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EXPLORING THE PERFORMANCE EFFECTS OF HUMAN RESOURCE OUT-SOURCING IN THE HOTEL INDUSTRY

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Abstract

Recent years have seen increased attention being given to firm's outsourcing. However, research which has empirically documented the link between firm's outsourcing and its performance is scant. Therefore, the aim of this study attempts to explore the performance effects of the outsourcing of two types of human resource activities, namely training and payroll in the hospitality firms. 314 managers of hospitality firms participated in the study. The analysis of the questionnaires was conducted through regression analyses. Results of this study showed that outsourced training has a positive effect on both innovation and stakeholder performance. In addition, payroll outsourcing was found to positively influence innovativeness. However, the moderating effects of firm size on outsourcing and performance relationships were not clear.

Keywords: Firm's performance, Human resource outsourcing

Introduction

In recent years, hospitality firms have been developing various kinds of strategies in order to improve service and product quality, lower costs and enhance firms' operational effectiveness. Elimination of processes, downsizing, developing strategic relationships through franchising or contracting can be seen as examples for these decisions. Outsourcing is one of these strategies. Through outsourcing, hospitality firms may better focus on their core competencies. In addition, as outsourcing increases, costs may decline, and investment in facilities, equipment, and manpower can be reduced. However, previous researches also indicated that increased reliance on outsourcing may lead to reduced innovation (Kotabe et al., 2004), and reductions in control of the task in question. Thus, the performance effects of outsourcing are uncertain. The purpose of this study attempts to explore the relationship between outsourcing and hospitality firm performance. We focus on the performance effects of the outsourcing of two types of human resources (HR) activities, namely training and payroll. Frayne and Geringer (2000) demonstrated that the training can yield positive firm performance effects. However, training can be expensive and become greater pressure for HR to produce returns on investments in training. Therefore, many HR departments are using outsourcing to enhance the value received from training expenditures.

On the other hand, previous survey indicated that 36% of firms outsource their payroll functions (HR Focus, 2010). This may especially happen in smaller hospitality firms, because they may not have enough employees to achieve economies of scale for payroll processing. This makes payroll become an option for outsourcing. There has far been relatively little research into the performance effects of outsourced payroll activities. The current study address these gaps to better determine the performance effects of outsourcing these activities in hospitality firms.

Literature Review

In recent years, the theory has been complemented with several studies that have found positive effects of training on measures of organizational performance. However, no empirical studies have specifically addressed the performance effects of outsourced training. Nonetheless, there are several ways in which such outsourcing may positively affect firm performance. One important potential effect is cost reduction, as outsourced training provides a means of reducing the fixed costs associated with maintaining a training staff. Further, outsourcing of training can add value through the higher quality available from specialized training providers. Because many firms may lack the expertise to conduct training in-house, better performance may be obtained with outsourced training. By outsourcing training to outside specialist organizations, firms may achieve superior levels of employee performance and productivity, thus leading to higher financial performance and improved customer and vendor satisfaction. Improved training also should enhance innovation because well-trained employees have a better knowledge foundation for improving processes and products. In addition, by outsourcing training activities, the firm will be better able to focus on the value-creating activities that drive competitive advantage. Therefore, we propose the following hypothesis:

Hypothesis 1: Outsourcing of training activities is positively related to firm performance.

In contrast to training, payroll activities have lower strategic importance. Even when the activities are performed flawlessly, they do not have the strategic impact of other HR functions. Nonetheless, while payroll activities are not strategic and are transactional rather than relational, they must be performed well because service failures can have strong negative effects on employee morale. As Lepak and Snell (2005) have noted, there is increased emphasis on making HR more cost-efficient and outsourcing has been used to reduce costs of peripheral HR functions such as payroll services. Indeed, an industry of HR service providers has evolved in part to provide lower transaction costs for activities such as payroll processing.

In addition, because payroll activities are transactional rather than relational, vendors can perform them with little loss of value to the organization. They also have low task and social interaction requirements and can be performed in relative isolation from other organizational activities with only limited amounts of information and coordination from other organizational units. Thus, according to the guidance provided by the Lepak and Snell (2005) model, the Speaker typology (Greer, 2001), and the Baron and Kreps (2001) model, firms should outsource payroll activities to increase firm performance, because these activities are of low strategic value, are transactional in nature, are non-unique, and do not provide a source of competitive advantage. Thus, we propose the following hypothesis:

Hypothesis 2: Outsourcing of payroll activities is positively related to firm performance.

