

Evaluation of the Socio-Economic Benefits from the Use of Outsourcing in the Service and Hospitality Industry

Natalia A. Zaitseva ^{1*}, Tatiana G. Somova ¹, Anna A. Larionova ², Zhanna V. Gornostaeva ³,
Olga V. Eliseeva ³, Julia V. Tepina ³, Natalya A. Ryabokon ³

¹ Plekhanov Russian University of Economics, RUSSIA

² Financial University under the Government of the Russian Federation, RUSSIA

³ Institute of Service and Business (branch) Don State Technical University in Shakhty, RUSSIA

Received 24 June 2017 • Revised 14 August 2017 • Accepted 22 September 2017

ABSTRACT

Despite the popularity of the outsourcing model in the world practice in general, and in the service and hospitality industry in particular, the lack of reasonable methods for hotels to determine the real effects of outsourcing often leads to the complete refusal of hotels to use outsourcing services. Therefore, it is important to develop methodological tools for making reasonable economic decisions by hotel management in the field of outsourcing services application. The purpose of the article is to develop a methodology for evaluating the socio-economic effect of using outsourcing services in the hospitality industry. To analyze the existing problem, we used methods of systematization and generalization, quantitative and qualitative study, that allow considering this problem as a complex, taking into account the direct and indirect, positive and negative effects from the use of outsourcing services in the service and hospitality industry. The article explores the main scientific and practical interpretations of the definition "outsourcing", and gives the author's interpretation. The results of the research allowed to reveal the main problems of using outsourcing services by hotels. The authors suggested a model of decision-making on the hotel's use of outsourcing services based on an evaluation of its socio-economic impact. The materials of this article can be used by owners and hired managers of the service and hospitality industry enterprises when deciding on the transfer of some business processes to outsourcing and determining its effect.

Keywords: outsourcing, service, hotels, social and economic effect

INTRODUCTION

At present, the cooperation model based on outsourcing is one of the popular collaboration models among many organizations. For a number of developing countries, specializing in providing outsourcing services, it even became the basis of the intensive development of the national economy [1, 2]. Thus, in the third quarter of 2016 the Philippines has become the fastest growing economy in Asia, as its GDP increases by an impressive 7.1%, outstripping such regional competitors as Vietnam and India. A significant part of this growth is determined by a rapid growth in the services sector - by 6.9%, primarily in the field of information technology and business process management.

These are the main outsourcing services of calls processing, technical support, coding and technical design [3].

In Russia, the outsourcing services are used in various sectors of the economy, including the hospitality industry, and above all in order to optimize the costs of separate business processes, as well as maintaining the

© **Authors.** Terms and conditions of Creative Commons Attribution 4.0 International (CC BY 4.0) apply.

* **Correspondence:** Anna A. Larionova, *Department of corporate Finance and corporate governance, Financial University under the Government of the Russian Federation, Russia.*

✉ annla@list.ru

required level of service quality. According to the latest trends the hotel services market develops rapidly. At present, the world hotel industry has about 350 thousand comfortable hotels with a capacity of more than 26 million seats. The number of rooms in the last 20 years increase annually by an average of 3-4%, which indicates a significant dynamics of demand growth for this service [4]. In the Russian market, there is an increase in the number of regional hotels, hotels in cities falling under the holding of the FIFA 2018 World Cup. Due to the high competition, every hotel enterprise strives to be productive. The issue of customer satisfaction is becoming a vital factor. To achieve this objective, hotels are increasingly entering into various forms of alliances in search of profitable cooperation [5]. At present, one of the popular models of cooperation is the model based on outsourcing that involves the transfer of some hotel functions to a specialized outsourcer company.

In the first half of 2016 recruitment agent "Unity" recorded a 10 per cent increase in demand for Russian companies in the business process outsourcing services compared to 2015 [6]. The researches [7] associate the rise in outsourcing model popularity among companies with the Federal Law from 05.05.2014 N 116 (On contract labor) enforced on 1 January 2016 that states temporary (not more than 9 month), quantitative (the number of temporary staff cannot exceed 10% of average staff number in the company) and objective (aimed at employees replacement who maintain their working place, doing project work) restrictions on hiring temporary staff in accordance with collaboration scheme based on outstaffing.

