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An Investigation of the Use of Hotel Management Contracts and the Application of Agency Theory

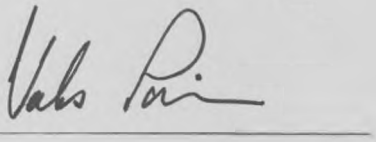
Veerades Panvisavas

A thesis presented in fulfilment of the requirements for the degree of Doctor of Philosophy

March 2009

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Abstract

Agency theory identifies the problems that may arise when ownership is separated from control (Jensen and Meckling, 1976) and concerns the ability of the principals to ensure their agents are fulfilling their objectives. Hotel management contracts (HMCs) are used worldwide as a mechanism for separating the ownership of hotel properties and their management. The research reported here examines the application of agency theory to these management contracts and the issues associated with the use of HMCs in Thailand, as perceived by Thai property owners and the international hotel chains.

In this thesis there are two distinct but related foci. The first focus is concerned with the application of agency theory to HMCs, particularly in relation to issues arising from a potential conflict of interest arises. Here an effort is made to better understand the nature of the contractual relationship between the hotel owner (as principal) and the hotel management company (as agent) than is currently found in the extant literature. Moreover, while previous studies concerning HMCs were found to be very descriptive, this research attempts to develop a more theoretical perspective. This provides the first/primary research problem tackled by this thesis: '*the extent to which agency theory is a useful lens to examine the nature of the relationship between the hotel owner and the hotel management company in hotel management contracts*'.

The second focus concerns an attempt to gain a better picture and understanding of the nature of the use of HMCs in Thailand. In Thailand, most of the international hotel management companies come from developed countries (e.g. USA, France) and these companies are continuing to expand around the world in both developed and developing countries through the use of HMCs. However, certain key issues and problems can arise along with the use of HMCs in Thailand. This addresses the second general research problem of establishing '*the extent to which the nature and associated issues of hotel management contracts in Thailand are similar to those identified in previous research*'.

Given that the emphasis of this research is upon surfacing the perceptions of Thai hotel owners and the international hotel management companies (who have entered into a management contract arrangement in Thailand), it was decided that a qualitative approach was appropriate as this would enable the specific views of the individual participants to be captured. Another factor leading to this approach being adopted was that little or no previous research exists on HMCs in Thailand and in such circumstances a qualitative approach is considered appropriate (Creswell, 2003). The specific technique chosen for data collection was semi-structured, face-to-face, elite interviewing of selected participants who accounted for approximately twenty-five per cent of the total population of the management contracts awarded to international hotel companies in Thailand.

The research findings suggest that agency theory can be an extremely useful and powerful theoretical lens for examining the relationship between the hotel owner and the hotel management company under a HMC. It is suggested that the agency relationship within a HMC is more usefully viewed as a 'principal/professional' type relationship (Mill, 1990; Sharma, 1997; Webber, 2000; Mason and Slack, 2005) rather than a traditional 'principal/agent' relationship (Jensen and Meckling, 1976; Sharma, 1997; Besanko et al., 2000; Ekanayake, 2004). However, it is also suggested that neither relationship fully captures the characteristics of the HMC, which is effectively a hybrid of the two types of agency relationships. Drawing upon these findings a new framework is presented one which is based upon the key features which characterise the nature of the agency relationship found in typical HMCs.

It is also suggested that the traditional control approaches (i.e. outcome and behaviour control) might not be so effective in controlling the hotel management company (as agent) in HMCs when applied with the standard control instruments (e.g. contract document, specified monitoring mechanisms). In the context of HMCs, the control of outcome tends to be a priority of the hotel owner. Thus, there might be a need for the hotel owner (as principal) to utilise additional control

approaches (e.g. self-control, bureaucratic control, community control, and client control) through control instruments in order to foster confidence and effectiveness in controlling the hotel management company (as professional agent).

Finally, the findings also suggest that many of the issues associated with HMCs in Thailand are broadly in line with those reported in previous studies on HMCs elsewhere. However, there is evidence of some important variations and these would appear to be driven by the Thai cultural context which places greater emphasis upon relational and subjective factors than typically found in traditional hotel markets such as the USA.

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List of acronyms and abbreviations

GM – Hotel General Manager
GOP – Gross Operating Profit
HMC - Hotel Management Contract
ISAs - International Strategic Alliances
RevPar – Room Revenue Per Room Available
TAT – Tourism Authority of Thailand
THA – Thai Hotels Association

CHAPTER 1: INTRODUCTION

1.0 Introduction

This thesis addresses the application of agency theory to HMCs and the key issues associated with the use of HMCs in Thailand. This chapter will provide an introduction to the research, beginning with the background of the research. This is followed by key information about Thailand, an overview of the research focus and problems, the significance of the study, and the limitations of the study. Lastly, the structure of the thesis is outlined.

1.1 Background of the research

When there is an opportunity for a hotel company to internationalise, the correct choice of entry mode would be a crucial strategy. In the international hotel industry competition, placing the hotel properties in the most appropriate location and expanding the network are significant to a company's competitive position. However, with less interest in investing for ownership, the hotel companies now focus more on property management and strategic alliances in the form of HMCs are commonly used.

HMCs are widely used as a mechanism for separating the ownership of hotel properties and their management. As defined by Eyster (1988a), the management contract is a written agreement between the owner of a hotel and an operator, by which the operator is appointed to operate and to manage the hotel on behalf and for the account of the owner in return for the payment of a management fee. The business model of using HMCs was introduced in the US lodging industry in the late 1960s. Since then, the industry has readily adopted the use of HMCs (Eyster, 1988a). The HMC has become a key business model for both international and domestic expansion in the hotel business. As competition in the hotel business is

strong, international expansion has become an important strategy for managing competitiveness.

Research by Contractor and Kundu (1998a) suggested that in the hotel business, high equity and control modes are not always feasible, nor desirable for large global operations. Consequently, to be a global player, hotel companies will frequently place considerable reliance on non-equity partners and franchisees. Through developing a network of franchisees and operating hotels under management contracts can enable global chains to capture some of the vital economies necessary for competitive international operations. These can be in the form of advantages in areas such as global logistics, supplies, architectural design, reservations, training, and brand recognition. Nonetheless, equity based arrangements or direct ownership have traditionally been the preferred options for ensuring greater operational control and a greater level of operating profits. This preference for control tends to be particularly evident where a firm's top management have a greater concern for maintaining quality levels. That said, many hotel management companies are continuing to expand around the world (not only in the developed countries, but also in the developing countries) through the extensive use of HMCs. In fact, HMCs have become increasingly popular as a mode of business, as these companies specify hotel operations and not hotel ownership as their key area of competence. In this situation, the use of HMCs as a business model tends to be driven by the hotel management companies.

In relation to this, in the context of the industry, hotel management companies tend to work under long-term management contracts and on establishing their brand in order to gain new capital sources and develop more predictable revenue streams. On the other hand, the hotel owner (as a local partner) might make a hotel investment without having the requisite management ability. By its very nature, a hotel is a capital intensive business and it needs a specific level of expertise to take care of the investment in order to achieve a positive business performance. This creates the need for professional hotel management services, operating the property on the owner's behalf under a formal commercial agreement. Hotel management

companies bring their professional expertise to ensure a positive cash flow and a satisfactory return on investment as well as the effective operation, maintenance, and development of a hotel property. This type of arrangement is termed a HMC and is frequently combined with a franchise arrangement. Thus, there is a clear separation of the hotel's ownership and its actual operation (Litteljohn, 2003).

Under these circumstances, the hotel property owner (as principal) and the hotel management company (as agent) are clearly engaging in an agency relationship, in which there is a partial conflict of interest between them. Consequently, an agency problem might arise in their relationship. This can be supported by Eyster (1997a) who noted that important court decisions in USA in the late 1990s clarified the concept of agency, whereby the courts determined that HMCs are agency agreements between owners (principals) and operators (agents) and are thus subject to agency law. Agency law places a fiduciary duty on agents, which is to place the principal's interest over their own; precludes agents from competing with their principals; and precludes self-dealing without full disclosure to, and approval, of their principal.

Thus, by nature of using a HMC as a form of strategic alliance, co-operation is achieved. However, Chathoth and Olsen (2003) suggested that although both parties combine specialised assets/resources, it does not resemble a true collaborative alliance contract due to the imbalance of risk sharing. Indeed, to some extent, the relationship between hotel owners and their operators could possibly be viewed as a client-professional service agent employment situation, where hotel owners act as a principal (who is in need and appoints the hotel business expertise to run the property for them) and operators become an agent (who have the hotel business expertise, offer the service of hotel management, and manage the hotel property in return for management fees). This highlights the potential for agency-related problems and the subsequent importance of agency theory.

In a theoretical context, agency theory identifies the problems that may arise when ownership is separated from control (Jensen and Meckling, 1976). An agency relationship exists when one individual (as agent) is hired to act, i.e. the delegation of

decision making authority, on behalf of another (the principal). If the aim of both parties is to maximise their economic position, then there is good reason to believe that the agent might not always act in the best interests of the principal (Jensen and Meckling, 1976; Fama and Jensen, 1980; Eisenhardt, 1989; Sharma, 1997); Besanko et al, 2000; Shapiro, 2005). Thus, the concept of agency theory is concerned with the ability of the principals to ensure their agents are fulfilling their objectives. Principal-agent relationship frameworks have been developed from the relationships between owners and managers of large public corporations, employers and employees, clients and lawyers, and buyers and suppliers, but the main concern of agency theory is the governance mechanisms that limit the agent's self-serving behaviour including various control and incentive mechanisms (Jensen and Meckling, 1976; Eisenhardt, 1989). This thesis is primarily concerned with the application of agency theory to HMCs, and in particular how agency theory deals with issues that may arise whenever a potential conflict of interest exists as is often the case with HMCs. Here, through the lens of agency theory, an effort is made to gain a better understanding, than is currently found in the extant literature, of the nature of the relationship between the hotel owner (as principal) and the hotel management company (as agent) in a HMC.

Additionally, as a developing country, Thailand's hotel industry is growing along with its tourism industry. Due to the business potential, Thai hotel owners continue to invest in hotel properties and a number of new hotel/resort properties have been developed each year. However, not all hotel owners have the necessary knowledge and know-how in managing a hotel property. Currently the business model of a HMC is widely used in Thailand by Thai hotel owners and international hotel management companies. However, since most of the international hotel management companies come from developed countries (e.g. USA, France), one issue that this research seeks to address is the extent to which the context of a developing country may influence the use/application of hotel management contracts. The international hotel companies in Thailand all use HMCs in their domestic markets and the extent to which the local context influences their use is of

interest. As a secondary concern of this thesis, this research attempts to identify and to explore the key issues associated with the use and operation of HMCs in Thailand.

1.2 Background information about Thailand

This section will provide background information about Thailand's tourism and hotel industry as well as foreign hotel companies and their expansion within Thailand.

1.2.1 Tourism industry in Thailand

Since 1960 when it established the Tourism Organization of Thailand (reformed as the Tourism Authority of Thailand – TAT in 1979), the Thai Government has been slowly developing its tourism industry. However, the government only began to develop the tourism industry attentively and systematically in 1979, when tourism was included in the Fourth National Economic and Social Development Plan (1972-1981). The plan was aimed at strengthening the Thai economy in the areas of international trade, investment, and tourism in order to boost foreign exchange earnings and to create and expand employment opportunities.

Today tourism plays a crucial role in the growth of Thailand's economy. It is a major source of foreign exchange income for the country and has consistently been the second highest income generating industry for Thailand (Bank of Thailand, 2003). Furthermore, the tourism industry has had a positive multiplier effect on other industries, such as the hotel industry, the food industry, the souvenir industry, and the construction and land development industry. As such, this multiplier effect supports the development of small and medium business enterprises, which is crucial to the economic growth and strength of the country's economy (National Economic and Social Development Board - NESDB, 2003).

Many promotional campaigns have been launched by the Tourism Authority of Thailand in the past fifteen years, such as 'Visit Thailand Year' (1987-1990),

'Amazing Thailand' (1995-2000), and 'Unseen Thailand' (2003). Various kinds of packages with different incentives have been introduced by tour operators and agencies. Furthermore, international marketing activities have been organised through exhibitions in the main tourist markets throughout the world including Europe, North America, Asia, and Australia, by both the government and the private sector. Through strong marketing efforts, the number of international visitors and the amount of revenue has grown steadily every year during the past decade (TAT, 2005b).

As reported by the World Tourism Organization (WTO) in 2003, Thailand is one of the major tourism destinations in the Asia and Pacific region. In comparing international tourist arrivals, Thailand welcomed approximately 10 million visitors which is less than China, 36 millions; Hong Kong, 16 millions; and Malaysia 13 millions. In addition, in terms of international tourist receipts, Thailand received 7.9 billion US$ which is less than China, 20 billion US$; Hong Kong, 10 billion US$; and Australia, 8 billion US$.

As reported by Ngamsom Rittichainuwat, Qu, and Brown (2001), the popularity of Thailand is a result of many factors, including its beautiful beaches, diverse culture and historical attractions, numerous world-class hotels and resorts, gourmet restaurants, and good shopping. Thailand is viewed as a safe and friendly destination, that features considerable cultural, natural and historical attractions. Most tourists agreed that a trip to Thailand returned value for money and that the access was easy. Furthermore, there was to be found a significant positive relationship between good value and a return visit, increasing the likelihood that travellers intend to return to Thailand. In addition, Yau and Chan (1990) mentioned that Thailand is often regarded as a destination of choice for European tourists.

Table 1.1: Thai hotel statistics during 1992 - 2004

Year	No. of Rooms	Average Occupancy Rate	Length of Stay	Thai		Foreigner		Total
				(persons)	%	(persons)	%	
1992	133,715	46.38	2.73	5,983,796	38.41	9,594,781	61.59	15,578,577
1994	158,948	50.46	2.48	8,695,750	42.28	11,873,207	57.72	20,568,957
1996	187,334	51.43	2.27	14,243,068	51.74	13,283,569	48.26	27,526,637
1998	202,188	47.49	2.19	14,055,769	47.39	15,603,761	52.61	29,659,530
2000	215,582	50.84	2.18	15,827,064	46.33	18,331,410	53.67	34,158,474
2002	239,214	52.66	2.14	19,325,157	47.66	21,219,865	52.34	40,545,022
2004	281,605	52.57	2.22	25,669,837	52.37	23,344,678	47.63	49,014,515

Source: Tourism Authority of Thailand, 2005a

Table 1.2: Comparison of hotel statistics of major destinations in Thailand during 1998 - 2004

Major Destinations	1998		2000		2002		2004	
	No. of Room	(%) OR	No. of Room	(%) OR	No. of Room	(%) OR	No. of Room	(%) OR
Bangkok	55,381	54.76	57,899	57.17	55,745	63.90	60,924	63.14
Cha-am	4,022	39.69	3,746	47.68	3,799	55.77	4,514	45.68
Hau Hin	2,955	54.33	3,038	54.78	3,731	52.74	4,147	55.08
Pattaya	23,427	56.14	23,608	60.20	24,648	61.08	26,503	57.15
Phuket	17,952	58.87	19,574	67.14	26,637	57.00	32,076	65.47
Krabi	4,251	47.59	4,873	54.55	9,088	43.22	10,950	47.54
Phang-nga	984	36.00	1,873	49.21	2,591	50.50	6,369	53.69
Samui	8,780	46.88	9,192	59.68	9,870	60.51	12,315	62.04
Chaing Mai	14,344	42.55	14,344	40.24	13,466	44.47	14,103	50.50
Chaing Rai	3,465	40.95	3,465	41.78	2,935	45.90	5,491	32.49
Total	135,561	47.78	141,612	53.24	152,510	53.51	177,392	53.27
All Areas in Thailand	202,188	47.49	215,582	50.84	239,214	52.66	281,605	52.57

Source: Tourism Authority of Thailand, 2005a
Note: OR = Occupancy Rate

1.2.2 Thai Hotel Industry

Over the last ten years, the Thai hotel industry has grown alongside the expansion of the tourism industry, when comparing Thai hotel statistics between 1992 and 2004 as reported by the Tourism Authority of Thailand (see Table 1.1), the number of rooms has increased from approximately 130,000 rooms to nearly 290,000 rooms and the number of guests, both Thai and foreigner, has increased from 15.5 million to more than 49 million. The ratio of Thai to foreign guests, staying in hotels during the stated period, is nearly half and half, while the average occupancy rates remained almost the same (i.e. approximately 50 %) throughout the past ten years.

More than 55 percent of the total number of rooms in the country are in the major destinations. This includes not only Bangkok, but also those hotels and resorts situated in other tourism and business destinations throughout the country (see Table 1.2), e.g. Phuket, Samui, Cha-am, Hua Hin, Chiang Mai, Chiang Rai, and Pattaya. Between 1998 and 2004, the number of rooms in Phuket, Krabi, Phang Nga, Pattaya, Hua Hin, and Koh Samui increased steadily. However, during the same period there was a slight decrease in rooms in Chiang Mai and Chiang Rai.

According to the Tourism Authority of Thailand (2005a), hotels are categorized into 5 groups by using the room rate, Group 1: 2,500 baht and above; Group 2: 1,500-2,499 baht; Group 3: 1,000-1,499 baht; Group 4: 500-999 baht; and Group 5: below 500 baht (£1 = approximately 70 baht). The hotels in groups 1-3 are considered luxury to economy properties and their occupancy rates are higher than the hotels in groups 4-5, particularly those hotels in group 1 which have had nearly a 70 percent occupancy rate in the last two years. The number of hotel rooms in groups 1-3 has increased steadily since 1998. Moreover, most of the hotels in groups 1-3 are situated in the major destinations, in particular Bangkok, Pattaya and Phuket. Thus, the majority of foreign tourists tend to stay in hotels from groups 1-3 rather than groups 4 and 5.

