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Outsourcing from the Perspectives of Competitive Capabilities and Supplier Innovation in the Hotel Sector

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Abstract
This study aims to identify the outsourcing levels of the main activities or processes carried out in a hotel and the main benefits perceived by hotel managers. It proposes a model that explores the impact of supplier innovation on the perceived benefits of outsourcing, the relationship between supplier innovation and outsourcing, and competitive capabilities related to cost, quality, flexibility, and delivery. A personal questionnaire was designed for the directors and managers of 114 hotels located in Egypt to achieve this objective. A structural model has been developed to test the hypotheses. The findings indicate that supplier innovation positively influences the perceived benefits of outsourcing. They also show that supplier innovation positively influences competitive capabilities related to quality, flexibility, and delivery. In contrast, outsourcing alone only influences the competitive capability related to cost, with no impact on other competitive capabilities. From a practical point of view, the study identified which activities are outsourced more often and which are not, as well as the main benefits of outsourcing perceived by managers. These results help managers determine which activities are outsourced in the hotel sector and how their hotel is positioned in outsourcing. This paper presents the first empirical study to analyse the relationship between supplier innovation's impact and outsourcing benefits. It is also the first empirical research to consider the relationship between outsourcing and supplier innovation and competitive capabilities.

Key Words: Supplier innovation, outsourcing, perceived benefits, competitive capabilities.

JEL Classification: M11, P17

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1. Introduction

Outsourcing is a widely used strategy by hotels, and it has increased in popularity in the past 20 years. Thus, a wide variety of activities, such as laundry, entertainment, cleaning, security, and information systems, are currently outsourced (Espino-Rodriguez & Ramirez-Fierro, 2017). Outsourcing can be defined as a contractual relationship between a company and a supplier that commits to providing a service (González et al., 2011). According to Promsivapallop et al. (2015), the term outsourcing refers to using independent suppliers to perform internal activities that could be and/or have previously

However, this topic is still under-researched in the hotel sector. Specifically, some of the research in the hotel sector analyses the benefits of outsourcing perceived by managers (Lam & Han, 2005; Wan & Su, 2010; Espino-Rodríguez et al., 2012; Espino-Rodríguez & Ramírez Fierro, 2018; Elhoushy et al., 2020), but it does not consider whether supplier innovation in the outsourced activities makes it possible to improve the benefits of outsourcing. The academic literature on outsourcing has not considered supplier innovations and improvements in outsourced activities. Supplier innovation allows the development of new ideas, processes, and services that can improve the cost and quality of the service provided by the outsourcing company. This paper first analyses the impact of supplier innovation on the benefits of outsourcing. In addition, it aims to determine the levels of outsourcing of each of the main activities in the value chain of the Egyptian hotel sector so that it can be compared with other regions already analysed in other studies. A high level of perceived benefits should lead to a greater degree of outsourcing in the hotel sector (Elhoushy et al., 2020). Azadegan and Dooley (2010) indicate that suppliers who innovate respond more efficiently to buyer demand in terms of cost, quality, flexibility, and product and service requirements development. However, some authors suggest that, in the long term, outsourcing can erode internal organisational capabilities (Kotabe & Murray, 2004). Therefore, this paper examines whether outsourcing suppliers' innovation influences competitive capabilities. Competitive capabilities reflect the power to generate more value for clients than competitors do (Aboelmaged, 2018). The most common competitive capabilities are cost, quality, flexibility, and delivery (Schoenherr, 2012). Although some studies have examined the relationship between supplier innovation and *performance* (Chiesa et al., 2004; Azadegan & Dooley, 2010), this relationship has not been studied in the hotel sector.

Outsourcing allows hotels to focus on their core competencies (Wan & Su, 2010) in order to improve their *performance*. Firms with more core competencies have stronger capital and more precisely fulfill their social responsibilities (Sun et al., 2021). At an empirical level, the influence of outsourcing on *performance* is not clear. When performance is studied in relation to outsourcing, it is basically analysed by considering financial and non-financial aspects without describing the different competitive capabilities. This paper aims to study the impact of the level of hotel outsourcing on competitive capabilities related to cost, quality, flexibility, and delivery. Managers need to know the effects of supplier innovation and the outsourcing level on competitive capabilities so that they can be more demanding when selecting suppliers and discover whether it is advisable to continue to adopt this strategy. The specific objectives of this study are the following:

a. Determine the levels of hotel outsourcing by activity and the benefits perceived by managers.
b. Analyse the impact of supplier innovation on outsourcing benefits and how these benefits influence the outsourcing levels.
c. Study how supplier innovation influences competitive capabilities.
d. Determine the impact of the level of outsourcing on competitive capabilities.

2. Literature review and hypotheses development

Because outsourcing has become a key strategy in business planning to increase efficiency and competition, this phenomenon has been the topic of many studies in the hotel sector (González et al., 2011). Much of the research has tried to understand the benefits of outsourcing and the reasons for using it in this sector (Lam & Han, 2005; Bolat & Yilmaz, 2009; Wan & Su, 2010; Dorasamy et al., 2010; Hiamey & Amenumey, 2013; Espino-Rodríguez & Ramírez-Fierro, 2018). These studies have suggested that outsourcing can provide hotels with various economic, technological, and strategic benefits.

Some studies have classified the advantages of using outsourcing into two main approaches (theories) (Donada & Nogatchewsky, 2009; Tavitiyaman et al., 2011). The first is the economic approach represented by transaction cost economics (TCE). This approach refers to tactical benefits linked to costs

and short-term aspects related to meeting urgent staffing needs (Espino-Rodríguez & Ramírez-Fierro, 2018). The second approach is the strategic one, which is related to the resource-based view (RBV) of the firm. These benefits are associated with strategic aspects, improvements in resources and capabilities, and competitive advantages. Baytok *et al.* (2013) classified benefits into four broad categories represented by financial benefits, organizational benefits, administrative benefits, and production benefits.