Therefore, it is obvious that on the one hand, outsourcing around the world demonstrates the rapid pace of development [8, 9, 10], on the other hand, in Russia after the adoption of the amendments to the legislation on contract labor it is more important than ever to have a methodological tool that allows fairly accurate evaluation of the socio-economic impact of outsourcing services. This is especially relevant for small and medium service and hospitality industry enterprises that consider the use of outsourcing services as the most important factor for ensuring competitiveness.

RESEARCH METHODOLOGY

The methodological basis of the research is the works of scientists [11, 12, 13, 14 and others] who studied the scientific basis and the essence of outsourcing services in the service and hospitality industry. However, in the listed sources, the issues of evaluating the socio-economic effect of using outsourcing services in the service and hospitality industry received indirect coverage, or were not considered at all.

Along with a scientific approach, we used the data of popular outsourcing types rating in Russia. Its expert assessments formed the basis of determining the market trends for the provision of temporary personnel in Russia and determined the main problems of outsourcing services use.

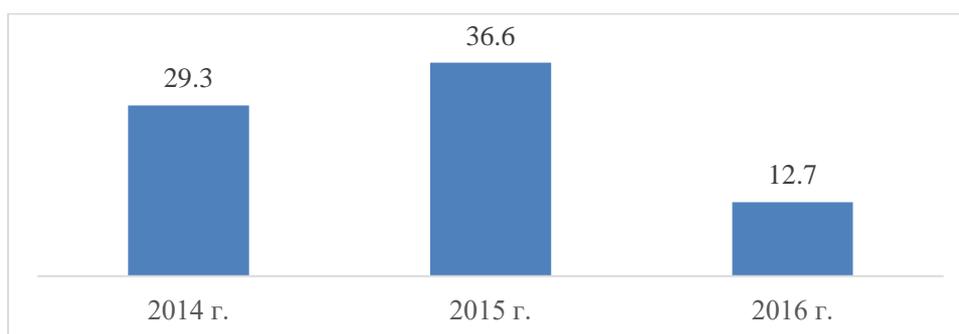
The use of the theoretical and empirical research methods, methods of economic and statistical and factor analysis, expert assessments allowed the authors of the article to identify the direct and indirect, positive and negative effects of outsourcing use in the service and hospitality industry, to develop the author's model of decision-making on the use of the hotels services outsourcing based on an assessment of social economic impact.

LITERATURE REVIEW

Despite the wide practical spread of outsourcing services all over the world, there is still no unified opinion on the essence of this concept. Authors engaged in research in the field of outsourcing services application, state a large number of the concept definitions of the term outsourcing, found in various areas of its use. Based on this, we can conclude about the usage a wide range of outsourcing services on the one hand and the problem of ambiguous perception of this concept, the absence of a universal definition - on the other hand. Let us consider the basic scientific approaches to defining the concept essence of "outsourcing" (Table 1).

Table 1. Main scientific and theoretical approaches to the definition of “outsourcing”

N	Definition of the concept	source
1	Outsourcing - the transfer from one legal entity (contractor) to another entity (subcontractors) of works or services and their acceptance to implement this other legal entity (subcontractor) based on an agreement.	[15]
2	Outsourcing - search for resources in the external environment of the organization. Organizational decision to transfer on a contractual basis of non-core functions (processes, activities) to third-party organizations that have relevant technical and / or managerial expertise and resources in any area.	[16]
3	Outsourcing - a situation in which a company employs another organization to do some of its work, rather than using its own employees to do it.	[17]
4	Outsource - obtain (goods or a service) by contract from an outside supplier.	[18]
5	Outsourcing - transfer of traditional non-core functions of the organization (such as accounting or promotional activities for the engineering company) to external executors - outsourcers, contractors, highly skilled third-party company; refusal of own business process, for example, manufacturing of casting or balance drawing, and purchase of services on realization of this business process from another, specialized organization. A kind of co-operation.	[19]



Source: Compiled on the basis of analytical reviews of electronic periodicals

Figure 1. Changes of service market on temporary personnel provision market in Russia for the period from 2014 to 2016 (billion rubles.)

