

SUPPLIER CAPABILITIES IN AFFECTING HOTEL'S PREFERENCES ON OUTSOURCING DECISION

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ABSTRACT

One of the major factors involving the outsourcing process is resources. Suppliers have better infrastructures, knowledge and skills and expertise in the field than the firms. Outsourcing becomes better options than incurring more cost in investment. Moreover, a firm may be able to save up resources for other purposes by outsourcing certain non-core competencies or departments to outsourcing suppliers. Besides, outsourcing able a company to forward its resources and maximize revenue. This study aims at hotels outsourcing decision that affected by supplier's performance and capabilities in providing their services to the clients. The objective of the study is to identify the hotel's preferences for outsourcing suppliers by looking at the supplier's performance, reputation and service level. To discover the relationship between a supplier's capabilities and outsourcing decision. Lastly, to identify the most influential predictors that affect outsourcing decision. To find out the hotel's preferences in choosing the right suppliers, the study was conducted in the following big cities: Kuala Lumpur, Selangor, Melaka, Penang and Johor by email distributing personally administered questionnaires to the sample size of 300 hotels. The finding shows that most hotels will prefer to choose the outsourcing suppliers based on their past performance which the hotels have experienced them before.

Keywords: outsourcing, outsourcing decision, supplier capabilities, supplier's reputation, supplier's performance, supplier's service level

INTRODUCTION

Outsourcing has transformed the way businesses function today, growing with time, to cope with industry developments. With the aim to deliver the most affordable and efficient services, outsourcing strategy is growing rapidly with the changing business dynamics. This has allowed hotels to outsource their non-competencies and other processes affordably, to reliable suppliers or partners. In the search for a better service is crucial for a firm to attached with reliable suppliers. Outsourcing suppliers are considered as the key business enablers. According to global outsourcing survey, customers are expecting more advanced services from their outsourcing partners. Firms are opting for outsourcing not just for cost-cutting, but also for other value-added services that outsourcing can offer (Deloitte, 2016). Therefore, outsourcing suppliers are expected to increase the level of their services and value-added service and innovation. This trend has also prompted both employers and outsourcing partners to have Service Level Agreements (SLAs) as a standard practice before starting a new project. Drafting an SLA is a good way to set expectations for both parties, especially with concerns on value and innovation (Deloitte, 2016). Other than looking at the ground-breaking services provided by the outsourcing suppliers, firms will tend to look at the outsourcing supplier's capabilities to decide on partnering in certain competencies and processes. One of the major factors involving the 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 (Sani, 2013). However, there are challenges that firms will face even though they are enjoying good service from outsourcing suppliers meanwhile focusing on their business competencies. Outsourcing is difficult when firms are having difficulties in finding the right expertise and unreliable. Firms are also faced challenges of makings strategic decision in choosing the right supplier (Yeo & Deilami, 2017). According to Sani, (2013), supplier's reputation and performance and supplier's service level were drawn out to be the prominence points on measuring the performance and capabilities of an outsourcing supplier. The study focusing on suppliers capabilities affecting the firm's preferences in outsourcing decision is because there are no other empirical studies about the firm's preferences in choosing the right suppliers. In a study conducted by Sani, Dezdard & Ainin, (2013) has highlighted that supplier is one of the impactful factors that will affect the firm's decision. The suppliers were access based on their capabilities which are the performance, reputation and their delivery service level.

HOTELS PREFERENCES IN OUTSOURCING DECISION

Form's preferences in choosing the outsourcing suppliers will depend on the benefits they gain from transferring their non-competencies to the third-party vendors. The benefits they gain will directly influence their decision to adopt outsourcing (Sani, Dezdard and Ainin, 2013). Firms will be able to reduce cost at a certain part of the processes and gain various economic, technological, and strategic benefits, such as reducing IT operation costs, improving technical competence, and even providing firms with competitive advantages (Qu, Pinsonneault, and Oh 2011). Firms also get to enjoy operational benefits and strategic benefits from doing outsourcing (Lacity and Rottman, 2008). Other than that, Dorasamy et al. (2010) have identified that one of the most frequently studied factors in outsourcing studies is the cost factor. Cost reduction (Dorasamy, 2010; KPMG report, 2006; Lamminmaki, 2011) is identified as one of the most important motivations for outsourcing. One of the major factors involving the outsourcing process is resources. Vendors or contractors have better infrastructures, knowledge and skills and

expertise in the field than the firms (Dorasamy M. et al., 2010). According to the KPMG report (2006), firms doing outsourcing are happy with their current suppliers and have a flexible contract and moving towards renewing their existing contracts. This shows that it is easy to identify a reliable outsourcing supplier in the market. This indicates that it promotes a long-term of outsourcing relationships and flexibility for both parties. A firm will move towards a business strategy that only provides ease and maintaining their competitive advantage in serving customers (Hamzah et al., 2010).

