

## **Outsourcing Patterns among Malaysian Hotels**

**Azurin Sani**

Department of Operations and Management Information Systems  
Faculty of Business and Accountancy  
University of Malaya  
50603 Kuala Lumpur, Malaysia

**Shahin Dezdar**

Department of Operations and Management Information Systems,  
Faculty of Business and Accountancy  
University of Malaya  
50603 Kuala Lumpur, Malaysia

**Sulaiman Ainin**

Department of Operations and Management Information Systems  
Faculty of Business and Accountancy  
University of Malaya  
50603 Kuala Lumpur, Malaysia

### **Abstract**

*The study is conducted to investigate the factors influencing outsourcing adoption decision by Malaysian hotels. Empirical data was collected via survey questionnaire. Despite numerous attempts to increase the response rates, only 37 hotels returned the questionnaire. The study illustrates that the hotels tend to outsource non core functions such as laundry, cleaning and housekeeping more than other type of functions. The hotels also indicated that the reasons they outsource is related to two main factors i.e. suppliers expertise and brand name as well as to increase internal efficiency. Finally the results of the study also illustrated that decision to adopt outsourcing was significantly influenced by suppliers' performance and capability, revenue and resource distribution as well as outsourcing risk. The results of the study maybe useful to hotels' management in helping them make outsourcing decisions in the future.*

**Keywords:** Outsourcing adoption; Determinant factors; Hotel industry; Malaysia.

### **1. Introduction**

Malaysia is one of the most popular tourist destinations in the ASEAN region. Despite the global economic slowdown and concerns regarding H1N1 flu, it received around 23.6 million international tourists in 2009, an increase of around 7% over the previous year (MTM, 2012). According to MTM (2012), international tourist arrivals in Malaysia will grow at a CAGR of around 8% during the forecast period (2011-2013), thereby, surpassing RM 70 Billion (over US\$ 22.4 Billion) by 2013. The total tourist arrivals and receipts in Malaysia have shown that hospitality business is rising. The local hospitality sector can look forward to a steady growth this year, given the number of initiatives to promote the Malaysian tourism industry. In order to accommodate the anticipated rise in business, hotels have to focus on their core operations (i.e. hospitality services) hence outsourcing could be an alternative way to manage their non core processes (activities) such as human resources, information technology accounting, laundry and cleaning etc (Lacity, Khan, & Wilcocks, 2009; Hamzah, Aman, Maelah, Auzair, & Amiruddin, 2010).

Previous research on hotel's outsourcing in Malaysia was conducted on specific types of outsourcing for example; laundry, security and surveillance, leisure activities, gardening services, training, information systems and cleaning (Lam & Han, 2005), hotels web presence and electronic reservation (Zakariah, 2005).

The aim of the study is to identify outsourcing patterns among Malaysian hotels in Kuala Lumpur, Selangor, Melaka, Penang and Johor as majority of the hotels are within this area (TM, 2012). The objectives of this research are two folds: to investigate existing outsourcing practice and to identify factors influencing outsourcing adoption decision.

The paper proceeds by discussing the review of literature pertaining to outsourcing area including the definitions of outsourcing. Subsequently, the research model, hypotheses, research method and analysis are presented. Finally, discussion, conclusion and recommendation for further studies are highlighted.

## **2. Literature Review**

Outsourcing is defined as a subcontracting service or a third party for strategic use of firm's resources, to generate firm's values and grow competitive edge. Outsourcing is the process of transferring the responsibility for an exact business function from an employee group to a non-employee group. Firms often integrate outsourcing as a strategy in business planning. By embarking into outsourcing, firms can offer better client service, produce a better product, and do a better job efficiently. By doing that they are putting those responsibilities in the hands of professionals (Hamzah et al., 2010). In the hotel industry context, Espino-Rodriguez and N-Robaina (2005) stated that hotels adopt outsourcing in order to cope with the globalization and the competitive environment. This includes transferring the hotel's activities to experts/professionals who then will perform those services for the hotels. Besides that, hotels might want to focus on their main/core activities in order to cope up with the ever changing environment such as cultural changes, advanced technologies and fierce competition. According to Lam and Han (2005), hotel outsourcing is defined as a management strategy where the hotel management utilizes a special outsourcing supplier, forming strategic alliances with it to have the supplier operate certain hotel functions, in the attempt to reduce costs and risks and to improve efficiency. Some of the activities or processes that hotels might outsource are the ones related to laundry, security and surveillance, leisure activities, gardening services, training, information systems and cleaning (Espino-Rodriguez & N-Robaina, 2005).

Previous studies (Qu, Pinsonneault, & Oh, 2011; Lacity, Rottman, & Khan, 2010) have suggested that outsourcing provide organizations with various economic, technological, and strategic benefits, such as reducing IT operation costs, improving technical competence, and even providing organizations with competitive advantages. There are many reasons why organizations embrace outsourcing. For example, Dorasamy, Marimuthu, Jayabalan, Raman, and Kaliannan (2010) have identified that cost is one of the most important motivation for outsourcing. Cost saving is referring to lower costs compared to the in-house production. Cost saving is significantly can be achieved by outsourcing efficiency gain but it need not lead to lower quality (Lamminmaki, 2011). Beside cost savings, there are other factors that influence outsourcing engagement. According to a study by Lam and Han (2005) and supported by Dorasamy et al. (2010), outsourcing adoption can be influenced by Cost, Supplier's performances, Outsourcing Risks, Supplier's brand name and capability, price and revenue and resources.