Based on the analysis of scientific approaches to defining the essence of the concept of “outsourcing”, presented in **Table 1**, we can state the following definition: “outsourcing” is a model of cooperation of organizations on a contractual basis built on the inclusion of the foreign organizations outsourcer activities in the organization of the customer management strategy by transfer of its secondary functions and / or business processes to an external organization-outsourcer.

It is obvious that one of the most important criteria for the transfer of certain functions and / or business processes by enterprises, including the service and hospitality industry, to an external outsourcer is the socio-economic effect from the use of these services; therefore, further in the article the results of research in this field will be presented.

RESULTS

Market Trends for the Provision of Temporary Personnel in Russia

A study conducted by the authors led to the conclusion that the model of cooperation based on outstaffing is gradually disappearing from the market, giving way for collaboration model based on outsourcing (**Figure 1**).

The provision of temporary personnel services market analysis showed a decline of 80% since the beginning of 2016, while the companies change from the temporary staff hiring to outsourcing accounted for 60% [6]. The given changes are connected, firstly, with a matter of company responsibility before the customer.

Cooperation between hotels and companies offering outsourcing services is a more complex model than outstaffing cooperation. The change of companies engaged in services and outstaffing to outsourcing requires the reorganization of many business processes and additional investments on hiring highly qualified project managers who can lead outsourcing projects. As the outsourcing company is responsible not only for the employees transferred to the customer (as for outstaffing), but also for the quality of the services in general. Its responsibilities include the organization of the process, monitoring compliance with all the necessary rules and regulations when carrying out work by personnel. The company-outsourcer bears losses for improper performance of duties by its employees - for equipment damage, products damage, absenteeism, breakdown of deadlines and failure to fulfill the plan. Therefore, according to experts outsourcing is in average more expensive that the services of temporary personnel provision on 10-25%. [20].

The analysis of the scientific literature allowed to reveal that the main motive for application outsourcing model by hotels is to reduce the cost of running a large staff of its employees by taking advantage of the expertise of the partner on the one hand and the release of its assets – on the other [21]. However, outsourcing does not always bring expected positive results.

Key Issues in Use of the Outsourcing Services by Hotels

A study of the genesis of outsourcing has shown that outsourcing in the hotel industry has been systematically applied in the world since 2000, whereas in Russia, single cases of its use date back to a decade later. Only in 2010-2012 because of the economic crisis there was a large-scale intensification of Russian hotels going for outsourcing [22, 23].

Accordingly, outsourcing in the Russian hotel economy has not yet reached a level of development in which outsourcing companies could reduce the cost of their services at the expense of significant economies of scale and therefore, be the most beneficial in order have the decision from the head of the customer company: to provide services in-house or outsource.

Thus, hotels adhere to traditional business schemes. According to domestic authors (Anikin & Rudaya, 2017) this situation is determined not only by the relatively recent use of this form of cooperation, but also a number of other problems, which, according to the authors, include:

