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The Pros and Cons of Outsourcing

by

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Introduction

Outsourcing has become increasingly popular to the public since the mid-20th century and has become more controversial in the last decade. The United States economy has been under the microscope for the last 4 years due to an economic recession. Outsourcing has been a subject of interest that has been brought up numerous times by economists. Offshore outsourcing is the main type of outsourcing that is of concern in relation to the United States economy. This topic is highly debated because of the unemployment rate in America.

U.S. citizens want jobs back onshore so that the American people can have more opportunities for employment. Some economists dispute bringing jobs home to the U.S. due to the price of goods. Some goods are at a fraction of the price due to the cheap labor costs from offshore outsourcing. Bringing jobs back to the U.S. may help the unemployment rate but at what cost? If goods are more expensive due to higher labor rates, this may cause companies to go out of business. If companies close, more onshore jobs will be lost and the unemployment rate will continue to increase.

The subject of outsourcing is under the microscope because many hospitality representatives believe it can hurt the hospitality industry rather than help it due to impacts on customer service. Some businesses need to outsource employees in order to keep their companies thriving. Some businesses outsource to hire another company that specializes in something the company may need.

A hotel may need a night cleaning crew to clean the hotel during off-peak hours. The hotel may not want to hire internally for this job function. They may decide to pay a company who specializes in this service. The employees are already trained and they use their own

equipment and supplies. The hotel does not have to deal with the hassle. The night cleaning company would typically report to the Executive Housekeeper or Director of Engineering. Night cleaning companies typically transport the employees as well. The crew meets at a particular place and they come in a van with everything they need. It is very efficient and fast. The entire hotel will be cleaned in the matter of hours.

Many businesses in the hospitality industry outsource concierge, restaurants, gift shops, business centers, IT departments, and much more. If a company does not have expertise in a certain area, an outsourced company may be the answer to enhance areas the company lacks in. Several businesses will use offshore outsourcing for areas like reservations, accounting services, and customer service. Outsourcing is useful in areas where a face-to-face interaction is not needed are best.

Companies outsource to save money on wages. They outsource their needs offshore to save on labor costs. Some companies outsource their customer service hotline to India. They save on labor costs because the wages in India are on a different scale than the United States. They can hire someone there to perform the same duties at a fraction of the price (Renu, 2010).

There was a dire need for outsourcing during the Industrial Revolution from 1750-1900. This was a time where production was on the rise. Europe was booming. Many companies were hiring third parties to perform functions they needed in order to operate efficiently. It was common for companies to outsource administrative and legal needs. Offshore outsourcing was not as common during this time. It did, however, become more popular in the 1950's. There was need for low cost production of toys, electronics, and clothing (Renu, 2010).

Outsourcing can be highly efficient and profitable. Outsourcing means hiring a third party to perform the needs of the operation. Offshore outsourcing is when those needs are

fulfilled in another country. Some people are for outsourcing but not offshore outsourcing. The research presented throughout this paper will ultimately cover the pros and cons of outsourcing and offshore outsourcing. The hospitality industry needs to learn why this business practice can be beneficial for financials but devastating to customer service and the public eye.

Purpose

The topic of outsourcing has changed faces overtime. It is a brilliant business concept that has a lot of controversy following it. The pros and cons of this business practice both onshore and offshore will be highlighted. After research is conducted, a professional opinion will follow as to whether it is in the best interest of the hospitality industry to utilize this business practice.

Statement of Problem

Although outsourcing is a brilliant business concept, it has caused a lot of controversy for the U.S. The topic became a large part of the 2012 Presidential Campaign and was a hot topic during the debates between democratic candidate, President Barack Obama and republican candidate, Mitt Romney. Many political analysts were accusing the high unemployment rate of being a factor of offshore outsourcing. Many companies have terminated employees and shut down production on American soil. Both republican and democratic campaigns were promising the American citizens that the jobs would be coming back home in order to give employment to the American public. Both campaigns accused one another of investing and growing offshore outsourcing.

Justifications

Many businesses have been able to keep their doors open due to outsourcing but many Americans lost their jobs. Previous industry experience will enable a professional opinion on

whether this practice should continue. As stated before, many businesses need this form of employment to keep their doors open. This can cause Americans to lose jobs but would they have jobs at all if the business had to shut its doors? The research conducted will help answer this main question.