On the other hand, Ghodeswar and Vaidyanathan (2008) classify drivers of outsourcing into four categories: Organizational drivers, Improvement drivers, Financial and cost drivers, and Revenue drivers. Each driver has its own unique points in explaining reasons why firms should adopt outsourcing. Firms will lavishly enjoy the benefits while they are maintaining their core business and outsource their non-core business to the right third party to handle. Firms will receive a good feedback on their organizational aims, able to improve business performance, ability to keep on track on the budget and reduce cost and also ability to generate maximum profit and revenue (Ghodeswar & Vaidyanathan, 2008). According to Song (2008), hotels outsourced certain service to specialized vendors, which enables them to enjoy the service provided by vendors. After handing the service full of manpower, material resources and financial resource over to specialized vendors, hotels themselves may save a lot of cost. On the other hand, with the economical cost out of the outsourcing service, the hotels may all invest into the core business, developing the core competitiveness with all their strength.

While outsourcing may prove highly beneficial for many companies, it also has many drawbacks. Dorasamy et al. (2010) have identified the perceived risk factors that are changes in supplier circumstances, supplier failure and loss of confidential information (Malah, Aman, Hamzah, Amiruddin, & Auzair, 2010). The firms might face these risks when one change might be supplier's difficulties, supplier might fail to perform tasks and suppliers have all the access to the sensitive information about the firms.

Whereas Maelah et al. (2010) have identified other risks that can be consider when firms involved in outsourcing such as loss of core activities, leveraged by suppliers, loss of strategic flexibility, suffering interruptions of supply, receiving poor quality of supply, fall in employee morale, loss of internal coherence, confidentiality leaks, and loss of intellectual property rights. According to Song (2008) hidden cost risk would also occur when a firm do outsourcing. It consists of the transaction cost while choosing the outsourcing service provider and the conversion cost while giving hotel's service to providers. What is more serious, if the outsourcing service provider doesn't enable the outsourcing service's quality level to the reasonable level, as entrusting party, the hotel will suffer heavy loss for business stagnation or mistakes.

Previous research stated that there are two types of outsourcing risk; relational and performance risk (Maelah, Aman, Amiruddin, Auzair, & Hamzah, 2012). Relational risk is the risk of a vendor or client is not having good relationship, they are not co-operating in good faith; and there's possibility that both parties will face unsatisfactory outsourcing relationship. There are five relational risks identified by Aman and Rahman (2011) that is; staff pinching, shirking, opportunistic renegotiation, insufficient personnel and poaching. The research have confirmed that through vendor outsourcing it will create risk of providing lack of knowledge staff, which means that the vendor providing staff that is lack of knowledge which will hinder the good performance of a certain activities. Besides that, misinterpretation of job scope exists during the outsourcing work when the outsource staff did not performed accordingly to the job scope (Aman & Rahman, 2011). Performance risk on the other hand is referred to the factors that may affect the vendor's ability to perform to the outsourcing agreement, such as the availability of capital, technology and skills of the vendor (Aman & Rahman, 2011; Arshad, Lin, Mohamed, & Affandi, 2007; Maelah et al., 2012).

### **3. Research Model and Hypotheses**

The objectives of current study are to investigate the patterns of outsourcing (i.e. what is outsourced?) and to identify the factors influencing outsourcing adoption decision among Malaysian hotels. The study focussed on four factors i.e. cost, suppliers, revenue and resources and risk (Figure 1), which is based on Lam and Han (2005).

According to Lacity and Wilcocks (2008), there have been a lot of benefits by involving or embarking into outsourcing. One of it as listed in the strategic benefits that firms will enjoy is to reduce the operating cost. These statements are supported when Cost reduction (Dorasamy et al., 2010; KPMG, 2006; Lamminmaki, 2011) is identified as one of the most important motivation for outsourcing. Domberger, Hall, and Li (1994) stated that, organisations that outsource services are able to cut costs by about 20% without affecting service quality. Cost saving is referring to lower costs compared to the in-house production. Cost saving is significantly can be achieved by outsourcing efficiency gain but it need not lead to lower quality (Lamminmaki, 2011). Other benefits identified by KPMG (2006), is better quality of information, improved productivity, and better control. The evidence has shown that benefits of outsourcing such as cost reductions do have an effect on outsourcing adoptions. Therefore, the first hypothesis is developed.

**Hypothesis 1:** Costs effect the outsourcing adoptions by hotel.

Outsourcing suppliers is another factor that could provide benefits to firms which decided to outsource any of the non-core departments. According to KPMG (2006), indicate that the firms doing outsourcing are happy with their current suppliers and have a flexible contracts and moving towards renewing their existing contracts. This shows that, it is easy to identify a reliable outsourcing supplier in the market. However, in most of the contracts it have featured clear termination clauses, which, shows that a complete laws are available for protecting the firms when outsourcing suppliers are used. This indicates that it promotes a long term of outsourcing relationships and flexibility for both parties (KPMG, 2006). It has been stated that, reliable suppliers are important to evaluate the outsourcing adoptions. Therefore, the second hypothesis is developed.

