
<td>.7949</td>
<td>.000</td>
</tr>
<tr>
<td><strong>Food &amp; Beverage</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurants</td>
<td>39</td>
<td>.8698</td>
<td>.000</td>
</tr>
<tr>
<td>Conference &amp; banqueting</td>
<td>39</td>
<td>.8657</td>
<td>.000</td>
</tr>
<tr>
<td>Room Service</td>
<td>39</td>
<td>.6977</td>
<td>.000</td>
</tr>
<tr>
<td>Food &amp; beverage night cleaning</td>
<td>39</td>
<td>.3116</td>
<td>.027</td>
</tr>
<tr>
<td>Pre-prepared ingredients</td>
<td>36</td>
<td>.5176</td>
<td>.001</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>40</td>
<td>.7637</td>
<td>.000</td>
</tr>
<tr>
<td>General Maintenance</td>
<td>40</td>
<td>.6727</td>
<td>.000</td>
</tr>
<tr>
<td>Security</td>
<td>36</td>
<td>.5571</td>
<td>.000</td>
</tr>
<tr>
<td>Accounting Functions</td>
<td>40</td>
<td>.0441</td>
<td>.394*</td>
</tr>
<tr>
<td><strong>Outsourcing in general</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of rooms</td>
<td>39</td>
<td>.9883</td>
<td>.000</td>
</tr>
<tr>
<td>Annual Sales turnover</td>
<td>31</td>
<td>.7116</td>
<td>.000</td>
</tr>
<tr>
<td>Number of chains in Australia</td>
<td>37</td>
<td>.6767</td>
<td>.000</td>
</tr>
<tr>
<td>Number of chains in World</td>
<td>37</td>
<td>.9684</td>
<td>.000</td>
</tr>
<tr>
<td><strong>Competition intensity with respect to:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>40</td>
<td>.4358</td>
<td>.002</td>
</tr>
<tr>
<td>Promotion</td>
<td>40</td>
<td>.2173</td>
<td>.089*</td>
</tr>
<tr>
<td>Service quality</td>
<td>40</td>
<td>.2815</td>
<td>.039</td>
</tr>
<tr>
<td>Service variety</td>
<td>40</td>
<td>.2189</td>
<td>.087*</td>
</tr>
<tr>
<td><strong>Performance with respect to:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market share</td>
<td>40</td>
<td>.8476</td>
<td>.000</td>
</tr>
<tr>
<td>Revpar(^{11})</td>
<td>40</td>
<td>.4750</td>
<td>.001</td>
</tr>
<tr>
<td>New service/product development</td>
<td>40</td>
<td>.1996</td>
<td>.108**</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>40</td>
<td>.0217</td>
<td>.447**</td>
</tr>
<tr>
<td>Cost reduction programs</td>
<td>39</td>
<td>.3244</td>
<td>.022</td>
</tr>
<tr>
<td>Staff training</td>
<td>39</td>
<td>.3000</td>
<td>.032</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>38</td>
<td>.1569</td>
<td>.173**</td>
</tr>
</tbody>
</table>

* Significant at the 10% level; **Not significant
† In a manner that departs with convention, in this table a highlight is attached to those variables where no, or a low, correlation has been observed. This is because these are the particular variables that warrant further consideration as they suggest low measurement reliability.

\(^{11}\) Revenue per available room
A further analysis of all questions posed in both the FC and GM questionnaires was conducted in order to identify any large variances between the response of a GM and FC working in the same hotel. Question one asked respondents to record a percentage indicative of the degree to which 11 separate activities were outsourced. For most of these activities, the most common answer provided was 0%. If, however, the percentage difference between the GM and the FC was 50% or more, the answer was considered unreliable and was deleted from the analysis. The exception to this rule was if the responses given were 50% and 100%. In such cases an average of 75% was recorded as there appeared to be some consensus between the GM and FC that this activity was outsourced to some degree. In most cases the data was deleted because one respondent recorded 0% and the other recorded 50% or more. For other continuous variables (i.e., number of rooms, annual sales turnover and number of hotels in a chain) data was eliminated if the variance between the GM and the FC was significant in both absolute and relative terms, and the information could not be obtained through other means. As will be explained shortly, no observations for these three variables had to be eliminated.

Data for dichotomous variables were deleted for any cases where a conflicting response was noted. If the variance between the response provided by a GM and FC working in the same hotel was 4 or more for an item measured on a Likert scale, the recorded scores were deleted (i.e., replaced with a missing data code) for that variable. For all observations where no large variance was observed, the score recorded was the average score recorded by the GM and FC. As we do not know which of the two respondents has provided the correct answer, it was felt that a more consistent and reliable measure would result from this averaging process. It was felt that these adjustments increased the integrity and consistency of the analysis. A summary of the data eliminated due to large variances is shown in Table 9.4.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of cases deleted</th>
<th>Pearson Correlation Coefficient</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of Outsourcing</td>
<td>1</td>
<td>.0456</td>
<td>.392</td>
</tr>
<tr>
<td>Accounting Functions</td>
<td>1</td>
<td>.2810</td>
<td>.042*</td>
</tr>
<tr>
<td>New service/product development</td>
<td>1</td>
<td>.1601</td>
<td>.168</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>2</td>
<td>.3247</td>
<td>.027*</td>
</tr>
<tr>
<td>Strategy</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Significant at the 5% level.
variances observed between scores provided by the FC and GM working in the same hotel is provided in Table 9.5.

Table 9.5 can be seen as extending the indication of data reliability presented by the correlation analysis reported in Table 9.3. Discussion will now move to describe the variances that were identified in this data set, and how large variances were managed.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of hotels where FC and GM response is deleted</th>
<th>Number of hotels where both FC and GM responded</th>
<th>% of data considered unreliable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of Outsourcing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guest room cleaning</td>
<td>0</td>
<td>40</td>
<td>0%</td>
</tr>
<tr>
<td>Public area cleaning</td>
<td>2</td>
<td>40</td>
<td>5%</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurants</td>
<td>0</td>
<td>39</td>
<td>0%</td>
</tr>
<tr>
<td>Conference &amp; banqueting</td>
<td>1</td>
<td>39</td>
<td>2.56%</td>
</tr>
<tr>
<td>Room Service</td>
<td>0</td>
<td>39</td>
<td>0%</td>
</tr>
<tr>
<td>Food &amp; beverage night cleaning</td>
<td>5</td>
<td>39</td>
<td>12.8%</td>
</tr>
<tr>
<td>Pre-prepared ingredients</td>
<td>5</td>
<td>36</td>
<td>13.89%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>4</td>
<td>40</td>
<td>10%</td>
</tr>
<tr>
<td>General Maintenance</td>
<td>3</td>
<td>40</td>
<td>7.5%</td>
</tr>
<tr>
<td>Security</td>
<td>7</td>
<td>36</td>
<td>19.44%</td>
</tr>
<tr>
<td>Accounting Functions</td>
<td>1</td>
<td>40</td>
<td>2.5%</td>
</tr>
<tr>
<td>Outsourcing in general</td>
<td>0</td>
<td>37</td>
<td>0%</td>
</tr>
<tr>
<td>Number of rooms</td>
<td>0</td>
<td>39</td>
<td>0%</td>
</tr>
<tr>
<td>Annual Sales turnover</td>
<td>3</td>
<td>31</td>
<td>9.68%</td>
</tr>
<tr>
<td>Number of chains in Australia</td>
<td>0</td>
<td>37</td>
<td>0%</td>
</tr>
<tr>
<td>Number of chains in World</td>
<td>0</td>
<td>37</td>
<td>0%</td>
</tr>
<tr>
<td>Competition intensity with respect to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>1</td>
<td>40</td>
<td>2.5%</td>
</tr>
<tr>
<td>Promotion</td>
<td>0</td>
<td>40</td>
<td>0%</td>
</tr>
<tr>
<td>Service quality</td>
<td>2</td>
<td>40</td>
<td>5%</td>
</tr>
<tr>
<td>Service variety</td>
<td>2</td>
<td>40</td>
<td>5%</td>
</tr>
<tr>
<td>Performance with respect to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market share</td>
<td>0</td>
<td>39</td>
<td>0%</td>
</tr>
<tr>
<td>Revpar&lt;sup&gt;12&lt;/sup&gt;</td>
<td>1</td>
<td>40</td>
<td>2.5%</td>
</tr>
<tr>
<td>New service/product development</td>
<td>1</td>
<td>40</td>
<td>2.5%</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>2</td>
<td>40</td>
<td>5%</td>
</tr>
<tr>
<td>Cost reduction programs</td>
<td>0</td>
<td>39</td>
<td>0%</td>
</tr>
<tr>
<td>Staff training</td>
<td>0</td>
<td>39</td>
<td>0%</td>
</tr>
<tr>
<td>Strategy</td>
<td>4</td>
<td>38</td>
<td>10.52%</td>
</tr>
<tr>
<td>Dichotomous variables:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel subject to a management contract</td>
<td>6</td>
<td>39</td>
<td>15.38%</td>
</tr>
<tr>
<td>Hotel part of a chain</td>
<td>0</td>
<td>40</td>
<td>0%</td>
</tr>
</tbody>
</table>

<sup>12</sup> Revenue per available room
In relation to the room numbers variable, GM and FC numbers were relatively close, with the exception of one hotel where there was a variance of 100 rooms between the GM and the FC response. As one of the figures recoded by a respondent was identical to that given in the RACQ directory, this figure was used. The sales revenue answers provided were also reasonably close, with the exception of 3 hotels which had large variances in both absolute and relative terms, i.e., between 20 and 24 million dollars, and a proportional difference of two to five times (as noted in Table 9.5, these observations were excluded in the subsequent data analysis). Three hotels varied considerably with respect to the reported number of hotels in Australian chains. This data was corrected using the information provided by other respondents working in the same chain. Variances relating to number of hotels worldwide was dealt with in the same manner. The degree of variability in answers given by respondents from hotels in the same chain was surprising. To manage these differences averages were taken and the handful of outliers were replaced with the most commonly provided figures. These amendments were made with a reasonably high degree of confidence as many hotel chains were represented by several respondents.

9.3.2 Missing data

Having identified unreliable data, the next data screening step involved the management of missing data. According to T&F (1996), the pattern of missing data is more important than the amount of missing data. If missing data are randomly distributed in the data set, there is no problem. However, if several respondents do not answer the same questions, problems can occur when cases are eliminated from any analyses that include these variables. This is because respondents that choose not to answer a particular question may represent a particular set of respondents whose views and observations would be absent from any analyses that involve the variable with a high proportion of missing data. T&F (1996) suggest that some method of estimating the missing value should be undertaken in order that these cases are not eliminated. No firm guidelines with respect to what represents an acceptable level of missing data was provided, however.

For missing observations, data could be estimated by using prior knowledge, mean values, or regression (T&F, 1996). As many hotels had both a GM and FC that
responded, in many instances the twenty nine questions common to the two questionnaires enabled the completion of missing data. In addition, for those questions that assessed the number of hotels in a chain (question 16 in the GM questionnaire and Question 5 in the FC questionnaire), missing data could be completed by drawing on information provided by respondents in the same chain. Prior to completing missing observations, an analysis designed to determine the amount of missing data was conducted. The missing data for the FC questionnaire was insignificant, with most variables having no data missing or 1-2% missing. A few variables had around 5% of cases missing. Only two questions that were positioned near the end of the questionnaire had a higher incidence of missing data (7.6% of cases were missing for questions 13a and 13b).

For the GM survey, several variables had missing data ranging from 6% to 11.2% of respondents. The measure of annual sales had the largest incidence of missing data. Initially 17 hotel GMs (15.8%) had not provided this information, however, for five hotels this information could be obtained from the FC surveys. This left 12 hotels missing the sales information. It is to be expected that the missing data for this question is higher due to concerns over sales sensitivity. Several GMs wrote “confidential” on the sales question when completing the questionnaire. The next highest ranking questions in terms of missing data were questions 7a and 7c, each with around 10% of missing data. As no variables had missing data greater than 15%, no variables needed to be dropped from the analysis. As there were only a few cases (hotels) where there were missing values in both the FC and the GM responses, these were dropped from the analysis (the default in SPSS) as advised by T&F (1996).

For both the GM and FC data set, after completing instances of missing data using observations recorded by managers working in the same hotel, all variables had 100 observations or more. As the use of means or regression analysis to complete missing data carries disadvantages (see T&F, 1996), and as there was not a large amount of missing data remaining, no further completion of missing values was attempted.

Further data screening steps that are necessary to permit regression analysis have also been undertaken. These steps primarily relate to adjustments for non-normality. Prior to describing these steps, however, an overview of the information concerning the degree of outsourcing in large Australian hotels is given.
9.4 Description of outsourcing levels prior to further data screening

Table 9.6 summarises the findings emanating from both the GM and FC data collected. In this table the eleven hotel activities are presented in descending mean order; i.e., the activity that is outsourced most in hotels is listed first. From this table it is evident that the most commonly outsourced activity is laundry, and the least outsourced activity is the accounting function.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Degree of Outsourcing (%)</th>
<th>n</th>
<th>Mean</th>
<th>SD*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0%</td>
<td>1 - 25%</td>
<td>26 - 50%</td>
<td>51 - 75%</td>
</tr>
<tr>
<td>Laundry</td>
<td>24</td>
<td>8</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Security</td>
<td>40</td>
<td>9</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Public area cleaning</td>
<td>58</td>
<td>10</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Pre-prepared ingredients</td>
<td>33</td>
<td>39</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Food &amp; beverage night cleaning</td>
<td>77</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>General Maintenance</td>
<td>50</td>
<td>26</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>Guest room cleaning</td>
<td>79</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Restaurants</td>
<td>87</td>
<td>4</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Conference &amp; banqueting</td>
<td>83</td>
<td>10</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Room Service</td>
<td>93</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Accounting Functions</td>
<td>84</td>
<td>11</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

* SD = Standard Deviation

It appears that of the 11 activities appraised, most tend to be outsourced relatively little. Eight of the 11 activities have mean levels of outsourcing below 25%, and four have mean levels of outsourcing that are below 10%. The only activities that appear to be the exception to the low levels of outsourcing rule is laundry (63% outsourced) and security (48% outsourced). Consistent with the interview findings, the survey data reveal that the degree of F&B and housekeeping outsourcing is inconsistent with what might have been expected from the literature (i.e., F&B was extensively discussed, and housekeeping minimally discussed, in the hotel outsourcing literature).

9.5 Normality, homoscedasticity and linearity

Multivariate analyses conducted will be described in the next two chapters. An assumption of multivariate testing is that each variable, and all linear combinations of
variables are normally distributed, and that residuals are normally distributed and independent. An appraisal of the nature of all the variables to be used in the multiple regression analyses has therefore been conducted. Evaluating normality of distribution is important as statistical robustness can significantly be reduced when there is a departure from normality (Bradley, 1982). T&F (1996) note that transformation of non-normal data not only improves the quality of the analysis, it will also reduce the impact of outliers. A down-side is that transformed variables may not be as easy to interpret. Guidelines outlined by T&F (1996) were drawn upon when determining which type of transformation should be used.

9.5.1 Normality

Normality was assessed both statistically and graphically for skewness and kurtosis on all variables that were to be used in multiple regression. Skewness relates to symmetry in the distribution of data and kurtosis relates to whether the data is too peaked or too flat. A value of zero for both measures indicates normality. A positive value for skewness signifies observations merge to the left (and vice versa for negative values). A positive value for kurtosis means too peaked with long tails (and vice versa for negative values).

In determining whether skewness and kurtosis is a problem, T&F (1996) suggest a significance test be conducted for both skewness and kurtosis which compares the obtained value against the null hypothesis of zero. In summary, this involves dividing the skewness/kurtosis value by the standard error of the skewness/kurtosis. Conventionally, an alpha level of .01\(^{13}\) is used to evaluate the significance of skewness/kurtosis. A two tailed test results in a z score of 2.58.\(^{14}\) As can be seen in Tables 9.7a and 9.7b, transformation was attempted for all variables with a z value for skewness greater than 2.58. It can be seen from these tables that a few variables exhibited kurtosis while many exhibited significant skewness.

As noted by T&F (1996), nonnormal kurtosis produces an underestimate of the variance of the variable. T&F (1996) note that problems caused by negative kurtosis\(^{15}\) (flat distributions) disappear when sample sizes are 100 or more, and disappear for positive kurtosis when n is greater than 200. As the sample sizes are 100 or more for the data set

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\(^{13}\) As suggested by T&F (1996).

\(^{14}\) No directional difference is expected.

\(^{15}\) Underestimate of the variance of the variable.
in this study, the affect of positive kurtosis needs to be borne in mind when interpreting the results of this study.

For severe positive skewness, an inverse transformation should be attempted; for substantial positive skewness, a logarithm should be attempted, and for moderate positive skewness, a square root should be attempted (T&F, 1996). If the skewness is negative, the data must be reflected first, and if the data includes zero values, a constant needs to be added if Logarithm or Inverse transformations are conducted, so that the smallest score is 1. T&F note that many transformation attempts may be necessary when searching for a best result. T&F (1996) note that skewness is less of a problem for large samples but that “with almost every data set where we have used transformations, the results of analysis have been substantially improved” (p. 82). Where normality could be improved through transformation, transformation was undertaken. Variables that were not improved after transformation were not transformed.

Normalising question 1 (degree of outsourcing of eleven activities) in the FC questionnaire was not a concern, as this data was used for descriptive purposes and consolidated into an outsourcing index. The outsourcing index was only normalised if necessary (see discussion in Chapter 11). For the GM data however, normality of eight of the eleven items in question 1 was necessary as these activities were used as dependant variables in multiple regression analyses. These eight activities relate to four underlying dependant variables:

- housekeeping (guest rooms),
- food and beverage,
- laundry, and
- general maintenance.

Of the eight activities, five relate to F&B. These five F&B activities were consolidated into one measure. The combination and normalisation of the food and beverage item is described in Chapter 10. The transformation procedures undertaken for housekeeping, laundry and general maintenance are described in Table 9.7b. From the table, it can be

16 “Reflected” means finding the largest score, adding one to it, and then deducting each case value from that score. The result is to transform negative skewness to positive skewness.
17 i.e., the FC information will be combined with the GM data in order to comment on outsourcing in large Australian hotels.
seen that degree of outsourcing for all three activities was significantly skewed. The bulk of answers provided by the GM respondents was 0%; i.e., in most cases the activity is not outsourced. As these variables include 0 in the data, a value of one had to be added to the formula when undertaking transformation to correct the positive skewness. Where negative skewness was encountered, a constant of 101 was added. All three transformation procedures\textsuperscript{18} were attempted on each activity, but successful transformation was only achieved for two of the variables. The degree of guest room housekeeping outsourcing could not be normalised. As a result, it was converted into a dichotomous variable.\textsuperscript{19} An assessment of the frequency distribution of this item suggested that a logical breakdown was to dichotomise the item by distinguishing between observations lying in the top and bottom 20th percentile range. Eliminating the middle 60% resulted in the elimination of only one case. As dichotomous dependant variables cannot be used in multiple regression however, this procedure signified that logit regression analysis had to be used when investigating for factors affecting the outsourcing of guest room housekeeping.

Wherever possible, all variables that exhibited significant skewness and were to be used in the multiple regression analysis were transformed. The type of transformation undertaken to eliminate skewness is recorded in the third grouping of columns in Tables 9.7a and 9.7b. Also recorded in this grouping of columns is the revised standard error of skewness (SES) and revised z score. With the exception of data collected by questions 1a, 5, 7b and 16a, in the GM survey, it can be seen that all transformations resulted in acceptable levels of skewness. Questions that could not be transformed successfully were converted to dichotomous variables.

In converting questions 5 (general maintenance) and 7b (food and beverage), which are both Likert scale questions, an attempt was made to dichotomise the variables by making recoding values of 1-3 as 0, deleting 4 (the middle value) and recoding 4-5 values as a 1. However this resulted in 95% and 89% (respectively) of responses falling in the upper category. To avoid the “90% problem” (the problems of having 90% in one category were described earlier in this chapter), the decision was taken to include in the lower category raw scores of 1-4.

\textsuperscript{18} i.e., Square Root, Logarithm and Inverse transformations.
\textsuperscript{19} As suggested by T&F (1996), if transformation does not result in normality, variables should be dichotomised.
9.5.2 Homoscedasticity and linearity

Homoscedasticity is present when the variability of one continuous variable’s scores is much the same at all values of another continuous variable. Heteroscedasticity is present when this is not the case. T&F (1996) note that heteroscedasticity is not “fatal” to the analysis, but that if it is identified and corrected through transformation, the predicability of the regression equation may improve. Given that the bulk of variables have been transformed due to severe skewness, and that data transformations are recommended for non-normality, it is anticipated that non-linearity, and heteroscedasticity will be less of an issue in this analysis (T&F, 1996). Despite this, an analysis of residuals in multiple regression was analysed for linearity and heteroscedasticity.
Table 9.7a
Normality of data - FC Questionnaire
Two tailed at 1%; 2.58 is Z score critical value

<table>
<thead>
<tr>
<th>Question</th>
<th>Kurtosis</th>
<th>SEK 1</th>
<th>Z value</th>
<th>Skewness</th>
<th>SES 2</th>
<th>Z value</th>
<th>n</th>
<th>Transformation undertaken</th>
<th>Subsequent to transformation:</th>
<th>Skewness</th>
<th>SES</th>
<th>Z value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Outsourcing in general</td>
<td>-0.17</td>
<td>0.45</td>
<td>-0.38</td>
<td>0.12</td>
<td>0.23</td>
<td>0.52</td>
<td>114</td>
<td>Logarithm</td>
<td>Logarithm</td>
<td>0.27</td>
<td>0.22</td>
<td>1.21</td>
</tr>
<tr>
<td>3a. Number of rooms</td>
<td>0.57</td>
<td>0.44</td>
<td>1.30</td>
<td>1.04</td>
<td>0.22</td>
<td>4.67</td>
<td>* 119</td>
<td>Logarithm</td>
<td>Logarithm</td>
<td>-0.37</td>
<td>0.23</td>
<td>-1.60</td>
</tr>
<tr>
<td>3b. Annual Sales turnover</td>
<td>2.37</td>
<td>0.46</td>
<td>5.18</td>
<td>1.55</td>
<td>0.23</td>
<td>6.75</td>
<td>* 110</td>
<td>Logarithm</td>
<td>Logarithm</td>
<td>0.02</td>
<td>0.22</td>
<td>0.09</td>
</tr>
<tr>
<td>5a. Number of hotels in Australia</td>
<td>0.45</td>
<td>0.44</td>
<td>1.01</td>
<td>1.39</td>
<td>0.22</td>
<td>6.25</td>
<td>* 118</td>
<td>Logarithm</td>
<td>Logarithm</td>
<td>-0.02</td>
<td>0.23</td>
<td>-0.07</td>
</tr>
<tr>
<td>5b. Number of hotels Worldwide</td>
<td>-1.17</td>
<td>0.45</td>
<td>-2.61</td>
<td>0.87</td>
<td>0.23</td>
<td>3.84</td>
<td>* 116</td>
<td>Logarithm</td>
<td>Logarithm</td>
<td>-0.02</td>
<td>0.23</td>
<td>-0.07</td>
</tr>
<tr>
<td>6. Competition intensity with respect to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Price</td>
<td>2.28</td>
<td>0.44</td>
<td>5.17</td>
<td>-1.49</td>
<td>0.22</td>
<td>-6.67</td>
<td>* 118</td>
<td>Reflect &amp; Logarithm</td>
<td>Reflect &amp; Logarithm</td>
<td>0.21</td>
<td>0.22</td>
<td>0.96</td>
</tr>
<tr>
<td>b. Promotion</td>
<td>0.37</td>
<td>0.44</td>
<td>0.85</td>
<td>-0.64</td>
<td>0.22</td>
<td>-2.86</td>
<td>* 119</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.08</td>
<td>0.22</td>
<td>0.35</td>
</tr>
<tr>
<td>c. Service quality</td>
<td>4.04</td>
<td>0.44</td>
<td>9.10</td>
<td>-1.47</td>
<td>0.22</td>
<td>-6.54</td>
<td>* 117</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.55</td>
<td>0.22</td>
<td>2.46</td>
</tr>
<tr>
<td>d. Service variety</td>
<td>1.06</td>
<td>0.44</td>
<td>2.38</td>
<td>-0.66</td>
<td>0.22</td>
<td>-2.96</td>
<td>* 117</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.00</td>
<td>0.22</td>
<td>0.00</td>
</tr>
<tr>
<td>7. Performance with respect to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Market share</td>
<td>-0.02</td>
<td>0.44</td>
<td>-0.04</td>
<td>-0.34</td>
<td>0.22</td>
<td>-1.54</td>
<td>119</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.11</td>
<td>0.22</td>
<td>0.47</td>
</tr>
<tr>
<td>b. Revpar</td>
<td>0.24</td>
<td>0.44</td>
<td>0.55</td>
<td>-0.44</td>
<td>0.22</td>
<td>-1.96</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.29</td>
<td>0.23</td>
<td>1.28</td>
</tr>
<tr>
<td>c. New service/product development</td>
<td>0.66</td>
<td>0.44</td>
<td>1.49</td>
<td>-0.37</td>
<td>0.22</td>
<td>-1.63</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.50</td>
<td>0.22</td>
<td>2.21</td>
</tr>
<tr>
<td>d. Customer satisfaction</td>
<td>-0.37</td>
<td>0.45</td>
<td>-0.83</td>
<td>-0.02</td>
<td>0.23</td>
<td>-0.11</td>
<td>116</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.08</td>
<td>0.22</td>
<td>0.35</td>
</tr>
<tr>
<td>e. Cost reduction programs</td>
<td>1.18</td>
<td>0.44</td>
<td>2.65</td>
<td>-0.76</td>
<td>0.22</td>
<td>-3.38</td>
<td>* 117</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.11</td>
<td>0.22</td>
<td>0.47</td>
</tr>
<tr>
<td>f. Staff training</td>
<td>0.01</td>
<td>0.44</td>
<td>0.01</td>
<td>-0.48</td>
<td>0.22</td>
<td>-2.17</td>
<td>118</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.29</td>
<td>0.23</td>
<td>1.28</td>
</tr>
<tr>
<td>8. Strategy</td>
<td>-0.22</td>
<td>0.45</td>
<td>-0.48</td>
<td>-0.70</td>
<td>0.23</td>
<td>-3.09</td>
<td>* 113</td>
<td>Reflect &amp; Square Root</td>
<td>Reflect &amp; Square Root</td>
<td>0.29</td>
<td>0.23</td>
<td>1.28</td>
</tr>
</tbody>
</table>
### Table 9.7a (Continued)
**FC Questionnaire**

<table>
<thead>
<tr>
<th>Question</th>
<th>Kurtosis</th>
<th>SEK</th>
<th>Z value</th>
<th>Skewness</th>
<th>SES</th>
<th>Z value</th>
<th>n</th>
<th>Transformation undertaken</th>
<th>Subsequent to transformation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Extent of involvement of accounting department in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Initiating decisions</td>
<td>-0.81</td>
<td>0.44</td>
<td>-1.83</td>
<td>-0.52</td>
<td>0.22</td>
<td>-2.35</td>
<td>118</td>
<td>Reflect &amp; Square Root</td>
<td>0.35 0.22 1.55</td>
</tr>
<tr>
<td>b. Formalising process</td>
<td>-0.68</td>
<td>0.44</td>
<td>-1.54</td>
<td>-0.73</td>
<td>0.22</td>
<td>-3.24 *</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>0.35 0.22 1.55</td>
</tr>
<tr>
<td>c. Developing exact specifications</td>
<td>-1.00</td>
<td>0.44</td>
<td>-2.24</td>
<td>-0.26</td>
<td>0.22</td>
<td>-1.18</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>0.35 0.22 1.55</td>
</tr>
<tr>
<td>d. Appraising</td>
<td>-1.03</td>
<td>0.44</td>
<td>-2.31</td>
<td>-0.30</td>
<td>0.22</td>
<td>-1.33</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>0.35 0.22 1.55</td>
</tr>
<tr>
<td>e. Monitoring</td>
<td>-1.20</td>
<td>0.44</td>
<td>-2.70 *</td>
<td>-0.04</td>
<td>0.22</td>
<td>-0.17</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>0.35 0.22 1.55</td>
</tr>
<tr>
<td>f. Periodically reviewing decision</td>
<td>-0.74</td>
<td>0.44</td>
<td>-1.66</td>
<td>-0.57</td>
<td>0.22</td>
<td>-2.54 *</td>
<td>117</td>
<td>Reflect &amp; Square Root</td>
<td>0.35 0.22 1.55</td>
</tr>
<tr>
<td>10. To what extent does your hotel have:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. long term strategic agenda</td>
<td>-0.53</td>
<td>0.45</td>
<td>-1.18</td>
<td>-0.60</td>
<td>0.23</td>
<td>-2.65 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.18 0.23 0.79</td>
</tr>
<tr>
<td>b. documented procedures</td>
<td>-0.24</td>
<td>0.45</td>
<td>-0.55</td>
<td>0.61</td>
<td>0.23</td>
<td>2.72 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.12 0.23 0.54</td>
</tr>
<tr>
<td>c. formal body</td>
<td>-0.21</td>
<td>0.45</td>
<td>-0.46</td>
<td>0.82</td>
<td>0.23</td>
<td>3.64 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.41 0.23 1.83</td>
</tr>
<tr>
<td>d. three or more bids</td>
<td>0.35</td>
<td>0.45</td>
<td>0.78</td>
<td>-0.99</td>
<td>0.23</td>
<td>-4.37 *</td>
<td>114</td>
<td>Reflect &amp; Square Root</td>
<td>0.47 0.23 2.07</td>
</tr>
<tr>
<td>e. risk management plans</td>
<td>-0.93</td>
<td>0.45</td>
<td>-2.07</td>
<td>-0.04</td>
<td>0.23</td>
<td>-0.17</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.53 0.23 2.34</td>
</tr>
<tr>
<td>f. formal financial evaluation</td>
<td>0.09</td>
<td>0.45</td>
<td>0.21</td>
<td>-1.00</td>
<td>0.23</td>
<td>-4.43 *</td>
<td>114</td>
<td>Reflect &amp; Square Root</td>
<td>0.53 0.23 2.34</td>
</tr>
<tr>
<td>g. formal risk analysis</td>
<td>-0.92</td>
<td>0.45</td>
<td>-2.06</td>
<td>-0.32</td>
<td>0.23</td>
<td>-1.42</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.53 0.23 2.34</td>
</tr>
<tr>
<td>h. formally monitoring performance</td>
<td>0.15</td>
<td>0.45</td>
<td>0.34</td>
<td>0.87</td>
<td>0.23</td>
<td>3.85 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.32 0.23 1.41</td>
</tr>
<tr>
<td>11. Factors considered:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. setup costs</td>
<td>-0.29</td>
<td>0.45</td>
<td>-0.65</td>
<td>-0.72</td>
<td>0.23</td>
<td>-3.19 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.23 0.23 1.01</td>
</tr>
<tr>
<td>b. control costs</td>
<td>0.27</td>
<td>0.45</td>
<td>0.60</td>
<td>-0.88</td>
<td>0.23</td>
<td>-3.91 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.34 0.23 1.51</td>
</tr>
<tr>
<td>c. opportunistic costs</td>
<td>0.67</td>
<td>0.45</td>
<td>1.48</td>
<td>-0.90</td>
<td>0.23</td>
<td>-3.96 *</td>
<td>113</td>
<td>Reflect &amp; Square Root</td>
<td>0.23 0.23 1.00</td>
</tr>
<tr>
<td>d. failure costs</td>
<td>-0.53</td>
<td>0.45</td>
<td>-1.18</td>
<td>-0.46</td>
<td>0.23</td>
<td>-2.03</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.23 0.23 1.00</td>
</tr>
<tr>
<td>e. disposal of inhouse assets</td>
<td>0.07</td>
<td>0.45</td>
<td>0.15</td>
<td>-0.87</td>
<td>0.23</td>
<td>-3.85 *</td>
<td>115</td>
<td>Reflect &amp; Square Root</td>
<td>0.40 0.23 1.76</td>
</tr>
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* Significant kurtosis or skewness at the 1% level of significance.

1: SEK = Standard Error of Kurtosis.
2: SES = Standard Error of Skewness.