Inemek and Matthyssens (2013) define supplier innovativeness as the ability to generate and implement new ideas, ways of doing things, or operational methods, as well as the capacity to make investments in new products, processes, or technologies. Supplier innovation affects the reduction in transaction costs because it increases trust and commitment in the relationship, providing greater benefits from outsourcing. Supplier innovation creates opportunities to improve responsiveness by increasing customer satisfaction (Kim & Chai, 2017). It allows the hotel to increase its resources and, therefore, the benefits of outsourcing perceived by managers. This means that supplier innovation can improve the costs of the services acquired and the quality of the products and services, and it can encourage hotels to focus more on their core capabilities. Supplier innovation can foster the success of outsourcing, so that managers perceive more benefits from this strategy. Schiele (2012) indicates that the innovativeness of the supplier and the competition encourages collaboration with buyers, which leads to close relationships between buyers and suppliers. Jean et al. (2012) show that supplier innovation is related to information exchanges, team building to solve problems, and frequent communication. This makes the relationships closer and causes the benefits of outsourcing to be perceived more by managers. Thus, the following hypothesis is proposed:

Hypothesis 1
Supplier innovation positively influences the benefits of outsourcing

Senior management plays a critical role in outsourcing decisions. As decision-makers in a company, managers play a relevant role in determining internal governance and external collaboration (Yuan et al., 2020). Managers and hotel decision-makers should first explore the environment before implementing a particular strategy. Therefore, managers' perceptions can condition a certain attitude towards a specific strategy. Positive beliefs about the benefits of outsourcing can lead hotels to have a higher level of outsourced activities. The higher the managers' perceived benefits of outsourcing, the greater the level of outsourcing used in the hotel (Espino-Rodriguez and Ramirez-Fierro, 2018; Elhoushy et al., 2020). Thus, for example, if hotel outsourcing makes it possible to reduce costs and focus on core activities, managers may be more inclined to use external suppliers. Greater recognition of the benefits of outsourcing means that hotels can outsource more activities, especially those where they have decided not to develop key competencies. Therefore, the following hypothesis is proposed:

Hypothesis 2
The greater the managers' perceived benefits of outsourcing, the higher the hotel's level of outsourcing

Innovation has been recognized in the literature as a source of growth and competitive advantage (Amarakoom et al., 2018; Cortes et al., 2021; Civelek et al., 2021; Ključnikov et al., 2021; Mura, 2020). Service innovation allows new knowledge to be integrated into the services offered by the company, adding value for the organisation and its customers (Salunke et al., 2011). When relying on external suppliers, taking advantage of and promoting suppliers' hidden capabilities can become a source of competitive advantage (Azadegan, 2011). In this case, suppliers' innovations can be integrated into hotels and offer a higher value service that can improve their competitive capabilities. Teece et al. (1997) suggest, from the perspective of dynamic capabilities, that interorganisational relationships provide more dynamic resources for the acquisition of new capabilities. Supplier innovativeness plays a significant role in procurement decisions, allowing the purchasing function to become more integrated in the company's strategic objectives (Kim & Chai, 2017). According to Inemek and Matthysssens (2013), suppliers may receive requirements from buyers to adapt their processes, products, or procedures. This will allow

suppliers to offer customised products and contribute to improvements in cost, quality, flexibility, and delivery. Innovativeness implies greater openness to change and the ability to cope better with changes that occur. This allows companies to take advantage of suppliers' capabilities and, therefore, respond better to changes in the environment. Azadegan and Dooley (2010) establish that supplier innovation positively affects buyer *performance*. Companies with a greater capacity to innovate will be more successful in developing new capabilities and responding better to the environment. Therefore, supplier innovation provides additional resources that can increase one or more competitive capabilities. High supplier innovation means being open to new ideas and experiments on behalf of buyers (Kibbeling et al., 2013). Supplier innovation can improve service providing processes by helping hotels to improve costs. Suppliers can complement or help the company to reduce costs, improve quality, and provide other direct values (Azadegan, 2011). According to Azadegan and Dooley (2010), supplier innovation impacts delivery requirements, allowing the buyer to discover the underlying causes for its own delivery problems. These authors indicate that innovativeness fostered by an experienced and skilled supplier can be used to develop alternatives that can be used by buyers to increase internal flexibility. Based on the above, the following hypotheses are proposed.

Hypothesis 3a
Supplier innovation positively influences competitive capabilities related to cost

Hypothesis 3b
Supplier innovation positively influences competitive capabilities related to flexibility

Hypothesis 3c
Supplier innovation positively influences competitive capabilities related to delivery

Hypothesis 3d
Supplier innovation positively influences competitive capabilities related to quality

Competitive capabilities refer to the relative strength of the organization in relation to its competitors in some performance dimension (Flynn & Flynn, 2004; Rosenzweig et al., 2003). In other words, they refer to a company's ability to offer more competitive products or services that may be in greater demand than those of its competitors (Antonio et al., 2007). These capabilities are the key resource for creating competitive advantages.

In the past, competitive capabilities mainly focused on cost, but today, due to technological developments and customers' cultural changes, other approaches have emerged (Phusavat & Kanchana, 2007). The existing literature has classified competitive capabilities into four dimensions: cost reduction, flexibility, quality, and delivery compliance (Ward et al., 1998; Espino-Rodriguez, 2016; Idris & Naqshbandi, 2019).

Globalization, the nature of the hotel industry, high labour intensity, a wide range of activities, and unpredictable demand cause hotels to seek external support (external suppliers) to perform their tasks. These external suppliers can offer various skills depending on the hotel's strategic approach. Dabhilkar et al. (2009) highlight that companies should look for a supplier that follows their strategic approach, in other words, one that complements the company's competitive capabilities. Furthermore, they must coordinate and share their strategy by creating an alignment between the objectives pursued by outsourcing and the competitive capabilities external suppliers can offer (Vachon et al., 2009).

The results of Khaki and Rashidi's (2012) research on the impact of outsourcing on the operational objectives show that outsourcing can lead to cost reduction, better quality, and greater flexibility. In this regard, outsourcing can offer companies different strategic advantages by emphasising various competitive capabilities simultaneously.

Outsourcing and cost. One of the main advantages of outsourcing is greater profitability and, especially, cost reduction (Schniederjans et al., 2005; Bengtsson & Dabholkar, 2009). Outsourcing can offer firms immediate cost reductions through lower investments, cost control, the conversion of fixed costs into variable, and the elimination of unproductive assets. These benefits can often improve cost competitiveness. Normally, suppliers perform the activities that represent their core competencies. Suppliers are more specialised, take advantage of economies of scale, have access to new technologies that the company can use without having to invest, and can provide the service with lower total, logistical, regulatory, and/or legal costs (Bunyaratavej et al., 2007; Lewin et al., 2009; Andersson & Bernhardsson, 2011). The cost reduction produced by external suppliers can be the driving force for the client company in its search for cost-related competitive advantages. Therefore, an outsourcing strategy could have an impact on the cost reduction capability.

Outsourcing and flexibility. Due to continuous changes in customer demands and preferences, many companies have changed their degree of vertical integration by concentrating on their core competencies and outsourcing secondary or peripheral services. This approach allows companies to develop internally and focus on their core competencies, which means greater flexibility and adaptability to changes that arise (Quinn, 1999). This idea is supported by several authors who claim that outsourcing allows managers to have more time to devote to other more essential and strategic tasks (Bolat & Yilmaz, 2009; Lamminmaki, 2011). The use of outsourcing allows hotels to be more flexible, dynamic, and capable of adapting to changes and opportunities. The objectives of outsourcing make it possible to respond effectively to customers' changing needs, improve the capacity to customise products or services, and increase the capacity to modify volumes of products or services according to market demand (Hansen et al., 2008; Andersson & Bernhardsson, 2011). Therefore, outsourcing could have an impact on competitive capabilities related to flexibility (Contractor et al., 2011).