**Hypothesis 2:** Suppliers effect the outsourcing adoptions by hotel.

One of the major factors involving outsourcing process is resources. Vendors or contractors have better infrastructures, knowledge and skills and expertise in the field than the firms. Outsourcing becomes better options than incurring more cost in investment. Additionally, a firm may be able to save up resources for other purposes by outsourcing certain functions or departments to third parties. In other words, outsourcing able a company to forward its resources and maximize revenue (Dorasamy et al., 2010).

Revenues will be one of the reason firms decide to outsource. The increase of revenues will encourage the firms to go beyond or across borders in order to generate more profits to its business. Outsourcing is to achieve aggressive growth objectives by gaining increased market access, to leverage on the service provider's best process, capacity and systems (Ghodeswar & Vaidyanathan, 2008). Revenue and resources has seen as factors that contribute to the efficiencies of a firm in wisely making decision on outsourcing adoption. Therefore, the third hypothesis is developed.

**Hypothesis 3:** Revenue and resources distributions effect the outsourcing adoptions by hotel.

Dorasamy et al. (2010) have identified the perceived risk factors that are changes in supplier circumstances, supplier failure and loss of confidential information. The firms might face these risks when one change might be supplier's difficulties, supplier might fail to perform tasks and suppliers have all the access to the sensitive information about the firms. Whereas Maelah et al. (2010) have identified other risks that can be consider when firms involved in outsourcing such as loss of core activities, leveraged by suppliers, loss of strategic flexibility, suffering interruptions of supply, receiving poor quality of supply, fall in employee morale, loss of internal coherence, confidentiality leaks, and loss of intellectual property rights. Therefore, fourth hypothesis is developed.

**Hypothesis 4:** Risks effect the outsourcing adoptions by hotel.

#### **4. Research Method and Data Analysis**

Following a review of the literature, a questionnaire was developed for the survey. All the items of questionnaire were adopted from prior researches (Ghodeswar & Vaidyanathan, 2008; Lam & Han, 2005). The survey questionnaire consists of four main sections namely Section 1: types of services being outsourced, Section 2: purpose of outsourcing, Section 3: factors influencing outsourcing adoption decisions, and Section 4: the profiles of the respondents. In Section 1, respondents were asked to indicate which functions they outsource while in Section 2 they were required to choose reasons why they outsource the functions (as stated in Section 1).

For Section 3 respondents were asked to state their level of agreement towards 27 statements. There statements consist of five items on cost, ten items on suppliers, five items on risks and seven items on revenue and resources distributions. The response format for each item was a seven-point Likert scale ranging from strongly disagree (1) to strongly agree (7). Before the questionnaire was distributed, a pilot test was conducted on 10 randomly selected Hotel departmental managers through telephone interview and via email. There was no substantial comment that required changes to the questions thus the questionnaire was subsequently distributed to other hotels via emails.

Purposive sampling was used to identify the sample, as it obtains information about the hotels activities from those who are most readily or conveniently available that is the management level managers. Based on the hotels listing, there were 900 hotels in Kuala Lumpur, Selangor, Melaka, Penang and Johor. Based on Krejcie and Morgan (1970), if the total N=900, the sample size should be =269.

The listing of hotels was taken from the Tourism Malaysia Website which listed hotels under the Registration Statistics and Classification of Tourist Accommodation Premises (TM, 2012). The selection of target hotels was based on the following criteria. 1) The hotels must be located in the following big cities: Kuala Lumpur, Selangor, Melaka, Penang and Johor. 2) The hotels should be rated as 2 stars to 5 stars hotels. Once the sample of the hotels was identified, the questionnaire along with the personalized cover letter explaining the nature of the study was distributed. A total of three hundred questionnaires were distributed to the Personnel involved in outsourcing decisions in each hotel. Initial contact was made to identify the most appropriate personnel. Despite numerous attempts only 37 questionnaires were returned, accounting for a response rate of 12.33 %.

##### **4.1. Demographic Profile**

Table (1) shows the respondent profiles. As can be seen, the Departmental manager makes up 70.3% of the respondents, followed by General Manager/Deputy General Manager (17.4%), others (13.5%) and Divisional Managers, Directors of Executive Offices, and Assistants to the General Manager (8.1%). This actual indicates that the questionnaire was filled in by the hotel's decision makers. Moreover more than one-third (35.1%) of respondents were working in hotels which have been operating for more than 10 years while 39.7% have been working in hotels which have been in operation between 5–10 years. Half of the respondents were from the 5 star hotels rating, while remaining hotels were rated 4 or less star hotel.

