Assessing hotel outsourcing activities in Arya hotel chains

Amir Aslanzade
Arshia Mahmoodkhan Shirazi

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Business Administration

Luleå University of Technology
Department of Business Administration, Technology and Social Sciences
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Supervisors:
Prof. Tomasevic
Prof. Mohammadkhani

By:
Arshia Mahmoodkhan Shirazi and Amir Aslanzadeh

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Abstract

This master thesis attempted to assess hotel outsourcing in the context of Iranian hotel industry. Outsourcing was not a new concept as it had been used as a tactic in various industries such as hospitality and tourism industry worldwide. The outsourcing had been developed on the basis of a very simple logic which employs the other products as these are cheaper, faster and better. These days outsourcing was a very common hotel management style as hotels employ external expertise being cheaper, faster and more skilled than hotels by themselves. Outsourcing was not confined to one application or two whereas it means different things for hotels. Generally hotels applied outsourcing applications as a method for surviving in the present competitive marketplace. The notion provided hotel with an opportunity to pay greater attention to core activities by freeing up hotels with resources from peripheral and supporting activities. This research focused on Arya hotel group which is one of the well-known and admired Iranian hotel chains and studies the application of outsourcing on this hotel chain. This research used qualitative approach attempting to collect descriptive data from personal interviews with some of the Arya hotel general managers in different cities such as Mashhad, Kerman, Tehran and other major cities where the hotel group has branches. Additionally this research reviewed several articles and books related to hotel outsourcing and denotes their findings as well. This research attempted to present ideas related to outsourcing of hotel activities aiming at refining Iranian hotels especially in case study of Arya hotel group. The finding of this research showed that from various applications of hotel outsourcing the main reasons and drives of outsourcing in the hotel group is only cost cutting and increasing service level of the hotels. Even just half of the participants (general managers) in the research believed that outsourcing can lead to cost cutting. It is clear that the hotel group yet has not had any predefined outline for planning and implementation of outsourcing, however, the review of the previous relevant case studies showed that outsourcing can improve hotel core competencies in
various ways such as strategic repositioning, core competency enhancement, greater service integration, high value creation, access to advanced technology and outside expertise and dramatic cost reduction. This research signified a theory that entitles as “outsourcing of Arya hotels’ support functions to outside suppliers can achieve better, faster and cheaper outcome”. Hotel outsourcing occurred in variety of hotel functions within different hotel departments. This research showed that Arya hotels in various cities have outsourced their different hotel functions.
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# Table of Contents

Abstract.........................................................................................................................3

Acknowledgements........................................................................................................5

Table of Contents...........................................................................................................6

List of tables..................................................................................................................8

Chapter 1.
Introduction...................................................................................................................9
  1.1 problem statement..................................................................................................10
  1.2 Significant of the study.........................................................................................10
  1.3 Research Objectives.............................................................................................10
  1.4 Outline of the thesis.............................................................................................11

Chapter 2.
  2.1 Introduction .........................................................................................................13
  2.2 Definition of hotel outsourcing, hotel operation outsourcing, nature of outsourcing, assessing hotel outsourcing..................................................14
  2.3 Effective outsourcing, drivers and motives of outsourcing, assessing hotel outsourcing..................................................................................19
  2.4 Theory with supporting quotations.....................................................................31

Chapter 3.
  3.1 Research Purpose.................................................................................................33
  3.2 Research approach...............................................................................................33
  3.3. Research Strategy................................................................................................34
  3.4. Data Collection.....................................................................................................36
3.5. Sample selection ..................................................... 43
3.6. Data Analysis .......................................................... 44

Chapter 4.

4.1. Result of the research-the topic .................................. 45
4.2. Structural Analysis and Evaluation.................................. 45
4.3. Data Analysis and Results........................................... 45

Chapter 5.

5.1. Finding of literature review .......................................... 76
5.2. Finding of primary research ......................................... 81
5.3. Discussion .............................................................. 83
5.4. Conclusion and recommendation ................................... 85
5.5. Applicable suggestions ............................................... 87
5.6. Research limitation .................................................. 89
5.7. Suggestion for future research ..................................... 90

References ................................................................. 91
List of Tables

Table V........................................................................................................46
Table I...........................................................................................................52
Table 1.........................................................................................................52
Table 2.........................................................................................................52
Table 3.........................................................................................................54
Table 4.........................................................................................................55
Table 5.........................................................................................................57
Table 6.........................................................................................................58
Table 8.........................................................................................................59
Table 9.........................................................................................................60
Table 10.......................................................................................................61
Table 11.......................................................................................................62
Table 12.......................................................................................................63
Table 13.......................................................................................................64
Table 14.......................................................................................................65
Table 15.......................................................................................................66
Table 16.......................................................................................................67
Table 17.......................................................................................................68
Chapter 1. Introduction

Generally the assessment of outsourcing activities in Tehran five stars hotel is elaborated in this thesis. The present research aims providing an insight to one of the contemporary strategies that is widely utilized in hotels worldwide. Phenomenon of outsourcing is not new but has been occurring for a long time. Traditionally it is clear that enterprises provide services in the developed countries for their counterparts in developing countries. In hotel operation outsourcing can be recognized in various hotel departments and their activities such as human resource, housekeeping, food and beverage and so on. These days outsourcing is a hotel management style as hotels employ outside expertise that are cheaper with greater speciality comparing to the hotels’ performance. Outsourcing definitely has various meanings for different hotels. Outsourcing may be perceived as a tactic to reduce operating cost, a method to downsize the organizational structure and approach to linear organisation, a way of establishment robust partnership between a hotel and its suppliers, a simple contracting out decision, a climate of compatibility in organization culture between hotel and its suppliers, a tactic for coping seasonality and fluctuation in demand and many more applications; Struebing (1996). Globalization, emergence of advance technologies, customer trends and tastes and great competition have driven hotels to apply outsourcing applications as a method for surviving in present competitive marketplace. “The decision to in-source or outsource could allow a firm to free up resources needed to focus on more important and to invest in newer or higher return processes or new opportunities” (Rodrigues et al., 2005, p.711) cited Powell Mantel et al. (2006). Outsourcing can occur in entire hotel activities.
1.1 statement of the Problem

Iranian hotel industry is recognised as a service industry that is not aware of complexity of service and customer dissatisfaction is entirely common within all sectors of the industry. Part of this problem has arisen from lack of Iranian government’s support toward development of the industry along with absence of unionisation; However, in this context the micro environment factors have had direct influence on this problem. The researchers believe that outsourcing as a management tactic could influence this problem in a positive way.

1.2 Significance of the study

Addressing the issues of the Iranian hotel industry is crucial and presenting methods to turn the problems to the opportunities is the fundamental role of hospitality and tourism graduates. Outsourcing allows Iranian hotels to focus on core hotel functions when they can provide professional suppliers with greater expertise to the system of service operation. Therefore studying hotel outsourcing is one of the significance fields that should be well investigated in context of Iranian hotel industry.

1.3 Research objectives

This research sets out to evaluate the application of outsourcing in Arya hotel group. Moreover this thesis sets out to answer the following question:

- What is the status quo of outsourcing assessment in Iranian five star hotels?

The methodology of this research is based on qualitative approach. It is a descriptive study employing narrative data by the personal interviews that is using questionnaire with open ended questions. The interviews were arranged with few of general managers of Arya hotel group then the analysis of responses content was carried out thoroughly. This research presents the idea for refinement of Iranian hotel chain services specially Arya hotel chains. Predicting and operating initial outcomes of application and employment of
outsourcing strategies for the chain also are presented in the present thesis. The strategy of this research is using a case study of Arya hotel chain aiming at assessing the outsourcing regarding the hotel chain. The present study enjoyed a meta analysis perspective as well. The qualitative approach that was used in area of primary research was the interview. In the area of secondary research this study reviewed several articles regarding hotel outsourcing in online databases such as Emerald full text as well as electronic journals and books such as *International journal of contemporary hospitality management, International journal of operation and production management*.

### 1.4 Outline of the thesis

The thesis includes five chapters: In the first chapter a general description is given, the background and discussions of issues related to the problem as well as the research objectives and the main research question are presented. The second chapter presents the literature review with theories relevant to the area of hotel outsourcing especially regarding different types of outsourcing in different hotel departments and their pros and cons. In the third chapter the methodology used for this research will be discussed as it contains a questionnaire and utilization of statistics eliciting from responds of participants. In the forth chapter the data gathered from primary and secondary research will be analyzed and certain findings will be communicated relatively. Finally in the last chapter a set of recommendations will be presented and a conclusion will be drawn considering main finding of the research.

The research aims at assessing the application of outsourcing in Iranian hotel industry. Studies of articles related to outsourcing and referenced at the bibliography of this thesis show that outsourcing of peripheral hotel functions leads to matters of strategic repositioning, core competence enhancement, greater service integration, high value creation, access to advanced technology and outside expertise and cost cutting of hotel. The aim of the present research is to assess hotel outsourcing and potential benefits in context of Iran hotel industry. Hotel outsourcing can contribute to promotion of core competencies
as the previous studies and the research of this thesis show. The results of this research show that outsourcing of non-core hotel functions contribute to cost efficiency and focus on core hotel activities if the outsourcing is effectively initiated and maintained by standard framework meanwhile, the Arya hotel group has not ideally carried out the outsourcing activities and has not obtained the optimum results. There are certain limitations for such method of research as it cannot allow testing new ideas for Iranian hotel chains in area of effectiveness of outsourcing and practical implications on hotel operations. Therefore this research just presents the idea for refinement of Iranian hotel chain’ services specially Arya hotel chain, and operation and predicting initial outcomes of application and employment of outsourcing strategy for the chain. So the effectiveness of testing the thesis hypothesis is not surly clear. Moreover the attempt of researchers for conducting guest satisfaction survey was failed owing to rigid atmosphere of research in Iran as generally there are barriers for researchers who are not allowed to conduct research publicly. Any kind of access to hotel guests was prevented by hotel security.