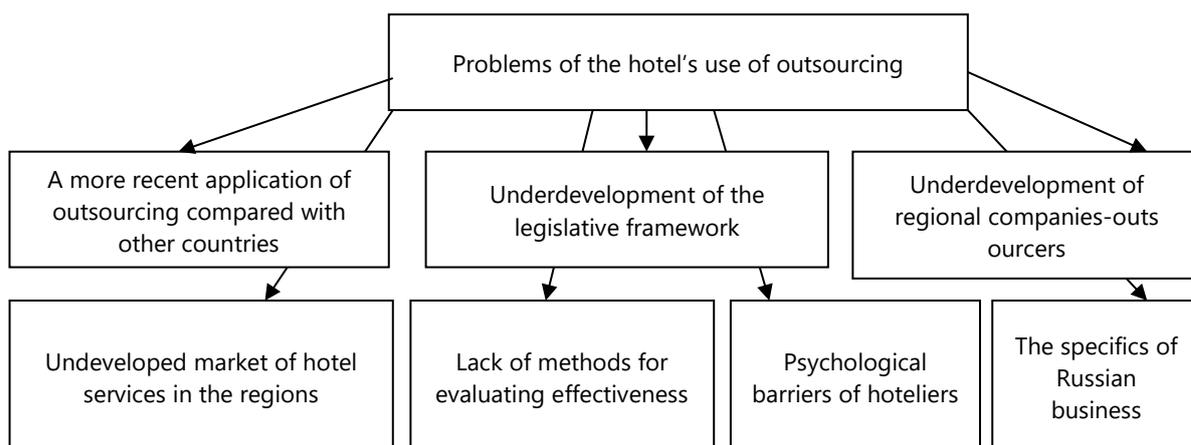
1. Insufficient development of the domestic market of hotel services in Russia in comparison with world markets;
2. Insufficient elaboration of the legislative framework in the sphere of outsourcing for hotel facilities;
3. Insufficient development level of regional outsourcing companies that provide hotel services;
4. Absence of reasonable methods at the hotels, allowing to determine the real effects from the use of outsourcing;
5. The history influence of the Russian business development on hotel facilities (business building was not always implemented on the basis of economic considerations consistent with market principles);
6. The presence of psychological barrier in Russian hotel owners:
 - Fear of losing control of the business;
 - Doubts in the qualification of the outsourcer company;
 - The threat of leakage of commercial information;
 - Ambiguity in the issue of boundaries of responsibility;
 - Dependence on an outsourcer company;
 - The threat of a decrease in the productivity of their own employees.

In addition, and other factors should be pointed out as to some extent they are an integral part of the specifics regarding doing business in Russia on the one hand and act as barriers to the outsourcing spread among the hotel industry - other [14]. These factors in the hotel business are:

- the collusion possibility of the outsourcing company with the supervising employee of the contracting authority, as a result of which the prices for outsourcer services are inflated with the subsequent division of the difference between the interested parties;
- subjective choice of an outsourcer company due to the presence of related or friendly links, as a result of which it is not always the choice is made in favor of a more experienced outsourcer company.

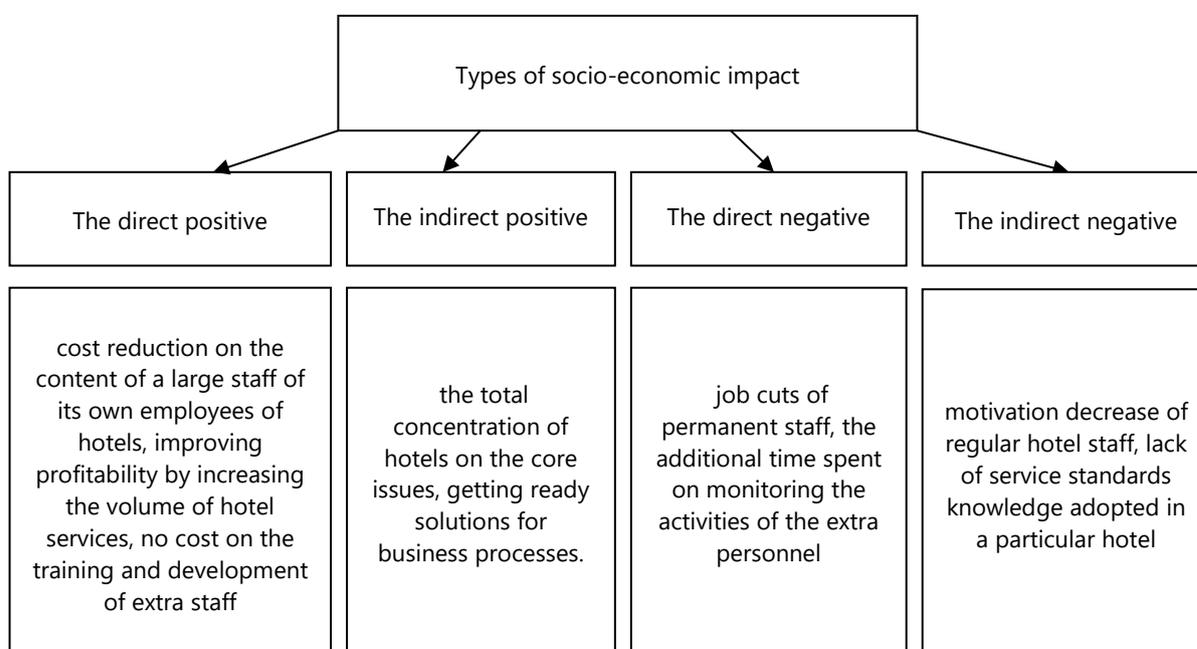
Thus, summarizing the above, the main issues in the hotel's use of outsourcing services can be represented in the following diagram (Figure 2).