Transformation Undertaken: Reflect & Logarithm

Subsequent to transformation:

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Normality of data - GM Questionnaire
Two tailed at 1%; 2.58 is Z score critical value

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† Food and beverage to be assessed later in the chapter
### Table 9.7b (Continued)

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<td>6.65</td>
<td>1.43</td>
<td>0.23</td>
<td>6.25</td>
<td>* 111</td>
<td>Logarithm</td>
<td>0.33 0.23 1.44</td>
</tr>
<tr>
<td>b) Sales $</td>
<td>4.45</td>
<td>0.49</td>
<td>9.09</td>
<td>2.02</td>
<td>0.25</td>
<td>8.17</td>
<td>* 95</td>
<td>Logarithm</td>
<td>0.17 0.25 0.70</td>
</tr>
</tbody>
</table>
Table 9.7b (Continued)
GM Questionnaire

<table>
<thead>
<tr>
<th>Question</th>
<th>Kurtosis</th>
<th>SEK</th>
<th>Z value</th>
<th>Skewness</th>
<th>SES</th>
<th>Z value</th>
<th>n</th>
<th>Transformation Undertaken</th>
<th>Subsequent to transformation:</th>
<th>Skewness</th>
<th>SES</th>
<th>Z value</th>
</tr>
</thead>
<tbody>
<tr>
<td>14) Market segments</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Conference</td>
<td>6.89</td>
<td>0.46</td>
<td>14.89</td>
<td>*</td>
<td>2.27</td>
<td>0.23</td>
<td>9.68</td>
<td>* 107</td>
<td>Square Root</td>
<td>0.36</td>
<td>0.23</td>
<td>1.53</td>
</tr>
<tr>
<td>b) Business</td>
<td>-1.21</td>
<td>0.46</td>
<td>-2.61</td>
<td>*</td>
<td>0.18</td>
<td>0.23</td>
<td>0.77</td>
<td>107</td>
<td>Square Root</td>
<td>0.14</td>
<td>0.24</td>
<td>0.61</td>
</tr>
<tr>
<td>c) Tour groups</td>
<td>0.86</td>
<td>0.47</td>
<td>1.84</td>
<td></td>
<td>1.20</td>
<td>0.24</td>
<td>5.09</td>
<td>* 106</td>
<td>Reflect &amp; Square Root</td>
<td>0.23</td>
<td>0.23</td>
<td>0.98</td>
</tr>
<tr>
<td>d) Leisure groups</td>
<td>-0.37</td>
<td>0.46</td>
<td>-0.80</td>
<td></td>
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<td>Reflect &amp; Square Root</td>
<td>0.23</td>
<td>0.23</td>
<td>0.98</td>
</tr>
<tr>
<td>e) Australian</td>
<td>-0.08</td>
<td>0.46</td>
<td>-0.18</td>
<td></td>
<td>-0.86</td>
<td>0.23</td>
<td>-3.69</td>
<td>* 107</td>
<td>Square Root</td>
<td>0.23</td>
<td>0.23</td>
<td>0.98</td>
</tr>
<tr>
<td>f) Overseas</td>
<td>-0.08</td>
<td>0.46</td>
<td>-0.18</td>
<td></td>
<td>0.86</td>
<td>0.23</td>
<td>3.69</td>
<td>* 107</td>
<td>Square Root</td>
<td>0.23</td>
<td>0.23</td>
<td>0.98</td>
</tr>
<tr>
<td>16a) Number of hotels in Australia</td>
<td>23.47</td>
<td>0.46</td>
<td>51.13</td>
<td>*</td>
<td>4.20</td>
<td>0.23</td>
<td>18.17</td>
<td>* 109</td>
<td>Dichotomise</td>
<td></td>
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<tr>
<td>16b) Number of hotels Worldwide</td>
<td>-0.38</td>
<td>0.46</td>
<td>-0.82</td>
<td></td>
<td>1.21</td>
<td>0.23</td>
<td>5.23</td>
<td>* 109</td>
<td>Logarithm</td>
<td>0.15</td>
<td>0.23</td>
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</tr>
<tr>
<td>17) Occupancy levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>a) volatile</td>
<td>0.02</td>
<td>0.46</td>
<td>0.05</td>
<td></td>
<td>-0.28</td>
<td>0.23</td>
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<td>Reflect &amp; Square Root</td>
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<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>b) unpredictable</td>
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<td>0.47</td>
<td>0.77</td>
<td></td>
<td>-0.20</td>
<td>0.24</td>
<td>-0.84</td>
<td>105</td>
<td>Reflect &amp; Square Root</td>
<td>0.33</td>
<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>18) Predictability</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) customers</td>
<td>-0.01</td>
<td>0.46</td>
<td>-0.03</td>
<td></td>
<td>-0.72</td>
<td>0.23</td>
<td>-3.09</td>
<td>* 108</td>
<td>Reflect &amp; Square Root</td>
<td>0.33</td>
<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>b) suppliers</td>
<td>-0.36</td>
<td>0.46</td>
<td>-0.78</td>
<td></td>
<td>-0.50</td>
<td>0.23</td>
<td>-2.18</td>
<td>109</td>
<td>Reflect &amp; Square Root</td>
<td>0.33</td>
<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>c) competitors</td>
<td>-0.65</td>
<td>0.46</td>
<td>-1.42</td>
<td></td>
<td>-0.16</td>
<td>0.23</td>
<td>-0.68</td>
<td>110</td>
<td>Reflect &amp; Square Root</td>
<td>0.33</td>
<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>d) government</td>
<td>-0.14</td>
<td>0.46</td>
<td>-0.31</td>
<td></td>
<td>0.10</td>
<td>0.23</td>
<td>0.45</td>
<td>109</td>
<td>Reflect &amp; Square Root</td>
<td>0.33</td>
<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>e) technology</td>
<td>-0.08</td>
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<td></td>
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<td>0.23</td>
<td>-2.12</td>
<td>108</td>
<td>Reflect &amp; Square Root</td>
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<td>0.23</td>
<td>1.40</td>
</tr>
<tr>
<td>19) Competition intensity</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Price</td>
<td>2.41</td>
<td>0.46</td>
<td>5.28</td>
<td>*</td>
<td>-1.50</td>
<td>0.23</td>
<td>-6.53</td>
<td>* 110</td>
<td>Reflect &amp; Logarithm</td>
<td>0.25</td>
<td>0.23</td>
<td>1.10</td>
</tr>
<tr>
<td>b) Promotion</td>
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<td>0.46</td>
<td>0.53</td>
<td></td>
<td>-0.62</td>
<td>0.23</td>
<td>-2.69</td>
<td>* 111</td>
<td>Reflect &amp; Square Root</td>
<td>0.08</td>
<td>0.23</td>
<td>0.33</td>
</tr>
<tr>
<td>c) Quality</td>
<td>1.21</td>
<td>0.46</td>
<td>2.64</td>
<td>*</td>
<td>-0.98</td>
<td>0.23</td>
<td>-4.25</td>
<td>* 109</td>
<td>Reflect &amp; Square Root</td>
<td>0.34</td>
<td>0.23</td>
<td>1.45</td>
</tr>
<tr>
<td>d) Service variety</td>
<td>0.07</td>
<td>0.46</td>
<td>0.16</td>
<td></td>
<td>-0.64</td>
<td>0.23</td>
<td>-2.77</td>
<td>* 109</td>
<td>Reflect &amp; Square Root</td>
<td>0.11</td>
<td>0.23</td>
<td>0.45</td>
</tr>
</tbody>
</table>
### Table 9.7b (Continued)

**GM Questionnaire**

<table>
<thead>
<tr>
<th>Question</th>
<th>Kurtosis</th>
<th>SEK</th>
<th>Z value</th>
<th>Skewness</th>
<th>SES</th>
<th>Z value</th>
<th>n</th>
<th>Transformation</th>
<th>Subsequent to transformation:</th>
<th>Skewness</th>
<th>SES</th>
<th>Z value</th>
</tr>
</thead>
<tbody>
<tr>
<td>20) Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Market share</td>
<td>0.15</td>
<td>0.46</td>
<td>0.32</td>
<td>-0.44</td>
<td>0.23</td>
<td>-1.88</td>
<td>107</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Revpar</td>
<td>-0.03</td>
<td>0.47</td>
<td>-0.06</td>
<td>-0.22</td>
<td>0.24</td>
<td>-0.95</td>
<td>106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Product development</td>
<td>0.73</td>
<td>0.47</td>
<td>1.57</td>
<td>-0.30</td>
<td>0.24</td>
<td>-1.29</td>
<td>106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Customer satisfaction</td>
<td>1.30</td>
<td>0.47</td>
<td>2.78</td>
<td>-0.63</td>
<td>0.24</td>
<td>-2.69</td>
<td>* 105</td>
<td></td>
<td>Reflect &amp; Square Root</td>
<td>-0.03</td>
<td>0.24</td>
<td>-0.11</td>
</tr>
<tr>
<td>e) Cost reduction</td>
<td>0.25</td>
<td>0.47</td>
<td>0.54</td>
<td>-0.52</td>
<td>0.24</td>
<td>-2.20</td>
<td>106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Staff training</td>
<td>0.31</td>
<td>0.47</td>
<td>0.67</td>
<td>-0.36</td>
<td>0.24</td>
<td>-1.51</td>
<td>106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21) Strategy</td>
<td>-0.46</td>
<td>0.47</td>
<td>-0.96</td>
<td>-0.66</td>
<td>0.24</td>
<td>-2.78</td>
<td>* 102</td>
<td></td>
<td>Reflect &amp; Square Root</td>
<td>0.27</td>
<td>0.24</td>
<td>1.13</td>
</tr>
<tr>
<td>22) Risk</td>
<td>-0.26</td>
<td>0.47</td>
<td>-0.57</td>
<td>-0.66</td>
<td>0.24</td>
<td>-2.80</td>
<td>* 106</td>
<td></td>
<td>Reflect &amp; Square Root</td>
<td>0.20</td>
<td>0.24</td>
<td>0.84</td>
</tr>
<tr>
<td>Star Rating</td>
<td>3.71</td>
<td>0.46</td>
<td>8.11</td>
<td>-1.36</td>
<td>0.23</td>
<td>-5.91</td>
<td>* 110</td>
<td></td>
<td>Reflect &amp; Logarithm</td>
<td>0.29</td>
<td>0.23</td>
<td>1.26</td>
</tr>
</tbody>
</table>

* Significant kurtosis or skewness at the 1% level of significance.

1: SEK = Standard Error of Kurtosis.
2: SES = Standard Error of Skewness.
9.6 Nonresponse bias

Three tests for nonresponse bias were conducted. Firstly, as noted earlier, 35 hotels were contacted to ascertain why they had not responded. The fact that three of the non-respondents cited that they did not tend to outsource suggests there may be a degree of nonresponse bias. A second appraisal of nonresponse bias was undertaken by comparing the sample data with the population data on key variables. Thirdly, a comparison was made between early and late respondents on key variables.

There are two variables for which data is available for the population: quality level and number of rooms. Table 9.8 summarises the star rating of hotels represented in the data base collected, and the star rating of the whole population. Table 9.9 summarises the size of hotels (number of rooms) represented in the data base collected, and the size of hotels in the whole population. It appears from these tables that the sample is reasonably representative of the population. Tests following the guidelines outlined by Daniel and Terrell (1986) and Bryman and Cramer (1990) to ascertain whether the sample is similar to that of the population were undertaken.

<table>
<thead>
<tr>
<th>Stars</th>
<th>FC Respondents</th>
<th>GM Respondents</th>
<th>Total Sample</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1.5-3 stars</td>
<td>2.5</td>
<td>2.8</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>3.5 stars</td>
<td>12.6</td>
<td>14.6</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>4 stars</td>
<td>13.5</td>
<td>16.5</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>4.5 stars</td>
<td>41.1</td>
<td>41.3</td>
<td>41</td>
<td>38</td>
</tr>
<tr>
<td>5 stars</td>
<td>30.3</td>
<td>24.8</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

* Source for the sample population was the RACQ Guide.

<table>
<thead>
<tr>
<th>No of rooms</th>
<th>FC Respondents</th>
<th>GM Respondents</th>
<th>Total Sample</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>100-199 rooms</td>
<td>47.9</td>
<td>44.5</td>
<td>45</td>
<td>60</td>
</tr>
<tr>
<td>200-299 rooms</td>
<td>26.9</td>
<td>31.9</td>
<td>31</td>
<td>22</td>
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<td>300-399 rooms</td>
<td>13.4</td>
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<td>12</td>
<td>11</td>
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<tr>
<td>400-645 rooms</td>
<td>11.8</td>
<td>11.8</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

n = 119, 110, 187, 356
A $t$ test was used for room size and a chi-square test for star rating. Bryman and Cramer (1990) recommend that for interval or ratio variables, the $t$ test should be used to test for the difference between the mean of the sample and the mean of the population. It is obtained by the following formula:

$$t = \frac{\text{sample mean} - \text{population mean}}{\text{standard error of the sample mean}}$$

An investigation for a difference between the sample’s average hotel size and the population’s average hotel size was appraised using the above formula. Using the raw data and the normalised data\(^{20}\) in this formula results in statistics indicating that the both the FC and GM sample data are not representative of the population data (see Table 9.10). The closeness of the $t$ statistic to the critical value of $t$, and a consideration of the frequency distribution reported in Table 9.9 reveals, however, that the sample is borderline with respect to whether it be classified as statistically significantly different from the population. Nonetheless, these differences should be borne in mind when interpreting the results and generalising the study’s findings to the population of large hotels in Australia. From Table 9.10 it can be seen that the Australian sample size represents larger hotels than the Australian population of hotels.\(^{21}\)

\[\begin{array}{l|c|c|c|}
\text{Table 9.10} & \text{T-test to compare population with sample data:} \\
& \text{Number of Rooms} & \\
\hline
\text{Raw Data} & & \\
\text{GM Data} & (237.153 - 209.421) / 10.845 & = 2.55^{**} \\
\text{FC data} & (235.681 - 209.421) / 9.937 & = 2.64^{**} \\
\hline
\text{Normalised data using Logarithms} & & \\
\text{GM Data} & (2.331 - 2.274) / .018 & = 3.17^{*} \\
\text{FC data} & (2.331 - 2.274) / .017 & = 3.35^{*} \\
\end{array}\]

* Significantly different at the 1% level; ** Significantly different at the 5% level

\(^{20}\) Note, however, that although the GM and FC data could be normalised using logarithms, the population data could not. Inverse transformation did result in normalising the population data but this resulted in a standard error of 0. An inverse transformation was therefore not possible given that the numerator of the formula is the standard error.

\(^{21}\) The Australian population includes all hotels of 100 rooms and more.
To compare the quality level of the population to the sample, an assessment was made of the RACQ star rating. A Chi-Square goodness of fit test was used (as suggested by Daniel and Terrell (1986) for categorical data).

The Chi-Square test was manually calculated using the following formula:\[^{22}\]

\[
\text{Chi Square statistic} = \frac{(\text{Observed value} - \text{Expected value})^2}{\text{Expected value}}
\]

For the Chi-square test to be valid, no category should have an expected value less than one.\[^{23}\] There were 8 categories of star ratings in the data, and this was collapsed down to 7 categories for the FC data and 6 categories for the GM data, in order to eliminate categories with expected values less than one. For both data sets the Chi-square test reveals that the sample data is not significantly different from the population data, at the 5% level of significance. Table 9.11 presents the results of this analysis.

<table>
<thead>
<tr>
<th>Table 9.11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodness of Fit Test</td>
</tr>
<tr>
<td>Star Rating - Population versus Sample data</td>
</tr>
<tr>
<td>Chi-Square statistic</td>
</tr>
<tr>
<td>FC data</td>
</tr>
<tr>
<td>GM data</td>
</tr>
</tbody>
</table>

* One tailed test at the 95% level of significance

The third appraisal for nonresponse bias involved a comparison of data provided by early and late respondents. A t-test\[^{24}\] was used for interval or ratio type questions, the Mann Whitney U test was used for ordinal or ranked data, and a Chi-square test was used for categorical type questions (Bryman and Cramer, 1990). To dichotomise between early and late respondents, data provided by respondents responding to the first mailout was compared to data provided by respondents responding to the second mailout. As the number of cases for the second mailout was not very large, a second assessment was made by dividing the respondents into two equal groups, (i.e., those responding early and those responding late). Key variables were appraised in this

\[^{22}\] SPSS could not be used as the Chi-Square test in SPSS assumes the same expected value for each category (Norusis, 1993). When comparing the population to the sample, the expected value varies for each category (the expected value is based on the expected values based on the population data).

\[^{23}\] Daniel and Terrell (1986) refer to the rule of W.G. Cochran, who states that goodness of fit tests should not have expected frequencies less than one. A minimum expected frequency of five is another commonly used cutoff.

\[^{24}\] For the t test, normality of data is required and therefore transformed variables were used where needed.
analysis (i.e., all of the dependant variables relating to degree of outsourcing, number of rooms, star rating, whether the hotel is part of a chain, and hotel revenue). With the exception of “star rating” for the GM data, which was significantly different ($p < .10$) for the 50/50 split between early and late respondents, none of the tests revealed statistically significant differences between early and late respondents.

Based on the response rate, and the three tests described above, it is felt that the sample obtained for both the GM and FC data is reasonably representative of the population of large hotels in Australia. The only issue that appears worthy of note is the possibility that the survey sample has a greater tendency to outsource than the population. As an indication of the sincerity with which respondents treated the survey, 48% of FCs and 62% of GMs indicated a willingness to be contacted by phone to discuss the issue of outsourcing further.

9.7 Conclusion

This chapter has described the administration procedures followed in administering the two survey questionnaires, the extensive data screening exercise undertaken, the appraisal of nonresponse bias undertaken and a description of the degree to which several hotel activities are outsourced by large Australian hotels. It has been noted that the sample data appears to be reasonably representative of the Australian population.

This observation supports the external validity of the study. It has also been found that much of the data collected is significantly skewed and that this has required the application of transformation techniques. As noted earlier, as linearity and heteroscedasticity is a requirement of data that is to be analysed using multiple regression, tests for linearity will be conducted by observing residual plots when multiple regression is conducted. In the next chapter the statistical analysis undertaken in connection with the data collected by the GM questionnaire is described. Following this, a chapter is devoted to the analysis of data collected by the FC questionnaire.
10.1 Introduction

This chapter presents an analysis of the data collected by the general manager (GM) questionnaire survey. The primary theme of the chapter concerns the testing of Model 1 (the relationship between ten independent variables and the dependant variable “general level of hotel outsourcing”) and Model 2 (the relationship between thirteen independent variables and the degree to which hotels outsource four particular activities). Model 1 and 2 have been outlined in Chapter 8.

In advance of describing the statistical tests conducted to appraise these two models, a description of the measurement of the models’ independent and dependant variables is provided. The main form of multivariate analysis used to test the models is multiple regression. Where outsourcing of housekeeping is the dependant variable in Model 2, Logit regression has been used as the dependent variable was transformed into a dichotomous variable (see discussion in previous chapter). The final section of the chapter will provide an overview of findings concerned with factors affecting a hotel’s tendency to outsource in general. The chapter concludes with a summary of the main findings stemming from the GM hotel survey.

10.2 Testing of Model 1

As described in Chapter 8, Model 1 concerns the relationship between outsourcing in general in the hotel industry (the dependant variable [DV]) and various independent variables (IVs). This section will describe how each variable has been measured and provide descriptive statistics associated with each of these variables.

10.2.1 Variable measures

10.2.1.1 Measurement of dependant variable

Two measures of the dependant variable (general level of a hotel’s outsourcing) are available. The first measure is a composite index calculated by consolidating the scores
for degree of outsourcing of the seven hotel activities appraised (guest room cleaning, public area cleaning, food and beverage,25 laundry, general maintenance, security, and accounting) into one overall score. Secondly, degree of outsourcing has also been assessed by drawing on responses to question 3 of the GM questionnaire which asked respondents to indicate on a 7 point Likert scale whether their hotel outsources more or less relative to other hotels. A bivariate correlation analysis will be conducted to test for the reliability of these two measures.

The combination of the seven items into the composite index resulted in a measure with 16 missing values. In light of this, it was decided that missing values be completed by inserting mean scores (wherever practical) for variables. This approach appeared particularly justified as in ten of the sixteen cases, only one of the seven observations was missing. It was therefore deemed important to estimate the missing data in order that information not be lost. This procedure enhanced the statistical reliability of the study as a result of not losing observations. This estimation of missing data exercise resulted in 111 valid cases and no missing values.

As the general outsourcing measure is to be used as a dependant variable in the regression analysis, it should have a normal distribution. Consistent with the approaches outlined in the previous chapter, transformation was undertaken to achieve normality. The results of this transformation are summarised in Table 10.1.

### Table 10.1

<table>
<thead>
<tr>
<th></th>
<th>Raw Data descriptives</th>
<th>Descriptives following a Square Root transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurtosis</td>
<td>.802</td>
<td>Skewness</td>
</tr>
<tr>
<td>SEK</td>
<td>.455</td>
<td>SES</td>
</tr>
<tr>
<td>Z score</td>
<td>1.76*</td>
<td>Z Score</td>
</tr>
<tr>
<td>n</td>
<td>111</td>
<td></td>
</tr>
</tbody>
</table>

* Significant kurtosis/skewness (two tailed at 1% has a critical z value of 2.58)

To test for the degree of reliability between the outsourcing composite index and the single item Likert scale measure of outsourcing, a bivariate correlation analysis was conducted. As correlation requires normality, this was conducted using the transformed outsourcing composite index (question 3 was normal as detailed in Table 9.7b). Results

25 Using a composite F&B item, details of which will be described in the next section.
of this analysis are presented in Table 10.2. It can be seen from this table that these two measures are highly correlated ($p < .001$).

<table>
<thead>
<tr>
<th>Table 10.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal of variable reliability: Outsourcing index correlated with question 3 (outsourcing in general relative to other hotels)</td>
</tr>
<tr>
<td>n</td>
</tr>
<tr>
<td>110</td>
</tr>
</tbody>
</table>

10.2.1.2 Measurement of independent variables

Ten independent variables are referred to in Model 1. Four of these are multi-item variables (environmental uncertainty, frequency, competition intensity and performance) which will be combined, as appropriate, following the conduct of factor analyses. The correlation matrix and factor loadings for the environmental uncertainty, competition intensity and performance variables are presented in Tables 10.3 - 10.5. Single item measures have been used for the remaining six independent variables. To achieve normalisation, transformation was required for some of these variables.

As noted by T&F (1996), correlation analysis should be conducted prior to factor analysis. Evidence of high correlation supports the use of factor analysis. As normality is desirable when conducting correlation and factor analysis (T&F, 1996), transformed variables were used. For environmental uncertainty, only one item had to be transformed (question 18a). For the “frequency” variable, however, both the “number of rooms” and “sales dollars” had to be normalised. The normalisation procedures used are detailed in Table 9.7b.

10.2.1.2.1 Environmental uncertainty

From the results of the correlation and principal component analysis reported in Table 10.3, it can be seen that there are two factors for environmental uncertainty, each with an eigenvalue greater than one. The main factor (with an eigenvalue of 2.65) has been labelled “environmental uncertainty”. This factor comprises five items (questions 18a – e). As noted in Chapter 8, it is based on the environmental uncertainty measure.

---

26 Three of the independent variables have been measured using a combination of items subsequent to a factor analysis. Citing Guadagnoli and Velicer (1988), T&F (1996) note that conducting factor analysis with 100 cases is considered poor; 150 cases is acceptable if there are several high loading variables greater than 80%, and 300 cases is desirable. It is noteworthy that this guideline does not appear to have been observed as a requirement in management accounting research, however (see for example Widener...
developed by Kren and Kerr (1993). Seven of the ten correlation coefficients relating to factor one are greater than 0.30. T&F (1996) note that the use of factor analysis is questionable if no correlation exceeds 0.30. With the varimax rotation it can be seen from the factor loadings that complexity of items is not an issue.\textsuperscript{27} The second factor (with an eigenvalue of 1.71) relates to questions 17a and 17b. As these questions concern volatility and unpredictability of occupancy levels, the two items have been combined using a simple average and will be labelled “Occupancy Uncertainty”.\textsuperscript{28}

<table>
<thead>
<tr>
<th>Table 10.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson product moment correlation coefficients and Factor Loadings for environmental uncertainty</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Correlation analysis</th>
<th>Factor Two</th>
<th>Factor One</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q17: Occupancy levels</td>
<td>Occupancy Uncertainty</td>
<td>Environmental Uncertainty</td>
</tr>
<tr>
<td>a) Volatility</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>b) Unpredictability</td>
<td>(.71^{**})</td>
<td>1</td>
</tr>
<tr>
<td>Q18: Predicability of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Customers\textsuperscript{28}</td>
<td>(-.29^{**})</td>
<td>-.09</td>
</tr>
<tr>
<td>b) Suppliers</td>
<td>.14</td>
<td>.08</td>
</tr>
<tr>
<td>c) Competitors</td>
<td>.10</td>
<td>.06</td>
</tr>
<tr>
<td>d) Government</td>
<td>-.00</td>
<td>-.13</td>
</tr>
<tr>
<td>e) Technology</td>
<td>.18(\dagger)</td>
<td>.19(\dagger)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor analysis: Questions 17 &amp; 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor Loadings using PCA (Varimax Rotation)</td>
</tr>
<tr>
<td><strong>Factor One</strong></td>
</tr>
<tr>
<td><strong>Factor Two</strong></td>
</tr>
<tr>
<td>Eigenvalues</td>
</tr>
<tr>
<td>% of variation explained</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor analysis: Question 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Component Analysis</td>
</tr>
<tr>
<td>Factor Loadings</td>
</tr>
<tr>
<td>Eigenvalue</td>
</tr>
<tr>
<td>% of variation explained</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principal Axis Factoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor Loadings</td>
</tr>
<tr>
<td>Eigenvalue</td>
</tr>
<tr>
<td>% of variation explained</td>
</tr>
</tbody>
</table>

\(n = 107, 105, 108, 109, 110, 109, 108\)

\(**\) \(p < 0.01;\) \(*\) \(p < 0.05;\) \(\dagger\) \(p < 0.10\) (two tailed test)

and Selto [1999] who conducted factor analysis with a sample size of 83). Despite this, the issue of sample size is a shortcoming that should be borne in mind when considering the study’s results.\textsuperscript{27} Items that correlate highly with more than one factor are said to be “complex”. This can lead to misleading results if the correlation with each factor is > 0.30 (T&F, 1996).\textsuperscript{28} T&F (1996) note that interpretation of factors defined by 2 variables may be hazardous, but that if the two variables are highly correlated with each other with an \(r > 0.70\), and are uncorrelated with other variables (as is the case with the two items in question 17), the factor may be reliable. Not only does factor analysis supports the combination of these two items, they appear to be logically consistent with one another.\textsuperscript{29} Question 18a has a negative factor score and negative correlations because it was negatively skewed and had to be reflected prior to transformation.
As a further refinement to the factor analysis, both Principal Component Analysis (PCA) and Principal Axis factoring (PAF)\(^{30}\) were conducted on the items in question 18. T&F (1996) note that using a variety of factor analysis techniques is a useful test of the stability of a factor. Each analysis resulted in all five items loading onto one factor with eigenvalues greater than one. The results are presented in the lower part of Table 10.3. T&F (1996) suggest a factor loading of .32 or larger as the criteria for meaningful correlation, and this criteria is met in all instances.

A further widely used indicator of the reliability of multi-item measures is the Cronbach Alpha. To compute a Cronbach Alpha, all items must be coded in the same direction (Bryman and Cramer, 1990). Due to Question 18a’s negative skewness, it was reflected (see Table 9.7b). Prior to computing the Cronbach Alpha, this question therefore had to be reflected back.\(^{31}\) A Cronbach Alpha of 0.74 for question 18a was achieved.\(^{32}\) This result is disappointing given that the rule of thumb according to Bryman and Cramer (1990) is a result of 80% or more. Nonetheless, this result is similar to other studies that have reported an alpha for this measure [eg., Gordon and Narayanan (1984) reported 0.77; Chenhall and Morris (1986) reported 0.70; Gul (1991) reported 0.74; and Gul and Chia (1994) reported 0.73; and Hoque (2001) reported 0.75]. As question 18a is a transformed variable, the scale is inconsistent with the other four items. This problem was managed by computing standardised z scores\(^{33}\), and then taking a simple average of the five measures (T&F, 1996).

**10.2.1.2.2 Frequency**

As noted in Chapter 8, in Model 1 frequency will be measured by organisation size. The questionnaire provides two measures of size: number of rooms and annual sales dollars. These two items have a correlation of .778 (\(p < .01;\) Pearson two tailed test).\(^{34}\) As these

\(^{30}\) In Principal Component Analysis all of the variance is analysed, whereas in Principal Axis factoring only shared variance is analysed, i.e., unique and error variance is removed (T&F, 1996).

\(^{31}\) This was achieved by deducting a constant from each score of the transformed data so that the smallest score was 1. This is consistent with the approach suggested by T&F (1996).

\(^{32}\) If the Cronbach Alpha was produced using non-normalised data, a Cronbach alpha of .69 resulted. This is significantly poorer than the Cronbach Alpha achieved using normalised data and emphasises the importance of using normalised data.

\(^{33}\) Standardising to Z scores results in both variables having a mean of 0 and standard deviation of one.

\(^{34}\) Using the transformed (i.e., normalised) items as per Table 9.7b.
two items have different scales, they were standardised to z scores before combining into a simple average.

10.2.1.2.3 Competition intensity

A four-item measure, adapted from the widely-used Khandwalla (1972) measure, was used to measure competition intensity. While previous studies resulted in one factor for competition intensity [eg., Khandwalla (1972) and Guilding and McManus (2002)], when using principal components analysis, this study found two factors with eigenvalues greater than one (see Table 10.4).\(^{35}\) Factor one explains 57% of the variance and has a Cronbach Alpha of .88; factor two explains 29% of the variance and has a Cronbach Alpha of .72. Factor one has been labelled “Service competition intensity” as this relates to the competition intensity with respect to service quality and service variety. Factor two has been labelled “Price and Promotion competition intensity”. Complexity of variables is not a concern once varimax rotation is applied.

Three of the four items in factor two had been reflected and transformed to normal variables using square roots, and the “Price” item (19a) was transformed using a logarithm. A simple average was taken for factor one as the two items were transformed in a similar way. Factor two was changed to a standard z score due to the different scales resulting from the different modes of transformation.

\(^{35}\) Eigenvalues are greater than one with principal component analysis but factor two is not over one with Principal Axis Factoring.
Table 10.4
Pearson product moment correlation coefficients and Factor Loadings for Competition Intensity

<table>
<thead>
<tr>
<th>Q19: Competition Intensity</th>
<th>Factor Two</th>
<th>Factor One</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Price</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>b) Promotion</td>
<td>.61**</td>
<td>1</td>
</tr>
<tr>
<td>c) Service quality</td>
<td>.13</td>
<td>.31**</td>
</tr>
<tr>
<td>d) Service variety</td>
<td>.24*</td>
<td>.45**</td>
</tr>
</tbody>
</table>

Principal Component Analysis
Factor Loadings
Factor One  Factor Two
Price & Promotion  Service (Quality & Variety)
Factor Intensity  Competition Intensity
19a  19b  19c  19d

Factor Loadings with Varimax Rotation
Factor One  Factor Two
Price & Promotion  Service (Quality & Variety)
Factor Intensity  Competition Intensity
19a  19b  19c  19d

Eigenvalues

<table>
<thead>
<tr>
<th>Factor One</th>
<th>Factor Two</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.15</td>
<td>2.28</td>
</tr>
</tbody>
</table>

Percentage of variation explained

28.8%  56.9%

Principal Axis Factoring (with Varimax Rotation)
Factor Loadings
Factor One  Factor Two
Price & Promotion  Service (Quality & Variety)
Factor Intensity  Competition Intensity
19a  19b  19c  19d

Eigenvalues

<table>
<thead>
<tr>
<th>Factor One</th>
<th>Factor Two</th>
</tr>
</thead>
<tbody>
<tr>
<td>.02</td>
<td>.92</td>
</tr>
<tr>
<td>.30</td>
<td>.84</td>
</tr>
</tbody>
</table>

Percentage of variation explained

20.6%  50.5%

N

110  111  109  109

** p <0.01; * p < 0.05; (two tailed test)

10.2.1.2.4 Performance

As noted in Chapter 10, performance was included in the study as a control variable. The measure comprises six items. The results of the correlation and factor analysis of this measure are presented in Table 10.5. From this table it can be seen that all correlations are statistically significant (p < .01). Principal components and principal axis factoring analyses both resulted in one factor with an eigenvalue greater than one. In the PCA, 54% of the variance is explained, whereas in the PAF, 45% of the variance is explained. Cronbach Alpha is acceptable at 0.79. Like environmental uncertainty, as one item (question 20d) has been transformed, it was no longer measured on the same

---

36 Similar to the environmental uncertainty variable, one item (question 20d) had been reflected due to its negatively skewed distribution. Consistent with the earlier treatment, the transformed item was reflected back prior to factor analysis and Cronbach Alpha computation.
scale as the other items. Consistent with the earlier treatment, prior to averaging the scores were standardised.