The theory signifies “outsourcing of Arya hotels’ support functions to outside suppliers can achieve better, faster and cheaper outcome”. Reviewing of articles showed that majority of hotels which have outsourced such supporting operations are satisfied with result. There are certain common hotel activities that are outsourced, including but are not limited to information technology (IT), training, accounting and internal auditing, food production, animation, transportation services, security, public relations, reception, reservations, room cleaning, laundry, purchasing and receiving, restaurants, bars, kitchen operations, technical services, gardening services, sales and marketing, recruitment, training, accounting, fitness and housekeeping. This research shows that hotel performance improves when hotel enhances focus on a firm’s core competencies and outsource non-core activities.
Chapter 2. Literature review

2.1. Introduction

The main intention of general review of literature is finding what other researchers noted about the topic of the thesis. Many researchers have studied the matter of outsourcing in the area of hotel operation recently and have represented several case studies. Therefore in context of secondary research reviewing of such literature is the main intention of the present chapter.

2.2. Definition of hotel Outsourcing, hotel operation outsourcing, nature of hotel outsourcing

There are several prominent definitions of outsourcing in the literature some which are represented here and now. The definition of business dictionary on outsourcing is “Contracting, sub-contracting, or 'externalizing' non-core activities to free up cash, personnel, time, and facilities for activities where the firm holds competitive advantage”. The dictionary defines outsourcing further as:

“Firms having strengths in other areas may contract-out data processing, legal, manufacturing, marketing, payroll accounting, or other aspects of their businesses to concentrate on what they do best and thus reduce average unit cost. Outsourcing is often an integral part of downsizing or reengineering. Also called contracting out”.

Outsourcing definition in the encyclopaedia is “The practice of having certain job functions done outside a company instead of having an in-house
department or employee handle them; functions can be outsourced to either a company or an individual”.

Outsourcing has been viewed as a form of predetermined external provision with another enterprise for the delivery of goods and/or services that would previously have been offered in-house (Elfing & Baven, 1994)

“Outsourcing can be defined in simple terms to describe a situation where one organization gives work to other firms, which can execute this work more efficiently, usually for lower costs, and whose capabilities complement or supplement their own” (Kancharla, 2007, p.59). Outsourcing was defined by Kakabadse et al. (2000) as “a form of predetermined external provision with another enterprise for the delivery of goods and/or services that would previously have been offered in-house” (Kakabadse, 2000, p.670). Outsourcing is defined as “the process of transferring the responsibility for a specific business function from an employee group to a non-employee group” (Zhu et al, 2001, p.374). The outsourcing “seller” who specializes in a particular non-core business function has the economy of scale and the expertise and the capital investments in the leading technology to perform the same tasks more efficiently and better than the internal departments of the outsourcing “buyer” (p. 374). Barthélemy (2003) defined outsourcing as “Turning over all or part of an organizational activity to an outside vendor” (p.93). Kern & Willcocks (2002) defined outsourcing as “Contract out or sell to a third party supplier” (p.5). Lacity & Willcocks (2000) denoted the concept of outsourcing as “Transfer to supplier” (p.7). Langfield-Smith & Smith (2003) defined it as “Contracting of any service or activity to a third party” (p.283). Loh & Venkatraman (1992) described outsourcing as “Contribution by external vendors” (p.9).

Paraskevas (2001) suggested outsourcing as an alternative approach: “Outsourcing might be a better alternative when it is believed that certain support functions can be completed faster, cheaper, or better by an outside organization” (p. 256). Moreover the researcher mentioned to the study of
Arthur Andersen and the Economist Intelligence Unit that signifying 91 percent of organizations that outsource operations are satisfied with the results (Paraskevas, 2001 cites Struebing, 1996). Nowadays along with traditional outsourcing of internal functions in category of support, advice, audit, and evaluation such as IT, training, accounting and internal auditing, hotels outsource other service encounters by eliminating internal suppliers like the purchasing department that replace with e-procurement, food production and housekeeping (Paraskevas, 2001). One of the effective ways to handle this issue is outsourcing the training or at least outsourcing the appraisal of training program and satisfaction survey (Paraskevas, 2001).

Bolat et al. (2009) examined empirically the influence of outsourcing of non-core hotel activities upon hotel’s performance. The researchers believed that hotel performance improved when hotel enhances focused on a firm’s core competencies and outsource non-core activities; (Bolat et al., 2009).

“The outsourcing of non-core activities allows the hotel to increase managerial attention and resource allocation to those tasks that it does best and to rely on management teams in other firms to oversee tasks at which the outsourcing firm is at a relative disadvantage” (p.7).

According to the researchers outsourcing of noncore activities contribute to the service quality owing to this fact that these noncore activities are among the core activities of the company that hotel services are outsourced to, since high capabilities of such organisations are result of great investment and attention to related technology, methodology, experience with different customers (other hotels) and human resources that have been developed over time contributing to hotel service quality (Bolat et al., 2009).

“By focusing on specific skills and technologies, a vendor may become more proficient at that activity than the outsourcing firm may. Ideally, the vendor is also a cost-conscious provider and reduces bureaucratic costs, produces further efficiencies, and shares some of the savings with its clients” (p.9).
This outsourcing strategy leads to lower fix costs and lower breakeven point as the need for capital assets and investment in hotel capacity would be confined. According to (Bolat et al., 2009) most commonly outsourcing activities in the hotels are animation, transportation services, security, and public relations. Other usual common hotel services and activities that are outsourced including: reception, reservations, room cleaning, laundry, guest laundry, purchasing and receiving, restaurants, bars, kitchen operations, technical services, gardening services, sales and marketing, information system, recruitment, training, accounting, and fitness (p.12).

Lamminmaki (2005) assessed the nature of outsourcing activities in hotel by applying Williamson’s six dimensional typology of asset specificity. The study claims that one of the major influences upon outsourcing decision in hotel is asset specificity. The finding of the study reveals that high asset specificity leads in in-sourcing of hotel activities.

“Asset specificity relates to the extent to which investments in assets (either human or physical) are specific to a particular trading relationship. Transaction cost economics (TCE) holds that the greater the asset specificity, the more likely a transaction will be internally managed (i.e. not outsourced)”;
(p.516).

The asset specificity includes six aspects of human, physical, site, dedicated, brand capital, and temporal asset specificity. Human asset specificity is defined as any unique knowledge or skill that staff develops through training and is able to use this knowledge, skill or experience in the hotel. Physical asset specificity is related to investments in physical assets for a specific trading relationship. Site specification is related to an investment of particular site with specific favoured location elements. Dedicated asset specificity is related to general purpose asset contrary to specialised asset. The researchers used examples of a hotel that grows its facilities and capacities for future neighbouring conference venue. Brand capital is related reputation investment. If an outsourcing activity leads to damage of a hotel image; this activity will tend not to be outsourced. Temporal specificity is related to investment where
timing and coordination of activities are important. It is more related to production of a product that includes several different phases or other parts requiring timely coordination of different activities. In case of hotel the researcher used the example of outsourcing laundry, cleaning or pre-prepared food ingredients that are required in timely and coordinated manner to facilitate the production of hotel services (p. 516). This Study showed that asset specificity was related to outsourcing of hotel shops, entertainment, laundry, information technology and restaurant in which all of the contract were made responsible the subcontractors for investing for all refurbishments and other related expenses as a strategy of hotels to ensure subcontractors’ promise to the trading relationship between hotels and them and encouragement of commitment toward hotel, since such investment from subcontractors required them to focus on service quality for safe guarding their investment in the hotels. One the contrary for protecting subcontractors’ interest long contracts were made between hotel and subcontractors that assures subcontractors on return of their investment in the hotels (Lamminmaki, 2005).

Rodrigues et al. (2008) explored the relationship between asset specificity and outsourcing in the hotel sector as well as the factors that cause increase in the outsourcing strategy in domain of hospitality. According to Rodrigues et al. (2008) mainly the factors that motivate hotels to outsource are related to the quality matters and non-financial performance of operation. The researchers believed that the decision of outsourcing or in sourcing a hotel activity links to a firm's available knowledge and skill related to this particular activity. Those hotel operations which are specified require more time when a hotel intends to outsource them. On the Contrary lower specific operation requires less time and thus easier for outsourcing. So; non-specific operations are more likely to outsource in hotels and allow hotels to improve the competitive advantage and focus on the core competencies that require greater specific operations (Rodrigues et al, 2008). In this respect, suppliers provide the firm with resources in which they are specialized and have invested over time in order to develop their operations. Thus, their capability is higher than any firm that develops the operation in-house. That potential for competitive advantage may be transmitted to firms that acquire the service, in that there will be lower
costs, higher professionalism and higher quality in the services that have been outsourced (Rodrigues et al., 2008, cited in Quinn, 1999, p.118). However other factors influence upon decision of outsourcing such as the costs of developing required capability for doing an operation in house and cost of outsourcing that operation. An organization assesses the performance of an operation that it intends to outsource by comparing the cost and quality of resources acquired on the market and the cost and quality when it is developed in-house (Rodrigues et al., 2008, p.120).

