



## Make or buy in the hotel marketing department: transaction costs, financial and relational performance

Hacer o comprar en el departamento de marketing del hotel: costes de transacción, resultado financiero y relacional

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### Abstract

The outsourcing of hotel marketing is one of the strategic decisions that can help hotels manage the distribution channels more efficiently. This study analyzes the factors determining the outsourcing of hotel sales and marketing activities. It uses the transaction costs framework, complemented by the analysis of performance costs and quality. In this context, the possible impact of outsourcing the marketing department on relational and financial performance is analyzed. The results of the study clearly show a close relationship between these variables and current outsourcing. In addition, the increase in outsourcing is determined by low relational quality. These results lead to the conclusion that it is necessary to create new systems and procedures in sales and marketing activities to offer new competitive solutions through outsourcing.

**Keywords:** Outsourcing, marketing and sales, hotel sector, transaction cost, financial, relational.

### Resumo

La externalización del marketing hotelero es una de las decisiones estratégicas que pueden ayudar a los hoteles a gestionar los canales de distribución de manera más eficiente. Este estudio analiza los factores que determinan la externalización de las actividades de ventas y marketing del hotel. Para ello se usa el marco de costes de transacción, complementado por el análisis de los costes y la calidad del desempeño. En este contexto, se analiza el posible impacto de la externalización del departamento de marketing en el resultado relacional y financiero. Los resultados del estudio muestran claramente una estrecha relación entre estas variables y externalización actual. Además, el aumento de la subcontratación está determinado por una baja calidad relacional. Estos resultados llevan a la conclusión de que es necesario crear nuevos sistemas y procedimientos en las actividades de ventas y marketing para ofrecer nuevas soluciones competitivas a través de la externalización.

**Palabras clave:** Externalización, marketing y ventas, sector hotelero, costes de transacción, financiero, relacional.

### 1. Introduction

The de-intermediation taking place in the distribution channels of the tourist sector is resulting in an increasing need for hotels to strengthen their sales area and manage it well, both internally and externally, by using specialized firms. However, this activity has mainly been delegated to tour operators or governments, who, in many cases, promote and advertise the destination. Although a certain part of the hotel sales management activity continues in the traditional way, another part is changing, and, therefore, hotels need the resources and capabilities to manage the activity adequately. However, in many cases they do not have the necessary resources and capabilities to run the hotel sales activities, reservations, promotion, and advertising effectively. In that respect, hotels can opt to outsource those activities or develop strategic alliances (Chathoth & Olsen, 2003; Leeman & Reynolds, 2012), which means modifying the traditional strategy toward relational marketing, where there is a need for more B2B knowledge (business to business) (Gil Saura, Ruiz-Molina & Arteaga-Moreno, 2011). The strong competition and the appearance of new sales channels over the Internet (Fam, Foscht & Collins, 2004; Ye, Li, Wang & Law, 2014; Rodríguez-Díaz, Espino-Rodríguez & Rodríguez-Díaz, 2015) are putting pressure on hotels. They are faced with the need to modify their traditionally insourcing-based strategies by outsourcing activities to service companies that contribute greater added value to the tourism product within a relational marketing framework. Outsourcing is basically an inter-organizational strategy of the firm (Yang, Wacker

& Sheu, 2012). According to Pratap (2014, p. 228), outsourcing is conceptualized as a partial or complete external provision of a process that was formerly being carried out within the firm, by contracting it out to one or more suppliers. Outsourcing provides a potential path to price reduction, allowing firms to convert fixed costs into variable expenses (Ellram, Tate & Billington, 2008).

The Internet is becoming an increasingly important tool in tourism because European tourists have increased their use of the network to plan, reserve or even decide on their vacation destination (Hu, Liu & Zhang, 2008; Yacouel & Fleischer, 2012; Ye *et al.*, 2014). This means that tour operators are losing market share and the ability to solve the sales problems of hotels, which feel obligated to seek alternative ways to achieve acceptable occupancy levels. This changing, uncertain environment requires the generation of new business ideas to fill the gap that left by tour operators. Many hotels are aware of this situation and use alternative strategies, including outsourcing or joining a marketing consortium that provides marketing activities and international representation (Paraskevas & Buhalis, 2002; O'Connor & Frew, 2004).

This study addresses the problem that arises in the hotel's marketing and sales activities from the outsourcing perspective. By analyzing transaction costs (Coase, 1937; Williamson, 1975, 1979, 1985), financial performance, and relational quality, the current and desired levels of outsourcing are studied with the aim of establishing where the potentials for outsourcing those activities within a relational framework lie. Relational quality is a concept proposed to analyze the firm's propensity for external



relationships, which is based on service quality (Ye *et al.*, 2014), customer satisfaction (Oliver, 2014) and relational marketing (Morgan & Hunt, 1994; Palmatier, Dant, Grewal & Evans, 2006; Palmatier, Jarvis, Bechhoff & Kardes, 2009; Achrol & Kotler, 2014). Very few empirical studies have examined the impact of outsourcing on financial and relational performance. Therefore, this study aims to fill the gap by investigating the effect of outsourcing on relational performance in outsourcing.