It is likely that the relationships between training and payroll outsourcing and firm performance are not the same for all firms. Rather, the performance effects of these types of outsourcing may happen because of characteristics of the firm itself. One potentially important firm-level contingency is the size of the firm. The size of organizations has been widely discussed in the strategy and organization theory literatures and has often been tested as a moderator variable.

We contend that firm size will moderate the effects of training and payroll outsourcing on performance in similar ways. In general, transaction cost theory would suggest that payroll and training outsourcing by smaller firms should produce lower costs than when those activities are per-formed in-house because smaller firms lack the vendors' efficiencies that result from scale and experience effects. In addition, the resource-based view would suggest that the limited capabilities of smaller firms make it necessary for them to acquire resources from other organizations (Hadji- Manolis, 2000). By relying on outsourcing, smaller firms can obtain the capabilities they need from vendors.

Some types of training require a great deal of specialized knowledge and managerial and financial resources, which smaller firms may frequently lack. Indeed, reasons for outsourcing training, discussed by Parry and Ribbing (2001), are to obtain specialized expertise and capacity that do not exist within the firm. Because smaller firms are generally more resource constrained than larger, more established entities (Robinson, 2005), they often lack the specialized staff and dedicated budget necessary to provide high quality training. Compared to larger firms the training function in smaller firms typically is less specialized, has less capacity, is less formal, is less systematic, and is less subject to formal evaluation. Accordingly, we believe that firm size is an important contextual variable that will influence the HR outsourcing– performance relationship. We argue that small size is likely to tip the balance on the value dimension toward outsourcing because in smaller organizations the costs of conducting training in house may be disproportionately high. Thus, we propose the following hypothesis:

Hypothesis 3: The effects of outsourced training on firm performance are moderated by firm size such that the benefits of outsourced training are greater for smaller firms.

Similar arguments can be made regarding the moderating effects of firm size on the relationship between payroll outsourcing and firm performance. Because small firms may typically have only a few HR staff members who serve as generalists across a wide range of HR activities, some reduction in efficiency is expected with regard to the entire spectrum of HR activities. While payroll specialists are often employed by all but the smallest firms, the absence of a critical mass of payroll specialists may reduce efficiency in other ways. For example, with smaller numbers of specialists, there are more limited opportunities for the staff members performing payroll functions to adopt specialized payroll efficiencies. By outsourcing payroll activities to outside specialist organizations, HR staffs within smaller firms may focus on more value- enhancing activities, thereby increasing overall organizational effectiveness. Larger firms, by contrast, are less likely to see a significant increase in their performance through payroll outsourcing. Because of scale and technology issues, larger organizations will likely achieve comparable efficiency with respect to payroll processing relative to their potential external outsourcing partners. Therefore, we would expect the benefits of payroll outsourcing to decrease with increasing organization size.

Hypothesis 4: The effects of payroll outsourcing on firm performance are moderated by firm size such that the benefits of payroll outsourcing are greater for smaller firms.

Methodology

To test the above hypotheses, a questionnaire was developed to investigate the relationship between outsourcing and hospitality firm performance. Data were gathered from a sample of managers of hospitality firms in Taiwan in 2018. A number of 350 questionnaires were distributed to managers working in these hospitality firms. After removing the records containing heavily missing values, a total of 314 responses remained in the analysis. To measure the performance of their firms, respondents were asked to indicate how their firm's financial performance compared to similar firms in hospitality industry for two time periods: during the last 12 months and 5 years ago. To determine each firm's nonfinancial performance, respondents

Table 1. Results of regression analyses for moderating effects

Predictors and controls	DV=Financial performance			DV=Innovation performance			DV=Stakeholder performance		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Control variables									
Past performance	.45***	.42***	.43***	.69***	.69***	.72***	.42***	.42***	.42***
Log of firm size	.08	.08	.12	- .06	- .07	- .00	- .00	- .02	- .02
Independent variables									
Training outsourcing		.08	.45		.14	1.02		.21*	.64
Payroll outsourcing		- .00	.18		.24**	.44		.06	- .29
Interaction terms									
Training outsourcing—Firm size			- .39			- .88			- .44
Payroll outsourcing—Firm size			- .18			- .22			- .36
F (full model)	3.18***	2.83**	2.58**	4.26***	4.81***	4.49***	1.55	1.58	1.45
R^2	.46	.46	.47	.54	.61	.62	.30	.33	.34
Adjust R^2	.31	.30	.28	.42	.48	.48	.11	.12	.11
Change in R^2		.01	.01		.06	.01		.03	.01
F		.30	.20		5.11**	1.05		1.62	.38
df	18,68	20,66	22,64	19,68	21,66	23,64	19,69	21,67	23,65