1.2.3 Foreign hotel companies and their expansion in Thailand

Foreign hotel companies first expanded into Thailand in 1967 with Hilton, Hyatt, InterContinental, and Mandarin Oriental among the first hotel groups to do so (Bangkok Post, 2004). Now, however, most other major foreign hotel companies have also established their names and properties in Thailand, for example, Accor, Starwood Hotels and Resorts, Marriott, Hilton, InterContinental Hotel Group, Four Season Hotels and Resorts, etc.

The major indigenous hotel companies are currently Dusit Hotels and Resorts, The Imperial Hotels Group, Amari Hotels and Resorts, and Central Hotels and Resorts. In the past these companies have concentrated on expanding their hotels and resorts within the country itself. However, the growing internationalisation of the Thai hotel company has been a major trend of the past few years. Compared to foreign hotel companies, Thai hotel companies are small and immature in term of size and worldwide networks (see Table 1.3). Many hotel and resort properties in Thailand are currently managed by foreign hotel companies, who use HMCs as a form of doing hotel business with local investors. Table 1.3 suggests that apart from Thai hotel companies, there is one foreign hotel management company (company A) which is particularly significant in the Thai hotel market. In terms of the number of properties in Thailand, company A has 18 properties while the next closest foreign companies are company E and company I, both with less than 6 properties (see Figure 1.1).

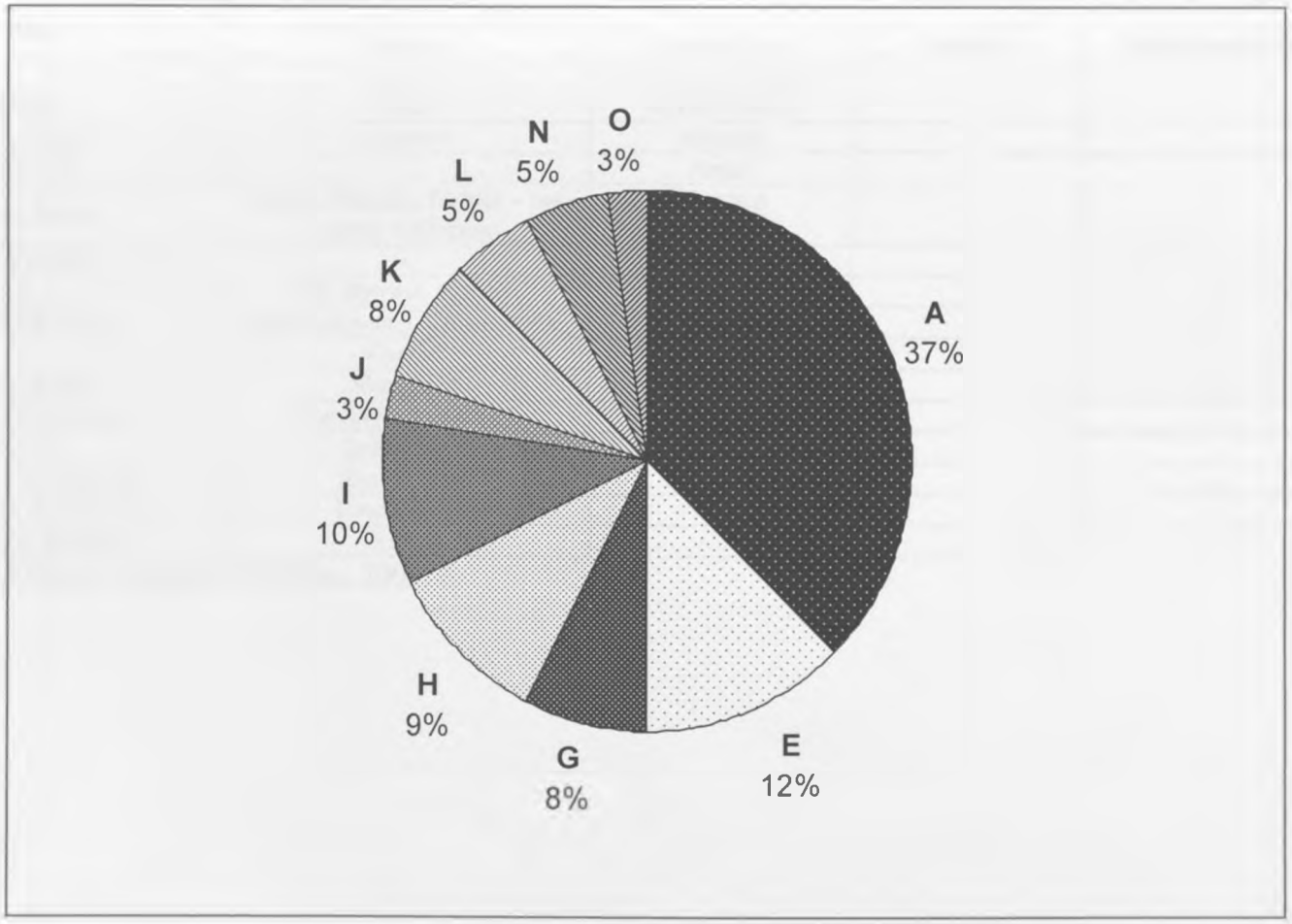
Due to the growth of tourism in the major destinations, most of the properties belonging to hotel companies, both Thai and foreign, are situated in Bangkok and Phuket (rather than on other major destinations). Since these is a high business potential in the luxury and upper class markets, most of the brands launched in Thailand by hotel management companies are aimed at these upper class and luxury brands (see Table 1.4). However, foreign hotel companies tend to have most of the market share in the luxury market (5 star properties). The number of properties

Table 1.3: Comparison of major hotel companies in Thailand in 2003

Company	Country of Origin	Thailand Ranking			World Ranking			Ownership & Management of Property in Thailand			
		Rank	Property	Room	Rank	Property	Room	Own	Joint Venture	Management Contract	Franchise
A	France	1	18	4,046	4	3,654	415,774	-	-	15	3
B	Thailand	2	16	3,933	160	20	5,189	9	-	7	-
C	Thailand	3	16	3,411	233	11	3,169	11	-	5	-
D	Thailand	4	15	3,325	244	13	2,933	10	-	5	-
E	USA	5	5	2,130	8	743	224,467	-	-	5	-
F	Thailand	6	10	1,875	256	15	2,773	10	-	-	-
G	USA	7	6	1,825	3	2,398	435,983	-	-	3	3
H	USA	8	4	1,659	2	3,274	511,072	-	-	4	-
I	USA	9	4	1,462	10	384	92,778	-	-	4	-
J	Hong Kong	10	1	799	46	38	19,658	-	-	1	-
K	France	11	3	652	23	145	37,667	-	-	3	-
L	USA	12	2	591	11	204	88,442	-	-	2	-
M	Singapore	13	3	573	-	-	-	3	-	-	-
N	Canada	14	2	420	57	53	14,250	-	-	2	-
O	Hong Kong	15	1	396	127	18	7,008	-	-	1	-
Total			**106**	**27,097**				**43**	-	**57**	**6**

Source: Various Hotel and Resort Company web sites
World Ranking – Hotels Magazine (2002)

Figure 1.1: Breakdown of number of properties under management contract of major foreign hotel companies in Thailand



Source: Based on Table 1.3 (Comparison of major hotel companies in Thailand in 2003)

Table 1.4: Major hotel companies and their brand classification

Company				
	Luxury	**Upper Class**	**Economy**	**Budget and below**
Accor	Sofitel	Novotel, Mercure	-	-
Dusit Hotels and Resorts	Dusit	Royal Princess	-	-
The Imperial Hotels Group	Athenee	Imperial	-	-
Amari Hotels and Resorts	-	Amari	-	-
Starwood Hotels and Resorts	Westin, Sheraton Grande – the Luxury Collection	Sheraton	-	-
Central Hotels and Resorts	-	Central	-	-
Marriott International	JW Marriott, Mariott	Mayfair	-	-
Inter Continental Hotel Group	Intercontinental, Crown Plaza	Holiday Inn	-	-
Hilton	Conrad	Hilton	-	-
Shangri-la Hotel and Resorts	Shangri-la	-	-	-
Le Meridien Hotels and Resorts	Le Royal Meridien	Le Meridien	-	-
Hyatt Hotels and Resorts	Grand Hyatt	Hyatt Regency	-	-
Banyan Tree Hotels and Resorts	Banyan Tree	Allamanda	-	-
Four Seasons Hotels and Resorts	Four Seasons	-	-	-
Mandarin Oriental Hotel Group	Oriental	-	-	-

Source: Various Hotel Company Web-sites, 2003

under foreign hotel companies is still increasing significantly compared to Thai hotel companies. More than 20 properties with more than 3,500 new rooms will have been opened by 2006-07 in Bangkok and the other major destinations (Bangkok Post, 2004).

It is important to note that because of the significant growth of the tourism industry and its steady growth and healthy economic situation, Thailand is one of the most attractive Asian destinations for investment in the hotel business. However, investment by foreign nationals is, to some extent, restricted. Under the Alien Business Act 1999, a foreign investor and a majority foreign owned company registered in Thailand are restricted from carrying out certain types of business activities unless prior approval is granted by the relevant authority. For example, investment in the hotel industry (except for hotel management service), is regulated by the Alien Business Law (which covers those industries which Thai nationals are not yet ready to compete with alien). Foreign investors must first obtain permission from the Director General of the Department of Commercial Registration (Ministry of Commerce) and the approval of the Foreign Business Board.

According to the Broad of Investment, a person (Thai or alien) may engage in a number of business forms such as a single proprietorship, limited company, partnership, a joint venture, a branch of a foreign corporation, or a representative/regional office. A company may be wholly owned by aliens, except, in those business activities reserved for Thai nationals, where aliens' participation must not exceed 49%. Consequently, investment in the hotel business is restricted, whereby a foreign investor or a majority foreign owned company registered in Thailand may not fully own the hotel property because the maximum equity allowed is 49%. However, there are no such restrictions on foreign owned companies conducting business via hotel management services in Thailand.

1.3 Research aim and objectives

The overall aim of this research is to undertake research into HMCs. There are two objectives in this research, which are 1) to explore agency theory and its value; and 2) to develop an insight into issues associated with the use of HMCs in Thailand.

The primary objective of this research is to explore the value of agency theory for developing a more sophisticated understanding of the nature of the relationship between the hotel owner and the hotel management company in the HMC. The primary research problem developed is thus:

> *'The extent to which the agency theory is a useful lens to examine the nature of the relationship between the hotel owner and the hotel management company in hotel management contracts'*

Table 1.5: List of research question 1 and 2

Research Question	Details
1	What is the nature of the agency relationship and the associated agency problems present in hotel management contracts?
2	How is agent opportunism restrained in the operation of hotel management contracts?
	2a: Within hotel management contracts to what extent are behaviour and outcome controls used to restrain against opportunism and how suitable are these controls for hotel management contracts?
	2b: To what extent are additional principle/professional agency relationship controls utilised in hotel management contracts to guard against agent opportunism?

Within the literature review (see section 2.2, Chapter 2), two specific research questions are identified which are concerned with addressing the primary research problem, see Table 1.5 above.

Agency theory identifies the problems that may arise when ownership is separated from control (Jensen and Meckling, 1976). Agency problems may arise whenever owners have difficulty in verifying and/or monitoring the behaviour of individuals working within/for a firm, specifically where owners are not directly involved in overseeing a firm's operation. This implies that agency theory seeks to discover ways in which owner/investors in organisations can ensure that their resources are being used for the good of the organisation in which they have an ownership interest. In a service encounter, the client/customer and the service provider seek to maximise the utility of the outcome, but from different perspectives (Mills, 1990; Webber, 2000). The client/customer works to maximise the value of the service while the service provider is only tangentially concerned with the value or quality of the service. Therefore, control systems need to be used to ensure that the professional is operating in the best interests of the client and is accomplishing the work as delegated by the principal. Additionally, in situations where agents possess more specialised knowledge than the principal, the potential for opportunism is increased. This is normally the case where professional service companies are hired by organisations and given limited decision making.

In the context of HMCs, a hotel owner (as a principal) might employ a hotel management company (as an agent) to maximize the asset's value, if the hotel owner owns some asset but lacks the necessary management skills or technical knowledge. This highlights the agency relationship, where the principal (who is in need of such specific skills and technical knowledge) is dealing with the professional/expert (who possesses the required skills and technical knowledge). Previous studies concerning HMCs were found to be very descriptive. Therefore, in this research, there is an effort to develop a more theoretical perspective (e.g. agency theory) by focusing on the application of agency theory to HMCs. Agency theory deals with issues that occur where a potential conflict of interest arises as it does in HMCs.

The secondary objective of this research is to develop an insight into issues associated with the use of HMCs in Thailand and to make a comparison between the use of HMCs in Thailand and elsewhere. In Thailand, most of the international hotel

management companies come from developed countries (e.g. USA, France). These international hotel management companies are continuing to expand around the world in both developed and developing countries through the use of HMCs. However, certain key issues and problems can arise along with the use of HMCs in Thailand. Drawing upon a review of the extant literature (Chapter 2), the key issues associated with the use of HMCs by the hotel property owners and international hotel management companies are identified. Thus, the secondary research problem is developed:

> *'The extent to which the nature and associated issues of hotel management contracts in Thailand are similar to those identified in previous research'*

Table 1.6: List of research questions 3 to 9

Research Question	Details
3	What are the key areas and issues in the hotel management contract documents?
4	What are the motivations of (a) owners and (b) foreign hotel management companies for using hotel management contracts?
5	What are the partner selection criteria of (a) owners and (b) foreign hotel companies when using hotel management contract?
6	What are the key issues associated with, and the nature of, hotel management contract negotiation?
7	What are the roles of the three parties and their working relationship in the operation of hotel management contracts?
8	What control methods are used in the operation of hotel management contracts?
9	What are the on-going issues in the operation of hotel management contracts?

The literature review (see section 2.3, Chapter 2) identifies seven specific research questions which are concerned with addressing the secondary research problem of this thesis, see Table 1.6 above.

1.4 Significance of the study

This research seeks to contribute to and to expand the existing knowledge of hospitality and strategic management, concerning HMCs, agency theory, and international strategic alliances.

As previously intimated, a key focus of this research is to expand the existing research on agency theory. Previous research tends to be concentrated on ownership-management, and in particular on the principal-agent relationship in larger public firms owned by a diverse group of shareholders (Jensen and Meckling, 1976; Eisenhardt, 1989; Barney et al., 1996; Scott, 1998; Fosberg, and Rosenberg, 2003; Mason and Slack, 2005; Shapiro, 2005). However, the agency paradigm can be generalised to any situation where the principal depends on an agent to fulfil some actions (Daily, Dalton, and Cannella, 2003; Shapiro, 2005). Recently, researchers have applied the ideas of agency theory to the client-professional relationship (Mill, 1990; Sharma, 1997; Webber, 2000), while Logan (2000) and Sharma (1997) noted that little research has been done to systematically evaluate the principal-professional relationship. Therefore, this research aims to extend the existing knowledge and to fulfil this research gap using the context of HMCs.

The HMC is now a key business model used extensively by hotel management companies. However, there is a lack of previous research on or study of, HMCs. Guilding (2003) commented that although management contracts are widely used, they have not attracted much attention from management researchers. Similarly, Field (1995) mentioned that HMCs have been a major part of the development of the hotel industry, especially during the 1990s, yet, there has been remarkably little published research. Moreover, although the business model of the HMC is popular

amongst the owners and the international hotel management companies in Thailand, there is no record of any previous research on this topic.

Therefore, since this research aims to develop an insight into the use of HMCs in Thailand and to make a comparison between the use of HMCs in Thailand and elsewhere, it could usefully extend the study of HMCs. Additionally, there is no previous research concerning the application of agency theory to HMCs. Agency theory explicitly concerns an examination of the relationship between two parties in circumstances very similar to those found within a HMC. Consequently, this research seeks to introduce and develop agency theory as a useful theoretical lens for the academic study of HMCs.

Lastly, in terms of the broader strategic management literature, this research also aims to expand the existing research on international strategic alliances. There is no previous research concerning the motivations and partner selection criteria of the local partner and the foreign partner in developing an alliance in the form of a HMC. This research seeks to address this research gap. In addition, this research contributes to and extends the use of agency theory more generally in the international strategic alliances research area.

1.5 Limitations of the study

There are three limitations of this study which should be pointed out. First, since much of the individual management contract data and the operational details collected were of a confidential nature, the researcher has grouped the data and does not specifically identify the original data sources. Second, this study represents a business approach to the use of HMCs and focuses on the business and economic objectives of both hotel owners and hotel management companies. It does not discuss the status or the operation of any individual contract. Lastly, this study focuses upon the key issues associated with the use of HMCs, and not on the potential benefits derived from these contracts.

1.6 Structure of the thesis

The organisation of the chapters is as follows:

Chapter 1

This chapter presents the general background of the research, and provides background information about Thailand, the research aim and objectives, the significance of the study, the limitations of the study, and a brief outline of the thesis.

Chapter 2

This chapter provides a review of the key literature, divided into three sections. First, the strategic context will be outlined, examining hotel internationalisation, strategic alliances, and the background of HMCs. Second, in exploring the theoretical context, an application of agency theory to the HMC will be illustrated. Along with the exploration of previous studies, the specific research questions that are used to address the primary research objective of this study will be developed. Lastly, looking at the industrial context, the practice of HMCs will be discussed. Along with the exploration of previous studies, the specific research questions that are used to address the secondary research objective of this study will be developed.

Chapter 3

This chapter discusses the methodological choices of this research by providing a general insight of the philosophical assumptions, a justification for the use of the exploratory study as a research strategy, the data collection techniques and analysis, and the limitations that result from the adopted approach.

