European Journal of Hospitality and Tourism Research
Vol.5, No.1, pp.31-37, February 2017
Published by European Centre for Research Training and Development UK (www.eajournals.org)

THE IMPACT OF OUTSOURCING ON THE GROWTH OF HOTELS IN ELDORET TOWN IN KENYA

Susan Chemuchuk
University of Eldoret
P. O. Box 1125-30100, Eldoret, Kenya

ABSTRACT: *Hospitality Industry, which majorly consists of hotels and restaurant chains and related services, is one of the largest service industries in the world. Most countries in Africa have realized that the development of hospitality industries is also important for economic diversification. The study assessed the influence of strategic alliances on growth of hotel industry in Eldoret town, the headquarters of Uasin Gishu County in the North Rift region of Kenya. Based on the study this paper explores the effects of outsourcing on growth of hotel industry. The study adopted a descriptive survey research design with a target population of 220 in the hotel industry in Eldoret town. A sample of 112 respondents was drawn proportionately from four categories of hotels using stratified random sampling technique. A semi-structured questionnaire was administered to collect the required data. Data was analyzed using both descriptive and inferential statistical techniques with the aid of a computer software known as Statistical Package for Social Sciences (SPSS) version 20. Multiple regression analysis was used to analyze the data. The study found that outsourcing had contributed to increased hotel sales, profits, product/service quality and reduction of costs. It was therefore recommended that hotel managers need to understand the benefits as well as the challenges that come with outsourcing. The findings of the study will be of benefit to hotels with limited resources and exposed to growth opportunities as they will be able to appreciate the role of outsourcing in leveraging on large firms' resources for profitability, growth and expansion.*

KEYWORDS: Outsourcing, Growth, Hotels, Eldoret Town, Kenya

INTRODUCTION

The hospitality industry, which majorly consists of hotels and restaurant chains and related services, is one of the largest service industries in the world. Research indicates that this industry takes up almost 75% of the total market size (India SME.in, 2009). Tourism and hospitality benefit local economies substantially by improving foreign exchange earnings, creating employment and investment opportunities, increasing government revenues, developing a country's image, and supporting all other sectors of the economy as well as local communities. Most countries in Africa have realized that the development of hospitality industries is also important for economic diversification

One of the major benefits of the development of the hospitality industry in any economy is the provision of employment (Kusluvan, 2003). In Kenya, the hospitality sector alone catered for over 509,000 jobs in 2007, a ten percent of total employment (World Travel and Tourism Council [WTTC], 2006). A large number of hotels are regularly coming up in Kenya to provide

ISSN 2054 - 6424(Print), ISSN 2054 - 6432(Online)

accommodation to tourists visiting for holidays and other reasons (Kuria, Wanderi & Ondigi, 2012).

Effect of Outsourcing on Growth of Hotels

Outsourcing entails letting other organizations perform a needed service or produce needed products. It involves contracting of services in order to minimize or limit the resources that would normally be required to perform business functions internally, thereby reducing costs and freeing up time and resources to other functions. Contractor and Lorange (2002) argue that outsourcing is a long-term strategic alliance governed by contract and is used by companies to improve their ability to concentrate on the core competencies. Outsourcing has helped companies to gain competitive advantage by allocating resources to develop new tools, technologies, methodologies and procedures.

Mowla (2012) argues that outsourcing is the simplest form of strategic alliance and is a contractual arrangement which is short-term and is appropriate when informal management structure is not required. Examples of outsourcing strategic alliance are license agreements, marketing, promotion and distribution agreements, development agreements and service agreements (Molwa, 2012). Molwa's (2012) studies in the manufacturing sector have found that companies use outsourcing by arranging with other firms to manufacture or assemble parts of a product or even the entire product, while marketing of the products remains the responsibility of the company. The motivating factor behind this arrangement is the need to save on costs. Molwa adds that the benefits of outsourcing include low exposure to political and economic risks for the company. It also allows the company to focus on its core competencies and leave the outsourced activity to others. Other benefits include access to external expertise and less pressure on the firm's resources such as capital and staff. Initially, organizations outsourced non-strategic activities but increasingly many companies outsource critical business resources and activities (McFarlan & Delacy, 2004).

