



Activity outsourcing and competitive strategy in the hotel industry. The moderator role of asset specificity



Tomás F. Espino-Rodríguez^{a,*}, Pei Chun Lai^b

^a University of Las Palmas de Gran Canaria, Edificio Departamental de Ciencias Económicas y Empresariales, Módulo C. C2-08, Spain

^b National Pingtung University of Science and Technology, Department of Hotel and Restaurant Management, 1 Shueh fu Road, Neipu, Pingtung 91201, Taiwan

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ABSTRACT

This paper analyzes hotel outsourcing from the perspective of the competitive strategy and asset specificity. A comprehensive model is developed to establish the relationships among the competitive strategy (cost leadership and differentiation strategies), asset specificity and activity outsourcing. Asset specificity is used as a moderator variable in the relationship between the competitive strategy and activity outsourcing. A specificity-outsourcing matrix is developed to classify the activities by their level of asset specificity and outsourcing. The main hotel activities are investigated in a representative sample of hotels in Taiwan. The findings indicate that the cost leadership strategy positively and partially influences outsourcing, while the differentiation strategy has a negative impact on outsourcing an activity. The results confirm the negative relationship between asset specificity and the level of activity outsourcing. Moreover, they show that asset specificity positively moderates the relationship between the competitive strategy and outsourcing.

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1. Introduction

Make-or-buy decisions are important operational issues in contemporary hotel management, and outsourcing is a strategy that organizations have been implementing for some time. The decision to insource or outsource can allow a firm to free up resources needed to focus on more important issues and invest in newer or higher return processes or new opportunities (Powell-Mantel et al., 2006). Outsourcing is a useful way to adapt the firm's boundaries by restructuring its activities in order to stimulate the growth of its core business (Bustinza et al., 2010). Outsourcing involves transferring activities to an external source (Kotabe and Mol, 2009). The organization's boundaries must be defined by deciding which activities the hotel will perform in-house and which activities it will outsource. Outsourcing represents the fundamental decision to reject the internalization of an activity. Hence, outsourcing involves the use of external providers and is a highly strategic decision with the ability to affect the competitive advantage (Gilley and Rasheed, 2000). Many activities in a hotel can be outsourced, which means

rejecting doing them internally and entrusting some services to third parties.

Recent studies have examined outsourcing in the hotel sector at the activity and organizational levels. They have analyzed the factors determining the outsourcing, its influence on organizational performance, the key dimensions of outsourcing and the outsourcing performance (Hemmington and King, 2000; Lam and Han, 2005; Espino-Rodríguez et al., 2008; Bolat and Yilmaz, 2009; Donada and Nogatchewsky, 2009; Lamminmaki, 2011). Research in this area should be fomented and broadened, given outsourcing's relevance in hotel management, as it can minimize the complexity stemming from the variety of necessary activities and functions in providing services (Gonzalez et al., 2011).

One of the most frequently analyzed variables in different empirical studies on outsourcing is asset specificity (Murray et al., 1995; Poppo and Zenger, 1998; Aubert et al., 2004). Some studies in the hospitality literature have analyzed the relationship between the asset specificity of hotel activities and outsourcing (Lamminmaki, 2005). Other studies have analyzed the relationship between specificity and operational performance, depending on whether the operation is outsourced or developed in-house (Poppo and Zenger, 1998; Espino-Rodríguez et al., 2008). However, no studies have been found that analyze the relationship between the asset specificity of an operation, its level of outsourcing, and the competitive strategy. Outsourcing decisions are affected by other

* Corresponding author. Tel.: +34 929458648; fax: +34 928451829.

E-mail addresses: tomasfrancisco.espino@ulpgc.es (T.F. Espino-Rodríguez), pclai@mail.npust.edu.tw (P.C. Lai).

aspects of the firm's strategy. This study seeks to better understand the relationship between the competitive strategy and outsourcing. In the theoretical literature, the argument has been made that, although not extensively, differentiation and cost leadership strategies can affect the outsourcing of an activity (Porter, 1980; Harrigan, 1984; Mariotti and Cainarca, 1986). However, at an empirical level, this relationship has not been analyzed in the services sector or the industrial sector. Moreover, no studies have been carried out on the relationship between outsourcing and competitive strategy moderated by asset specificity. It is necessary to find out how the degree of specificity of an activity affects the level of outsourcing, both actual and desired, depending on the competitive strategy followed by the hotel. Therefore, this paper focuses on the analysis of the relationship between the competitive strategy and outsourcing, based on whether the activity has high asset specificity or low asset specificity. It also classifies hotel activities according to their asset specificity and designs a specificity-outsourcing matrix.

An asset is specific or idiosyncratic when it cannot be reallocated to another use without its value falling significantly. Willimason (1981) considers that specific assets appear when one party in a transaction makes an investment in human or physical resources that cannot be totally recovered when the transaction is completed. Specificity depends on the degree of standardization of the transaction. This specificity of assets may come from three sources: (a) site specificity; (b) the specificity of physical assets that occurs when specialized components or equipment are used in performing a transaction; and (c) the specificity of human resources, which is related to the level of training and the special skills required by the staff in order to perform the activity.