The study of Delmotte & Sels (2008) addressed two different views toward human resource outsourcing in hotels. “HR outsourcing means having a third-party service provider or vendor furnish, on an on-going basis, the administration of an HR activity that would normally be performed in-house” (Delmotte & Sels, 2008 cited in Cook, 1999, p.35). The outcome of their study shows an organisation that has strong emphasis upon HR cost cutting has greater intention toward outsourcing. They mentioned that operations such as cleaning, information technology, catering and security are among those activities that are usually outsourced. “Drivers of HR outsourcing are gaining specialised HR expertise, achieving flexibility, reducing risks and enhancing access to advanced technology” (Delmotte & Sels, 2008, p.545). The study showed that willing to increase the competitive advantage; organizations focus on core activities and outsource other peripheral operations with low added value which allows the organization to allocate more time, money and managerial attention to the core activities. Thus those organizations which focus on the strategic role of HR would depend more on HR outsourcing. By reviewing the result of the study; there are some HR activities that are more outsourced including; payroll, training, and temporary agency work. Meanwhile there are certain HR activities that are less outsourced including; determining job and wage classifications, outplacement, appraisal, and career guidance.

Hemmington et al. (2000) discussed the outsourcing of hotel food and beverage services exploring the key dimensions of this kind of outsourcing.
“This outsourcing or co-branding approach, is more developed in the USA...There are many hotel and restaurant companies that have adopted this approach to hotel dining including: Hilton with Benihana and Trader Vic’s; Holiday Inn with TGI Friday’s and Denny’s; and Marriott with Pizza Hut, TGI Friday’s and Ruth’s Chris...In the UK Granada’s Forte Hotels have actively partnership with...Marco Pierre White, Raymond Blanc, and Mongolian Barbecue” (p. 256).

Hemmington et al. (2000) showed that both group of restaurateurs and hoteliers believe that outsourcing of hotel food and beverage services have widely became common and utilize by both hotel and restaurant at the present. Restaurants are specialised in food and beverage production and service and some of them are able to offer highly specialised forms of food and restaurant services requiring high level of proficiency for instance in local, national and international cuisine in which most of hotels cannot achieved and have no choice except outsourcing. The logic for outsourcing via co-branding is about linking to strong brand names increasing the quality, reputation and profile of each (Hemmington et al., 2000).

2.3. Effective hotel outsourcing, drivers and motives of hotel outsourcing, assessing hotel outsourcing

One the main drives of outsourcing of a product and service is consideration of scale and costs aiming to save on overhead or to cause short-term cost saving (Finlay & king, 1999). Global competitive pressure has pushed service organisation to search for efficiency and therefore outsourcing their requirements for components and business services have increased
considerably. The research shows cost-savings and freedom to focus upon core business are major reasons for outsourcing (Finlay & King, 1999).

Kakabadse et al. (2000) discussed changes that were occurring in hotel outsourcing while addressing main drives of outsourcing. Kakabadse et al. (2000) stated that one of the main drives of product and service outsourcing is consideration of scale and costs.

“Firms use outsourcing in order to satisfy any one or more of three strategic intents, namely strategic improvement [cost reduction and enhancement of efficiency], strategic business impact [improving contribution to companies’ performance within existing lines of business] and strategic commercial exploitation [focus on leveraging technology-related assets].” (p.672).

Therefore, Kakabadse et al. (2000) mentioned the main reasons of outsourcing as matters of strategic repositioning, core competence enhancement, greater service integration, high value creation and cost cutting. Moreover, in the area of information technology outsourcing; Kakabadse et al. (2000) discussed the main motives to outsourcing are around cost, technological innovation, and knowledge enhancement consideration when in-house performance is below the performance of external suppliers as well as preventing managerial distraction.

Lai et al. (2005) discussed outsourcing in area of hospitality human resource management. They mentioned outsourcing of recruitment and selection to employment agencies. Their study showed that this kind of outsourcing could be an effective method to cope with demand fluctuations in hotel sector by applying just-in-time (JIT) philosophy through the development of relationships with employment agencies (Lai et al., 2005). The researchers discussed unpredictability of demand for hotel services along with simultaneous production and consumption characteristics of services that are highly depended to hotel staff and their continuous interaction with guests. Just-in-time (JIT) management “aims at ensuring businesses hold zero
inventory and eliminate any non-value-added waste during the production process” (p. 88). Lai et al. (2005) mentioned to short lead time between demand and supply in hotel operation in which for instance there is a short time between the customer ordering and production of service that is coincided with the philosophy of the JIT system in term of zero inventory, waste elimination and quality concern.

“The application of a JIT philosophy within its labour flexibility strategies, through use of external labour suppliers (employment agencies), hotel operations can benefit from flexibility, cost-effectiveness, and recruitment problem solving” (p.88).

Therefore employing outsourcing in this area facilitates JIT method in context of hospitality while providing reliable and able workforce when hotels need and when their demands increase. Moreover when organisations employ labour force flexibility by utilising peripheral staff and outsourcing to external employment agencies the indirect labour cost such as wages/salary, pensions, national insurance, holiday entitlement, and subsidized food and lodging assign to these agencies allowing hotels to employ least resources to generate the maximum outputs (Lai et al., 2005). “By utilizing the agency as its own labour supplier, hotel operations can eliminate unnecessary “waste” in staffing and maintain the minimum amount of labour “inventory” while facing demand fluctuation” (p. 96).

One of the key reasons of hotel outsourcing in the area of food and beverage is financial performance in the areas of increase revenue and cutting cost. However, in some hotels food and beverage services of hotels could support and steer the hotel’s image and were recognized as the client’s overall expected hotel experiences. It is rare that hotels outsource all food and beverage services and they usually keep their control over high profit areas such as banquet and breakfast services (Hemmington et al., 2000). The finding of the study showed five key dimensions in outsourcing relation between hotel and restaurant companies: “core competencies, brand compatibility, organisational culture, operation tension, and systems of review, evaluation and control” (p. 258). Studies show that different problem related to
outsourcing of food and beverage services emanates from different core competencies demanding effective management and operation technique. The researchers also believed that brand compatibility in term of target markets is also essential to the success of hotel food and beverage outsourcing. Brands must complement each other providing consistent guest experience. Both hotel and restaurant must be able to sustain and enhance brand identity and integrity in developing outsourcing relationship (Hemmington et al., 2000). Moreover when hotel and restaurant intend to work in close operation area; harmonizing organisational culture with each other is significant. For instance a hotel that is categorised at a mid-level accommodation product at an affordable price with promise to high quality standard should develop outsourcing relationship with a restaurant that has same profile and values. Many outsourcing arrangements fail owing to cultural mismatched (Hemmington et al., 2000).

Zhu et al. (2001) outlined the precise steps and considerations requiring for successful implementation of an outsourcing process. The researchers noted that there is considerable growth in outsourcing volume in the past decade. The researchers mentioned that the study of Lackow (1999) who identified the main reasons of outsourcing as cost saving, improvement of service, the ability on focus on core business and the ability to access outside expertise. “Given that outsourcing will be a natural outgrowth of globalization and fast-changing technology for many companies in the world, those who anticipate and manage these changes strategically, the gains can be enormous” (p. 373). Outsourcing is able to save money for organisations and is able to perform a business function better than organisations’ employees by economic of scale, process expertise, access to capital, and access to expensive technology (Zhu et al., 2001). The researchers defined the four stages of development of an outsourcing process as planning, developing, implementing and the surviving. The researchers argued that the first stage of decision for outsourcing a business function is planning which calculates all costs related to the current method of operating a business function and all costs that are estimated when this function will be outsourced. Moreover in the process of planning other factors must be anticipated including the impacts that outsourcing of specific business function may have on customer service, community, and employee
benefits and reduction. The next step is the developing phase that is commenced by proper vendor agreement or a contract.

“The agreement should be clearly understood by both parties and prior to signing; both parties should have the entire agreement reviewed by their legal counsel who has adequate experience in contract preparation and execution” (p. 374).

Furthermore; this study expressed that the business relation must be clarified in this stage including the estimation of risk, liability, effects on customers, and management of the process that is outsourced. The impact of on employees’ benefits is also a significant part of this stage. Since many countries have laws regarding banding companies to fire their staff of limited their benefits and remuneration package by contract out their jobs to another company.

“When a company makes a decision to outsource a function, proper arrangements for the employees who are currently performing the function must be made. No outsourcing effort can be successful without the full support of the affected employees” (p. 375).

A clear timeline is required to outline for the outsourcing process (Zhu et al, 2001). A preliminary timeline is required as soon as the decision for outsourcing is made and this timeline must be issued to all employees who are part of the outsourcing and impact by the outsourcing process (Zhu et al, 2001). Beyond: important dates regarding the outsourcing project should be announced to all internal and external employees (Zhu et al, 2001). All rumours or misinformation must be eliminated by proper communication plan that prevents rumours and thus dissatisfaction of staff. “The communication plan should be designed to provide timely, detailed, and accurate information on a planned basis” (p. 376). At the implementation stage of outsourcing; the researchers believed that the outsourcing transition can be a very complex event that is demanded a detailed transition plan including step by step instructions on how to handle every task links with the outsourcing process. Furthermore Zhu et al. (2001) suggested a checklist that must be fulfilled to
finalise the transition process. This list includes all the items that are outlined in the transition plan with related responsibilities with dates. There is also a need for post outsourcing review assessing the accomplishments.