SUPPLIER'S PAST PERFORMANCE

According to Bennet & Gabriel (2011), Reputation is an image and involved outsider's judgment towards a firm's qualities in terms of their past performance. According to Sani, Dezdard, and Ainin (2013), supplier's performance has been classified in terms of the past performance has been presented from a prior engagement. KPMG (2006) indicates that the firms doing outsourcing are pleased with their current suppliers and it is easy to identify a reliable outsourcing supplier in the market they were in. They also able to deal with a flexible contract and moving towards renewing their existing contracts. Reliable suppliers are important to evaluate the outsourcing decisions. Hotels in Malaysia may be successful in doing outsourcing if prominent and reliable suppliers are chosen. Suppliers name and capability is important to get them to do the task accordingly to the hotel's organizational goal (Sani, Dezdard and Ainin (2013). Previous research has distinguished that relational and performance risk is important because it has effects on the strategic decisions (Maelah et al., 2012). It is substantial to find outsourcing supplier with good reputation and performance as a service provider's uncertainty will open a new door for risk. The experience of the service provider over many ventures permits it to choose and associate the best and most effective practices from many organizations (Syed Aris et. Al, 2008). As accordance with Decarolis, Pacini, and Spagnolo (2016), past performance has taken into consideration as the indicators in selecting suppliers with a good track record which will affect the suppliers' preferences.

SUPPLIER'S REPUTATION

Reputation is an intangible asset and is defined in this study as the buyer's perception of the supplier firm's fairness, honesty, and concern about the buying firm. As an intangible asset, reputation signals information about a firm's quality and performance. Furthermore, a positive reputation can be a source of competitive advantage and financial performance (Wagner, Colley & Lindemann, 2011). Supplier's reputation can be categorized as benefits or risk. It can be benefits to the firms when it implies a good image and positive past experienced by firms. Reputation risk can be classified as performance risk as well. Reputation risks considering on poor service from the third party, Customer interaction is not consistent with overall standards of the regulated entity and Third-party practices not in line with stated practices (ethical or otherwise) of the regulated entity (Sani et al, 2013). Uncertainty in buyer-supplier relationships can be reduced when suppliers are evaluated based on their reputation (Wagner et al., 2011).

SUPPLIER'S SERVICE LEVEL

In doing outsourcing, it will involve the third-party suppliers which provide a better service at a low cost than doing in-house. 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 and Vaidyanathan, 2008). According to Sani, Dezdard & Ainin (2013) 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. Hotels management will combine and utilize the specialized resources from a third party or vendor or service provider is referring to outsourcing practice. Cost reduction is identified as one of the most important motivations for outsourcing (Sani, Dezdard and Ainin, 2013). According to Feeny, Lacity, and Willcocks (2005), the supplier's capabilities are grouped into three domains: delivery competence, transformation competence, and relationship competence. Delivery competence can be regarded as the service delivery level, where it is related to how well the supplier can respond to the client's requirement on a day to day basis (Feeny, Lacity and Willcocks (2005). Outsourcing decision is done to ensure that they are being served 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 outsource the functions since the service is well known and reliable.

METHODOLOGY AND ANALYSIS

The study was conducted on hotels and the questionnaires were responded by the management level managers. 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 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. The questionnaire along with the personalized cover letter explaining the nature of the study was distributed. A total of three hundred (300) questionnaires were distributed to the personnel involved in outsourcing supplier's capabilities preferences in each hotel. Initial contact was made to identify the most appropriate personnel. 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 . Despite numerous attempts, only 46 questionnaires were returned, accounting for a response rate of 12.33 %.

RESULTS

i. Reliability and validity

The Cronbach's alpha coefficient for performance is $\alpha = .885$ and service level is $\alpha = .904$ thus considered reliable and used for further analysis.

ii. Descriptive Analysis – Frequency

Frequency analysis was conducted to analyze the hotel's preferences in choosing their suppliers.