Outsourcing and delivery. Fast delivery is a key competitive capability for companies. Today, customers want reliable and fast delivery without waiting (Antonio et al., 2007). One way for companies to improve their delivery capability is to increase integration with their partners (Flynn et al., 2010). According to Wan and Su (2010), outsourcing facilitates the development of activities that are carried out internally. Suppliers can help by performing activities quickly and in less time, thus improving delivery speed and on-time delivery (Cousins et al., 2008; Andersson & Bernhardsson, 2011). Outsourcing allows companies to access various resources and capabilities that facilitate rapid delivery of different services to customers. Sinha et al. (2011) found that outsourcing allows small and medium-sized companies to gain the benefits of flexibility and specialized delivery, whereas Cousins (2005) highlights that supplier relationships provide companies with improved competitive capabilities related to delivery through information exchange and sharing.

Outsourcing and quality. Outsourcing activities should not only be motivated by cost reduction, but also by quality improvement. According to Kamann and Nieulande (2010), the issue of quality in outsourcing has been a topic of debate in recent decades. The quality management lead to higher service quality and develop a competitive position with higher levels of performance (Tarí et al., 2020; Potkany et al., 2022). Quality-driven outsourcing refers to an external supplier's ability to improve the compliance and/or quality of an activity (Schniederjans et al., 2005). When a company decides to outsource to an external partner for reasons of quality, this should be an indicator that there are companies in the market that can perform certain tasks better, and that outsourcing will, therefore, allow the company to access more qualified and experienced staff (Espino-Rodrıguez and Ramirez Fierro, 2018). In this regard, hotels are often willing to outsource to an external partner when they perceive that it can improve the quality of their activities. Therefore, outsourcing provides access to specialized companies that can increase the quality of products or services (Redondo-Cano & Canet-Giner, 2010).

Based on the above, we propose a hypothesis for each competitive capability: cost, flexibility, delivery, and quality.

Hypothesis 4a
The outsourcing level positively influences the competitive capability related to cost

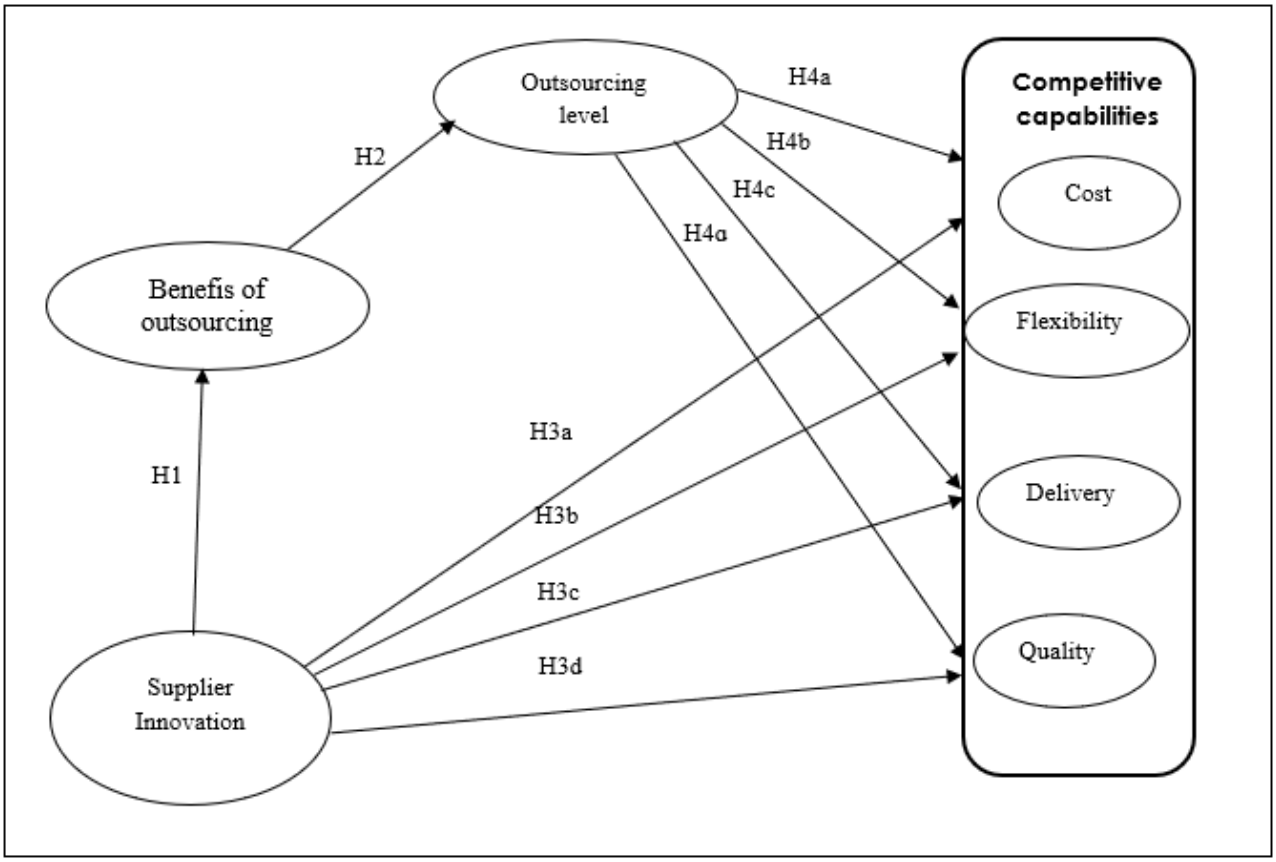
Hypothesis 4b
The outsourcing level positively influences the competitive capability related to flexibility

Hypothesis 4c
The outsourcing level positively influences the competitive capability related to delivery

Hypothesis 4d
The outsourcing level positively influences the competitive capability related to quality

The proposed hypotheses make up the model shown in Figure 1.

Figure 1. **Conceptual model and hypotheses**



Source: own elaboration

The proposed model could be framed within the resource-based view (RBV). Altín (2021) suggests that RBV is a useful tool in outsourcing research. According to the resource-based view of the firm, the organisation consists of a set of essential resources and capabilities that enable the company to achieve competitive advantage (Barney, 1991; Chadal et al., 2020). Resources and capabilities are important drivers of performance. Understanding the relationship of resources and capabilities with performance helps companies to identify their strong and weak points (Hitt *et al.*, 2016). In this regard, the competitive capabilities related to cost, quality, flexibility, and service constitute the hotel's performance. The achievement of these competitive capabilities should be supported by the resources,

both internal and external, that is, suppliers' innovation and *outsourcing*. The resource-based view of the firm helps to comprehend and evaluate various operative and strategies tools (i.e., outsourcing) and determine their value in creating competitive advantages (Chadal et al, 2020). Questions related to business performance and efficiency analysis are currently being widely discussed, due to the changes in the global business environment, especially in tourism companies (Čabinová et al., 2021).