The effectiveness of outsourcing application can be reached when the need of outsourcing is correctly determined, core competencies are identified, cost benefit analysis on advantages and disadvantages of outsourcing is conducted, information regarding outsourcing function is disseminated, hotel basic outsourcing needs in long and short terms are identified, data collection process is implemented, proposals from available vendors (those companies that are able to contract out to and carried out the function) are collected and evaluated, a most suitable vendor is identified, a contract is made, and a control process is implemented (Bolat et al., 2009). The result of (Bolat et al., 2009) study shows that organisation performance level is higher for all seven of the organisational performance dimensions of organisational effectiveness, productivity, profitability, quality, continuous improvement, quality of work life and social responsibility after implementation of such an effective outsourcing (Bolat et al., 2009).

Diaz et al. (2006) discussed the outsourcing of hotel activities and required collateral relationship required for creation of strength. “Relational capabilities can be defined as superior skills to manage resources shared between companies” (Diaz et al., 2006, 26). Relational capabilities can be built as outcome of lasting relationship between two or more organisations such as among hotels, hotels and suppliers and so on. The study presented a process for development of relational capabilities in hotel outsourcing activities. Figure 1 represents this process.
The first step of this process finds the core competence of hotel basing on resource and capability theory which indicates the activities that are the most important to the competitiveness of hotel and creation value for guest. Other activities that are not core to the operation of hotel must be outsourced to obtain better performance. “There is a great tendency in the hotel sector to consider that the sales, reception and administration activities are core activities” (Diaz et al., 2006, 27 cite Rodriguez & Robaina, 2005). The second step of this process studies activities that facilitate development of internal or relational capabilities in different aspects of organisational process. There are various types of hotel relationships for instance relationships may occur between hotel and service companies (subcontractors) to do certain activities such as cleaning or maintenance. The third step of this process indicates level of trust and commitment among hotel and other companies. The fourth step of this process starts with presence of companies with great level of competence and performance that integrates their processes by lasting close collaboration that will lead to unique relationship that is difficult to copy by other groups of companies (Diaz et al., 2006). Development of relational capabilities in hotel outsourcing requires a network of suppliers that provide services and products that can be categorised in different hotel operation areas such as cleaning and
maintenance, social activities, normal daily purchases, administration, and human resources, information technology, loyalty promotion programs, call and communication centre, tour operation and wholesale activity, online reservations as well as other business areas (Diaz et al., 2006). The researchers suggested a model that is represented in figure 2 for relational capabilities creation in outsourcing activities on the basis of evaluating of different hotel activities according to their strategic contribution to hotel’s objective and competency.

Figure 2 “Outsourcing and collateral development of relational capabilities in hotel” (p. 33).

Analysing figure 2 reveals that strategic contribution of an activity to hotel’s goal must be evaluated. Activities can be either remaining in house since they are among primary activities and recognising as core competence, or outsource since they are among core activities but hotel does not have required competency to carry them out, or outsource since they are among those group
of non-core activities. The level of hotel’s competency at performing a function or an activity influences upon relational capability (Diaz et al., 2006). Moreover on figure 2 outsourcing and collateral development of relational capabilities include four boxes that are explained separately. The situation of high competence and low strategic contribution is signifying a condition which hotel has high competence in a low strategic value activity and thus it should choose to outsource the activity. This kind of activity in hotel may include laundry, cleaning and maintenance that hotel may have required competence in performing these, but it chooses to outsource such activities to a company with required level of performance and ensured quality through development of relational capabilities (Diaz et al., 2006). The researchers suggest the relational capabilities in this group of function can be developed through integration of process between numbers of hotel that are allied and choose to outsource non core activities seeking to improve the efficacy of core activity, to create added value, to reduce costs, and thus to gain competitive advantage (Diaz et al., 2006). The situation of low competence and high strategic contribution is signifying a condition that hotel does not has required competence for an activity that is essential for sustaining its competitiveness. The hotel can choose to either increase internal competence by integration and reengineering processes or outsource activity to a service company with maximum integration with hotel since the outsourced function is among high strategic value functions and required very high level of operating performance. Food and beverage activities are in this group of operation in hotel (Diaz et al., 2006). The situation of low competence and low strategic value is signifying a condition that hotel easily outsource by use standardised procedures allowing hotel to choose between various suppliers for instance common area cleaning, swimming pool maintenance and gardening are among this kind of activities (Diaz et al., 2006). Finally the situation of high competence and high strategic value indicates core hotel operations that are carried in house by hotel and are source of service differentiation (Diaz et al., 2006).

Murphy et al. (2008) assessed hotel website management and key web development outsourcing in small and medium sized hotel. The researchers
believed that such an outsourcing in hotels usually leads to lack of attention and control over search engine marketing and thus poor internet marketing. The study showed that outsourcing in this regard costs small and medium sized hotels to lose contact with their customers and fail maximise their return on investment on their website (Murphy et al., 2008). Further this study showed that outsourced hotels’ website were rarely managed by marketing managers rather they are left to outsource party or a company costing hotels with considerable drawbacks such as very slow updates and visibility in search though the web (Murphy et al, 2008).

Prowse & Prowse (2010) discussed contribution of human resource management to organization performance. The researchers represent three main schools of thought titled “best practice”, “best fit” and “configurational fit” regarding the link between HRM and performance. The “best fit” approach indicates outsourcing as

“Studies of UK workplace performance found evidence that UK HRM practices in the 1990s focused on cost minimization practices, using low pay, disposable labour and outsourcing rather than a development of a high skilled, co-operative and mutual gains partnership with their workforce” (p.150).

The researchers claimed that such an approach to human resource management which focuses on cost reduction may eventually lead to reduction of quality and commitment (Prowse & Prowse, 2010).

Soliman (2003) discusses the growth of internet as it has facilitated outsourcing of information systems applications. There are companies that offer outsource application services to many organization via the internet known as application service providers (ASP). “By contracting ASP, organizations are having information technology (IT) staff focusing their efforts on core competencies while, at the same time, capitalizing on the expertise of outsourcer” (p. 735). The researcher claimed that there are critical factors influencing the decision of information system outsourcing by hotels
such as product development costs, IT talent, product quality, communication technology, tax incentives, and cultural differences.

Caldeira & Dhillon (2010) discussed service organizational competencies for adoption of information technology in house or outsource. The researchers mentioned that the important of organization ability to select and manage IT staff if the organization intends to manage and organize IT function in house. Meanwhile the researchers mentioned that the complexity of information technology and possible ways to outsource it as outsourcing of IT could dramatically reduce cost allowing organization to focus and to direct their effort in the core business processes of the organization; Caldeira & Dhillon (2010). Meanwhile the researchers claimed that organization must define institute service level agreements (SLAs) with IT suppliers when it intends to outsource the required IT functions. “The establishment of SLAs, and its control, is an important competence to ensure that IT performance will not be bellow acceptable levels” (p. 17). One of the main areas of IT outsourcing is software development as it involves considerable complexity and requires high level of expertise. In area of software development; organisation usually require custom design application for specific needs that must be recognized during the outsourcing of software development otherwise it impacts on service delivery (Caldeira & Dhillon, 2010).

McFarlan and Nolan (1995) argued that the major drivers for outsourcing IT is mainly cost-effective access to specialised or occasionally needed computing power or system development abilities, avoidance of building in-house IT skills and skill sets in small or low-technology organisations, and access to particular functional capabilities.

Lewis et al. (2010) discussed competitive advantage using both classic and extended resource based theory. They explained the right combination of these two approaches aiming at building long-term advantages for service organization. The researchers claimed that advocates to outsourcing should recognize beyond general motives and reasons of outsourcing such as efficiency maximisation and transaction cost minimization. They declared that effective outsourcing activities must balance between economic benefits of
outsourcing and logics of complementarities of capabilities between service organisation and outsource supplier as they should be perfectly matched (Lewis et al., 2010). Meanwhile service organisation must focus on strategic relatedness and pick an outsource supplier that has similar strategy for instance in area of customer relation management (Lewis et al., 2010). The researchers believed that effective outsourcing processes should establish relational capability building mechanisms that leads to unique relationship between service organisation and outsource supplier that cannot be easily copied and reach by other service organization (Lewis et al., 2010).

Similarly Domberger (1998) argued that organisations should assess the range of its internal activities by considering its objectives additional to the intention to apply cost saving. Outsourcing should be employed to satisfy organisational strategic objectives such as strategic improvement in area of cost saving and enhancement of efficiency, or strategic business impact in area of improving contribution to companies’ performance, or strategic commercial exploitation in area of leveraging technology-related assets (Domberger, 1998). Thus in addition to cost reduction drives of outsourcing; organisation strategic repositioning, core competency improvement, superior service integration and upper value creation are among major drivers of outsourcing (Quinn, 1999).


2.4 Theory with supporting quotations

The theory signifies “outsourcing of Arya hotels’ support functions to outside suppliers can achieve better, faster and cheaper outcome”.