To be specific, this work addresses the following aspects: 1) the determining factors of the outsourcing of marketing department activities from the perspective of transaction costs and quality; and 2) the relationship between outsourcing and the increase in outsourcing and relational quality and the financial result.

This paper is structured in the following fashion. First, it addresses outsourcing from a theoretical perspective in terms of transaction costs and quality of operations. Second, there is a proposal of a relational model of the relationship between the propensity to outsource and organizational performance. The third section deals with the context of the research and the population of the study, as well as the variables used, followed by the analysis of the results obtained. The paper ends with the conclusions and future research.

**2. Outsourcing from the perspective of transaction costs and operation quality**

One possible solution to the problems that tourist destinations face is to outsource the marketing services. This solution advises hotels to focus on their core competences and capabilities and turn to an outsourcing strategy in those areas that can be improved by specialists, enabling organizations to focus on their core activities and competences (Quinn & Hilmer, 1994; Bustinza, Arias-Aranda & Gutierrez-Gutierrez, 2010; Chen & Hsieh, 2013). The hotel that undertakes an outsourcing process abandons the in-house management of a series of functions or processes that are not related to its core competences to acquire them from an outside supplier. In the relevant academic literature, the frame of reference for addressing outsourcing decisions has been the transaction costs theory. Coase (1937) was the first to show that, in conditions of uncertainty, it is more efficient for an organization to perform the transaction in-house than to turn to the market and incur prohibitive transaction costs. Later, the transaction costs theory received considerable empirical support in explaining outsourcing decisions (Nicholson, Jones & Espenlaub 2006; Lamminmaki, 2007; Ellram *et al.*, 2008; Alvarez-Suescum, 2010; Lamminmaki, 2011; Yang, Wacker & Sheu, 2012). However, these research studies were conducted to a lesser extent in service companies, and, in particular, no study was found that uses this perspective to analyze the outsourcing of hotel marketing department activities. Furthermore, regarding the use of the theoretical framework for the study of outsourcing, some authors consider analysis based on the transaction costs theory to be insufficient, which makes it necessary to incorporate other variables that determine outsourcing. Therefore, this study attempts to analyze the relationship between hotels' outsourcing and transaction costs, complemented by the perspective of the operation's result. It also aims to identify groups of activities

according to the transaction costs and generation of profits, and subsequently establish their relationship with outsourcing.

From the point of view of the economy of the organization, the transaction costs theory is especially useful for the study of outsourcing. This method adopts a contractual approach in the study of the economic organization, and it argues that any event that forms a contracting problem can be studied in terms of transaction costs, in an attempt to assign the transactions (whose attributes differ) to the structures of governance (whose adaptation costs are different) that are the most efficient (Williamson, 1985). Williamson (1986) considers that the criterion for deciding where a transaction is performed depends on two types of costs that must be minimized in the relationship between the buyer and the seller. These costs are the production and transaction costs. Production costs originate in the physical resources and other processes that are necessary to create and distribute the good and services. The most important factors influencing the transaction costs are asset specificity and opportunism, uncertainty, and bounded rationality. These factors determine the choice of market or internal governance of the activity (De Vita, Tekaya & Wang, 2011). Transaction cost theory proposes that a hotel will be organized, with regard to the in-house vs outsourcing decision, in a way that minimizes the transaction costs. The outsourcing vs in-house decision is based on the comparison of the production costs and the monitoring costs when outsourcing is used (Lamminmaki, 2011).

Vining and Globerman (1999) identify three types of costs relevant to the decision about whether to outsource activities or perform them in-house: production costs, negotiation costs, and the costs of opportunism. Production costs are the costs of in-house manufacturing or purchase costs. Negotiation costs include the following: a) the cost of negotiating the contract terms; b) costs of negotiation after the contract is agreed upon, for example, when unforeseen circumstances arise; c) costs of control in the monitoring of suppliers' actions; and d) the costs of disputes that may occur if either of the parties does not comply with the stipulations and does not wish to use conflict resolution mechanisms. Only the first of these negotiation costs appears prior to the contract; the others occur after the contract has been made. Negotiation costs arise when the parties act in their own interests, but in good faith (Williamson, 1985), whereas opportunism costs arise when one of the parties acts in its own interest, but not in good faith. Although it is analytically easy to separate negotiation costs from opportunism costs, in practice it is very difficult because, in most cases, the opportunist behavior of the supplier appears when there is an unexpected change in circumstances (i.e. uncertainty). The transaction costs not only consist of the costs described above, but they also include intangible costs that arise in the day-to day interactions, emotional interactions, and informal exchanges (Mwai, Kiplang'at & Gichoya, 2014). The hazard of opportunism has been considered the core determinant of transaction costs and, therefore, will determine the outsourcing (Alvarez-Suescum, 2010).