Chapter 4

This chapter illustrates the findings on the use of HMCs in Thailand. These are presented relative to each of the research questions in turn.

Chapter 5

In this chapter the findings presented in Chapter 4 are considered in the context of the literature review (Chapter 2) which was undertaken with regard to the strategic context, the theoretical context and the industrial context as well as cross referencing to other chapters and headings, this chapter provides a discussion and conclusion (which will be structured around the research objectives and their associated research questions). The chapter begins with the primary research objective and a discussion of the application of agency theory to HMCs. This is followed by, as the secondary research objective; a discussion of the use of HMCs in Thailand and elsewhere. Final conclusions on the research are drawn. Research implications and contributions are highlighted. Lastly, recommendations on future research are made.

1.7 Summary

This chapter has introduced the background of the research including background information about Thailand, the research aim and objectives, the significance of the study, the limitations of the study, and a brief outline of the thesis. The extensive literature review will be illustrated in the next chapter.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

In the hotel business, competition is strong, and international expansion is one strategy for managing competitiveness. In addition to other methods (i.e. franchising, and marketing consortia), the practice of developing alliances through HMCs has been utilised in the hotel industry and has become increasingly popular. However, along with the use of HMCs a number of key issues and problems have arisen. This chapter will provide a review of the literature on this topic in which most of the research specific to HMCs is shown to be very descriptive, divided into three sections. First, the strategic context will be outlined, examining hotel internationalisation, strategic alliances, and the background of HMCs. Second, in exploring the theoretical context, the application of agency theory to HMCs will be illustrated. Agency theory deals with issues, that arise where a potential conflict of interest exists (is often the case in HMCs). Through the exploration of previous studies, the specific research questions that are used to address the primary research objective of this study are developed. Lastly, looking at the industrial context, the practice of HMCs will be discussed. Along with the exploration of previous studies, the specific research questions that are used to address the secondary research objective of this study are developed.

2.1 Strategic Context: Hotel Internationalisation, Strategic Alliances and the Hotel Management Contract

This section illustrates the strategic context of hotel internationalisation and strategic alliances. An overview of strategies for hotel internationalisation is provided, which includes the choice of expansion mode (non-equity and equity mode), determinants of entry mode (the factors influencing the decision on entry mode e.g. capital availability, firm specific factors, and country specific factors), strategic alliances as a choice of expansion mode, and theoretical issues in strategic alliances. At the end

of this section, HMCs are introduced, including the concept of HMCs, the nature of using HMC as a form of strategic alliance, key differences between the awarding of a HMCs and hotel franchising, types of hotel management company, facts and figures regarding the use of HMCs and hotel franchising, the evolution of HMCs, and the anatomy (i.e. structure) of a typical HMC.

2.1.1 Strategies for hotel internationalisation

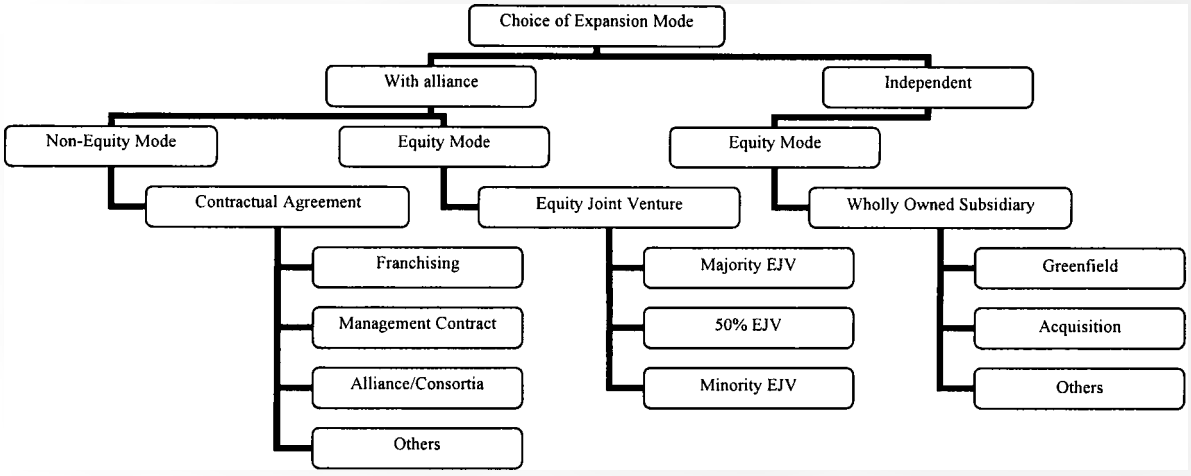
The continuing economic growth around the world, particularly in Asia, is closely linked to the development of the tourism industry and creates significant opportunities for international hotel firms to expand both their markets and their revenues. As Lafferty and van Fossen (2001) noted, larger firms are more profitable because they cannot only exploit market power, but are also able to garner efficiencies through economies of scale. This phenomenon is a powerful incentive for hotel firms to seek out opportunities to expand into new overseas markets.

When an internationalisation strategy is decided, the choice of entry mode into that particular market/country represents a crucial decision for multinational firms since, as Hill et al (1990) indicated, it is this more than anything which will determine the success of a firm's international operations. Having decided to enter a foreign market, a multinational firm has to determine the appropriate mode for organizing its foreign business activities. Each mode of entry has different implications for the degree of control that a corporation can exercise over the foreign operation, the resources it must commit to the foreign operation, and the risks that it must bear to expand into the foreign country. In addition, the wrong choice of entry mode may give rise to opportunity costs and in some cases undermine future activities in international markets (Bradley and Gannon, 2000).

Unlike manufacturing businesses where exporting goods is an option, the hotel industry offering, being predominantly intangible (i.e. service), must physically locate at the site of final consumption. Consequently, the international hotel industry

can be seen to compete in the placement of its units in significant and appropriate locations (Gannon and Johnson, 1997). In addition, international hotel firms seek to compete on global terms where the competitive position in one country is significantly influenced by the competitive position in other countries (Tse and West, 1992). This entire process of growth and competition is driven by the placement of individual hotel properties (units), with or without partners, through two primary expansion modes (equity and non-equity) as outlined in Figure 2.1 (Pan and Tse, 2000). The equity mode includes those arrangements which range from a wholly owned subsidiary (via 'greenfield' or through acquisition) to some form of (shared) equity joint venture (in which the share of equity can be majority, 50:50, or minority). The other primary option is to enter using a non-equity mode – that is via a contractual agreement – in the form of a franchise, a management contract, or other alliance.

Figure 2.1: Choice of expansion mode for hotel business



Source: adapted from Pan and Tse (2000)

At the outset it is important to note that each expansion mode will offer the hotel firm differing degrees of control and require varying degrees of resource commitment. In the case of the equity mode, the hotel firm must commit financial resources equivalent to the level of ownership in the property. The higher the

proportion of equity committed, the higher the level of ownership and the greater effective control of the operation achieved. In contrast, the non-equity mode, while less demanding in terms of financial resources (as no degree of ownership is sought), does provide less control of the hotel property. Thus, the hotel firm's level of control will vary depending on the specific contractual mode of engagement chosen. For example, where franchising is involved, the hotel firm would normally have control over codified strategic assets i.e. brand, and reservation system, but typically have less control over tacit expertise and effectively no control over daily management, quality control and physical assets. However, where a management contract is involved (this frequently is in conjunction with a franchise arrangement) the hotel

Figure 2.2: Entry mode and the degree of control

2.2 (a)

		Ownership	
		Yes	**No**
Daily Control	**Full** ↕ **Weak**	Fully owned	Management Contract
		Majority joint venture	
		Minority joint venture	Franchising

2.2 (b)

		Mode			
		High Ownership Commitment ←			→ *Arm's length Relationship*
		Fully Owned	**Partly Owned**	**Management Contract**	**Franchise**
Control	**Strong Control**	a,b,c,d	d	d	d
	Weak Control		a,b,c	a,c	c
	Non-Existent Control			b	a,b

a = daily management and quality control
b = control over physical assets
c = control over tacit expertise
d = control over codified strategic assets

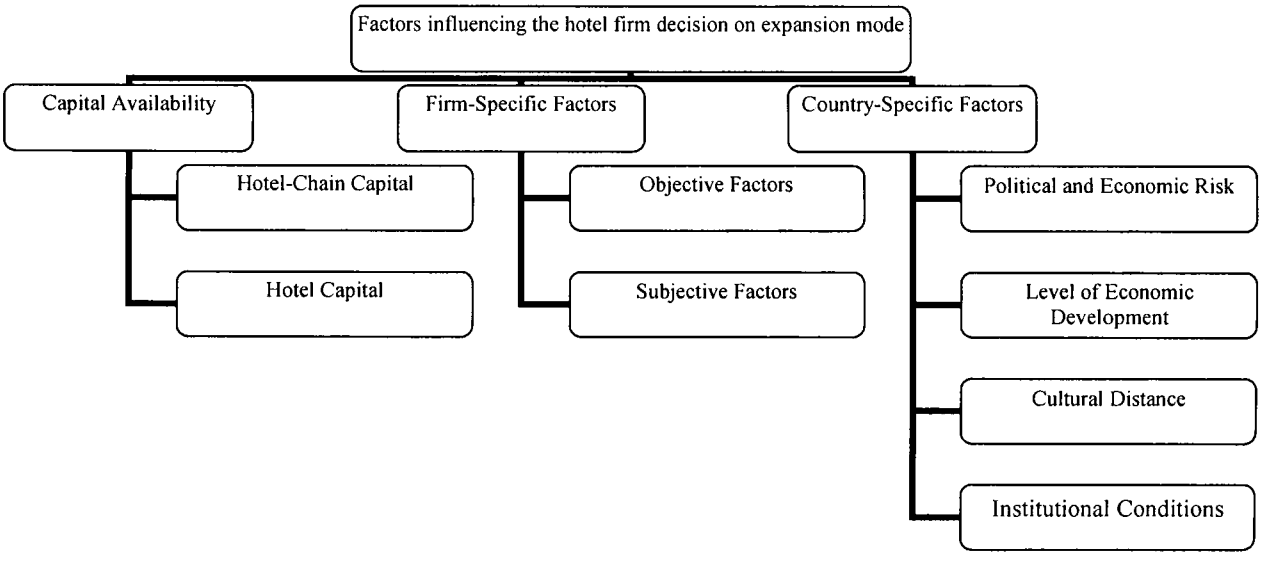
Source: Contractor and Kundu (1998b)

firm gains full control over codified strategic assets, and a greater degree of control over tacit expertise, daily management, and quality control but will have no control over the physical assets (Contractor and Kundu, 1998b). These alternatives are captured and summarised in Figure 2.2. The actual selection of the expansion (or entry) mode will be influenced by a number of factors as discussed below.

2.1.2 Determinants of entry mode

The selection of the appropriate entry mode should enable the hotel firm to reduce its level of risk and to increase the potential for generating greater income at the outset, improve its capability for increasing or sustaining a given level of income, and ultimately for expanding the number of units in the future. The specific entry mode deployed is likely to be influenced by the interaction of three groups of variables: (i) capital availability; (ii) firm-specific factors; and (iii) country-specific factors (Taylor, 2000b). These influences are summarised in Figure 2.3 below.

Figure 2.3: Factors influencing the hotel firm decision on expansion mode



Source: Adapted and based on Taylor (2000b)

2.1.2.1 Capital availability

Given that hotel development is capital intensive by its very nature, the availability of financial capital is a key driver in the development of international hotel firms (Litteljohn, 2003). According to Slattery (1996), the specific form of involvement selected by hotel firms is directly related to the type of financial capital available in a given country or region. There are considered to be two main sources, or types, of capital. The first of these is labelled 'hotel-chain capital' which hotel firms access through offering shares on the stock market and through accessing loans (bank debt). Where this type of capital is present then hotel firms will, it is suggested, prefer the options of direct ownership and leasing. The second type of financial capital is labelled 'hotel capital' which is that arising from direct equity investment by financial institutions, property development companies, local government, local hotel entrepreneurs, or private individuals and syndicates. Here non-equity modal forms of management contracts or franchising will, it is argued, be favoured.

According to the resource scarcity theory, primary scarcity concerns the availability of financial capital (Taylor, 2000b). In those countries where hotel firms are unable to access hotel-chain capital then, all things being equal, non-equity modes such as franchising and management contract would be appropriate as entry and expansion modes. This situation means that financial capital from one of the hotel capital sources would need to be available to fund the hotel property's development. The hotel firm's presence would thus be dependent upon a third party being willing and able to make the necessary capital investment (Dunning, 1981; Contractor and Kundu, 1998a).

In the context of Southeast Asia generally, the pattern of modal engagement suggests that there are many investors (i.e. hotel capital) able and willing to invest in hotel projects. Indeed, there is some speculation as to the apparent willingness of Asian investors to continue to invest heavily in hotel projects despite their relatively low yields when compared to other types of real estate investments (Mattila, 1997). It has been suggested that one factor is that investors in Southeast Asia are interested in

the perceived property value of hotel investments over and above their strict business value. Another possible reason is that the region's hotel market benefits from excess liquidity because of ego capital associated with hotels (Mattila, 1997). This situation arises because hotel property can be viewed as being a more prestigious investment than other types of real estate. The perception of such non-economic benefits may drive up prices for hotels and consequently make it possible for investors to accept relatively low yields in comparison to other real estate opportunities or investments in other global markets.

The above factors mean that there is a high possibility that there will be a demand for hotel properties from investors who may have little or no specific knowledge of operating hotels. In such instances owners are likely to seek out third parties who have the necessary knowledge and expertise to manage the property on their behalf. Such a situation provides an opportunity for international hotel firms to expand by using franchising and/or management contracts. The presence of such a demand was noted some time ago by Dunning (1981) who underlined that such an arrangement can be mutually beneficial. Thus, while the property owner benefits by being able to access the services of hotel management experts, the hotel firm can also gain. This can occur in situations where the hotel firm may be unwilling to invest in the ownership of the hotel either because it regards itself as having little expertise in property development or because it regards ownership as a high risk venture, or because expansion would be reduced by the need to borrow large sums of capital.

2.1.2.2 Firm-specific factors

As suggested by Contractor and Kundu (1998a), there are two groups of factors specific to the hotel firm that could influence modal choice. These are: (i) objective factors – those which are related to the characteristics of the actual firm and (ii) subjective factors – those which are related to the perceptions and attitudes of the hotel firm's top management.

Objective factors

This first group of factors includes firm size, its level of international experience and degree of internationalization. With regard to firm size, Agarwal and Ramaswami (1992) found evidence that firm size influences mode selection and that larger firms prefer full-control entry modes. Similarly, Erramilli and Rao (1993) found that large firms tended not to use shared control modes and commonly preferred a full-control entry mode. Bradley and Gannon (2000) also suggested that the larger the firm, the greater was the likelihood that it would use a high-control mode to enter its principal foreign markets. Conversely, other research (Gatignon and Anderson, 1988; Contractor and Kundu, 1998a) has suggested that being a global player requires an effective scale of operations and this means hotel firms were likely to utilize non-equity modal forms, such as franchising, management contracts or joint ventures as a primary means of expansion in an effort to gain the desired benefits from size.

In respect of factors such as a firm's level of international experience and degree of internationalization, Agarwal and Ramaswami (1992) found that the sole venture mode is preferred by established multinational firms, and in those markets perceived to have higher economic potential. Erramilli (1991) suggested that previous experience in international entry reduces the risk and cost of entry. Firms achieve these reductions in risk and cost by developing systems for dealing with new market entry. Both Agarwal and Ramaswami (1992) and Erramilli (1991) found that companies with greater international experience typically prefer full control entry modes. Similarly, Contractor and Kundu (1998a) found that the more international experience a hotel firm has and the greater its degree of globalization, the more unlikely it was to use non-equity modes (i.e. franchising and management contracts) or any form of partnership because they prefer higher equity and control mode. In contrast, less experienced and less globalised international hotel groups are likely to prefer non-equity modes. More recently, however, the opposite now appears to be evident due to strategic shifts in the use of HMCs by major hotel management companies (see section 2.3.1 for further discussion).

Subjective factors

This second group of factors concerns the perceptions and attitudes of a firm's top management toward issues such as global scale, branding, central reservation systems, training, management control, and quality.

As Taylor (2000b) noted, the extant literature as to the mode of operation likely to be favoured where a hotel firm's top management perceive global scale as being strategically important, appears to be somewhat unclear. One claim is that obtaining global economies of scale necessitates high levels of control and ownership of modes of operation (Yip, 1989). In contrast, another view is that achieving globalization necessitates that firms form partnerships in host countries to achieve the desired scale of operations which will tend to favour franchising and management contracts (Galbraith and Kay, 1986). However, Taylor (2000b) suggested that in the case of international hotel operations (as opposed to manufacturing businesses upon which most of the research has been based), could be viewed as depending upon the establishment of electronic distribution systems, unit design and the development of associated operating process and standards. As such, international hotel firms could obtain the desired scale effects without direct ownership or a high level of direct day-to-day control. Thus a high degree of control in key strategic areas may be achievable without the need for direct ownership.

This ability to achieve a high degree of control without resorting to direct ownership is further supported by research by both Dunning and McQueen (1981) and Viceriat (1993) who found that global reservation systems (GRS) and hotel brands will always be fully controlled by international hotel firms, as they represent their major knowledge capital and are directly significant to their economic value. Indeed, Contractor and Kundu (1998a) have suggested that the very nature of these assets supports and increases the potential of hotel firms to engage in non-equity based arrangements such as franchising and management contracts, since control of these provides a very powerful barrier against opportunism by contractual partners (a further discussion on agency theory will be in section 2.2). In addition, while adding new franchises or management contracts can significantly increase a hotel firm's

revenue, providing contractual partners with direct access to its knowledge-based assets would tend to increase the costs of the hotel firm.