3. Methods

3.1. Research setting and sample

The tourist destination chosen for the research is Egypt because it is considered a solid and competitive destination with a wide variety of tourist activities. Egypt received a record number of visitors in 2019, with 13.6 million tourists, producing revenues of 12.5 billion dollars (CAPMAS, 2019). Within this broad destination, two tourist cities, Sharm El Sheikh and Hurgada, were selected. After determining where the research would be conducted, the next step was to choose the unit of analysis. Therefore, we decided to focus on the 4- and 5-star, sun and beach hotels in the cities of Sharm El Sheikh and Hurgada. Subsequently, a list of 4- and 5-star establishments in Sharm El Sheikh and Hurgada was made containing their data, such as name, address, category, and telephone number, resulting in 149 registered establishments. This information is included in the latest version of the web page of the Egyptian Hotel Association (EHA) (EHA, 2016). The original questionnaire was written in Spanish and then translated into Arabic by the researcher. The translation was then reviewed by a qualified translator to check the grammatical and lexical form of the items and avoid errors in the wording. 114 hotels participated in the research. This means that we obtained an actual response rate of 76.5%, with a sampling error of 5.2%. The majority of the surveyed hotels in the sample are 5-star hotels, representing 62.29% of the total, whereas 4-star hotels represent 37.71%.

3.2. Measurement of the variables

To create the questionnaire, the theoretical and empirical literature was reviewed to see what scales have been used to measure supplier innovation, outsourcing benefits, the level of outsourcing, and competitive capabilities or priorities. Supplier innovation was measured with an 8-item scale that was used in the studies by Azadegan and Dooley (2010) and Kim and Chai (2017). This scale was adapted for the case of outsourcing suppliers. Based on the study by Espino-Rodríguez and Ramirez-Fierro (2018), hotel outsourcing benefits were measured with a 12-item scale that rates the benefits related to costs, flexibility, profitability, quality of the outsourced service, and core competencies. In addition, the level of outsourcing is measured with a 5-item scale used in the study by Espino-Rodríguez and Ramírez-Fierro (2018). All the indicators of the variables related to supplier innovation, outsourcing benefits, and the level of outsourcing were measured on a Likert-type scale ranging from 1 to 7, with 1 indicating a high degree of disagreement and 7 a high degree of agreement. In relation to the competitive capabilities, scales used in previous studies were adapted to the hotel sector (Rosenzweig et al., 2003; Kathuria et al., 2010; Lii & Kuo, 2016). Thus, a 14-item scale was developed in the hotel sector that assessed different competitive capabilities related to cost, flexibility, delivery, and quality. Each respondent was asked, on a scale from 1 to 7, how strong the hotel was in each capability, compared to its main competitors in the same market (1 = relatively weak; 4 = average; 7 = market leader) (See Appendix).

4. Results

The results indicate that the most outsourced activities are those related to entertainment and transport services, with mean values above 4 on a scale from 1 to 7. Other noteworthy outsourced activities are related to information systems, maintenance, and security and surveillance, with mean values of around 3. Activities with an outsourcing level below 2 but above 1, on a scale from 1 to 7, are training, food and drink, laundry, personnel selection, and recruitment. In contrast, the activities that are not outsourced by any hotel are those related to reception activities and room cleaning (see Table 1).

Table 1. **Current and desired level of outsourcing and mean difference (t-Test)**

Activities	Current Outsourcing level	Desired Outsourcing level	t	p
Reception	1.0000	1.0000	-----	-----
Guestrooms cleaning	1.0000	1.0000	-----	-----
Common areas cleaning	2.1754	3.7719	-19.378	0.000
Laundry	1.1754	1.5000	-3.561	0.001
Food and beverage (Production - Service)	1.4386	1.8860	-5.407	0.000
Maintenance (exterior, interior, gardening)	3.2719	4.8246	-16.943	0.000
Training	1.9561	3.9211	-20.370	0.000
Personnel Selection and recruitment	1.0263	1.2719	-2.858	0.005
Marketing and Sales	2.0175	2.9123	-8.217	0.000
Information Systems	3.5263	5.3509	-19.525	0.000
Leisure activities	5.0614	6.4474	-20.138	0.000
Security and surveillance	3.1228	6.1667	-17.476	0.000
Transportation Service (Customers or staff)	4.3158	6.5439	-19.988	0.000

Source: own elaboration

Table 2. **Degree of outsourcing of the activities analyzed**

Degree of Outsourcing	Frequency	Percentage	Cumulative percentage
1 Nothing Outsourced	706	47.6	47.6
2	166	11.2	58.8
3	191	12.9	71.7
4	271	18.3	90.0
5	52	3.5	93.5
6	83	5.6	99.1
7 Fully Outsourced	13	9	100.0
Total activities	1482	100.0	

Source: own elaboration

If we compare the current level of outsourcing with the desired one, Table 3 shows that there are significant differences in all the activities analysed, except reception and room cleaning, where no degree of outsourcing is desired in the future. Specifically, the activities with more potential for growth are those with a higher Student's *t*, such as cleaning of noble and common areas, maintenance, training, information systems, animation, security and surveillance and transport services.

Specifically, Table 2 shows the current degree of outsourcing of the 1482 activities analysed in all the hotels. In each of the 118 hotels, 13 different activities were studied that make up 1482 processes analysed. Of all these processes or activities, the table shows that 52.4% have some degree of outsourcing, and 47.6% have no outsourcing at all.

Table 3 shows the 12 statements with their respective means, in order to analyse the degree of agreement among the hotel managers in relation to the different benefits. On the one hand, the benefits of outsourcing that are most perceived by managers are: outsourcing services helps to focus on the hotel's key activities (mean=4.80), outsourcing helps with the most urgent staff needs (mean=4.76), outsourcing services makes it possible to increase the quality of the hotel's services (mean=3.86), and outsourcing hotel services helps us to be more efficient (mean=3.82).