<table>
<thead>
<tr>
<th>Table 10.5 Matrix of Pearson product moment correlation coefficients** and Factor Loadings for Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q20) Performance with respect to:</td>
</tr>
<tr>
<td>a) Market Share</td>
</tr>
<tr>
<td>b) RevPar</td>
</tr>
<tr>
<td>c) Product Development</td>
</tr>
<tr>
<td>d) Customer Satisfaction</td>
</tr>
<tr>
<td>e) Cost Reduction</td>
</tr>
<tr>
<td>f) Staff training</td>
</tr>
</tbody>
</table>

** Factor Analysis

<table>
<thead>
<tr>
<th>Principal Component Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor Loadings</td>
</tr>
<tr>
<td>Eigenvalues</td>
</tr>
<tr>
<td>Percentage of variation explained</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principal Axis Factoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor Loadings</td>
</tr>
<tr>
<td>Eigenvalues</td>
</tr>
<tr>
<td>Percentage of variation explained</td>
</tr>
</tbody>
</table>

** p < 0.01 for all correlations (two tailed test)

10.2.1.2.5 Market segment

As explained in Chapter 8, Market Segment has been measured using two classification systems that result in six distinct measures. To capture this information in the regression equation would result in the loss of four degrees of freedom. As the loss of these degrees of freedom is undesirable, it was decided that only those market segments found to be statistically significantly correlated with the dependant variables would be included in the regression equation. From Table 10.6 it is apparent that only “business travellers” exhibit any statistically significant correlation with either of the dependant variable measures. As a result, only the “business travellers” item will be included in the regression analysis. It is worthy to note that although “business travellers” is not significantly associated with the dependant variable “outsourcing in general”, it is only just above the statistical significance threshold (p = 0.12).

---

37 Although there are six items, it is not 6 degrees of freedom that would be lost because one dummy variable item relating to each market segment classification would have to be omitted from the regression analysis.
### Table 10.6
Pearson product moment correlation coefficients for market segment and dependant variables

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Outsourcing in General</th>
<th>Outsourcing composite index</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference Guests</td>
<td>-.02</td>
<td>-.11</td>
<td>107</td>
</tr>
<tr>
<td>Business Travellers</td>
<td>.15</td>
<td>.17†</td>
<td>107</td>
</tr>
<tr>
<td>Tour Groups</td>
<td>-.03</td>
<td>-.017</td>
<td>106</td>
</tr>
<tr>
<td>Leisure Guests</td>
<td>-.15</td>
<td>-.14</td>
<td>107</td>
</tr>
<tr>
<td>Australian Guests</td>
<td>.00</td>
<td>-.07</td>
<td>107</td>
</tr>
<tr>
<td>Overseas Guests</td>
<td>.00</td>
<td>.07</td>
<td>107</td>
</tr>
</tbody>
</table>

† $p < 0.10$ (two tailed test)

#### 10.2.1.2.6 Dichotomous independent variables

“Proximity to large city” and “Owner/operator structure” are dichotomous variables and have therefore been transformed to dummy variable form.

#### 10.2.1.3 Dependant and independent variable descriptive statistics

As the bulk of the variables have been transformed to achieve normality (or standardised prior to the computation of composite scores), providing the mean, standard error, minimum and maximum values on these adjusted variables would not be meaningful. Descriptive statistics are therefore based on the raw data collected (see Table 10.7). As the data is highly skewed for several of the variables, the mean and standard error should be interpreted with caution.

To test for multicollinearity, a correlation matrix was prepared for the 13 independent variables (the two dependant variables are also included in this matrix). From the matrix (Table 10.8), it can be seen that multicollinearity is not a concern, as no correlation coefficient approaches 0.70. Unfortunately, however, there are few variables that are strongly correlated with the two DVs (dependant variables). T&F (1996) note that multiple regression is best when each independent variable (IV) is strongly correlated with the DV, but uncorrelated with other IVs.

---

38 If correlation coefficients between independent variables are greater than 0.7, T&F (1996) suggest variables should be combined, or one variable deleted. Inclusion of variables with multicollinearity results in a weakened analysis due to magnified error terms. T&F (1996) note however that statistical problems of multicollinearity arise at correlations of 0.90 and higher. Given that none of the correlation coefficients approach the “multicollinearity threshold” of .70, no further investigation for multicollinearity was warranted.

39 T&F (1996) comment: “A general goal of regression, then, is to identify the fewest IVs necessary to predict a DV, where each IV predicts a substantial and independent segment of the variability in the DV” (p. 132). They suggest a reasonable relationship between the IV and DV is where B = .20 and alpha = 0.05.


## Table 10.7

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Theoretical Range</th>
<th>Actual range</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependant Variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3) Outsourcing in General</td>
<td>3.12</td>
<td>1.39</td>
<td>1-7</td>
<td>1-7</td>
<td>110</td>
</tr>
<tr>
<td>Q1) Composite outsourcing index</td>
<td>192.42</td>
<td>126.10</td>
<td>0-700</td>
<td>0-624</td>
<td>111</td>
</tr>
<tr>
<td>Independent Variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy Uncertainty&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17a) Volatility</td>
<td>4.16</td>
<td>1.28</td>
<td>1-7</td>
<td>1-7</td>
<td>107</td>
</tr>
<tr>
<td>17b) Unpredictability</td>
<td>4.31</td>
<td>1.21</td>
<td>1-7</td>
<td>1-7</td>
<td>105</td>
</tr>
<tr>
<td>Environmental Uncertainty&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18a) Customers</td>
<td>4.77</td>
<td>1.23</td>
<td>1-7</td>
<td>1-7</td>
<td>108</td>
</tr>
<tr>
<td>18b) Suppliers</td>
<td>4.67</td>
<td>1.26</td>
<td>1-7</td>
<td>1-7</td>
<td>109</td>
</tr>
<tr>
<td>18c) Competitors</td>
<td>4.05</td>
<td>1.39</td>
<td>1-7</td>
<td>1-7</td>
<td>110</td>
</tr>
<tr>
<td>18d) Government</td>
<td>3.89</td>
<td>1.25</td>
<td>1-7</td>
<td>1-7</td>
<td>109</td>
</tr>
<tr>
<td>18e) Technology</td>
<td>4.44</td>
<td>1.15</td>
<td>1-7</td>
<td>1-6</td>
<td>108</td>
</tr>
<tr>
<td>Frequency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13a) Rooms</td>
<td>237.15</td>
<td>114.38</td>
<td>100+</td>
<td>101-755</td>
<td>111</td>
</tr>
<tr>
<td>13b) Sales $ (million)</td>
<td>14.30</td>
<td>12.63</td>
<td>n/a</td>
<td>1.4-63</td>
<td>95</td>
</tr>
<tr>
<td>22) Risk&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21) Strategy&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19) Competition Intensity&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>5.81</td>
<td>1.22</td>
<td>1-7</td>
<td>2-7</td>
<td>110</td>
</tr>
<tr>
<td>Promotion</td>
<td>5.10</td>
<td>1.13</td>
<td>1-7</td>
<td>2-7</td>
<td>111</td>
</tr>
<tr>
<td>Service - Quality</td>
<td>5.22</td>
<td>1.29</td>
<td>1-7</td>
<td>1-7</td>
<td>109</td>
</tr>
<tr>
<td>Service - Variety</td>
<td>4.85</td>
<td>1.36</td>
<td>1-7</td>
<td>1-7</td>
<td>109</td>
</tr>
<tr>
<td>Quality</td>
<td>4.34</td>
<td>0.59</td>
<td>0.5-6</td>
<td>1.5-5</td>
<td>110</td>
</tr>
<tr>
<td>City</td>
<td>Close to capital city: 26</td>
<td>Not close to city: 85</td>
<td></td>
<td></td>
<td>111</td>
</tr>
<tr>
<td>14) Market Segment (business guests)</td>
<td>31.93</td>
<td>23.80</td>
<td>0-100</td>
<td>0-85</td>
<td>107</td>
</tr>
<tr>
<td>20) Performance&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td>4.94</td>
<td>1.29</td>
<td>1-7</td>
<td>1-7</td>
<td>107</td>
</tr>
<tr>
<td>Revpar</td>
<td>4.74</td>
<td>1.22</td>
<td>1-7</td>
<td>1-7</td>
<td>106</td>
</tr>
<tr>
<td>New Service/Product Development</td>
<td>4.5</td>
<td>1.31</td>
<td>1-7</td>
<td>1-7</td>
<td>106</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>5.53</td>
<td>.93</td>
<td>1-7</td>
<td>2-7</td>
<td>105</td>
</tr>
<tr>
<td>Cost reduction programs</td>
<td>5.09</td>
<td>1.10</td>
<td>1-7</td>
<td>2-7</td>
<td>106</td>
</tr>
<tr>
<td>Staff training</td>
<td>4.72</td>
<td>1.24</td>
<td>1-7</td>
<td>1-7</td>
<td>106</td>
</tr>
</tbody>
</table>

<sup>a</sup> For these questions, respondents were asked to answer relative to the competition. If the sample size was generalisable to the population and respondents answered accurately, one would expect a mean score of approximately 3.5 (i.e., on a 7 point Likert scale, half of the hotels would perform above average and half below average). As all means are above the mid-points of the measures, “leniency error” would appear to be present. Brownell (1985) notes that this is a common error in management accounting research but states that it is not cause for concern in this type of analysis as “the leniency error will inflate the intercept but have no effect on the slope coefficient estimated by this regression” (Brownell, 1995, p. 44).

To avoid the loss of 13 degrees of freedom through the inclusion of all IVs, in a regression analysis, the guidelines provided by T&F (1996) concerning abandonment

---

<sup>40</sup> In regression analysis T&F (1996) suggest an n greater than 50 + 8m (where m = the number of IVs) for testing multiple correlation, and greater than 104 + m when testing individual predictors. Given that
of IVs not related to the DV have been followed.\textsuperscript{41} This has resulted in the abandonment of eight of the 13 dependant variables, as the only IVs that are significantly related to the “outsourcing in general” measure of the DV are: risk, strategy, hotel quality, and proximity to capital city. This signifies that no support has been provided for propositions 1a, 1b, 1d, 1e, 1f or 1g. As the outsourcing index measure of the DV exhibits a statistically significant correlation with only one of the IVs,\textsuperscript{42} in the subsequent regression analysis the dependant variable will be measured using the “outsourcing in general” measure.

\textsuperscript{41} If their guidelines were strictly adhered to, only one IV (risk) would be included.

\textsuperscript{42} Business guests correlates with the DV “outsourcing index” at .17 ($p < .10$).
### Table 10.8
Matrix of Pearson product moment correlation coefficients for dependant and independent variables: Model 1

<table>
<thead>
<tr>
<th>Dependant Variables</th>
<th>Independent Variables</th>
<th>Control Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>1a.i</td>
<td>1a.ii</td>
</tr>
<tr>
<td>2) Outsourcing in general</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Composite Index of outsourcing</td>
<td>.54**</td>
<td>1</td>
</tr>
</tbody>
</table>

**Dependant Variable**

1a Uncertainty
- i) Occupancy Uncertainty
  - .04
- ii) Environmental Uncertainty
  - .04

1b Frequency
- .06
- .10
- .03
- .24* 1

1c Risk
- .24*
- .08
- .00
- .22*
- .06
- 1

1d Strategy
- .19†
- .13
- .03
- .25*
- .21*
- .46** 1

1e Competition Intensity
- i) Price
  - .06
  - .08
  - .19†
  - .07
  - .13
  - .06
  - .05
  - 1
- ii) Promotion
  - .05
  - .08
  - .10
  - .24*
  - .04
  - .21*
  - .21*
  - .60** 1
- iii) Service
  - .14
  - .07
  - .03
  - .07
  - .09
  - .22*
  - .20*
  - .40** 1

1f Hotel Quality
- -.16†
- .14
- .02
- .02
- -.45**
- .14
- .16
- .03
- .02
- .15
- 1

1g Proximity to large city
- .15†
- .03
- -.00
- .10
- .05
- .04
- .01
- -.08
- .07
- .24**
- -.03
- 1

**Control Variables**

- i) Market Segment
  - .15
  - .17†
  - .15
  - .03
  - .09
  - .08
  - .00
  - .03
  - .15
  - .12
  - -.07
  - .22*
  - 1
- ii) Owner/operator structure
  - .05
  - .03
  - .09
  - .06
  - .05
  - .30**
  - .13
  - .08
  - .00
  - .05
  - .09
  - .09
  - -.12
  - 1
- iii) Performance
  - .03
  - -.12
  - .22*
  - .43**
  - .25**
  - -.31**
  - -.26**
  - -.16
  - -.28**
  - .20*
  - -.26**
  - -.09
  - -.01
  - .18
  - 1

*n* 110   111   103   107   95   106   102   110   111   108   110   111   107   104   107

**p <0.01;  * p < 0.05;  † p < 0.10 (two tailed test);  ‡ p < 0.05 (one tailed test)**

---

43 The two tailed-test was used when there was no directional expectation in the relationship between two variables.
10.2.2 Proposition testing: Model 1

Table 10.9 presents the results of a multiple regression analysis of Model 1. It is based on the following equation:

\[ Y = b_1 + b_2 \text{RISK} + b_3 \text{STRATEGY} + b_4 \text{QUALITY} + b_5 \text{CITY} \]

where:

- \( Y \) = Outsourcing in general
- \( \text{RISK} \) = Risk Culture (Proposition 1c)
- \( \text{STRATEGY} \) = Strategic Orientation (Proposition 1d)
- \( \text{QUALITY} \) = Hotel Quality Level (Proposition 1e)
- \( \text{CITY} \) = Proximity to Capital City (Proposition 1g)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>.197</td>
<td>.369</td>
<td>1.827</td>
<td>.0355‡</td>
</tr>
<tr>
<td>Strategy</td>
<td>.151</td>
<td>.370</td>
<td>1.391</td>
<td>.168</td>
</tr>
<tr>
<td>Hotel Quality</td>
<td>-.204</td>
<td>.936</td>
<td>-2.090</td>
<td>.039*</td>
</tr>
<tr>
<td>Proximity to City</td>
<td>.175</td>
<td>.309</td>
<td>1.817</td>
<td>.036‡</td>
</tr>
<tr>
<td>Constant</td>
<td>1.239</td>
<td>.701</td>
<td>1.768</td>
<td>.080</td>
</tr>
</tbody>
</table>

\( R^2 \) = .149
\( \text{Adjusted } R^2 \) = .112
F value = 4.057, \( p = .005 \)

\( \text{DF - Model} \) = 4
\( \text{DF - Error} \) = 93

\* \( p < 0.05 \) (two tailed test); \‡ \( p < 0.05 \) (one tailed test)\(^{44}\)

\(^a\) Each cell represents the standardised regression coefficient (beta\(^b\)) except for the constant which is B. All subsequent tables reporting regression findings adhere to this approach.

To test the goodness of fit of the linear model to the population, adjusted \( R^2 \) should be used.\(^{46}\) Adjusted \( R^2 \) reveals that 11.2% of the dependant variable “outsourcing in general” is explained by the independent variables. The F test reveals whether there is a linear relationship between the DV and the IVs. As the F statistic is small, the probability that \( R^2 = 0 \) is rejected. Given that correlations are small and SPSS

\(^{44}\) Although it would be appropriate to look at other variables besides 1g using the one tailed test, when this was done the direction was not as expected, and therefore, for these cases the two tailed test was used.

\(^b\) The beta coefficient is the slope of the least squares line where both x and y are expressed as z scores (Norusis,1993).

\(^{46}\) The smaller the sample size the greater the variability of \( R^2 \). This can result in an overstatement of \( R^2 \), and in these situations adjusted \( R^2 \) should be used. If the sample size is large, adjusted \( R^2 \) will be similar to \( R^2 \) (T&F, 1996).
automatically eliminates variables if there is a problem of tolerance (T&F, 1996); VIF scores have not been reported.\textsuperscript{47}

Linearity and heteroscedasticity of the equation reported in Table 10.9 were tested by examining residuals. As suggested by T&F (1996), z residuals (errors of prediction) were plotted against predicted z scores and analysed. The scatterplot revealed a reasonably normal distribution with no evidence of linearity. A very small degree of heteroscedasticity was apparent. From the scatterplot there appeared to be one outlier, and so residual z scores were analysed to ascertain whether any were more than three standard deviations away (as suggested by T&F, 1996). All residuals were less than three standard deviations and therefore all cases were retained in the analysis.

The implications of the regression analysis reported in Table 10.9 for the four propositions appraised are summarised in Table 10.10.

\textsuperscript{47} VIF (Variance Inflation Factor) is simply the inverse of Tolerance. Tolerance determines the degree of multicollinearity between variables and is calculated as $1 - R^2$ for each independent variable where the remaining independent variables are used to predict it (SPSS, Version 10). In subsequent multiple regression models, the need to report VIF was not required given the low degree of correlation amongst independent variables.
Table 10.10
Summary of findings for Model 1

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 1c: Outsourcing will be higher in hotels that have a risk averse culture.</td>
<td>Statistically significant negative relationship, i.e., hotels that seek to avoid risk (low scores) are more likely to outsource. This supports proposition 1c (the agency theory view).</td>
</tr>
<tr>
<td>Proposition 1d: Outsourcing will be higher in hotels that have a prospector type strategic orientation.</td>
<td>No support is evident for proposition 1d from the regression analysis, i.e., strategic orientation does not affect degree of outsourcing.</td>
</tr>
<tr>
<td>Proposition 1f: Outsourcing will be less in higher quality hotels.</td>
<td>It has been found that hotels of higher quality outsource more (p = .039). The hotel quality variable was reflected and transformed and therefore needs to be assessed in the opposite direction to that presented in Table 10.9. The finding therefore does not support proposition 1f.</td>
</tr>
<tr>
<td>Proposition 1g: Outsourcing will be higher for hotels located close to a large city.</td>
<td>A statistically significant positive relationship exists between outsourcing in general and “proximity to city” (p = .036; one tailed test). Support is therefore evident for this proposition.</td>
</tr>
</tbody>
</table>

10.3 Testing of Model 2

Model 2 concerns the relationship between thirteen independent variables and the outsourcing of four specific hotel activities. Consistent with the structure applied above, this section will first describe how each variable was measured and will then discuss the results of regression analyses undertaken.

10.3.1 Variable measures

10.3.1.1 Measurement of dependant variables

As noted in Chapter 8, the four dependant variables appraised in Model 2 are: housekeeping (rooms), food and beverage, laundry and general maintenance. It was

48 Although the relationship between risk and the DV is positive in Table 10.9, the relationship needs to be viewed as negative. This is because the risk variable was severely skewed and was reflected and transformed. A reflected variable needs to be interpreted the opposite way (Tabachnick and Fidell, 1996).

49 Although strategy was found to be significantly correlated with the DV, this relationship is not found in the multiple regression analysis. This is because standard multiple regression has been used, and standard multiple regression only identifies unique variance for each variable (though the $R^2$ includes both common and unique variance). Analysis of the correlation matrix in Table 10.8 reveals that strategy is significantly correlated with risk ($r = .46, p < .01$), and that risk is more strongly correlated with the DV than strategy. This reveals the degree to which some of the correlation between strategy and DV is shared with the risk variable.

50 This finding is surprising. It may be because higher quality hotels are more prominent in city areas, and in city areas there would tend to be a greater choice of suppliers, thus facilitating the outsourcing option. However, one would therefore expect a strong correlation between hotel quality and city, and this has not been found. One reason for this lack of correlation may be because hotel quality was found to have mild heteroscedasticity (when checking residuals between the dependant variable and hotel quality). Further analysis on the hotel quality and city variables may be worthwhile in future research.
noted in Chapter 9, that the variable “Guest Room Housekeeping” was found to be significantly skewed and normalisation could not be achieved through transformation. As a result, this variable was dichotomised and Logit analysis will be used to appraise factors relating to the outsourcing of room housekeeping. Factors relating to the outsourcing of the remaining three activities will be analysed using multiple regression, as normalisation was possible for these items. The measure of food and beverage outsourcing comprises five items which were combined into a composite measure (as described below). Laundry and general maintenance were severely skewed but transformation to achieve normality was successful as detailed in Table 9.7b.

10.3.1.1.1 Food and Beverage (F&B) measure

The degree of outsourcing of five F&B activities was measured in the questionnaire. It appears intuitively appealing to combine these five F&B activities to develop a composite measure of F&B outsourcing. In support of this approach, a correlation and factor analysis of the five items was conducted. The correlation matrix is presented in Table 10.11. As the five F&B items are all non-normal the Spearman Correlation Coefficient matrix is also presented (Table 10.12). In both matrices it can be seen that these items are significantly inter-correlated.

<table>
<thead>
<tr>
<th>Table 10.11*</th>
<th>Matrix of Pearson product moment correlation coefficients for five food and beverage activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Restaurants</td>
</tr>
<tr>
<td>Conference and banqueting</td>
<td>.7399</td>
</tr>
<tr>
<td>Room Service</td>
<td>.7897</td>
</tr>
<tr>
<td>F&amp;B night cleaning</td>
<td>.6060</td>
</tr>
<tr>
<td>Pre-prepared ingredients</td>
<td>.5094</td>
</tr>
</tbody>
</table>

* All correlations are significant at the p < 0.01 level

---

51 The Spearman Correlation coefficient matrix should be used where items are nonlinear (Bryman and Cramer, 1990).
The results of two factor analyses (Principal Component Analysis and Principal Axis) of the five items are presented in Table 10.13. Both analyses revealed one factor with an eigenvalue greater than one. The criterion of a factor loading of .32 or larger is met in all instances except for pre-prepared ingredients in the Principal Axis Analysis. The Cronbach alpha is good at .8434. These results indicate that the food and beverage construct is reliable and unidimensional.\(^{52}\) A simple average of the five items was taken to provide the composite measure of F&B outsourcing. This procedure resulted in 17 missing values and 94 valid cases. Following the same rationale as that described above for the outsourcing composite index, mean scores were used for each of the five items to estimate missing data scores.\(^{53}\)

---

**Table 10.12**

Matrix of Spearman correlation coefficients for five food and beverage activities

<table>
<thead>
<tr>
<th></th>
<th>Restaurants</th>
<th>Conference &amp; Banqueting</th>
<th>Room Service</th>
<th>Food and Beverage Night cleaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference and banqueting</td>
<td>.5108</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Room Service</td>
<td>.7281</td>
<td>.5572</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F&amp;B night cleaning</td>
<td>.5649</td>
<td>.3352</td>
<td>.5224</td>
<td></td>
</tr>
<tr>
<td>Pre-prepared ingredients</td>
<td>.3063</td>
<td>.1614*</td>
<td>.4082</td>
<td>.3252</td>
</tr>
</tbody>
</table>

* All correlations are significant at the p < 0.01 level except for this correlation

---

**Table 10.13**

Principal Component and Factor Analysis for five food and beverage activities

<table>
<thead>
<tr>
<th></th>
<th>Principal Component Factor Scores</th>
<th>Principal Axis Factor Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurants</td>
<td>.82918</td>
<td>.86547</td>
</tr>
<tr>
<td>Conference and banqueting</td>
<td>.63841</td>
<td>.53913</td>
</tr>
<tr>
<td>Room Service</td>
<td>.76478</td>
<td>.72260</td>
</tr>
<tr>
<td>F&amp;B night cleaning</td>
<td>.54316</td>
<td>.40822</td>
</tr>
<tr>
<td>Pre-prepared ingredients</td>
<td>.44075</td>
<td>.30809</td>
</tr>
<tr>
<td>Eigenvalue</td>
<td>3.21629</td>
<td>2.84351</td>
</tr>
<tr>
<td>% of Variation explained</td>
<td>64.3%</td>
<td>56.9%</td>
</tr>
</tbody>
</table>

As the food and beverage item is to be used as a dependant variable in multiple regression, normality is a requirement. A logarithm transformation was performed to achieve normality. Statistics relating to procedure are presented in Table 10.14.

---

\(^{52}\) When interpreting these results, it should be borne in mind that these food and beverage activities are not normally distributed. T&F (1996) note that lack of normality may degrade the Factor analysis solution, but that the solution may still be worthwhile.

\(^{53}\) Consistent with the composite outsourcing index, frequently only one of the five items had missing data (i.e., in thirteen of the seventeen cases that had missing data, only one of the five F&B items was missing). Estimating the missing data resulted in 110 valid cases and one missing value. The one missing value related to a hotel that did not have food and beverage services.
Table 10.14
Transformation to Normality
Food and Beverage Item

<table>
<thead>
<tr>
<th>Food and Beverage Item</th>
<th>Raw Data</th>
<th>Result of Logarithm transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kurtosis</td>
<td>Skewness</td>
</tr>
<tr>
<td></td>
<td>5.468</td>
<td>2.442</td>
</tr>
</tbody>
</table>

* Significant kurtosis / skewness (two tailed at 1%; 2.58 is critical z value)

10.3.1.2 Measurement of independent variables

Model 2 refers to thirteen independent variables. Seven of these variables are in common with those used in Model 1 (risk, strategy, competition intensity, hotel quality level, proximity to large city, owner / operator structure and performance. The measurement procedures for these seven variables outlined above for Model 1 also apply to the testing of Model 2. The measurement of the remaining IVs in Model 2 will now be discussed.

10.3.1.2.1 Asset specificity

Although four questions in the survey relate to asset specificity, they were not factor analysed as they relate to distinct dimensions and attributes of asset specificity. Questions 5 and 8c focus on temporal specificity. As an initial test of the relationship between these two variables, bivariate scatterplots of the z residuals against the predicted z values were reviewed for the three activities. No linearity or heteroscedasticity was evident. Correlation analysis revealed that these two items were not correlated,\(^{54}\) therefore these two aspects of temporal specificity were treated as separate IVs. Question 7a concerns general asset specificity, and question 7b concerns brand capital. The distinction between these dimensions of asset specificity has been described in earlier chapters.

\(^{54}\) For F&B, laundry and general maintenance, Pearson correlation analysis (two tailed test) was conducted to assess for a relationship between question 5 and 8c.
10.3.1.2.2 Uncertainty

As already noted in earlier chapters, uncertainty can be broken into two elements: environmental uncertainty and behavioural uncertainty.

10.3.1.2.2.1 Environmental uncertainty

Although environmental uncertainty was measured in connection with the testing of Model 1, it should be noted that in Model 1 the measure was concerned with environmental uncertainty at the general hotel level. In contrast, environmental uncertainty in Model 2 (question 6 in the survey) is concerned with environmental uncertainty at the specific activity level.

10.3.1.2.2.2 Behavioural uncertainty

Two items have been used to measure behavioural uncertainty at the specific activity level. Question 8a concerns the difficulty of measuring performance and question 8b concerns the difficulty of determining whether a subcontractor has performed according to contractual obligations. Scatterplots for these two items were analysed and nonlinearity and heteroscedasticity was not evident. Correlation analysis revealed a significant correlation between the two items for F&B, laundry and general maintenance (the correlations respectively are .56, .52 and .52, and p = .000 for all three correlations). In all cases, square root transformations were undertaken for these measures to achieve normality. A simple average was then taken to combine the items into the “behavioural uncertainty” measure.

10.3.1.2.3 Frequency

As noted in Chapter 8, frequency was measured at the individual activity level by asking: “Does this activity represent a large amount of work for your hotel”.

10.3.1.2.4 Size

As noted in Chapter 8, size is one of three “contingency” factors referred to in Model 2. Although size was included in Model 1 as the “Frequency” variable, size was assessed independently from frequency in the testing of Model 2. The reason for this distinction
is that in Model 1 the DV was outsourcing in general (i.e., the larger the organisation, the greater the frequency of activities). In Model 2, however, frequency had to be appraised at the individual activity level. Size has been measured in terms of “number of rooms” and “annual sales dollars”. Both of these items will be assessed in turn as an IV to determine their relationship with outsourcing.

10.3.1.2.5 Core activity

A single 7 point Likert scale item has been used to measure whether an activity is core (To what extent are the following activities perceived as core to your hotel’s business?).

10.3.1.2.6 Market segment

The same analysis as that carried out in relation to Model 1, i.e., inclusion of only those market segment items that are significantly correlated with the DVs, was applied for Model 2’s testing. Again, transformed variables were used where required. The correlation analysis reported in Table 10.15 reveals no statistically significant relationships between any of the six market segment items and outsourcing of the three specific activities. In light of this, market segment items were excluded from the multiple regression analyses.

<table>
<thead>
<tr>
<th></th>
<th>Food and Beverage</th>
<th>Laundry</th>
<th>General Maintenance</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference Guests</td>
<td>-.128</td>
<td>-.143</td>
<td>-.012</td>
<td>107</td>
</tr>
<tr>
<td>Business Travellers</td>
<td>.104</td>
<td>.126</td>
<td>.105</td>
<td>107</td>
</tr>
<tr>
<td>Tour Groups</td>
<td>-.077</td>
<td>-.042</td>
<td>.077</td>
<td>106</td>
</tr>
<tr>
<td>Leisure Guests</td>
<td>-.047</td>
<td>-.024</td>
<td>-.125</td>
<td>107</td>
</tr>
<tr>
<td>Australian Guests</td>
<td>-.077</td>
<td>-.075</td>
<td>-.087</td>
<td>107</td>
</tr>
<tr>
<td>Overseas Guests</td>
<td>.077</td>
<td>.075</td>
<td>.057</td>
<td>107</td>
</tr>
</tbody>
</table>

10.3.1.3 Descriptive statistics of the DVs and IVs for Model 2

Consistent with the descriptive statistics associated with variables in Model 1, given the lack of interpretability associated with transformed variables, descriptive statistics for variables in Model 2 are based on the raw data collected. Table 10.16 presents these
As already noted in Chapter 9, a striking aspect of this data is the comparatively high degree to which laundry is outsourced. It is also notable that behavioural uncertainty (questions 8a and 8b) scored relatively lowly, suggesting that behavioural uncertainty is not an important factor limiting outsourcing of the four activities considered.

Descriptive statistics.\(^{55}\) As already noted in Chapter 9, a striking aspect of this data is the comparatively high degree to which laundry is outsourced. It is also notable that behavioural uncertainty (questions 8a and 8b) scored relatively lowly, suggesting that behavioural uncertainty is not an important factor limiting outsourcing of the four activities considered.

\(^{55}\) Descriptive statistics are not repeated for those variables in common with Model 1.
### Table 10.16

Model 2: Dependant and independent variable descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Theoretical Range</th>
<th>Actual range</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependant Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housekeeping outsourcing</td>
<td>16.89</td>
<td>36.56</td>
<td>0-100</td>
<td>0-100</td>
<td>111</td>
</tr>
<tr>
<td>Food and Beverage outsourcing</td>
<td>14.24</td>
<td>23.13</td>
<td>0-100</td>
<td>0-100</td>
<td>110</td>
</tr>
<tr>
<td>Laundry outsourcing</td>
<td>66.435</td>
<td>43</td>
<td>0-100</td>
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<td>General Maintenance outsourcing</td>
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<td>24.65</td>
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<td>107</td>
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<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Asset Specificity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Temporal Specificity</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td>6.79</td>
<td>.53</td>
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<td>5-7</td>
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<td>Food and Beverage</td>
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<td>8c) Temporal Specificity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td>4.71</td>
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<td>Food and Beverage</td>
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<td>1.79</td>
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<td>General Maintenance</td>
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<td>7b) Brand Capital</td>
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<td></td>
</tr>
<tr>
<td>Housekeeping</td>
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<td>Food and Beverage</td>
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<td>7a) General Asset specificity</td>
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</tr>
<tr>
<td><strong>Uncertainty</strong></td>
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<td>Housekeeping</td>
<td>5.18</td>
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<tr>
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<td><strong>Behavioural Uncertainty</strong></td>
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<tr>
<td>8a) Performance measurement</td>
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<tr>
<td>Food and Beverage</td>
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<td>1-7</td>
<td>106</td>
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<td>1.26</td>
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<td>1-6</td>
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<td>1.42</td>
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<td>8b) Contractual obligations</td>
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<td>1-6</td>
<td>107</td>
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<tr>
<td>Food and Beverage</td>
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<td>106</td>
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<tr>
<td>Laundry</td>
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<td>1.23</td>
<td>1-7</td>
<td>1-6</td>
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<td>1.47</td>
<td>1-7</td>
<td>1-7</td>
<td>109</td>
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<tr>
<td><strong>Other Factors</strong></td>
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<td></td>
</tr>
<tr>
<td>4) Core activity</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Housekeeping</td>
<td>6.22</td>
<td>1.36</td>
<td>1-7</td>
<td>1-7</td>
<td>110</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>5.6</td>
<td>1.56</td>
<td>1-7</td>
<td>1-7</td>
<td>110</td>
</tr>
<tr>
<td>Laundry</td>
<td>3.85</td>
<td>2.07</td>
<td>1-7</td>
<td>1-7</td>
<td>110</td>
</tr>
<tr>
<td>General Maintenance</td>
<td>4.84</td>
<td>1.82</td>
<td>1-7</td>
<td>1-7</td>
<td>109</td>
</tr>
</tbody>
</table>
10.3.2 Model 2 proposition testing: Food and Beverage

As an initial test of the relationship between the nineteen independent variables and the dependant variable “F&B outsourcing”, a correlation matrix was prepared. An extract of this matrix is presented in Table 10.17. As with earlier matrices, transformed variables were used where appropriate, and if variables were reflected before being transformed, the relationship should be interpreted in the opposite direction to that reported in the table. The only significant relationship noted concerned the independent variable “environmental uncertainty”. As a further test of the significance of these results, linearity and heteroscedasticity were assessed by examining the residuals for each of the bivariate correlations between each independent variable and “F&B outsourcing”. Other than the environmental uncertainty variable, which exhibited a small degree of nonlinearity and heteroscedasticity, the scatterplots revealed no concern over nonlinearity or heteroscedasticity. In light of the absence of a significant association between the remaining 18 independent variables and the dependant variable, an investigation was made for outliers by examining whether any residuals were more than three standard deviations away. No outliers were noted.  