Currently, the problem of evaluating the effects of the outsourcing services use in the hospitality industry have acquired special urgency. The analysis revealed that it is the lack of hotel-based techniques, allowing to determine the real effects of the outsourcing use, often entails a complete rejection of hotels from outsourcing services. Therefore, it is important to develop methodological tools for making reasonable economic decisions by hotel management in the field of outsourcing services.



Source: compiled by the authors

Figure 2. The main problems of using outsourcing services by hotels



Source: compiled by the authors

Figure 3. Types of socio-economic benefit of outsourcing services use

Evaluating Methods of the Socio-Economic Impact of the Outsourcing Services Use in the Hospitality Industry

A key advantage of methods to evaluate the effect of outsourcing application should be connected to clear and measurable socio-economic effect [24]. For this, it is necessary to consider the types of social and economic effect that hotels receive using outsourcing services in more detail.

In evaluating the socio-economic benefit of the of outsourcing services use we should distinguish between direct and indirect, positive and negative views of it (Figure 3).

As can be seen from the Figure 3, direct and indirect positive effect from outsourcing model applicatoin is more of an economic nature, expressed in the cost reduction for the specified expenditure and profitability increase. While direct and indirect negative effects are related to the social aspect, as expressed in job cuts and possible antimotivation of regular staff.

The methodology for evaluating the socio-economic benefit of the hotel's use of outsourcing services should be included the following indicators:

1. Adjusted rate of economic benefit from the use of outsourcing (E_a).

$$E_a = \sum n_i = 1 \left(\frac{(S_i - P_i)}{\left(1 + \frac{d}{100\%}\right)^i} \right) - C_0 + D_0, \quad (1)$$

where n is the length of the period during which the use of outsourcing is assumed, S_i is the expected costs for the execution of the process on their own in the i -th year, cash units, P_i is the total price of the outsourcer process in the i -th year, cash units, d is the discount rate, %, C_0 - non-recurring costs associated with the transition to outsource, cash unit (may include the amount of cash benefits to releasable employees), D_0 is one-time gain related to the transition to outsourcing, cash units (can include cash received from the sale of closed departments).

2. Cost comparison index of its own staff and external performer (3 comp). This indicator allows to analyze the main types of direct positive economic impact from use outsourcing services use - cost reduction on a large staff of own employees and the lack of training costs and the development of extra staff.

$$3 \text{ comp} = \left(\frac{(X(Z + K))}{T} \right) - A \quad (2)$$

where X is anticipated labor employee hours, Z is value of the monthly wage for a full-time employee, K - value of indirect costs on a full-time employee per month (tax deductions, social package, the cost of training and development, and others.), T is the number of working hours per month, A is cost of the extra personnel outsourcing company.

