

# An Analysis on Chinese Hotel Enterprises' Outsourcing Strategic Modes and Corresponding Development Conception

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## Abstract

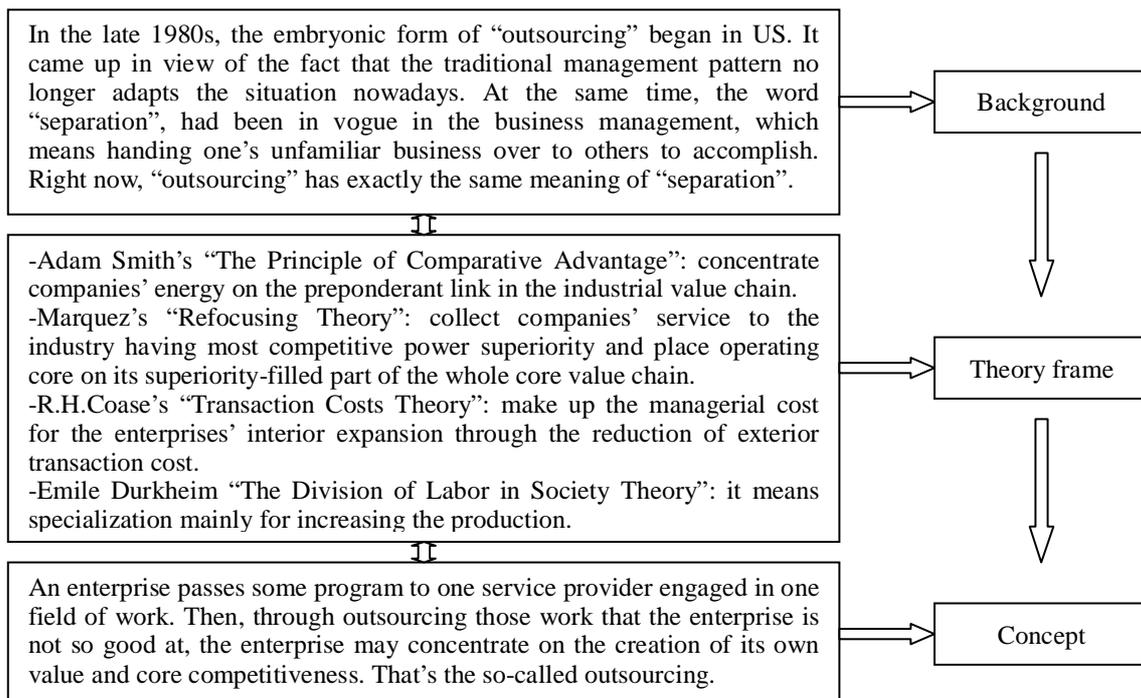
The present outsourcing management mode of travel hotels has caused attention of the global hotel industry. Though the application of outsourcing modes, we can renew and combine hotels' structure, making hotels centralize their market superiority and enterprise core competitiveness. This thesis mainly discusses Chinese hotel enterprises' outsourcing strategic modes and corresponding development conception. Firstly, it analyzes the outsourcing strategy concept and the theory frame; secondly, it expounds hotels' several outsourcing strategic modes; thirdly, it summarizes the effect and significance of Chinese hotel outsourcing strategic modes. Simultaneously, it also proposes the outsourcing strategic modes' management and the safeguard countermeasures, and makes the macroscopic summary and the forecast to Chinese hotels' outsourcing strategy development in future.

**Keywords:** Travel hotel, Outsourcing strategy, Strategic management, Development conception

## Introduction

The refinement of science and technology, the adjustment of industrial internal structures and the dissimilation of consumers' demands, have made numerous hotels difficult to have absolute competitive advantage in the product market already. The transformation of competitive formation causes the hotel enterprises to carefully re-examine the increment superiority on the entire product value chain, to establish enterprises' core business scope, and to optimize inner organizational circuit, in order to concentrate the enterprises' core energy in this domain and enhance their core competitiveness.

### 1. The outsourcing strategic concept and the theory frame (Figure 1)



### 2. The analysis on Chinese travel hotels' outsourcing strategic modes

#### 2.1 The outsourcing mode of hotels' finance

The financial outsourcing involves the salary account management, the receivable and payable accounts, the cash and the basic data disposal of the bank deposit as well as the budgets, the audit management and the tax payment

declaration. This kind of outsourcing is very suitable to the enterprises' whose financial disbursement is to be much and service turns out to be complicated. The characteristic of complication for the hotels' financial management manifests in the following several aspects: first, in order to meet visitors' various needs well, travel hotels are additionally building up the new service items unceasingly, which causes the type and quantity of the property to increase continuously. Actually, travel hotels' many fixed assets are used as the servicing facility by the visitors, and the different kinds of property's renewal transformation time and the service maintenance method are various, which thus enables the hotels to have certain complexity in the fixed asset management aspect. Second, travel hotels' financial work has the extremely strong comprehensive nature. For the operators who lack in the financial managerial knowledge or the enterprises that are hard to take financial management into consideration during operation, the financial outsourcing may control the cost expense effectively for the hotel enterprises to raise the financial managerial level.