Industry dummy variables were omitted from this table for clarity of presentation.
$^*p<.05$, $^{**}p<.01$, $^{***}p<.001$

were asked to rate their firm's process innovations, product innovations, employee compensation, employee morale/ job satisfaction, customer relations, and supplier relations relative to their competitors. For both financial and non- financial performance, responses were coded on a five-point scale (1 = at the bottom of similar firms in the industry to 5 = at the top of similar firms in the industry). Comparisons of firm performance relative to similar firms in the hospitality industry were requested to minimize industry effects (Dess et al., 2000) and strategic group effects (Hatten et al., 2006). Regression analyses was used as a major statistical technique to test research hypotheses.

Results

Table 1 presents the results of the regression analyses. The results of these tests are shown in models 1, 4, and 7. These were used as baseline models to allow for interpretation of the performance effects of the two outsourcing variables as a set, in addition to examining their influence individually. Hypotheses 1 and 2 were then tested to examine the extent to which outsourced training (Hypothesis 1) and payroll out-sourcing (Hypothesis 2) influence firm performance. The results of these one-tailed tests are shown in models 2, 5, and 8 of Table 1. A linear combination of the two types of HR outsourcing and the control variables, adjusted for the number of independent variables, explained 30% of the variance in financial performance, 48% of the variance in innovation performance, and 12% of the variance in stake-holder performance. In all three cases, the majority of the variance was explained by the control variables.

As shown in Table 1, the regression analyses reveal that training was a significant predictor of the firm's stakeholder performance ($P < .05$) and innovation performance ($P < .10$). In addition, payroll outsourcing was a significant predictor of innovation performance ($P < .01$). In the case of innovation performance, the change in R^2 beyond the baseline/controls model was significant, indicating that the set of outsourcing variables themselves explained a significant amount of variance beyond the baseline model. However, for stakeholder performance, the change in R^2 was non-significant. Nevertheless, as predicted by Hypotheses 1 and 2, it appears that the outsourcing of training and payroll activities has a positive effect on key measures of organizational performance.

Hypotheses 3 and 4 proposed that the effects of HR outsourcing on firm performance would be contingent on the size of the organization. Linear-by-linear interaction terms were created, as suggested by Stone and Hollenbeck (2005), by multiplying outsourced training (Hypothesis 3) and payroll outsourcing (Hypothesis 4) by the log of firm size. After entering the proposed main effects and control variables into the equation, the multiplicative terms were added. The regression weights for the multiplicative terms were then examined. As shown in models 3, 6, and 9 of Table 1, our results do not support Hypotheses 3 and 4.

Conclusions

Our findings suggest that hospitality firms outsourcing their training activities tend to have higher performance in terms of stakeholders—which in the current study includes employment growth/stability, employee morale, customer relations, and supplier relations. Our results also suggest a strong, positive relationship between outsourced payroll activities and innovation, as well as a weaker relationship between outsourced training and innovation.

There are strong theoretical rationales for expecting higher quality training from the expert training staffs of specialized vendors to produce increased innovation, improved employee morale, and better relationships with customers and suppliers. Thus, practitioners should have confidence that such performance relationships exist and should be more likely to justify their investments in outsourced training and payroll activities with objective data and comprehensive evaluations of their own. However, the outsourcing of training is often inconsistent with the political context and self-interests of executives who have made decisions to use in-house staff to conduct training (Tannenbaum and Woods, 2003). Accordingly, it is unsurprising that the effectiveness of training has seldom been subjected to rigorous examination in firms. Nonetheless, demands for increased HR accountability make rigorous evaluation more likely in the future. Hospitality firms should be able to measure the effectiveness of outsourced training with techniques that are currently available (Tannenbaum and Woods, 2003; Greer, 2001) and with greater precision because the costs are better specified with outsourced training.

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