The importance of checking for outliers is emphasised by Norusis (1993) who comments: “Cases that have unusual values for the independent variables can have a substantial impact on the results of the analysis and should be identified” (p.331).
Table 10.17
Pearson product moment correlation coefficients between F&B outsourcing and independent variables

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependant Variable: Food and Beverage Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 2a) Asset Specificity</td>
<td></td>
</tr>
<tr>
<td>i) Temporal Specificity</td>
<td></td>
</tr>
<tr>
<td>1) (Q5) Timing and Coordination</td>
<td>-.071</td>
</tr>
<tr>
<td>2) (Q8c) Alternative suppliers available</td>
<td>-.116</td>
</tr>
<tr>
<td>ii) (Q7a) General asset specificity</td>
<td>.166</td>
</tr>
<tr>
<td>iii) (Q7b) Brand Capital</td>
<td>.130</td>
</tr>
<tr>
<td>Proposition 2b) Uncertainty</td>
<td></td>
</tr>
<tr>
<td>i) (Q6) Environmental Uncertainty</td>
<td>-.162 *</td>
</tr>
<tr>
<td>ii) Q8a &amp; 8b) Behavioural Uncertainty</td>
<td>-.008</td>
</tr>
<tr>
<td>Proposition 2c) Frequency (Q10)</td>
<td>-.060</td>
</tr>
<tr>
<td>Proposition 2d) Risk</td>
<td>.079</td>
</tr>
<tr>
<td>Proposition 2e) Strategy</td>
<td>.100</td>
</tr>
<tr>
<td>Proposition 2f) Competition Intensity</td>
<td></td>
</tr>
<tr>
<td>i) Price</td>
<td>-.098</td>
</tr>
<tr>
<td>ii) Promotion</td>
<td>-.030</td>
</tr>
<tr>
<td>iii) Service</td>
<td>.141</td>
</tr>
<tr>
<td>Proposition 2g) Size</td>
<td></td>
</tr>
<tr>
<td>i) Rooms (q13) OR</td>
<td>.006</td>
</tr>
<tr>
<td>ii) Sales revenue (q 16)</td>
<td>-.132</td>
</tr>
<tr>
<td>Proposition 2h) Core Activity (q 4)</td>
<td>.100</td>
</tr>
<tr>
<td>Proposition 2j) Proximity to large city</td>
<td>-.015</td>
</tr>
<tr>
<td>Proposition 2i) Hotel Quality</td>
<td>.100</td>
</tr>
<tr>
<td>Proposition 2j) Proximity to large city</td>
<td>.100</td>
</tr>
<tr>
<td>Control Variables</td>
<td></td>
</tr>
<tr>
<td>ii) Owner/operator structure</td>
<td>-.079</td>
</tr>
<tr>
<td>iii) Performance</td>
<td>.000</td>
</tr>
</tbody>
</table>

n: 110

*: p < 0.10 (two tailed test)

10.3.2.1 Regression results

Table 10.18a presents the result of a linear regression analysis based on the following equation:

\[
Y = b1 + b2EU
\]

where:

\[
Y = \text{Food & Beverage Outsourcing}
\]

\[
EU = \text{Environmental uncertainty at the activity level} \quad \text{(Proposition 2b)}
\]
Table 10.18a
Results of Multiple Regression Analysis - Model 2
Dependant Variable: Food and Beverage Outsourcing

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficienta</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Uncertainty</td>
<td>-.162</td>
<td>.039</td>
<td>-1.691</td>
<td>.094*</td>
</tr>
<tr>
<td>Constant</td>
<td>1.114</td>
<td>.184</td>
<td>6.044</td>
<td></td>
</tr>
</tbody>
</table>

R²                  | .026         |
Adjusted R²          | .017         |
F value              | 2.86, p = .094 |

DF - Model           | 1            |
DF - Error           | 106          |

* p < 0.10 (two tailed test)

The adjusted R² value in this regression model is low at .017. This signifies that little of the dependent variable’s variance is explained by the independent variable. Despite this, the model is statistically significant as indicated by the F value of 2.86 (p < 0.1). The implication of this finding in terms of proposition testing is summarised in Table 10.18b.

Table 10.18b
Summary of significant findings for Model 2 - F&B outsourcing

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 2b concerns the TCE view that unpredictable activities will tend not to be outsourced due to the difficulty of incomplete contracting and risk of opportunistic behaviour.</td>
<td>A statistically significant negative relationship (p = .094) is observed, i.e., F&amp;B outsourcing is higher when F&amp;B activities are unpredictable. This contradicts proposition 2b, but is consistent with the agency theory view. As noted in Chapter 6, where an agent is risk averse, it is anticipated that an unpredictable activity would be outsourced so the agent can pass the risk to an outsider.</td>
</tr>
</tbody>
</table>

10.3.3 Model 2 proposition testing: Laundry

The same statistical procedures just described for the dependant variable “F&B outsourcing” were applied for “laundry outsourcing”. An extract of the correlation matrix analysis of dependant and independent variable relationships is presented as Table 10.19. Five independent variables are significantly correlated with laundry outsourcing. Two of these variables (General Asset Specificity and Behavioural Uncertainty) are significantly related in a direction contradicting that proposed. A sixth variable (Environmental Uncertainty) is significant when a one tail test is used (p = .061), although it also is directionally inconsistent with the proposed relationship. As the relationship for Environmental Uncertainty is identical to that uncovered in the F&B analysis, the decision to include it in the regression analysis was taken.
Table 10.19
Pearson product moment correlation coefficients between laundry outsourcing and independent variables

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependant Variable: Laundry outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposition 2a) Asset Specificity</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Temporal Specificity</td>
<td></td>
</tr>
<tr>
<td>1) (Q5) Timing and Coordination</td>
<td>.052</td>
</tr>
<tr>
<td>2) (Q8c) Alternative suppliers available</td>
<td>-.061</td>
</tr>
<tr>
<td>ii) (Q7a) General asset specificity</td>
<td>.199*</td>
</tr>
<tr>
<td>iii) (Q7b) Brand Capital</td>
<td>.050</td>
</tr>
<tr>
<td><strong>Proposition 2b) Uncertainty</strong></td>
<td></td>
</tr>
<tr>
<td>i)) (Q6) Environmental Uncertainty</td>
<td>-152</td>
</tr>
<tr>
<td>(p=.06, one tailed test)</td>
<td></td>
</tr>
<tr>
<td>ii) Q8a &amp; 8b) Behavioural Uncertainty</td>
<td>.162†</td>
</tr>
<tr>
<td><strong>Proposition 2c) Frequency (Q10)</strong></td>
<td></td>
</tr>
<tr>
<td>2d) Risk</td>
<td>.038</td>
</tr>
<tr>
<td>2e) Strategy</td>
<td>-.003</td>
</tr>
<tr>
<td><strong>2f) Competition Intensity</strong></td>
<td></td>
</tr>
<tr>
<td>i) Price</td>
<td>-.035</td>
</tr>
<tr>
<td>ii) Promotion</td>
<td>.101</td>
</tr>
<tr>
<td>iii) Service</td>
<td>.067</td>
</tr>
<tr>
<td><strong>2g) Size</strong></td>
<td></td>
</tr>
<tr>
<td>i) Rooms (q13) OR</td>
<td>.096</td>
</tr>
<tr>
<td>ii) Sales revenue (q 16)</td>
<td>-.079</td>
</tr>
<tr>
<td><strong>Other Factors</strong></td>
<td></td>
</tr>
<tr>
<td>2h) Core Activity (q 4)</td>
<td>.024</td>
</tr>
<tr>
<td>2i) Hotel Quality</td>
<td>.258†</td>
</tr>
<tr>
<td>2j) Proximity to large city</td>
<td>-.014</td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
</tr>
<tr>
<td>ii) Owner/operator structure</td>
<td>.086</td>
</tr>
<tr>
<td>iii) Performance</td>
<td>-.209**</td>
</tr>
</tbody>
</table>

n: 107

** p < 0.01;  * p < 0.05; † p < 0.10 (two tailed test); ‡ p <.05 (one tailed test)

No problems with heteroscedasticity were observed. For most variables, there were no problems with nonlinearity. Three independent variables (i.e., “frequency”, “quality” and “performance”) had parallel bands of residuals with a marked downward slope to the right, suggesting a degree of nonlinearity. This suggestion of non-linearity should be borne in mind when interpreting the results of this analysis. T&F (1996) note, however, that failure of linearity tends to weaken an analysis rather than invalidate it.57

10.3.3.1 Regression analysis

Only independent variables significantly correlated with the dependant variable will be considered in the multiple regression analysis. Multicollinearity is not a concern for any of the six variables as none have inter-correlation coefficients greater than 0.70, as detailed in Table 10.20.

57 This is because the multiple regression is not able to fully capture the relationship amongst the IVs and the DVs.
Table 10.20
Matrix of Pearson product moment correlation coefficients for Significant Independent Variables and Laundry Outsourcing

<table>
<thead>
<tr>
<th>DV: Laundry outsourcing</th>
<th>IVs</th>
<th>CV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2aii</td>
<td>2bi</td>
</tr>
</tbody>
</table>

**Independent Variables**
- General Asset Specificity (q7a): .199‡
- Specific Environmental Uncertainty (q6): -.152
- Specific Behavioural Uncertainty (q8a & 8b): .162‡
- Frequency (q10): -.347††
- Hotel Quality Level: .258††

**Control Variable**
- Performance: -.21* - .103 .146 -.223* .070 - .260**

**p < 0.01; *p < 0.05; †p < 0.10 (two tailed test); †† p < 0.01; ‡p < 0.05 (one tailed test)**

Table 10.21a presents the results of a multiple regression analysis based on the following equation:

\[ Y = b_1 + b_2GAS + b_3EU + b_4BU + b_5FREQ + b_6QUALITY + b_7PERF \]

where:
- \( Y \) = Outsourcing of Laundry
- \( GAS \) = General Asset Specificity (Proposition 2aii)
- \( EU \) = Specific Environmental Uncertainty (Proposition 2bi)
- \( BU \) = Specific Behavioural Uncertainty (Proposition 2bii)
- \( FREQ \) = Frequency (Proposition 2c)
- \( QUALITY \) = Hotel Quality Level (Proposition 2i)

Table 10.21a
Results of Multiple Regression Analysis - Model 2
Dependant Variable: Laundry Outsourcing

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAS</td>
<td>.128</td>
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</tr>
<tr>
<td>EU</td>
<td>-.076</td>
<td>.037</td>
<td>.758</td>
<td>.225</td>
</tr>
<tr>
<td>BU</td>
<td>.056</td>
<td>.111</td>
<td>.537</td>
<td>.26</td>
</tr>
<tr>
<td>Frequency</td>
<td>-.239</td>
<td>.027</td>
<td>-2.341</td>
<td>.011*</td>
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<tr>
<td>Quality</td>
<td>.160</td>
<td>.339</td>
<td>1.576</td>
<td>.060*</td>
</tr>
<tr>
<td>Performance</td>
<td>-.111</td>
<td>.067</td>
<td>-1.052</td>
<td>.296</td>
</tr>
<tr>
<td>Constant</td>
<td>.542</td>
<td>.338</td>
<td>1.606</td>
<td>.112</td>
</tr>
</tbody>
</table>

\[ R^2 \] = .197
\[ \text{Adjusted } R^2 \] = .123
\[ F \text{ value} \] = 3.198, \( p = .007 \)

**p < 0.01; *p < 0.05; †p < 0.10 (one tailed test)**

Although it would be appropriate to look at other variables besides 1g using the one tailed test, when this was done the direction was not as expected, and therefore these variables were investigated using a two tailed test.
The adjusted $R^2$ reveals that 12.3% ($F = 3.198, p = .007$) of the variation of the dependant variable “Laundry outsourcing” is explained by the independent variables.\textsuperscript{59}

The three variables that had significant correlations in Table 10.19 but which were in the opposite direction to that proposed (General asset specificity, Environmental Uncertainty and Behavioural Uncertainty) did not exhibit statistical significance in the regression equation. As presented in Tables 10.21a and 10.21b, two independent variables were found to be statistically significant: frequency and hotel quality level.

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 2c: Laundry outsourcing will be higher where an activity is seen to involve a small amount of work.</td>
<td>The regression analysis reveals a relationship that supports this proposition ($p = .011$).</td>
</tr>
<tr>
<td>Proposition 2i: Specific activity outsourcing will be less in higher quality hotels.</td>
<td>The results of the regression analysis support the proposition, i.e. lower quality hotels will tend to outsource more laundry. Although the relationship in the correlation and regression analyses is significant and positive, quality level of hotel was reflected and transformed to normalise it. Therefore the results must be interpreted in the opposite direction. It is noteworthy that this finding is in contrast to the finding in Model 1 (proposition 1f).</td>
</tr>
</tbody>
</table>

10.3.4 Model 2 proposition testing: General maintenance

Again, the same statistical procedures outlined above in connection with the outsourcing of F&B and laundry dependent variables were followed for the general maintenance dependant variable. An extract of the results of the correlation analysis of the independent and dependent variables is presented in Table 10.22. Seven independent variables are significantly related to general maintenance outsourcing, six of these are in the same direction as the propositions (the exception is environmental uncertainty).

\textsuperscript{59} If T&F’s recommendations are strictly adhered to (i.e., only include IVs with Betas greater than .20 and alphas < .05), an improved adjusted $R^2$ of 15.2% can be achieved. This was the result when including the three most significantly correlated IVs (i.e., frequency, quality and performance). Consistent with Table 10.21a, only frequency and quality were significant.
Table 10.22
Pearson correlation coefficients between general maintenance outsourcing and independent variables

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependant Variable: General maintenance outsourcing</th>
</tr>
</thead>
</table>

Proposition 2a) Asset Specificity
  i) Temporal Specificity
    1) (Q5) Timing and Coordination  -.106
    2) (Q8c) Alternative suppliers available  -.355**
  ii) (Q7a) General asset specificity  -.223*
  iii) (Q7b) Brand Capital  .280**

Proposition 2b) Uncertainty
  i) (Q6) Environmental Uncertainty  -.300‡
  ii) Q8a & 8b) Behavioural Uncertainty  -.108

Proposition 2c) Frequency (Q10)
  -.045

2d) Risk
  -.101

2e) Strategy
  .020

2f) Competition Intensity
  i) Price  -.096
  ii) Promotion  -.182*
  iii) Service  -.189*

2g) Size
  i) Rooms (q13) OR
  .022
  ii) Sales revenue (q 16)  -.030

Other Factors
  2h) Core Activity (q 4)  -.223*
  2i) Hotel Quality  .007
  2j) Proximity to large city  .058

Control Variables
  ii) Owner/operator structure  .023
  iii) Performance  -.005

n: 107

** p < 0.01;  * p < 0.05; (one tailed test);  ‡ p < 0.01 (two tailed test)

Analysis for linearity and homoscedasticity of each IV and the DV “general maintenance outsourcing” revealed no problems. As detailed in Table 10.23, multicollinearity is not a concern for the seven variables as none have inter-correlations greater than 70%.
### Table 10.23
Matrix of Pearson product moment correlation coefficients for Significant Independent Variables and the Dependant Variable: Outsourcing of General Maintenance

<table>
<thead>
<tr>
<th>Dependant Variable</th>
<th>Outsourcing of General Maintenance</th>
<th>2ai</th>
<th>2aii</th>
<th>2aiii</th>
<th>2bi</th>
<th>2fi</th>
<th>2fii</th>
<th>2h</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2a) Asset Specificity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Temporal Specificity (q8c)</td>
<td></td>
<td>-.355**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) General Asset Specificity (q7a)</td>
<td></td>
<td>-.223*</td>
<td>.1418</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Brand Capital (q7b)</td>
<td></td>
<td>.280**</td>
<td>-.328††</td>
<td>-.40††</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2bi) Specific Environmental Uncertainty (q6)</td>
<td>-</td>
<td>-.300**</td>
<td>.158</td>
<td>.073</td>
<td>-.044</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2f) Competition Intensity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Promotion (q19b)</td>
<td></td>
<td>-.182*</td>
<td>-.123</td>
<td>.278††</td>
<td>-.059</td>
<td>-.041</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>iii) Service</td>
<td></td>
<td>-.189*</td>
<td>.025</td>
<td>.206‡</td>
<td>-.100</td>
<td>.009</td>
<td>.399††</td>
<td>1</td>
</tr>
<tr>
<td>2h) Core Activity (q4)</td>
<td></td>
<td>-.223*</td>
<td>.027</td>
<td>.062</td>
<td>-.238</td>
<td>.309††</td>
<td>.091</td>
<td>-.037</td>
</tr>
</tbody>
</table>

** p < 0.01; * p < 0.05; † p < 0.10 (one tailed test); †† p < 0.01; ‡ p < 0.05 (two tailed test)
10.3.4.1 Regression analysis

Only IVs that significantly correlated with the DV were included in the multiple regression analysis. Table 10.24a presents the results of the multiple regression analysis based on the following equation:

\[ Y = b_1 + b_2 \text{TEMP} + b_3 \text{GAS} + b_4 \text{BC} + b_5 \text{EU} + b_6 \text{CIP} + b_7 \text{CIS} + b_8 \text{CORE} \]

where:

\[
\begin{align*}
Y & = \text{Outsourcing of General Maintenance} \\
\text{TEMP} & = \text{Temporal Specificity} \quad (\text{Proposition 2ai}) \\
\text{GAS} & = \text{General Asset Specificity} \quad (\text{Proposition 2aii}) \\
\text{BC} & = \text{Brand Capital Specificity} \quad (\text{Proposition 2aiii}) \\
\text{EU} & = \text{Specific Environmental Uncertainty} \quad (\text{Proposition 2bi}) \\
\text{CIP} & = \text{Competition intensity (Promotion)} \quad (\text{Proposition 2fii}) \\
\text{CIS} & = \text{Competition intensity (Service)} \quad (\text{Proposition 2fiii}) \\
\text{CORE} & = \text{Core activity} \quad (\text{Proposition 2h})
\end{align*}
\]

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEMP</td>
<td>-.289</td>
<td>.047</td>
<td>-2.784</td>
<td>.003**</td>
</tr>
<tr>
<td>GAS</td>
<td>-.069</td>
<td>.051</td>
<td>-.632</td>
<td>.265</td>
</tr>
<tr>
<td>BC</td>
<td>.096</td>
<td>.154</td>
<td>.839</td>
<td>.202</td>
</tr>
<tr>
<td>EU</td>
<td>-1.197</td>
<td>.055</td>
<td>-1.922</td>
<td>.058†</td>
</tr>
<tr>
<td>CIP</td>
<td>-1.103</td>
<td>.244</td>
<td>-1.960</td>
<td>.170</td>
</tr>
<tr>
<td>CIS</td>
<td>-.095</td>
<td>.218</td>
<td>-.910</td>
<td>.187</td>
</tr>
<tr>
<td>CORE</td>
<td>-.072</td>
<td>.043</td>
<td>-.686</td>
<td>.247</td>
</tr>
<tr>
<td>Constant</td>
<td>2.563</td>
<td>.690</td>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>

\[ R^2 = .240 \]
\[ \text{Adjusted } R^2 = .176 \]
\[ \text{F value} = 3.753; \text{ p} = .001 \]

\| DF - Model | 7 \|
\| DF - Error | 83 \|

** p < 0.01 (one tailed test); † p < 0.10 (two tailed test)

Adjusted \( R^2 \) reveals that 17.6% (\( F = 3.753, \text{ p} = .001 \)) of the dependant variable “General Maintenance outsourcing” is explained by the independent variables. As presented in Tables 10.24a and 10.24b, two independent variables were found to be statistically significant: temporal specificity and environmental uncertainty.
Table 10.24b  
Summary of significant findings for Model 2 - General Maintenance outsourcing

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 2a: Specific activity outsourcing will be higher where an activity is seen to involve low asset specificity.</td>
<td>The results reveal a statistically significant negative relationship ($p = .003$), i.e. outsourcing of general maintenance is higher in hotels where it is not difficult to find alternative suppliers (question 8c). This supports proposition 2a.</td>
</tr>
<tr>
<td>Proposition 2b: Specific activity outsourcing will be higher where an activity is seen to have low uncertainty.</td>
<td>The results reveal a statistically significant negative relationship ($p = .054$), i.e., outsourcing of general maintenance is higher in hotels where general maintenance is unpredictable. This finding does not support proposition 2b and is similar to the food and beverage finding.</td>
</tr>
</tbody>
</table>

10.3.5 Model 2 proposition testing: Housekeeping

As already noted, housekeeping could not be normalised through transformation; it was therefore converted into a dichotomous variable. Dichotomised dependant variables require the use of logit (logistical analysis). Unlike multiple regression, logit analysis does not require independent variables to be normal, linear and of equal variance. Nonetheless, T&F (1996) note that multivariate normality and linearity among predictors may enhance power,\(^\text{60}\) and therefore independent variables were transformed to normality wherever possible. Table 10.25 presents a summary of statistics relating to the transformation of the housekeeping items.

---

\(^{60}\) This is because a linear combination of predictors is used to form the exponent.
### Table 10.25
GM Questionnaire - Housekeeping questions
Two tailed at 1%, 2.58 is critical z value

<table>
<thead>
<tr>
<th>Question</th>
<th>Kurtosis</th>
<th>SEK (^1)</th>
<th>Z value</th>
<th>Skewness</th>
<th>SES (^2)</th>
<th>Z value</th>
<th>n</th>
<th>Transformation undertaken</th>
<th>Subsequent to transformation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Housekeeping outsourcing</td>
<td>1.40</td>
<td>0.46</td>
<td>3.08 *</td>
<td>1.82</td>
<td>0.23</td>
<td>7.94 *</td>
<td>111</td>
<td>Dichotomised</td>
<td>Skewness SES Z value</td>
</tr>
<tr>
<td>4) Activity perceived as core</td>
<td>5.02</td>
<td>0.46</td>
<td>10.92 *</td>
<td>-2.26</td>
<td>0.23</td>
<td>-9.83 *</td>
<td>110</td>
<td>Reflect and Inverse</td>
<td>Cannot Transform</td>
</tr>
<tr>
<td>5) Timing and coordination critical (variable abandoned as observed scores all fall in range 5-7)</td>
<td>5.28</td>
<td>0.46</td>
<td>11.56 *</td>
<td>-2.50</td>
<td>0.23</td>
<td>-10.89 *</td>
<td>110</td>
<td>Reflect and Square Root</td>
<td>0.08</td>
</tr>
<tr>
<td>6) Extent activity unpredictable</td>
<td>-0.01</td>
<td>0.46</td>
<td>-0.02</td>
<td>-0.61</td>
<td>0.23</td>
<td>-2.62 *</td>
<td>109</td>
<td>Reflect and Inverse</td>
<td>-0.93</td>
</tr>
<tr>
<td>7a) Asset Specificity</td>
<td>-1.03</td>
<td>0.48</td>
<td>-2.17</td>
<td>-0.28</td>
<td>0.24</td>
<td>-1.15</td>
<td>101</td>
<td>Reflect and Inverse</td>
<td>0.55</td>
</tr>
<tr>
<td>7b) Damage reputation</td>
<td>4.24</td>
<td>0.47</td>
<td>9.11 *</td>
<td>-2.28</td>
<td>0.24</td>
<td>-9.72 *</td>
<td>106</td>
<td>Logarithm</td>
<td>Inverse</td>
</tr>
<tr>
<td>7c) Exploitation of position</td>
<td>1.01</td>
<td>0.46</td>
<td>2.17</td>
<td>1.33</td>
<td>0.23</td>
<td>5.70</td>
<td>107</td>
<td>Reflect and Inverse</td>
<td>-0.33</td>
</tr>
<tr>
<td>8a) Difficult to evaluate performance if outsourced</td>
<td>-0.81</td>
<td>0.47</td>
<td>-1.71</td>
<td>-0.27</td>
<td>0.24</td>
<td>-1.15</td>
<td>102</td>
<td>Reflect and Logarithm</td>
<td>-0.33</td>
</tr>
<tr>
<td>8b) Difficult to determine if contractual obligations performed</td>
<td>1.03</td>
<td>0.46</td>
<td>2.22</td>
<td>1.38</td>
<td>0.23</td>
<td>5.90 *</td>
<td>107</td>
<td>Reflect and Inverse</td>
<td>-0.33</td>
</tr>
<tr>
<td>8c) Difficult to ensure an alternate supplier</td>
<td>-0.96</td>
<td>0.47</td>
<td>-2.05</td>
<td>-0.47</td>
<td>0.24</td>
<td>-2.00</td>
<td>105</td>
<td>Reflect and Inverse</td>
<td>-0.33</td>
</tr>
<tr>
<td>9) Outsourcing contract provides same degree of control as managing inhouse</td>
<td>-1.26</td>
<td>0.46</td>
<td>-2.75 *</td>
<td>0.16</td>
<td>0.23</td>
<td>0.71</td>
<td>109</td>
<td>Reflect and Logarithm</td>
<td>-0.33</td>
</tr>
<tr>
<td>10) Large amount of work for your hotel (Abandoned - many respondents said low if outsourced)</td>
<td>2.52</td>
<td>0.46</td>
<td>5.52 *</td>
<td>-1.66</td>
<td>0.23</td>
<td>-7.21 *</td>
<td>110</td>
<td>Reflect and Logarithm</td>
<td>-0.33</td>
</tr>
</tbody>
</table>

* Significant kurtosis or skewness at the 1% level of significance.
\(^1\): SEK = Standard Error of Kurtosis.
\(^2\): SES = Standard Error of Skewness.
10.3.5.1 Variable measures

10.3.5.1.1 Measurement of independent variables

In this section a description will only be made of those variable measures that have not already been described in connection with the dependent variables already examined. The items specifically related to housekeeping have been transformed as presented in Table 10.25.

10.3.5.1.1.1 Behavioural uncertainty

A correlation analysis of the two behavioural uncertainty questions (8a and 8b) was conducted and revealed a statistically significant correlation coefficient of .585 ($p < .000$). As question 8a had been transformed to normality through logarithms, and question 8b through an inverse transformation, coding was no longer in the same form and so standardised $z$ scores were used to create a simple average. As question 8b had been inversed, the normalised data for question 8b was reflected back to its original order so that coding for these variables remained in the same direction.

10.3.5.1.1.2 Market segment

Consistent with the procedures adopted earlier, correlation analysis was conducted to investigate for a relationship between the six market segment items and “housekeeping outsourcing”. As the dependant variable has been transformed to a dichotomous variable, Spearman Rank Correlations were used.$^{61}$ Similar to the findings for Model 1, it was found that servicing the “business traveller” segment is significantly related to the outsourcing of housekeeping. This variable was therefore included in the logit analysis.

---

$^{61}$ The same result is achieved with Pearson product moment correlation, however.
A correlation analysis was also conducted to appraise relationships between the independent and dependant variables. As not all items could be transformed to normality, and as the dependant variable has been transformed to a dichotomous form, the Spearman Rank Order Correlation was used. From Table 10.27 it is evident that four variables are significantly related to the dependant variable.
Only independent variables significantly correlated with the dependant variable were used in the logit analysis. Like multiple regression, logit analysis is sensitive to extremely high correlations among predictor variables (T&F, 1996). As a result, an appraisal of correlations between the independent variables was conducted (see Table 10.28). It can be seen that multicollinearity is not a concern as no independent variables are significantly inter-related.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>DV</th>
<th>2a(ii)</th>
<th>2b(ii)</th>
<th>2g</th>
</tr>
</thead>
<tbody>
<tr>
<td>2a(ii) General Asset Specificity (q7a)</td>
<td>.341**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2b(ii) Specific Behavioural Uncertainty (q8a &amp; 8b)</td>
<td>-.137†</td>
<td>-.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2g) Size (Revenue)</td>
<td>-.194‡‡</td>
<td>.014</td>
<td>.060</td>
<td></td>
</tr>
<tr>
<td>Control Variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Segment (Business)</td>
<td>.193*</td>
<td>.080</td>
<td>.066</td>
<td>-.021</td>
</tr>
</tbody>
</table>

* $p < 0.05$, ** $p < 0.01$ (two tailed test); †† $p < 0.05$, ‡‡ $p < 0.10$ (one tailed test)

10.3.5.2 Results of Logit analysis

The dependant variable has been set to one for a hotel that outsources housekeeping, and zero if it does not outsource. The logit model equation is as follows:

$$\text{logit} (p) = a + b_1(GAS) + b_2(SBU) + b_3(SIZE) + b_4(MKT)$$

where:

- $\text{logit} (p)$: The probability that the dependant variable is 1
- GAS: General Asset Specificity (Proposition 2a(ii))
- SBU: Specific Behavioural Uncertainty (Proposition 2b(ii))
- SIZE: Size (measured in annual revenue) (Proposition 2g)
- MKT: Market segment (Business) (Control Variable)

The results of the logit analysis are presented in Table 10.29a.
### Table 10.29a

#### Results of Logit Analysis - Model 2

<table>
<thead>
<tr>
<th>Dependant Variable: Outsourcing of Housekeeping</th>
<th>Variable</th>
<th>Predicted Sign</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Wald Test (z ratio)</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAS</td>
<td>-</td>
<td>.6756</td>
<td>.2622</td>
<td>6.638</td>
<td>.0100***</td>
<td></td>
</tr>
<tr>
<td>SBU</td>
<td>-</td>
<td>-.5125</td>
<td>.3778</td>
<td>1.840</td>
<td>.085†</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>-</td>
<td>-2.3340</td>
<td>1.2452</td>
<td>3.513</td>
<td>.030††</td>
<td></td>
</tr>
<tr>
<td>MKT</td>
<td>.0352</td>
<td></td>
<td>.0154</td>
<td>5.207</td>
<td>.023**</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-4.1051</td>
<td>1.7908</td>
<td>5.255</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Model Chi-Square: 25.56 (d.f. 4, p = .000)
Likelihood Ratio Statistic: 53.934
Log Likelihood Ratio Index: .339

Number of cases included in the analysis: 83

*** p < 0.01; ** p < 0.05 (two tailed test); †† p < 0.05; † p < 0.10 (one tailed test).

* The likelihood ratio statistic represents a measure of the fit of the model when the constant and independent variable are included (T&F, 1996).
* The likelihood ratio index is calculated as follows: 1-(log likelihood at convergence / log likelihood at zero). It is similar to $R^2$ in conventional regression analysis.
* The model chi-square compares the fit of the model with constant and independent variables with the fit of the model without the independent variables.

Logit analysis predicts a discrete outcome for a set of independent variables. Like multiple regression, for logit analysis to work the sample needs to be of a sufficient size. Large parameter estimates and standard errors are suggestions that there are problems, in which case this can be managed by reducing the number of variables (T&F, 1996). Given that only four independent variables have been used, large coefficients and standard errors have not resulted, suggesting that the sample size is sufficient. The Model Chi-Square compares the fit of the model with constant and independent variables with the fit of the model without the independent variables. The Model Chi-Square of 24.45 ($p < .01$) indicates a statistically significant difference between the two models, signifying that the four independent variables assist in predicting whether housekeeping is outsourced. The Log Likelihood Ratio index is similar to $R^2$ in regression analysis and indicates that 34% of the variance is explained by the model. Like multiple regression, the model should be evaluated for outliers. An analysis of the standardised residuals revealed that one case was 5.78 standard deviations away from the mean. Minimal improvement was gained by removing this case from the model and therefore the case was retained. The Wald test shows that each independent variable is statistically significant.\(^{62}\)

\(^{62}\) The Wald test is the coefficient of the independent variable, divided by its standard error.
Chapter 10: Statistical analysis and hypothesis testing - General manager questionnaire survey

The reliability of the model can also be appraised by reviewing the proportion of cases that it correctly classifies, i.e., for those hotels that outsource, how many are correctly predicted by the model. The results of this classification analysis are presented in Table 10.30.