Reviewing articles showed that majority of hotels that have outsourced such supporting operations are satisfied with result. There are certain common hotel activities that are outsourced including but are not limited to information technology (IT), training, accounting and internal auditing, food production, animation, transportation services, security, public relations, reception, reservations, room cleaning, laundry, purchasing and receiving, restaurants, bars, kitchen operations, technical services, gardening services, sales and marketing, recruitment, training, accounting, fitness, and housekeeping. Majority of studies regarding hotel outsourcing claimed that hotel performance improves when hotel enhances focus on a firm’s core competencies and outsource non-core activities. Owing to this fact that these noncore activities are among the core activities of the outsource company since high capabilities of such organisations are result of great investment and attention to related technology, methodology, experience with different customers (other hotels) and human resources that have been developed over time contributing to hotel service quality. Therefore cost saving occurs by strategic outsourcing as it leads to lower fix costs and lower breakeven point as the need for capital assets and investment in hotel capacity would be confined. Moreover, the studies reveal that hotel activities that are very specific and can be carried out by hotel staff as they have required competencies are not outsourced. Meanwhile strategic outsourcing application can be reached when the need of outsourcing is correctly determined, core competencies are identified, cost benefit analysis on advantages and disadvantages of outsourcing is conducted, information regarding outsourcing function is disseminated, hotel basic outsourcing needs in long and short terms are identified, data collection process is implemented, proposals from available vendors (those companies that are able to contract out to and carried out the function) are collected and evaluated, a most suitable vendor is identified, a contract is made, and a control process is implemented and is continuously carried out. The theory would be supported if these steps
are considered and thus collateral relationship between hotel and supplier is created that can be copied by other hotels.

To conclude there are certain drivers of strategic outsourcing that can be recognized as supports for the theory including but are not restricted to cost cutting, increase of efficiency, and enhancement of hotel core competency while outsourcing hotel supporting activities to suppliers that have expertise. Outsourcing is able to save money for hotels and is able to perform a business function better than organisations’ employees by economic of scale, process expertise, access to capital, and access to expensive technology. Studies show that there are certain steps for the development of strategic outsourcing that should be implemented as hotels intend to achieve the most out outsourcing relationship with outside suppliers.
Chapter 3. Methodology

This chapter explains the methodology that is used in development of this thesis. Research purpose, research approach, instrumentation, participants and procedure of the research will be presented in the present chapter.

3.1 Research Purpose

The methodology of this research is based on qualitative approach. It is a descriptive study employing narrative data by the personal interviews, using questionnaire with open ended questions. The interviews were arranged with few of general managers and department managers of the hotels then the analysis of responses content was carried out thoroughly. So the study was developed based on the qualitative data. “Such studies typically involve the use of smaller samples or case studies” (Hair et al., 2003; 193).

3.2 Research Approach

Owing to the nature of this study and amount of the resources available to the researchers as well as the objective of the research the exploratory approach was chosen. There are certain benefits of exploratory research as it helps to form hypothesis and provide clarity to proposed matters. It also provides operational definition of some concepts that are used in Iranian hotel industry and can be possibly used in future studies. It also can identify the key source of difficulties for respondents.

There are certain limitations for such a method of research as it cannot allow testing new ideas for Iranian hotel chain in area of effectiveness of outsourcing and practical implications on hotels’ operations. Therefore the present research just presents the idea for refinement of Iranian hotel chain’ services specially Arya hotel chain and operation and predicting initial outcomes of application and employment of outsourcing strategy for the chain. Moreover, the attempt of researchers for conducting guest satisfaction survey was failed owing to rigid atmosphere of research in Iran as generally there are barriers for
researchers. Any kind of approach to hotel guests was prevented by hotel security.

3.3 Research Strategy

The strategy of this research is using a case study of Arya hotel chain aiming at assessing the outsourcing regarding the hotel chain. According to Yin (1994) case studies can be either single or multiple-case design. As the access of researchers is limited to Arya hotel chain, this research is confined to single case design. As Yin (1994) mentioned generalization of this research result is a theory regarding outsourcing of Iranian hotel activities. Yin (1993) brought several research approaches along with research designs for each research approach. Yin (1993) recommended exploratory, explanatory and descriptive case studies in which each of them can be either single or multiple case studies. This research employed a descriptive case which begins with a descriptive theory. The unit of analysis is Arya hotel chain. To design the study; the researchers applied Yin (1994) elements of research design as follows:

(Yin, 1994, p. 20)
The study question is “what is the status quo of outsourcing assessment in Iranian five stars hotels?” Interview questions and its propositions are communicated in next section (3.4 data collection). The logic that link data to the propositions is based on assessment of outsourcing in various hotel departments to outside suppliers and their results with which are hotels satisfied or dissatisfied while contracting out the activity to outside supplier. The criteria of interpreting findings are based on Friedman finding rate.
3.4 Data Collection

In this thesis both methods of data collection are employed and the structure of research is represented as followed:

**Date collection**

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<table>
<thead>
<tr>
<th>Date collection</th>
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<tbody>
<tr>
<td>Secondary data</td>
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<tr>
<td>Primary data</td>
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<tr>
<td>Qualitative</td>
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<tr>
<td>Interview</td>
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</table>
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**Depth personal interview**

Primary data collection method (Hair *et al.*, 2003; p.192)

Owing to descriptive nature of study analysis and finding of previous relevant studies secondary research primarily review of literatures’ were used in this research. “Business research uses various forms of secondary data for both descriptive and explanatory purposes” (p.119). The data obtained from secondary research is qualitative and represented in the development of comments further in this research. Sources of this secondary research are multiple articles regarding hotel outsourcing. Since these data are obtained from outside of Arya hotel and generally Iran hotel industry is categorized as external source of secondary research.

The second method of research that is used for collecting data is primary research. The qualitative approach that is used in the area of primary research
is “interview”. The researchers spoke directly to participants who were few
general managers and head of departments of Arya hotel chain. Open ended
questions were used for collecting data. All the conversation between
researchers and respondents were recorded during the interviews with the
permission of interviewees. The researchers conducted structured interviews in
which interview sequence with predetermined open-ended questions were
implemented through the interviews with Arya hotel chain managers. The
purpose of this structured interview with same interview sequence is
conducting the interviews exactly the similar way to prevent occurrence of any
biases that may be led from irregular interviewing practices. The comparability
of responses was also required imposing structured interview for this research.
Since collection of data was limited within Arya hotel group the nature of this
research possesses characteristics of a “case study”. The purpose is extracting a
complete picture of the entire situation regarding hotel outsourcing as a real –
life example. The unit of analysis that the research has focused on is Arya hotel
group. The time frame of the study: the study was commenced form early
summer of 2010 and terminated at the end of the season as accessing to some
department managers required such a time frame. The validity of this research
questionnaire was ensured by the experts. However the research cannot be
reliable as this research instrument was not considered reliable as repetition of
application to other cases is not tested and may lead to inconsistency of
research findings.

The questionnaire is presented in both English and Persian version as follows:

1. Have you ever outsourced any of your hotel activities to the outside supplier?

2. What is your major motivation for the hotel outsourcing? Is it related to quality
enhancement or cost efficiency?

3. How does the level of task specificity influence outsourcing decisions in the
hotel?
4. When a hotel activity is lower than the expected level of either quality or profitability the decision you are going to make: do you invest on hotel staff training and equipment or do you outsource the activity to outside expert suppliers?

5. Do the required amount of investment for improvement of a hotel activity influence on outsourcing decision? For instance the investment required for acquiring new laundry equipment or refurbishing hotel restaurant influence upon your decision to outsource laundry activities or contract out hotel restaurant to an outside food and beverage operator?

6. Do you think that outsourcing some hotel activities to external contractors contributes to cost reduction?

7. How do you classify hotel activities? Based on the level of importance please classify the following hotel activities: reception and reservation, food and beverage, human resource management, marketing and promotion, housekeeping, laundry, maintenance, information technology, security, sport and animation, shops and accounting?

8. Do you outsource some of human resource management practices to external suppliers such as training program for hotel staff? What is the motivation for this matter? Is it a strategy for quality enhancement or is it a strategy for cost reduction? Is it a strategy for attracting expertise? Is it a strategy for application of flexibility and risk reduction? Is it a strategy for focusing on core human resource activities and long term objectives?

9. Which activities of human resource management practices are outsource and why?
10. Have you outsourced any function of hotel information technology to external supplier? What motivations are more important in your decision of outsourcing: reducing cost, innovation and new technology, requirement of capability and IT knowledge, increase of quality and speed of computing and networking services, and (or) the hotel concentration on main hospitality and service tasks and leaving supporting tasks such as IT to external supplier?

11. What sources do you usually use for recruiting hotel staff? Do you use any employment agency’s service?

12. Do you experience any fluctuation in demand? How do you adjust staff working hours and working shift with such demand fluctuation? Do you use employment agencies’ services and their contracting employees for the hotel?

13. Do you have any part-time staff being recruited and managed by an employment agency?

14. Have you ever outsourced any of the hotel food and beverage functions to external operators? What motivation do you have for doing or not doing such outsourcing: unsuccessful hotel restaurant or hotel catering, increasing the competition power of hotel food and beverage services, or any other motivation, please explain?

15. Which function of food and beverage department has outsourced? Breakfast, room service, restaurant, banquet and catering, please explain?

16. What is your satisfaction level regarding outsourcing of the hotel activities? Please explain the reasons? Do you use any standard framework or specific steps for implementing effective outsourcing? Please explain?
There are specific expectations for each question of questionnaire that are used for formation of the questions. These expectations would be the core element in analysis of the participants’ responses. These expectations are exhibited at table V below (the left column is indicating the number of question at the questionnaire).