Constraints

Constraints to the professional paper include location and limited access to company data. Location concerns are due to being in a foreign country with no access to face-to-face interviews. Interviews will be conducted via telephone and Internet for alternate sources. Information can be very protected and private today. It may be difficult to gain the access needed to financial information needed to include in research.

Having worked for companies that use outsourcing, a bias is possible. All information regarding this topic will be heavily weighed and considered before judgment is given to conclude a professional opinion. Bias will be considered with each decision in order to make sure nothing is being judged unfairly.

Glossary

Outsourcing - to procure (as some goods or services needed by a business or organization) under contract with an outside supplier (Merriam-Webster, 2012).

Offshore Outsourcing – when a company utilizes labor from other countries outside of the country of origin.

Efficiency - effective operation as measured by a comparison of production with cost (as in energy, time, and money) (2) : the ratio of the useful energy delivered by a dynamic system to the energy supplied to it (Merriam-Webster, 2012).

Unemployment Rate – the percentage of the work force that is unemployed at any given date (Dictionary.com, 2012).

Human Resources – people, especially the personnel employed by a given company, institution, or the like (Dictionary.com, 2012).

Republican – a person who favors a republican form of government (Dictionary.com, 2012).

Democratic – a person who believes in the political or social equality of all people (Dictionary.com, 2012).

Presidential Campaign – the competition by rival political candidates and organizations for public office (Dictionary.com, 2012).

Internal Employees – employees hired by the company represented (Dictionary.com, 2012).

PART TWO

Introduction

Outsourcing has many pros and cons to consider in the success of a company. The research will present both pros and cons for onshore and offshore outsourcing. Many companies need to utilize this business practice in order to meet the financials necessary to continue their business. It can be fiscally good idea but socially a bad idea. The American public is crying out for help regarding unemployment. Moving more jobs back to America is what the public wants. Will Americans still have jobs if these companies go under for paying higher labor costs? Part two will focus on pros and part three will focus on cons.

Literature Review

Onshore Outsourcing

What is onshore outsourcing? Onshore outsourcing is when a company hires a business, other than their own, that specializes in a need that the business is looking for. If a hotel needs a business center, they may hire a company that specializes in running business centers for places like hotels, airports, convention centers, and malls. This may make sense because hotels mainly specialize in customer service aspects such as concierge services, checking people in and out, assisting with luggage, cleaning rooms, room service, and reservations.

Why a hotel may outsource. A hotel may not feel fully comfortable having to learn about an aspect of business that is not their particular forte. It may make more sense to hire a company that knows the ins and outs of this type of business they are looking for. If it is a business center, they may know more about services similar to what Kinko's may offer and market pricing. Although the hotel may lose out on the full revenue, they may make an

arrangement to get a portion of the profits. The hotel may give the business center goals to hit with financial arrangements that benefit both parties. This makes it possible for both parties to earn more money.

A hotel might not want to deal with the employment aspects. They may have a small human resources department and not want to take on more employees or they may be extremely busy and short on time. There are many different reasons hotels choose this business method. This means they will not have to do the payroll, benefits, cafeteria meals, and much more.

Commonly outsourced areas. Part one of the professional paper mentioned common areas of outsourcing onshore such as valet, concierge, business centers, gift shops, and IT services. These are areas that some hotels may choose to run internally or have someone else run for them. There may changes overtime depending on who the general manager or owners are as to whether areas are outsourced or not. They also may change companies overtime after contracts expire. Outsourcing can be a test run to see what is best for the hotel. It may turn out that a particular hotel will see more profit running the outsourced service internally.

Offshore Outsourcing

What happens when hotels outsource offshore? Many hotels outsource some of their services offshore. Offshore outsourcing can be done all around the world. Hyatt hotels began outsourcing some of their accounting customer service needs to India in 2010. Before this transition, the accounting departments at the properties where the guests stayed were responsible for the calls. If it escalated to a customer service severe issue then Hyatt Corporate Offices gets involved and takes over the case. Hyatt also outsourced payroll functions to India. Each property still has a payroll master, but once the payroll is finalized it is sent over to India for final approval and check distribution.