### *2.2 The outsourcing mode of hotels' partial service*

Kitchen work in the dining part, the energy management work (clothes-washing, cleaning up guest room, project repair)—we can put them out to one or several contractors who advertise for service personnel and organize them, arrange service work, and are responsible for the service management. Meanwhile, the contractors determine the total amount of service according to the work content, the work load and other projects agreed by both sides. These work steps are all provided and assigned by contractors. Reservation and onstage outsourcing mode—call center and association center, particularly global call center. Hilton Hotels of many countries outsource their local call center and the reservation service to the local companies. Sales and marketing outsourcing mode—customer relation management, such as loyal-award-scheme management outsourcing, online investigation of membership promotion. Hyatt Regency hotels in North America outsource the global technology service's supervisory work to a transnational technical company.

### *2.3 The outsourcing mode of hotels' human resource management*

The human in-sourcing and the outsourcing are two mutual connected aspects. Their relative importance is not only decided by the enterprise's own development scale and human resource management level, but also depends on maturity of the human resource specialization market. The interactive mechanism of human resource's in-sourcing and outsourcing is as follows:

#### *2.3.1 Outsourcing impetus mechanism*

Now some hotel enterprises' attempts to hand the human resource management's partial contents over to the exterior specialized employer organization, which pay more attention to the essential service that promotes its core competitiveness. Investigating the reasons: (1) The social division of labor has accelerated the advancement of the human resource work's socialized division. Human resource management service has already become a knowledge product of demand-based transaction when enterprises hand the non-core and duplicated human resource management work over to the market and may obtain the high quality service. (2) For enterprises' own needs of strategic development, they concentrate the limited resources to carry on enterprises' innovation-ability construction, which promotes their core competitiveness constantly. The traditional managerial content of human resource management is so complex that every function must have the special personnel to be responsible for it, such as payment-welfare manager, training manager, personnel manager, personnel dossier manager, achievement assessment panel and so on. The human resource department needs to spend the high cost to be engaged in this redundant and tedious work. Moreover, there're also many uncertain risks. The human resource outsourcing was right catering to the enterprises' needs to reduce the cost and circumvent the risk, providing an innovation platform for enterprises' reorganization and merger.

#### *2.3.2 In-sourcing-outsourcing interaction mechanism*

The endogenous variable of in-sourcing-outsourcing relation changes is enterprises' development strategy while external variable is the appearance of specialized organizations, and both are assumed as supplementary: (1) The hotel enterprises will meet a series of difficult problems concerning their own development in the period of expansion, for example, obsolete system, ill management, unclear prospect, less talented personnel, narrow market, laid-off workers, overstocked products, tight money, impeded information and so on. By now, the problem we should face is to "seek the survival" whose development strategy will generally be fortifying at every step, fighting steadily, and paying great attention to carrying out human resource management comprehensively in the enterprises. The in-sourcing duty of the human resource is arduous and attends to every detail while the outsourcing is only taken as the supplementary means of the human resource management. (2) When enterprises' development enters the mature period, what they're faced with is to "seek the development", such problems as raising the productivity, reducing enterprises' cost, promoting core competitiveness, enterprise innovation begin to be proposed on the

agenda. At the same time, the content of the human resource outsourcing will be enriched gradually, and it will undertake the important function of the human resource management.

### 2.3.3 Outsourcing control mechanism

There're two viewpoints: (1) Core supervisory work and marginal supervisory work: the marginal work including those low-level and redundant work can be outsourced, such as advertisement for staff, the wages and welfare, training, the achievement examination, the labor relations, and so on. On the other hand, the core human resource management work relating to the enterprises' development strategy must be completed by the internal personnel, such as human resource planning, salary management, enterprise culture and so on; (2) The core competitiveness is also relative and enterprises may also outsource the core business, for others will possibly do better on your core business. So it seems that the enterprises' operation circuit of human resource management may be outsourced. But we also should notice that "the managerial power cannot be outsourced": this management includes objective management to service providers, the quality surveillance of the service providers' products, and appraisal of providers' service process. If the enterprises lose the managerial power and form high dependence on the specialized organization, the management will be hollow, increasing enterprises' movement risk enormously.