<table>
<thead>
<tr>
<th>Observed</th>
<th>Predicted</th>
<th>Percent correct</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Do not outsource</td>
<td>Outsource</td>
</tr>
<tr>
<td>Do not outsource</td>
<td>65</td>
<td>3</td>
</tr>
<tr>
<td>Outsource</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

Proportion correctly classified: 83.13%

Although Table 10.30 shows that the model correctly classified 83.13% of the cases, it is disappointing when we recognise that it has a success rate of only 26.7% with respect to predicting when a hotel will outsource. Further analysis of these variables revealed that when the behavioural uncertainty items were separately correlated with the dependant variable, only question 8b was significantly correlated. The logit analysis was therefore re-run with the behavioural uncertainty measure replaced by question 8b. This significantly improved the model; the revised model was now 46.7% correct in predicting when a hotel outsourced. Removal of two cases with standardised residuals greater than three enhanced the model still further, increasing the Log likelihood index to 41% and the successful prediction of hotels that outsource was increased to 57.14%.\(^{63}\) Significant findings of the logit analysis with respect to the propositions are summarised in Table 10.29b.

---

\(^{63}\) T&F (1996) note that: “Interactions may enhance a model, or complicate a model without reliably improving prediction” (p.577). They also note that once relationships are found, one should try to simplify the model by eliminating some predictors, while still maintaining strong prediction. In this instance, the simplification of the model improves the equation.
Table 10.29b
Summary of significant findings for Model 2 - Housekeeping outsourcing

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Logit finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 2a: Specific activity outsourcing will be higher where an activity is seen to involve low asset specificity.</td>
<td>The results of the logit analysis reveal a statistically significant positive relationship ($p = .01$), which is opposite to that predicted by proposition 2a. This finding is surprising and contrary to what is proposed by TCE theory.</td>
</tr>
<tr>
<td>Proposition 2b: Specific activity outsourcing will be higher where an activity is seen to have low uncertainty.</td>
<td>Although environmental uncertainty did not come out as significant in relation to the outsourcing of housekeeping, behavioural uncertainty was significant. The results of the logit analysis support proposition 2b ($p = .085$).</td>
</tr>
<tr>
<td>Proposition 2g: Specific activity outsourcing will be higher in smaller hotels.</td>
<td>A significant negative relationship was found, as predicted ($p = .061$), i.e., large hotels tend to insource due to the economies of scale that can be achieved inhouse.</td>
</tr>
<tr>
<td>Control Variable: Business Travellers Market Segment</td>
<td>A positive relationship was found ($p = .023$) indicating that hotels that have larger percentages of a business market segment are more likely to outsource. It may be that hotels with a high proportion of business guests are more likely to outsource because business guests create little mess and housekeeping problems.</td>
</tr>
</tbody>
</table>

10.3.6 Views of factors causing a hotel to outsource or insource

In addition to collecting data that facilitated the statistical tests described above, the GM questionnaire also asked respondents to indicate their views with respect to factors affecting the decision to outsource. The findings with respect to this aspect of the study are presented in Table 10.31. As some factors only make sense when placed in the context of either insourcing or outsourcing, two groups of questions were used, ten from an outsourcing perspective (question 11) and eleven from an insourcing perspective (question 12). In Table 10.31, the factors are presented in descending mean score sequence. Thus the first factor referred to in each group represents what respondents see as the most important reason for insourcing / outsourcing. In those cases where a factor relates to a particular theoretical perspective, this is highlighted in the Table’s first column.
<table>
<thead>
<tr>
<th>Theory</th>
<th>Question</th>
<th>Question 11) Factors that may cause a hotel to outsource:</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCE - in general</td>
<td>a) outsourcing provides greater flexibility</td>
<td>4.39</td>
</tr>
<tr>
<td></td>
<td>e) outsourcing can yield significant savings</td>
<td>4.14</td>
</tr>
<tr>
<td></td>
<td>c) avoiding the need to raise investment funds</td>
<td>4.02</td>
</tr>
<tr>
<td></td>
<td>d) outsourcing facilitates quick expansion</td>
<td>3.78</td>
</tr>
<tr>
<td>TCE - Frequency</td>
<td>h) they are large and we can negotiate favourable outsourcing terms</td>
<td>3.78</td>
</tr>
<tr>
<td></td>
<td>b) specialist subcontractors can provide a better service</td>
<td>3.59</td>
</tr>
<tr>
<td>Agency theory</td>
<td>l) Subcontractors are in a better position to manage volatility and unpredictability</td>
<td>3.51</td>
</tr>
<tr>
<td></td>
<td>j) managers like to delegate risk to subcontractors.</td>
<td>3.12</td>
</tr>
<tr>
<td></td>
<td>f) other hotels are outsourcing them</td>
<td>2.96</td>
</tr>
<tr>
<td>Agency Theory</td>
<td>g) they are unpredictable and we like to pass the risk to subcontractors</td>
<td>2.96</td>
</tr>
<tr>
<td></td>
<td>Question 12) Factors that may cause a hotel to insource:</td>
<td></td>
</tr>
<tr>
<td>TCE - temporal specificity</td>
<td>f) timing &amp; coordination of the activity is critical to the hotel’s success</td>
<td>5.75</td>
</tr>
<tr>
<td>TCE - Brand Capital</td>
<td>e) reputation of hotel could be damaged by subcontractor actions</td>
<td>5.50</td>
</tr>
<tr>
<td></td>
<td>h) the activities are viewed as core to the business</td>
<td>5.24</td>
</tr>
<tr>
<td>TCE - Asset specificity &amp; uncertainty</td>
<td>k) difficult to find subcontractors with compatible organisational culture</td>
<td>4.79</td>
</tr>
<tr>
<td></td>
<td>d) subcontractor could act in their own interest to the detriment of hotel</td>
<td>4.51</td>
</tr>
<tr>
<td></td>
<td>i) it is difficult to find subcontractors we can trust</td>
<td>4.48</td>
</tr>
<tr>
<td>TCE - Frequency</td>
<td>b) Economies of scale can be achieved inhouse</td>
<td>4.41</td>
</tr>
<tr>
<td>TCE - Uncertainty</td>
<td>g) unpredictable activities are difficult to contract for</td>
<td>4.13</td>
</tr>
<tr>
<td></td>
<td>j) back of house operating tension might develop</td>
<td>3.73</td>
</tr>
<tr>
<td>TCE - Behavioural uncertainty</td>
<td>a) Difficulty in appraising subcontractor’s performance</td>
<td>3.47</td>
</tr>
<tr>
<td>TCE - Asset specificity &amp; Uncertainty</td>
<td>c) subcontractors may feel exposed to potential loss of investment.</td>
<td>3.36</td>
</tr>
</tbody>
</table>

a The Theoretical range for questions 11 and 12 is 1 – 7.

The end points used in the Likert scale questions used were “Strongly Disagree” (1) and “Strongly Agree” (7).
For the questions concerned with factors causing a hotel to outsource, three factors scored above a mean of “4”, i.e., flexibility, savings that can be achieved, and avoiding the need to raise investment funds. Savings is a key notion that relates to TCE in general, i.e., TCE proposes that organisation will organise themselves in the most efficient way possible in order to minimise transaction costs. It is noteworthy that several of the higher ranking factors as to why a hotel may outsource were not included as IVs in Models 1 and 2.

With respect to the findings emanating from question 12, from Table 10.31 it can be seen that three factors exhibit mean scores above “5”, i.e., timing and coordination, reputation, and whether an activity is core to the business. The first two reasons for insourcing are both attributes of TCE’s asset specificity. It is therefore interesting to note that these two dimensions of asset specificity were not significant in the multiple regression analysis of Models 1 and 2. Further discussion of this issue is made in the concluding chapter.

From the first column in Table 10.31 it can be seen that nine of the 21 questions relate to TCE theory. Of these nine TCE questions, all but two have means greater than 3.5 (the scales’ mid-point). This suggests that in general TCE attributes are perceived to be pertinent to outsourcing decisions.

A specific statistical analysis was undertaken with respect to the data collected by questions 11g and 12g. Question 11g has an agency theory perspective (activities may be outsourced because “they are unpredictable and we like to pass risk to subcontractors”) and question 12g has the contradicting TCE perspective that unpredictable activities are not outsourced because they are difficult to contract for. It was found that data collected by these two questions is normally distributed. As a result a paired t-test was conducted to investigate whether one effect appears to be statistically significantly stronger than the other. Scores supporting the TCE perspective (question 12g) are statistically significantly greater than scores supporting the agency perspective ($p < .000$; two tailed test). In fact, the agency theory view scores below the midpoint, indicating respondents tend not to agree with this perspective.

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64 As some argue that parametric tests should not be conducted when Likert scale questions are used, a nonparametric test (Wilcoxon) was also conducted. The Wilcoxon test resulted in the same conclusion ($p < .000$).
10.4 Conclusion

This chapter has described findings made in connection with the general manager questionnaire survey. Initially, the propositions associated with Model 1 were tested. Only propositions 1c and 1g were supported, i.e., it was found that hotels that have a risk averse culture are more likely to outsource, as are hotels that are in a large city. It was also found that higher quality hotels tend to outsource more, this finding is directionally inconsistent with proposition 1f.

Although no TCE independent variables exhibited significance in the testing of Model 1, five of the seven TCE independent exhibited significance in the testing of Model 2. For two of these, the direction of the association was inconsistent with the propositions (proposition 2a was not supported in relation to asset specificity in general and for housekeeping, nor was proposition 2b in relation to environmental uncertainty). It is noteworthy that while the environmental uncertainty finding does not support the TCE view, it does support the agency perspective concerning uncertainty. Additional support for the agency theory view was also found with respect to the testing of proposition 1c in Model 1, which proposed that managers that are risk averse are more likely to outsource.

Model 2 TCE propositions that were supported related to proposition 2a (temporal specificity) and 2b (behavioural uncertainty). Proposition 2a concerned the view that outsourcing is higher when there is low asset specificity. It was found that for general maintenance, hotels would tend to outsource more when alternate suppliers could be arranged at short notice. Proposition 2b concerned the view that outsourcing is higher when it is easy to determine whether the subcontractor has performed according to contractual obligations; this was supported in relation to the housekeeping activity. Proposition 2c proposed that outsourcing would be higher when the activity involves a low amount of work; this was supported in relation to the laundry activity.

The chapter’s last section summarised findings concerned with respondents’ views on factors causing hotels to insource or outsource. The three main reasons for outsourcing were flexibility, savings and avoiding the need to raise investment funds. The main three reasons for insourcing were timing and coordination, reputation, and whether the
activity is core to the business. In general, the mean scores as to why hotels insource were higher than the scores as to why hotels may outsource, suggesting respondents feel stronger about why they insource.

Nine of the eleven TCE-related questions had means greater than the mid-point of the measurement scale used, suggesting respondents agreed with the TCE factors that explain outsourcing behaviour. Some of the TCE aspects that were insignificant in Models 1 and 2 (namely timing and coordination, and reputation) appeared important from this analysis as they had mean scores greater than the mid-point of the measurement scale.

This analysis was extended to include a test of the relative strength of the TCE view on activity unpredictability (lessen likelihood of outsourcing) and the agency theory perspective on activity unpredictability (increase the likelihood of outsourcing). Views expressed by respondents provided support for the view that the TCE perspective is the more powerful effect. It may be that this support for the TCE perspective may be a result of social desirability error. Posing questions in different ways in the questionnaire (i.e., through questions relating to Models 1 and 2, and through questions 11 and 12), has enabled a check to be made of the validity of the study’s findings.

This chapter has described data analysis relating to the general manager questionnaire. Chapter 11 will describe data analysis relating to the financial controller questionnaire. The final chapter provides a summary table that overviews all of the statistically significant findings noted in this chapter.
11.1 Introduction

This chapter describes the analysis of data collected by the financial controller (FC) questionnaire survey. The chapter's primary focus concerns the testing of the third model developed in Chapter 8. The dependent variables in this model concern the degree of outsourcing management system sophistication. This has been operationalised in terms of:

1. accounting involvement,
2. general management sophistication, and
3. accounting system sophistication.

11.2 Testing of Model 3

Model 3 concerns the relationship between nine independent variables and outsourcing management system sophistication. This section first describes how each variable is measured and then presents the results of regression analyses conducted.

11.2.1 Variable measures

11.2.1.1 Measurement of dependant variables

Degree of outsourcing management system sophistication was assessed by questions 9 - 13 (25 items) posed in the financial controller questionnaire. Question 9 concerns the extent of accounting’s involvement in the outsourcing decision making process. Question 10 concerns general management procedures relating to outsourcing. Questions 11-13 concern financial factors appraised when assessing whether to outsource. Each of these three dimensions of outsourcing management sophistication will be treated as dependant variables. Consistent with previous models, all items were transformed to normality if significant skewness was observed. The nature of the transformations undertaken was highlighted in Table 9.7a.
### 11.2.1.1.1 Degree of accounting involvement

Degree of accounting involvement was assessed by question 9’s six items. As one item (question 9b - formalisation of the process) was reflected before a square root transformation, the transformed score was reflected back in order that coding was directionally consistent with the other five items. Table 11 presents correlation coefficients for these six items and reveals very strong significant positive correlations ($p < .000$) between all items.

<table>
<thead>
<tr>
<th>Question 9: Extent accounting department is involved in:</th>
<th>Initiating</th>
<th>Formalising</th>
<th>Specs</th>
<th>Appraising</th>
<th>Monitoring</th>
<th>Reviewing Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Initiating decisions</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Formalising</td>
<td>.83</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Developing exact specifications</td>
<td>.74</td>
<td>.80</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Appraising</td>
<td>.66</td>
<td>.77</td>
<td>.85</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Monitoring</td>
<td>.64</td>
<td>.74</td>
<td>.80</td>
<td>.80</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>f) Periodically reviewing decision</td>
<td>.68</td>
<td>.78</td>
<td>.74</td>
<td>.73</td>
<td>.82</td>
<td>1</td>
</tr>
</tbody>
</table>

**Factor Analysis**

#### Principal Components Analysis

<table>
<thead>
<tr>
<th>Factor Loadings</th>
<th>Factor One</th>
<th>Eigenvalue</th>
<th>Percentage of Variation explained: 79.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.71</td>
<td>4.79</td>
<td></td>
</tr>
</tbody>
</table>

#### Principal Axis Factoring

<table>
<thead>
<tr>
<th>Factor Loadings</th>
<th>Factor One</th>
<th>Eigenvalue</th>
<th>Percentage of Variation explained: 75.9%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.65</td>
<td>4.55</td>
<td></td>
</tr>
</tbody>
</table>

All correlations are significant at the $p < 0.01$ level.

Table 11.1 also records the results of a Principal Components and Principal Axis Factor analysis. Both analyses reveal one factor with an eigenvalue greater than one, with 79.8% and 75.9% of variance explained, respectively. The six items have a Cronbach Alpha of 0.93. These results support the combination of these items to provide one measure of degree of accounting involvement in outsourcing decision making. As question 9b was transformed, it was no longer measured using the same scale as the other five questions. As a result, all six items were converted to standardised scores prior to combining them by taking an average.
### 11.2.1.1.2 Degree of general management sophistication

Degree of general management sophistication was measured by seven items (questions 10b-10h; question 10a measures an independent variable). Three questions had been reflected prior to square root transformation, and the transformed scores were reflected back to achieve consistent coding amongst all items. Table 11.2 presents the correlation matrix for these items and reveals significant positive correlations ($p < .01$) between all items.

<table>
<thead>
<tr>
<th>Question 10</th>
<th>b</th>
<th>c</th>
<th>d</th>
<th>e</th>
<th>f</th>
<th>g</th>
<th>h</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) documented procedures</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) formal body</td>
<td>.55</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) three or more bids</td>
<td>.25</td>
<td>.24</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) risk management plans</td>
<td>.46</td>
<td>.48</td>
<td>.54</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) formal financial evaluation</td>
<td>.38</td>
<td>.41</td>
<td>.59</td>
<td>.54</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) formal risk analysis</td>
<td>.49</td>
<td>.45</td>
<td>.51</td>
<td>.73</td>
<td>.71</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>h) formally monitor performance</td>
<td>.46</td>
<td>.39</td>
<td>.50</td>
<td>.60</td>
<td>.70</td>
<td>.65</td>
<td>1</td>
</tr>
</tbody>
</table>

#### Table 11.2*

**Pearson product moment correlation coefficients and Factor Loadings for Dependant Variable: Degree of General management sophistication**

<table>
<thead>
<tr>
<th>Question 10</th>
<th>b</th>
<th>c</th>
<th>d</th>
<th>e</th>
<th>f</th>
<th>g</th>
<th>h</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) documented procedures</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) formal body</td>
<td>.55</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) three or more bids</td>
<td>.25</td>
<td>.24</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) risk management plans</td>
<td>.46</td>
<td>.48</td>
<td>.54</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) formal financial evaluation</td>
<td>.38</td>
<td>.41</td>
<td>.59</td>
<td>.54</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) formal risk analysis</td>
<td>.49</td>
<td>.45</td>
<td>.51</td>
<td>.73</td>
<td>.71</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>h) formally monitor performance</td>
<td>.46</td>
<td>.39</td>
<td>.50</td>
<td>.60</td>
<td>.70</td>
<td>.65</td>
<td>1</td>
</tr>
</tbody>
</table>

#### Factor Analysis

**Principal Components Analysis**

<table>
<thead>
<tr>
<th>Factor One Loadings</th>
<th>.64</th>
<th>.63</th>
<th>.68</th>
<th>.82</th>
<th>.83</th>
<th>.87</th>
<th>.81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>4.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Variation explained</td>
<td>57.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Principal Axis Factoring**

<table>
<thead>
<tr>
<th>Factor One Loadings</th>
<th>.57</th>
<th>.55</th>
<th>.62</th>
<th>.79</th>
<th>.80</th>
<th>.87</th>
<th>.77</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>3.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Variation explained</td>
<td>51.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*n* 115 115 114 115 115 115 115 115

*All correlations are significant at the $p < 0.01$ level

Table 11.2 also presents the results of Principal Components and Principal Axis factor analysis. Both analyses revealed one factor with an eigenvalue greater than one. The seven items have a Cronbach Alpha of 0.79. As a result of these findings the items were combined to achieve one measure. Prior to taking an average of the items, they were standardised as differing scales had resulted from transformation procedures undertaken.
### 11.2.1.1.3 Accounting system sophistication in outsourcing management

Accounting system sophistication in outsourcing management was assessed by the eleven items comprising questions 11-13. The eight items were transformed to normality through reflection, and then reflected back to achieve consistent coding. The correlation matrix of these items presented in Table 11.3 reveals significant positive correlations between all items.

<table>
<thead>
<tr>
<th>Table 11.3</th>
<th>Pearson product moment correlation coefficients and Factor Loadings for Dependant Variable: Accounting system sophistication in outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>11) Outsourcing factors considered</td>
<td></td>
</tr>
<tr>
<td>a) Setup costs</td>
<td>1</td>
</tr>
<tr>
<td>b) Control costs</td>
<td>.61</td>
</tr>
<tr>
<td>c) Opportunistic costs</td>
<td>.49</td>
</tr>
<tr>
<td>d) Failure costs</td>
<td>.58</td>
</tr>
<tr>
<td>e) Disposal of inhouse assets</td>
<td>.50</td>
</tr>
<tr>
<td>f) Annual admin savings</td>
<td>.49</td>
</tr>
<tr>
<td>g) Staff turnover savings</td>
<td>.46</td>
</tr>
<tr>
<td>h) Culture</td>
<td>.44</td>
</tr>
<tr>
<td>12) Discount methods</td>
<td>.25</td>
</tr>
<tr>
<td>13) Appraising risk</td>
<td></td>
</tr>
<tr>
<td>a) Sensitivity analysis</td>
<td>.37</td>
</tr>
<tr>
<td>b) Raising threshold</td>
<td>.23†</td>
</tr>
</tbody>
</table>

**Factor Analysis**

**Principal Components Analysis**

<table>
<thead>
<tr>
<th>Factor One Loadings</th>
<th>.71</th>
<th>.67</th>
<th>.73</th>
<th>.80</th>
<th>.72</th>
<th>.79</th>
<th>.81</th>
<th>.69</th>
<th>.52</th>
<th>.70</th>
<th>.56</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>5.45</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Variation explained:</td>
<td>49.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor Two Loadings</th>
<th>-.24</th>
<th>-.21</th>
<th>-.26</th>
<th>-.09</th>
<th>-.29</th>
<th>-.10</th>
<th>-.10</th>
<th>-.19</th>
<th>.60</th>
<th>.57</th>
<th>.64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>1.41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Variation explained:</td>
<td>12.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Principal Axis Factoring**

<table>
<thead>
<tr>
<th>Factor One Loadings</th>
<th>.67</th>
<th>.62</th>
<th>.69</th>
<th>.78</th>
<th>.68</th>
<th>.76</th>
<th>.78</th>
<th>.65</th>
<th>.49</th>
<th>.71</th>
<th>.54</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>5.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Variation explained:</td>
<td>45.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor Two Loadings</th>
<th>-.19</th>
<th>-.15</th>
<th>-.23</th>
<th>-.10</th>
<th>-.25</th>
<th>-.11</th>
<th>-.12</th>
<th>-.15</th>
<th>.40</th>
<th>.61</th>
<th>.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eigenvalue</td>
<td>1.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Variation explained:</td>
<td>9.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[ n \]

All correlations are significant at \( p < 0.01 \) level (two tailed test) except where ** is indicated.

** \( p < 0.05 \) (two tailed test)

Table 11.3 also provides the results of principal components and principal axis factor analyses of these items. Both analyses reveal one factor with an eigenvalue greater than
four and a second factor with an eigenvalue greater than one. In both analyses, complexity resulted for the final three items (questions 12, 13a and 13b) and so varimax analysis was conducted. The solution did not improve with varimax rotation, but suggested in all but one instance that question 12, 13a and 13b loaded onto the second factor. It was therefore decided to treat these three items as a separate dependent variable. Although there is complexity between factors one and two, given that the variable “degree of accounting system sophistication” is being used as a dependent variable, complexity of items is not a major concern as both factors will be used separately as dependent variables.

T&F (1996) note that demonstrating causality is a logical and experimental issue, not a statistical one, and that the choice of factors must be a logical, as well as statistical, process. Consideration of question eleven reveals that all but one item (question 11h) relates to costing issues. Question 11h relates to the degree to which the subcontractor’s organisational culture is compatible with the hotel’s culture. Given the distinctly different focus of question 11h, it was decided that it should be abandoned from factor one. In the subsequent analysis, factor one therefore comprises questions 11a to 11g. Questions 12 and 13 which loaded on factor two relate to a long term perspective (i.e., discounting and risk assessment) and can be seen to be distinctly different from the costing focus of factor one. In light of this, and given the factor analysis findings, questions 12 and 13 will be combined and used as a separate dependent variable. Prior to using a simple average to combine items 11a to 11g, they were standardised.

11.2.1.2 Measurement of independent variables

Model 3 involves nine independent variables. Three of these are multiple item variables: competition intensity, degree of outsourcing and performance. These three multi-item variables were also measured in the GM survey. In addition, four single item measures were included in the GM questionnaire (i.e., strategy, size, hotel quality, and owner/operator structure). Two variables unique to the FC survey are “professional qualification” and whether outsourcing is part of a long term strategic agenda. As with

---

65 In PCA, four complex items resulted, one of which was in common with the initial solution; in PAF three different complex items resulted.

66 Items that correlate highly with more than one factor are said to be “complex”. This can lead to misleading results if the correlation with each factor is > 0.30 (T&F, 1996).
steps followed in the GM analysis, factor analysis will be conducted on the multi-item variables.

11.2.1.2.1 Competition intensity

Correlation coefficients reported in Table 11.4 for the four competition intensity items are all statistically significantly ($p < .01$), supporting the use of factor analysis. Unlike competition intensity in the GM questionnaire which resulted in two factors, competition intensity in the FC questionnaire results in one factor with an eigenvalue greater than one (lower panel in Table 11.4). Cronbach Alpha indicated reliability in the single measure with a result of 0.80. As with earlier variables, reflected variables were recoded and standardised scores used to create a simple average.\footnote{In hindsight it was realised that re-reflecting the items was unnecessary because all items had been reflected, and therefore coding was consistent. Nonetheless, no difference will arise in the statistical results other than the interpretation of the sign.}

<table>
<thead>
<tr>
<th>Question 19: Competition Intensity</th>
<th>19a</th>
<th>19b</th>
<th>19c</th>
<th>19d</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Price</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Promotion</td>
<td>.56</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Service quality</td>
<td>.33</td>
<td>.52</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>d) Service variety</td>
<td>.27</td>
<td>.57</td>
<td>.70</td>
<td>1</td>
</tr>
</tbody>
</table>

**Factor Analysis**

<table>
<thead>
<tr>
<th>Principal Components Analysis</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor One Loadings</td>
<td>.42</td>
<td>.71</td>
<td>.68</td>
<td>.68</td>
</tr>
<tr>
<td>Eigenvalues</td>
<td>2.49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of variation explained:</td>
<td>62.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principal Axis Factoring</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor One Loadings</td>
<td>.50</td>
<td>.78</td>
<td>.76</td>
<td>.77</td>
</tr>
<tr>
<td>Eigenvalue</td>
<td>2.04</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of variation explained:</td>
<td>50.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All correlations are significant ($p < 0.01$; two tailed test)

11.2.1.2.2 Degree of outsourcing

Consistent with the GM questionnaire, degree of outsourcing was assessed in two ways: by an outsourcing index comprising seven hotel activities (question 1), and a second question which asked whether the hotel outsources more or less relative to other hotels (question 2). The same procedures as those described in Chapter 10 were followed in
calculating the composite outsourcing index. The results of the transformation procedure undertaken to achieve normality are presented in Table 11.5.

<table>
<thead>
<tr>
<th>Table 11.5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transformation to Normality</strong></td>
</tr>
<tr>
<td><strong>General outsourcing composite index</strong></td>
</tr>
<tr>
<td><strong>Raw Data</strong></td>
</tr>
<tr>
<td>Kurtosis 1.05</td>
</tr>
<tr>
<td>SEK .44</td>
</tr>
<tr>
<td>Z score 2.39</td>
</tr>
</tbody>
</table>

Significant kurtosis / skewness (2.58 is critical z value for 1% two tailed test)

Like the analysis for the GM questionnaire, a one tailed bivariate correlation was conducted between the two outsourcing measures to test for the degree of reliability between the two items (Table 11.6). A statistically significant positive correlation of 0.50 ($p < .000$) resulted.

<table>
<thead>
<tr>
<th>Table 11.6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Appraisal of variable reliability</strong></td>
</tr>
<tr>
<td><strong>Outsourcing composite index correlated with question 2</strong></td>
</tr>
<tr>
<td>(outsourcing in general relative to other hotels)</td>
</tr>
<tr>
<td><strong>n</strong></td>
</tr>
<tr>
<td>114</td>
</tr>
</tbody>
</table>

**11.2.1.2.3 Performance**

Table 11.7 presents the results of a correlation and factor analysis of the six performance items. Consistent with the GM survey findings, it is evident that the items are statistically significantly correlated and that they load on one factor. Cronbach alpha is lower than the results achieved in the GM survey, but is still acceptable at 0.72. Only one item (question 7d) had been reflected to normalisation. It was therefore re-reflected to achieve consistent coding. Once again, standardised scores were used before combining the six items into one measure using a simple average.
### Table 11.7
Matrix of Pearson product moment correlation coefficients and Factor Loadings for Performance

<table>
<thead>
<tr>
<th>Question 20) Performance with respect to:</th>
<th>20a</th>
<th>20b</th>
<th>20c</th>
<th>20d</th>
<th>20e</th>
<th>20f</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Market Share</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) RevPar</td>
<td>.62</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Product Development</td>
<td>.28</td>
<td>.35</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Customer Satisfaction</td>
<td>.18*</td>
<td>.33</td>
<td>.32</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Cost Reduction</td>
<td>.30</td>
<td>.35</td>
<td>.48</td>
<td>.28</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>f) Staff training</td>
<td>.33</td>
<td>.41</td>
<td>.27</td>
<td>.34</td>
<td>.53</td>
<td>1</td>
</tr>
</tbody>
</table>

#### Factor Analysis

<table>
<thead>
<tr>
<th>Principal Components Analysis</th>
<th>Factor Loadings</th>
<th>Eigenvalue</th>
<th>Percentage of variation explained</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.64</td>
<td>2.69</td>
<td>44.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principal Axis Factoring</th>
<th>Factor Loadings</th>
<th>Eigenvalue</th>
<th>Percentage of variation explained</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.36</td>
<td>2.08</td>
<td>34.4%</td>
</tr>
</tbody>
</table>

\( n = 119 \) 117 117 116 117 118

\( p < 0.01 \) for all correlations (two tailed test) except where correlation coefficient marked *

\( * p < 0.10 \) (two tailed)

#### 11.2.1.2.4 Dichotomous independent variables

“Professional qualification” and “owner/operator structure” are dichotomous variables and were therefore transformed to dummy variable form. 53 respondents indicated they had an accounting qualification, 5 indicated they did not, and 61 did not answer the question. In light of the way the question was posed, those that did not respond were classified as not having a professional qualification.⁶⁸

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⁶⁸ As noted in chapter 8, as it was felt non-qualified accountants might feel offended to be asked if they were a qualified accountant, this question was asked in a way that was less likely to offend, i.e., by asking respondents to record the name of their accounting body if they had a professional designation. 51% of respondents did not respond to this question (61/119). Failure to provide an answer to this question was interpreted as signifying that the respondent was not a qualified accountant. It should be noted that if a respondent was a qualified accountant and they failed to provide an answer to the question, they had inappropriately responded (data analysis for this question, like all other questions, is based on the assumption that respondents have appropriately responded). It is believed the rationale used in interpreting the failure to answer this question is further justified by the fact that non-responses to this question are significantly more than non-responses to other questions (as noted in chapter 9, missing data for the FC questionnaire was insignificant). Thus, it seems reasonable to conclude that respondents did not respond to this question because they were not qualified, rather than them simply electing not to provide an answer.
11.2.1.2.5 Size and hotel quality level

As noted in the discussion relating to Model 2, size was measured using “number of rooms” and “annual sales dollars”, and hotel quality level was measured using the RACQ star rating.

11.2.1.2.6 Descriptive statistics of the DVs and IVs

Descriptive statistics pertaining to the DV and IV measures to be used in the testing of Model 3 are presented in Tables 11.8 and 11.9. As noted in the previous chapter, means and standard errors for those items that were significantly skewed (and subsequently transformed to achieve normality) should be interpreted with caution.