Table 3. **Benefits of outsourcing**

Benefits of outsourcing	Average
With outsourcing, the hotel management has more time to do the tasks.	3.3947
In the hotel, we do our jobs better thanks to outsourcing.	3.7719
The outsourcing of services allows the hotel to be more efficient.	3.8246
Hotel outsourcing allows the hotel to meet urgent personnel needs.	4.7632
This hotel's outsourcing helps the in-house staff to be able to do more things.	3.4211
With the outsourcing of services, the hotel can focus on core activities.	4.8070
With outsourcing we get more work done with less effort.	3.2895
Services outsourcing favors reductions in the hotel's costs.	3.5000
Services outsourcing makes it possible to obtain highly qualified work with considerable experience.	3.4123
Outsourcing allows us to have more free time to spend on other tasks.	3.1930
Outsourcing makes it possible to increase the hotel's profits.	3.2895
Outsourcing makes it possible to increase the quality of the hotel's services.	3.8684

Source: own elaboration

To test the proposed research model, a structural linear equations model was carried out to establish the relationships between the constructs. The Partial Least Squares (PLS) technique was used with the statistical program SmartPLS 3.2.8. PLS is a well-established technique for structural equation analysis that is being used in a variety of tourism and outsourcing studies (Teo & Bhattacherjee, 2014; Espino-Rodríguez & Ramírez-Fierro, 2019). PLS is used in cases where theory is not well developed and flexible theoretical requirements are needed, such as the relationship between supplier innovation, outsourcing, and competitive capabilities. PLS is more appropriate for research topics where the few existing studies are exploratory (Hair et al., 2017).

4.1. Measurement model

The assessment of the measurement model is carried out in PLS by analysing the individual item reliability, convergent validity, and discriminant validity coefficients. The data in Table 4 show that the majority of the loadings exceed the threshold of 0.60 (Bagozzi & Yi, 1988) and are significant at the level of $p<0.01$. Table 3 shows that all the constructs are reliable, exceeding the reference value of 0.7, with the composite reliability (CR) reaching values between 0.896 and 0.982. In addition, the Cronbach's alpha for each construct exceeded the recommended value of 0.7, reaching values between 0.870 and 0.968.

Table 4. **Evaluation of the measurement model Reliability and construct validity**

Variables	Indicators	Factor loading	t	CR	Composite reliability	AVE
Supplier Innovation (SI)	SI_1	0.806	17.017	0.870	0.896	0.520
	SI_2	0.777	11.723			
	SI_3	0.668	9.710			

Variables	Indicators	Factor loading	t	CR	Composite reliability	AVE
	SI_4	0.683	5.841			
	SI_5	0.726	11.711			
	SI_6	0.701	9.083			
	SI_7	0.689	11.658			
	SI_8	0.712	12.466			
Benefits of outsourcing (BO)	BO_1	0.846	25.174	0.968	0.971	0.737
	BO_2	0.847	22.450			
	BO_3	0.880	31.078			
	BO_4	0.888	38.231			
	BO_5	0.889	30.639			
	BO_6	0.838	25.806			
	BO_7	0.896	43.596			
	BO_8	0.819	28.443			
	BO_9	0.849	29.902			
	BO_10	0.887	41.636			
	BO_11	0.816	20.128			
	BO_12	0.844	30.819			
Outsourcing level (OL)	OL_1	0.912	38.424	0.913	0.937	0.752
	OL_2	0.918	80.235			
	OL_3	0.932	100.092			
	OL_4	0.924	57.570			
	OL_5	0.602	8.229			
Cost (CO)	CO_1	0.983	283.637	0.963	0.982	0.964
	CO_2	0.981	220.020			
Flexibility (FL)	FL_1	0.888	44.346	0.938	0.953	0.804
	FL_2	0.833	21.392			
	FL_3	0.886	41.368			
	FL_4	0.941	97.041			
	FL_5	0.930	62.941			
Delivery (DE)	DE_1	0.962	113.879	0.937	0.956	0.845
	DE_2	0.945	91.773			
	DE_3	0.962	121.530			
	DE_4	0.797	26.535			
Quality (QA)	QA_1	0.946	82.564	0.941	0.962	0.894
	QA_2	0.967	185.913			
	QA_3	0.924	65.863			

Source: own elaboration

The AVE of all the constructs exceeds the required threshold of 0.5. Therefore, given the values obtained for the reliability of both the items and the constructs used, the results show that the model has convergent validity. Fornell and Lacker's criteria and the heterotrait-monotrait Ratio (HTMT) were used to assess the existence of discriminant validity. Fornell and Larcker (1981) indicate that, for discriminant validity to exist, the square root of the AVE measure has to be higher than all the correlations between all the constructs.

Table 5. **Discriminant validity, Fornell-Larcker Criterion**

	SI	BO	OL	CO	FL	DL	QA
Supplier Innovation	0.721						

Benefits of outsourcing	0.281	0.859					
Outsourcing level	-0170	0.495	0.867				
Cost	-0.190	0.472	0.590	0.982			
Flexibility	0.325	-0.357	-0.621	-0.778	0.896		
Delivery	0.252	-0.352	-0.581	-0.773	0.854	0.919	
Quality	0.284	-0.372	-0.636	-0.755	0.871	0.897	0.946

Source: own elaboration

Table 5 shows that the square root of the AVE (main diagonal) is in all cases higher than the correlations between the constructs. The results of this analysis suggest that all the constructs are valid measures of single concepts. The Heterotrait-Monotrait ratio (HTMT) inference test was used to determine whether the HTMT values were significantly different from one. The 95% confidence intervals of the HTMT values were calculated using the bootstrap procedure in SmartPLS. Table 6 shows the upper and lower limits for all the pairs. None of the confidence interval values include the value of 1; therefore, the results suggest discriminant validity for all the constructs (Henseler et al., 2015).

Table 6. **Discriminant validity: Heterotrait-Monotrait Ratio (HTMT) of 5% and 95%. Confidence Intervals**

	SI	BO	OL	CO	FL	DL	QA
Supplier Innovation							
Benefits of outsourcing	(0.191; 0.482)						
Outsourcing level	(0.148; 0.362)	(0.398; 0.629)					
Cost	(0.121; 0.363)	(0.338; 0.614)	(0.178; 0.362)				
Flexibility	(0.212; 0.490)	(0.254; 0.495)	(0.552; 0.746)	(0.758; 0.872)			
Delivery	(0.142; 0.432)	(0.228; 0.515)	(0.505; 0.704)	(0.736; 0.871)	(0.875; 0.936)		
Quality	(0.168; 0.459)	(0.235; 0.855)	(0.575; 0.760)	(0.735; 0.855)	(0.894; 0.955)	(0.924; 0.983)	

Source: own elaboration

4.2. Structured model

Based on Hair et al. (2017), the non-parametric bootstrap resampling test with 500 repetitions was performed to obtain the explained variance (R^2), the f^2 effect, and the standardized *path* coefficients (β) of each of the predicted relationships in the hypotheses of the model, with the observed *t* values obtained. The fit of the structural model was composed of the R^2 that represents the explained variance of the dependent variables (See Table 10). Supplier innovation explains 7.9% (R^2 =0.079) of the variance in outsourcing benefits. In addition, outsourcing benefits explain 24.5% (R^2=0.245) of the variability in the outsourcing level. Supplier innovation and the outsourcing level explain 35.6% (R^2=0.356) of the variance in cost, 43.5% of the variance in flexibility (R^2=0.435), 36.2% (R^2=0.362) of the variance in the competitive capability of delivery, and 43.6% (R^2=0.436) of the variance in quality. To test the predictive relevance of the model, the Stone-Geisser Q^2 test was used. The Q^2 statistic to measure predictive relevance is calculated following the *blindfolding* procedure. The Q^2 values must be greater than zero for each of the latent endogenous variables (Hair et al., 2017). Table 7 shows that all the Q^2 values are greater than zero, ranging between 0.05 and 0.363, and so the model has predictive relevance.