Each form of governance (market and hierarchy) has its own costs structure. In general, production costs are lower in the markets, due to economies of scale, whereas transaction costs are lower in



the hierarchy, mainly because of the simplicity of the mechanisms used to control the behavior of the employees in their functions (see Table 1). Consequently, decisions about making, buying or vertical integration become a question of *tradeoffs*, based on the assessment of production costs and transaction costs, as well as on determining the most efficient form of governance: hierarchy or market, that is, insourcing or outsourcing. Decision markets must weigh the production and transaction costs associated with performing a transaction within their firm versus the production and transaction costs associated with performing the transaction in the market (outsourcing) (Tayauova, 2012). Transaction cost theory argues that, due to economies of scale and specialization provided by suppliers, the market, that is, outsourcing is a more efficient form of governance, unless the transaction involves special circumstances (Promsivapallop, Jones & Roper, 2015).

**Table 1 - Hierarchy and market costs**

Form of governance	Production costs	Transaction costs
Markets	Low	High
Hierarchies	High	Low

Source: Malone, Yates and Benjamin (1987: 485).

From this perspective, it can be said that hotels will outsource those activities where the costs of performing the activity and the transaction costs are lower, and retain in-house those services that it can perform more efficiently. The outsourcing strategy can reduce costs, especially because processes with higher costs are attracted to the outsourcing process. In this respect, the outsourcing of hotel operations will initially be implemented by

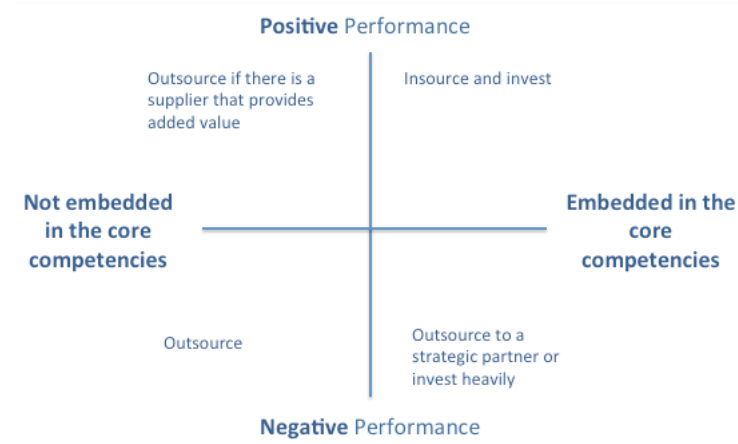
hotels that suffer from lower efficiency. This leads to the following hypothesis:

**Hypothesis 1.** The lower the transaction costs and the costs of performing hotel marketing services, the greater the propensity to outsource them will be.

A growing number of scholars consider that the transaction costs theory does not provide a complete explanation for the outsourcing phenomenon (McIvor, 2009; Promsivapallop *et al.*, 2015). These scholars suggest that firms develop activities in-house when they have greater capabilities than the external suppliers (Argyres & Zenger, 2012). Erramilli and Rao (1993) state that, to evaluate decisions about vertical integration in services, it is important to consider characteristics other than those proposed by the transaction costs theory. As Zajac and Olsen (1993) point out, one weakness of the transaction costs theory is its over-emphasis on minimizing costs, while it neglects the creation of value or the transactional quality. Bello, Dant, Dant and Lothia (1997) agree when stating that the dominance of transaction costs in the design of an appropriate governance structure (i.e. insource or outsource) may be questionable because the analysis of strategic aspects, such as quality or the generation of value, should also be included.

Quinn and Hilmer (1994), Greaver (1999) and McIvor (2008) state that there are two basic criteria in the decision to outsource an activity. The first is its strategic importance, in other words, the extent to which the activity is crucial to the business or differentiates from competitors. The second is how efficient/effective the present organization is at performing the activities, in other words, the organization's competence in performing the activity (quality, costs and flexibility) (see Figure 1).

**Figure 1 - Outsourcing and the performance of the activity**



Source: Greaver (1999:153).

Hotels are hesitant to outsource any activity with which they have operative experience, and they outsource activities where they lack technical knowledge and research experience (Promsivapallop *et al.*, 2015; Lamminmaki, 2007). Therefore, outsourcing is a strategic decision that can be used to cover shortages of resources or imbalances in operation results (e.g., perception of quality) that allow the organization to formulate a certain strategy. For McIvor (2009), the decision to outsource is

related to the managers' perceptions of the results of the resources and capabilities employed. This indicates that firms will tend to outsource operations that yield a worse result, in other words, those that do not form part of the core competences. Therefore, the more dissatisfied a firm is in terms of quality, the more it outsources (Espino Rodríguez, Chun-Lai & Baum, 2008). Moreover, hotels with an adequate sales and marketing system that they are satisfied with would not need outside suppliers

because the in-house services are high quality. However, in an attempt to improve their capabilities and focus on what they really know how to do well, hotels will tend to outsource those services whose performance they are dissatisfied with because they do not have the appropriate resources and capabilities to perform them. In this regard, hotels should have a low operational capability in the activities they decide to outsource (Promsivapallop *et al.*, 2015). Based on the above comments, the following hypothesis is proposed:

**Hypothesis 2.** The lower the management's perception of the quality of the services provided by the hotel's sales and marketing department, the greater the propensity to outsource will be.

### 3. The influence of the propensity to outsource on the financial and relational performance

Figure 2 - Organizational performance and the propensity to outsource



Source: Own elaboration.