Accordingly, in the international hotel business, the traditional relationship of achieving a high degree of control via a high equity stake is not necessarily seen as crucial for success in large global operations. In order to be a global player hotel firms frequently place considerable reliance on non-equity partners and franchisees. Operating a network of franchisees and hotels under a management contract enables a hotel firm to capture some of the economies of global logistics, supplies, architectural design, reservations, training, and brand recognition. That said, equity-based arrangements or direct ownership are, it is claimed, likely to be preferred for the purposes of greater operational control and a greater level of operating profits, and where a firm's top management are concerned more with quality and/or size per se (Contractor and Kundu, 1998a).

2.1.2.3 Country-specific factors

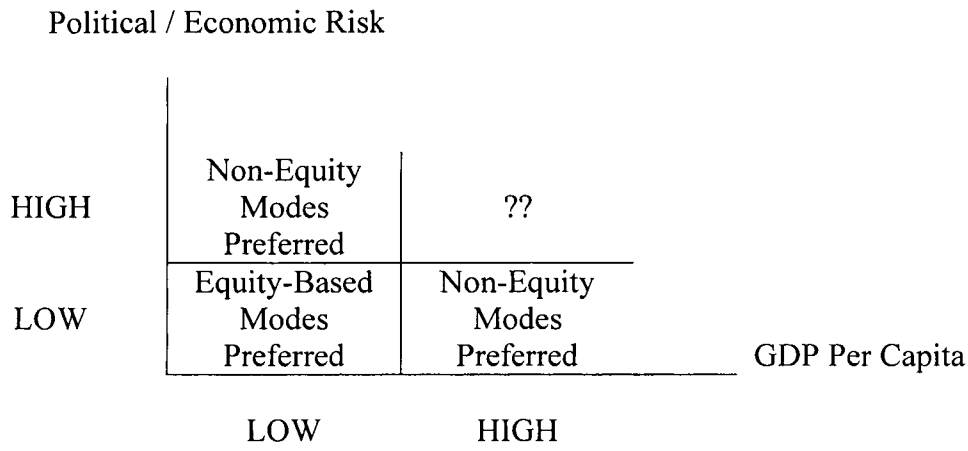
The external environment would also influence a hotel firm's behaviour concerning modal choice (Taylor, 2000b). In particular, a hotel firm would consider the pertinent conditions specific to a foreign market as these will affect the hotel firm's commitment toward a given country. Typically the main variables that a hotel firm would consider are (i) political and economic risk, (ii) the level of economic development, (iii) cultural distance, and (iv) institutional conditions.

Political and economic risk

Political and economic risk, and the level of economic development, are concerned with the stability of a government and the level of development and economic risk in a country. Contractor and Kundu (1998a) found that the non-equity based arrangements (i.e. franchising and management contracts) will be preferred in high income countries, but for countries with a lower level of income, equity based arrangements are preferred. This is because the cost of transferring knowledge

assets, maintaining quality, and protecting intellectual property rights are higher in developing economies than in developed economies. Furthermore, in a country with high political and economic risk, non-equity based arrangements will be preferred as the royalty fees are more certain than returns on equity.

Figure 2.4: Modal preference as a function of income levels and political/economic risk in host nation



Source: Adapted from Contractor and Kundu (1998a)

Level of economic development

According to Figure 2.4, Contractor and Kundu (1998a) suggested that there are four categories of country, these are: (1) low per capita income and low risk country, where an equity based involvement would provide larger levels of income compared to non-equity mode of involvement and would provide hotel firms with access to a growing return if the income levels of the country were to increase; (2) high income and low risk country, where a non-equity based arrangement will be preferred as royalty returns will be high to provide an attractive revenue stream combined with significant system wide growth potential; (3) low income and high risk country, where a non-equity based arrangement would provide less risk to the hotel firm as there will be less potentially return from an equity based arrangement, and royalty fees are more certain; finally, (4) high income and high risk country, an unlikely combination, but should it happen, hotel firms would consider and select which one

of the two modes (i.e. equity or non-equity mode), provided less risk and more income potential from its specific perspective.

Culture distance

The issue of cultural distance is a factor that most international hotel companies must carefully consider when they set up their establishments in an unfamiliar area. Lindquist and Jacque (1995) suggested that the risk of cultural misunderstanding is higher, especially in a service industry, and one with high local labour content. The cross-cultural transfer of formatted services requires an understanding of foreign consumers and communicating with both foreign employees and/or agents whose work ethics are embedded in different languages, mental sets, and cultural traditions. Luostarinen (1980) suggested that some of the operations involved not only a good working knowledge of business language but also of the everyday language.

Kogut and Singh (1988) suggested that the greater the cultural distance then the greater the reliance will be on non-equity based modes, such as franchising and management contracts, because hotel firms have less familiarity with the local market, therefore, they need local market knowledge and support. Kim and Hwang (1992) mentioned that due to the uncertainty inherent in culturally distant markets, firms attempt to minimize their resource commitments by utilizing joint ventures, instead of using more costly wholly owned subsidiaries. These studies could support Erramilli (1993), as he suggested that the greater the cultural distance, the more likely non-equity arrangements or shared-control modes were chosen. He also found that as cultural distance increased, service firms preferred shared-control modes over full control options. However, Lindquist and Jacque (1995) suggested that the closer the cultural relationship, the more mixed arrangements will be as other factors become important. Prestige locations in terms of reputation and the possibility of above average revenues may be possible considerations.

Institutional conditions

The factor institutional conditions recognises that every country will have different conditions in respect of their particular political and legal environment. The

regulations and the policies of the host country would directly impact upon firms in both positive and negative ways. Agarwal and Ramaswami (1992) suggested that in cases where firms have a higher preference for investment entry modes, they are sensitive to investment/contractual risk related attributes. The governments in host countries, therefore, will not only have to develop policies that make it attractive for foreign firms to invest in their markets, but more importantly, will have to reduce potential investors' risk perceptions through regulations that permit repatriation of profits, majority ownership and control, patent protection for technology/products and enforcement of contracts.

2.1.3 Strategic alliances as choice of expansion mode

International hotels are a capital intensive business and the placement of additional units to strengthen and to expand a network is crucial in competition. A hotel company could invest and operate alone, but a strategic alliance might be a viable alternative, thereby removing barriers and providing the company with the opportunity to strengthen and expand its network through various business models in the form of equity alliances (i.e. majority, 50-50 or minority joint ventures); and non-equity alliances (i.e. franchising, consortia or management contracts).

> *'Almost anything is, in principle, possible through collaboration because you are not limited by your own resources and expertise. You can, in principle, achieve whatever visions you may have by tapping into resources and expertise of others. As a partnership facilitator once put it to us, when it works well you can feel the collaborative energy.'*
>
> (Huxham and Vangen, 2005, p.3)

Strategic alliances are defined by Dussauge and Garrette (1999) as the linkage which is formed by two or more independent companies. The key purpose is to carry out a project or specific activity jointly by co-ordinating the necessary skills and resources, rather than pursuing the project or activity on their own, and thereby taking on all the

risks and confronting the competition alone; perhaps even merging operations or acquiring and divesting entire business units. Parkhe (1991) also defined a strategic alliance as a cooperative agreement involving two or more firms where linkages are built to share resources, leading to the joint accomplishment of individual goals.

Child et al (2005) considered that this kind of relationship might be special and difficult to manage. A strategic alliance might be treated as a special type of relationship because the key element is that each firm involved in the partnership remain independent despite the agreement linking it to its partner. The partner companies join forces in pursuit of common goals without losing their strategic autonomy and without abandoning their own specific interests. It is these characteristics which can make alliances so difficult to manage.

In strategic alliances, the partner's contributions to the venture tend to be reciprocal and the relationship is more balanced, which creates management problems of a completely different nature. True strategic alliances are aimed at creating and enhancing the competitive positions of the firms involved, in a high competitive environment. An alliance can be described as 'strategic' when it contributes significantly to the strategies pursued by the partner companies and when it involves pooling and combining the partners' capabilities (Dussauge and Garrette, 1999).

2.1.4 Concept and the use of the hotel management contract as a form of strategic alliance

A hotel management contract (HMC) can be defined as a written agreement between the owner of a hotel property and an operator, by which the operator is appointed to operate and manage the hotel, on behalf of the owner in return for a management fee (Eyster, 1988a). Consequently, the management contract acts to create a long-term co-operative relationship between the owner and the operator. As noted by Litteljohn (2003), the hotel asset ownership and the hotel's operation are separated in this situation, and there is an expectation on the part of the owners that the contractor

(hotel management company) will be able to run the operation more effectively than they could themselves.

Under this type of agreement a hotel company is paid for taking over a hotel's day-to-day operations, thus the contract acts to split the property's ownership from its operation. If the hotel company is a well-known chain, the arrangement might (but not always, see below) also include the right to use the hotel company's trade name (i.e. extend to a franchise arrangement). The hotel management company generally has little or no ownership interest in the hotel and is not responsible for funding any operating loss. HMCs are particularly appealing to public hotel companies which, for accounting purposes, do not like to keep real estate assets such as hotels on their balance sheets (Rushmore and Baum, 2002).

By nature of the use of HMCs, the hotel property owner, as the investor, is also the risk bearer and therefore, expects to maximize revenue and profit from the investment. One way to achieve this objective is to find and appoint a strong and capable hotel management company, who would operate the property on the owner's behalf under a formal commercial agreement. On the other hand, from the perspective of the hotel management company (as the operator) such co-operation enables them to offer a professional service in return for a management fee, using their expertise to ensure a positive cash flow and a satisfactory return on investment as well as the effective operation, maintenance, and development of the hotel property. Thus, while there is no intention to invest in the ownership of the hotel property, by managing a property for its owner the operator, not only gains fees but each additional property acquired would strengthen its overall network and provide additional benefits when competing with other companies.

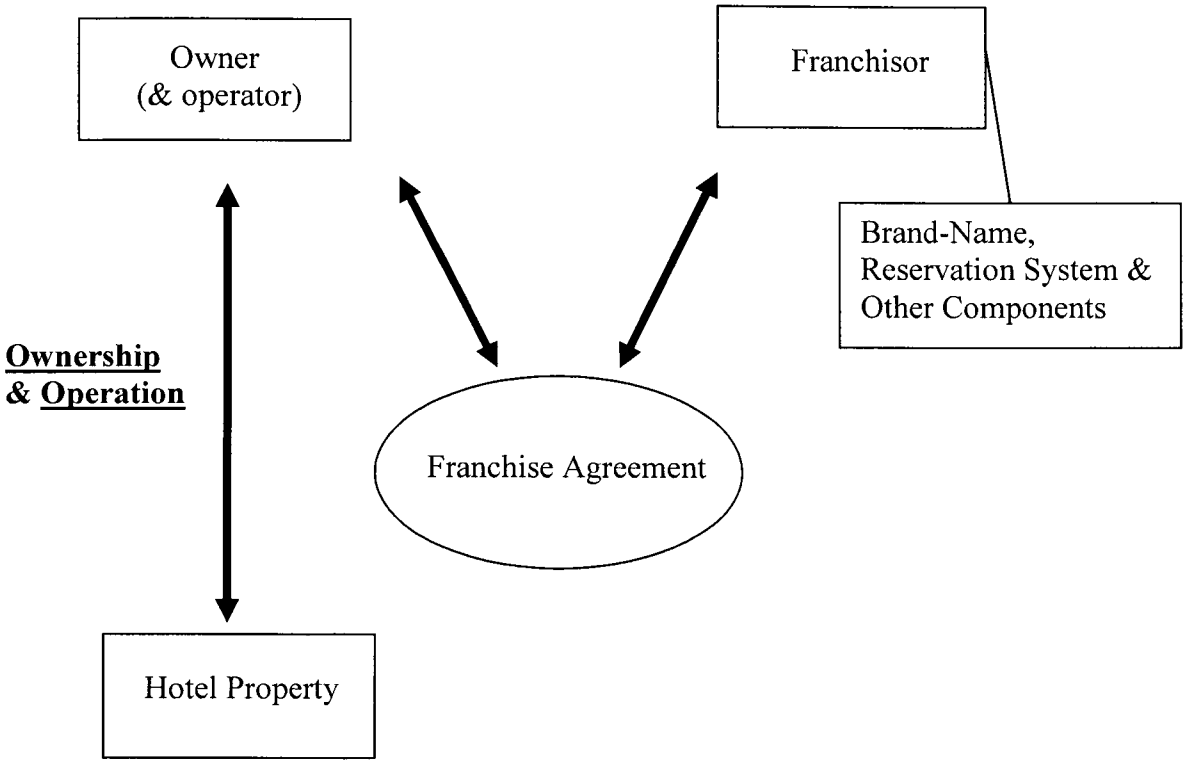
Since the objectives of the hotel property owner and the hotel management company are different, there might be a need to establish a co-operative relationship. Therefore, a strategic alliance in the form of a HMC (frequently combined with a franchise arrangement) is developed, whereby the property owners provide the infrastructure requirements (i.e. financial resources, hotel property), hold the

business risk, and are concerned with the net operating cash flow, while the hotel companies provide only management expertise and know-how, and are mainly concerned with the amount of management fees to be gained. In this type of co-operation, by nature of using HMCs as a form of strategic alliance, Chathoth and Olsen (2003) have suggested although both parties combine specialised assets/resources, it does not resemble a true collaborative alliance contract due to the imbalance of risk sharing. However, to some extent, the relationship of owner and operator could possibly be viewed as a client-professional service agent employment situation where the hotel owners act as the principal (who are in need and appoint the hotel business expertise to run the property for them) and the operators become the agent (who are the hotel business expertise, offer the services of hotel management, and manage the hotel property in return for management fees).

2.1.5 Key difference between hotel management contracts and hotel franchising

It is important to note that, despite their frequent co-existence, a management contract and a franchise agreement are not synomous but actually two distinct arrangements that may or may not coincide with one another. Thus the description by Adams (2000) of a management contract as being an agreement in which a hotel management company not only offers a license for the use of its brands name and reservation system, but also takes full responsibility for the day-to-day management of the hotel as an agent for the owner of the asset is both inaccurate and confusing. Franchising can occur in the absence of management contract being awarded and vice versa. In some sectors, such as fast food, the use of franchising will rarely, if ever, coincide with the awarding of a management contract. In the hotel sector, particularly the USA, management contracts are frequently awarded to companies who specialize in managing hotel properties on behalf of third parties, for example, American Property Management Corporation, Benchmark Hospitality International, Canadian Hotel Income Properties (CHIP) Hospitality, Crescent Hotels and Resorts, HVS/American Management Company, etc.

Figure 2.5: Hotel franchising



Source: Based on Hasst (2000)

As defined by Taylor (2000a), a hotel franchise involves an agreement between a franchisor (hotel company) and a franchisee (hotel owner), which enables the franchisee to gain access to use the brand name and other support services within the agreed length of agreement in return for a fee payment. In hotel franchising (see Figure 2.5), each additional property under the brand name of a hotel management company (as a franchisor) is financed by the investor (as a franchisee), who pays an ongoing franchise fee. The investor retains ownership of the asset and almost full control of the operating business, subject to meeting certain basic operating criteria and product standards established by the franchisor (Hasst, 2000). In return the franchisee benefits from being able to use the franchisor's assets such as brand name, reservation system, and other forms of support (bulk purchasing agreements, employee training, and development and financing advisory services).

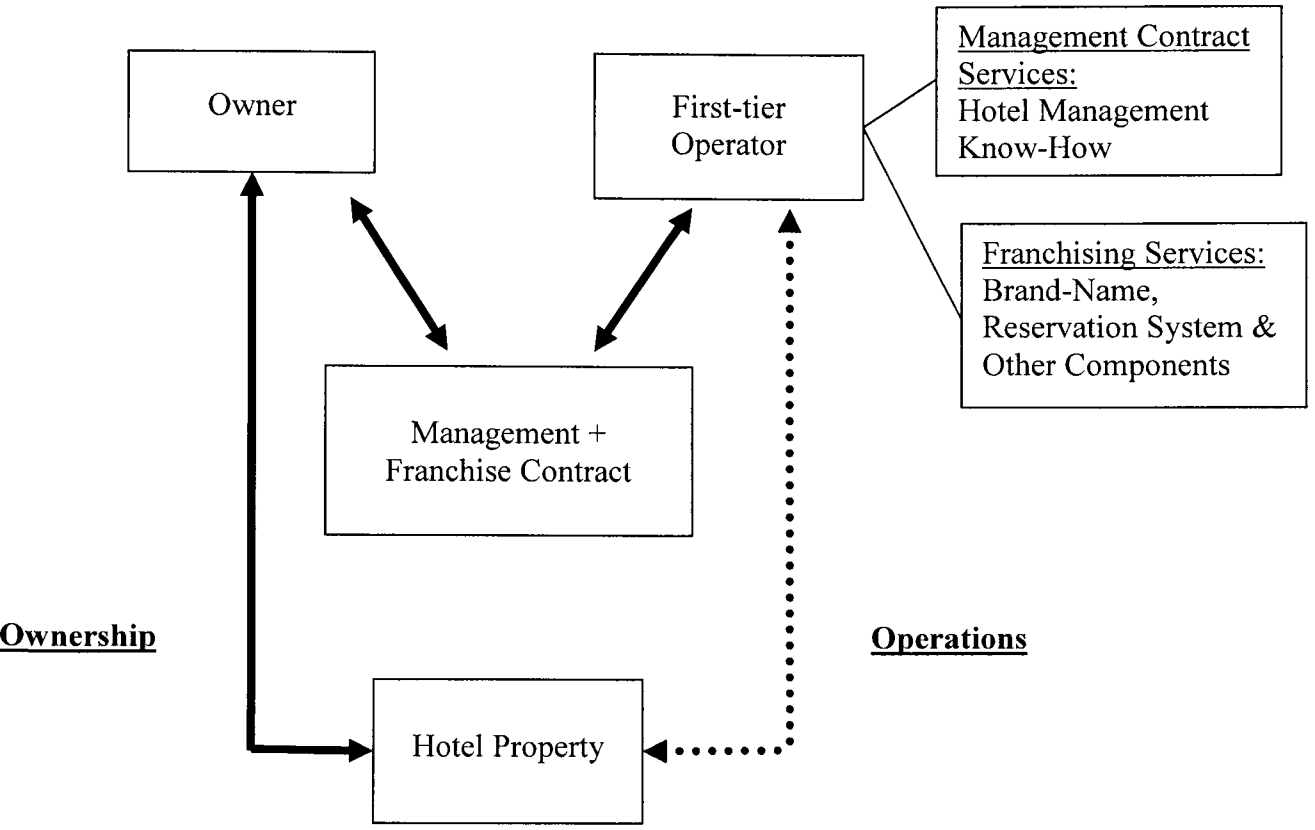
For the hotel company there are also some important benefits in utilising hotel franchising. The hotel management company as a franchisor is able to spread the high fixed cost of its reservations network over a larger number of franchisees. A critical mass of franchisees allows the franchisor to improve the cost effectiveness of its training and advertising departments, functions in which independent hoteliers seldom excel. Each additional franchised hotel exposes the franchisor's brand-name to a new geographic market, creating the potential to build referral business for other hotels in the system (Go and Pine, 1995).