The Goodness-of-fit (GoF) indicator was applied, which consists of the geometric mean of the average of the communalities multiplied by the R^2 mean. A GoF above 0.36 is considered a good-fitting model (Chin, 1998). In our case, the value is 0.501 (see Table 10), and so we can state that the model has sufficient predictive quality.

Table 7. **Goodness of fit (GoF) (index)**

	AVE	R^2	Q^2
Supplier Innovation	0.520		
Benefits of outsourcing	0.737	0.079	0.052
Outsourcing level	0.752	0.245	0.170
Cost	0.964	0.356	0.323
Flexibility	0.804	0.435	0.322
Delivery	0.845	0.362	0.281
Quality	0.894	0.436	0.363
Average values	0.788	0.318	
AVE x R^2 GoF=$\sqrt{\text{AVE x } R^2}$		0.251 0.501	

Source: own elaboration

The size of the f^2 effect measures the impact of each exogenous variable on the endogenous variable. Most of the effect sizes obtained f^2 for the significant variables that explain that the variability in the dependent variables is higher than the base level of 0.02.

Table 8. **Path coefficients, t-statistics, and f-squared**

Hypothesis	*B*	t	*p*	f^2	Results
Supplier Innovation → Benefits of outsourcing	0.281	2.506	0.006	0.086	Supported
Benefits of outsourcing → Outsourcing level	0.495	6.913	0.000	0.324	Supported
Supplier Innovation → Cost	-0.093	1.158	0.124	0.013	Not supported
Supplier Innovation → Flexibility	0.226	3.324	0.000	0.088	Supported
Supplier Innovation → Delivery	0.158	2.102	0.018	0.038	Supported
Supplier Innovation → Quality	0.181	2.556	0.005	0.057	Supported
Outsourcing level → Flexibility	-0.582	9.834	0.000	0.583	Not supported
Outsourcing level → Cost	0.574	8.518	0.000	0.496	Supported
Outsourcing level → Delivery	-0.554	8.899	0.000	0.468	Not supported
Outsourcing level → Quality	-0.605	10.605	0.000	0.629	Not supported

Source: own elaboration

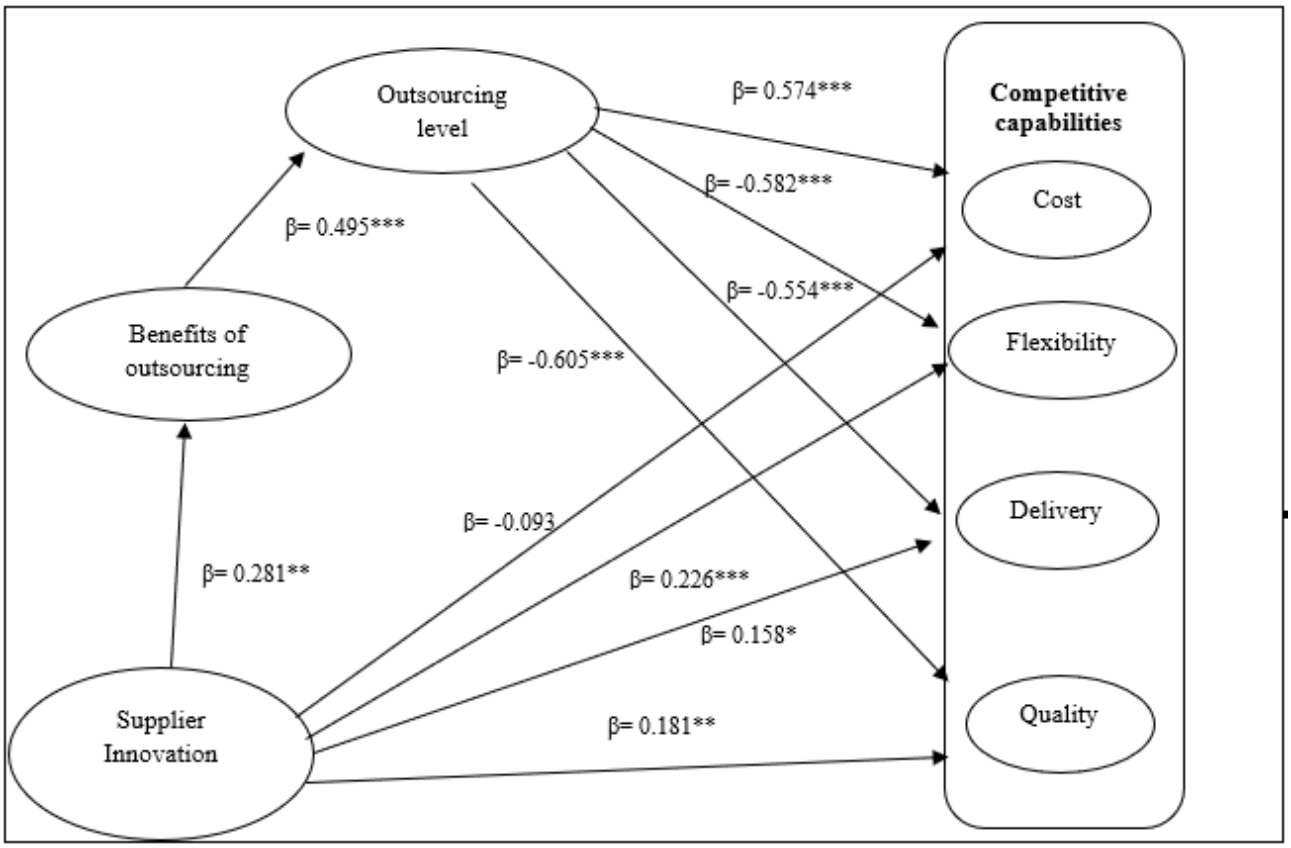
Figure 2 and Table 8 show that supplier innovation has a positive influence on the perceived benefits of outsourcing (β=0.281, $p<0.01$), and so Hypothesis 1 is supported. Furthermore, outsourcing benefits significantly influence the level of hotel outsourcing (β=0.495, $p<0.001$), which suggests support for Hypothesis 2. Regarding Hypothesis 3, which predicts a positive effect of supplier innovation on competitive capabilities, the results support Hypotheses 3b, 3c, and 3c for flexibility, delivery, and quality, respectively (β=0.226, $p<0.001$; β=0.158, $p<0.05$; β=0.181, $p<0.05$). However, Hypothesis 3a, which relates supplier innovation to the competitive capability of cost, is not supported because the relationship

is not significant (β=-0.093 p>0.10). Therefore, supplier innovation has a positive influence on competitive capabilities related to flexibility, delivery, and quality.