The financial result refers to the profit margin achieved by the hotel and the performance of assets, occupancy, etc. Hotels that outsource will have reduced their transaction costs and the risk of opportunist behavior (Klein, Crawford & Alchian, 1978), which, in turn, improves their costs and their relationships with their environment. The outsourcing of hotel marketing achieves a reduction in costs by taking advantage of the supplier's economies of scale. The marketing operator (service company) works with many hotels, which leads to a cheaper service, greater bargaining power than the tour operators, and more effective communication of the offer. Outsourcing opens up the possibility of obtaining profits from relationships with suppliers (Linder, 2004; Kotabe & Mol, 2009). An outsourcing strategy improves organizational performance, increases productivity, and lowers innovation costs and risks (Elmuti, 2003).

However, the influence of the outsourcing of hotel marketing goes beyond the financial result; it also influences other dimensions of performance, such as relational quality. The concept of relational quality is closely linked to the concept of service quality (Grönroos & Ravald, 2011), as well as to consumer satisfaction (Oliver, 2014). However, it goes a step further by attempting to measure a firm's level of satisfaction with its relationships with the agents in its micro-environment –customers and suppliers-. There is also a direct connection with relational marketing, insofar as it is evaluating the propensity to have long-term relationships with customers and other organizations. In this context, the objective of relational marketing is to develop long-term close cooperation and collaboration as a means of achieving a solid, lasting competitive advantage. The success of outsourcing will be conditioned by careful

From a specific point of view, the previous hypotheses allow us to analyze the extent to which the outsourcing of the sales department follows economic or strategic patterns for the outsourcing of hotel marketing. Other studies have empirically shown that outsourcing in hotels can influence financial performance (Elmuti, 2003; Salimath, Cullen & Umesh, 2008; Bolat & Yilmaz, 2009; Kotabe & Mol, 2009). However, this analysis does not examine the details of hotel marketing department activities or the study of relational quality. Furthermore, the financial and non-financial performance of the hotel may be determinants of the hotel's increase in, or desire about, future outsourcing (See Figure 2).

management of client-supplier relationships. The contracts or relations between the parties will do whatever it takes to create relationships based on trust (Gonzalez, Gascó & Llopis, 2015). Given the characteristics of the hotels included in this study, relational performance is only analyzed in the initial stage of the relationship, which is close to a purely transactional perspective, and it is analyzed exclusively in terms of transaction costs.

Relationship marketing in the hotel industry can be defined as a series of marketing activities that attract, maintain, and enhance customer relationships for the benefit of both sides, where elements of advertising, sales promotion, and direct marketing are combined (Rodríguez-Díaz & Espino-Rodríguez, 2006; Kanagal, 2009; Wu & Lu, 2012). In this respect, the subcontractors would have a large part of the responsibility for relational quality, especially related to customers and tour operators, and so outsourcing should influence relational quality. This means that the impact of outsourcing decisions on the development of capabilities is what creates a greater competitive advantage linked to better organizational performance (Bustinzá *et al.*, 2010). The resources and capabilities of the external suppliers could be used to improve innovation and performance (Rhodes, Lok, Loh & Cheg, 2016). In line with the above, and regarding the financial results and relational quality, the following hypothesis is proposed:

**Hypothesis 3.** There is a positive relationship between the outsourcing of hotel marketing department activities and the hotel's financial and relational performance.

In an attempt to improve competitiveness, hotels will be oriented toward outsourcing the marketing department when they wish to



improve their costs structure and relational performance. The decision to outsource depends on the organization's capacity to invest in and develop better performance compared to its competitors. (McIvor, 2009). The organization's financial performance may be a factor determining the increase in the outsourcing of the sales department. As Cheon, Grover and Teng (1995) indicate, firms that do not have adequate organizational results will be more oriented toward outsourcing than those with better results. The retention of activities that the firm does not perform adequately could lead to the loss of competitive advantage, especially in services closer to the core competences (Quinn, 1999). Moreover, when the results of the present outsourcing of activities are positive, the firm will outsource other activities in the future (Quinn & Hilmer, 1994). In the case of hotels, the most outsourced activities are those with a lower strategic value, and so the experiences in these activities will be helpful in planning the future outsourcing of more basic activities, such as the marketing department. In this context, in situations where hotels face an uncertain demand because of drastic modifications in the environmental variables or the loss of business competitiveness, or when they operate in tourist destinations in the phase of maturity or decline, they have to change their insourcing strategy to an effective development of outsourcing by generating long-term relationships with competitive service companies.