When Hyatt made a transition to outsourcing this service offshore many customer and employee complaints were received. Guests had a difficult time understand the accents the Indian people have when speaking English. The representatives were fully trained and able to handle the phone calls but it did not always work because the customers became frustrated with the accents. Many calls transferred to the India call center resulted in customer complaints and a possible loss in future business. The employees were upset because when there were payroll issues it took longer to correct due to having an added step to send the payroll correction to someone in India.

Frequently asked questions about offshore outsourcing. Questions retrieved from <http://www.virtualemployee.com/faqs> show how someone inquiring about outsourcing may begin their research. Virtual Employee is the company used but there are many companies just like this one that offer these types of services. Virtual Employee is a company that connects employees and employers with mutually beneficial work. They help people find work and help companies find the people. Virtual Employee hires the employees, so the employers have to pay Virtual Employee and they take care of paying their employees. The questions from the website reflect concerns that many employers may have such as how these employees are hired, how they are paid, do they have accents, how fast can they start, and how are they terminated.

Why Companies Outsource

“You outsource because you can get the best talent in a highly specialized area and not have to carry them on your payroll,” he said. “If you’re installing a new computer system, you might have one IT person and outsource beyond that. The big benefit is it’s a contracted price and a predictable cost (Simon, 2010).”

Companies outsource for a reduction in labor costs or efficiency. It may be more efficient to have a valet company who is experienced and knows the business. Valet managers need to know many statistics in order to make this operation successful. They need to be able to price appropriately and know what kinds of discounts to give on groups contracting with the company for events. They need to know the mix of attendees.

If a convention is paying for their attendees to park as a perk for coming to the conference what is a good rate to give them. If they have 500 attendees come park for the day what kind of a discount can be given without the hotel losing too much revenue on the deal. Is it a perk the hotel may want to give away if the conference promises to spend a certain amount of money on other services? In this case, it may be beneficial for the hotel to give the parking away for free and pay out the valet company so that they don't lose out on too much revenue. Functions like this would need to be negotiated in contracts in order for a mutually beneficial business deal to work for both parties. There are so many different mixes of business that many bookings have to be dealt with on a group-by-group basis.

A company may decide to offshore outsource for labor reductions. It can be financially beneficial for a company to have a service offered to the public where they are paying some a fraction of the wages they would if the job were located in the U.S. Many companies do not have the financial back to run their operations fully onshore in the U.S. With minimum wage increases and labor unions it can be hard for a company to face the realization of inflation and competing wages. Some companies have been saved because they were able to produce their goods or services offshore where the wages are cheap. The cost of supplies can also have a significant savings as well.

Payroll is the largest cost for companies. The average wage of outsourcing someone in India is \$11 versus \$30 in the U.S (Customer Inter@ction Solutions, 2004). This saves companies a lot of money. Large corporations with thousands of employees can save millions with hourly rate differences of \$11 versus \$30. This may help businesses keep their doors open in order to keep the jobs of the onshore employees.

Why Companies Don't Outsource

“For those that outsourced to an offshore provider to realize even further cost reductions, they have in many cases found that the degradation in quality of service—language, accent, cultural, etc.—has been a proven cause of loss of business, and therefore the original outsourcing return on investment has been completely overturned,” he said (Simon, 2010). Quality of service is something that the hospitality industry thrives from. A loss in the quality of service could severely hurt a hotel and their reputation. “When should hotels not outsource? When a function involves direct guest contact at the property, such as bell staff, housekeeping and front desk employees, according to Morone (Simon, 2010).”

Some companies do not outsource because they like to have full control over their own operation. Having limited control can cause many problems for a company and result in court proceedings. Many companies do not want issues with another company and having possible issues with customer service scores.

Some companies have had negative experience with outsourcing and decided to run that portion of their company after the contracts were expired. The company hired needs to have good backing because there are many companies out there that just want to make a quick buck. Hotels create so much revenue that a company can make a lot of money for not doing a good job.

Some outsourced companies care about the dollar and not the customer service. This may make the hotel lose guests, which can be a major loss of revenue over the years.