## 3. The effect and significance of Chinese travel hotels' outsourcing strategic modes

### 3.1 Save the cost and optimize the capital structure

Hotels outsourced certain service to specialized management companies, which enables hotels to enjoy the service provided by management companies. After handing the service full of manpower, material resources and financial resource over to specialized management companies, hotels themselves may save a lot of cost, on one hand; on the other hand, with the frugal cost out of the outsourcing service, the enterprises may all invest into the core business, developing the core competitiveness with all their strength. In addition, the implementation of outsourcing service will reduce the sunk cost brought about by property's special purpose, which makes the hotel industry's withdrawal barrier and the conversion cost reduce greatly and thus optimizes the hotels' capital structure. Meanwhile, capital structure's optimization also causes the fixed cost proportion of the unit product to drop, and it will enhance the compatibility and flexibility of the entire hotel greatly.

### 3.2 Connect with other countries and study advanced managerial ideas

In the past, outsourcing was regarded as one kind of enterprises' inferiority while outsourcing could be considered as the key of enterprises' operation in the present. The outsourcing contractors of the hotel service mostly belong to the international specialized management company. Through contacting with the management companies, hotels may learn massive international managerial experience. When it comes to the overall opening of hotel market, all sorts of challenges brought about by WTO can be dealt with calmly with acceptance of international managerial experience.

### 3.3 Promote the hotels' specialization and promote the service grade

With the help of financial outsourcing, partial service outsourcing and human resource outsourcing, the original staff then should place emphasis on the hotel's strategic target, making the hotel's core prominent and the hotel itself specialized. Simultaneously, in order to satisfy the demands of hotel's outsourcing, many related service industries also grow strong, like rear service company, public accounting firms and so on. Besides, for the outsourcing service's undertakers are often some quite large-scale service companies, their specialized degree as well as the level of expertise are often the symbol and guarantee of efficiency and quality, which helps hotels to promote its overall service grade and service scale and to satisfy various demands out of guests' day-by-day personalization.

### 3.4 Dodge the operational risk and activate the competitive potential

Regardless of being in the hotel's internal environment or the external environment, there're always the uncertainty and complexity of varied degree which are in the dynamic change. In addition, the sluggishness of operators' cognitive ability as well as processing methods' limitation often cause the hotel to withstand every type of operational risks in the management process, for example, supply risk, production risk, marketing risk, technological risk, financial risk, property risk, investment risk and so on. Through the outsourcing service, however, the hotel may form the partner relations with the exterior service company, working at all risks together. For the hotel, it can strength its own flexibility greatly and adapt the hotel environment's anomalous change, activating the competitive potential itself.

## 4. The management and safeguard countermeasure of Chinese travel hotels' outsourcing strategic modes

### 4.1 The realistic barrier

#### 4.1.1 The quality's out-of-control risk

Once the hotel enterprise hands the partial service management over to the exterior service provider, the enterprise's

authorities are unable to proceed the positive governing of outsourcing content or to obtain the direct report from the outsourcing service personnel. Moreover, the limits of bilateral rights and obligations are not so clear that the out-of-control risk is obvious. For instance, the service grade, efficiency provision, and nimble grasp of service demands' change are in possession of the possibility of the risk existence.

#### 4.1.2 The hidden cost risk

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.

#### 4.1.3 The information asymmetrical risk

The contractual relationship in outsourcing is frail from time to time because in aspect of service grade, partner relation and benefit problems may turn up momentarily, but these problems are unable to be circumvented or completed before signing the contract. Seeing that the information is asymmetrical, compared to the enterprise itself, the service provider understands more about the enterprise's credit, the real technical strength, the personnel condition and may supply non-full or non-real information to the hotel, which leads to choosing an unsuitable service provider by mistake.

#### 4.1.4 The gradual risk

- (1) Appraisal stage in the organization: the hotel authority's risks for misunderstanding of outsourcing motive and uncertainty risk of outsourcing goal and scope;
- (2) Choosing stage of outsourcing service provider: risks of improper standard and less experience for choosing contractors;
- (3) Stage of contract's discussion and formulation: risks brought about by unclear service range and time limits;
- (4) Stage of outsourcing management: the outsourcing service provider's non-fulfillment of contract, the complexity of management and the worsening relationship with outsourcing service providers are included as risks.