The key difference between a hotel management contract and a hotel franchise is that in a hotel management contract, the ownership and the operation is always separated. The day-to-day operations and management of the hotel property are the responsibility of the hotel management company. However, in hotel franchising the property owner retains the ownership of the asset and is responsible for operation of the hotel at the same time, albeit under the brand-name of the franchisor. It is important to note that the owner can appoint a hotel management company to operate the property under any franchise awarded. Here there would be three parties, the owner (as franchisee), the operator, and the franchisor.

2.1.6 Types of hotel management company

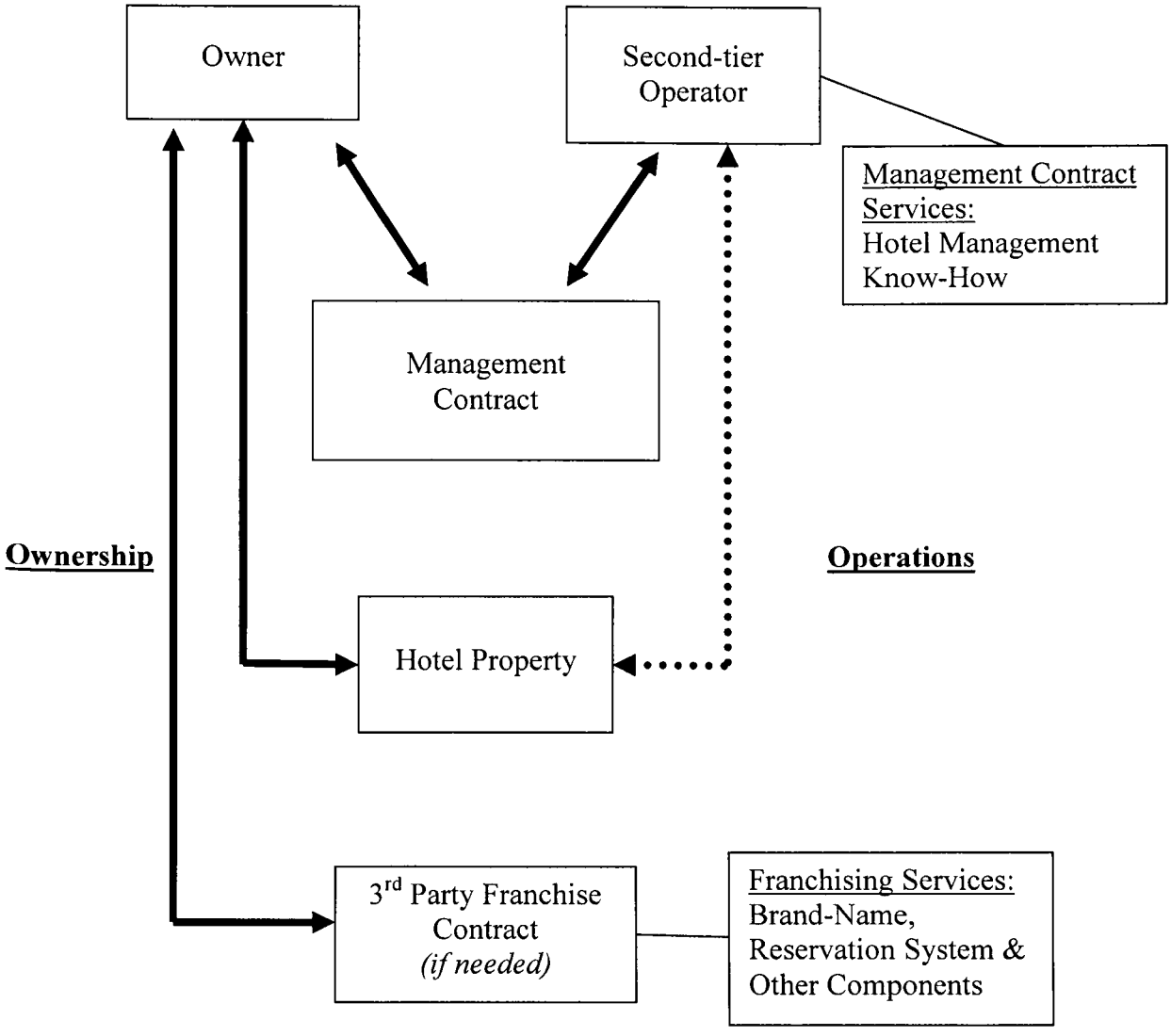
Hotel management companies as operators providing management services can be categorized into two tiers (Lloyd-Jones and Rushmore, 1996). Each tier has a different capability to provide management service to the owner. A 'first-tier company' provides the operational expertise, brand, reservation system and any other components under both a management and a franchise contract. A 'second-tier company' offers only operational expertise under a management contract; if the hotel requires a brand, a franchise contract must be obtained separately from a franchisor. Figure 2.6 and Figure 2.7 will illustrate the relationship between the hotel owner and each tier of hotel management company.

Figure 2.6: Relationship between owner and first tier operator



Source: Based on and adapted from Lloyd-Jones and Rushmore (1996)

Figure 2.7: Relationship between owner and second-tier operator



Source: Based on and adapted from Lloyd-Jones and Rushmore (1996)

2.1.7 Facts and figures regarding use of hotel management contracts and hotel franchising

The different patterns of hotel affiliation are indicative of the types of capital which are available in different global regions, see Table 2.1 (Slattery, 1996). Franchising, management contracts or leasing have traditionally not been a key business model

for expansion in the UK and Western Europe, as hotel management companies have been more willing to invest their own capital. Conversely, in Eastern Europe and Asia, these have been the primary business models for expansion as the hotel management companies have been more reluctant to invest their own capital. Hotel investment here has relied on both individual and syndicate investment rather than on financial institutions, and these investors frequently seek franchises and/or management contracts.

Table 2.1: Pattern of hotel room affiliation in different regions

Region	Owned	Franchised	Managed	Leased
UK	80.4%	4.1%	6.2%	9.3%
Western Europe	31.9%	23.3%	31.9%	12.9%
Eastern Europe	4.9%	55.9%	38.2%	1%
Asia	9.7%	14.9%	74.8%	0.6%
USA	6.9%	70.8%	20.5%	1.8%

Source: Slattery (1996)

According to Jones Lang LaSalle Hotels (2006), there is now evidence of a trend separating hotel ownership from hotel operations, particularly in the USA, Australia and Europe, as a result of diversification of the investor types, most notably Real Estate Investment Trusts (REITs) and private equity firms. Hotel management companies have begun to divest their owned real estate and focus more on property management. This enables them to release capital, lighten their balance sheet and execute share buy-backs consequently increasing their share price. Here the hotel companies are trying to focus on building a long-term base of management contracts and a stronger brand in order to attract new capital sources and develop more predictable revenue streams. The most obvious is the case of InterContinental Hotel Groups (IHG) who announced an intention to focus on managing and franchising hotels, rather than owning them (Caterer, 2006). In March 2005, IHG announced the sale of 73 hotels in the UK to LRG Acquisition, a consortium headed by Lehman Brothers. IHG will manage 63 hotels on 20-year contracts, and the remaining 10 until 2007. The deal leaves IHG with just three owned properties in the UK. In March 2006, IHG sold 24 European Crowne Plaza, Holiday Inn and Express by Holiday Inn hotels to one of its largest franchisees, Westmont Hospitality. IHG has

secured 15-year franchises on these properties which are expected to generate £2.7m in franchise fees per annum.

In a similar strategic shift, in March 2005, before being acquired by Hilton Hotel Corporation, Hilton International announced a plan to dispose of up to £300m-worth of assets through sales or sale-and-manage back deals. Hilton International sold 15 hotels in the UK to The Managed Hotels Unit Trust for £382.4m in November 2005. It retains the 30-year management contracts for the properties. In September 2006, Hilton Hotels Corporation announced that it had sold five of its hotel properties in Canada, but will continue to manage all five properties under the terms of multi-year management agreements.

Though just a snapshot, the two examples above featuring two of the biggest hotel companies in the world illustrate that the management contract is being recognised as an increasingly attractive business model for hotel operations. In addition, it is important to note that this emerging situation contradicts the previous studies in section 2.1.2.2, where Agarwal and Ramaswami, (1992); Erramilli (1991); and Contractor and Kundu (1998a) found that companies with greater international experience typically prefer higher equity and control mode, rather than non-equity modes (i.e. franchising and management contracts) or any form of partnership.

2.1.8 Theoretical issues in forming strategic alliances

A number of theories are used to justify and to analyse cooperative strategy. These include market-power theory, resource-based theory, transaction-cost economies, agency theory, etc. However, none of them is sufficient to explain cooperative strategy in its entirety (Child et al, 2005).

Transaction-cost economics (TCE) offers a view on the potential of cost-reducing methods for organising international business transactions (Williamson, 1986; Child et al, 2005). TCE are those that are incurred in arranging, managing, and monitoring

transactions across the market, such as the cost of negotiation, drawing up contracts, managing the necessary logistics, and monitoring the account receivable. TCE regards the basic choice in organising economic transaction as being between effecting these through market exchanges and internalising them within a single firm where they are governed by hierarchical relationships embedded in organisation structures.

Market-power theory (MPT) is concerned with the ways in which firms can improve their competitive success by securing stronger positions in their markets (Hymer, 1976; Child et al, 2005). Two forms of coalition have been distinguished by Hymer (1976), which are offensive and defensive. Offensive coalitions are intended to develop the firm's competitive advantages and strengthen their own position by diminishing their competitors' market share or by raising their production and/or distribution costs. On the other hand, firms form defensive coalitions to construct entry barriers that are intended to secure their position and stabilize the industry so as to increase their profit. Defensive coalitions may be sought by firms that have a weak position in the market in order to defend themselves against a dominant player. There may also be cooperation between a partner with a defensive intent and another with an offensive purpose for entering the alliance.

Resource-based theory (RBT) is a relatively recent approach to firm-level strategy (Child et al, 2005). It has been developed with a specific focus on knowledge resources or on the complex, embedded combinations of knowledge and skills known as capabilities or competencies. According to Barney (1991), assets and skills that are common to all or many firms or easily available in the market cannot provide competitive advantage. In contrast, strategic resources, assets, capabilities, or knowledge are valuable, rare, inimitable and non-substitutable can generate competitive advantage. Alliances are crucial sources of both strategic assets and complementary resources for an organisation as Madhok and Tallman (1998) suggested if firms have the time and the capability, they could develop their strategic and complementary resource internally. However, firms commonly do not have the requisite capabilities to develop resources outside their primary area of competence,

so instead the firm might: (1) outsource its search for new resources in the marketplace through distributors, advertising agencies, etc.; (2) acquire other firms to access their firm-specific assets, especially knowledge assets; and (3) consider a joint venture or alliance in order to tap into their partner's knowledge assets without committing to a single market price or buying the partner in whole or part.

Agency theory is concerned with the ability of principals to ensure that their agents are fulfilling their objectives (Jensen and Meckling, 1976; Fama and Jensen, 1980; Eisenhardt, 1989; Sharma, 1997; Besanko et al, 2000; Child et al, 2005; Shapiro, 2005). The principal-agent relationship frameworks have been developed from the relationship between owners and managers of large public corporations, employers and employees, clients and lawyers, and buyers and suppliers. The main concern of agency theory is the governance mechanisms that limit the agent's self-serving behaviour. This includes various control and incentive mechanism (Jensen and Meckling, 1976; Eisenhardt, 1989). Further discussion on agency theory will be conducted in the next section (see section 2.2).

The overview of each theory clearly shows that TCE, MPT and RBT are mainly concerned with the strategic motive in the establishment of any form of cooperative relationship, while agency theory is mainly concerned with controlling or managing the cooperative relationship, and is the primary concern of this thesis.

2.2 Theoretical Context: Application of Agency Theory to Hotel Management Contracts

As mentioned in section 2.1.4, any cooperation between the hotel owner and the operator in the HMC could possibly be viewed as a client-professional service agent situation where the hotel owners act as principal (who need to appoint someone with hotel business expertise to run the property for them) and the operators become an agent (who provide the hotel business expertise and manage the hotel property in return for management fees). Therefore, the concept of agency theory can be applied

in managing co-operation because it is concerned with the ability of principals to ensure that their agents are fulfilling their objectives (Child et al, 2005). In this section, the theoretical context of the application of agency theory to HMCs will be illustrated. This includes the concept of agency theory, problems in the agency relationship, nature of the agency relationship, and resolving agency problems. Additionally, along with the exploration of previous studies, the specific research questions and their sub-research questions that are used to address the primary research problem of this study will be developed.

2.2.1 Concept of agency theory / Why do the agency problems arise?

According to Jensen and Meckling (1976); Fama and Jensen (1980); Eisenhardt (1989); Sharma (1997); Besanko et al (2000); Child et al, (2005); Shapiro (2005), an agency relationship exists when one individual (as agent) is hired to act, i.e. on behalf of another (as principal) there is a delegation of decision making authority. If the aim of both parties is to maximise their economic position, then there is a good reason to believe that the agent might not always act in the best interests of the principals. Agency theory is concerned with resolving the agency problems that may arise in such relationships.

Agency theory identifies problems that may arise when ownership is separated from control (Jensen and Meckling, 1976). Within the organisation/corporation, owners (as the principal) turn over control of their property to managers (as the agent) hired to run the organisation. In this situation, the principals are passive owners who enjoy the gains made from their investment without taking any active role in the management of the firm; meanwhile, the agents are responsible for management of the firm. Thus, the agents often share little or none of the resulting gains. Fama and Jensen (1980) also used agency theory to investigate the survival of organisations when there was a separation of ownership and control as agents and principals entered into these relationships because of the benefits of specialisation and because

of the ability to control agency problems by the separation of decision making and risk bearing parties.

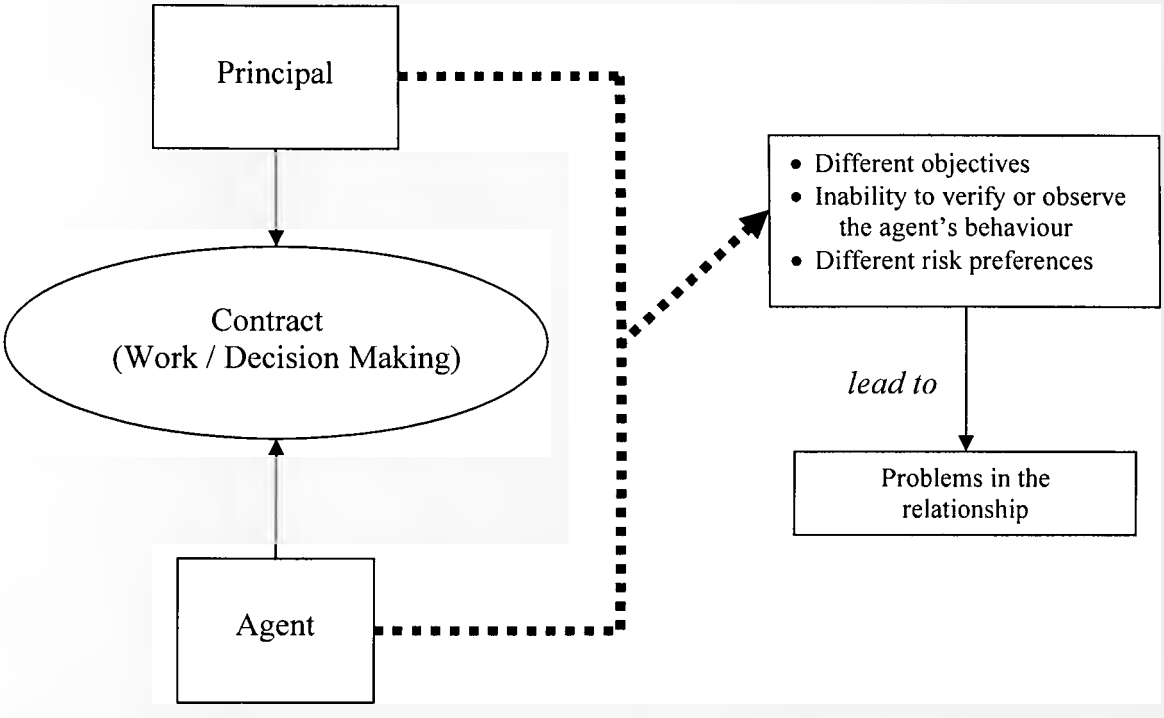
As noted by Eisenhardt (1989), agency theory is concerned with resolving two problems that could possibly occur in an agency relationship. First, the agency problem arises when; (a) the two parties involved have different goals; and (b) when it is difficult or expensive for the principal to measure what the agent is actually doing. In this situation, the principal commonly prefers to maximise the return of their investment in the firm, while the agent may prefer to take action to maximise their personal outcomes. Thus, the problem is that the principal cannot verify that the agent is behaving appropriately. Here the agents are assumed to possess more information than the principals about the firm and their own behaviour. This situation is referred to as information asymmetry. Second, the agency problem also arises due to differences in risk preferences as the principal and agent have different attitudes toward risk, meaning they may prefer different actions. Therefore, the domain of agency theory is that of relationships which mirror the basic agency structure of a principal and an agent, who are engaged in co-operative behaviour, but who have differing goals and differing attitudes toward risk (see Figure 2.8).