<table>
<thead>
<tr>
<th>Table 11.8</th>
<th>Descriptive Statistics for Model 3’s dependant variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
<td>Mean</td>
</tr>
<tr>
<td><strong>DV1: Degree of Accounting involvement</strong></td>
<td></td>
</tr>
<tr>
<td>9a) Initiating outsourcing decisions</td>
<td>4.55</td>
</tr>
<tr>
<td>9b) Formalising outsourcing process</td>
<td>4.91</td>
</tr>
<tr>
<td>9c) Developing exact specifications</td>
<td>4.06</td>
</tr>
<tr>
<td>9d) Appraising subcontractors</td>
<td>4.21</td>
</tr>
<tr>
<td>9e) Monitoring performance</td>
<td>3.73</td>
</tr>
<tr>
<td>9f) Periodically reviewing decision</td>
<td>4.51</td>
</tr>
<tr>
<td><strong>DV2: Degree of General Management Sophistication</strong></td>
<td></td>
</tr>
<tr>
<td>10b) Documented procedures</td>
<td>2.98</td>
</tr>
<tr>
<td>10c) Formal body to screen &amp; review</td>
<td>2.58</td>
</tr>
<tr>
<td>10d) Require three bids</td>
<td>5.22</td>
</tr>
<tr>
<td>10e) Require risk management plans</td>
<td>3.82</td>
</tr>
<tr>
<td>10f) Require formal financial evaluation</td>
<td>5.04</td>
</tr>
<tr>
<td>10g) Require formal risk analysis</td>
<td>4.17</td>
</tr>
<tr>
<td>10h) Formally monitor operations</td>
<td>4.70</td>
</tr>
<tr>
<td><strong>DV3: Degree of Accounting system sophistication - consideration of:</strong></td>
<td></td>
</tr>
<tr>
<td>11a) Set up costs</td>
<td>4.74</td>
</tr>
<tr>
<td>11b) Control costs</td>
<td>4.97</td>
</tr>
<tr>
<td>11c) Opportunistic costs</td>
<td>5.17</td>
</tr>
<tr>
<td>11d) Failure costs</td>
<td>4.70</td>
</tr>
<tr>
<td>11e) Disposal of inhouse assets</td>
<td>4.93</td>
</tr>
<tr>
<td>11f) Annual Admin savings</td>
<td>5.41</td>
</tr>
<tr>
<td>11g) Future staff turnover savings</td>
<td>5.19</td>
</tr>
<tr>
<td>11h) Organisational culture</td>
<td>4.90</td>
</tr>
<tr>
<td><strong>DV4: Degree of long term investment sophistication.</strong></td>
<td></td>
</tr>
<tr>
<td>12) Discounting methods used</td>
<td>3.60</td>
</tr>
<tr>
<td>13) Appraising risk</td>
<td></td>
</tr>
<tr>
<td>13a) Sensitivity analysis</td>
<td>3.9</td>
</tr>
<tr>
<td>13b) Raising threshold</td>
<td>3.86</td>
</tr>
</tbody>
</table>
### Table 11.9
Descriptive Statistics for Model 3’s independent and control variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Theoretical Range</th>
<th>Actual range</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposition 3a (Q8) Strategy</td>
<td>4.60</td>
<td>1.38</td>
<td>1-7</td>
<td>1-7</td>
<td>113</td>
</tr>
<tr>
<td>Proposition 3b (Q6) Competition intensity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>5.68</td>
<td>1.31</td>
<td>1-7</td>
<td>1-7</td>
<td>118</td>
</tr>
<tr>
<td>Promotion</td>
<td>5.15</td>
<td>1.13</td>
<td>1-7</td>
<td>1-7</td>
<td>119</td>
</tr>
<tr>
<td>Service quality</td>
<td>5.47</td>
<td>1.10</td>
<td>1-7</td>
<td>1-7</td>
<td>117</td>
</tr>
<tr>
<td>Service variety</td>
<td>5.02</td>
<td>1.15</td>
<td>1-7</td>
<td>1-7</td>
<td>117</td>
</tr>
<tr>
<td>Proposition 3c Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3a) Rooms</td>
<td>236</td>
<td>108</td>
<td>100+</td>
<td>100-603</td>
<td>119</td>
</tr>
<tr>
<td>3b) Sales $ (million)</td>
<td>14.82</td>
<td>11.9</td>
<td>n/a</td>
<td>1-57.5</td>
<td>110</td>
</tr>
<tr>
<td>Proposition 3d Degree of Outsourcing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Outsourcing in general</td>
<td>3.02</td>
<td>1.12</td>
<td>1-7</td>
<td>1-7</td>
<td>114</td>
</tr>
<tr>
<td>1) Outsourcing index</td>
<td>165.59</td>
<td>112.87</td>
<td>0-700</td>
<td>0-610</td>
<td>119</td>
</tr>
<tr>
<td>Proposition 3e Quality</td>
<td>4.41</td>
<td>.56</td>
<td>5-6</td>
<td>5-5</td>
<td>119</td>
</tr>
<tr>
<td>Proposition 3f 14) Professional Qualification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes:</td>
<td>53</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No:</td>
<td>66</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CV1 4) Owner/Operator Structure</td>
<td>Yes:</td>
<td>68</td>
<td>No:</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>CV2 7) Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td>4.90</td>
<td>1.30</td>
<td>1-7</td>
<td>1-7</td>
<td>119</td>
</tr>
<tr>
<td>Revpar</td>
<td>4.83</td>
<td>1.15</td>
<td>1-7</td>
<td>1-7</td>
<td>117</td>
</tr>
<tr>
<td>New Service/Product Development</td>
<td>4.50</td>
<td>1.28</td>
<td>1-7</td>
<td>1-7</td>
<td>117</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>5.41</td>
<td>.80</td>
<td>1-7</td>
<td>4-7</td>
<td>116</td>
</tr>
<tr>
<td>Cost reduction programs</td>
<td>5.04</td>
<td>1.19</td>
<td>1-7</td>
<td>1-7</td>
<td>117</td>
</tr>
<tr>
<td>Staff training</td>
<td>4.76</td>
<td>1.25</td>
<td>1-7</td>
<td>1-7</td>
<td>118</td>
</tr>
<tr>
<td>CV3 10a) Outsourcing part of long term strategic agenda</td>
<td>4.21</td>
<td>1.69</td>
<td>1-7</td>
<td>1-7</td>
<td>115</td>
</tr>
</tbody>
</table>

11.2.2 Correlation between IVs and the four DVs: Model 3

The results of a correlation analysis of the relationship between the independent variables and the four dependant variables are presented in Table 11.10. Consistent with earlier analyses described, outliers, linearity and homoscedasticity were assessed by examining residuals. Except for the “performance” variable, no outliers were identified. Further analysis of the performance measure revealed it was significantly skewed. It was therefore transformed to normality (Table 11.11 presents the skewness data and results of the transformation). Table 11.12 presents the results of the revised correlation analysis using the transformed “performance” variable. Mild heteroscedasticity and
nonlinearity was evident for a few of the variable interactions. In Table 11.10, interactions with mild heteroscedasticity are highlighted in bold, and those with mild nonlinearity are presented in italics. The shortcomings of nonlinearity and heteroscedasticity should be borne in mind when interpreting these results. As an additional point of interest, correlations are also shown between the four dependant variables. It can be seen that the four DVs are highly intercorrelated. As with earlier correlations, variables that have been reflected before being transformed to normalisation must be interpreted in the opposite way to the sign shown in Table 11.10.

### Table 11.10

**Pearson product moment correlation coefficients between dependant and independent variables: Model 3**

<table>
<thead>
<tr>
<th>Dependant Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Outsourcing management system sophistication</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) General management sophistication</td>
<td>.653***</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Accounting system sophistication in outsourcing management</td>
<td>.473***</td>
<td>.569***</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4) Long term investment sophistication</td>
<td>.435***</td>
<td>.602***</td>
<td>.472***</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependant Variables</th>
<th>Proposition 3a) Strategy</th>
<th>Proposition 3b) Competition Intensity</th>
<th>Proposition 3c) Size</th>
<th>Proposition 3d) Degree of outsourcing</th>
<th>Proposition 3e) Hotel Quality level</th>
<th>Proposition 3f) Professional Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>-.248***</td>
<td>-.287***</td>
<td>-.181**</td>
<td>-.356***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>.083</td>
<td>.010</td>
<td>.065</td>
<td>.120a</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proposition 3c) Size</td>
<td>1) Rooms (Q3a)</td>
<td>.203**</td>
<td>.222***</td>
<td>.118*</td>
<td>.175**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ii) Sales Revenue (Q3b)</td>
<td>.319***</td>
<td>.349***</td>
<td>.124a</td>
<td>.290***</td>
</tr>
<tr>
<td></td>
<td>Proposition 3d) Degree of outsourcing</td>
<td>1) Outsourcing in general (Q2)</td>
<td>.151*</td>
<td>.161**</td>
<td>.093</td>
<td>.026</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ii) Outsourcing index (Q1)</td>
<td>.022</td>
<td>-.004</td>
<td>.101</td>
<td>-.033</td>
</tr>
<tr>
<td></td>
<td>Proposition 3e) Hotel Quality level</td>
<td>-.268***</td>
<td>-.317***</td>
<td>-.193**</td>
<td>-.294***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Proposition 3f) Professional Qualification</td>
<td>.303***</td>
<td>.189**</td>
<td>.012</td>
<td>.143*</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control Variables</th>
<th>Dependant Variables</th>
<th>1) Owner/operator structure</th>
<th>ii) Performance</th>
<th>iii) Outsourcing part of long term strategic agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>.034</td>
<td>.411+++</td>
<td>-.569+++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.070</td>
<td>.334+++</td>
<td>-.343+++</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.013</td>
<td>.480+++</td>
<td>-.339+++</td>
</tr>
</tbody>
</table>

| n                    | 117                | 114                          | 115            | 113                                              |

* ***p < 0.01; ** p < 0.05; * p < 0.10 (one tailed test); ††† p < 0.01; † p < 0.10 (two tailed test)  
* These variables are close to the 10% significance threshold (one tailed test).

### Table 11.11

**Transformation to Normality**

<table>
<thead>
<tr>
<th>Performance Variable</th>
<th>Raw Data</th>
<th>Subsequent to reflection and square root transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurtosis</td>
<td>1.479</td>
<td></td>
</tr>
<tr>
<td>SEK</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>n</td>
<td>119</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Raw Data</th>
<th>Skewness</th>
<th>SES</th>
<th>Z Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEK</td>
<td>-.746</td>
<td>.222</td>
<td>3.36a</td>
</tr>
<tr>
<td>Z Score</td>
<td>.222</td>
<td>.900</td>
<td></td>
</tr>
</tbody>
</table>

*Significant skewness (2.58 is critical z value - two tailed test at 1% significance level)
Table 11.12
Pearson product moment correlation coefficients between transformed IV “Performance” and dependant variables: Model 3

<table>
<thead>
<tr>
<th>Performance</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-.335*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>-.400*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>-.323*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>-.470*</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.01 (two tailed test)

11.2.3 Multiple regression results: Dependant variables One and Two

It is evident from Tables 11.10 and 11.12 that the same IVs are significantly related to the first two DVs. Consistent with earlier analyses, only independent variables that are significantly correlated with the dependant variables will be used in the multiple regression. Multicollinearity is not a concern as no inter-correlations exceeding 70% were found between any two independent variables. As noted earlier, “size” was measured in two ways (number of rooms and annual sales dollars). As a more significant result was achieved with the “annual sales dollars” measure, this was used as the measure of size in the regression analysis.69

11.2.3.1 Multiple regression results - Dependant variable One: Degree of accounting involvement

Table 11.13a presents the results of a multiple regression analysis based on the following equation:

\[ Y = b_1 + b_2\text{STRATEGY} + b_3\text{SIZE} + b_4\text{DOO} + b_5\text{QUALITY} + b_6\text{PROF} + b_7\text{PERF} + b_8\text{LTSA} \]

where:

\[ Y \] = Degree of general management sophistication  
\[ \text{STRATEGY} \] = Strategic Orientation  
\[ \text{SIZE} \] = Hotel Size (Annual Sales Dollars)  
\[ \text{DOO} \] = Degree of outsourcing  
\[ \text{QUALITY} \] = Hotel Quality (Star Rating)  
\[ \text{PROF} \] = Professional Qualification  
\[ \text{PERF} \] = Performance  
\[ \text{LTSA} \] = Outsourcing part of long term strategic agenda

where:

\[ Y \] = Degree of general management sophistication  
\[ \text{STRATEGY} \] = Strategic Orientation  
\[ \text{SIZE} \] = Hotel Size (Annual Sales Dollars)  
\[ \text{DOO} \] = Degree of outsourcing  
\[ \text{QUALITY} \] = Hotel Quality (Star Rating)  
\[ \text{PROF} \] = Professional Qualification  
\[ \text{PERF} \] = Performance  
\[ \text{LTSA} \] = Outsourcing part of long term strategic agenda

69 Nonetheless, multiple regression was also conducted where number of rooms was used instead of sales dollars, to see if the solution improved. No improvement was observed.
Adjusted $R^2$ reveals that .36 of the dependent variable is explained by the independent variables. Analysis of residuals to assess for outliers, linearity and heteroscedasticity revealed no problems. The implications of these regression findings for proposition testing are summarised in Table 11.13b.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>-.056</td>
<td>.225</td>
<td>-.613</td>
<td>.542</td>
</tr>
<tr>
<td>Size</td>
<td>-.048</td>
<td>.280</td>
<td>-.441</td>
<td>.661</td>
</tr>
<tr>
<td>DOO</td>
<td>-.012</td>
<td>.067</td>
<td>-.142</td>
<td>.887</td>
</tr>
<tr>
<td>Hotel Quality</td>
<td>-.106</td>
<td>.611</td>
<td>-.999</td>
<td>.321</td>
</tr>
<tr>
<td>Prof</td>
<td>.250</td>
<td>.147</td>
<td>2.949</td>
<td>.004***</td>
</tr>
<tr>
<td>Perf</td>
<td>-.227</td>
<td>.342</td>
<td>-2.431</td>
<td>.017††</td>
</tr>
<tr>
<td>LTSA</td>
<td>-.424</td>
<td>.185</td>
<td>-4.721</td>
<td>.000†††</td>
</tr>
<tr>
<td>Const</td>
<td>3.249</td>
<td>.865</td>
<td>3.76</td>
<td>.003</td>
</tr>
</tbody>
</table>

Adjusted $R^2$ reveals that .36 of the dependent variable is explained by the independent variables. Analysis of residuals to assess for outliers, linearity and heteroscedasticity revealed no problems. The implications of these regression findings for proposition testing are summarised in Table 11.13b.

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 3f: Hotels with a professionally qualified accountant as Financial Controller will have a more sophisticated outsourcing management system than those hotels that have a Financial Controller who is not professionally qualified.</td>
<td>The regression analysis reveals a relationship that supports this proposition ($p &lt; .01$). With respect to accounting involvement, this is the only proposition receiving support.</td>
</tr>
<tr>
<td>Control Variable: Performance</td>
<td>The analysis reveals a significant positive relationship between performance and degree of accounting involvement, i.e., high performing hotels tend to have a greater degree of accounting involvement in outsourcing decisions. Although the sign is negative, it is interpreted as positive because the measure had been reflected.</td>
</tr>
<tr>
<td>Control Variable: Outsourcing Decisions made in the context of a long term strategic agenda.</td>
<td>The analysis reveals a significant positive relationship between this control variable and degree of accounting involvement, i.e., hotels that make outsourcing decisions in the context of a long term strategic agenda tend to have greater accounting involvement in the outsourcing process. Although the sign is negative, it is interpreted as positive because the item was reflected to achieve normality.</td>
</tr>
</tbody>
</table>

70 If the guidelines suggested by T&F (1996) are followed (i.e., only include IVs with Betas greater than .20 and alphas of .05), an adjusted $R^2$ of .34 is achieved. This results from dropping “degree of outsourcing” (the only IV that had a significant correlation less than .20). A better solution can be achieved by including degree of outsourcing, however, even though this variable does not come out as significant in the regression analysis reported above.
11.2.3.2 Multiple regression results - Dependant variable Two: Degree of general management sophistication

Table 11.14a presents the results of multiple regression analysis based on the following equation:

\[ Y = b_1 + b_2 \text{STRATEGY} + b_3 \text{SIZE} + b_4 \text{DOO} + b_5 \text{QUALITY} + b_6 \text{PROF} + b_7 \text{PERF} + b_8 \text{LTSA} \]

where:

\[ Y \] = Degree of general management sophistication

\[ \text{STRATEGY} \] = Strategic Orientation (Proposition 3a)

\[ \text{SIZE} \] = Hotel Size (Annual Sales Dollars) (Proposition 3c)

\[ \text{DOO} \] = Degree of outsourcing (Proposition 3d)

\[ \text{QUALITY} \] = Hotel Quality (Star Rating) (Proposition 3e)

\[ \text{PROF} \] = Professional Qualification (Proposition 3f)

\[ \text{PERF} \] = Performance (Control Variable 1)

\[ \text{LTSA} \] = Outsourcing part of Long term strategic agenda (Control Variable 2)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>-.084</td>
<td>.180</td>
<td>-.982</td>
<td>.329</td>
</tr>
<tr>
<td>Size</td>
<td>-.016</td>
<td>.225</td>
<td>-.154</td>
<td>.878</td>
</tr>
<tr>
<td>DOO</td>
<td>-.011</td>
<td>.054</td>
<td>-.135</td>
<td>.893</td>
</tr>
<tr>
<td>Hotel Quality</td>
<td>-.131</td>
<td>.490</td>
<td>-1.314</td>
<td>.096*</td>
</tr>
<tr>
<td>Prof</td>
<td>.094</td>
<td>.118</td>
<td>1.170</td>
<td>.245</td>
</tr>
<tr>
<td>Perf</td>
<td>-.248</td>
<td>.274</td>
<td>-2.816</td>
<td>.006†††</td>
</tr>
<tr>
<td>LTSA</td>
<td>-.495</td>
<td>.148</td>
<td>-5.861</td>
<td>.000†††</td>
</tr>
<tr>
<td>Constant</td>
<td>3.25</td>
<td>.693</td>
<td>4.694</td>
<td>.000</td>
</tr>
</tbody>
</table>

\[ R^2 = .48 \]
\[ \text{Adjusted } R^2 = .44 \]
\[ F \text{ value} = 11.41, p = .000 \]
\[ \text{DF - Model} = 7 \]
\[ \text{DF - Error} = 87 \]

***: \( p < 0.01 \); **: \( p < 0.05 \); * \( p < 0.10 \) (one tailed test); †††: \( p < 0.01 \), ††: \( p < 0.05 \), †: \( p < 0.10 \) (two tailed test)

Adjusted \( R^2 \) reveals that .44 of the dependant variable “degree of general management sophistication” is explained by the independent variables. Analysis of residuals to assess for outliers, linearity and heteroscedasticity revealed no problems. The implications of these regression findings in terms of proposition testing are summarised in Table 11.14b.

71 If only the IVs with Betas greater than .20 and alphas of .05 are included, an adjusted \( R^2 \) of .41 results. This involves dropping “degree of outsourcing” and “professional qualifications. A higher adjusted \( R^2 \) results from the continued inclusion of these variables.
11.2.4 Multiple regression results: Dependant variables Three and Four

It is evident from Tables 11.10 and 11.12 that the same IVs are significantly related to the third and fourth DVs. Consistent with steps taken earlier, only independent variables that are significantly correlated with the dependant variables will be used in the multiple regression analyses. Multicollinearity is not a concern as an analysis revealed no correlations greater than 70% between any two independent variables.

11.2.4.1 Results of multiple regression - Dependant variable Three: Degree of accounting system sophistication

Table 11.15a presents the results of multiple regression analysis based on the following equation:

\[ Y = b_1 + b_2\text{STRATEGY} + b_3\text{SIZE} + b_4\text{QUALITY} + b_5\text{PERF} + b_6\text{LTSA} \]

where:

\[ Y = \text{Degree of accounting system sophistication} \]

\[ \text{STRATEGY} = \text{Strategic Orientation} \quad \text{(Proposition 3a)} \]

\[ \text{SIZE} = \text{Hotel Size (Annual Sales Dollars)} \quad \text{(Proposition 3c)} \]

\[ \text{QUALITY} = \text{Hotel Quality (Star Rating)} \quad \text{(Proposition 3e)} \]

\[ \text{PERF} = \text{Performance} \quad \text{(Control Variable 1)} \]

\[ \text{LTSA} = \text{Outsourcing part of Long term strategic agenda} \quad \text{(Control Variable 2)} \]
Table 11.15a
Results of Multiple Regression Analysis - Model 3
Dependant Variable: Degree of accounting system sophistication

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>-.101</td>
<td>.219</td>
<td>-987</td>
<td>.3261</td>
</tr>
<tr>
<td>Size</td>
<td>-.130</td>
<td>.257</td>
<td>-1.102</td>
<td>.2731</td>
</tr>
<tr>
<td>Hotel Quality</td>
<td>-.150</td>
<td>.597</td>
<td>-1.3</td>
<td>.098*</td>
</tr>
<tr>
<td>Perf</td>
<td>-.245</td>
<td>.334</td>
<td>-2.391</td>
<td>.019††</td>
</tr>
<tr>
<td>LTSA</td>
<td>-.243</td>
<td>.179</td>
<td>-2.459</td>
<td>.016††</td>
</tr>
<tr>
<td>Constant</td>
<td>2.87</td>
<td>.724</td>
<td>3.964</td>
<td>.000</td>
</tr>
</tbody>
</table>

R² = .19
Adjusted R² = .15
F value = .000
DF - Model = 2
DF - Error = 111

* p < 0.10 (one tailed test); †† p < 0.05 (two tailed test)

Adjusted R² reveals that .15 of the dependant variable “degree of accounting system sophistication” is explained by the independent variables. Analysis of residuals to assess for outliers, linearity and heteroscedasticity revealed no problems. The implications of these regression findings for proposition testing are summarised in Table 11.15b.

Table 11.15b
Summary of significant findings for Model 3 - Degree of accounting system sophistication

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 3e: Higher quality hotels will have more sophisticated outsourcing accounting systems.</td>
<td>This is the only proposition receiving support in the analysis. Although the sign is negative, it is interpreted as positive because the item was reflected to achieve normality.</td>
</tr>
<tr>
<td>Control Variables: Performance and “outsourcing decisions made in the context of a long term strategic agenda”.</td>
<td>Consistent with the earlier regression analyses, there is a significant positive relationship between these two control variables and degree of accounting system sophistication.</td>
</tr>
</tbody>
</table>

11.2.4.2 Results of multiple regression - Dependant variable Four: Degree of long term investment sophistication

Table 11.16a presents the results of a multiple regression analysis based on the following equation:

\[ Y = b_1 + b_2\text{STRATEGY} + b_3\text{SIZE} + b_4\text{QUALITY} + b_5\text{PERF} + b_6\text{LTSA} \]

If only IVs with Betas greater than .20 and alphas of .05 are included, an adjusted R² of .17 results. This, however, involves dropping all proposition variables. In light of this, all variables exhibiting a statistically significant correlation with the dependant variable were retained in the regression model.
where:

\[ Y = \text{Degree of long term investment sophistication} \]
\[ \text{STRATEGY} = \text{Strategic Orientation} \quad \text{(Proposition 3a)} \]
\[ \text{SIZE} = \text{Hotel Size (Annual Sales Dollars)} \quad \text{(Proposition 3c)} \]
\[ \text{QUALITY} = \text{Hotel Quality (Star Rating)} \quad \text{(Proposition 3e)} \]
\[ \text{PERF} = \text{Performance} \quad \text{(Control Variable 1)} \]
\[ \text{LTSA} = \text{Outsourcing part of Long term strategic agenda} \quad \text{(Control Variable 2)} \]

<table>
<thead>
<tr>
<th>Table 11.16a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results of Multiple Regression Analysis - Model 3</td>
</tr>
<tr>
<td>Dependant Variable: Degree of long term investment sophistication</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-Value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>-.143</td>
<td>.379</td>
<td>-1.548</td>
<td>.063*</td>
</tr>
<tr>
<td>Size</td>
<td>-.043</td>
<td>.460</td>
<td>-1.043</td>
<td>.692</td>
</tr>
<tr>
<td>Hotel Quality</td>
<td>-.221</td>
<td>1.057</td>
<td>-3.14</td>
<td>.002**</td>
</tr>
<tr>
<td>Perf</td>
<td>-.352</td>
<td>.603</td>
<td>-6.86</td>
<td>.000†††</td>
</tr>
<tr>
<td>LTSA</td>
<td>-.192</td>
<td>.324</td>
<td>-1.37</td>
<td>.038††</td>
</tr>
<tr>
<td>Constant</td>
<td>10.176</td>
<td>1.26</td>
<td>8.077</td>
<td>.000</td>
</tr>
</tbody>
</table>

R² = .35
Adjusted R² = .32
F value = 10.202; p = .000
DF - Model = 5
DF - Error = 94

* p < 0.10 (one tailed test); ** p < 0.05 (one tailed test); †† p < 0.05 (two tailed test); ††† p < 0.01 (two tailed test)

Adjusted R² reveals that .32 of the dependant variable “degree of long term investment sophistication” is explained by the independent variables. Analysis of residuals to assess for outliers, linearity and heteroscedasticity revealed no problems. The implications of these regression findings for proposition testing are summarised in Table 11.16b.

<table>
<thead>
<tr>
<th>Table 11.16b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of significant findings for Model 3 - Degree of long term investment sophistication</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Regression finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposition 3e: Higher quality hotels will have more sophisticated long term approaches to outsourcing decisions.</td>
<td>This proposition receives support from the analysis. Although the sign is negative, it is interpreted as positive because the item was reflected to achieve normality.</td>
</tr>
<tr>
<td>Proposition 3a: Hotels with prospector type strategies will have more sophisticated long term approaches to outsourcing decisions.</td>
<td>Proposition 3a is also supported by the analysis. Although the sign is negative, it is interpreted as positive because the item was reflected to achieve normality.</td>
</tr>
<tr>
<td>Control Variables: Performance and “outsourcing decisions made in the context of a long term strategic agenda”.</td>
<td>Consistent with the earlier regression analyses, there is a significant positive relationship between these two control variables and degree of accounting system sophistication.</td>
</tr>
</tbody>
</table>

73 The IVs with Betas greater than .20 and alphas of .05 were included. This resulted in the same IVs being used as in Table 11.15a. Given the related nature of the DVs in Tables 11.15a and 11.16a, for consistency it appeared intuitively appealing to use the same IVs. Nonetheless, if all significant IVs were used, a similar R² of .31 is achieved.
11.4 Conclusion

This chapter has described the analysis of data collected by the financial controller questionnaire. Although the initial intention had been to use three dependent variables, the results of a factor analysis of dependent variable three (degree of accounting system sophistication) suggested it be split into two separate variables. The additional dependent variable has been referred to as “degree of long term investment sophistication”.

Statistically significant relationships observed for all four dependent variables related to two control variables: performance, and “outsourcing as part of a long term strategic agenda”. The suggestion of these findings is that higher performing hotels and hotels that take more of a long term strategic perspective to outsourcing are more likely to have sophisticated outsourcing management systems.

Hotel quality level was found to be significant for three of the four dependent variables appraised. This suggests that higher quality hotels have more sophisticated outsourcing management systems. Professional qualification was significantly related to the dependent variable “degree of outsourcing accounting involvement”, which supported proposition 3f, i.e., there is likely to be greater accounting involvement where the financial controller is professionally qualified. Strategy was related to the dependent variable “degree of long term investment sophistication”, providing support for the view that prospector hotels have relatively sophisticated outsourcing management systems.

Despite these findings, the bulk of the propositions were not supported. When interpreting the results of multiple regression, it should be born in mind that standard multiple regression has been used which means that only unique variance is identified in the multiple regression results (as described in Chapter 10). The adjusted $R^2$, which includes both unique and common variance, is relatively high for three of the four dependent variables (i.e., for DVs 1-4 the $R^2$ is .36, .44, .15 and .32 respectively. Thus for three of the four DVs it may be that there is a significant amount of common variance. An examination of partial correlations would reveal this, however this issue must be deferred to later research as it falls beyond the scope of this study.

74 The squared semipartial correlation ($sr^2$) expresses the unique contribution of an IV to the total variance of the DV (T&F, 1996).
Chapters 10 and 11 described the analysis of the data collected by the general manager and financial controller questionnaire surveys. In the next chapter which concludes this study, an overview of the statistically significant findings will be provided.
CHAPTER 12
DISCUSSION AND CONCLUSIONS

12.1 Introduction

This chapter provides a synthesis and discussion of the study’s main findings. It also outlines the study’s limitations and indicates potential avenues for further research. The study’s broad objective was to further our understanding of factors affecting outsourcing in the hotel industry and the nature of management accounting in outsourcing decision making and control.

As no theory or research method is all-encompassing, the study adopted a triangulation approach by drawing on more than one theory and method. The main theory used was transaction cost economics (TCE); other theories drawn upon included agency theory, labour process theory and contingency theory. Two empirical phases were undertaken: a qualitative phase comprising interviews with fifteen managers representing eleven large Australian hotels, and a quantitative phase comprising two distinct questionnaire surveys of large Australian hotels. General managers comprised the first survey sample and financial controllers comprised the second.

12.2 Synthesis and discussion of main findings

This section is structured according to the study’s seven main objectives that were outlined in Chapter 1.

12.2.1 Objective 1: Appraising the extent of outsourcing in large Australian hotels

It was noted in the review of the hotel literature that although much has been written in the professional literature on hotel outsourcing, minimal academic research has been conducted in the area. As a result, this aspect of the study represents an opportunity to make a significant contribution to the literature.

In general, it appears outsourcing rates in large Australian hotels are relatively limited. Of eleven activities appraised, only two recorded mean outsourcing rates approaching 50% or above (laundry was 63% and security was 48%). Eight of the 11 activities appraised are outsourced less than 25%.
In advance of conducting the interviews, it had been anticipated that a substantial proportion of food and beverage (F&B) activities would be outsourced in Australian hotels. This expectation resulted from the literature search finding that the most widely discussed activity in connection with hotel outsourcing was F&B. It was found in the course of conducting the interview phase of the study, however, that F&B outsourcing is quite limited in large Australian hotels. This observation was further supported by the questionnaire survey findings. The degree to which five specific F&B activities are outsourced was appraised. Room service was outsourced the least (mean score of 5%), and pre-prepared ingredients was outsourced the most (mean score of 24%).

It has been found, however, that housekeeping is outsourced more than one would have anticipated from the limited literary discussion of housekeeping outsourcing. No research papers were found that specifically addressed the outsourcing of housekeeping, yet housekeeping was outsourced completely by 14% of respondents (the overall mean score for housekeeping outsourcing is 15%).

12.2.2 Objective 2: Describing the nature of hotel outsourcing management systems

From interview observations, it appears there is considerable variation in the degree of accounting’s involvement in hotel outsourcing decision making. Some financial controllers sought to orchestrate the decision making process, whereas others appeared content to simply ratify decisions. Data collected in the survey phase also revealed variability across six aspects of accounting’s involvement in outsourcing management. The main accounting involvement appears to be in formalising outsourcing decision making processes. Much is generally made of management accounting’s performance measurement role, however, it has been found that “monitoring performance of contractors” ranked lowest of the six aspects appraised and was the only dimension of accounting’s involvement with a mean score below the mid-point of the measurement scale used. It would thus appear that a subcontractor’s performance is generally monitored by the department most closely involved with the subcontracted work, and that non-financial dimensions of performance (eg., quality) are used more extensively than financial measures.

75 The view that Australian hotels lag behind other Western countries in terms of F&B outsourcing was held strongly by one of the GMs interviewed.
An attempt has been made to also gauge the relative sophistication of accounting systems used in connection with outsourcing management. Interview observations suggest accounting’s sophistication goes hand-in-hand with its degree of involvement. They also suggest accounting analysis of outsourcing opportunities revolve primarily around an appraisal of operating costs, with transaction costs given minimal attention. Survey findings provide some support to this observation as “annual administration savings” ranked highest of seven dimensions of cost appraised. Two transaction costs (“cost of setting up the contract” and “costs of a subcontractor failing”), ranked lowest of the seven cost dimensions appraised.

It was also noted in the interview and survey data that financial techniques capturing the long term implications of outsourcing (eg., NPV) are rarely used in the outsourcing decision. Survey data indicated that the degree of discounting methods’ usage was below the mid-point of the “used not at all - used to a large extent” scale. This might be because, unlike capital budgeting (which is conducted in a routine manner), outsourcing decisions generally appear to be made in a somewhat ad hoc manner. Also, there is frequently no capital outlay associated with an outsourcing decision. This may signify outsourcing decisions are buffered from the type of rigorous analysis conducted as part of the annual capital budgeting process. Although a decision to outsource may result in no immediate outlay, it can result in an initial cash saving (eg., cash that will not have to be invested in the overhaul of existing laundry equipment), or an immediate cash inflow resulting from the sale of an asset that is not needed due to a decision to outsource. There will also be one-off cash flow implications in future years if the outsourcing arrangement fails. To conclude, it appears inconsistent that a decision to insource would result in the use of discounting techniques because a capital outlay is frequently involved, but a decision to outsource would not result in the use of capital budgeting techniques. This issue appears worthy of further research.

With respect to outsourcing management systems more generally, seven dimensions of management sophistication were appraised in the study’s survey phase. Ranking most highly are the need to secure three bids when outsourcing, and the need to perform a formal financial evaluation of outsourcing proposals. The degree to which hotels do not operate standardised outsourcing management systems is apparent from the fact that “documented procedures” and the existence of a “formal body to screen and review outsourcing proposals” scored lowest of the seven management practices appraised.
12.2.3 Objective 3: Appraising TCE theory in the context of hotel outsourcing

This section summarises the nature of the findings pertaining to the TCE model.

12.2.3.1 Frequency

The survey data has provided some support for TCE’s frequency prescription. Table 12.1 presents an assimilation of the findings pertaining to the factors related to outsourcing, i.e., the regression results associated with an appraisal of the factors relating to outsourcing in general (Model 1) and the regression results associated with an appraisal of the factors relating to outsourcing of four specific activities (Model 2). Support for TCE’s frequency prescription has been found in the case of outsourcing laundry ($p < 0.05$); it has also been found that smaller hotels have a greater propensity to outsource ($p < 0.05$).