How to Begin Outsourcing

A company should always call other companies that outsource the area they are looking at and get references and recommendations. It is important to get good word of mouth and strong financials as backup. The company in question would need to be investigated by the company who is going to hire them. Legal teams would need to be heavily involved. It would be wise for a management committee or board of directors as well as owners to be present during meetings. Contracts are in depth and long. Every company is unique and contracts may need to be tweaked to fit the company who is hiring them. Contracts can be long in duration of years so it is wise to have a good base before committing to deal that has a heavy financial impact.

How Contracts are Made

Contracts should be put together with a great legal team that is well versed with these types of arrangements. As mentioned previously, it is extremely important for executives, owners, investors, and lawyers to be present. These types of contracts deal with a large amount of money. No costs should be cut to find cheaper legal representation with a firm that might not be as successful. It takes money to save money and it takes money to make money. This is an expense that should be spared.

What Areas are Beneficial to Outsource Onshore

Face-to-face. Areas of a business that require face to-face contact are more beneficial to outsource on American soil. Areas that have a little bit less to do with the expertise of the main operation. A company should perform their own particular expertise internally. It is good for the employees that deal with the guests to be hired internally. Companies train their own

employees and it is good to have full control over training for associates who will be interacting with guests. This helps with on the spot coaching, constructive criticism, and progressive discipline.

Local needs. It would be wise to keep services involving local needs onshore. If a guest calls for concierge services, for example, it would be wise to have someone there that knows the area. The guest may want to attend a local church, buy tickets to a ballgame, ask about current exhibits at the museums, or the best restaurants in town. Someone who lives overseas can only give so much information on these services. It would be possible train them but it would not be the same. It is better when your concierge has experienced the local cuisines, museums, sporting events, etc. It is always nice to hear directly from the source. Someone overseas could only recommend through speaking with others or Internet reviews.

What Areas are Beneficial to Outsource Offshore

Phone related services. Areas that should be outsourced offshore would be call related services. A service that takes someone sitting at a desk to help then offshore outsourcing would be beneficial for a company. Reservations would be a good area to outsource offshore because most people do not meet their reservations agents. Reservation emails are usually sent to confirm the information discussed over the telephone. This is good because if there are accent barriers the customer will still receive confirmation on everything. A lot the information is standard and specific which results in less confusion that can come up from outsourcing other types of services.

Production. It may be beneficial to run production offshore in a country where the cost of production will be cheaper. For example, other countries may not have the corporate taxes that the U.S. has. This can help a company save very large sums of money. Maybe a company

would want to offshore outsource in an area where the materials they need are cheaper. If a country has a particular abundance of a natural resource it may be cheaper to buy that resource due to quantity.

Why Outsourced Employees Should be treated as Part of the Team

Guest satisfaction. Outsourced employees should be part of the team so that they can help service the primary purpose, which would be customer service in the hospitality industry. When the employees are treated like family, the guests are treated like family too. If there is a good relationship then the outsourced employees will feel loyalty to both companies and actually want to do a good job for someone other than their boss.

Less confusion. It can be very confusing when outsourced employees are actually employed by another company. It disturbs the sense of unity. Can you call them a co-worker? It can prevent employees from engaging one another due to not feeling like they are at work to service a common goal.

Employee morale. Employees like to feel happy at work. It is good to know each other's names and faces. If outsourced employees are welcomed into the family then they will act like family instead of the deserted stepchild. It is good when the internal employees and outsourced employees can work together in unity instead of acting like they both have to check with their bosses to see who is right or what can be done. They should be given empowerment so that everyone can work together to service guests.

Survey Data Regarding Customer Service

Survey data regarding outsourced areas can be very positive. Many customers love it when the hotel's coffee shop is a Starbucks, Pete's Coffee, or Seattle's Best. Many guests love when they find out a hotel has a Kinko's. Customer reviews of a hotel can go soaring through

the roof when they have access to things they need and like. If outsourcing brings more opportunity for guests to have a home away from home it could increase business. The companies mentioned have a very reputable base with the American public and that is something to watch for in choosing outsourced business functions. It is all about what is best for the guest because that is what brings them back.

Hospitality Companies That Outsource

Almost all major chains outsource today. Hotels such as Marriott, Hyatt, Hilton, Holiday Inn, and Starwood outsource different aspect of their operations. This is a very common practice for hotels and it seems to work well for some properties. Hotels just need to get smarter with this business practice in order to keep up customer service scores.