Relational quality refers to the degree of satisfaction with the principal agents in the hotel's distribution channel (tour operators and travel agencies). Hotels that opt to outsource their marketing consider that this activity does not have high transaction costs. In this regard, the parties (hotel-supplier) invest in specific, idiosyncratic assets, which requires a high level of trust (Dyer, 1997; Dyer & Singh, 1998). Thus, Ee, Halim and Ramayah (2013) show that a quality partnership based on commitment, effective communication, and business understanding will improve the success of business process outsourcing. Furthermore, if the supplier has a reputation and the capability to perform the service adequately, the hotel will be encouraged to outsource the marketing department in order to reduce transaction costs, allowing the supplier to enjoy better relational quality with the members of the hotel supply chain. Relational quality is a concept that establishes the degree to which a firm is willing to open up to external relationships, depending on the level of satisfaction with the exchanges it makes with customers and suppliers. As the relational quality of the exchanges increases, so does the level of trust and commitment between the parties, thus creating stronger relationships between firms. Low levels of organizational performance suggest that the hotel does not have adequate resources and capabilities to achieve effective relationship marketing (suppliers and customer); thus, a higher level of outsourcing is desirable. Results of some studies, especially those applied to information systems, show that there is a negative relationship between outsourcing and the efficiency of the activity (Dibbern & Heinzl, 2006; Mayer & Salomon, 2006). In this regard, if there is a gap between the performance obtained and the expectations, outsourcing is an alternative that can complement the internal resources (Ikediashi, Ogunlana & Boateng, 2014).

Based on these considerations, the following hypothesis is proposed:

**Hypothesis 4.** There is a negative relationship between the increase in the outsourcing of marketing department activities and the hotel's financial and relational performance.

#### 4. Empirical study

##### Setting of the research and the population of the study

The setting chosen for the research was the tourist destination of the Canary Islands, in Spain, one of Europe's main winter tourist destinations. Therefore, the tourist vacation destination is the unit of analysis at a macro level, whereas the firms in that destination are the unit of analysis at an individual level. On the Canary Islands, the place chosen for the study was the southern part of Gran Canaria Island. Spain receives almost 65 million tourists per year, and of them, the Canary Islands receive almost 13 million, and Gran Canaria receives about 3,580,317 tourists (Frontur, 2014). This reflects the importance of the Canary Islands and, specifically, Gran Canaria, in the Spanish tourist market. It should be mentioned that the offer in Gran Canaria has an important extra-hotel component. However, the study is focused on hotels, due to the greater number of services they provide and their business management as firms providing services that extra-hotel complexes do not offer.

Once the setting for the research had been established, the number of 1 to 5-star hotel establishments in the chosen destination was identified. A list of hotels in the tourist zone of the municipalities of San Bartolomé de Tirajana and Mogán was first prepared. To identify the name, category, address and telephone number of each hotel, various databases (Instituto Canario de Estadística, Tourspain y Federación de Empresarios y Hostelería y Turismo de la Provincia de Las Palmas) were consulted and updated. The population comprised 71 registered hotels. The managers were contacted and invited to complete a personal questionnaire, and the final sample of valid contacts included 50 hotels. This implies a representativity of 70.4% with regard to all the hotels existing today. One of the peculiarities of this study is that it centers on the hotel sector in a mature destination that is going through a difficult experience for several reasons. The first is the appearance of new, lower-priced competitor destinations such as Turkey, Egypt and the Caribbean. The second is related to the dependence on tour operators and the lack of development of parallel channels like those provided by the Internet. Finally, it is difficult for low-cost airlines to operate to the destination because there is no secondary airport, and the operating costs are very high.

##### Measurement of variables

A questionnaire was developed to measure the outsourcing of the marketing and sales department, the transaction costs, the quality, and the financial and relational performance. For each variable used, a Likert-type scale from 1 to 7 was employed.

**Marketing and sales department.** This study considers the back-office services of the hotel marketing and sales department. The literature review (Martín-Rojo & Bayón-Marine, 2004; Wan & Su, 2010) and the results of the initial pretest led to the decision to



choose three hotel marketing services: sales, reservations, and the promotion and advertising of the hotel.

**Propensity to outsource.** Two aspects are proposed for each of the chosen marketing services, namely, the current level of outsourcing and the desired level of outsourcing. To measure this aspect, two items were used, one for current outsourcing and the other for desired outsourcing. Based on the different outsourcing studies, we decided to ask the respondents to quantify the extent to which the operation was outsourced. A 7-point Likert type scale was used, where 1 indicated that it was not outsourced at all and 7 that it was totally outsourced. Because an operation that comprises a series of tasks or sub-operations may be totally or only partially outsourced (Wan & Sun 2010; Espino-Rodríguez & Chun-Lai, 2014), it was appropriate to use a scale rather than a simple dichotomous yes/no question. The external expert can have complete or partial responsibility for the outsourced activity (Promsivapallop *et al.*, 2015).

**Transaction costs and performance costs.** First, to measure transaction costs, the respondents were asked to answer, on a 7-point Likert type scale, the following question for each of the marketing department operations: How costly would it be to outsource the activity or to change suppliers if it is already outsourced? – 1 means not at all costly and 7 very costly (consider the cost of the time spent in finding outside service companies, negotiating a contract, monitoring the supplier’s compliance, and working together). This method of measuring transaction costs was used by Poppo and Zenger (1998). Second, to measure performance costs, a 7-point Likert type scale, where 1 indicated “much worse than expected” and 7 “much better than expected”, was used to measure satisfaction with costs, in order to obtain the perception of the result of the operations in terms of cost.