In the case of Hypothesis 4, which predicted a positive effect of the outsourcing level on competitive operational capabilities, the results are mixed. For Hypothesis 4a, related to cost, the results show that outsourcing has a positive influence on cost improvement (β=0.574 p<0.001), and so this hypothesis is supported.

In contrast, Hypothesis 4b (outsourcing level-flexibility), Hypothesis 4c (outsourcing level-delivery), and Hypothesis 4d (outsourcing level-quality) are not supported because the results obtained are the opposite of what was predicted (β=-0.585, p<0.001; β =-0.554, p<0.001; β =-0.605, p<0.001), and so Hypotheses 3b, 3c, and 3d are not confirmed.

Figure 2. Structural model



Source: own elaboration

* p < 0.05. ** p < 0.01. *** p < 0.001

5. Discussion and Conclusions

The study aims to analyse the impact of supplier innovation on outsourcing benefits, as well as the effect of the outsourcing level and supplier innovation on the hotel's competitive capabilities. Before testing the model, the outsourcing levels of the main activities and the outsourcing benefits perceived by managers were examined.

With regard to the outsourcing levels, on the one hand, the results show that Egyptian hotels outsource entertainment activities and transport services to a greater extent. Activities related to information systems, maintenance, and security and surveillance are also activities with a high level of

outsourcing. On the other hand, activities with a lower level of outsourcing are the ones directly related to the quality of the services received by the guests, that is, food and drink, laundry, and staff training and selection. However, reception and room cleaning are considered key service activities, and so they do not present any level of outsourcing. Laundry is one of the most outsourced activities in other destinations (Espino-Rodríguez & Ramírez Fierro, 2017), whereas in Egypt it is an activity with a low outsourcing level. The most outsourced activities in other settings are laundry, animation activities, security and vigilance, and training (Espino-Rodríguez & Ramírez Fierro, 2017). In contrast, the results of the study indicate that, in Egypt, the tasks outsourced the most are leisure activities, transportation services, and maintenance. In general, the same tendency is observed at the international level, outsourcing the activities and tasks that do not form part of the basic competences. Moreover, Zhang et al. (2018) show that supplier specialization contributes to the overall efficiency of hotels, contributing to improving hotels' long-term commitments to outsourcing suppliers.in contrast, room cleaning and reception are not outsourced by any hotel. Reception is the most important point of contact with the customer, and so managers do not want to outsource it. Likewise, an important part of the perceived quality of a hotel is based on the cleanliness of the rooms; therefore, Egyptian managers do not want to outsource it either. The results indicate that the desired level of outsourcing is higher than the current level for all activities except reception and room cleaning. This suggests that there are market niches that can be exploited by companies in the services sector, given that, if suitable suppliers existed, outsourcing could be used more than it is now. The activities where outsourcing could grow the most are: cleaning of noble and common areas, maintenance, security and surveillance, information systems, and transport services.

If we compare the results obtained in Egypt, in terms of the average level of outsourcing, it is quite similar to what was obtained in other destinations (Espino-Rodríguez & Ramírez-Fierro, 2018). For example, in this destination, 52.7% of the activities analysed present some level of total or partial outsourcing, which implies that this strategy is employed by hotels.

The main outsourcing benefits perceived by managers are related to the perception that drawing on external suppliers helps the hotel to fill its urgent staff needs. In addition, the consideration that outsourcing allows the hotel to focus on key activities is seen as an important benefit, although fewer managers perceive that outsourcing can improve the hotel's profitability. In this regard, the study by Espino-Rodríguez and Ramírez-Fierro (2018) also considers that the greatest perceived benefit is that outsourcing helps to cover urgent staff needs. This gives outsourcing a more tactical approach, with cost reduction ranking sixth. However, some importance is also given to the perception that outsourcing fosters quality improvement. This indicates that outsourcing is carried out based on cost and quality criteria, especially for non-core activities that are not directly related to the service. The results indicate that activities that are directly related to the quality perceived by the guests are not outsourced at all or very little.

Regarding the model's hypotheses, the results indicate that supplier innovation increases outsourcing benefits. Thus, when suppliers introduce new services and products, look for new working methods, and are creative, there are more perceived benefits of outsourcing related to cost, efficiency, and other strategic aspects linked to quality and an emphasis on core competencies, which may favour outsourcing's success. Innovation makes it possible to increase the relationships between buyers and sellers, which leads to more successful outsourcing. As Kim and Chai (2017) point out, supplier innovation implies a more open mind toward product and process changes, which has positive consequences for outsourcing. These authors point out that supplier innovation allows more information to be shared with buyers, resulting in more benefits from outsourcing.

The results indicate that the benefits of outsourcing positively influence the current degree of outsourcing. Current overall outsourcing was measured on a scale without measuring the current outsourcing of each individual activity. Thus, the results show to what extent the hotel is dependent on outside suppliers and external staff. These results support recent literature suggesting that managers'

perceptions of the benefits of outsourcing positively influence current outsourcing levels (Espino-Rodríguez & Ramírez-Fierro, 2018). Moreover, Elhoushy et al. (2020) show that current outsourcing is related to the perception of the benefits received, although these authors use the current level of each outsourced activity.

With regard to the relationship between supplier innovation and competitive capabilities, the results show that the more innovative suppliers are in the services they provide, the greater the competitive capabilities related to quality, delivery, or flexibility. However, supplier innovation does not influence cost-related competitive capabilities. In contrast, the study by Azadegan and Dooley (2010) in the industrial sector shows that supplier innovation positively influences all the competitive capabilities, including cost. Supplier innovation does not improve competitive capabilities of cost, given that innovation can have an impact on the price of the services. Therefore, the benefit obtained from supplier innovation contributes more to other competitive priorities apart from cost. Supplier innovation supports competitive advantages related to quality, flexibility, and delivery, but not cost. Thus, supplier innovation leads to higher quality and more specialised, but not cheaper, services, and it has no effect on the competitive capability related to cost.