<table>
<thead>
<tr>
<th>Expectation</th>
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<tbody>
<tr>
<td><strong>1</strong> Finding out whether Arya hotel group has outsourced any hotel activity and function yet or not. If the response to this question is negative the expectation is irrelevancy of following questions.</td>
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<td><strong>2</strong> The expectation of this question is shedding lights on motivation and logic of Arya hotel group in making outsourcing decisions to external suppliers. Whether this motivation is based on economic, performance, timing, etc.</td>
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<tr>
<td><strong>3</strong> The level of specificity of each single hotel function determines the required level of knowledge and expertise for carrying the function out. The expectation is that those hotel specific functions that require higher level of attention and expertise are less outsource as these functions are the core ones in building the hotel service quality level.</td>
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<td><strong>4</strong> There are certain hotel functions that enjoy a supporting nature in hotel operations. In case of difficulties in performing these supporting functions the expectation is that the hotel outsources these functions to outside expert suppliers instead of investing to improve the in house performance.</td>
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</table>
The expectation of this question is to discover which group of food and beverage functions has been outsourced to external operator in Arya hotel group. Hotels intend to outsource those activities of food and beverage that required higher expenses with low profitability such as room service that required round the clock operation time and they prefer to keep activities with higher profit such as breakfast services.

The expectation of this question is whether Arya hotel group has been satisfied with the result of outsourcing activities it has done. Moreover, whether the hotels have implemented outsourcing based on predefined structure and framework that outline specific steps of outsourcing application. Effective hotel outsourcing practice requires a standard framework.

3.5 Sample Selection

The researchers intend to contact and interview with people who have complete knowledge and insight to hotel’s operation as they must be well aware about hotel outsourcing and the motivation of such a decision. In this research general managers and heads of departments of Arya hotel group are the target population. “The target population is the complete group of objects or elements relevant to the research project” (Hair et al., 2007, p.173). Concerning confined resources such as time and access of the researchers; selected sample should provide information that is adequately accurate used in this research. Furthermore, to elaborate why sampling could be applied to this research, the researchers of this research were not able to collect information from every elements in target population who were the general managers and the heads of Arya hotel departments. Such a collection was also impossible; therefore, the researchers attempted to select the sample from the population who were representative of the population as they mirror characteristics of the
population. Thus ten general managers of Arya hotel group in different cities of Iran such as Tehran, Qhom, Mashhad, Arak, Shiraz, Kish, Isfehan, Rasht, and Arak were selected and interviewed for this research.

3.6 Data Analysis

The process of analyzing the collected data begins with understanding qualitative data. The researchers started with an idea about hotel outsourcing attempts to use the collected data to better understand the matter of hotel outsourcing in Iran hospitality industry. The researchers assessed the hypothesis and narrowed it down to more specific hypothesis that led to the more mature idea of outsourcing in Iranian hotel industry. Therefore, the approach that the researchers took in this research was based on deductive reasoning as it “works from more general to the more specific and involved descriptive or confirmatory aspects” (Hair et al., 2007, p.288) as the analysing of gathered data led to the detailed descriptive comments regarding hotel outsourcing. As mentioned earlier, a case study of Arya hotel group was used for assessing hotel outsourcing through gathering responses of the hotel group general managers and then the data was compared to those of other with participants aiming at drawing at conclusions. The statistical method was used included descriptive statistics exhibited in the next chapter. Friedman test exhibit non-parametric statistics presented in the next chapter of question number seven.

In area of secondary research the researchers reviewed several articles regarding hotel outsourcing in online databases such as Emerald full text as well as electronic journals and books such as International journal of contemporary hospitality management, International journal of operation and production management. There are other resources that completely references at bibliography section of this research such as Oxford university press and American academic association press.
Chapter 4. Presentation of Findings:

In this chapter the results of the data analysis are presented.

4.1 Results of research- the topic

The results of this research show that outsourcing of non-core hotel functions contribute to cost efficiency and focus on core hotel activities if the outsourcing were effectively initiated and maintained by a standard framework.

4.2 Structural Analysis and Evaluation

What the research suggests is represented in chapter five of this research.

4.3 Data Analysis and Results

In this part of the research tables of descriptive data eliciting from the questions 1-16 are exhibited except for question number 7 that is analyzed by Freidman ranking method. By analyzing all participants’ responses for each question and comparing them with the defined expectation for the questions when the response is similar to pre-defined the expectation the “mode 1” is exhibited and when the response is not similar to the predefined expectation the “mode 2” is exhibited. The tables of frequencies are represented below (table I). The analysis summary of questions and their majority mode is represented first.
### Frequencies

**Statistics (Table I)**

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**Frequency Table**

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**Question 1 (Table 1)**

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<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<td>60.0</td>
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<td>100.0</td>
<td>100.0</td>
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</tr>
</tbody>
</table>

Table 1 indicates the analysis of first question of the research and it reveals that 60 percent of managers outsource the hotel activities to the outside suppliers.
The above column chart (s1) is the descriptive data chart of the first question of questionnaire exhibiting similar analysis for question 1.

<table>
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<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<tr>
<td>false</td>
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<td>Total</td>
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<td>100.0</td>
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</tbody>
</table>

The analysis of second question shows that 70 percent of managers believe that better cost and enhanced quality are the main motivations for outsourcing the hotel functions (Table 2).
Table 3 shows analysis of third question in which half of managers believe that the level of the required special skills for performing a hotel function influence on decision of outsourcing as the more specified functions are less likely to outsource.

**Question 3 (Table 3)**

<table>
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</thead>
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<tr>
<td>Total</td>
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<td>100.0</td>
<td>100.0</td>
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</table>
Table 4 shows the result of question number 4, indicating that almost majority of hotel managers (80 percent) prefer to outsource those hotel functions that are under the expected level of profitability and performance instead of investing in training of staff and refinement of plant.

<table>
<thead>
<tr>
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<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<tbody>
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<td></td>
</tr>
</tbody>
</table>
Table 5 shows result of question number 5, revealing half of general managers think that the amount of investment required for improving a function a hotel function directly influences the decision of outsourcing for instance if the considerable amount of investment needs to improve hotel restaurant functions; half of managers think it influences on intention of outsourcing the operation of restaurant to outside restaurant operator.
Question 5 (Table 5)

<table>
<thead>
<tr>
<th></th>
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<th>Percent</th>
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<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
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</tr>
</tbody>
</table>

Descriptive data chart of fifth question

Table 6 shows the result of question number 6, indicating that half of managers think that outsourcing hotel function contributes to reducing cost.
Table 8 shows the result of question number 8, indicating that only 40 percent of general managers outsource hotel human resource functions.
Table 8 shows the descriptive data related to question number 9, indicating half of general managers outsource periphery functions of human resource management.
Table 9 shows descriptive data of question 9, indicating 60 percent of general managers outsource the hotel information technology to outside computing and network companies.
Question 10 (Table 10)

<table>
<thead>
<tr>
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</tr>
</thead>
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<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Descriptive data chart of tenth question

Table 11 shows descriptive data of question number 11, indicating half of general manager use external sources such as employment agencies for recruiting staff.
Table 11 shows descriptive data related to question 12, indicating only 40 percent of general managers experience fluctuation in their hotel demand.
### Question 12 (Table 12)

<table>
<thead>
<tr>
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<td>Total</td>
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</tr>
</tbody>
</table>

Descriptive data chart of twelfth question

Table 13 shows descriptive data related to question number 13, indicating only 40 percent of general managers use part time staff.
Table 14 shows the descriptive data related to question 14, indicating that majority of hotel managers do not outsource food and beverage functions of the hotel.
## Question 14 (Table 14)

<table>
<thead>
<tr>
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<th>Frequency</th>
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</tbody>
</table>

Descriptive data chart of question 14

Table 15 shows the descriptive data of question 15, indicating that majority of hotel managers do not outsource any functions of the hotel.
### Question 15 (Table 15)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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</tr>
</tbody>
</table>

Descriptive data chart of question 15

Table 16 shows the descriptive data related question 16, indicating that half of general managers satisfied with hotel outsourcing.
Table 17 shows the descriptive data related to question 7 which asked hotel general managers to classify hotel function based on their importance.
### N-Par Tests

#### Friedman Test

**Descriptive Statistics (table 17)**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Mean Rank</th>
</tr>
</thead>
<tbody>
<tr>
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<td>.51640</td>
<td>2.60</td>
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<tr>
<td>F.B.</td>
<td>10</td>
<td>4.2000</td>
<td>2.14994</td>
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</tr>
<tr>
<td>H.R.</td>
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<td>.84327</td>
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<td>S.M.</td>
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<td>M.C.</td>
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<td>IT</td>
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</table>
According to research data the priorities that were defined by hotel general manager are as follow:

Priority one: Human resource (Deviation: 0.84, Mean rank: 1.4, Mean: 1.4, N=10).
Priority two: Reception and reservation (Deviation: 0.51, Mean rank: 2.6, Mean: 1.4, N=10).
Priority three: Food and beverage (Deviation: 2.14, Mean Rank: 4.2, Mean: 4.40, N=10).
Priority four: Marketing and promotion (Deviation: 2.95, Mean Rank: 4.40, Mean: 4.40, N=10).
Priority five: Housekeeping (Deviation: 0.84, Mean Rank: 5.60, Mean: 5.60, N=10).
Priority six: Accounting (Deviation: 1.76, Mean Rank: 6.00, Mean: 6.00, N=10).
Priority seven: Maintenance (Deviation: 1.54, Mean Rank: 6.80, Mean: 6.8, N=10).
Priority eight: Information Technology (Deviation: 3.73, Mean Rank: 7.20, Mean: 7.20, N=10).
Priority nine: Security (Deviation: 1.03, Mean Rank: 8.20, Mean: 8.20, N=10).
Priority ten: Laundry (Deviation: 2.17, Mean Rank: 9.6, Mean: 9.60, N=10).
Priority eleven: Animation and sport (Deviation: 0.51, Mean Rank: 10.40, Mean: 10.40, N=10).
Priority Twelve: Shops (Deviation: 0.51, Mean Rank: 11.6, Mean: 11.6, N=10).