**Perceived quality.** An item referring to the hotel managers’ perceptions of the quality of the operations was used to measure the quality of the operations (Espino Rodríguez *et al.*, 2008). A 7-point scale was employed to measure expectations about the quality of the activities. The respondents were asked to indicate the extent to which the quality of the activity needs to improve, with 1 meaning that it does not need to improve and 7 that it must totally improve. This item was recoded to obtain satisfaction with the quality.

**Financial and relational performance.** The measurement of financial performance has been the main consideration in empirical studies of strategic management and marketing. A 7-point scale, where 1 means “much worse than expected” and 7 “much better than expected”, was proposed to measure the When measuring the results in organizations, it is important to measure not only the financial performance, but also the relational performance, which is part of the non-financial result. The measurement of relational performance involved 4 items aimed at analyzing the imbalances in the level of customer satisfaction, in the levels of satisfaction with suppliers and tour operators, and in

**5. Analysis and Results**

*Test of hypotheses 1 and 2.* To test hypotheses 1 and 2, a Pearson’s r correlations analysis was applied, along with three multiple regressions where the dependent variables were the dimensions

respondents’ expectations about 5 items related to financial performance and 4 items related to relational performance. This form of measurement allows the gap between the real and desired results to be identified, which is useful in measuring the relationship between the increase in outsourcing and organizational performance. Five items referring to profit margin, asset performance, hotel profitability, extra revenue per room, and occupancy were used to measure financial performance, and four items were used to measure the level of satisfaction with tour operators, level of satisfaction con suppliers, quality perceived by the hotel customers, and level of customer satisfaction (Alleyne, Doherty & Greenidge, 2006; Salimath *et al.*, 2008; Wu & Lu, 2012). In order to obtain a unidimensional scale, a factor analysis was applied to the items that measure financial performance and resulted in one factor that explained 60% of the total variance. The Cronbach’s alpha was 0.8, which indicates that the scale is reliable (See table 2).

**Table 2 - Results of factor analysis**

Factors and contents	Factor loading	Percentage of variance explained	Alpha
<b>Financial performance</b>		60%	0.80
Profit margins	0.869		
Returns of assets	0.865		
Hotel profitability	0.705		
Occupancy rate	0.667		
Extra revenue per room	0.646		
<b>Relational performance</b>		72%	0.86
Level of satisfaction with tour operators	0.894		
Level of satisfaction with suppliers	0.888		
Quality perceived by the hotel customers	0.846		
Level of customer satisfaction	0.750		

Source: Own elaboration.

the quality perceived by the hotel customers. As in the previous case, a factor analysis was conducted with the items that measure relational performance, and one factor explaining 72% of total variance was obtained. The reliability of the scale, with a Cronbach’s alpha of 0.86, is quite good.

of the propensity to outsource (current outsourcing, desired outsourcing, and potential increase in outsourcing the activities performed in-house) (see Table 3).



**Table 3 - Degree of association between transaction costs, performance costs and the propensity to outsource**

Propensity to outsource the marketing and sales department	Transaction costs and generation of value		
	Transaction costs	Satisfaction with costs	Perceived quality
Current outsourcing	-0,240**	-0.321**	-0.043
Desired outsourcing	-0.263**	-0,187*	-0.254*
Increase in outsourcing	-0.135	-0,068*	-0.25**

\*\* The correlation is significant, with a level of 0.01 \* The correlation is significant, with a level of 0.05 Increase in outsourcing= Current outsourcing-Desired outsourcing (a notable positive value in all cases).

Source: Own elaboration.

The correlations analysis reflects a negative relationship between the different variables considered in the measurement of the propensity to outsource and costs (transaction and performance) and quality. It should be emphasized that the greater the level of outsourcing of marketing department activities, the lower the transaction costs of performing the operation in the market. Table 4 shows that 16% of the variance in the current outsourcing of marketing services is explained by the variables under study. To be specific, the variable that has the most influence on the current outsourcing of marketing services is performance costs, followed by transaction costs, whereas the quality variable is not significant. Moreover, results also show that managers outsource when they perceive that the costs are high and wish to reduce them. On the

basis of these results, hypothesis 1, regarding current and desired outsourcing, is accepted.

However, the analysis of the increase in outsourcing confirms that the transaction costs are not significant, which means that, in the long-term, these costs should fall within the development of idiosyncratic relationships and specific investments. Results also show that, as in the case of the correlations analysis, the increase is affected by a perception of the quality and not by dissatisfaction with costs. This means that the hotels that are less satisfied with the quality in their marketing department than those that open up to the market. Therefore, hypothesis 2, referring to desired outsourcing and the increase in outsourcing, is accepted.

**Table 4 - Multiple regression analysis: determinants of the propensity to outsource the marketing department**

Dependent variable	Current outsourcing	Desired outsourcing	Increase in outsourcing
	B	B	B
Transaction costs	-0.252*	-0.218*	-0.078
Satisfaction with the cost	-0.338*	-0.135**	0.066
Perceived quality	-0.105	-0.166*	-0.248*
Goodness of fit	Adjusted R <sup>2</sup> =0.165 F=9.58 P=0.00	Adjusted R <sup>2</sup> =0.107 F=6.941 P=0.00	Adjusted R <sup>2</sup> =0.053 F=3.79 P=0.01

\*p<0.01 \*\*p<0.10

Source: Own elaboration.