According to Eisenhardt (1989) and Besanko et al (2000), a contract spells out the terms of the agency relationship, specifying the payments to be made by the principal to the agent, contingent on the agent taking specific actions and/or the principal observing certain outcomes. The contract may be explicit with the terms written down and legally enforceable. Alternatively the contract may be implicit, whereby the terms are understood by all the participants and enforced through their desire to maintain long-term relationships and to maintain their reputations with other parties.

The term 'contract' is a metaphor used to describe the principal-agent relationship. The relationship can and does exist on many levels within or between firms including employer-employee, and ownership-management dyads (Jensen and Meckling, 1976). From the perspective of agency theory, the firm is a network of contracting relationships that exists between the various stakeholders within the firm (Jensen and

Meckling, 1976), or can be described as an aggregation of transactions or negotiations (McGuire, 1988). Fama (1980) also stated that the firm is viewed as a set of contracts among factors of production, with each factor motivated by its self-interest.

Figure 2.8: Diagram of agency relationship between the principal and the agent



Source: Based on Jensen and Meckling (1976); Eisenhardt (1989); Sharma (1997); Besanko et al. (2000); and Ekanayake (2004)

The agency relationship is governed by a contract that the parties either propose or accept and that more or less specifies what the principal expects from the agent and what the agent will receive in return (Parks and Conlon, 1995). An effective contract will overcome the problems that arise from the assumed self-interest and conflicting goals of each party in which the agent's risk averse is assumed to be greater than that of the principals' (Baiman, 1982; Eisenhardt, 1989).

From the perspective of agency theory, owners could try to get managers to act in a manner that would maximise the utility of owners. Barney and Hesterly (1996) criticised that agency theory has been focused on increasing the welfare of the principals, rather than on altering the terms of the contract to benefit both parties. However, Alchian and Demsetz (1972) considered the principal-agent relationship to be one that must be acceptable to both the principal and the agent, otherwise one party would not agree to contract with the other.

Additionally, the key concern of agency theory is to resolve problems which could occur in the principal-agent relationship. There are two major streams in the development of the agency theory (Eisenhardt, 1989; Jensen, 1983). First, positivist agency theory aims to pinpoint situations in which the principal and agent are likely to have a conflict of interest/goal and to describe the governance mechanisms that limit the agent's self serving behaviour. The positivist researchers tend to focus almost exclusively on the special principal-agent relationship which exists between owners/shareholders and managers/CEO of large, public corporations. The positivist agency theory tends to be less mathematical. Second, principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to employer-employee, lawyer-client, buyer-supplier and others. Characteristically of formal theory, the principal-agent paradigm involves specification of assumptions, which are then followed by logical deduction and mathematical proof.

Although these differences provide a background for understanding criticism of the theory, Eisenhardt (1989) noted that the two streams are complementary because positivist theory identifies various contract alternatives and the principal-agent theory indicates which contract is the most efficient under varying levels of outcome uncertainty, risk aversion, information, and other variables. Therefore, the focus of the principal-agent literature is on determining the optimal contract, behaviour versus outcome, between the principal and the agent.

2.2.2 Problems in the agency relationship

In an agency relationship in which one party (the principal) delegates decisions and/or work to another (the agent), the agency problem occurs because of the perceived inherent conflict of interest/different goals, the inability of the principal to observe the skills and ability of the agent or differences in risk preference (Jensen and Meckling, 1976; Eisenhardt, 1989). Consequently, due to the separation of ownership and control, it is possible that agents may behave opportunistically and may not do what principals would like them to do. There are three main groups of problem that could arise in the relationship between the principal and the agent (Ekanayake, 2004; Besanko et al, 2000; Sharma, 1997; Eisenhardt, 1989; Jensen and Meckling, 1976), namely (i) moral hazard and adverse selection; (ii) imperfect observability/information; and (iii) risk aversion.

According to Ekanayake (2004) and Eisenhardt (1989), the agent always attempts to exert less effort (the concept of moral hazards) and/or project higher capabilities and skills than they actually have (the concept of adverse selection). The problem of moral hazard or low level of effort, arises in agency relationships because the agent does not always wish to take the action that the principal most prefers because both parties usually have different objectives. Moral hazard refers to selfish behaviour that a contract cannot prevent and is closely related to the concepts of hidden action and hidden information. A hidden action cannot be observed and/or verified without some costs. If an agent's actions are hidden, then undesirable actions are unlikely to be prevented through the use of a contract.

Moral hazard may also result when the agent possesses hidden information that the principal does not have, such as knowledge about the conditions of demand, technology, or cost. This information is often critical for determining the agent's best course of action. By withholding some of this information, the agent may be able to shirk their responsibilities without fear of punishment. The agent uses this informational edge to persuade the principal to accept the chosen action as appropriate. On the other hand, adverse selection refers to agents misrepresenting

their ability, by claiming to have certain skills or abilities when they are hired. This could arise in the relationship because the principal cannot completely verify the skills or abilities of the agent either at the time of hiring or working.

Observability and information are key factors in the prevention of shirking (Besanko et al, 2000). If the principal can observe actions and outcomes and the desired actions and outcomes can be spelled out in a contract that can be enforced in court, then the principal can solve the agency problem. The principal contractually requires agents to take the correct actions or achieve the desired outcomes, and punishes them if they fail to do so. Some desirable actions are easy to observe and contract on, but when actions are difficult to observe, contracts may stipulate pay based on observable outcomes. In many other agency relationships, the desired actions and outcomes are difficult both to observe and measure. If the principal cannot adequately measure the action or outcome that most interests them, they may measure another action or outcome as a proxy. A good proxy must be highly correlated with the desired measure, if not, then the score on the proxy will be irrelevant to the score on the preferred measure. To make matters worse, the agent may try to maximize performance on the proxy measure, thereby boosting their compensation, without necessarily improving performance on the preferred measure.

The 'risk sharing problem' could arise when cooperating parties have different attitudes towards risk (Eisenhardt, 1989). Agency theory broadened this risk-sharing to include the agency problem that occurs when cooperating parties have different goals and division of labour. The problem is that the principal and the agent may prefer different actions because of their different risk preferences. Besanko et al (2000) noted that most individuals are risk-averse and prefer jobs where their income is assured to jobs as opposed where they have the same expected income albeit with an element of risk. Risk aversion suggests that most individuals would not risk substantial portions of their income.

2.2.3 Nature of agency relationships (traditional principal-agent relationship versus principal-professional relationship)

From previous research, it is possible to distinguish the type of agency relationships by the type of work being delegated to the agent. This section will provide an overview of the principal-agent relationship in traditional agency theory, the concept of the principal/professional (variant to principal/agent relationship in traditional agency theory), differences between the principal/professional and the traditional principal/agency perspective, and the nature of the agency relationship between the hotel owner and the hotel management company in HMCs.

2.2.3.1 Principal-agent relationship in traditional agency theory

Previous research on agency theory tends to be concentrated on the ownership-management relationship, in particular, the principal-agent relationship in larger public firms owned by a diverse group of shareholders (Jensen and Meckling, 1976; Eisenhardt, 1989; Barney et al., 1996; Scott, 1998; Fosberg, and Rosenberg, 2003; Mason and Slack, 2005; Shapiro, 2005). Agency problems arise wherever owners have difficulty in verifying and/or monitoring the behaviour of individuals working within/for a firm, specifically where owners are not directly involved in overseeing a firm's operations. This implies that agency theory seeks to uncover the ways in which owners/investors can ensure that their resources are being used for the good of the organisation in which they have an ownership interest.

Jensen and Meckling (1976) noted that if both parties are utility maximisers there is good reason to believe that the agent will not always act in the best interests of the principal. Thus, this leads to a conflict of interests which underpins the agency model. An agency problem arises where the agent acts selfishly to the detriment of the principal while acting on behalf of the principal. In terms of the employment relationship, the basic agency problem is characterised in terms of structuring monitoring and compensation systems so that they will induce self-interested, utility-maximising, risk-and-effort averse agents (managers who want to maximise their

compensation and minimise their effort expenditures) to act on behalf of principals or owners who want to increase the value and performance of their firms (Bloom and Milkovich, 1998; Eisenshardt, 1989; Levinthal, 1988; Jensen and Meckling, 1976). Agency theorists seek to explain the choices principals make about form and structure of compensation systems and how those choices are related to the principals' outcomes.

Table 2.2: Comparison of agency theory assumption and organisational perspectives

Assumption	Perspective				
	Political	Contingency	Organisation control	Transaction costs	Agency
Self-interest	X			X	X
Partial goal conflict	X	X		X	X
Bounded rationality		X	X	X	X
Information asymmetry		X		X	X
Efficiency as effectiveness criteria			X	X	X
Risk aversion					X
Information as commodity					X

Note: X is assumption made

Source: Eisenhardt (1989)

At the heart of agency theory is goal conflict, inherent when individuals with differing preferences engage in a cooperative effort, and where the essential metaphor is that of the contract. Eisenhardt (1989) noted that agency theory has several links to mainstream organisational perspectives (see Table 2.2). First, agency theory is similar to political models of organisation, since both assume the pursuit of self-interest at the individual level and goal conflict at the organisational level (March, 1962; Pfeffer, 1981).

Second, agency theory shares some similarities to the information processing approaches used in contingency theory. Both perspectives assume that individuals are boundedly rational and that information is distributed asymmetrically throughout the organisation. Thus, both perspectives are efficiency theories as they use efficient processing of information as a criterion for choosing among various organising forms (Chandler, 1962; Galbraith, 1973; Lawrence and Lorsch, 1967).

Third, agency theory is obviously in line with the organisational control literature. The link between known means/ends relationship and crystallised goals, to behaviour versus outcome control (Thompsons, 1967; Ouchi, 1979) is very similar to agency theory which links task programmability and measurability of outcomes to contract form (Eisenhardt, 1985). In other words, known means/ends relationships (task programmability) leads to behaviour control, and crystallised goals (measurable outcomes) lead to outcome control. However, the major difference between agency theory and organisational control literature are the risk implications of principal, agent risk aversion, and outcome uncertainty.

Lastly, agency theory has similarities with the transaction cost perspective (Williamson, 1975). Both theories share assumptions of self-interest and bounded rationality, and have similar dependent variables (hierarchies which roughly correspond to a behaviour-based contract, and markets which correspond to an outcome-based contract) (Barney and Ouchi, 1986). However, both theories also have some differences, since the theory of transaction costs is concerned with organisational boundaries, whereas agency theory is concerned with the contract between two cooperating parties. Thus, each theory includes unique independent variables. Asset specificity and small numbers bargaining are the key variables in transaction cost theory, while the risk attitudes of the principal and the agent, outcome uncertainty and information systems are the variables in agency theory.

Eisenhardt (1989) has suggested that agency theory investigates the agency problem that occurs when two parties have different goals and labour is divided. Agency theory focuses on control issues resulting from conflicts of interest between principals and agents and conceptualised controls in the form of optimal contracts designed to correct for these conflicts. As the unit of analysis is the contract that governs the relationship between the principal and the agent, the focus of the theory is on determining the most efficient contract governing the principal-agent relationship, taking into account certain assumptions about people (e.g. self-interest, bounded rationality, risk aversion), organisations (e.g. goal conflict among members), and information (e.g. information is a commodity that purchasable).

Therefore, the key step is to decide, depending on the particular circumstances, whether the behaviour oriented contract (e.g. salary, hierarchical governance) is more efficient than the outcome oriented contract (e.g. commission, stock options, transfer of property right, market governance). An overview of agency theory is shown in Table 2.3 below.

Table 2.3: Agency theory overview

Dimension	Traditional agency theory (owner-manager)
Unit of analysis	Contract between principal and agent
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences
Key idea	Principal-agent relationships should reflect efficient organization of information and risk-bearing costs
Human assumptions	Self-interest Bounded rationality Risk aversion
Organizational assumptions	Partial goal conflict Efficiency as the effectiveness criterion Information asymmetry Agent delegated the task by passive owner principal
Assumption about oversight	Market (corporate control/reputation)
Information assumptions	Information as a purchasable commodity
Contracting problems	Agency (moral hazard and adverse selection)

Source: Eisenhardt (1989)

Fosberg and Rosenberg (2003) noted that agency theorists have recognised that separation of ownership and control (common in most corporations) creates conflicts of interest between a firm's managers and shareholders. These conflicts arise because managers have the opportunity to use the resources of the firm in ways that benefit themselves personally, but which decreases the wealth of the firm's shareholders. As noted earlier, previous research on agency theory focused on the owner-manager as a principal-agent relationship (Jensen and Meckling, 1976; Eisenhardt, 1989; Barney et al., 1996; Scott, 1998; Fosberg, and Rosenberg, 2003; Mason and Slack, 2005; Shapiro, 2005). Typically in corporate shareholder cases, the relationship between the owner and the manager will be governed by a contract that determines what duties are to be performed and how the manager is to be compensated. Shapiro (2005) also noted that although the theory is often applied to the relationship between an organisation's stockholders/owners and managers, it also

can be applied to the relationship between managers and employees (e.g. salesperson).

Daily, Dalton, and Cannella (2003) suggested that although the agency theory has become the predominant theory of governance and that its research applications focus on owners and CEOs of large organisations, the agency paradigm can be generalised to any situation where the principal depends on an agent to fulfil some actions. For example, joint venture co-operation (Reuer and Ragozzino, 2006), franchisor-franchisee relationship (Lafontaine, 1992; Kehoe, 1996; Quinn and Doherty, 2000; Pizanti and Lerner, 2003; Vazquez, 2005), headquarter-subsidiaries (O'Donnell, 2000), mergers and acquisition (Graebner et al., 2001; Lane et al., 1998), representative negotiation (Fassina, 2004), and sport organisation (Mason and Slack, 2005).

Additionally, in some situations, a principal might use an agent if the principal owns some asset but lacks the skills or technical knowledge to maximize the asset's value as is often the case in the context of HMCs. Thus, this kind of agency relationship, where the principal (who is in need of specific skills and technical knowledge) is dealing with the professional/expert (who possesses the specific skills and technical knowledge), might also be different from the traditional agency theory (owner-manager).

2.2.3.2 Concept of principal/professional relationship (variant to principal/agent relationship in traditional agency theory)

Professional service firms have become increasingly prevalent in today's society due to increased demand for consultants, lawyers, accountants and other individuals who utilise abstract knowledge to solve organisation problems (Abbott, 1988; Sullivan, 2001). As noted by Sharma (1997), occupations such as accounting, architecture, engineering, law, advertising, investment banking, and management consulting, are considered as professionals who apply in their work a body of knowledge and techniques acquired through training and experience, have a service orientation and

distinctive ethics, and have a great deal of autonomy and prestige in the modern economy. By nature, professionals generally have a great deal of say in how their work is done and how their services are delivered. The impracticality of external control induces society to place trust in such professions to control and regulate their own practices.

Recently, researchers have applied the ideas of agency theory to the client-professional relationship (Mill, 1990; Sharma, 1997; Webber, 2000). In a service encounter, the client/customer and the service provider seek to maximise the utility of the outcome, but from different perspectives (Mills, 1990; Webber, 2000). The client/customer works to maximise the value of the service while the service provider is only tangentially concerned with the value or quality of the service. Therefore, control systems need to be used to ensure that the professional is operating in the best interest of the client and is accomplishing the work as delegated by the principal. Additionally, in situations where agents know more than the principal, the potential for opportunism is increased. This is normally the case where professional service organisations are hired by organisations and given limited decision making. Although it is crucial, Logan (2000) and Sharma (1997) noted that little research has been done to systematically evaluate the principal-professional relationship.

Self-interest and altruism are recognised as dual motives governing the behaviour of professionals (Sharma, 1997). In return for authority and the privilege to control their own work, professionals are bound both by a commitment to service ethos and by the ethics of their profession to act with responsibility and diligence in the best interest of their client. However, sometimes the behaviour of the professional favours economists' maximal self-interest over altruistic self-claim. This implies a tension between the calling to serve and the imperative of doing business. Professionals engage in market exchange as they sell services in return for compensation, therefore, this raises the imagery of agency theory.

Although principal-professional exchanges share many characteristics of the more widely studied agency relationship, the very nature of professional work also creates

some distinct differences, such as power asymmetry, oversight, and co-production (Sharma, 1997; Mason and Slack, 2005).

In relation to 'power asymmetry', the key assumption in agency theory that the principals have the power to design and enforce contracts is violated (Sharma, 1997). The greatest distinction of the principal-professional agency exchange would be not-knowing how the agent does a job, which is rather different from the problem of not knowing what the agent does (Sharma, 1997; Shapiro, 2005). The power of principals is implicit in the agency models as it enables principals to write and enforce efficient contracts to limit the presumed self-serving behaviour of the agent. Therefore, agency theory assumes that principals have the power to curb the potentially self-serving behaviour of agents, and the emphasis remains on the ability of principals to reduce information asymmetry by installing appropriate information systems.