### 4.2 The management and safeguard countermeasure

#### 4.2.1 Construct the brand-new managerial idea and manage hotels' outsourcing dynamically

Faced with the economic globalization, the gradual fine social division of labor, intensive competition, various demands of consumers as well as rapid development and widespread application of information and technology, Chinese hotel industry must transform their ideas positively and make best use of marketing to raise enterprises' operating efficiency with the exterior resources; hotels should transfer their dependence on single strength for participating in competition to dependence on the conformity superiority of entire supply chain, and strive to cooperate with the dynamic outsourcing organization, guaranteeing that the enterprise has the long-enduring competitive advantage. In addition, the hotel must keep the dynamic management to the outsourcing process while the following supervisory work is so important. Outsourcing not only means the cost saving, but also makes it clear that the enterprise should provide better and higher-quality service than before. In order to achieve the initial goal of outsourcing, the hotel must pay more emphasis on cooperation and exchange with contractors, during which the supplier would understand better concerning the enterprise's demands and two parties could create the condition for the proliferation of experience and knowledge, improving the service grade from the long-term angle.

#### 4.2.2 Recognize the outsourcing service needed and elect the contractors cautiously

The outsourcing service needed could be possibly divided into the following types:

- (1) those of which contained core technology is not the hotel's strong point and interrelatedness with the hotel's core competency is quite low;
- (2) those of which exterior supplier has the obvious comparative superiority in resources, technologies, scale, demand reaction rate;
- (3) those occupy more resources of hotels, and of which investment-return rate is quite low. Besides, regarding the outsourcing service has the latent risk for hotels, thus establishing a special evaluation group that unifies every divisional management personnel's opinions to verify it when choosing contractors. Suppliers' cooperation wish, trust degree and synthesis strength are the most important factors, but the hotel enterprises must also pay attention to the differences of organizational culture and monitoring flexibility to suppliers' achievements.

#### 4.2.3 Rely on outsourcing service steps and strength the process management

- (1) Make clear the hotels' outsourcing condition: the related internal and external conditions should be provided

with if the hotel implements the outsourcing service. There're approximately two external conditions: the outsourcing service must have the suitable degree's standardization, which is right the standard of outsourcing service quality; widespread application of information technology is the safeguard of information symmetry, sharing, transaction cost saving. The internal condition mainly refers to the hotel's whole staff's idea forms, as well as the necessity and feasibility of operation circuit reorganization and organizational reconstruction.

(2) Define the hotels' outsourcing demands: there're many factors affecting the hotel's outsourcing service demand, out of which four factors are especially of most importance, namely hotel scale (middle and small scale), grade (economical), business agency's status (secondary), and manpower cost accounting (high) as well.

(3) Formulate the hotels' outsourcing strategy: in the process of formulating strategies, the hotel must be clear about whether the outsourcing service is helpful to the realization of the operating objectives; determine the needed outsourcing service domain through the investment forecast and the cost accounting; in order to choose the suitable service company, the hotel must understand truly its own demand and have enough ability to solve its problems; the hotel also should handle with such issues as solution appraisal, company's whole appraisal, information system appraisal, commercial provision appraisal and financial situation appraisal.

(4) Guarantee the hotels' outsourcing implementation: in this stage, the hotel must maintain the momentary monitoring and appraisal of outsourcing service, and prompt communication and exchange with service providers are necessary as well. At the same time, for the outsourcing service will involve some staff's benefit inevitably, more communication with the hotel's internal staff in initial period of outsourcing implementation turns out to be very important, which helps them to adapt to this new operating way.

#### 4.2.4 Perfect the outsourcing contract and clarify both-sides' responsibilities, rights and benefits

(1) The contract should make clear the service boundary and the outsourcing agreement, and point out the range of service explicitly so that the outsourcing service provider can be clear about its own responsibility. Simultaneously, the outsourcing contract, especially the long-term outsourcing contract, should have the full elasticity, dealing with the possible changes in the aspects of service and strategic goals.

(2) The contract should make clear the reasonable service level and the quality explanation.

(3) The contract should make clear the compensation liability and the conflict-solving procedure, and the service contract should include the provision of punishing the service provider for not supplying the service of the agreed rank. Meanwhile, in order to solve the conflict quickly and proceed to supply service when conflict appears, the contract should also contain the procedure of solving bilateral conflict.

(4) The contract should also make clear the right of contract's termination. When the outsourcing service can't attain the designated standard for many times, the hotel is authorized to propose the termination of contract.

## 5. Conclusion

In the present, the outsourcing service, along with the deep development of Chinese hotel industry and the professional service industry, is popularized gradually. In the future several years, the auxiliary work that is lacking in developing vigor or non-profit may all be outsourced to the specialized companies. For the outsourcing modes will certainly become the development trend of the international hotel industry, the Chinese hotel enterprises should renew the managerial ideas, innovate outsourcing modes to strengthen hotels' core competitiveness, thus enhancing Chinese travel hotels' international synthesis competitive power and making the very good beginning for further unfolding the transnational market.

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