**Test of hypothesis 3.** To test hypothesis 3, a correlations analysis was applied between the average current outsourcing of hotel marketing activities and the measures of performance (financial and relational). As Table 5 shows, the current outsourcing has a

moderate influence on the economic result (0.25), although there is no evidence of an influence on relational performance. This allows the partial acceptance of hypothesis 3.

**Table 5 - Degree of association between organizational performance and the propensity to outsource the marketing department**

	Financial performance	Relational performance
Current outsourcing	0,252*	-0.014
Increase in outsourcing	-0.026	-0.333*

\*p<0.05

Source: Own elaboration.

**Test of hypothesis 4.** In hypothesis 4, the dependent variable is the increase in outsourcing, and a multiple regression analysis was applied. Table 6 shows that only 7% of the variance in the increase in outsourcing is explained by organizational performance. This low adjusted R<sup>2</sup> coefficient was to be expected because the organizational result is influenced by other variables, such as the

hotel's resources and capabilities that have not been considered in the study. However, there is a negative relationship between the outsourcing of the marketing department and low relational performance (-0.33). This result is supported by the correlations analysis. No significance is observed in the financial result, and, therefore, hypothesis 4 can only be partially accepted.



**Table 6 - Multiple regression analysis: influence of organizational performance on the increase in outsourcing**

Dependent variables	Increase in the outsourcing of the marketing department
<b>Independent variables</b>	<b>B</b>
Financial performance	0.051
Relational performance	-0.338*
Goodness of fit	Adjusted R <sup>2</sup> =0.07 F=2.9 P=0.06

\*p<0.05

Source: Own elaboration.

### 6. Conclusions

This article empirically shows that transaction and performance costs are determinants in the decision to outsource a hotel operation such as marketing; in other words, the greater the costs of finding the other party, and the more difficult it is to control the outsourced process and the tasks performed in establishing and monitoring the contract, the lower the current and desired levels of outsourcing the sales department are. In relation to production costs, this study shows that hotels that outsource their marketing operations have higher costs than those that use hierarchies (i.e. in-house); the costs of production or performance are especially high when the market is used. This means that hotels that have higher costs and wish to reduce them will turn to a process of outsourcing. With regard to the increase in outsourcing, quality is shown to be the only determining factor, which shows that hotels without the resources and capabilities to perform marketing operations with an adequate level of quality wish to outsource. In this regard, Rhodes *et al.* (2016) indicate that outsourcing firms seek to increase value through improvements in quality and performance. In relation to increasing the outsourcing, the transaction costs are not a significant predictor; therefore, the assumption that a high level of transactions equates with a high level of costs is not valid. As Ellram *et al.* (2008) state, this situation may be due to the use of information technology in the sales department. Thus, to mitigate opportunism and improve the relation and performance, it is necessary to regulate the behavior of partners and achieve mutual benefit (Yang, Zhao, Yeung & Liu, 2016) through the use of both contractual and relational mechanisms. De Vita and Tekaya (2015) point out that mutual and long-term trust expectations and commitment seem to be more important than aspects related to transaction costs. A transaction costs perspective is insufficient for the treatment of the outsourcing of sales activities because other variables related to the performance of the activity also have an influence. With regard to the influence of the outsourcing of the marketing department on the result, it has been shown that this relationship only materializes with the financial result. This means that the proposed level of relationship with the supplier is not bad, but it is not sufficient. It did not result in improved management or innovation because relational performance did not improve in hotels that outsourced this service. If these circumstances are analyzed from the relational marketing perspective, it can be concluded that the low level of relational quality is due to the firm being in the initial phases of relational marketing. It could also be due to the use of a contractual governance rather than a relational

governance. In this regard, Cao and Lumineau (2015) indicate that both types of mechanisms are complementary and necessary for a positive performance in the inter-organizational relations. Therefore, the exchanges with service companies either do not exist or are carried out within a transactional framework. In these circumstances, satisfaction with the relationships is low, and the main aspects that influence relational marketing, such as trust and commitment, are not exploited (Morgan & Hunt, 1994). If the effectiveness of the outsourcing strategy is chosen rationally and the process is conducted properly, better organizational performance is achieved (Bolat & Yilmaz, 2009). This rationality can be attributed to market failure, which leads to transaction and production costs.

The negative relationship between relational performance and the increase in outsourcing is due to the need to reduce transaction costs in the relationships between service suppliers and the hotel. Hotels that wish to increase outsourcing have poor relational performance. This suggests that the hotels wish to improve their relationships and, therefore, could consider outsourcing the marketing department. Given the characteristics of the hotels in this study, relational performance is analyzed only in the initial stage of the relationships, which is closer to a purely transactional perspective, and it is analyzed solely in terms of transaction costs and relational quality from an elementary perspective. When a hotel company faces a scenario where successful relationships have not been developed with its suppliers, and it becomes necessary to open up to the outside in order to find new solutions that enable it to survive, the question is: How should the relationships between firms be managed in order to obtain additional profits and improve organizational performance? The results of this study make it clear that managers need theoretical models and efficient procedures to manage the relationships between firms within a framework of mutual benefit in order to improve relational performance in outsourcing. According to this view, outsourcing may enhance the firm's main capabilities (Bustinza *et al.*, 2010). The activity should be managed through a relational governance that can be defined as a hybrid between market and hierarchical governance (Zhou, Zhang, Zhuang & Zhou 2015).