Since the principals typically do not possess the technical knowledge to evaluate the effort invested or the outcome accomplished by professional agents, knowledge asymmetry arises from the differences in task-related knowledge (Sharma, 1997; Shapiro, 2005). The principals do not know what standards of practice need to be applied in order to accomplish and evaluate the task at hand. Therefore, in this situation the professional agent not only determines what needs to be done and how to do it but also draws upon extraprofessional sources of credulity and legitimacy to decide whether certain minimum standards of practice have been met. Professionals control the knowledge resource in the exchange with lay-principals so that in this situation the shift of power has possibly occurred because the jurisdiction over this resource is an important source of power (Pfeffer, 1992).

In addition, Sharma (1997) also noted that professionals have power over lay principals by virtue of their expertise, functional dispensability and intrinsic ambiguity associated with the services they provide in the principal-professional exchange. Consequently, the power asymmetry assumed in agency theory is reversed in exchanges involving agents who have power over lay principals because

they control relevant task-related knowledge and have the expert authority to influence (if not drive) greatly the standards of exchange.

In terms of 'oversight', the mainstream of agency theory covers two main scenarios (Eisenhardt, 1989): (1) where the principal can observe and decipher the agent's actions; and (2) where the principal can establish causality from this action to measurable performance and thus sort out the agent's relative contribution in achieving the observed outcome. In other words, where costs of monitoring or metering, or both, are low, agency theory yields clear options for solutions to the principal's problem.

In contrast, the costs of both monitoring and metering are high during provision of knowledge-intensive professional services because the lay principal only limitedly understands the specialized services and execution of associated task (Mills & Moberg, 1982; Mills et al, 1983). To the lay principal, the agent's behaviour is opaque. Thus, there is a great deal of ambiguity as to the true contribution of the agent's efforts on the observed outcomes. As mentioned by Walsh and Seward (1990), the machinery of agency theory relies on both internal (organization-based) and external (market-based) forms of control to curb opportunistic behaviour by managers of public corporations. However, these forms of control also are applicable, albeit limitedly in the professional-principal context.

As noted by Sharma (1997) and Shapiro (2005), because the professional agents' behaviour is opaque to non-professionals, and the indeterminacy intrinsic in highly specialized tasks makes it difficult either to specify clearly on the observed outcome or to sort out the true contribution of the agents' effort in the observed outcome, organization and market based controls that typically rely on clear measurement of performance remain only partially effective. Shapiro (2005) used as examples several incidents, such as how some patients get better despite their physician is negative prognosis, how the clients of superb lawyers sometimes lose, or how bright students may become great sociologists despite incompetent or opportunistic professors. Due to the inadequacy of direct control of professionals by lay principals

and of impersonal control by the market at large, the restraints on the opportunistic inclinations of professional agents are accomplished more readily via supervision by professional peers in bureaucratic settings and via profession-wide measures (i.e. a code of ethics, licensure, or auditing). Therefore, these shift the emphasis from impersonal agency control to formal and informal checks by a community of professional peers.

In respect to 'co-production', the emphasis on impersonal controls in the owner-manager context is largely because agency theorists have been concerned with the lack of direct involvement of owners in how their affairs are being managed by agents. Passive ownership, arising from the absence of shareholders routinely managing their company's operations, is a unique feature of owner-manager agency (Jensen and Meckling, 1976).

In contrast, professional agents usually do work in consultation with their clients to create jointly a product that incorporates values, ethics, and very specific instrumental as well as cultural needs. Mills (1990) noted that there is a great deal of consultation and interaction between the professional and the lay principal, as the former customizes a well-defined set of specialized knowledge to serve the particular needs of the latter in face-to-face service encounters. Sharma (1997) suggested that unlike owners and managers, the lay principal and professional agent co-produce the service in question so that issues such as social influence, interpersonal attraction, and trust become vital when examining the principal-professional exchange. Moreover, this could also exhibit the social embeddedness in the relationship. Therefore, the active involvement of principals (as clients) in the development of the service product by professional is a unique and distinctive feature of principal/professional agency. The theoretical significance of co-production of services is that it emphasizes economic as well as social aspects of exchange, and it highlights the need for agents and principals to work together to attain joint outcomes.

2.2.3.3 Differences between principal/professional relationship and traditional principal/agent relationship and the true nature of the agency relationship between the hotel owner and the hotel management company under a hotel management contract

From sections 2.2.3.1 and 2.2.3.2, it can be seen that although principal-professional exchanges share many characteristics of the more widely studied owner/manager agency relationship (Eisenhardt, 1989 and Sharma, 1997), the very nature of professional work also creates some distinct differences (see Table 2.4). These include the presence of altruism, role of social embeddedness, risk neutrality, and information not being considered as commodity.

Table 2.4: Comparison of theoretical assumptions: professional and manager

Assumption	Principal-Professional	Owner-Manager
Self-interest	X	X
Bounded rationality	X	X
Altruism	X	O
Social embeddedness	X	O
Risk aversion	O	X
Efficiency as effectiveness criteria	X	X
Partial goal conflict	X	X
Information asymmetry	X	X
Information as commodity	O	X

Note: X is assumption made; O is assumption not made

Source: Based on Eisenhardt (1989) and Sharma (1997)

According to Sharma (1997), in situations where professionals are agents, the division of labour is also a division of knowledge. Therefore, the importance of knowledge is affirmed expressly in the context of the principal-professional exchange. Consequently, the knowledge asymmetry favouring professional agents undermines, in turn, the principal's prerogative to design and enforce agreements vested in them from a fundamental reliance on property rights in agency theory (Eisenberg, 1976). In this context, this might more accurately reflect the true nature of the agency relationship between the hotel owner and the hotel management company operating under a HMC.

In certain situations a principal might use an agent if the principal owns some asset but lacks the skills or technical knowledge to maximize the asset's value. Indeed, this is often the case in the context of HMCs (Eyster, 1988a). This kind of agency relationship, where the principal (who is in need of specific skills and technical knowledge) is dealing with an external professional/expertise (who possess the specific skills and technical knowledge), is somewhat different from that outlined in traditional agency theory (owner-manager). Understanding the nature of this type of co-operation, and the possible associated agency problems, is likely to be crucial for both the hotel owner and the hotel management company. In relation to this, Research Question 1 is developed below:

Research Question 1: What is the nature of the agency relationship and the associated agency problems present in hotel management contracts?

In order to tackle this research question, it is necessary to establish criteria for distinguishing between the two types of agency relationships. Based on the overview of principal-professional and owner-manager (see Table 2.5), six criteria are developed: 1) the problem domain and the key idea; 2) human assumption; 3) organisational assumption; 4) assumption about oversight; 5) information assumption; and 6) contracting problems. In this research, these six criteria will be used as a means of distinguishing between the two types of agency relationship.

Research Question 1 intends to examine the relationship between the hotel owner and the hotel management company under HMCs, and to identify the nature of their relationship (whether being more akin to the principal-professional form or to the owner-manager form). Therefore, to address this research question, it is necessary to draw upon the theoretical framework of the overview of principal-professional and owner-manager, and the six criteria derived from this (see Table 2.5). The criteria and associated questions will be used as a means of examining the nature of the relationship between the hotel owner and the hotel management company under HMCs as illustrated in Table 2.6. After clarifying the six criteria in the context of the relationship between the hotel owner and the hotel management company under

HMCs, it is possible to identify the nature of their relationship (whether being more akin to the principal-professional form or to the owner-manager form).

Table 2.5: Comparison of the overview of Principal-Professional and Owner-Manager

Criteria	**Dimension**	**Principal-Professional**	**Owner-Manager**
-	Unit of analysis	Exchange between lay principal and professional agent	Contract between principal and agent
1	Problem domain	Relationships in which lay principal and professional agent engage in a knowledge-intensive task. The two parties have differing risk preferences and partly conflicting goals.	Relationships in which the principal and agent have partly differing goals and risk preferences.
	Key idea	Principal-professional relationships should efficiently accommodate power asymmetry arising from knowledge gap in agent's favour.	Principal-agent relationships should reflect efficient organization of information and risk-bearing costs.
2	Human assumptions	Mixed motive (altruism and self-interest) Bounded rationality Social embeddedness	Self-interest Bounded rationality Individual autonomy Risk aversion
3	Organizational assumptions	Partial goal conflict Efficiency as the effectiveness criterion Knowledge and information asymmetry Co-production of service involving both principal and professional	Partial goal conflict Efficiency as the effectiveness criterion Information asymmetry Agent delegated the task by passive owner principal
4	Assumption about oversight	Community of peers	Market (corporate control / reputation)
5	Information assumptions	Incomplete market for esoteric knowledge – not a commodity	Information as a purchasable commodity
6	Contracting problems	Agency (indeterminacy and opacity of behaviour)	Agency (moral hazard and adverse selection)

Source: Based on Eisenhardt (1989) and Sharma (1997)

Problem domain and key idea

In relation to the problem domain and the key idea, it is clearly suggested that differences in risk preference and goals is common in all types of agency relationship (Eisenhardt, 1989; Sharma, 1997; Shapiro, 2005). In order to address these issues, the key idea of traditional agency theory (owner-manager) suggests that principal-agent relationships should reflect efficient organization of information and risk-bearing costs. However, what makes the principal-professional relationship different from the traditional agency relationship (owner-manger) is that lay

Table 2.6: The use of theoretical framework of principal-professional and owner-manager in examining the relationship between the hotel owner and the hotel management company under the hotel management contract

Theoretical framework				Key measurement	→	Key questions regarding the relationship between the hotel owner and the hotel management company under the hotel management contract
Criteria	**Dimension**	**Principal-Professional**	**Owner-Manager**			
	Unit of analysis	Exchange between lay principal and professional agent	Contract between principal and agent		→	• Exchange and contract between the hotel owner and the hotel management company
1	Problem domain	Relationships in which lay principal and professional agent engage in a knowledge-intensive task. The two parties have differing risk preferences and partly conflicting goals.	Relationships in which the principal and agent have partly differing goals and risk preferences.	• To what extent are the goal and risk preference of both parties different? • Does the principal require the specific knowledge of the agent to perform task?	→	• To what extent are the goal and risk preference of hotel owners and hotel management companies different? • Do hotel owners require the specific knowledge of operators to perform task?
	Key idea	Principal-professional relationships should efficiently accommodate power asymmetry arising from knowledge gap in agent's favour.	Principal-agent relationships should reflect efficient organization of information and risk-bearing costs.	• How is the relationship built/designed to accommodate the problem (due to the nature of the task)?	→	• How is the relationship between the hotel owner and the hotel management company built/designed under the hotel management contract to accommodate the problem of either knowledge or information asymmetry (due to the nature of hotel management contract task)?
2	Human assumptions	Mixed motive (altruism and self-interest) Bounded rationality Social embeddedness	Self-interest Bounded rationality Individual autonomy Risk aversion	• To what extent do motivations of the agent represent self-interest or altruism? • How do the principal and the agent interact with each other in their relationship? • To what extent does the working relationship between the principal and the agent exhibit social embeddedness and individual autonomy? • To what extent is the principal able to share the risk with the agent?	→	• To what extent do the motives of hotel management companies represent self-interest or altruism? • How do hotel owners and hotel management companies interact with each others under hotel management contracts? • To what extent does the working relationship between hotel owners and hotel management companies exhibit social embeddedness and individual autonomy? • To what extent are hotel owners able to share the risk with hotel management companies?

***Table 2.6** (continued): The use of theoretical framework of principal-professional and owner-manager in examining the relationship between the hotel owner and the hotel management company under the hotel management contract*

Theoretical framework				Key measurement	→	Key questions regarding the relationship between the hotel owner and the hotel management company under the hotel management contract
Criteria	**Dimension**	**Principal-Professional**	**Owner-Manager**			
3	Organizational assumptions	Partial goal conflict Efficiency as the effectiveness criterion Knowledge and information asymmetry Co-production of service involving both principal and professional	Partial goal conflict Efficiency as the effectiveness criterion Information asymmetry Agent delegated the task by passive owner principal	• To what extent are goals of the principal and the agent conflict? • How is the performance of the agent evaluated by the principal? • To what extent is the principal able to know how the agent does the task? • What are the characteristic of the principal in working with the agent?	→	• To what extent are goals of hotel owners and hotel management companies conflict? • How is the overall performance of the hotel management company evaluated by hotel owners? • To what extent are hotel owners able to know how hotel management companies do the task? • What are characteristics of hotel owners in working with their operators?
4	Assumption about oversight	Community of peers	Market (corporate control / reputation)	• To what extent is the principal able to monitor and evaluate the performance of the agent?	→	• To what extent are hotel owners able to monitor and evaluate the performance of hotel management companies in the hotel management contracts?
5	Information assumptions	Incomplete market for esoteric knowledge – not a commodity	Information as a purchasable commodity	• To what extent is the principal able to reveal/obtain the information on what the agent does to complete the task?	→	• To what extent are hotel owners able to obtain/reveal the information (what actually operators do) in hotel management contracts?
6	Contracting problems	Agency (indeterminacy and opacity of behaviour)	Agency (moral hazard and adverse selection)	• To what extent is the principal able to verify the behaviour of the agent?	→	• To what extent are hotel owners able to verify the behaviour of hotel management companies in hotel management contracts?

principals and professional agents engage in a knowledge-intensive task (a task which requires a special knowledge or skill on the part of the agent to be performed). Consequently, due to the lack of knowledge of the principal, the key idea is that principal-professional relationships should efficiently accommodate power asymmetry arising from a knowledge gap in the agent's favour (resulting from control over relevant task-related knowledge and having the expert authority to influence the standard of exchange). In this context, power asymmetry might refer to a hidden power that enables one party to dominate another party in the relationship.

The problem domain measures the difference in risk preference and goals of the principal and the agent, and explores these differt. This research intends to examine differences in the goals and risk preferences of the hotel owner and the hotel management company when using a HMC. This would clarify whether the agency problems (conflict of interest or difference risk preference) exist in the relationship between the hotel owner (as principal) and the hotel management company (as agent). Engaging in a knowledge-intensive task is a unique characteristic of the principal/professional relationship, and to measure this, there is a need to examine that the principal actually requires the specific knowledge of the agent to perform a task. This research also examines the nature of the HMC task, and whether this requires special knowledge or the skill of the agent to perform. This would clarify whether the hotel owner and the hotel management company are engaging in a knowledge intensive task or not.

Regarding the key idea, the way in which the relationship is built/designed to accommodate the problem (due to the nature of the task) needs to be explored. This research will examine how the relationship between the hotel owner and the hotel management company is built/designed under a HMC in order to accommodate the problem of either knowledge or information asymmetry (due to the nature of HMC task). This would highlight whether the principals attempt to address power asymmetry arising from a knowledge gap in the agent's favour, if they engage in a knowledge intensive task. There may also be a problem of knowledge asymmetry (i.e. imbalance of specific knowledge) in the relationship, or principals who attempt

to address the problem of information asymmetry and who incur risk-bearing costs as a result.

Human assumptions

In terms of the assumptions of agency theory pertaining to human nature, it is clearly suggested that principal/professional exchanges only shared characteristic with traditional agency theory (owner/manager) concerns bounded rationality (Eisenhardt, 1989; Sharma, 1997; Shapiro, 2005). Bounded rationality refers to a boundary of action/behaviour (i.e. decision making, argument) based on reasons rather than emotions, in the agency relationship.

Unlike the traditional agency relationship (owner-manager) in which each party is driven by self-interest or its specific objectives (Eisenhardt, 1989; Jensen and Meckling, 1976), Sharma (1997) noted that for the professional, apart from self-interest, there is recognition of altruism (goodwill) because they take pride in their craft and are attracted to their profession by a calling to serve the public. However, sometimes the behaviour of the professional favours economists' maximal self-interest over altruistic self-claim. Due to the presence of self-interest and altruism within the same individual, this would represent a more complex picture of human agents than is presented in the traditional agency theory. Upon answering a calling to serve the public, professionals then engage in market exchange as they sell services in return for compensation. This highlights a tension between the desire to serve and the necessity of doing business.

Another difference is that in traditional agency theory (owner-manager), the owners tend to be passive and the managers tend to have more individual autonomy. Jensen and Meckling (1976) identified that within the organisation or corporation, owners (as principal) turn over control of their property to managers (as agent) hired to run the organisation. In this situation, the principals are passive owners who enjoy the gains made from their investment without taking any active role in the management of the firm. Meanwhile, the agents are responsible for management of the firm. Therefore, this would highlight limited social interaction between two parties and the

individual autonomy of managers. On the other hand, in a principal/professional relationship, the principal tends not to be passive (being active in the relationship) and the professional agent tends to exhibit social embeddedness. This may be due to an interaction, social influence or interpersonal attraction between two parties in their relationship. Sharma (1997) recognised the social embeddedness (rather than unhindering individual autonomy) of professional agents in the principal/professional relationship, representing a shift of attention from atomised units engaging in a purely economic exchange, toward complex human beings who also serve a socioeconomic function.

Traditional agency theory supposes that managers are risk averse because risky behaviour or an unsuccessful outcome could result in the loss of employment (Eisenhardt, 1989; Besanko et al., 2000; Ekanayake, 2004). However, the professional agents tended to be risk neutral rather than risk-averse. Sharma (1997) noted that an outside professional agent does not necessarily have an incentive structure similar to that of employed managers. Thus, it is more difficult for principals to monitor and control professional agents who have expert power. Moreover, it is unlikely that the lay principal could share a risk with the professional agent, therefore the professional agent becomes risk-neutral.