#### 4.2. Types of Function Outsourced

Table (2) shows different types of functions outsourced by respondents. As can be seen, more than half (67.6%) of the hotels outsourced their cleaning/housekeeping services. More than one-third of the hotels outsource laundry services (48.6%) and security and surveillance services (45.9%). The majority of hotels do not outsource their facilities (94.6%), technology (91.9%), information systems (83.8%), leisure activities (78.4%), gardening services (73%) and training (70.3%). It can be concluded here that the hotels tend to outsource functions which are conducted on a daily basis and routine in nature and functions which are not strategic in nature.

#### 4.3. Level of Outsourcing

Additional analysis illustrates that there were 10 companies who did not outsource any functions while 9 companies outsource only one of their functions and only 2 companies which outsource 7 of their functions (Table 3). The results were then subjected to percentile analysis to categorise the level of outsourcing. It can be concluded that the level of outsourcing among the hotels is considered relatively low.

#### 4.4. Reasons for Outsourcing

Hotels outsource their functions for several reasons (Table 4). Generally it can be summarised that the hotels outsource their functions for two main reasons. One, suppliers brand and expertise, whereby the two highest values is related to this reason i.e. 'to utilize the management expertise provided by the outsourcing supplier' ( $m=5.27$ ) and 'well known brand name of the outsourcing suppliers' ( $m=4.95$ ). Two, internal efficiency i.e. 'better utilize internal resources' and reduce cost with both mean values of 4.81. The lowest mean value score was for 'reduce risk of business failure' with mean scores of 3.57. This is expected as the functions the hotels outsourced are non core functions.

#### 4.5. Reliability and Validity

The Cronbach's alpha coefficient (Table 5) for the most of the constructs was above 0.70 thus considered reliable and used for further analysis. Only one construct i.e. risk's Cronbach's alpha coefficient  $\alpha=0.372$ . Subsequently, reference was made to the *Items-Total Statistics*, and it was found that the Cronbach's alpha will increase to .628 if one of the items i.e. "reliable suppliers" is deleted. Therefore, it was deleted and not included for further analysis.

The items of each constructs were subjected to Principal Component Analysis with VARIMAX rotation method to get clean factors based on Coakes, Steed, and Ong (2010). The value of the Kaiser-Meyer-Olkin was 0.637, which is higher than recommended value of 0.60 (Pallant, 2005) and the Bartlett's Test of Sphericity reached statistical significance. From Table 6, it can be seen that the items were loaded into six components and with Eigen values greater than one, which together explained 81.21% of the variation in the data.

It must be noted here that the initial model by Lam and Han (2005) contain 4 constructs however the factor analysis conducted showed the items can be categorised into 6 constructs. There were eight items grouped under component 1. From the review of literature, it can concluded that these items can be categorised as Revenue and Resources Distribution as the items explained more on the Revenue and Resources distribution that comes from outsourcing activities and supplier's capabilities in providing the service. Therefore, component 1 was named Revenue and Resources distribution. The measurement of dimensionality for factor 1 was validated communality loadings (0.652 to 0.876) respectively.

The result of factor analysis for Component 2 consists of six items that explained more on the supplier's performance, capabilities and responsibility in providing outsourcing services. Therefore, component 2 was named supplier's performance, capabilities and responsibility. The measurement of dimensionality for factor 2 was validated communality loadings (0.670 to 0.840) respectively. The result of factor analysis for component 3 consists of five items that explained more on the outsourcing risk that a hotel will face in adopting outsourcing services from external suppliers. Therefore, component 3 was named to outsourcing risk. The measurement of dimensionality for factor 3 was validated communality loadings (0.566 to 0.817) respectively. The result of factor analysis for factor 4 consists of only two items that can be classified as outsourcing cost. The items explained more on the cost that a hotel should be reducing in adopting outsourcing services from external suppliers.

The items explained on the main cost that is reduce cost and operating cost as well the indirect cost that will be reduce when they decided to contract-out and that will lead them to downsizing. Items from component 4 and component 6 were then combined as they seem to explain the same factor, which is cost. The measurement of dimensionality for factor 5 was validated communality loadings (0.572 to 0.866) respectively. Last but not least, the result of factor analysis for Component 5 consists of only three items which explained more on the threat that a hotel would face in adopting outsourcing services from external suppliers for example terminating unnecessary employees. Therefore, component 4 was named to Hotel's dilemma. The measurement of dimensionality for factor 4 was validated communality loadings (0.520 to 0.848) respectively.

Referring to the overall results of factor analysis conducted, it shows that there are six constructs that measure the factors influencing outsourcing adoptions decisions. This analysis is different from Lam and Han (2005) as their results indicated four factors. The six components were classified as Factor 1: Revenue and Resources Distribution, Factor 2: Supplier's Performance and capabilities, Factor 3: Outsourcing Risks, Factor 4 and 6: Cost and Factor 5: Hotel's dilemma. Subsequently, the original model was modified to include one new construct i.e. hotel dilemma hence an additional hypothesis was formulated. As mentioned earlier, hotels might be too dependent on the vendors and if anything were to go wrong, the hotel would be in a dilemma whether to continue or terminate their services as this may effect employees' morale (Maelah et al., 2010). Therefore, fifth hypothesis is developed.

