

A Study of Impact of Outsourcing in Indian Hospitality Industry

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Abstract

Outsourcing is an agreement in which one company hires another company to be responsible for a planned or existing activity that is or could be done internally, and sometimes involves transferring employees and assets from one firm to another. Outsourcing can be defined as the act of giving another party responsibility of performing what would otherwise be an internal system or service. In all over the world most of the companies are looking at outsourcing and hoping to achieve cost savings by handing over the work to a third-party that can take advantage of economies of scale by doing the same work for many companies. Cost savings could be easily achieved because labour costs are lower due to different costs of living in different countries. It provides wide range of tactical, powerful, flexible tools which in turn helps in achieving the business objectives in a cost effective and efficient manner. To put it in simple words an outsourcing) is a process in which a company delegates some of its business processes to another party on payment of some fee by passing over total control of process to them. This in turn cuts the operational costs considerably resulting into huge profits. Outsourcing is the opportunity for the organization in hospitality industry and some others industry as well which can provide service and product for them and can enhance their profitability without producing things are internally. The term outsourcing emerged as a corporate term in the 1980's. Outsourcing involves transfer or share in management or the decision making of a business through a management from outside and include a two-way exchange of information, trust and business coordination between the outsourcer and its client. Most of the hotels can outsource their food and beverage, marketing process, HR process etc., from their outsource provider. By applying outsourcing firms can get more concentration in the market to run our core business in a better way. In this research paper we focus on how outsourcing could helps compete with other hotels in order to cut costs and increased profits for the hotel industry.

Keywords: Outsourcing, Material Management.

Introduction

Outsourcing is the term for contracting out areas of a company's operations that are not within its core business or specialties to other companies possessing the specialized people, knowledge, resources and management expertise. For instance, an insurance company might outsource their claims processing program or a bank might outsource their loan processing system. Other common examples of outsourcing are call centers and payroll outsourcing. It is often divided into two categories: back office outsourcing which includes internal business functions such as billing or purchasing, and front office outsourcing which includes customer-related services such as marketing or technical support. Hoteliers internationaly started giving serious thought to outsourcing as a viable option for the non-core business areas much before Indian hotels. In the initial period hoteliers started outsourcing services like housekeeping, laundry, gardening and maintenance. In India there was a lack of trustworthy service provider and hotels did not want to take a chance with their reputations. In India the experiment started when few hotels gave contracts to outsourcing agencies, which were basically operated by hotel industry professionals after quitting hotel jobs. In early 90's Indian hotels were mainly outsourcing housekeeping chores like gardening, laundry, property cleaning and maintenance.

With the coming of international brands having superior technology and well-placed management strategy the Indian hotels faced

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hard competition. It was evident that these international brands were more efficient and managed their properties with comparatively less staff. Indian hotels commissioned market researches to assess their condition and take corrective measures as to why they were not performing well compared to international brands. "After 2000, the Indian hotels realized that excessive staffing and unscheduled capital expenditure were eating into their bottom lines. A study undertaken by the Federation of Hotel and Restaurant Associations of India (FHRAI) revealed the same fact and advised Indian hotels on the ideal room to staff ratio and the advantages of outsourcing as a tool to address the problems of bottom lines that were being eaten up by excessive staffing". From 2002 onwards, outsourcing became popular with Indian hotels as a management tool to improve operating efficiencies. As of present, Indian hotels are outsourcing both front of the house and back of the house services.

Objective Of The Study

1. To study the impact of outsourcing of the hotel on material management.
2. To study about benefits of outsourcing in hotel.
3. To discuss about how it helps compete with other hotels in order to cut costs and earn profits for the hotel.

Methodology

In this research paper I have used both primary and secondary data. For primary data I have visited to different hotels and collect information about outsourcing. Secondary data is taken from books, internet, various research papers and reports of hotels

Review of Literature

There are a number of studies that focus on explaining the effect of outsourcing. Abraham and Taylor (1996) find that firms "contract out" services with the objectives of smoothing production cycles and benefiting from specialisation. Raa and Wolff (2001) find a positive association between the rate of outsourcing and productivity growth (Jiang and Qureshi, 2006). Elmuti (2003) also provided support for empirical evidence for an outsourcing-productivity relationship. He found that outsourcing accounted for about 40 per cent of the variance in productivity.

Reasons Of Outsourcing

Although the main objective of outsourcing is often cost reduction, many companies fail to realize any cost benefits. In particular, Gartner is predicting that by 2007, 80% of organizations that outsource customer service projects with the primary goal of cutting costs, will fail in that attempt. Part of the reasoning behind this statistic is the high staff attrition rates at outsourcing companies, sometimes as high as 80% to 100%. Combine this added cost from attrition along with the hidden costs of client loss due to increased frustration and it's clear that an outsourcing engagement, if not carefully monitored, can easily fail.

Among the lots of reason of outsourcing some key reasons are flexibility, cost reducing, availability, good quality etc. All those factors are influencing the organizations of hospitality industry to go for outsourcing. It can reduce the risk management

for the particular organization as well. Another important reason for outsourcing is the time convenience in terms of quick service.

Outsourcing is an important phenomenon in hotel sector. It is changing from a tactical to a strategic perspective, with greater scope and relevance to the creation of competitive advantages. The opening up of hotels to outsourcing and strategic alliances improves individual competitiveness, but also has strong repercussions on destinations, especially those in a stage of maturity and requiring new approaches to improve competitiveness. This change in inter organizational relationships to a strategic perspective requires new theoretical and practical frameworks to make it easier for hotels to outsource their operations with greater potential for competitive advantage.