The competitive strategy represents the orientation of the firm's business strategy toward external environmental conditions, including its competitors and customers (Dadzie et al., 2012; Hitt et al., 2011). Porter (1980, 1985) establishes that the generic competitive strategies are cost leadership strategies, differentiation strategies and focused strategies (firms pursuing a focused strategy target specific groups of buyers, product lines, or geographic areas; they emphasize either low costs or differentiated products or services). As in other studies that use Porter's typology of generic strategies, the present study focuses on the cost leadership and differentiation strategies because of the difficulties in examining the focus strategies (Acquaah et al., 2008; Acquaah and Yasai-Ardekani, 2008). Although Porter (1980, 1985) argues against following cost leadership and differentiation strategies simultaneously, other authors consider the possibility of the existence of a hybrid, mixed, integrated or combined use of these strategies (Acquaah and Yasai-Ardekani, 2008; Spanos et al., 2004). Porter (1980) argues that firms become stuck in the middle because they might fail to successfully follow any of the generic strategies.

The objectives of the paper can be summarized as follows:

1. To analyze the relationships among the competitive strategy, asset specificity and activity outsourcing.
2. To analyze the relationship between outsourcing and the competitive strategy, moderated by the level of asset specificity of the hotel activities.
3. To classify hotel operations according to their asset specificity and analyze their relationship with outsourcing. To construct a specificity-outsourcing matrix.

2. Research model and hypotheses

The study objectives mentioned above allow us to propose a comprehensive model that analyzes the relationships among activity outsourcing, asset specificity and the competitive strategy. Moreover, the study analyzes whether asset specificity moderates

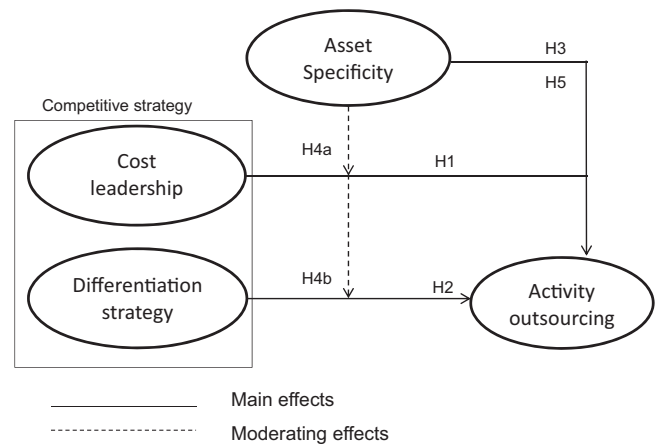


Fig. 1. A conceptual model.

the relationship between the competitive strategy and outsourcing (see Fig. 1).

A cost leadership strategy refers to a set of integrated actions taken to produce products, goods and services at a low cost, emphasizing standardization and continually analyzing cost reduction processes. Firms following a cost leadership strategy try to obtain the lowest costs in their environment, offer good prices to clients, and obtain profits (Porter, 1985; Spanos et al., 2004; Hitt et al., 2011; Dadzie et al., 2012).

Various theoretical perspectives on potential benefits explain why firms engage in outsourcing. Cost saving is often a primary reason for outsourcing (Kim, 2003; Abdel-Malek et al., 2005; McCarthy and Anagnostou, 2004; Lau and Zhang, 2006). Jiang et al. (2006) provides empirical evidence that outsourcing firms have cost efficiency advantages over their counterparts who do not outsource any activities. According to Gonzalez et al. (2013), outsourcing makes it possible to control costs and achieve greater efficiency. Firms evaluate outsourcing to determine whether current operating costs can be reduced and whether the resources saved can be reinvested in a more competitive process, focusing on the core competences. Outsourcing achieves cost flexibility, reducing the commitment to fixed costs and respecting the hotel's seasonal requirements.

The main objective of a firm that follows a cost leadership strategy is to reduce costs by increasing efficiency. A cost leadership strategy is characterized by incremental improvements in production (goods or services) that lead to minimizing costs (Porter, 1980). According to Porter (1980), the sources of competitive advantage come from more standardized services, making it possible to take advantage of economies of scale. Therefore, a hotel that follows a cost leadership strategy can increase its level of outsourcing activity in order to reduce costs and internalize those activities that give it a cost advantage. Moreover, when companies outsource, they compare the cost of insourcing the activity to the cost of using an external supplier. If this comparison indicates that it is cheaper to go to external sources, and the company follows a costs approach, it might be more likely to outsource the activity. This line of reasoning leads to the first hypothesis:

Hypothesis 1. A cost leadership strategy is positively related to outsourcing a hotel activity.

Many authors have refined and conceptualized the differentiation strategy across several dimensions, including product differentiation, marketing differentiation, quality differentiation, service differentiation and innovation differentiation strategies (Amoako-Gyampah and Acquaah, 2008). In this study, we use a differentiation strategy because it is the most commonly used strategy dimension in the recent literature (Nayyar, 1993; Acquaah and

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