From an academic point of view, the study has empirically demonstrated that quality or cost may be as important as other traditional factors –transaction costs- that have been studied in the literature. This confirms what was established by Argyres and Zenger (2012), who proposed that an organization's capabilities may be a determinant in the decision to outsource, although it





must be stressed that transaction costs do not have the most influence on the outsourcing of the marketing department. Our results suggest that these two perspectives are complementary in deciding to outsource, as pointed out by Pérez-Ortiz and Rueda-Armengot (2010). In this regard, the study tests the theoretical premise in the literature that hotels wish to outsource those activities that do not generate value for the firm. Firms increase their outsourcing due to a wish to improve the quality of their activities, rather than to save costs; therefore, the reason for increasing their outsourcing seems to be more strategic, that is, related to quality. In a general sense, results show that the transaction costs theory must be complemented by other variables, such as the perception of quality when deciding to outsource a service. Therefore, this study aims to fill this gap by investigating the effect of outsourcing of the marketing department on relational and financial performance.

### Managerial implications

These conclusions lead us to believe that the present circumstances of the hotel sector, especially in mature tourist destinations, require strategic rethinking about outsourcing and relational marketing in sales activities. When tour operators lose market share and are not in a position to guarantee acceptable levels of occupancy, hotels need to create strategic alliances or find service companies to collaborate in the management of growing distribution channels. In this context, the new Internet-based sales channels require increasingly sophisticated elements in terms of software, CRM (Customer Relationship Management) systems, loyalty campaigns, promotions, direct marketing and information and knowledge management, which generally require subcontracted experts. Similarly, the marketing platforms or providers should have adequate knowledge about the hotel product and its characteristics to be able to communicate the offer. Currently, the multiple sales channels available on the Internet increase hotels' possible alliances with third parties, in order to achieve the optimization of occupancy and financial performance. In this context, the tour operators seek to reinforce their alliances with hotels to counteract the new marketing strategy of hotels. The hotels are increasing their outsourcing of Internet sales in order to improve prices and financial flows, and diversify the risk of marketing. This is a new view of defining the sales strategy, taking into account the greatest number of sales channels to guarantee hotels' performance. In this new network context, the outsourcing of the marketing activities of hotels is a very strategic decision. The traditional problem of outsourcing, loss of differentiation, would be reduced if the activities to be performed were personalized and planned between the marketing platform and each hotel, favoring specific and idiosyncratic relationships. This latter aspect means that confidentiality is essential.

### Limitations and future research

Based on the analysis of the results obtained and the conclusions of this study, this study has some limitations that can lead to future research. Because the results obtained in this study refer to a single destination and, therefore, cannot be generalized, the study should be replicated in other sectors and tourist destinations. Using transaction costs theory, we have only analyzed the

influence of the transaction and production costs of outsourcing. It would be desirable to consider the influence of the variables taken into account in this theory, such as asset specificity, frequency, or uncertainty.

The current study does not consider resources and capabilities, although it analyzes quality and organizational performance. Therefore, it would be advisable in future studies to analyze the influence of the resources and capabilities in the outsourcing of the marketing department. Another aspect that merits study is the influence of the outsourcing of other areas on the outsourcing of the marketing department. Moreover, this study has not examined the type of outsourcing carried out or what type of distribution channels are mainly used. These questions can lead to a new study. Likewise, it would be very interesting to analyze the influence of the new Internet intermediaries and sale channels on the marketing strategy of hotels. Along these lines, it would be interesting to find out whether the patterns of the marketing department outsourcing apply to the other hotel departments. With regard to relational marketing, in this paper relational performance was studied in a destination where the relationships were not highly developed and, therefore, a proposal for effective management models is required to facilitate the implementation of the outsourcing strategy. In the same context, there should also be an analysis of the way basic concepts of relational marketing, such as trust and commitment, influence the strengthening of relational performance, and vice versa, determining the reinforcing feedback between those concepts. In addition, other relevant aspects were not considered in measuring financial performance, such as solvency, liquidity and efficiency. Future research could consider these questions. Moreover, the study is cross-sectional at one point in time, and so future studies should be conducted from a longitudinal perspective with the aim of identifying the strengthening of relational marketing between providers and hotel managers. Finally, one topic that is crucial at the present time is that of relational capabilities, where relational quality plays a transcendental role as a facilitator of the creation of associative competitive advantages. In this context, Dyer and Singh (1998) and Linder (2004) propose a relational view of firms and determine the sources of additional profits in inter-firm relationships. This is a decisive factor in determining where and how competitive advantages and better results are generated. Therefore, it would be interesting to find the links and relationships between trust and commitment, the evolution of the relationships, and the development of relational capabilities that facilitate the outsourcing of the hotel marketing department.

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Received: 8 April 2016

Revisions required: 20 June 2016

Accepted: 23 August 2016