Table 1: Supplier's Performance

Supplier's performance		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.2	2.5	2.5
	Disagree	3	6.5	7.5	10.0
	Slightly Disagree	4	8.7	10.0	20.0
	Neutral	4	8.7	10.0	30.0
	Slightly Agree	15	32.6	37.5	67.5
	Agree	12	26.1	30.0	97.5
	Strongly Agree	1	2.2	2.5	100.0
	Total	40	87.0	100.0	
Missing	System	6	13.0		
Total		46	100.0		

From the output shown in Table 1 above shows that there are 60.9% hotels managers are agreed that a supplier's past performance has affected on the way they choose their suppliers. Whereas the rest of 17.4% is disagreed on choosing their suppliers according to the supplier's performance. Other than that, 8.7% are not sure on whether they are choosing the supplier's based on their performance

Table 2: Supplier's Service Level

service level and standard		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	10.9	12.5	12.5
	Slightly Disagree	3	6.5	7.5	20.0
	Neutral	7	15.2	17.5	37.5
	Slightly Agree	14	30.4	35.0	72.5
	Agree	10	21.7	25.0	97.5
	Strongly Agree	1	2.2	2.5	100.0
	Total	40	87.0	100.0	
Missing	System	6	13.0		
Total		46	100.0		

From the output shown in Table 2 above shows that there are 54.3% hotels managers are agreed that a supplier's service level has affected on the way they choose their suppliers. Whereas the rest of 17.4 % is disagreed on choosing their suppliers according to the supplier's service level. Other than that, 15.2% are not sure on whether they are choosing the supplier's based on their service level. From the frequency analysis done, it shows clearly that the hotel's judgment on choosing which capabilities will affect their outsourcing decision is the supplier's past performance (60.9%), followed by the supplier's reputation (58.8%) and lastly is the service level (54.3%) presented.

Table 3: Correlations between Past Performance, Service Level and Reputation with Outsourcing decision

Correlations					
		Past Performance	Service level	Reputation	Outsourcing purposes
Outsourcing Decision	Pearson Correlation	.644**	.673**	.613**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	40	40	40	41

** . Correlation is significant at the 0.01 level (2-tailed).

The output confirms the results that a significant positive relationship exists between the supplier's past performance and outsourcing decision. ($r = .644^{**}$, $p < 0.01$). the results indicate, there is a positive relationship exists between Service level and outsourcing decision ($r = .673^{**}$, $p < 0.01$). Reputation also is having a positive relationship with outsourcing decision ($r = .613^{**}$, $p < 0.01$). Therefore, the findings imply that the 3 variables (past performance, reputation and service level) have a positive association with outsourcing decision by hotels.

Table 3: Coefficient between Past Performance, Service Level and Reputation with Outsourcing decision

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.221	.052		4.260	.000
	past performance	.008	.021	.106	.394	.696
	service level and standard	.033	.019	.419	1.759	.087
	Reputation and ability	.018	.016	.222	1.116	.272

a. Dependent Variable: Outsourcing purposes

The preceding table indicates that all the 3 variables (past performance, service level, and reputation) its effects are insignificant. Therefore, the 3 variables are not the significant predictors of outsourcing decision.

DISCUSSION

According to the results presented, it shows that hotels prefer to choose their outsourcing suppliers based on the past performance of the suppliers (Sani et al, 2013). This is due to having a good experience when engaging the non-core departments to the outsourcing suppliers. Supplier's performance has been classified in terms of past performance has been presented from a prior engagement. Hotels doing outsourcing will be satisfied with their current suppliers and it is easy to identify a dependable outsourcing supplier with good performance. They also able to deal with a flexible contract and moving towards renewing their existing contracts. Good performance suppliers are important to evaluate the outsourcing decisions. In a study about private procurement, past performance indicators have always affected the selection of suppliers and their behavior because private buyers are free to act upon them, example, by refraining from selecting suppliers with a poor track record and favoring those with a good one (Decarolis, Pacini and Spagnolo, 2016). Hotels in may be successful in doing outsourcing if prominent and dependable suppliers are chosen (Sani et al, 2013). Suppliers performance and capability are important to get them to do the task accordingly to the hotel's organizational goal. However, there are also other hotels will look at the supplier's reputation and service level instead of the performance (Feeny, Lacity and Willcocks (2005). Benefits to the firms when it implies a good image and positive past experienced by firms. A good service level such as providing better services with a low cost than doing in-house is a choice to achieve aggressive growth objectives by gaining increased market access, to leverage on the service provider's best process, capacity, and systems. In a study examining how purchasing's strategic participation influences supply management activities via the choice of appropriate operational and strategic criteria surely resulted in a combination of choosing appropriate supplier selection criteria and monitoring supplier performance. Which ensures that the benefits better purchasing performance of cost, quality, delivery, flexibility, and innovation. (Nair, Jayaram & Das (2015). Therefore, supplier's past performance has affected on the way they choose their suppliers.

ACKNOWLEDGMENT

The researcher is gratefully acknowledged the Faculty of Business and Mangement, for the funding of this research.

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