Legalities Involved in Outsourcing – The Positive

Many companies enjoy outsourcing because they are not responsible for the employee when it comes to human resource related functions. Outsourced companies typically handle the employment aspects of the business they are offering. If an outsourced employee gets ill, the outsourced company will pay the extended sick leave. The outsourced companies typically handle the financial burdens of their employees, which can alleviate stress on the host company.

Conclusion to Literary Review

There is a lot research stating the pros of outsourcing. Thus far, the research conducted is in agreement with many of them and understand the positive spectrum of this business practice. Many customers would enjoy walking into a hotel and grabbing a Starbucks before they wait in line for check in. These aspects can really enhance the guest experience. It is important to always consider the needs of guests. If this means giving a particular service away in order to hire a company that is well versed in that service then the guests will benefit.

PART THREE

Introduction

Part three will add to the research conducted in parts one and two in order to compare and contrast pros and cons involved in outsourcing both onshore and offshore. After contrasting and comparing all of the research, a professional opinion will follow on whether or not the hospitality industry should continue outsourcing. Many professionals share different opinions on this topic. The topic has been a large issue in the presidential campaigns for the 2012 election due to its link to the unemployment rate in the United States of America. Some of the issues and points from the campaigns will be used in my research when touching on the cons of outsourcing overseas.

Onshore Outsourcing – The Cons

Onshore outsourcing can severely hurt the reputation of a hotel. It can cause a huge customer service liability. If a hotel outsources their catered food, they may get blamed if there is an illness that breaks out. Hotels must be careful on who they trust their reputation with. It can be detrimental to the company should anything go wrong.

Many guests and customers want to feel like they are working with an employee that the company that is servicing them actually hired. It can be very frustrating for a customer to have to wait to be assisted because the outsourced company cannot handle the issue themselves. Sometimes the outsourced company and the main company do not use the same computer systems or have access to each other's. This can create delays and unnecessary wait times for guests. Efficiency is a high priority in the U.S. and even small delays can cause a loss of business and bad reviews.

Offshore Outsourcing – The Cons

The American public is less accepting of offshore outsourcing. The economic recession caused everyone to look at the larger picture. People want companies hiring American citizens. They don't want someone living in another country receiving paychecks that should be distributed to an American citizen that is willing and able to work. Companies may eventually back out of offshore outsourcing just due to the bad public relations it will continue to cause.

“The offshoring reversal also can be seen in U.S. companies such as GM and GE, which were early adopters of outsourcing and now are repatriating jobs.

Innovation Centers

GM said it plans to bring 90 percent of its IT work in-house and, in many cases, onshore, hiring 10,000 workers over the next three to five years. The automaker said it will open four U.S. technology "innovation centers," one in Austin, Texas, with 500 employees, another in Warren, Michigan, with 1,500 jobs and two others in cities yet to be determined.

GE also is building a technology center outside Detroit, where it plans to employ 1,100 people, as part of a broader initiative to reseed the company's IT capabilities in the U.S.

Mike De Boer, who led the recent development of a technology center in New Orleans for the company's GE Capital unit, said the business needs a rapid-response approach to technology changes, such as mobile-phone applications, which requires proximity.

"The speed you need to meet customers' requirements is all about being near to the customer," said De Boer, who's hired 27 IT workers so far for a facility that is slated to reach 300 employees (*The Daily Crux*, 2012).”

According to this article, GM and GE are making huge steps to create jobs and to bring outsourced jobs back to the U.S. They are trying to build their public image. They even used the word “repatriating” to show the Americans that they are being patriotic and bringing the jobs

home. It almost has a military ring to it. It feels like they are going to bring our soldiers home and help out the country so that things are where they belong. This was very smart public relations.

Why Outsourced Employees Should Not be Part of the Team

Employee relations. When outsourced employees are treated as internal employees the line can become very gray. Who do they answer to? What boss do they listen to? The hotel should have the final say, but other managers should not be carrying out the functions of the outsourced managers unless asked. This can make it confusing for the employee. The employees may feel they have a right to get some of the benefits of the company that outsourced their company. Many outsourced employees have to pay employee cafeterias a fee when dining but they may try to get around that since the internal employees do not have to pay.