**Hypothesis 5:** Hotel's dilemmas effect the outsourcing adoptions by hotel.

#### 4.6. Factors influencing outsourcing adoption

Correlation analysis was conducted between the five constructs (Cost, Suppliers, Outsourcing Risk, Hotel's Dilemma as well as Revenue and Resources distribution) and the outsourcing adoption i.e. purposes of outsourcing (dependent variable). From Table 7, it can be seen that cost has a positive correlation with outsourcing adoption. Cost shown the value of  $r = .676$ , meaning that the cost will strongly affect to the adoption of outsourcing by hotels. Moreover, the output confirms that Suppliers' factor has a positive correlation with outsourcing adoption. Suppliers stated the greatest value of  $r = .785$ , meaning that the suppliers factor will strongly affect to the adoption of outsourcing by hotels. In addition, Outsourcing risk has a positive correlation with outsourcing adoption. The output states that a significant positive relationship exists between outsourcing risk and outsourcing adoption ( $r = .753$ ). Therefore, the higher scores of outsourcing risks are associated with the higher scores of adoption of outsourcing. Hotel's dilemma shown the value of  $r = .467$ , meaning that the hotel's dilemma factor will affect the adoption of outsourcing but at a medium level. The output also shows that there are positive relationships between Revenue and resources distribution with outsourcing adoption by hotels. The high value of correlation means that a significant positive relationship exists between revenue and resources distribution and outsourcing adoption ( $r = .613$ ).

Subsequently, Multiple Regressions was employed to examine the relationship between whole set of predictors and the dependent variable based on Coakes et al. (2010)'s recommendation. The independent variables (costs, suppliers, risks, hotel dilemma and revenue and resources) are the predictors that will be test on the dependent variable (purposes of outsourcing adoption). From Table 8, it can be seen that the five independent variables together explained 86.5% of the variance (R-Square) in adoption of outsourcing, which is highly significant. R-squared indicates that 86.5% of the variations in outsourcing adoptions can be explained by the variation in cost, suppliers, risk, dilemma and revenue and resources distributions. F-Value (18.350) indicates that this result is statically significant at 0.05 levels.

According to the result from the t-value and the significant level of p-value (Table 9), suppliers ( $t = 2.525 > 2$ , p-value = .017), risk ( $t = 2.227 > 2$ , p-value = .033) contributes to the prediction of outsourcing adoption among Malaysian hotels. Suppliers, Risk and revenue as well as resources distributions have absolute t-value more than 2; therefore suppliers, risk and revenue as well as resources distributions have a true impact on outsourcing adoption. Whereas, the cost factor and hotel's dilemma factor does not affect the adoption of outsourcing among Malaysian hotels. Since the t-value for cost factor is not met the recommended ( $1.343 < 2$ , p-value = .189) and the significance coefficient is not reliable. So as hotel's dilemma factors ( $t\text{-value} = .673$ , p-value = .506) and revenue as well as resources ( $t=1.261$ , p-value=.217) does not met the recommended. Therefore, hypotheses H2 and H3 are accepted and Hypotheses H1, H4 and H5 are rejected.

## **5. Discussion**

It was found that laundry, housekeeping and cleaning are the functions more likely to be outsourced by the Malaysian hotels. With outsourcing the hotels are able to transfer or hand over their non-core activities to external vendors. As supported by Espino-Rodriguez and N-Robaina (2005) stated that Hotels may adopt outsourcing in their service activities in order to cope with the globalization and the competitive environment in today's businesses operates. This includes by transferring the hotel's activities to experts/professionals who then will perform those service for the hotels. Besides that, hotels might want to focus on their main/core activities in order to cope up with the ever changing environment such as cultural changes, advanced technologies and fierce competition. Furthermore, if a hotel function was outsourced to a supplier, they might be able to use the well known brand name of the outsourcing suppliers which provides good feedbacks from the previous services performed. According to a study by Lam and Han (2005), from the previous research in hotels outsourcing in Shanghai, supplier's brand name and capability were taken into account which encouraging the hotels to make wise decision on whether to outsourced or not to outsourced. Hotels will return and consume the same service from the vendors if the service is good and well known quality.

Other than that, Hotels are also concerned about losing entire control over the outsourced functions where the functions will be totally transferred to the external vendors. According to Hamzah et al. (2010), outsourcing decisions depends on when an organization should outsource its activity, which should an organization select and how much control should be given to the suppliers/vendors are essential. The decisions on handing over the functions to the external vendors will lead to risks include loss of managerial control, because it is more difficult to manage outside service providers than managing one's own employees working possibly in the same building. Therefore, outsourcing the cleaning, laundry and housekeeping functions would ensure that the hotels would still be in control of their core business.