Outsourcing, therefore, covers technology, administration, customer service, finance, human resources, real state, sales and marketing, distribution and transportation. It also leads to improved performance by providing value to the customer in terms of productivity, quality, service and speed, thus offering a greater performance at a lower cost. Erdly and Kesterson (2003) state that outsourcing is a preferred arrangement for firms, rather than owning and operating every aspect of the business. They argue that hospitality and leisure companies will turn to networks that more efficiently deliver capabilities in non-core functions, including certain parts of the supply chain, finance, human resources, ICT and other areas with a view to offering a better quality product and a more customized guest service with a lower structure.

Outsourcing also involves management contract under which operational control of an enterprise is vested by contract in a separate enterprise. In the case of hospitality management contracts, the property owner provides the infrastructure requirements while the operator provides management expertise (Chathoth *et al.*, 2003). The operator is given exclusive rights to manage the property, while the owner assumes the venture's financial risks (Eyster, 1997). The operator earns management fee that is a percentage of revenue generated by the business, while the owner of the business is concerned with the net operating cash flow. Although both firms combine specialized

ISSN 2054 - 6424(Print), ISSN 2054 - 6432(Online)

assets, the value of the operating company's expertise has more perceived value than the value of the infrastructural requirements provided by the owner.

Statement of the Problem

Growth is necessary for firm survival in a competitive market environment. In the 21st century, competition has become tough and unpredictable among organizations. Strategic alliances are expected to enable firms to achieve their targets within the required time. Strategic alliance ought to bring benefits to firms that enhance survival and growth. In Kenya, hotels are significant in generating employment and income, but past statistics indicate that they face stagnated growth and some have even closed (Shikuri & Chepkwony, 2013). Wandongo *et al*. (2010) have researched on key performance indicators in the hospitality industry in Kenya and concluded that managers monitor competitiveness and financial performance.

The authors, however, fail to look at how strategic alliance can be used to improve competitiveness and financial performance. Shikuri *et al*. (2013) have investigated the challenges facing the hospitality industry in Kericho Kenya and found that the main challenges are shortage of competent manpower, financial constraints, high competition and problems with suppliers. Shikuri *et al*., nevertheless, failed to address the solutions to these challenges through strategic alliances. Despite the benefits that strategic alliances bring to organizations, there is limited literature on the actual contribution of such alliances to the growth of hotels. The study, therefore, sought to fill the gap in literature with respect to growth of the hotel industry in Kenya. Based on the study, this paper attempts to assess the influence of outsourcing on hotel growth in Kenya's Eldoret town.

MATERIALS AND METHODS

The study adopted a descriptive survey research design, which was justified by the fact that it captures the current perception of the population with regards to the variables of the study. The design was adopted because the population that was studied was too large to be observed directly. The design was, thus, economically viable both in time and money as it involved taking a sample of population to generalize results for the whole population, resulting to in-depth, rich and meaningful research findings.

Data on the target population was obtained from Uasin Gishu County records. The records indicated that there were a total of 220 hotels and lodging firms that had been in operation for over three years in Eldoret town at the time of the study. The hotels were categorized under A, B, C and D All of which formed the target population. The owners or managers were considered as decision-makers as regards adoption of strategic alliances in the management of their businesses. Therefore, they were also targeted as sources of relevant information on behalf of their businesses.

Because the population was composed of sub-groups that were different in number, proportionate random sampling was used to select 140 hotels and lodgings by randomly selecting 21 from category A, 13 from category B, 54 from category C and 52 from category D. This represented 63.6% random selection from each category based on Yamane formula. After selecting the 140 hotels and lodging, purposive sampling was used to select 140 owners/managers of the hotels, as shown in Table 1 below.

ISSN 2054 - 6424(Print), ISSN 2054 - 6432(Online)

Table 1: Target Population

Category	Size	Number	Specialization
A	Medium	18	Restaurant with Lodging
	Small	16	
B	Medium	4	High standard restaurant and lodging
	Small	15	
C	Medium	25	Lodging and breakfast only
	Small	60	
D	Medium	28	Eating houses
	Small	54	Restaurant and bar
Total		**220**	

Therefore, the sample size for this study was 140 respondents.
A semi-structured questionnaire was used to collect data. Data analysis was done in line with the objectives of the study, which describe whether or not the variables affect growth of hotels. Multiple regression model was used to explore the relationships among the variables.