If the index 3 comp has a positive value, then outsourcing services would be a beneficial decision by this criterion.

3. Work satisfaction rate of full-time staff (y_{sta}). This indicator allows to analyze the indirect negative social effect of the hotel's use of outsourcing services - antimotivational level of regular staff in the new forms of cooperation implementation on the basis of outsourcing.

$$y_{sta} = \frac{(\sum x_1 + \sum x_2 - \sum x_3)}{(\sum x_1 + \sum x_2 + \sum x_3 + \sum x_4)} \quad (3)$$

where x_1 - "excellent", x_2 - "good", x_3 - "satisfactory", x_4 - "unsatisfactory."

If the index have y_{sta} has a value in the range (0.8 - 1), the full-time staff has a positive attitude to work with the staff of the outsourcing company. Reducing the value of this indicator suggests demotivation of staff personnel connected with the introduction of cooperation forms based on outsourcing.

4. Indicator of service delivery timeliness (K_{ser}).

$$K_{ser} = \frac{p_t}{p_{t0}} \quad (4)$$

where p_t is volume of services provided in a timely manner within the time period stated by outsourcing contract, units per year, p_{t0} - the required number of service, units per year.

When the value of the index $K_{ser} = 1$, we can conclude that all the services were provided in a timely manner.

5. The indicator of provided services volume correspondence (K_{vol}).

$$K_{vol} = \frac{v_f}{v_r} \quad (5)$$

where v_f is the actual amount provided for outsourced contract services, units per year, v_r is a real need in the services, units per year.

It considered an ideal value of the index $K_{vol} = 1$.

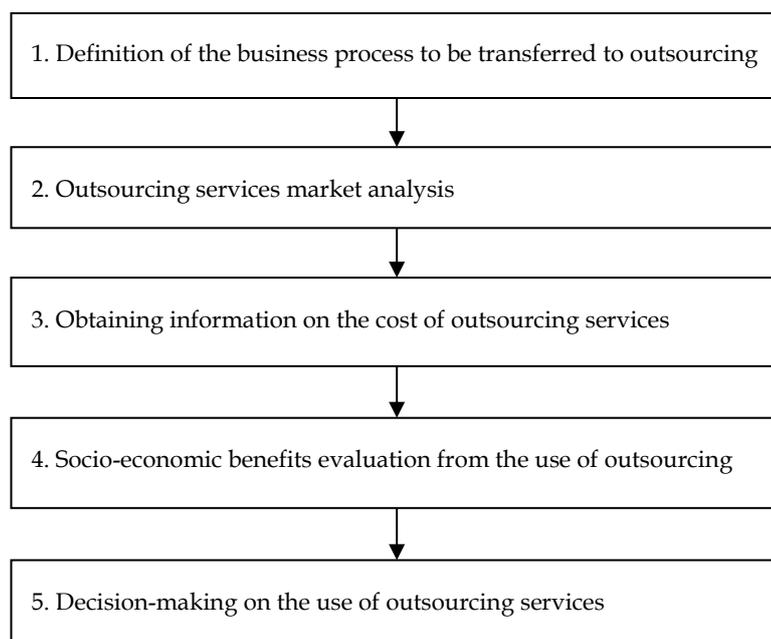
6. Efficiency indicator of service (K_{ef}).

$$K_{ef} = \frac{n_e}{n_{eh}} \quad (6)$$

where n_e is the value of the real costs associated with the provision of services, rubles per year, n_{eh} is the value of the allocated funds, rubles per year.

Calculations of indicators 4, 5, 6 allow to analyze the type of direct positive effect in terms of improving the business profitability, as well as direct negative effects, consisting of increasing control over the activities implementation by the extra personnel on the part of the administrative personnel of hotels.

In the course of research on the development of methods, we identified the need to include two stages in the scheme of use in the hotels - the determination of business processes to be transferred to outsourcing, and



Source: compiled by the authors

Figure 4. Decision tree for outsourcing services use based on its socio-economic effect

outsourcing services market analysis that will precede the calculation of the indicators. These steps are important links in the decision-making algorithm on transferring the business-processed to the outsourcing.