Thus in opinion of general managers: human resource has most importance and hotel shops have less importance.
The histogram of the descriptive data related to reception and reservation

Mean = 2.60
Std. Dev. = 0.516
N = 10
The histogram of the descriptive data related to food and beverage
The histogram of the descriptive data related to human resource
The histogram of the descriptive data related to marketing and promotion
The histogram of the descriptive data related to Housekeeping
The histogram of the descriptive data related to laundry.
The histogram of the descriptive data related to maintenance
The histogram of the descriptive data related to information and technology
The histogram of the descriptive data related to security
The histogram of the descriptive data related to amusement and sport
The histogram of the descriptive data related to Shops
The histogram of the descriptive data related to Accounting
Chapter 5.

Summary
In this chapter of the thesis: findings of this research are represented and the results of data analysis are discussed entirely. Moreover, descriptive tables are elaborated and then limitations of the research are mentioned followed by relevant recommendations and suggestions concerning the hotel outsourcing in context of Iran hospitality industry.

5.1 Secondary research findings:

The First finding: Reviewing of relevant literature revealed that majority of organizations that have outsourced their operations have been satisfied with the results. Several studies show that outsourcing of non-core hotel activities lead to the improvement of hotel focus upon the core competencies and thus increase hotel performance as the hotel can direct its attention and resources toward service quality and customer satisfaction. In this vein; the outside supplier whom a non-core hotel function is left to is capable in performing function as it is among the core function of the outside company, since high capabilities of such organisations are the result of great investment in and attention to related technology, methodology, experience with different customers (other hotels) and human resources that have been developed over time. Studies show that such outsourcing leads to lower fix costs and the need for capital assets and investment in hotel capacity.

The Second finding: Reviewing previous studies regarding hotel outsourcing shows that the most common outsourcing hotel functions are animation, transportation services, security, and public relations. Other usual common hotel services and activities that are outsourced include: reception, reservations, room cleaning, laundry, guest laundry, purchasing and receiving, restaurants, bars, kitchen operations, technical services, gardening services, sales and marketing, information system, recruitment, training, accounting, hotel shops and fitness. However, in various hotels and different contexts priority of outsourcing would change considerably. The outsourcing decision for a hotel function is directly is linked to specific requirements for carrying
out the hotel functions; for instance, specific service knowledge and skills that are demanded for carrying out a service involving a task in a hotel. Those hotel functions that require great specific expertise are usually less outsourced and are carried out within the hotel by the hotel staff. Meanwhile, more specific hotel operations require more time to search of suppliers and negotiating with them. On the contrary lower specific operation requires less time and thus it is easier for outsourcing. The studies show that in case of hotel high specific tasks outsourcing: hotels demand external companies (subcontractors) to invest in refurbishments and equipments, since such investments from subcontractors demands them to concentrate on service quality for safe guarding their investment. In turn, for protecting subcontractors’ interests long contracts were made between hotel and subcontractors. Meanwhile, reviewing of hotel outsourcing studies show that the decision of outsourcing or in sourcing a hotel activity is affected by the firm's available knowledge and skill related to this particular activity. Other factors are also involved influencing the decision of outsourcing such as the costs of developing required, capability for doing an operation in house, and cost of outsourcing that operation.

**The Third finding:** Several studies focused on hotel human resource outsourcing. Some of them found that hotels that focus on cost cutting have greater intention toward human resource outsourcing as it provides flexibility toward hotel demand fluctuations. Similarly such human resource outsourcing allows organizations to focus on core activities and outsource other peripheral operations with low added value. Therefore those organizations focusing on the strategic role of HR would depend more on HR outsourcing. Studies show that there are several human resource activities that are more outsourced which include but are not restricted to payroll, selection and recruitment, training, and temporary agency work. Studies showed that several hotels gain benefits from outsourcing the recruitment and selection to employment agencies. Hotels use just in time philosophy in the area labour supply through the employment of external labour suppliers (employment agencies) in line with variation in customer demand. When hotels employ labour force flexibility by utilising peripheral staff and outsourcing to external employment agencies the indirect labour costs such as wages/salary, pensions, national insurance, holiday
entitlement, and subsidized food and lodging assign to these agencies allowing hotels to employ least resources to generate the maximum outputs

The Fourth finding: Similarly there are numbers of studies addressing the outsourcing of hotel food and beverage. These studies showed that outsourcing of hotel food and beverage services have widely become common as some restaurant operators are able to offer highly specialised forms of food and beverage services requiring high level of proficiency for instance in local, national and international cuisine which most of hotels cannot achieve and have no choice except outsourcing. Moreover, well-known and admired restaurant brands are able to increase the quality, reputation and profile of hotels. One of the key reasons of hotel outsourcing in the area of food and beverage is financial performance in the areas of increasing revenue and cutting cost. However it is rare that hotels outsource all food and beverage services and they usually keep their control over high profit areas such as banquet and breakfast services. Studies showed that effective hotel food and beverage outsourcing achieves when hotel and restaurant subcontractor have the same core competencies as well as compatibility between their brands and target markets. Moreover when hotel and restaurant intend to work in close operation area; harmonizing organisational culture with each other is significant for success of outsourcing relationship.

The Fifth finding: Several studies regarding hotel outsourcing discuss the motives and drives that encourage hotel to outsource. One of the main drives of outsourcing is consideration of scale and costs leading to save on overhead or to cause short-term cost savings. These studies showed that cost-savings and freedom to focus upon core business are the major reasons for hotel outsourcing. The wider view toward outsourcing studies show that main reasons of hotel outsourcing are matters of strategic repositioning, core competence enhancement, greater service integration, high value creation, access to advanced technology, outside expertise, and cost cutting. Several studies attempt to address strategies and tactics for achieving effective and successful hotel outsourcing. These studies show that the first step of decision for outsourcing a hotel function is planning which calculates all costs linked to
current method of operating a hotel function and all costs estimated when this function will be outsourced. Moreover, in process of planning other factors must be anticipated including: the impacts that outsourcing of specific business function may have on customer service, community, and employee benefits and reduction. The next step is developing phase that is commenced by the proper vendor agreement or a contract that involves searching for adequate subcontractors and making a comprehensive contract. The right of hotel staff should be recognised as well as a clear timeline which must be issued to all employees who are part of the outsourcing and are impacted by the outsourcing processes. With purpose of better engagement of hotel outsourcing important dates regarding the outsourcing project should be announced to all internal hotel employees and external subcontractor employees. During implementation of outsourcing a checklist is required to smooth the transaction process. There is also a need for post outsourcing review assessing the accomplishments. In brief, the effectiveness of outsourcing application can be reached when the need of outsourcing is correctly determined, core competencies are identified, cost benefit analysis on advantages and disadvantages of outsourcing is conducted, information regarding outsourcing function is disseminated, hotel basic outsourcing needs in long and short terms are identified, data collection process is implemented, proposals from available vendors (those companies that are able to contract out to and carried out the function) are collected and evaluated, a most suitable vendor is identified, a contract is made, and a control process is implemented.

**The Sixth finding:** In the domain of hotel outsourcing effectiveness, various studies mentioned the requirement of developing collateral relationship that strengthens hotel outsourcing. The process of creation outsourcing relational capabilities begins by finding core competencies of hotel indicating those hotel functions that are most important to the competitiveness of hotel and creation value for guest and end to integration of processes between hotel and subcontractors through lasting close collaboration leading to unique relationship difficult to copy by other hotels. Studies show that those hotel functions must be outsourced which are among non-core hotel activities and have supporting roles or among core activities but hotel does not have required
competency to carry them out. Relational capability can become strong through integration of process between numbers of hotels that are allied as a hotel chain. Studies show that outsourcing of hotel information system and information technology is among those activities that are commonly outsourced. Growth of internet facilitates outsource hotel IT function. Hotels have found it challenging to manage and to organize IT functions. In turn outsourcing of IT function could considerably reduce costs, allowing hotel to focus and to direct its effort in the core business processes. Studies show that there is a need for establishing service level agreement between the hotel and IT providers in case of hotel IT outsourcing. Establishment of such agreement ensures that IT performance will not be below acceptable levels in case of outsourcing. One of the main activities that usually outsource is hotel software development: hotel usually requires custom design application for specific needs that must be recognized during the outsourcing of software development otherwise it impacts on hotel service delivery. Studies show that effective outsourcing processes should establish relational capability building mechanisms that leads to unique relationship between service organisation and outsource supplier that cannot be easily copied and reach by other service organization. It is important that the hotel determines the objectives of outsourcing and then plan the outsourcing process that facilitates its achievement to the objectives since effective outsourcing can benefit hotels in various ways. In addition to the cost reduction, hotel outsourcing can lead to organisation strategic repositioning, core competency improvement, superior service integration, and upper value creation.
5.2 Primary findings:

First finding: Reviewing descriptive tables that were outlined from the analysis of questions’ responses shows that more than half of Arya hotels’ managers outsource some functions of their hotel. Among this group almost most of them think that better cost and enhance quality is the main drive for outsourcing the hotel functions.

Second finding: As previous studies showed, one of the main motivations of hotel outsourcing is cost reduction. Half of managers believe that the required skill and knowledge for carrying out hotel tasks directly influences decision of outsourcing as more specific hotel functions are less likely to outsource.