RESULTS AND DISCUSSION

Effects of Outsourcing on Growth of Hotels

Outsourcing was a common practice among the hoteliers, as stated by majority of the respondents who participated in the study. The respondents stated that they engaged the services of private transporters to deliver their products to the customers and sometimes to carry the inputs for the hotels from the producers or other traders. The respondents also stated that they outsourced the technology services and in other cases they outsourced the services of experts in the field of human resource development.

The respondents were asked to state the effect of outsourcing on their firm growth. Their respondents were as presented in Table 2.

ISSN 2054 - 6424(Print), ISSN 2054 - 6432(Online)

Table 2: Effects of Outsourcing on Hotel Growth

Statement	**SD**	**D**	**N**	**A**	**SA**	**Total**
	F(%)	**F(%)**	**F(%)**	**F(%)**	**F(%)**	**F(%)**
Sales (increase)	1(0.9)	2(1.8)	6(5.4)	75(67.0)	28(25.0)	**112**(**100**)
Profit (increase)	0(0)	3(2.7)	8(7.1)	80(71.4)	21(18.8)	**112**(**100**)
Product/service quality (improve)	0(0)	3(2.7)	7(6.3)	69(61.6)	33(29.5)	**112**(**100**)
Reduction of cost	2(1.8)	1(0.9)	8(7.1)	70(62.5)	31(27.7)	**112**(**100**)
Market share (increase)	0(0)	9(8.0)	12(10.7)	72(64.3)	19(17.0)	**112**(**100**)
Freeing time for other functions	2(1.8)	3(2.7)	10(8.9)	42(37.5)	55(49.1)	**112**(**100**)
Gaining competitive advantage	0(0)	5(4.5)	15(13.4)	54(48.2)	38(33.9)	**112**(**100**)
Reduction of political exposure	2(1.8)	10(8.9)	43(38.4)	37(33.0)	37(33.0)	**112**(**100**)
Reduced exposure to economic risks	1(0.9)	10(8.9)	22(19.6)	63(56.3)	16(14.3)	**112**(**100**)
Access to external expertise	0(0)	5(4.5)	12(10.7)	55(49.1)	40(35.7)	**112**(**100**)
Reduced demand on farm resources	1(0.9)	8(7.1)	0(0)	45(40.2)	58(51.8)	**112**(**100**)

Source: Author (2015)

Concerning the effect of outsourcing on hotel growth, the findings indicated that 103(92%) of the respondents stated that outsourcing had increased the firm sales while 101(90.2%) stated that the firm's profits had increased as a result of outsourcing. There were 104(91.4%) of the respondents who asserted that outsourcing had improved product/service quality of the firm. The findings further showed that 101(90%) of the respondents stated that outsourcing had led to the reduction of costs in the firm while 91(81.3%) stated that outsourcing had increased market share while 9(8%9) disagreed. There is enough time for other functions in the firm since the firm adopted the outsourcing strategy. This was as stated by 97(86.6%) of the respondents who participated in the study. It was further indicated by 92(82.1%) of the respondents that outsourcing had enabled the firms to gain competitive advantage as 57(50.9%) asserted that outsourcing had reduced political exposure. However, 79(70.6%) were of the opinion that outsourcing had reduced exposure to economic risks. Table 2 also shows that 95(84.8%) of the respondents stated that outsourcing had enabled the firms to get access to external expertise whereas 103(92%) stated that outsourcing had reduced demand on their firm's resources.

It was hypothesized that there is no significant effect of outsourcing on the growth of hotels in Eldoret town. The beta value for outsourcing was 0.252 while the p-value that corresponded to outsourcing was 0.000. Since the p-value was less than 0.05($p<0.05$), the null hypothesis was rejected, implying that there is a significant relationship between outsourcing and growth of hotels. In summary, the study found that outsourcing had increased the firm sales and that the firm's profits had increased as a result of outsourcing. Most of the respondents also asserted that outsourcing had improved product/service quality of the firm. Further, a majority of them stated that outsourcing had led to the reduction of costs in the firm and another majority stated that outsourcing had increased market share. There is enough time for other functions in the firm since the firm adopted the outsourcing strategy. According to Contractor and Lorange (2002), outsourcing entails contracting of services in order to minimize or limit the resources that would normally be required to perform business functions internally, thereby reducing costs and freeing up time and resources to other functions.