Identifying the determinant factors in the adoption of an outsourcing strategy, the finding has resulted that there are three out of four factors that is considered as the determinant factors. The factors are suppliers, outsourcing risk and revenue as well as resources distributions. These factors have absolute t-value more than 2; therefore the coefficient is significant at 5% level. Thus, suppliers and risk have a true impact on outsourcing adoption. Supplier's factors consist of the suppliers' performance and capabilities. Most hotels in Malaysia will take supplier's factor into account when they are making decision in practicing outsourcing. Decision on adopting any outsourcing strategy will relate to which reliable suppliers to hire and provide a better service. Outsourcing suppliers is a factor that could provide benefits to firms decided to outsource any of the non-core departments. According to KPMG (2006), firms doing outsourcing are happy with their current suppliers and have a flexible contracts and moving towards renewing their existing contracts. This shows that, it is easy to identify a reliable outsourcing supplier in the market. However, in most of the contracts it have featured clear termination clauses, which, shows that a complete laws are available for protecting the firms when outsourcing suppliers are used. This indicates that it promotes a long term of outsourcing relationships and flexibility for both parties (KPMG, 2006).

Whereas Risk which also have a true impact on outsourcing adoption among hotels in Malaysia, concerned are to be focus on an undesirable risk of terminating employees and Concerned about over reliance on supplier. Hotels decided to opt for outsourcing strategy meaning that the functions will be handed over to the external vendors to perform the particular task. Therefore, the function will no longer need the employees which previously done the job for that functions and may have to terminate the employees. Other than that, any sensitive information is more vulnerable, and a firm may become very dependent upon it's outsource providers, which could lead to problems should the outsource provider back out on their contract unexpectedly. Risk of outsourcing can come under security (Maelah et al., 2010; Arshad et al., 2007) where data confidentiality is concerned. Besides that, lack of experience managing the outsourcing relationship, excessive dependence on outsourcer, the lack of outsourcer staff experience, the outsourcer not complying with the contract is part of the risk concern by firms (Arshad et al., 2007).

According to Ghodeswar and Vaidyanathan (2008), Revenues will be one of the reason firms decide to outsource. The increase of revenues will encourage the firms to go beyond or across borders in order to generate more profits to its business. Outsourcing is to achieve aggressive growth objectives by gaining increased market access, to leverage on the service provider's best process, capacity and systems.

Embarking to outsourcing also will expand capacity to design, test and build new products and service, to stretch its limit in handling the increased volume of business and to manage demand efficiently through outsider's automation, process maturity and the latest technology. It is also to focus on enablers of business growth and strategies to fulfil them.

## 6. Conclusion

This paper examined the functions outsource by Malaysian hotels, and investigated the factors influencing the outsourcing adoption decision, with a focus on four factors i.e. cost, suppliers, risk and revenue and resources distributions. The findings of this study indicated that external outsourcing suppliers were expected to encourage hotels to utilize the management expertise provided by the outsourcing supplier because they expected that external outsourcing suppliers were supposed to be experts in the outsourcing function and able to operate it successfully. Furthermore, if a hotel function was outsourced to a supplier, they might be able to use the well known brand name of the outsourcing suppliers which provides good feedbacks from the previous services performed. Outsourcing decision is done to ensure that they are being service by an expert to perform the task successfully and the well known brand name of the suppliers have made it clear that it is good to outsourced the functions since the service is well known and reliable.

This study has several implications for practice and managers. This study has confirmed that cost and issues pertaining to suppliers are significant factors in predicting the outsourcing adoption decision. Risk also is an important factor as it will always exist in any type of business in this world. Practicing outsourcing will expose the hotels to many types of risk depending on the nature of the hotel's business. Hence, all these three factors have to be considered carefully before actual implementations are made. For example, hotels have to choose a reliable vendor, evaluate their reputation etc, to minimise the cost as well as reduce risks.

The studies although provide significant findings have several limitations particularly in terms of the sample i.e. sample size is small and it was distributed using convenience sampling. Due to small size sample, generalizability of this study is limited. Because convenience sampling was used, the results are not representative of the whole sample population. Nevertheless, it must be noted here that numerous efforts were made to increase the sample size and to use some form sampling frame. However, these efforts were not successful as many of the hotels do not want to participate in the survey due to time constraint as well as nature of their job.

With the growing numbers of outsourcing adoption by hotels in Malaysia, a better understanding on outsourcing concepts and implications of outsourcing is needed. In this regard, various suggestions for future research both to complement and supplement the findings and conclusions of this study are presented. First, the adopted model should be tested with a larger sample size. In that case, more rigorous statistical methods can be used to test the causalities. Secondly, instead of focusing on just a few of big cities the study can focus on all states in order to get the better distribution of the survey and therefore will receive vast information on outsourcing methods.

## References

- Aman, A., & Rahman, E. Z. E. A. (2011). Managing relational risks in accounting outsourcing: Experiences of small firm. *World Applied Sciences Journal*, 15(1), 56-62.
- Arshad, N. H., Lin, Y. M., Mohamed, A., & Affandi, S. (2007). Inherent risks in ICT outsourcing projects. *Proceedings of the 8th WSEAS International Conference on Mathematics and Computers in Business and Economics*, Vancouver, Canada, June 19-21, pp. 141-146.
- Coakes, S., Steed, L., & Ong, C. (2010). *SPSS Version 17.0 for windows, Analysis without Anguish*. Jon Wiley & Sons Australia, Ltd.
- Domberger, S., Hall, C., & Li, E. A. L. (1994). The determinants of quality in competitively tendered contracts. Working Paper, Graduate School of Business, University of Sydney, Australia.
- Dorasamy, M., Marimuthu, M., Jayabalan, J., Raman, M., & Kaliannan, M. (2010). Critical factors in outsourcing of accounting functions in Malaysian small medium-sized enterprises (SMEs). *Kajian Malaysia*, 28(2), 39-46.
- Espino-Rodri'guez, T. F., & Padro'n-Robaina, V. (2005). A resource-based view of outsourcing and its implications for organizational performance in the hotel sector. *Tourism Management*, 26, 707-721.