A positive result in the calculation of socio-economic benefit of outsourcing services use in the case of strategically important business process transfer to outsourcing or transfer of business process to untrusted outsourcer negate all possible benefits from the cooperation models use based on outsourcing and entail negative consequences for business.

Thus, based on the study we suggest the author's model of decision- making on the outsourcing services use based on an evaluation of its socio-economic effect (Figure 4).

Thus, the use by service and hospitality industry enterprises of socio-economic benefits from the use of outsourcing services evaluation methods will provide objective data and make an informed administrative decision on the need for outsourcing forms.

DISCUSSION

Despite the widespread research in the area of outsourcing [11, 12, 13], the authors revealed insufficient or absence of the research in the outsourcing use in the service and hospitality industry, methodical approaches to evaluation of the socio-economic benefits from the use of outsourcing. In addition, studies by Russian scientists still have not given evidence-based assessment of the latest changes in the legislation on contract labor.

The authors examined the issues raised in the C. Baden - Fuller et al [25], about the possibility and advisability of strategically important business process transfer to outsourcing. Therefore, in the methods description of assessing the socio-economic benefits from the use of outsourcing, it paid particular attention to the description of risks in case of business process transfer to an untrusted outsourcer.

We also determined the issue of using outsourcing services by services and hospitality industry enterprises, including absence of methodologies at hotels that allow to determine the real effects of the outsourcing use, as indicated in study B. Quelin & F. Duhamel [26].

Field of study, raised in this article, of course, is far from finalized. For example, it seems relevant to continue the studies previously conducted by the authors [27] to increase the quality of training, including in the field of outsourcing, by taking into account the requirements of employers.

CONCLUSION

At the end of the study we can conclude that the Russian service and hospitality industry outsourcing services have not yet acquired a sufficient spread due a number of issues formulated in this article, including due to the specifics of Russian business, as well as the lack of scientifically determined methods of evaluating socio-economic benefits from the use of outsourcing.

The authors suggested the types of effect from the use of outsourcing services by services and hospitality industry enterprises, as well as the fact that the direct and indirect positive effect is more of an economic nature, expressed in the reduction of costs for the specified expenditure and profitability increase. While direct and indirect negative effects are related to the social aspect, as expressed in job cuts and possible demotivation of regular staff.

The contents of this article can be used by hired managers and owners of the service and hospitality industry enterprises in the decision on the business processes transfer to outsource and in determination of its impact. In addition, the application of the research results in the educational activities of universities and colleges in training specialists in the field of hospitality and service industry will improve the professional competencies of graduates.