Third finding: This group of hotel functions are outsourced if the hotel performance in execution of such activities were under the expected level and thus reduced profitability. The research findings regarding the relation of outsourcing decision and required level of knowledge and expertise similar to previous studies related to outsourcing as those hotel tasks that demanding professional skills are less likely to outsource as there are the source of differentiation and competitiveness.

Fourth finding: This research shows that in case of Arya hotel group the same situation is also true as the hotels’ managers declared that they prefer to outsource those hotel functions that are under the expected level of profitability and performance instead of investing in training of staff and refinement of plant.

Fifth finding: Moreover, by analyzing the responds of managers; it is obvious that only half of hotels use outsourcing food and beverage functions of hotels. Even if considerable amount of investment are required for refurbishment of food and beverage facilities: half of Arya hotel managers prefer to perform the food and beverage functions in the hotels. Further, only half of Arya hotel managers believe that outsourcing of hotel peripheral functions contributes to cutting costs of the hotels.

Sixth finding: Outsourcing human resource activities is not popular among Arya hotel managers as less than half of the hotel managers outsource hotel
human resource activities. Similarly only half of managers outsource selection and recruitment activities of the hotels. It is obvious that the decision of outsource is not based on identification of nature of function in Arya hotels as only half of general managers outsource periphery functions. Similarly in case of IT and networking about more than half of managers outsource IT functions.

**Seventh finding:** It is interesting that less than half of Arya hotel managers experience fluctuation in demand in the industry that is greatly characterized by seasonality. Therefore, only the equal numbers of participants use part time staff to cope with demand fluctuation.

**Seventh finding:** Analysis of responds of participants reveals although managers of hotels believe that outsourcing could reduce cost but majority of them do not outsource some or any hotel functions and among those who outsource some of the hotel functions half of them have been satisfied with result. This represents that those who outsource hotel activities do not have a standard framework or predefined structure for doing so.

**Eighth finding:** The Friedman test shows that managers considered human resource, reception and reservation, food and beverage, marketing, and promotion as core hotel functions.
5.3 Discussion:

By analyzing the findings of the primary research; it is clear that hotel outsourcing has been occurred in the hotel group of the research case study accords to the previous studies about hotel outsourcing. Moreover, similar to the previous literature that the main drives of outsourcing have been identified as lower cost of operation and better end quality of hotel products and services. Similar to the findings of previous research in the domain of hotel outsourcing, this research shows that the level of knowledge and skill required for carrying out a hotel task out directly influencing the decision of the task outsourcing. Moreover, parallel with other research in this domain, hotels tend to outsource those functions that are under profitability or acceptable performance instead of allocating considerable resources for development of these functions in house. This research shows that outsourcing of human resource functions is not widespread, whereas other research is this domain show that it is quite common. One of the reasons for this matter could be constant and steady demand for hotel rooms in Iran converse to other locations through the world where seasonality is always experienced in the hotel sector. Owing to the shortage of hotel rooms it seems that the demand of accommodation outweighs supply and Iran hotels especially in major cities constantly have great occupancy rate. On the other hand, the employment rate is high in Iran and wages are quite low, so access to fulltime workforce with low wages could be another reason not to outsource human resource activities. Considering this matter way shows that the presence of employment agencies is considerably low and the development of this kind of agencies is in its infancy in Iran; not to allow Iran hotels employ services of such agencies similar to other places in the developed countries. Finally, this research shows that hotel managers do not outsource hotel functions adequately, even though they are inclined toward the idea that hotel outsourcing can contribute to the reduction of operation cost and enhancement of quality. This is different from the results of other researches in this domain which show that when such a belief exists among hotel managers outsourcing are relatively common. One reason for this dissimilarity could be the lack of comprehensive cooperate strategy in Iranian hotel group which pinpoints the opportunities for hotel outsourcing and directs
general managers toward effective outsourcing structure in different hotel group branches. Therefore, the performances of Iran hotel managers are greatly influenced by their individual knowledge. Furthermore, as previous researches show, the priority of hotel function in opinions of managers enjoys a high variety in different contexts.
5.4 Conclusion and recommendations:

To sum up, outsourcing of peripheral hotel functions are strongly suggested in Iranian hotel industry as it can contribute to matters of strategic repositioning, core competence enhancement, greater service integration, high value creation, access to advanced technology and outside expertise and cost cutting. Outsourcing of non-core activities will improve Iranian hotels to focus on core competencies and thus increases performance of these hotels. It is suggested that some hotel functions in domains of animation, transportation services, security, public relations, reception, reservations, room cleaning, laundry, guest laundry, purchasing and receiving, restaurants, bars, kitchen operations, technical services, gardening services, sales and marketing, information system, recruitment, training, accounting, hotel shops and fitness can contribute to Iranian hotel performance. It is also recommended that each hotel identifies the core and peripheral activities and only outsource those non-core activities which have a supporting nature. In case of shortage of skills and required expertise if development of such skills is challenging and availability of external contractors for conducting the function is ensured, it is suggested to outsource this hotel function.

Meanwhile, it is recommended that be certainly involved through subcontractors making an arrangement with them to invest in hotel either in development of facilities, infrastructure or equipment to ensure their commitment toward service quality, and in turn, it is advised that hotels offer long time outsourcing contracts to motivate outside contractors. In the area of human resource outsourcing; cooperation of hotels with employment agencies are greatly suggested as well as using part-time staff as just in time strategy. With the purpose of enhancing competitiveness of hotels through adoption of specialized form of food and beverage services, outsourcing of a hotel restaurant, at least, is suggested to Iranian hotels. In conclusion planning and implementation are the essence of effective outsourcing. It is suggested that the effectiveness of outsourcing application in Iran hotel industry can be reached when the need of outsourcing is correctly determined, core competencies are identified, cost benefit analysis on advantages and disadvantages of
outsourcing is conducted, information regarding outsourcing function is disseminated, hotel basic outsourcing needs in long and short terms are identified, data collection process is implemented, proposals from available vendors (those companies that are able to contract out to and carried out the function) are collected and evaluated, a most suitable vendor is identified, a contract is made, and a control process is implemented.
5.5 Applicable suggestions:

Finding 1: more than half of Arya hotels’ managers outsource some functions of their hotels. Among this group almost most of them think that better cost and enhance quality is the main drive for outsourcing the hotel functions.

Suggestion 1: Other half of general managers wisely should outsource some of the supporting hotel functions

Suggestion 2: Hotel managers should seek for outside suppliers with competitive price and quality and they should develop and maintain long relationship with such suppliers.

Finding 2: Half of the managers believe that the required skill and knowledge for performing hotel tasks are directly influence decision making on outsourcing. Thus, more specific hotel functions are less likely to outsource.

Suggestion 1: Hotel managers should assess the required knowledge and skill for carrying out each individual hotel function.

Suggestion 2: Hotel managers should create differentiations and thus competitive advantages around those hotel functions that require specific knowledge and expertise in house.

Finding 3: The hotel functions are outsourced when the hotel performance in execution of the activities are under the expected level and thus reduce profitability.

Suggestion 1: Hotel managers should identify the standard performance and profitability level of individual hotel functions.

Suggestion 2: Hotel managers should appraise the actual level of performance and profitability of individual hotel functions and compare them with standard levels and then make decision of performing the function in house or outsource it.

Finding 4: Half of hotel managers prefer to perform the food and beverage functions in the hotels.
**Suggestion 1:** Hotel managers should outsource part of food and beverage functions of hotels to the admired food operators

**Suggestion 2:** Hotel managers should keep in house food and beverage functions which have higher profitability such as breakfast services.

**Finding 5:** Half of hotel managers outsource selection and recruitment activities of the hotels as well as information technology function of the hotel.

**Suggestion 1:** Hotel managers should employ services of employment agencies such as training and part-time staffing.

**Suggestion 2:** Hotel managers should leave the function of information services to outside expert suppliers when they clearly identify their requirements and acceptable standards in this domain.

**Finding 6:** Hotel managers believe that outsourcing could reduce cost but majority of them do not outsource some or any hotel functions and among those who outsource some of the hotel functions half of them have been satisfied with the results.

**Suggestion 1:** Hotel managers should outsource some hotel functions based on previous suggestions in this research.

**Suggestion 2:** Hotel managers should identify and address the issues that lead to outsourcing failure.
5.6 Research limitation:

There are certain limitations for such method of research as it cannot allow testing new ideas for Iranian hotel chain in area of effectiveness of outsourcing and practical implications on hotels’ operations. Therefore this research is just present the idea for refinement of Iranian hotel chain’ services specially Arya hotel chain and operation and predicting initial outcomes of application and employment of outsourcing strategy for the chain. So the effectiveness of testing the thesis hypothesis is not surly clear. Moreover the attempt of researchers for conducting guest satisfaction survey was failed owing to rigid atmosphere of research in Iran as generally there are barriers for researchers whom are not be allowed to conduct research publicly. Any kind of approach to hotel guests was prevented by hotel security.
5.7 Suggestion for future researches:

It is required to study hotel outsourcing in the context of Iranian hospitality industry employing quantitative approach to the research. It is also acceptable to widen the area of research, examining the situation in other Iranian hotel chains allowing to test the new ideas and its generalisation. It is necessary to study the link between hotel outsourcing to guest satisfaction, service quality and hotel performance before the application of the outsourcing and after the applying hotel outsourcing to ensure the outcome of such application in the context of Iranian hospitality industry. The future studies must address and examine the condition of external hotel suppliers and subcontractors as well as the level of their profession and experience in such relationships.
References:


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