Impact of Outsourcing on Materials Management

There are many types of services that food service operation purchase. Services which establishments generally use are:

1. Waste Removal
2. Financial
3. Gardening and Landscaping
4. Pest Control
5. Advertising
6. Consulting
7. Decorating and remodeling
8. Maintenance
9. Insurance
10. Laundry and Linen supply
11. Cleaning
12. Printing
13. Building and construction
14. Travel and booking services
15. Employment and staffing

Some services like insurance, printing, legal, advertising etc. are bought from outside only but other services like cleaning, laundry etc need careful consideration before being contracted. They can vary much be provided in house and hence a careful analysis must be made whether to buy a service or arrange it in-house.

A cost benefit analysis has to be done before buying a service, that whether it is beneficial to have it in-house or purchase it. It is important to check the service provider's background and past performance.

When the establishment decides to purchase a service, it is very important to define it clearly so that no confusion arises in the later stages. Details should include following aspects: (a) scope of service (b) intended use (c) schedule of work (d) quality of materials to be used (e) quality of finished task (f) completion schedule (g) items of service (h) service providers past record (i) business registration of service provider (j) guarantees of proper service completion.

Traditionally, hospitality operations purchased a service only if it was not possible to do it in-house or it was very expensive. Lately the practice of outsourcing has become quite common. This means identifying that it not core business and getting it done from outside. The idea is to focus on the core activities. But contracting services does not mean that

the establishment in totally free of the responsibility. The manager still has to ensure that the service provided is up to the mark. It has to be ensured that the service provider is doing the assigned task as required. If proper service results are not achieved this translates into waste of money. Hence buying services means negotiating with service providers and monitoring the actual work without which the purpose may be defeated.

Importance of Outsourcing in Indian Hotel Industry

Outsourcing is the exercise of getting service from outside firms to maintain work usually performed within an organization which can be a familiar concept. Most of organization do not concern about the benefits of outsourcing. Outsourcing can reduce cost and save money, which can be a big reason to go for outsourcing but there is some more reason as well. Outsourcing can reduce the management risk for the organization and can give a financial support as well. Flexibility and availability of service or product is a good example as well.

Cost reductions

This is made possible through process improvements, reengineering, and use of technologies that reduce and bring administrative and other costs under control.

More Focus on company's main business

With the day-to-day back office operations taken care of, the management is free to devote more time to building the company's core businesses

Enjoy outside expertise

Rather than recruiting and training personnel, Outsourcing ensures that domain experts from another company provide the needed guidance and skills. By applying this we could enjoy the expertise of other business enterprises and make our product better with cost reduction.

Meet constantly changing customer demands

Many Outsourcing vendors provide the management with flexible and scalable services to meet the customers' changing requirements, and to support company acquisitions, consolidations, and joint ventures.

Achieving revenue increases

By outsourcing non-core processes, companies can focus on increasing their sales and market share, develop new products, expand into new markets, and enhance customer service and satisfactions.

Reduce Capital Cost

Every business organization wants to reduce cost. By applying outsourcing, we could save our fixed expenditure e.g. Plant, Machinery, Building etc. and this will provide extra saving and we put this money in our core business and increase production easily.

Efficiency

Doing everything by own the companies need to follow some more investigate, expansion, promotion, and delivery charge. That's why Holiday Inn decides to do the outsourcing process. By outsourcing they are getting more efficiency in their business.

A wide range of services like laundry, information technology, housekeeping, security, communication, transport, and regional cuisine catering for weddings, banquets and parties, facility and property management etc. are being outsourced. Outsourcing route is being taken not only by five stars but also smaller properties. Now a days due to huge competition our cost will increase with coming up of more and more international brands and as overheads to run hotels/restaurants will rise further, increasing number of hotels 'will adopt outsourcing as a management solution for areas in which outsourcing is unheard as of today. Presently some tops of the line hotels/food service operations are even outsourcing their human resources department and surprisingly their total materials management systems.

Conclusion

By outsourcing when an organization can get more benefit rather than doing things by own, so it can be happened that most organizations are really dependent on outsourcing. As a result of outsourcing, various equipment and supplies of the outsourced function becomes the responsibility of the outsourcing agency. This has a major impact on the material management systems ego if the housekeeping function has been outsourced, the establishment does not need to procure expensive housekeeping machinery & equipment, supplies, staff uniforms etc. All these areas are taken care of by the agency providing the services. The establishment does not require to block its money in these items to procure store and maintain them. This leads to a reduction in man hours required in the materials management function and may consequently lead to need of lesser number of people working in the materials department.

The contracting agency specializes in the concerned area and derives the benefits of scale in its operations. Hence it is able to invest in highly priced equipment, which the operation itself may not find viable to invest into, which in turn may affect the quality of work. If the terms of outsourcing are clearly defined and understood by both parties and the quality is maintained, it benefits the establishment financially. A lot of these financial benefits also come from the lower investments in materials. Hence, outsourcing contributes in an important way to streamline the materials management systems, especially in large organizations. At the end of this research it clearly understandable that hotels are really benefited by doing outsourcing in terms of management risk and cost & quality control process. It can enhance the hotels competitiveness and can reduce the operational risk which indicate that outsourcing has positively contributed to the financial position of the hotel.

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