Ghodeswar, B., & Vaidyanathan, J. (2008). Business process outsourcing: an approach to gain access to world-class capabilities. *Business Process Management Journal*, 14(1): 23-38.

Hamzah, N., Aman, A., Maelah, R., Auzair, S. M., & Amiruddin, R. (2010). Outsourcing decision process: A case study of a Malaysian firm. *African Journal of Business Management*, 4(15), 3307-3314.

KPMG. (2006). Outsourcing the finance function: Developments and potential trends. [Online] Available: <http://itonews.eu/files/f1224493468.pdf> (September 18, 2012).

Krejcie, R. V., & Morgan, D. W. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, 30, 607-610.

Lacity, M. C., Khan, S. A., & Wilcocks, L. P. (2009). A review of the IT outsourcing literature: Insights for practice. *Journal of Strategic Information Systems*, 18(3), 130-146.

Lacity, M. C., & Wilcocks, L. P. (2008). Global outsourcing of back office services: Lessons, trends, and enduring challenges. *Strategic Outsourcing: An International Journal*, 1(1), 13-31.

Lacity, M. C., Rottman, J., & Khan, S. A. (2010). Field of dreams: Building IT capabilities in rural America. *Strategic Outsourcing: An International Journal*, 3(3), 169-191.

Lam, T., & Han, M. X. J. (2005). A study of outsourcing strategy: A case involving the hotel industry in Shanghai, China. *International Journal of Hospitality Management*, 24, 41-56.

Lamminmaki, D. (2011). An examination of factors motivating hotel outsourcing. *International Journal of Hospitality Management*, 963-973.

Maelah, R., Aman, A., Hamzah, N., Amiruddin, R., & Auzair, S. M. (2010). Accounting outsourcings turn back: Process and issues. *Strategic Outsourcing: An International Journal*, 3(3), 226-245.

Maelah, R., Aman, A., Amiruddin, R., Auzair, S. M., & Hamzah, N. (2012). Accounting outsourcing practices in Malaysia. *Journal of Asia Business Studies*, 6(1), 60-78.

MTM (Ministry of Tourism Malaysia) (2012). [Online] Available: <http://www.motour.gov.my/en.html> (August 4, 2012).

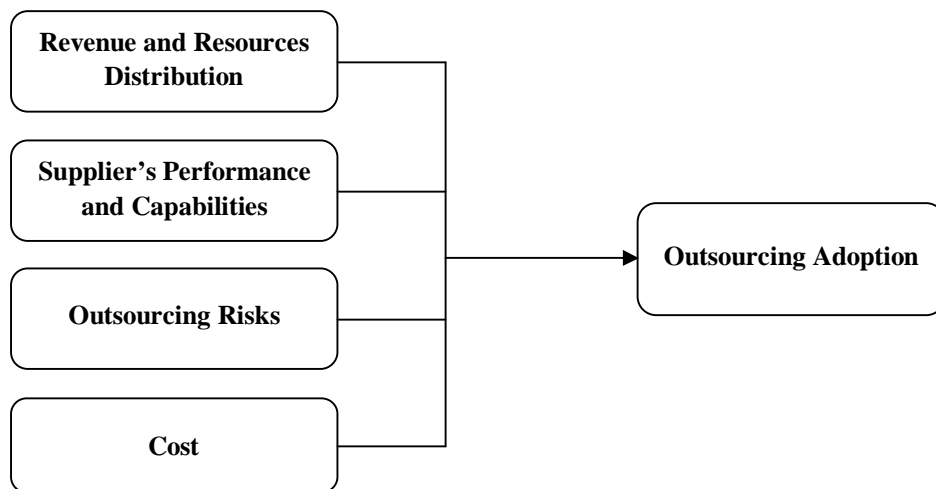
Pallant, J. (2005). *SPSS Survival Manual*. (2<sup>nd</sup> ed.), McGraw-Hill Education.

Qu, W. G., Pinsonneault, A., & Oh, W. (2011). Influence of industry characteristics on information technology outsourcing. *Journal of Management Information Systems*, 27 (4), 99-128.

Song, L. (2008). An analysis on Chinese hotel enterprises' outsourcing strategic modes and corresponding development conception. *International Journal of Business and Management*, 3(3), 76-81.

TM (Tourism Malaysia). (2012). Registration statistics and classification of tourist accommodation premises. [Online] Available: [http://www.tourism.gov.my/about\\_Malaysia/20032012](http://www.tourism.gov.my/about_Malaysia/20032012) (August 8, 2012).

Zakariah, Z. (2005). Electronic reservation for hotel services. PhD Thesis, Faculty of Information Technology and Quantitative Science, Universiti Teknologi MARA, Malaysia.