Outsourcing negatively influences competitive capabilities related to quality, flexibility, and delivery. In contrast, supplier innovation allows the hotel to compete more in these priorities. This result indicates that if hotels want the improve their competitive capabilities, they will not be able to have a high level of outsourcing. They will have to limit themselves to outsourcing non-core activities that are not as important in gaining a competitive advantage over their competitors. However, when hotels only outsource certain activities, present a lower level of outsourcing, and have innovative suppliers, they can improve competitive capabilities related to quality, flexibility, and delivery. Conversely, when hotels outsource more, they hinder these competitive capabilities and improve cost-related competitive capabilities.

A higher outsourcing level makes it possible to improve the competitive capability related to cost. However, supplier innovation does not allow the hotel to have a competitive capability related to cost, probably because innovative suppliers offer more expensive services. Hotels that outsource the most have a competitive advantage in terms of cost but not other competitive capabilities. A higher level of outsourcing favours the competitive capability of cost, thus achieving greater efficiency. These results are consistent with those obtained in other studies (Espino-Rodríguez and Ramírez Fierro, 2018).

5.1. Academic and practical implications

From an academic point of view, the study builds a theoretical framework that relates supplier innovation and the outsourcing level to competitive capabilities. The paper shows that there is a positive relationship between supplier innovation and most of competitive capabilities. This relationship had not been tested in the hotel sector. The study also shows that outsourcing positively influences the development of competitive capabilities related to cost and a negative influence on the development of other competitive capabilities. It empirically shows a negative relationship between outsourcing and competitive capabilities related to quality, flexibility, and delivery. Moreover, in line with other studies, the results show that outsourcing is used more when managers perceive it as a good strategy that benefits the hotel.

From a practical point of view, the study identified which activities are outsourced more often and which are not, as well as the main benefits of outsourcing perceived by managers. These results help managers determine which activities are outsourced in the hotel sector, and how their hotel is positioned in outsourcing. In this sector, professionals' knowledge about the degree of supplier innovation becomes essential in making hotels more competitive.

On the one hand, if there is a desire to develop competitive capabilities other than cost, the outsourcing level should be lower because it impairs quality, delivery, and flexibility. On the other hand,

hotels that want to be cost leaders will be able to outsource more and use supplier innovations to compensate for the loss of competitive advantage due to outsourcing. Therefore, hotels should choose their suppliers based on innovation criteria. In addition, those in charge of controlling outsourcing contracts should constantly monitor suppliers' innovations in order to improve the hotel's competitive capabilities, given that innovation is a differentiating element in obtaining competitive advantages. Selecting innovative suppliers makes it possible to obtain more synergies and improve the competitive capabilities. In addition, hotels should only outsource activities that are not involved in core competencies, and they should not have high levels of outsourcing if they wish to compete in quality, flexibility, and delivery. However, hotels that choose to be cost leaders can have a higher degree of outsourcing.

5.2. Limitations and future research

The scale used by the model does not reflect the average outsourcing of each activity but rather the hotel's level of outsourcing as perceived by the respondent. Therefore, it does not refer to specific activities, and the degree of outsourcing of each activity can influence the hotel's competitive capabilities. Even though we have this data, this impact was not analysed in this paper, so future studies could consider the impact of the outsourcing of each activity on competitive capabilities. In addition, the study analyses the impact of outsourcing supplier innovation on competitive capabilities, but it does not consider supplier innovation according to the type of activity. Instead, it carries out an overall analysis. Therefore, future studies could consider the impact of supplier innovation on each outsourced activity. The study of the most commonly outsourced activities in the hotel sector could be addressed. In addition, this study is carried out only from the buyers' perspective, i.e., the hotels. Thus, future research should explore the perspective of suppliers by surveying the main suppliers of each hotel. Other studies should consider other geographical areas or even services sectors, apart from the hotel sector, to contrast the relationships obtained in this study. Therefore, it would be necessary to carry out studies on outsourcing at an international level and compare the results to those obtained in this paper. Likewise, the results of supplier relationships may depend on other variables that could be considered when evaluating suppliers. Furthermore, competitive capabilities in the hotel sector depend on other decisions that were not analysed in this study and should be considered in future research.

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Appendix

Code	Factors
	Supplier Innovativeness
SI_1	In new product and service introductions, our service providers are often first-to-market.
SI_2	In comparison with its competitors, the outsourcing suppliers have introduced more creative and useful products and services in the past five years.
SI_3	The external providers aggressively market its product innovativeness.
SI_4	In new product and service introduction, the service providers are at the leading edge of technology.
SI_5	The external providers are constantly improving its manufacturing processes.
SI_6	The external providers changes production methods at a great speed in comparison with its competitors.
SI_7	During the past five years, the external providers have developed many new management approaches (excluding manufacturing processes).
SI_8	When the providers external cannot solve a problem using conventional methods, it improvises on new methods.
	Benefits of outsourcing
BO_1	With outsourcing, the hotel management has more time to do the tasks.
BO_2	In the hotel, we do our jobs better thanks to outsourcing.
BO_3	The outsourcing of services allows the hotel to be more efficient.
BO_4	Hotel outsourcing allows the hotel to meet urgent personnel needs.
BO_5	This hotel's outsourcing helps the in-house staff to be able to do more things.
BO_6	With the outsourcing of services, the hotel can focus on core activities.
BO_7	With outsourcing we get more work done with less effort.
BO_8	Services outsourcing favors reductions in the hotel's costs.
BO_9	Services outsourcing makes it possible to obtain highly qualified work with considerable experience.
BO_10	Outsourcing allows us to have more free time to spend on other tasks.
BO_11	Outsourcing makes it possible to increase the hotel's profits.
BO_12	Outsourcing makes it possible to increase the quality of the hotel's services.
	Outsourcing level
OL_1	A large part of this hotel's personnel come from contracted services.
OL_2	Many departments in my hotel depend on external companies.
OL_3	The volume of services that this hotel has outsourced is high.
OL_4	A large number of my co-workers are subcontracted workers.
OL_5	A high percentage of staff members are external workers.
	Competitive capability (cost)
CO_1	We offer lower-priced products than competitors.
CO_2	Lower cost of developing operations than competitors.
	Competitive capability (flexibility)
FL_1	We offer rapid introduction of new services quickly.
FL_2	My hotel offers a broad services line.
FL_3	Customization services to individual customer needs.
FL_4	Rapid changes in the current design of services.
FL_5	Rapid changes in the amount of goods/services.
	Competitive capability (delivery)
DE_1	Level of quality offered to the customer.
DE_2	Offer a high level of performance in the service.
DE_3	We offer our service with low defects or complaints.
DE_4	Speed in providing in the service.

	Competitive capability (quality)
QA_1	Shortening of queues in the hotel´s front-office departments.
QA_2	Fast deliveries in the services offered by the hotel.
QA_3	Promptly handle customer complaints.