They may feel they should be able to use the workout facility or parking structure if the other employees get to. It is a fine line and the outsourced employees need to understand their place in all the chaos. They need to realize that the internal employees are paying for these benefits in some way or another and that these services are not for them. If they want to ask permission that is ok but if they expect it then there can be problems.

Legal. When employees are acting like the internal employees, the whole legal realm becomes gray. If the outsourced employees are wearing the same uniforms, their votes may be considered in a union vote. This can cause serious issues for a company. It would be nice to have everyone wearing the same uniforms and acting the same but it can make things confusing and cause a company more money than it is worth.

Negative Survey Data Regarding Customer Service

Survey data often shows that outsourced areas can fall behind the desired numbers for customer service scores. Many surveys will acknowledge complaints in areas that are not operated by the hotel in question. Many guests do not know when areas are outsourced and probably do not care to know. Many people feel that if you are going to utilize a service then you are responsible for it. Guests do not like it when hotels “pass the buck” or give excuses. They have paid money for a service they expect and have probably traveled far and used vacation days just to make the trip. At the end of the day they probably are not going to care who owns the valet, gift shop, or coffee shop. They just want a smooth vacation.

Although outsourcing saved Web.com 3:1 in payroll, they still lost money due to customer service issues. They brought teams in and trained them at their headquarters. These teams went back to India and trained others. The training got lost in translation. It became a copied version of what was actually taught. The company soon realized they were having a large increase in cancellations and lost business. The savings in payroll was not reflecting the loss of money due to customer service (Customer Inter@ction Solutions, 2004).

Legalities Involved in Outsourcing – The Negative

Although outsourcing is supposed to take off the financial and legal burn for a company, it can still backfire. Lawsuits are lawsuits. Anyone can sue anyone. Just because an outsourced company claims to take on responsibility doesn’t mean that no lawsuits can arise. Law firms go for companies with deep pockets and they will make a way to find loopholes to make it the parent company’s fault. Nothing is full proof in this business practice. It is important for hotels to have the best contracts possible and laws abided. This will help alleviate possible fines and help the hotel’s case when in court.

2012 Presidential Campaign

Unemployment rate. The 2012 campaign touched on offshore outsourcing quite a bit. They really put a negative spotlight on it because they know the American people are crying for help when it comes to jobs. So many jobs have been lost due to this type of business practice. Both republican and democratic parties were promising to bring the jobs back home to the United States of America.

The unemployment rate in the United States has increased to 7.9 percent in October of 2012. Historically, from 1948 until 2012, the United States Unemployment Rate averaged 5.8 Percent reaching an all time high of 10.8 Percent in November of 1982 and a record low of 2.5 Percent in May of 1953. The unemployment rate can be defined as the number of people actively looking for a job as a percentage of the labor force. This page includes a chart with historical data for the United States Unemployment Rate (Bureau Labor of Statistics, 2012).

The chart below, calculated from the Bureau Labor of Statistics 2012 shows that the United States unemployment rate has been very high in the last year. The American citizens believe that this number will change with more reform to offshore outsourcing. If the jobs are brought home, the American people will have the opportunity to work. The unemployment rate has fluctuated between 9.8% in January 2011 to 7.9% in November 2012.

Conclusion

There are many reasons that a company should not outsource their employees. There can be legal ramifications and bad public relations due to outsourcing on or off American soil. Many companies feel that the cons outweigh the pros and that this type of business practice should not be considered anymore. Many hotels do not like how it impacts their customer service scores. It also can give the persona that a company is trying to cut corners and costs, which in turn, can look cheap. It can take away from the essence of the feel of a company.

When someone walks into a mom and pop style business, they enjoy seeing similar faces and making relationships with the team. They like knowing they will be helped and by someone that works there. Many people want Corporate America to go back to the mom and pop style. People want the special touch and do not want to be another face in the crowd. Outsourcing adds more distance between the guest and the company.

Recommendation

After reviewing the research conducted, a professional opinion has been made. It is in the best interest of the hospitality industry to stop offshore outsourcing and decrease onshore outsourcing. It can be in the best interest of a hotel to outsource a service that is not their expertise but they need to monitor these types of business arrangements more closely. If this expertise is not in high demand, they should take the opportunity to learn it themselves in order to avoid outsourcing.

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