**Figure 1: Theoretical framework (adapted from Lam and Han (2005))**

Table 1: Profile of the respondents

Variable	Frequency	Percentage (%)
<b>Position</b>		
General Manager/Deputy General Manager	3	8.1
Divisional Manager/Director of Executive Office/Assistant to General Manager	3	8.1
Departmental Manager	26	70.3
Others	5	13.5
<b>Hotel's Length of Operations</b>		
More than 10 years	13	35.1
5–10 years	11	39.7
5 or less than 5 years	13	35.1
<b>Hotel's Rating</b>		
5 Star	20	54.1
4 Star	10	27.0
3 Star	4	10.8
2 Star	3	8.1

Table 2: Types of Functions outsourced

Types of Functions	Outsourced		Do not Outsourced	
	Freq	Percentage	Freq	Percentage
Cleaning/housekeeping	25	67.6	12	32.4
Laundry	18	48.6	19	51.4
Security and Surveillance	17	45.9	20	54.1
Training	11	29.7	26	70.3
Gardening Services	10	27.0	27	73.0
Leisure activities	8	21.6	29	78.4
Information Systems	6	16.2	31	83.8
Technology	3	8.1	34	91.9
Facilities	2	5.4	35	94.6

Table 3: Number of Functions outsourced and level of outsourcing

No of outsourcing functions	Frequency	Percentage	Level
1	9	24.3	Low
2	12	32.4	Low
3	8	21.6	Moderate
4	1	2.7	High
5	5	13.5	High
7	2	5.4	High
Total	37	100.0	

**Table 4: Reasons for Outsourcing**

Purposes of Outsourcing	Mean	Standard Deviation
Utilize the management expertise provided by the outsourcing supplier	5.27	1.217
Use the well-known brand name of the outsourcing supplier	4.95	1.471
Allow the organization to better utilize internal resources	4.81	1.288
Reduce operating costs	4.81	1.561
Use the outsourcing supplier's expertise to meet challenges of hotel globalization	4.65	1.620
Generate more revenues	4.59	1.572
Utilize the advanced production technique provided by the outsourcing supplier	4.30	1.697
Use the outsourcing supplier to develop new markets	4.19	1.613
Reduce risk of business failure	3.57	1.757

**Table 5: Reliability Analysis**

Construct	No of items	Cronbach's Alpha
Cost	5	.765
Suppliers	10	.892
Risks	4	.628
Revenue & Resources	7	.911

**Table 6: Factor Analysis**

	Rotated Component Matrix <sup>a</sup>					
	1	2	3	4	5	6
Contractual duration offered	0.876					
Supplier's best capacity	0.870					
Redistribution of resources	0.806					
Supplier's tactical resources	0.778					
Low price/fees charged	0.771					
Supplier's best systems	0.758					
Supplier's best process	0.718					
Maximize revenue	0.652					
Reputation and ability		0.840				
service level and standard		0.764				
Supplier's past performance		0.746				
Advanced techniques		0.723				
Continuous improvement		0.673				
Develop new market		0.670				
Complete Laws			0.817			
Advanced management expertise			0.754			
Supplier's prompt respond			0.737			
Gain increased market access			0.666			
Supplier's Adequate experience			0.566			
Reduce operating costs				0.751		
Reduce costs				0.595		
Undesirable risk terminating employees					0.848	
Reliance on Supplier					0.809	
Reliable suppliers					0.52	
Downsize organizational structure						0.866
Contract-out decision						0.572
<b>Eigen value</b>	<b>12.253</b>	<b>3.254</b>	<b>2.384</b>	<b>1.658</b>	<b>1.28</b>	<b>1.099</b>
<b>variance</b>	<b>45.38</b>	<b>12.051</b>	<b>8.828</b>	<b>6.139</b>	<b>4.741</b>	<b>4.07</b>

**Table 7: Correlations between Outsourcing Adoption and Independent Constructs**

	Outsourcing Adoption (DV)	Cost	Suppliers	Outsourcing Risk	Hotel's Dilemma	Revenue and Resources
Pearson Correlation	1	.676**	.785**	.753**	.467*	.613**
Sig. (1-tailed)		.000	.000	.000	.002	.000
N	37	37	37	37	37	37

\*\* Correlation is significant at 0.01 levels (1-tailed)

**Table 8: Model Summary and ANOVA**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.865 <sup>a</sup>	.747	.707	.05914

**ANOVA<sup>b</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.321	5	.064	18.350	.000 <sup>a</sup>
Residual	.108	31	.003		
Total	.429	36			

a. Predictors: (Constant), Revenue Resources, Suppliers, Risks, Cost

b. Dependent Variable: Purposes adoption

**Table 9: Coefficient**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.098	.048		2.042	.050
Cost	.063	.047	.182	1.343	.189
1 Suppliers	.211	.084	.360	2.525	.017
Risks	.132	.059	.305	2.227	.033
Revenue Resources	.010	.008	.126	1.261	.217
Hotel's Dilemma	.062	.091	.086	.673	.506

a. Dependent Variable: Purposes adoption