It is further indicated by most of the respondents that outsourcing had enabled the firms to gain competitive advantage. Some of them also stated that outsourcing had reduced political exposure. However, a majority were of the opinion that outsourcing had reduced exposure to economic risks. As Contractor and Lorange (2002) argue, outsourcing has helped companies gain competitive advantage by allocating resources to develop new tools, technologies, methodologies and procedures. Mowla (2012) also asserts that the benefits of outsourcing include small amounts of exposure to political and economic risks for the company.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of the study, it was concluded that outsourcing increases the hotel sales and profits. The product/service quality of the hotels has also improved due to outsourcing. In addition, outsourcing has led to the reduction of costs in the firm. By outsourcing, companies are able to create enough time for other functions in the hotels. However, outsourcing has reduced exposure to economic risks. It also emerged that there is a significant relationship between outsourcing and growth of hotels. Hotel managers need to understand the benefits as well as the challenges that come with outsourcing. There is need for hotels to adopt technological alliances, product development and distribution alliance in order to reduce operational costs and improve quality of products.

REFERENCES

Chathoth, P. K., & Olsen, M. D. (2003). Strategic alliances: a hospitality industry perspective. *Hospitality Management, 22,* 419-434.

Contractor, F. J., & Lorange, P. (2002). The growth of alliances on the knowledge-based economy, Cooperative Strategies and Alliances, pp. 3-18. *Cornell Hotel and Restaurant Administration Quarterly, 38*(3), 14-20.

Erdly, M., & Kesterson-Townes, L. (2003). Experience rules: A scenario for the hospitality and leisure industry circa 2010 envisions transformation. *Strategy & Leadership, 31*(3), 12-18.

Eyster, J. J. (1997). Hotel management contracts in the US: the revolution continues. *The Cornell and Restaurant Administration Quarterly, 38*(3), 14-20.

India SME.in (2009). *Opportunities for SMEs in Hospitality Sector in India*. Retrieved April 18, 2016 from http://www.collaborat.com/wp-content/uploads/2011/01/Research-OPPORTUNITIES-FOR-SMEs-IN-HOSPITALITY-SECTOR-IN-INDIA.pdf

Kuria, K. S., Wanderi, M. P., & Ondigi, A. (2012). Hotel Employment in Kenya: Contingent Work or Professional Career? *International Journal of Academic Research in Business and Social Sciences, 2*(7), 394-404.

Kusluvan, S. (2003). Employee attitudes and Behaviors and their Roles for Tourism and Hospitality Businesses. In S. Kusluvan, (Ed.). *Managing Employee Attitudes and Behaviors in the Tourism and Hospitality Industry* (pp. 25-50). Nova Science Publishers.

McFarlan, F. W., & Delacy, B. J. (2004). *Otis Elevator: Accelerating Business Transformation with IT.* Boston. MA: Havard Business School Press.

Mowla, M. M. (2012). An Overview of Strategic Alliance: Competitive Advantages in Alliance Constellations. *Journal of Business Management and Corporate Affairs*. Retrieved January 29, 2017 from http://www.onlineresearchjournals.org/JBMCA

Shikuri, R. M., & Chepkwony, P. C. (2013). Entrepreneurial Challenges Facing the Hospitality Industry in Kericho County – Kenya. Journal of Business and Economics, 4(11), 1159-1169.

Wadongo, B., Odhuno, E., Kambona, O., & Othuon, L. (2010). Key Performance Indicators in Kenyan Hospitality Industry: A managerial perspective. *Benchmarking: An International Journal, 17*(6), 858-875.

World Travel and Tourism Council (WTTC) (2006). *Namibia: The Impact of Trade & Tourism on Jobs and the Economy.* London: WTTC.

ISSN 2054 - 6424(Print), ISSN 2054 - 6432(Online)