Further support for the TCE frequency prescription was evident in the interview phase of the study as numerous observations supportive of the TCE model were noted. Despite this, interview observations have resulted in the following three extensions to the TCE model:

1. Where frequency of a non-specialised activity is very low, it can be uneconomic to outsource. This is because subcontractor travel cost would be large relative to the cost of completing the activity. In this type of situation, it appears appropriate to permanently employ a generalist. Consistent with this line of logic, a modification to the TCE frequency theory can be proposed along the lines presented in Table 6.2.

2. Where hotels are part of a group, enhanced purchasing power can result, signifying cheaper outsourcing opportunities. This is also presented in Table 6.2 as a modification of TCE’s frequency attribute.

3. It appears appropriate to consider “volatility” in the context of frequency, as the relative size and specialisation of subcontractors may equip them to manage the volatility problem. This perspective does not appear to have been recognised in the TCE literature.
### Table 12.1

**Overview of findings: Model 1 and Model 2**

**Significant relationships between independent variables and the five dependant variables**

<table>
<thead>
<tr>
<th>Propositions</th>
<th>Independent Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Outsource in General</td>
<td>Food and Beverage</td>
</tr>
<tr>
<td>Model 1</td>
<td>Model 2</td>
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<tr>
<td>N/A</td>
<td>2a</td>
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<tr>
<td></td>
<td><strong>Asset Specificity</strong></td>
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<td></td>
<td>i) Temporal Specificity</td>
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<td></td>
<td>1) (Q5) Timing and Coordination</td>
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<td></td>
<td>2) (Q8c) Alternative suppliers available</td>
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<td></td>
<td>ii) (Q7a) General asset specificity</td>
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<td></td>
<td>iii) (Q7b) Brand Capital</td>
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<tr>
<td>2b</td>
<td><strong>Uncertainty</strong></td>
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<tr>
<td>1a</td>
<td>i) (Q6) Environmental Uncertainty a</td>
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<td></td>
<td>ii) Q8a &amp; 8b) Behavioural Uncertainty</td>
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<tr>
<td>N/A</td>
<td>2c</td>
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<td><strong>Frequency (Q10)</strong></td>
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<td>2d</td>
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<td>Risk</td>
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<td>Strategy</td>
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<td>1d</td>
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<td>Competition Intensity</td>
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<tr>
<td></td>
<td>i) Price</td>
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<td>ii) Promotion</td>
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<td>iii) Service</td>
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<tr>
<td>N/A</td>
<td>2g</td>
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<tr>
<td></td>
<td>Size (q13 or q16)</td>
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<td></td>
<td><strong>Other Factors</strong></td>
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<tr>
<td>2h</td>
<td>2i</td>
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<td>Core Activity (q 4)</td>
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<td>1f</td>
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<td>Hotel Quality</td>
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<td>** Note**</td>
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<tr>
<td>1g</td>
<td>2j</td>
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<tr>
<td></td>
<td>Proximity to large city</td>
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<td></td>
<td><strong>Control Variables</strong></td>
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<td></td>
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<tr>
<td></td>
<td>i) Market Segment (Business)</td>
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<td></td>
<td>ii) Owner/operator structure</td>
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<td></td>
<td>iii) Performance</td>
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</table>

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*** $p < 0.01$;  ** $p < 0.05$;  * $p < 0.10$ (two tailed test);  ††† $p < 0.01$;  †† $p < 0.05$;  † $p < 0.10$ (one tailed test).

a The direction of the significant result for both food and beverage and general maintenance are not supportive of TCE theory, but they support agency theory.

b A cell is shaded when the direction of the finding is inconsistent with one of the study’s propositions.
12.2.3.2 Uncertainty

In the interview phase of the study, F&B was found to be widely described as an uncertain activity that is difficult to outsource. Some hotels also saw difficulties outsourcing landscaping, public area cleaning, and room cleaning due to their perceived uncertainty. These findings support the TCE model. One observation, however, contradicted the TCE model. One manager saw technological change (a dimension of uncertainty) as motivating a desire to outsource. It appeared he preferred not to have to worry about the change.

Conflicting indications arose from the survey findings, however. Two aspects of uncertainty were appraised: environmental and behavioural. It has been found that environmental uncertainty is positively associated with F&B and general maintenance outsourcing ($p < 0.1$). This observation contradicts the TCE model. With respect to behavioural uncertainty, however, its negative association with housekeeping outsourcing ($p < 0.1$) signifies some support for the TCE model. These findings appear to be mixed and emphasise the importance of distinguishing between environmental and behavioural uncertainty.

12.2.3.3 Asset specificity

The statistical analysis of survey data collected has failed to provide support for the asset specificity dimension of the TCE model. Of the five statistical models appraised, only two have provided statistically significant observations pertaining to the asset specificity attribute. Firstly, it has been found that the more difficult it is to find an alternative general maintenance supplier, the more likely general maintenance will be insourced ($p < 0.05$). Secondly, it has been found that the greater the degree of asset specificity in relation to housekeeping, the greater propensity to outsource this activity ($p < 0.01$). The first observation supports the TCE model, the second observation counters it. The lack of support for asset specificity has been considered by other

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76 i.e., the subcontractor is exposed to the possibility of losing a significant investment if the subcontracting relationship ended (e.g., in physical assets, training, promotion).
Factors noted as compromising the theoretical role for asset specificity include high levels of trust and the adoption of certain forms of management control systems (Langfield-Smith and Smith, 2001).

Despite these statistical findings, from observations made in the study’s interview phase, it appears that asset specificity can represent a useful framework when appraising hotel outsourcing. The dimensions of asset specificity that appear to provide the greatest hotel outsourcing insights appear to be brand capital and site specificity. The significance of brand capital can be related to the fact that a hotel’s reputation is a critically important asset that must be protected. Site specificity appears to be significant for two reasons. Firstly, hotels sell their services on site. Secondly, site specificity appeared to be frequently used to gain commitment from the subcontractor. By requiring the subcontractor to make site specific investments (e.g., in a shop or restaurant fittings), an incentive is created for the operator to provide a quality service as these investments only have value if the outsourcing arrangement continues. Site specificity can also be seen as useful for understanding the motivations of the two parties contracting in an outsourcing arrangement. It was noted that where site specific investments had been made by a subcontractor, hotels generally provided a relatively long term contract.

The importance of considering the asset specificity dimensions separately is apparent from the findings noted above. Although most observations support the TCE asset specificity prescription that high asset specificity results in insourcing, the following two observations appear significant as they contradict TCE theory:

1. While not observed as a practice in any of the hotels where interviews were conducted, it was noted in the literature that many hotels with restaurants bearing the name of a celebrity chef like to outsource the management of the restaurant to the chef. This is to provide an incentive to the chef to maintain the relationship. Hotel 8’s GM claimed to have seen this practice applied in overseas hotels. This represents an arrangement that contradicts the TCE

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77 Subsequent to the literature search other relevant refereed publications on this issue have been found. These include Sako (1992), van der Meer-Kooistra and Vosselman (2000) and Vosselman (2002).
human asset specificity prescription, as it is an example of high asset specificity resulting in outsourcing.

2. One hotel was observed to be outsourcing the management of a restaurant to a chain with a high quality reputation. The hotel rationalised this arrangement noting that the restaurant’s need to maintain its reputation protected the hotel’s need to maintain its reputation. In this case, the restaurant’s brand capital can be seen to have facilitated the outsourcing arrangement and not to have inhibited it. It also therefore appears to be an observation contradicting the TCE asset specificity prescription.

12.2.3.4 TCE in general

It was noted in the course of conducting the interviews that risk of a failed outsourcing venture should be viewed as a transaction cost. If an outsourced activity fails, transaction costs would be incurred bringing the activity inhouse or finding a new supplier. One could theorise that in situations where there appears to be a significant possibility of outsourcing failure and the transaction costs resulting from failure are high, the more likely an activity will be insourced. This appears to be a distinct transaction cost that is not discussed in the TCE literature.

Another transaction cost not discussed in the TCE literature, but identified in the management literature, relates to the issue of social costs. Some interviewees touched upon this issue, referring to loyalty, employee commitment and morale issues, as reasons for insourcing. Other important social costs identified in the literature were not addressed by interviewees, however. These costs include insecurity, decreased employee morale, distrust, reduced productivity, increased absenteeism, and increased employee turnover. These costs are important as they have contributed to many organisations not realising the anticipated outsourcing benefits (Kakabadse and Kakabadse, 2000). As with failure costs, one could theorise that where there is a high potential for social costs, organisations would tend to insource. It would appear from the literature and interview findings that these costs are often underestimated, or not considered. This may be due to the problems of quantifying social costs.
12.2.4 Objective 4: Appraising alternate theories in the context of hotel outsourcing

Two further specific theories have been drawn upon as part of a triangulation approach of maximising insights that can be obtained from the study. These two perspectives are labour process theory (LPT) and agency theory.

Very few observations supportive of the LPT theory were noted in the interview phase of the study. It had been hoped to appraise labour process theory in the survey phase of the study as little quantitative analysis of labour process theory appears to have been conducted. However, in light of the failure to provide pertinent observations in the study’s interview phase and also the need to limit the size of the two questionnaires used, the decision was taken to abandon LPT from the survey phase of the study. As LPT was not appraised in this latter phase, it would be wrong to suggest strong evidence countering the LPT model has been provided. In addition, as is noted below in the study’s limitations section, it might well be that interviewees were reluctant to admit to adhering to practices consistent with the LPT model.

A particular aspect of agency theory has been appraised. This concerns the agency view that risk averse managers will seek to outsource uncertain activities. This aspect of the agency model has been appraised because it conflicts with TCE’s uncertainty prescription (i.e., uncertain activities will not be outsourced because of the contractual problems arising).

Interview observations provided negligible support for the agency view that risk averse managers would seek to outsource uncertain activities. Although some interviewees believed risk aversity might motivate a manager to consider outsourcing, it was generally felt that a more critical factor in the outsourcing decision process concerned whether a cost saving would result. One particular observation lay in direct conflict with the agency model. This concerned an interviewee who felt that his organisation was a relative risk-taker and, as a result of its willingness to try new things, it might frequently be a first mover in terms of outsourcing activities.

Stronger support for the agency “risk perspective” was provided in the study’s survey phase. A review of Table 12.1 indicates that three statistically significant observations
support the agency model. Outsourcing of F&B and general maintenance was found to be greater where there was higher environmental uncertainty \((p < 0.1)\), and outsourcing in general was found to be higher in hotels that have a risk averse culture \((p < 0.05)\).

A statistical test of the relative strength of the two competing theories provides support for TCE and not the agency view of risk, however. The mean score for question 11g in the General Manager survey which supports the agency risk perspective was found to be statistically significantly less than the mean score for question 12g which supports the TCE perspective on risk \((p < 0.000)\). It should be noted that a factor that might affect this finding could be the particular wording used in questions 11g and 12g. Question 11g may have a low mean score (2.96) because it might well suffer from social desirability error. Respondents may not want to admit that because an activity is unpredictable they would want to pass the risk to a subcontractor, as this could be viewed as an acknowledgment that they are unable to manage uncertainty and risk. There may therefore be a tendency to score this question lowly (a low score signifies disagreement with the statement). In contrast, question 6 simply asked respondents the degree to which an activity is viewed as unpredictable, and this question was then related to the degree of outsourcing. This test does not appear to be exposed to the social desirability error that might be present in question 11g.

Based on these observations, overall we are bound to conclude that the study’s findings with respect to the agency model’s risk perspective are inconclusive. Despite this, there would certainly appear to be sufficient grounds to warrant further research into this particular outsourcing motive.

12.2.5 Objective 5: Appraising other factors motivating the outsourcing decision

In the literature and in the interview phase of the study, one of the most widely acknowledged issues affecting outsourcing concerned whether an activity is perceived to be core. The general view was that hotels are not willing to outsource core activities. It was also noted that what is perceived to be core is frequently affected by quality, as the hotel’s quality level carries an implication for the range of factors that might adversely affect a hotel’s brand capital. Somewhat surprisingly, this finding found no support in the study’s survey phase. Consideration of the survey question used to measure the degree to which an activity is perceived to be core reveals no obvious
threats to reliability (e.g., inconsistent interpretation). One possible factor might be the fact that during the interviews it was noted that different managers within the same hotel had different views with respect to whether an activity is core. As a result, two managers in the same hotel would not necessarily record the same score on the 7-point Likert core measure used in the survey. Nonetheless, in addition to the data collected for multiple regression analysis, GM respondents were also asked to indicate their views as to why activities are insourced. Core activity ranked as the third most important reason for insourcing out of a total of eleven factors appraised (Table 10.31). In light of these conflicting findings, additional research in this area would appear warranted.

Unsurprisingly, a second issue that was widely referred to as a factor motivating outsourcing is a desire to increase profitability. Although this was widely referred to by the interviewees, it did not always override other issues, such as the desire to outsource non-core activities. The survey data collected does not enable a specific test to be made of the significance of this motive. Despite this, it ranked as the second most important of ten factors motivating the outsourcing decision (Table 10.31).

A further potentially significant factor noted in the literature and during the interviews was the existence of specialist suppliers. It appears, especially in the case of activities involving high technology, that hotels will outsource if a specialist supplier is available. In the survey phase, the “specialist supplier” issue was one of the ten outsourcing motives appraised, and it has been found to rank relatively lowly (it ranks sixth in Table 10.31). Despite this, some support for the view that the availability of specialist suppliers is important is apparent from the finding that proximity to a large city is positively related to outsourcing in general. As proximity to a large city signifies greater proximity to specialist suppliers, it could well be that the specialist supplier issue accounts for the “proximity to a large city” significant observation.

Analysis of the hotel quality variable has led to some interesting results. Interview observations provided the suggestion that lower quality hotels are prepared to outsource more activities. The survey findings provide mixed indications, however. From Table 12.1 it can be seen that hotel quality is significantly related to laundry outsourcing in the anticipated direction, but significantly related to outsourcing in general in a direction contradicting the anticipated direction. It is difficult to rationalise why higher quality

78 On a 7 point Likert scale, core had a mean score of 5.24.
hotels would tend to outsource more. As discussed earlier, one possibility may be that higher quality hotels are more prominent in large cities, and it is in larger cities that a greater choice of suppliers exists. This view appears questionable, however, as no relationship between proximity to a large city and hotel quality has been found.

One final statistically significant relationship has been noted in Table 12.1. Market segment (business) was found to be significant for the outsourcing of housekeeping. The rationale for this may be that room cleaning might be more straightforward and predictable with business guests, thus facilitating outsourcing. Although environmental uncertainty was not found to be significantly related to housekeeping outsourcing, one could argue that the market segment (business) finding is a particular dimension of environmental uncertainty (i.e., uncertainty with respect to customer behaviour) that is relevant to the outsourcing of housekeeping. In light of this view, with the benefit of hindsight it would have been desirable to distinguish between different dimensions of environmental uncertainty. The single measure used asked respondents to indicate the degree to which activities are predictable with respect to customers, suppliers, competitors and employees. As in any research, a challenging balance has to be struck between keeping the survey to a manageable size and asking all questions that might be important.

12.2.6 Objective 6: Investigating for contingent factors affecting outsourcing

An investigation into the relationship between outsourcing and two variables that have been investigated extensively in management accounting contingency research was undertaken. These two variables are strategy and competition intensity. The main phase of the study concerned with appraising the potential significance of these two variables was the questionnaire survey. It is evident from Table 12.1 that no statistically significant findings pertaining to these two variables has been made. The failure to find a statistically significant role for strategy is consistent with Widener and Selto’s (1998) study which also found no statistically significant relationship between strategy and outsourcing. Competition intensity has been linked to environmental uncertainty by Tymon et al. (1998). The failure to find a statistically significant association between competition intensity and outsourcing can be considered in the light of the earlier noted equivocal findings for the TCE model’s uncertainty dimension.
12.2.7 Objective 7: Investigating contingent factors relating to the sophistication of outsourcing management systems

Pursuit of objective 7 was also conducted primarily in the study’s survey phase. Table 12.2 provides an overview of the statistically significant findings pertaining to factors relating to outsourcing management sophistication. Four dimensions of outsourcing management sophistication have been considered: degree of accounting involvement, degree of general management sophistication, degree of accounting system sophistication, and degree of long term analysis.

It can be seen from this table that two of the independent variables considered are significant across all four of the dependent variables (hotel performance, and adopting a long term strategic focus to outsourcing). In addition, hotel quality is positively related to three of the dependent variables. Professional qualification is positively related to degree of accounting involvement in outsourcing management, and prospector hotels are more sophisticated in their adoption of long term appraisal techniques. Unlike the statistically significant findings made in connection with appraising factors related to the propensity to outsource (i.e., Models 1 and 2), all significant findings in relation to outsourcing management sophistication support the propositions developed.

The findings with respect to performance and “outsourcing as part of a long term strategic agenda” are both intuitively appealing. One would expect more sophisticated outsourcing management procedures in high performing hotels that see their outsourcing decisions as part of a long term strategic agenda. The finding with respect to performance and accounting sophistication carries important implications for future hotel accounting research. Evidence provided in this study strongly suggests that this variable should be controlled for in studies concerned with hotel accounting sophistication. Because quality is a highly important contextual variable that differentiates hotels, evidence provided in this work also suggests it is a key variable that should be controlled for in future accounting research conducted in hotels.

When interpreting these results, a word of caution is warranted in connection with data reliability. Question 10a of the Financial Controller questionnaire (control variable 3 - “the extent to which the hotel makes outsourcing decisions in the context of a long term strategic agenda”) was on the same page as the questions which gathered information on
the outsourcing system (i.e., the four dependent variables). There may have been a tendency for respondents to provide similar scores to all items on that page. This possible shortcoming, known as common method variance, should be borne in mind when interpreting the results. In addition, the responses could also suffer from social desirability error.
### Chapter 12: Discussion and conclusions

**Table 12.2**

**Overview of findings: Model 3**

Significant relationships between independent variables and the four dependent variables

<table>
<thead>
<tr>
<th></th>
<th>Degree of accounting involvement in outsourcing management</th>
<th>Degree of general management sophistication</th>
<th>Degree of accounting system sophistication in outsourcing management</th>
<th>Degree of long term analysis (discounting &amp; risk analysis)</th>
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<tbody>
<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
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<tr>
<td>Proposition 3a) Strategy</td>
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<td>Proposition 3b) Competition Intensity</td>
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<td>Proposition 3c) Size</td>
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<tr>
<td>i) Rooms (Q3a) or</td>
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<tr>
<td>ii) Sales Revenue (Q3b)</td>
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<tr>
<td>Proposition 3d) Degree of outsourcing</td>
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<tr>
<td>i) Outsourcing in general (Q2)</td>
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<td>ii) Outsourcing index (Q1)</td>
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<tr>
<td>Proposition 3e) Hotel Quality level</td>
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<td>Proposition 3f) Professional Qualification</td>
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<tr>
<td><strong>Control Variables</strong></td>
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<tr>
<td>i) Owner/operator structure</td>
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<td>ii) Performance</td>
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<tr>
<td>iii) Outsourcing part of long term strategic agenda</td>
<td>†††</td>
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</tr>
</tbody>
</table>

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$ (two tailed test); ††† $p < 0.01$; †† $p < 0.05$; † $p < 0.10$ (one tailed test).
12.3 Limitations of the study

As with any study, this study is not without limitations. The main limitations in this study concern the following:

1. The sample selection. The population was all Australian hotels of 100 rooms or more. This signifies that the hotels sampled tended to be of a relatively high quality. Table 9.8 revealed that 60% of the hotels represented in the population and sample data were rated at 4.5 stars or higher (RACQ star rating). The study’s findings are therefore not generalisable to lower quality or smaller hotels. It is important to also note that it would be inappropriate to attempt to generalise the findings to hotels outside Australia. This external validity issue is particularly pertinent in this study because, as has already been noted, it appears Australian hotels may be lagging behind the outsourcing practices of hotels in other Western countries.

2. The participants in the survey. Comparison of respondent results where both the GM and FC for a hotel had responded revealed some surprising results. Although most variables revealed a significant correlation, degree of outsourcing, number of hotels in a chain and annual sales for previous year were three areas where there was a surprising degree of variation between some respondents. Given the nature of these three questions, one would have expected almost perfect correlation amongst these variables (correlations were .70, .71 and .68, respectively, for these variables). Although data with large variances was removed, averaged or corrected to promote data reliability, this observation does highlight the presence of some measurement error.

3. Subjectivity in responses. Respondents may have suffered from social desirability error when responding to some questions. Some of the questions where social desirability error may have been a problem included questions on risk aversity, labour process theory (interview phase only), and sophistication of outsourcing management systems questions. When appraising labour process theory during the interview phase of the study, care was taken to avoid the use of emotive terms (eg., “exploit” was not used in any of the interviews). Nevertheless, it could be that the failure to find support for LPT resulted from interviewees’ concern with how they
appeared to the interviewer. The interviewees may have been reluctant to admit to any tendencies that would signify support for LPT, as the notion of “controlling” labour and other aspects of LPT, are not positive management traits to admit to.

4. Small sample size. Although “n” was just above 100 which is adequate for many statistical analyses such as multiple regression, a larger sample size would have been desirable for other analyses conducted, such as factor analysis. Although management accounting researchers widely use factor analysis with sample sizes less than 100, Tabachnick and Fidell (1996) raise a concern with this practice.

5. Statistical tools used. The main statistical tool used was multiple regression. Multiple regression assumes data is continual, however, for most variables, a 7 point Likert scale has been used for data collection. Although this approach is consistent with that taken by many management accounting researchers, this issue should be highlighted as a possible limitation. This is because two respondents may have identical views on a particular topic (e.g., strategic orientation), yet choose different points on the Likert scale.

6. Significant skewness and kurtosis. Many of the variables had significant skewness and required transformation. Transformation was not possible with the dependent variable “Housekeeping” and therefore logit analysis was used. As there are no statistical techniques to manage kurtosis and positive kurtosis (data is highly peaked), these statistical characteristics can cause problems if sample size is less than 200. This limitation should be borne in mind as kurtosis produces an underestimate of the variance of the variable (Tabachnick and Fidell, 1996).

7. Single item survey measures. It has been noted that a perplexing aspect of the study’s findings concerns the failure of the survey data to support the strong interview evidence which suggests hotels are reluctant to outsource activities that are perceived to be core. It was also noted that managers in the same hotel had different views on whether an activity is core. This calls into question the single item survey measure used to gauge the degree to which an activity is core. An improved measure would have resulted if more than one manager from the same hotel had completed this question. This would have allowed a reliability appraisal to be made of the measure.
8. A limited qualitative study. Fifteen interviews with eleven hotels were conducted. A richer study may have been possible by also conducting an in-depth case study. In their TCE motivated study of outsourcing, Widener et al. (1999) note “field studies may discover other unanticipated interactions of transaction costs, strategy, and MCS features” (p. 68). In every study a balance has to be struck between depth and breadth, however.

12.4 Implications of findings

The implications of the study’s findings in relation to theory development, practice and future research will now be discussed.

12.4.1 Implications of findings on theory development

Pursuit of objectives 3 to 7 have resulted in several implications with respect to theory development. In the quantitative analysis conducted, it was found that only six of the many possible TCE relationships examined were significant, and three of these findings contradicted what one would expect from TCE theory. Two of these significant observations were directionally consistent with agency theory, however. Despite this, the ranking exercise reported in Table 10.31 provide some support for the relative importance of several TCE constructs (eg., temporal specificity, brand capital, and asset specificity). In addition, findings made in the interview phase appeared to provide some support for TCE theory. These inconsistent findings appear to underline the difficulty encountered when attempting to quantitatively operationalise TCE constructs. This problem was also noted by Widener and Selto (1999) in relation to behavioural and environmental uncertainty.

The study has offered some specific extensions to TCE theory. The following three observations contradict TCE’s frequency prescription:

1. if an activity is very small, it may be uneconomic to outsource;
2. enhanced purchasing power within a chain of hotels may justify outsourcing; and,
3. despite high frequency, organisations may outsource where there is high volatility as the subcontractor may be better equipped to manage this uncertainty.

The following two observations contradict TCE’s asset specificity prescription:

1. high human asset specificity in relation to celebrity chefs can result in outsourcing, and,
2. strong brand capital of a restaurant can be an aspect that facilitates outsourcing.

A more general extension that has been offered to TCE theory concerns the suggestion that considerations of types of transaction costs might be broadened to include failure costs and social costs.

Although some support was provided for agency theory by the multiple regression analysis conducted, little was identified in the interview phase or in the ranking of key factors causing hotels to outsource (Table 10.31). As mixed results have been found for the conflicting aspects of agency theory’s prescription on risk and TCE’s prescription on uncertainty, the inconsistency of these two theories appears worthy of further empirical examination.

It is believed that social desirability error may partially account for the failure to uncover observations supportive of any dimensions of labour process theory (LPT). Ways to manage this problem should be considered when developing a research methodology in conjunction with LPT motivated studies.

12.4.2 Implications of findings on practice

There are several ways in which this study has the potential to inform practitioners’ management of outsourcing. Firstly, practitioners interested in gaining an overview of outsourcing management issues in hotels would benefit from reading the literature review chapters that highlight general management and accounting issues associated with outsourcing (Chapter 3), and the review of the hospitality literature relating to outsourcing (Chapter 4). Given the labour-intensive nature of the hotel industry, they may find the discussion on social costs in Chapter 3 to be particularly relevant.
Secondly, pursuit of Objective 1, which was concerned with appraising the degree of outsourcing in large Australian hotels, would be of interest to any manager wishing to benchmark their hotel’s degree of outsourcing. Thirdly, and in a similar vein, the study’s pursuit of Objective 2, concerned with appraising the nature of hotel outsourcing management systems, would also be of relevance to hotel managers for benchmarking purposes. From an accounting perspective, practitioners might well find the following findings particularly insightful:

1. accountants limited involvement in monitoring the performance of contractors,
2. interview observations suggesting accounting involvement and sophistication go hand-in-hand;
3. hotels’ failure to consider “cost of a setting up the contract” and “costs of a subcontractor failing”;
4. hotels’ limited use of discounting methods despite irregular cash-flows that may arise in the course of an outsourcing arrangement.

Finally, the theories outlined in connection with pursuit of objectives 3 - 5 may be of assistance to practitioners seeking a framework that can be used when approaching outsourcing decisions. TCE’s attributes of frequency, uncertainty, and asset specificity represent a useful checklist for a manager to consider when deciding whether to outsource. For example, the merits of creating site specificity when contracting in order to encourage subcontractor commitment, have been noted. In addition, a familiarity with agency theory will enable a senior manager to consider the possibility of risk averse motivations affecting a subordinate’s desire to outsource a particular activity. Other “non-theoretical” aspects considered in the study such as whether an activity is core and the availability of specialist suppliers, also represent factors that a practitioner might usefully consider.

12.4.3 Suggestions for further study

In light of the limited degree to which Australian hotels appear to be outsourcing, it could be valuable to repeat the survey in about five years time. This would enable a longitudinal appraisal to be made of any outsourcing trends in the Australian hotel industry. In addition, the same survey instrument could be used overseas. This would enable a systematic international analysis to be undertaken. No comprehensive survey
addressing hotel outsourcing has been identified in the literature. The sample considered in this study was limited to large hotels. Further insights could derive from broadening the population surveyed to include small hotels.

In the interview phase of the study, considerable support was found for the view that site specificity is an important contractual issue to be considered in hotel outsourcing. Unlike most trading situations, in the hotel industry, the customer conducts transactions while on the vendor’s premises. This signifies that any subcontracted activities that are closely related to service provision have to be located in the hotel complex (e.g., shop, restaurant, disco). In light of this finding, a question that may be worthy of further research concerns how much site specificity is capitalised upon to gain commitment from the subcontractor. The complex nature of this research question suggests it would be best pursued via a field study.

Field research could also be used to explore other complex issues identified such as social costs and the suggested extensions and noted contradictions relating to the basic TCE model. Further, a worthwhile research initiative could involve an examination of the size of failure costs arising where an outsourcing arrangement fails.

It has already been noted that in light of the hotel literature commentaries on hotel outsourcing, the reluctance exhibited by Australian hotels to outsource F&B had not been anticipated. It may be that F&B outsourcing trends evident overseas will trigger increased F&B outsourcing in Australia. It certainly would appear to be a worthwhile research endeavour to appraise why this international difference exists. This research question could be approached by conducting case study work in one or more multinational hotels. If such an international study were to be attempted, it would also appear to be worthwhile to consider the role of trust. Trust was noted in the interview phase of the study as a potentially significant factor. As trust can be expected to be heavily affected by culture, an international study would appear to represent a valuable opportunity to consider international differences in the role trust can play in mediating outsourcing relationships. Despite this, from the questionnaire data collected in this study, subcontractor trust does not appear to rank highly amongst factors affecting a hotel’s propensity to outsource (Table 10.31). Future research on outsourcing and trust should consider this finding in the context of earlier empirical work on trust and inter-company relationships (Zaheer and Vankatraman, 1995; Nooteboom, Berger and
Noorderhaven, 1997; Seal and Vincent-Jones, 1997; Das and Teng, 1998; and Das and Teng, 2001).

In connection with the appraisal of TCE, Deegan (1997) proposes that as asset specificity increases, longer run performance measures are used. In future accounting research that builds on this study and the TCE model, it could be a valuable endeavour to explore for a relationship between asset specificity and the degree to which performance measures used have a long term dimension.

12.5 Conclusion

This chapter has summarised the study’s main findings, overviewed its main limitations, and noted ways that subsequent research may usefully build on this work. It has been noted that the TCE model has represented a useful framework for guiding this investigation into hotel outsourcing. Breaking the three TCE attributes into their underlying factors and dimensions has been particularly pertinent to the pursuit of insight. Mixed support was given for the risk averse/uncertainty aspect of agency theory that was appraised, and negligible support has been found for labour process theory. Social desirability error may well explain the failure to note observations supportive of the LPT model.

The qualitative and quantitative phases of empirical enquiry undertaken have provided distinct contributions to the study. The interviews provided richness and context, and helped greatly in informing the survey questionnaires’ design, as well as interpretation of results. There is debate about which order qualitative and quantitative research should be undertaken. Findings uncovered in the course of this study, provide some support for conducting qualitative research prior to quantitative research. In light of the inconsistent findings made in the literature search and interview phases of the study, the interview findings had a significant bearing on the design of the survey instruments used. Prior to conducting the interviews, it had been anticipated that the study would have a focus restricted to F&B outsourcing. With the benefit of hindsight, it appears that a narrow focus on F&B would have constrained the richness of the study’s findings. It was also in light of the interview findings that a decision was made to appraise housekeeping outsourcing in the survey phase.
Chapter 12: Discussion and conclusions

It is believed this thesis provides a contribution in a number of ways. Firstly, it has shown that TCE represents a useful framework when exploring outsourcing in the hotel industry. Secondly, several extensions and contradictions to the TCE model have been provided, thus strengthening our appreciation of the relative strengths of the theory. Thirdly, significant insights have been gained with respect to the nature of hotel outsourcing, reasons for outsourcing, and the nature of management accounting and general management systems used to support outsourcing decision making and control. The failure of hotels to consider discounted cash flow techniques is believed to be particularly noteworthy. Finally, the importance of adopting a triangulation approach in relation to both theory and method has been highlighted in this work. It is believed that a range of methods and theories can facilitate a more complete appreciation of issues under inquiry.

Two contrasting views have been noted concerning the future of outsourcing. Some appear to see it as a fad. Domberger (1998 p. 200), cites Milne (1997) who feels that the “…. tide of contracting-out may have passed its high water mark” (no page given).

Domberger expresses a very different sentiment. He comments:

“Successful contracting has the potential of creating whole new industries. Once the first few successful contracts are established, others will follow. …. The growth in supply generates further efficiency gains …. and allows contractors’ reputations to take hold. This encourages the more recalcitrant purchases to go where their less risk-averse counterparts have gone before - to contract out. In this way the expansion of the service sector becomes a self-sustaining process” (1998, p. 198).