REFERENCES

1. Ashmianskaia, I. S. (2007). India and Global Outsourcing, or "Bangalorization" of the World Economy. *Asia and Africa Today*, 1, 6–10.
2. Levitsky, E. A. (2011). International Outsourcing: pros and cons of buying outsourcing services in both developed and developing countries. *Bulletin of Irkutsk State Technical University*, 2(49), 218–223.
3. Entrepreneur's Guide to Outsourcing. (2017). *Part 1: Emerging Markets*. *Entrepreneur*. Retrieved from <https://www.entrepreneur.com/article/287629>.
4. Yumatov, K. V., Kiryanova, L. G., Yakimova, N. S., Zaitseva, N. A., Larionova, A. A., & Korsunova, N. M. (2017). Problem-Based Learning Methods for Training Staff for Tourism and Hospitality Clusters. *Eurasian Journal of Analytical Chemistry*, 12(5b), 803–812.
5. Mironova, M. D., Zaitseva, N. A., Larionova, A. A., Akhpolova, V. B., Glagoleva, L. E., & Belozerova, J. M. (2017). Features of Innovative Personnel Management of Service Companies in the Period of Implementation of Organizational Changes. *Eurasian Journal of Analytical Chemistry*, 12(5b), 793–802.
6. Goncharova, O. (2016) A law banning agency labor law will be even stricter. "Vedomosti" newspaper. 4125 from 27.07.2016.
7. Anikin, B.A., & Rudaya, I. L. (2017). *Outsourcing and outstaffing. High management technology*. Moscow. Infra-M.
8. Brown, D., & Wilson, S. (2007). *The Black Book of Outsourcing*. New-York; John Wiley&Sons Inc.
9. Vitasek K., Ledyard M., & Manrodt, K. (2010). *Vested Outsourcing: Five Rules That Will Transform Outsourcing*. London: Palgrave Macmillan.
10. Gottschalk, P., & Solli-Saether, H. (2006). *Managing Successful IT Outsourcing Relationships*. London, IRM Press
11. Aalders, R. (2003). *IT Outsourcing: A Practical Guide*. Moscow. Harvard Business Review.
12. Lutsk, N.V., & Lonza, P.A. (2012). Outsourcing in Russia and the USA (review trends and prospects of outsourcing). *Bulletin of Irkutsk State Technical University*, 8(67) 193–199.
13. Heywood, J. B. (2001). *The Outsourcing Dilemma: The Search for Competitiveness*. New York, Financial Time.
14. Kalendzhian, S. O. (2003). *The Outsourcing and Delegation of Authority in Company Activities*. Moscow, Delo.
15. Decision of the Council of the Eurasian Economic Commission. (21.12.2016). *On the Concept of creation of the Eurasian network of industrial cooperation and subcontracting*, N 143.
16. The decision of the CIS Heads of Government Council. (18.10.2011). *On the Interstate program of innovation cooperation of CIS member states for the period until 2020* (adopted in St. Petersburg).
17. Cambridge Business English Dictionary. (2017). Retrieved from: <http://dictionary.cambridge.org>.
18. Oxford Business English Dictionary. (2017). Retrieved from <https://en.oxforddictionaries.com/definition/outsource>.
19. Raizberg, B.A., Lozovsky, L.S., & Starodubtseva, E.B. (2011). *Modern Dictionary of Economics*. Moscow. INFRA-M.
20. Vasil'ev, D. E. (2011). *The Role of Outsourcing in the Development of Export of Science-Intensive Services and Components for Science-Intensive Goods by Russian Companies*. Moscow: All-Russian Foreign Trade Academy.
21. Rating popular types of outsourcing in Russia. (September 11, 2017). *The business center of the Republic of Tatarstan*. Retrieved from <http://www.TatCenter.ru/article/81275/>.
22. Tabula, M. F. (2010). The concept of the organization and management of business process outsourcing activities of the university. *Bulletin of the Moscow State Institute of International Relations*, 4, 155–161.

23. Rudenko, L. G, Zaitseva, N. A., Larionova, A. A., Chudnovskiy, A. D., & Vinogradova, M. V. (2015). Socio - Economic Role of Service - Sector Small Business in Sustainable Development of the Russian Economy. *European Research Studies*, 18(3), 219.
24. How America-First Entrepreneurs Can Combat the Effects of Outsourcing. Entrepreneur. (2017). Retrieved from <https://www.entrepreneur.com/article/292675>.
25. Baden-Fuller, C., Targett, D., & Hunt, B. (2000). Outsourcing to outmanoeuvre: - outsourcing re-defines competitive strategy and structure. *European Management Journal*, 18(3), 285-295.
26. Quelin B., & Duhamel F. (2003). Bringing together strategic outsourcing and corporate strategy: - outsourcing motives and risks. *European Management Journal*, 21(5), 647-661.
27. Zaitseva, N. A., Efremova, M. Y., Larionova, A. A., Kurkina, N. R., & Breusova, E. A. (2017). Management and evaluation of educational programmes in higher education based on the requirements of employers. *Modern Journal of Language Teaching Methods*, 7(2), 167-176.

<http://www.eurasianjournals.com>