Having completed this study, it is this author’s view that there is considerable potential for more outsourcing by large Australian hotels and that this might trigger the type of effect noted by Domberger, i.e., more outsourcing will encourage still more outsourcing. Although this question was asked in the GM questionnaire (question 11g), it ranked second to last and a mean score below the measure’s midpoint was noted. Social desirability error may explain this low result, as managers may not like to admit they may outsource because others are doing it. In addition, Domberger (1998) notes that increased international competition and deregulation are forcing companies to be more efficient and effective, and outsourcing is one means to help achieve competitiveness. It seems reasonable to suggest that appropriate management
accounting analytical and control systems can represent an important element in a quest for greater efficiency through outsourcing.
# APPENDIX 1

## INTERVIEW QUESTIONNAIRE

<table>
<thead>
<tr>
<th>Hotel Name:</th>
<th>Today’s Date:</th>
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<tbody>
<tr>
<td>Interviewee Name:</td>
<td>Contact Date:</td>
</tr>
<tr>
<td>Interviewee Position:</td>
<td>Start time of Interview:</td>
</tr>
<tr>
<td>Interview Number:</td>
<td>End time of Interview:</td>
</tr>
<tr>
<td>Phone:</td>
<td>Taped:</td>
</tr>
</tbody>
</table>

## Company and Respondent background information

A1) What is the size of the hotel?
   - Number of rooms
   - Number of restaurants

A2) Ownership/management structure (Is the hotel privately owned, managed through a management company or franchised, etc.).

A3) What market segment(s) is the hotel in (budget, luxury, etc.)?

A4) What is the functional area and level of responsibility of the interviewee?

A5) How long has the interviewee been with the hotel? In the current position?

## Appraising the extent of outsourcing

1.1) What proportion of hotel activities are outsourced?

1.2) From this checklist (present Table A1 listing of activities to the interviewee) identify:
   a) the activities that are outsourced and why they are outsourced, and
   b) for those that remain inhouse, why have they been retained in-house?

1.3) Have your current outsourcing arrangements been in place for a long time? (refer to list)

1.4) If you are not currently outsourcing many of your activities, has your organisation given much consideration to the possibilities of outsourcing?

## Describing the nature of outsourcing management systems

### Initiation of the outsourcing decision

2.1) How have outsourcing decisions been initiated in this organisation?

2.2) Would you describe outsourcing decisions as having been initiated in the context of a long-term strategic agenda or in a relatively ad hoc reactionary manner?

2.3) Who is involved in the outsourcing decision?
Formalisation of outsourcing decision-making processes

2.4) Could you describe the extent to which your organisation has formalised its outsourcing decision making systems.

2.5) Would you describe your organisation as adopting a relatively sophisticated approach to outsourcing decision-making?

2.6) What factors do you see as determining whether an organisation’s outsourcing decision making is sophisticated?

Appraisal of outsourcer’s (i.e., hotel’s) needs

2.7) Prior to outsourcing, does your organisation prepare detailed specifications outlining exactly what is required of the subcontractor?

2.8) When appraising a potential subcontractor, does your organisation require the potential subcontractor to submit risk management plans or any other plans outlining how a range of contingencies would be managed?

Contract price determination

2.9) Describe the nature of the tendering process adopted when seeking potential outsourcing subcontractors.

2.10) In its outsourcing relationships, does your company usually negotiate a variable, fixed or mixed contract price?

2.11) Please explain why a variable/fixed/mixed price is adopted.

Analysis of bids

2.12) Describe the analyses conducted when deciding whether to employ the services of a subcontractor.

Achieving control and ensuring compliance: Performance measurement

2.13) Describe the nature of measures used to appraise the performance of outsourcing subcontractors.

Achieving control and ensuring compliance: Contractual arrangements

2.14) Describe the nature of contractual arrangements entered into in your outsourcing relationships.

Achieving control and ensuring compliance: Non-contractual methods

2.15) To what extent do you attempt to tie your outsourcing agents into providing good service by requiring them to make investments that are specific to your trading relationships, i.e., investments where much could be lost if the trading relationship were to be discontinued?

2.16) Does your hotel have a policy of promoting competition by maintaining more than one source of supply?

2.17) Describe the nature of any techniques that your organisation uses in order to provide a relative gauge of each subcontractor’s performance.

2.18) To what extent does trust play a role in your outsourcing relationships?
Appraising TCE theory in the context of hotel outsourcing

Uncertainty

I will now ask a few questions that try to gauge the degree of uncertainty in relation to the outsourcing of specific hotel activities, and whether this has any affect on whether these activities are outsourced

With respect to each of the following activities (a list of activities will be presented - Table A1) indicate:

3.1) To what extent is the activity difficult to manage due to its instability and unpredictability?

3.2) If the activity were to be outsourced, to what extent would it be difficult to evaluate performance of the subcontractor?

The relationship between uncertainty and outsourcing

3.3) To what extent does uncertainty of activities affect the degree to which they are outsourced?

3.4) To what extent does difficulty in evaluating performance of activities affect the degree to which they are outsourced?

Frequency

Some hotel's decision to outsource an activity may be dependent on whether it involves a volume of work sufficient to provide internal economies of scale. If economies of scale cannot be achieved, they may decide to outsource to a sub contracting specialist.

3.5) To what extent does completion of the following activities involve a high volume of work over the course of a year sufficient to allow economies of scale?

3.6) To what extent does volume of work of activities affect the degree to which they are outsourced?

Asset Specificity

If outsourced, some activities may require the subcontracting agent to make investments that are specific to the trading relationship i.e., investments where much would be lost if the trading relationship were to be discontinued. (This idea is called asset specificity and is a key issue in my study).

For example, if the running of a restaurant were to be outsourced, it might be necessary for the subcontractor to invest in particular restaurant fittings and equipment. If the relationship were to cease, the subcontractor would lose much of this investment. This idea of investments specific to a particular trading relationship can be seen in other F&B sub contracting arrangements, e.g., training of staff to perform a specialised function that is specific to a particular trading subcontracting relationship, buying equipment that is particular to a specific sub contracting relationship, menus and signs with hotel and restaurant logo, etc.

With respect to each of the following activities (refer to list of activities)

3.7) If the activity were to be outsourced, describe any investments that the outsourcing agent would have to make that are specific to the trading relationship with your hotel.

3.8) If the activity were to be outsourced, would the subcontractor have to make a considerable investment that is specific to the trading relationship?

3.9) To what extent does the need for the subcontractor to make relationship specific investments in activities affect the degree to which they are outsourced?
Appraisal of agency theory

4.1) When making an outsourcing decision, to what extent does the threat of an employee losing their job represent a barrier to conducting a comprehensive analysis of whether to outsource?

4.2) If it does represent a significant impediment, how is this problem managed?

*The next two questions address the risk aversity/culture of the organisation.*

4.3) To what extent is your organisation characterised by a high risk taking culture?

4.4) To what extent does the risk taking culture of a hotel affect the degree to which it outsources?

*The next three questions refer to the manager in your organisation who has greatest influence over what activities are outsourced (this may be yourself):*

4.5) How long has this manager been in this position of influence?

4.6) To what extent would you describe this manager as risk averse?

4.7) To what extent does a manager’s risk aversity affect the degree to which activities under his/her charge are outsourced?

Appraisal of labour process theory

4.8) To what extent is your organisation characterised by a culture requiring close and extensive control over operational staff?

4.9) Relative to other organisations, to what extent is your organisation characterised by a culture that sees close and extensive control over labour as consistent with profit maximisation?

4.10) To what extent does an organisation’s culture with respect to seeking close and extensive control over staff affect the degree to which they outsource activities?

*The previous questions took an organisational perspective. The same questions will now be asked in relation to the manager in your organisation who has greatest influence over whether activities are to be outsourced (this may be yourself):*

4.11) To what extent would you describe this manager as seeking close and extensive control over operational staff?

4.12) Relative to other managers, to what extent does this manager believe that some close and extensive control over labour is consistent with profit maximisation?

4.13) To what extent does a manager’s desire to maintain close and extensive control over staff affect the degree to which activities under his/her charge are outsourced?

Appraising factors motivating the outsourcing decision

Core/Non-core activities

5.1) To what extent does the perception of an activity as core affect the degree to which it is outsourced?

Flexibility

5.2) To what extent does the added flexibility that outsourcing arrangements can offer affect the degree to which activities are outsourced?

Availability of sophisticated specialist suppliers

5.3) To what extent does the availability of sophisticated suppliers offering a specialised service affect the degree to which activities are outsourced?
Availability of multiple suppliers

5.4) To what extent does the availability of a choice of suppliers affect the degree to which activities are outsourced?

Avoidance of financial investment

5.5) To what extent does the desire to avoid the raising of investment funds that would be required if an activity were to be conducted internally affect the degree to which activities are outsourced?

Quest for efficiency

5.6) To what extent do potential efficiencies from outsourcing affect the degree to which activities are outsourced?

Factors that might constrain outsourcing

5.7) Does your organisation have any activities that you used to outsource but now insource? If it does, what factors drove the decision to abandon the outsourcing arrangement?

5.8) What factors constrain outsourcing activities in your organisation?

Investigating for contingent factors relating to outsourcing orientations

The relationship between strategy and a propensity to outsource

6.1) To what extent does your organisation’s strategy dictate your degree of outsourcing?

6.2) If you indicated your organisation’s strategy does affect outsourcing, describe the manner in which strategy affects your propensity to outsource.

The relationship between competition intensity and a propensity to outsource

6.3) To what extent does the intensity of competition in your market affect the degree to which activities are outsourced?

6.4) If competition intensity does affect your propensity to outsource, describe how it affects the degree to which you outsource.

Summary questions

7.1) Having now talked about outsourcing at some length, and having discussed potential reasons for outsourcing, can you recap what you see as the main reasons for outsourcing/insourcing in your organisation.

7.2) I really want to make sure that I clearly understand your views and the points you have raised in this interview. May I telephone you at a later point should I need to clarify anything from this discussion?

7.3 Would you be willing to MEET AGAIN?

7.4 Would you be able to RECOMMEND anyone else within your hotel or at another hotel that would be worth me contacting?

7.5 Get copies of any internal DOCUMENTATION that relates to the outsourcing management process. (e.g., decision to outsource, how subcontractor is managed, etc.).
<table>
<thead>
<tr>
<th>Activity</th>
<th>Insourced / Outsourced</th>
<th>How long has current arrangement been in place?</th>
<th>Why insourced/outsourced?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
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<tr>
<td>Business Centre</td>
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<tr>
<td>Carpet cleaning</td>
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<tr>
<td>Childcare - for employees</td>
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<td></td>
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<tr>
<td>Childcare - for guests</td>
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<tr>
<td>Cleaners - housekeeping</td>
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<tr>
<td>Cleaners - night</td>
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<tr>
<td>Conferences</td>
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<tr>
<td>Customer satisfaction research</td>
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<td></td>
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<tr>
<td>Food &amp; Beverage (generally)</td>
<td></td>
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<tr>
<td>F&amp;B: Admin. &amp; evaluation of F&amp;B contractors</td>
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<tr>
<td>F&amp;B: Catering</td>
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<td>F&amp;B: Cleaning</td>
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<tr>
<td>F&amp;B: Conferences</td>
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<tr>
<td>F&amp;B: Employee dining room</td>
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<td>F&amp;B: Menu development</td>
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<td>F&amp;B: Pre-prepared ingredients</td>
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<tr>
<td>F&amp;B: Restaurant – Franchises</td>
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<tr>
<td>F&amp;B: Restaurants – Economy non franchise</td>
<td></td>
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<td></td>
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<tr>
<td>F&amp;B: Restaurants – Quality non franchise</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>F&amp;B: Room service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F&amp;B: Sales &amp; marketing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F&amp;B: Vending machines</td>
<td></td>
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<tr>
<td>Golf course</td>
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<tr>
<td>Gift shops</td>
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<tr>
<td>Head office</td>
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<tr>
<td>Housekeeping</td>
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<tr>
<td>Human resources</td>
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<td></td>
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<tr>
<td>Interior plant service</td>
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<tr>
<td>Janitorial</td>
<td></td>
<td></td>
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<tr>
<td>Landscaping</td>
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<td></td>
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</tr>
<tr>
<td>Laundry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lobby reception</td>
<td></td>
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<td></td>
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<tr>
<td>Mail service</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Maintenance</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Management companies</td>
<td></td>
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<td></td>
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<tr>
<td>Market research</td>
<td></td>
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<td></td>
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<tr>
<td>Marketing</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Parking facilities</td>
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<td></td>
<td></td>
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<tr>
<td>Payroll</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - information systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - reservation systems</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Telephone service</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Trade credit management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valet Parking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section A: Outsourcing Information

Definition of Outsourcing: Outsourcing refers to the process where activities traditionally carried out internally are contracted out to external providers.

1) To what extent are the following activities outsourced in your hotel (please indicate an approximate percentage; e.g., 50% would signify half of the resources and work related to an activity are outsourced):

- Housekeeping
  - a) Guest rooms
  - b) Public area cleaning
- Food and Beverage
  - c) Restaurants
  - d) Conference and Banqueting
  - e) Room service
  - f) Food and Beverage night cleaning
  - g) Pre-prepared ingredients (e.g., pastry, baking, sauces, etc.)
- Other
  - h) Laundry
  - i) General maintenance
  - j) Security
  - k) Accounting functions

For the following questions, please circle the number corresponding most closely to your answer.

2) To what extent would you consider outsourcing the following activities?

- a) Housekeeping (guest rooms)
- b) Restaurants

3) In general, do you think your hotel outsources more or less than other hotels?

4) To what extent are the following activities perceived as core to your hotel’s business?

- Housekeeping (guest rooms)
- Food & Beverage
- Laundry
- General Maintenance

5) To what extent is timing and coordination of the following activities critical to your hotel’s overall performance?

- Housekeeping (guest rooms)
- Food & Beverage
- Laundry
- General Maintenance

6) Over the past three years, to what extent have the following activities been unpredictable (i.e., uncertain with respect to factors such as customers, suppliers, competitors, employees, etc.)?

- Housekeeping (guest rooms)
- Food & Beverage
- Laundry
- General Maintenance
7) If the following activities were outsourced:

a) to what extent could the subcontractor **lose a significant investment** if the subcontracting relationship ended (e.g., in physical assets, training, promotion, etc.)?

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

b) to what extent could the subcontractor **damage the reputation** of your hotel?

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
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<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

c) to what extent could the hotel or subcontractor **exploit their position** during the performance or renegotiation of a contract?

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
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<td></td>
</tr>
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<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

8) If the following activities were outsourced, to what extent would it be **difficult**:

a) to measure whether the activity is **effectively performed**?

<table>
<thead>
<tr>
<th></th>
<th>Not difficult</th>
<th>Very difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

b) to determine if the subcontractor has performed according to **contractual obligations**?

<table>
<thead>
<tr>
<th></th>
<th>Not difficult</th>
<th>Very difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

c) to arrange for an **alternate supplier** at short notice?

<table>
<thead>
<tr>
<th></th>
<th>Not difficult</th>
<th>Very difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

9) For the following activities, to what extent do you feel that an **outsourcing contract** would provide the same degree of **control** as if the activity were managed inhouse?

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

10) To what extent do the following activities involve a **large amount of work** for your hotel (i.e., significant resources are used up by the activity and it is conducted frequently)?

<table>
<thead>
<tr>
<th></th>
<th>Low volume of work</th>
<th>High volume of work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping (guest rooms)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>General Maintenance</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
To what extent do you agree with the following statements:

11) There are many activities that we DO outsource (or would CONSIDER outsourcing) because:

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7 6 5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>a) outsourcing provides greater <strong>flexibility</strong> (e.g., ability to service peak demand periods, access to latest technology, etc.).</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>b) specialist subcontractors can provide a <strong>better service</strong>.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>c) outsourcing gets us around the need to raise <strong>investment</strong> funds.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>d) outsourcing facilitates <strong>quick expansion</strong>.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>e) outsourcing can yield significant <strong>savings</strong>.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>f) <strong>other hotels</strong> are outsourcing them.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>g) they are <strong>unpredictable</strong> and we like to pass the <strong>risk</strong> to subcontractors.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>h) they are <strong>large</strong> and we can negotiate favourable outsourcing terms.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>i) subcontractors are in a <strong>better position</strong> to smooth or manage volatility, unpredictability, changes in technology, etc.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>j) managers like to <strong>delegate risk</strong> to subcontractors.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

12) There are many activities that we **DO NOT** outsource because:

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7 6 5 4 3 2 1</td>
<td></td>
</tr>
<tr>
<td>a) it would be difficult to <strong>appraise the subcontractor’s performance</strong>.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>b) the activities involve a large amount of work and we can achieve <strong>economies of scale</strong> inhouse.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>c) the subcontractors would feel <strong>exposed</strong> as they could lose a significant investment in assets or training if the subcontracting relationship ended.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>d) the subcontractors could <strong>act in their own interest</strong> to the detriment of the hotel.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>e) the <strong>reputation</strong> of the hotel could be damaged by subcontractor actions.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>f) <strong>timing &amp; coordination</strong> of the activity is critical to the hotel’s success.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>g) they are unpredictable and therefore <strong>difficult to contract</strong> for.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>h) the activities are viewed as <strong>core</strong> to our hotel’s business.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>i) it is difficult to find subcontractors that we can <strong>trust</strong>.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>j) significant back of house <strong>operating tension</strong> might develop between the subcontractor and the hotel.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>k) it is difficult to find subcontractors that have an organisational <strong>culture</strong> compatible with our culture.</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

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**Section C: Background Information**

(Data collected in this section will enable an analysis of what type of organisations are outsourcing).

13) **What is your hotel’s approximate size:**

<table>
<thead>
<tr>
<th>Number of rooms:</th>
<th>Number of restaurants:</th>
<th>Annual sales turnover: $...........million</th>
</tr>
</thead>
</table>

14) **Please record your hotel’s market segments:**

<table>
<thead>
<tr>
<th>Conference guests</th>
<th>Business travellers</th>
<th>Tour groups</th>
<th>Leisure guests</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>...........%</td>
<td>...........%</td>
<td>...........%</td>
<td>...........%</td>
<td>100 %</td>
</tr>
</tbody>
</table>

15) **Is your hotel managed under a management contract** (i.e., owner separate from operator): **Yes** / **No**

16 a) **Is your hotel part of a chain or franchise:**  **Yes** / **No**

b) **If yes, please indicate approximate number of hotels in chain in:**
   i) **Australia**: ........... ii) **Worldwide**: ...........
17) Over the past three years, relative to other hotels to what degree have your hotel’s occupancy levels been:
   a) volatile
   b) difficult to predict
   Well below average: 1 2 3 4 5 6 7
   Well above average: 1 2 3 4 5 6 7

18) Over the past three years, how predictable have each of the following factors been in your hotel?
   a) Demands, tastes and preferences of customers
   b) Activities of suppliers
   c) Market activities of competitors
   d) Government regulations and policies
   e) Technology
   Not predictable: 1 2 3 4 5 6 7
   Very predictable: 1 2 3 4 5 6 7

19) How intense is your hotel’s competition with respect to the following factors:
   a) Price
   b) Promotion
   c) Service quality
   d) Service variety
   Not intense: 1 2 3 4 5 6 7
   Very intense: 1 2 3 4 5 6 7

20) Relative to your competitors, what is your hotel’s overall performance in the past three years across the following dimensions:
   a) Market share
   b) Revenue per available room (Revpar)
   c) New service/product development
   d) Customer satisfaction
   e) Cost reduction programs
   f) Staff training
   Well below average: 1 2 3 4 5 6 7
   Well above average: 1 2 3 4 5 6 7

21) There are many ways to categorise and describe strategy. Two definitions are given in the box below. On a scale of 1 to 7, please indicate which of the descriptions most closely fits your hotel’s strategy. Please note that neither type is inherently “good” or “bad”.

<table>
<thead>
<tr>
<th>Hotel type A</th>
<th>Hotel type B</th>
</tr>
</thead>
<tbody>
<tr>
<td>attempts to maintain a secure niche. It offers a narrow range of services compared to its competitors. It is not at the forefront of developments in the industry - instead it concentrates on doing the best job possible in a limited area. Service developments tend to concentrate on current areas of operation.</td>
<td>offers a wider range of services compared to its competitors and continually searches for market opportunities. It responds rapidly to early signals of market needs and consistently attempts to be at the forefront of new service developments. Other hotels often follow Hotel B in the development of these services.</td>
</tr>
</tbody>
</table>

22) Relative to your competitors, does your hotel have a culture that seeks to avoid risk or copes well with taking risk?
   Seeks to avoid risk: 1 2 3 4 5 6 7
   Copes well with risk: 1 2 3 4 5 6 7

Thank you very much for sparing time to complete this questionnaire.

If you would like to receive the executive report, please staple your business card to the front of this survey, or mail your details under separate cover to preserve anonymity. If you would like to provide any further comments please staple them to this page. If you would be prepared for a brief discussion on the subject by phone, please provide your contact details:

Name ................................................................. Telephone No ..............................................

Hotel .................................................................
Dear Sir/Madam,

**2001 SURVEY OF OUTSOURCING PRACTICES IN AUSTRALIAN HOTELS**

We are members of a Griffith University research team conducting a major study of outsourcing practices in the Australian hotel industry. Although it is widely acknowledged that outsourcing has grown considerably as an important facet of hotel management, a literature search reveals how little we know about the extent and nature of hotel outsourcing. We aim to rectify this situation by throwing light on:

- The degree to which large hotels are outsourcing,
- The nature of management systems supporting hotel outsourcing decisions,
- The factors affecting which activities are outsourced.

An *Executive Report* that compares outsourcing practices across hotels will be produced and made available to all study participants. This report will enable you to *benchmark* your hotel’s degree of outsourcing and management practices to others in the industry.

So far, a series of interviews with General Managers and Financial Controllers in large hotels have been conducted. We are now conducting an Australia-wide survey of General Managers and Financial Controllers of large hotels. We would be most grateful if you could take about ten minutes to complete the enclosed questionnaire. *Even if your hotel does not outsource*, your participation is important, as identifying why some hotels do not outsource is a key aspect of the study. You can be assured that your completed questionnaire will be viewed in the strictest of confidence and that only aggregate data will be published.

We thank you in anticipation of your participation in the study. As you no doubt appreciate, each additional response strengthens the validity of the study's findings.

Yours sincerely,

Dawne Lamminmaki, BCom, CMA, MBA
School of Accounting and Finance

Associate Professor Bev Sparks
School of Tourism and Hotel Management
Dear Sir/Madam,

2001 Survey of Outsourcing Practices
In Australian Hotels

A few weeks ago we sent you a questionnaire concerning outsourcing practices in large Australian hotels. The response to the survey so far has been strong, but the validity and quality of our findings is strengthened with each additional completed questionnaire. If you have already completed and returned the questionnaire - thank you for participating. If you did not have time, we would be most grateful if you could take a few minutes to complete the enclosed copy and return it in the postage paid envelope provided. If you feel it more appropriate for someone else in your organisation to complete it, please forward it to them on our behalf.

Even if your hotel outsources little, your participation is important as identifying why some hotels do not outsource is a key aspect of this study. An Executive Report that compares outsourcing practices across hotels will be produced and made available to all participants. This report will enable you to benchmark your hotel’s degree of outsourcing and management practices to others in the industry. The summary will highlight:

- the degree to which large hotels are outsourcing,
- the nature of management systems supporting hotel outsourcing decisions,
- factors affecting which activities are outsourced.

You can be assured that your questionnaire responses will be viewed in the strictest of confidence and will only be seen for the purpose of data entry. Only aggregate data will be published. We thank you in advance for your participation in this study.

Yours sincerely,

Dawne M. Lamminmaki, CMA, MBA, B.Com
School of Accounting and Finance

Associate Professor Bev Sparks
School of Tourism and Hotel Management
Section A: Outsourcing Information

**DEFINITION OF OUTSOURCING**: Outsourcing refers to the process where activities traditionally carried out internally are contracted out to external providers.

1) To what extent are the following activities outsourced in your hotel (please indicate an approximate percentage; e.g., 50% would signify half of the resources and work related to an activity are outsourced):

<table>
<thead>
<tr>
<th>Housekeeping</th>
<th>a) Guest rooms</th>
<th>.......... %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b) Public area cleaning</td>
<td>.......... %</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>c) Restaurants</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>d) Conference and Banqueting</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>e) Room service</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>f) Food and Beverage night cleaning</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>g) Pre-prepared ingredients (eg pastry, baking, sauces, etc.)</td>
<td>.......... %</td>
</tr>
<tr>
<td>Other</td>
<td>h) Laundry</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>i) General maintenance</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>j) Security</td>
<td>.......... %</td>
</tr>
<tr>
<td></td>
<td>k) Accounting functions</td>
<td>.......... %</td>
</tr>
</tbody>
</table>

2) In general, do you think your hotel outsources more or less than other hotels?

<table>
<thead>
<tr>
<th>Much less</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Much more</th>
</tr>
</thead>
</table>

Section B: Background Information

(Data collected in this section will enable an analysis of organisational factors affecting outsourcing and outsourcing management systems).

3) What is your hotel’s approximate size: Number of rooms ..........  Annual sales turnover: $ .......... million

(Please circle)

4) Is your hotel managed under a management contract (i.e. owner separate from operator): Yes / No

5) a) Is your hotel part of a chain or franchise: Yes / No
   b) If yes, please indicate approximate number of hotels in chain in: i) Australia: ..........  ii) Worldwide: ............

For the remaining questions, please circle the number corresponding most closely to your answer.

6) How intense is your hotel’s competition with respect to the following factors:

<table>
<thead>
<tr>
<th>Not intense</th>
<th>Very intense</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>a) Price</td>
<td></td>
</tr>
<tr>
<td>b) Promotion</td>
<td></td>
</tr>
<tr>
<td>c) Service quality</td>
<td></td>
</tr>
<tr>
<td>d) Service variety</td>
<td></td>
</tr>
</tbody>
</table>

7) Relative to your competitors, what is your hotel’s overall performance in the past three years across the following dimensions:

<table>
<thead>
<tr>
<th>Well below average</th>
<th>Well above average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>a) Market share</td>
<td></td>
</tr>
<tr>
<td>b) Revenue per available room (Revpar)</td>
<td></td>
</tr>
<tr>
<td>c) New service/product development</td>
<td></td>
</tr>
<tr>
<td>d) Customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>e) Cost reduction programs</td>
<td></td>
</tr>
<tr>
<td>f) Staff training</td>
<td></td>
</tr>
</tbody>
</table>

8) There are many ways to categorise and describe strategy. Two definitions are given in the box below. On a scale of 1 to 7, please indicate which of the descriptions most closely fits your hotel’s strategy. Please note that neither type is inherently “good” or “bad”.

**Hotel type A** attempts to maintain a secure niche. It offers a narrow range of services compared to its competitors. It is not at the forefront of developments in the industry - instead it concentrates on doing the best job possible in a limited area. Service developments tend to concentrate on current areas of operation.

**Hotel type B** offers a wider range of services compared to its competitors and continually searches for market opportunities. It responds rapidly to early signals of market needs and consistently attempts to be at the forefront of new service developments. Other hotels often follow Hotel B in the development of these services.

<table>
<thead>
<tr>
<th>Hotel type A</th>
<th>Hotel type B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
9) To what extent is your accounting department involved in:
   a) initiating outsourcing decisions? 1 2 3 4 5 6 7
   b) formalising outsourcing decision making processes? 1 2 3 4 5 6 7
   c) developing an exact specification of what is required of a potential subcontractor? 1 2 3 4 5 6 7
   d) appraising subcontractors when making an outsourcing decision? 1 2 3 4 5 6 7
   e) monitoring the performance of sub-contractors? 1 2 3 4 5 6 7
   f) periodically reviewing the decision to outsource large activities? 1 2 3 4 5 6 7

10) To what extent does your hotel:
   a) make outsourcing decisions in the context of a long term strategic agenda? 1 2 3 4 5 6 7
   b) have documented outsourcing decision making procedures? 1 2 3 4 5 6 7
   c) have a formal body responsible for screening & reviewing outsourcing proposals? 1 2 3 4 5 6 7
   d) require, where possible, three or more subcontractor bids for a new contract? 1 2 3 4 5 6 7
   e) require potential subcontractors to submit risk management plans outlining how a range of contingencies would be managed? 1 2 3 4 5 6 7
   f) require a formal financial evaluation of outsourcing proposals? 1 2 3 4 5 6 7
   g) require a formal risk analysis of outsourcing to be conducted? 1 2 3 4 5 6 7
   h) formally monitor outsourcing performance once operational? 1 2 3 4 5 6 7

11) To what extent are the following factors considered when assessing whether to outsource an activity?
   a) Cost of setting up the outsourcing contract (eg, negotiation & legal costs). 1 2 3 4 5 6 7
   b) Control costs (eg, evaluating, enforcing and renegotiating contracts). 1 2 3 4 5 6 7
   c) Costs of the subcontractor acting in their own interest to the detriment of the hotel. 1 2 3 4 5 6 7
   d) Failure costs (if a subcontractor performs poorly, costs will be incurred finding a new subcontractor or bringing the activity in-house). 1 2 3 4 5 6 7
   e) Net savings in annual administration costs if an activity is outsourced. 1 2 3 4 5 6 7
   f) Savings in future staff turnover costs if activity is outsourced (eg, hiring and training of housekeeping staff). 1 2 3 4 5 6 7
   h) The degree to which the subcontractor’s organisational culture is compatible with the hotel’s organisational culture. 1 2 3 4 5 6 7

12) To what extent are discounting methods (e.g., net present value) used to value future cash flows when appraising whether to outsource? 1 2 3 4 5 6 7

13) To what extent are the following methods used for appraising risk associated with outsourcing?
   a) Requiring sensitivity analysis across a range of assumptions (e.g., best and worst estimates, probability analysis, etc.). 1 2 3 4 5 6 7
   b) Raising the threshold of cost savings required to justify outsourcing. 1 2 3 4 5 6 7

14) If you are a member of a professional accounting body, please record the name of the body: 

Thank you very much for sparing time to complete this questionnaire.

If you would like the executive report, please staple your business card to this survey, or to preserve anonymity, mail your details under separate cover. If you would like to provide any further comments, please staple them to this page.

If you would be prepared for a brief discussion on the subject by phone, please provide your contact details:

Name........................................................................................................Telephone No........................................

Hotel........................................................................................................
Dear Sir/Madam,

2001 SURVEY OF ACCOUNTING PRACTICES
AND OUTSOURCING DECISION MAKING IN AUSTRALIAN HOTELS

We are members of a Griffith University research team conducting a major study of accounting practice relating to outsourcing in the Australian hotel industry. Although it is widely acknowledged that outsourcing has grown considerably as an important facet of hotel management, a literature search reveals how little we know about accounting’s involvement in outsourcing decisions. This study has been designed to rectify this situation.

An Executive Report that compares accounting practices across hotels will be produced and made available to all study participants. This report will enable you to benchmark your hotel’s outsourcing management systems to others in the industry.

So far, a series of interviews with Financial Controllers and General Managers in large hotels have been conducted. We are now conducting an Australia-wide survey of Financial Controllers and General Managers in large hotels. We would be most grateful if you could take about five minutes to complete the enclosed questionnaire. Even if your hotel does not outsource, your participation is important, as identifying why some hotels do not outsource is a key aspect of the study. You can be assured that your completed questionnaire will be viewed in the strictest of confidence and that only aggregate data will be published.

We thank you in anticipation of your participation in the study. As you no doubt appreciate, each additional response strengthens the validity of the study's findings.

Yours sincerely,

Dawne Lamminmaki, BCom, CMA, MBA
School of Accounting and Finance

Associate Professor Bev Sparks
School of Tourism and Hotel Management
Dear Sir/Madam,

2001 Survey of Accounting Practices and Outsourcing Decision Making in Australian Hotels

A few weeks ago we sent you a questionnaire concerning accounting practice relating to outsourcing in large Australian hotels. The response to the survey so far has been strong, but the validity and quality of our findings is strengthened with each additional completed questionnaire. If you have already completed and returned the questionnaire - thank you for participating. If you did not have time, we would be most grateful if you could take a few minutes to complete the enclosed copy and return it in the postage paid envelope provided. If you feel it more appropriate for someone else in your organisation to complete it, please forward it to them on our behalf.

Even if your hotel outsources little, your participation is important as identifying why some hotels do not outsource is a key aspect of this study. An Executive Report that compares outsourcing accounting practices across hotels will be produced and made available to all participants. This report will enable you to benchmark your hotel’s outsourcing management systems to others in the industry. In addition, the report will highlight the degree to which large hotels are outsourcing and factors affecting which activities are outsourced.

You can be assured that your questionnaire responses will be viewed in the strictest of confidence and will only be seen for the purpose of data entry. Only aggregate data will be published. We thank you in advance for your participation in this study.

Yours sincerely,

Dawne M. Lamminmaki, CMA, MBA, B.Com
Associate Professor Bev Sparks
School of Accounting and Finance
School of Tourism and Hotel Management
REFERENCES


Liberson, J. (1995a). ‘The moveable banquet: Mobility of site, staff, and resources just may be the key to profitable banquets and catering’. *Lodging*, 20 (July): 75-78.