In examining the relationship between the hotel owner and the hotel management company under the HMC, as a measurement of motive, either mixed (self-interest and altruism) or single (self-interest), there is some question as to what extent the motivation of the agent exhibits self-interest or altruism. This research intends to examine what does govern/motivate the behaviour of hotel management companies in HMCs. This would clarify whether only self-interest or a mix of self-interest and altruism governs their behaviour. As to measuring the issue of bounded rationality, there is a need to explore how the principal and the agent interact with each other in their relationship. This research will examine how hotel owners and hotel management companies do interact with each other under hotel management contract. Therefore, the issue of bounded rationality (a boundary of action or

behaviour, i.e. decision making, argument, based on reasons rather than emotions) will be clarified.

In measuring the issue of social embeddedness (where there is an interaction, social influence or interpersonal attraction between two parties as a result of the active principal) and individual autonomy (where there is limited interaction between two parties as a result of the passivity of the principal), there is a need to examine to what extent the working relationship between the principal and the agent exhibits social embeddedness and individual autonomy. This research intends to examine how hotel owners actually work with hotel management companies. This would clarify whether that a social embeddedness (due to an interaction, social influence or interpersonal attraction between two parties as a result of active hotel owners) or individual autonomy (as there might be a limited interaction between two parties as a result of passive hotel owners) exists in the relationship. For the last issue, in measuring the issue of risk sharing, to what extent the principal is able to apportion risk with the agent will be examined, i.e. to what extent hotel owners are able to apportion risk with hotel management companies. This would show that whether the hotel management company (as the agent) is risk-averse or risk-neutral.

Organisational assumptions

With regard to organisational assumptions, principal/professional exchanges share several characteristics with that of traditional agency theory (owner/manager). For instance, that efficiency (which in this case refers to an achievement of the promised outcome or behaviour) is employed as an effectiveness criterion; and the existence of partial goal conflict and information asymmetry (due to hidden information) between principals and professional agents (Eisenhardt, 1989; Sharma, 1997). However, unlike owner/manager relationships, Sharma (1997) suggested that apart from information asymmetry, the issue of knowledge asymmetry (an imbalance of specific knowledge/know-how) arises in principal/professional exchanges due to the differences in task-related knowledge. This is because the principals do not possess the technical knowledge to evaluate the professional agents, and the professionals tend to know more than the principals.

Another difference concerns the co-production of service (i.e. involvement of the principal in affairs which are managed by the agent). In the principal/professional relationship there is a great deal of consultation and interaction between professional agents and principals so in this case the principal is active (Sharma, 1997; Mill, 1990). In contrast, between owners and managers, there is a lack of direct involvement by the owners in affairs which are managed by the managers/agents. As owners are absent from the operation of the company, these owners (as the principal) are thus likely to be passive owners (Eisenhardt, 1989; Jensen and Meckling, 1976).

In measuring the issue of partial goal conflict, there is a need to examine to what extent the goals of each party (i.e. the principals and the agents) are in conflict. In order to clarify this issue, this research intends to explore the motives of the hotel owner and the hotel management company for using HMCs. On the issue of efficiency (i.e. an achievement of the promised outcome or behaviour) as the effectiveness criterion, exploring how the performance of the agent can be evaluated by the principal will clarify whether that an achievement of the promised outcome or behaviour is an effective measurement or not. This research will also explore how the overall performance of the hotel management company is evaluated by hotel owners; thereby clarifying the issue of efficiency as the effectiveness criteria.

On the issue of knowledge asymmetry, examining to what extent the principal knows how the agent does the task will reveal any imbalance of knowledge between the principal and the agent (i.e. whether the agent knows more than the principal or vice versa). Thus, this research intends to examine how well hotel owners know how their operators perform tasks. If there is an imbalance of knowledge between the two parties, then this would indicate that the issue of knowledge asymmetry exists in the relationship between the hotel owner and the hotel management company under the HMC. Lastly, on the issue of whether there is co-production of service involving both parties, or tasks are delegated to the agent by the principal, an exploration on the characteristics of the principal would clarify whether the principal is passive or active. This research intends to examine the characteristics of the hotel owners. This

would clarify whether there is any co-production of service between the two parties (indicating the hotel owner is active) or if the hotel management company is being delegated tasks by a passive hotel owner.

Assumption about oversight

In relation to the assumption on oversighting, in traditional agency theory (i.e. owner and manager), Eisenhardt (1989) noted that: (1) the principal can observe and decipher the agent's actions, and (2) the principal can establish causality from this action to measurable performance and thus sort out the agent's relative contribution in achieving the observed outcome. Therefore, the use of organisation or market based control (i.e. internal control mechanisms such as reporting, business performance, etc.) might be effective. In contrast, the behaviour of the professional agent is opaque to non-professionals and the indeterminacy intrinsic in highly specialised tasks makes it difficult either to specify the outcome or to sort out the true contribution of the professional agent's effort (Shapiro, 2005; Sharma, 1997; Mills et al., 1983; Mills & Moberg, 1982). Sharma (1997) suggested that there is an emphasis on the use of formal and informal checks by a community of professional peers via profession-wide measures (i.e. a code of ethics, licensure, and auditing), rather than the organisation and market-based control, which is only partially effective in principal/professional relationships.

In order to measure oversight assumption, an examination on the ability of the principal to monitor and evaluate the performance of the professional, would clarify whether there is more emphasis on the use of formal and informal checks by a community of professional peers, or on the organisation and market-based control, (or vice versa). Thus, this research intends to examine to what extent hotel owners are able to monitor and evaluate the performance of hotel management companies in the HMC.

Information assumptions

Regarding the assumption of information, in traditional agency theory (i.e. owner-manager), by its nature, the principal knows what the agent does. By installing or

investing in the appropriate information system, the principal might be able to observe and decipher the agent's actions and to establish causality from this action to measurable performance, thus highlighting the agent's relative contribution in achieving the observed outcome. Therefore, in this situation, information is a purchasable commodity (Eisenhardt, 1989). In contrast, for in those agency exchanges where a much more informed professional agent provides knowledge-intensive intangible service goods to a lay principal (who normally not knowing what the agent does), the principal can purchase the requisite knowledge only at great cost, or in most cases not at all (Sharma, 1997).

In measuring the information assumptions, an examination on the ability of the principal to reveal/obtain the information on what the agent actually does to complete a task, would clarify whether that information is a purchasable commodity or whether the principal can purchase this knowledge only at very great cost (or, probably, not at all). Therefore, this research intends to examine how the hotel owner is able to obtain/reveal the information (i.e. what the operator actually does) in the HMC. The ability of the hotel owner to reveal such information in the hotel management contract would reflect the nature of this information, i.e. whether or not it is a purchasable commodity.

Contracting problems

Lastly, the contracting problem, in traditional agency theory (i.e. owner-manager), the problem is concerned with moral hazard (low level of effort) and adverse selection (misrepresentation of skill or ability) of the agent. Moral hazard might occur when the agent possess hidden action or information; while adverse selection could occur when principals are unable to verify the skills or ability of the agent either at the time of hiring or working (Ekanayake, 2004; Besanko et al, 2000; Eisenhardt, 1989; Jensen and Meckling, 1976). However, in the principal/professional relationship, the problems are concerned with the indeterminacy (when something cannot be easily or exactly identified) and opacity (i.e. transparency) of behaviour of the professional agent. This is because the behaviour of the professional agent is opaque to non-professionals and the

indeterminacy intrinsic in highly specialised tasks makes it difficult either to specify the outcome or to sort out the true contribution of the professional agent's effort (Shapiro, 2005; Sharma, 1997; Mills et al., 1983; Mills & Moberg, 1982).

In order to measure contracting problems, examining the ability of the principal to verify the behaviour of the agent would clarify whether there is a problem of indeterminacy and opacity of behaviour, or that of moral hazard and adverse selection. Thus, this research intends to examine whether hotel owners are able to verify the behaviour of hotel management companies or not.

2.2.4 Resolving agency problems

The implications of agency theory extends to forms of co-operative strategy, i.e. a relationship in which each partner becomes an agent for the other. In such a relationship, there is a risk that one partner will engage in self-seeking opportunistic behaviour at the expense of the other. Consequently, this raises the question of what form of monitoring or control may be appropriate within a cooperative relationship (Child et al, 2005). The role of control systems is to help principals curb the opportunistic behaviour of agents by reducing the opportunities and incentives for such behaviour (Ekanayake, 2004).

As noted by Kaplan and Atkinson (1989), there are two types of principal-agent relationships present in the management control system of a typical firm. These are between the firm's owners or shareholders (the principal) and the firm's top management (the agent), and between the firm's top management group (the principal) and the divisional managers, who manage the decentralized units (the agents). Additionally, Sharma (1997) revealed that the nature of the principal/professional relationship represents the uniqueness and has different features when compared with the traditional principal-agent (manager-owner) relationships. The concept of agency theory would be crucial for the control system

designer in understanding the nature of these relationships. Managing the relationship to achieve the goals is the key task of any management control system.

Agency theory's implications for management control are wide ranging (Ekanayake, 2004). First, an agent's self-interested behaviour can be monitored by both formal information systems (e.g. budgeting and management reporting) and informal information sources (e.g. managerial observation and surveillance). These are important aspects of control that can be studied using an agency theory perspective. Second, agency theory views control system aspects of compensation and incentive schemes as tools for aligning agent's motives with organizational goals. Third, agency theory brings into focus uncertainty and risk considerations that need attention in devising control systems. If the outcomes are highly uncertain, it will be costly to contract on outcomes, since transferring risks to employees (agents) risk-averse will be inefficient.

In a cooperative relationship, where one partner becomes an agent for the other, there is a risk that one partner will engage in self-seeking opportunistic behaviour at the expense of the other (Child et al, 2005). One way to curb such behaviour is to design an effective contract or monitoring mechanism. In HMCs, it is important for the hotel owner (as the principal) to curb the possible opportunistic behaviour of the hotel management company (as the agent). Accordingly, the design of the monitoring and controlling system to be used in the relationship between the hotel owner and the hotel management company might be crucial. In relation to this, Research Question 2 is developed below:

Research Question 2: How is agent opportunism restrained in the operation of hotel management contracts?

This section will provide an overview of control instruments for resolving agency problem, control approaches in traditional agency theory (owner-manager), and additional control approaches in controlling the principal/professional relationships. Additionally, in order to address Research Question 2, two sub-research questions

will be developed and used as theoretical frameworks to explore how agent opportunism is restrained in the operation of HMCs.

2.2.4.1 Control instruments for resolving agency problem

Traditionally the focus of agency theory is on developing the most efficient contract (as control instrument) for governing the principal-agent relationship, assuming self-interested people and corporations. Some agency theorists focus on which contract is the most efficient under different levels of outcome uncertainty, risk aversion, information, and other variables (Eisenhardt, 1989). Additionally, the development of other control instruments can also be a focus of agency theory, for example, Shapiro (2005) noted that the most popular streams of literature focus on incentive alignment (i.e. compensation policy). The empirical studies consider types, and correlate of and trade-off between behaviour-oriented and outcome-oriented compensation. Another stream of literature examines corporate governance and control (monitoring mechanism).

In addressing the moral hazard problem (i.e. low level of effort), Ekanayake (2004) noted that it can, to an extent, be addressed by monitoring (e.g. information systems), outcome controls (e.g. entering into contracts based on outcome/targets), and incentives (e.g. compensation schemes). Eisenhardt (1989) also noted that agents are more likely to behave in the interest of the principal when contracts are outcome-based, or where the principals have information to verify agent behaviour. Similarly, Jensen and Meckling (1976) concluded that information asymmetry and incentives combine and pose a moral hazard to agents, which owners can reduce by monitoring agent conduct, gaining access to their firm's internal information flow, and providing incentives that encourage agents to act in the owner's best interest. The cost of reducing information asymmetries and the accompanying moral hazard is lowest when owners directly participate in the management of the firm.

In order to deal with the issue of adverse selection, Ekanayake (2004) suggested that the principal would try to select an agent with the appropriate level of skills rather than attempting to induce the appropriate level of effort from a specific agent through a contract. The principal will write contracts in such a way that only the agents with the desired ability will accept them. This shows the importance of individual contracts, incentives, and agent selection in management control.

In a review of the agency literature, there are a number of popular instruments used to resolve the agency problems. These are (i) monitoring mechanisms, (ii) incentive or compensation schemes, and (iii) legally enforced contracts.

Monitoring mechanisms

Monitoring mechanisms are useful in situations where the performance of the agent can be easily evaluated. Information asymmetry tends to be a central concept in agency theory because when information is distributed evenly between principals and agents, agency problems are less likely to arise (Levinthal, 1988). Rutherford, et al. (2007) suggested that information asymmetry plays a vital role in the logic of both the moral hazard and adverse selection problems. Agents are able to act opportunistically because the principals have difficulty in monitoring them to ensure that they are acting in the principals' best interest. Thus, principals are often unable to verify agents' claims as they lack the information necessary to do so.

Accordingly, the principal might increase their level of monitoring by improving the information they possess. Eisenhardt (1989) noted that when the principal has information to verify the behaviour of agent, the agent is more likely to behave in the interests of the principal, thus the agents are less likely to shirk their responsibilities when they are being monitored and opportunistic behaviour can be reduced. The behaviour of agents can be discovered by investing in information systems such as budgeting systems, reporting procedures, boards of directors and additional layers of management.

As noted by Rutherford, et al. (2007), the extent to which the board is proactive in seeking information appears likely to influence information asymmetry. A person who is proactive in gathering information will independently seek out new information rather than relying solely upon the report which is provided to them (Boynton et al, 1993; Morrison, 1993). Proactive information gathering is particularly important for boards of directors because CEOs may misrepresent the facts being presented to the board in order to pursue their own interests (Eisenhardt, 1989; Levinthal, 1988). Therefore, the only way the board could verify the CEO's claims would be to gather additional information beyond what was presented to them.

Another issue relates to a boards' frequency in interacting with each other, and with the firm. In some firms, boards hold only a few meetings each year, and because of this they are likely to suffer from a lack of information (Finkelstein and Hambrick, 1996; Lorch and MacIver, 1989). Therefore, one way to improve the monitoring ability of a board and reduce information asymmetry is to increase the frequency with which they interact.

Incentive/compensation scheme

The assumptions of agency theory are that agents are rational actors, risk-averse, and motivated by self-interest. Therefore, principals can motivate agents by controlling their incentives (Amernic, 1984; Eisenhardt, 1989; Gomez-Mejia and Balkin, 1992; Stroh et al., 1996).

Principals may employ incentives to align the interest of the principal and the agent (Fama and Jensen, 1983; Jensen and Meckling, 1976). The compensation of the agent can be structured so that principal and agent share a common interest in the performance of the firm. Stroh et al. (1996) noted that the agency theory suggests that organisations choose between variable or performance related pay (compensation that is largely dependent on output level, e.g. bonus, incentive plans, profit sharing, employee share option plans) and fixed pay (a reward for performing an appropriated behaviour, e.g. salary). This might depend on the ease of job

performance monitoring, i.e. behaviour/effort. Prendergast (1999) found that the directors can be motivated to do as shareholders wish by using a form of performance related pay. Similarly, the findings of Bender (2004) demonstrated that those determining the remuneration structure do so to induce directors to work harder and take risks, in the expectation that the prospect of earning greater rewards will motivate exactly such behaviour.

Contract document

The contract document, as identified by Eisenhardt, (1989) and Besanko et al (2000), spells out the terms of the agency relationship, specifically the payments to be made by the principal to the agent, contingent on the agent taking specific actions and/or the principal observing certain outcomes. The contract may be explicit with the terms written down and legally enforceable or the contract may be implicit. The terms should be understood by all participants and are enforced through their desire to maintain long-term relationships and their reputations with other parties.

Shapiro (2005) noted that the principal aim in the design of the contract document should be to facilitate two key control instruments for resolving the agency problems, i.e. monitoring mechanism and incentive/compensation scheme. As mentioned by Child et al (2005), behaviour-oriented contracts include those which offer a salary in return for being available to work during stated hours, or in given circumstances, and under the authority of a hierarchical super-ordinate (i.e. hierarchical governance). Outcome-oriented contracts include commissions, stock options, and having rewards or return subject to performance within a market place.

According to Mason and Slack (2005), the most commonly discussed solution to agency problems involves contracting on the outcome of agent behaviour. This is because if the goal of the principal is to maximise profit, the solution to moral hazard is to give the agent a reward that is contingent upon the financial performance of the firm. In particular, from an agency perspective, compensation contracts are important as they are the primary tool that boards use to control CEO behaviour (Finkelstein and Hambrick, 1988). Boards can align CEO and shareholder interests

by tying large percentages of CEO compensation to outcomes such as firm performance (Eisenhardt, 1989). When CEO pay is tied to performance, agency problems are less likely to occur as stockholders and CEOs share a common interest in the performance of the firm (Walsh and Seward, 1990).

Creating performance-based contract, however, might involve a transfer of risk from the principal to the agent (Mason and Slack, 2005; Eisenhardt, 1989). Agents will make beneficial decisions that may affect the whole organisation and are then rewarded with a portion of the result (e.g. commission, bonus). On the other hand, agents who make bad decisions or perform poorly might not receive any reward at all (if using a completely performance based reward system).

Thus, performance-based contracts may encourage agents to act in ways that guarantee them a minimum level of reward, rather than seeking out opportunities that are in the best interests of the organisation. Therefore, if the agent is risk-averse, the result will be loss of welfare to the principal because the agent will choose activities and seek opportunities to reduce risk. As suggested by Mason and Slack (2005), the solution to the risk problem would be to apportion a higher degree of compensation to factors not directly related to output or performance such as part salary and part commission-based contracts. Therefore, the appropriateness of the use of either behaviour or performance based compensation/contract might be highly dependent on the level of risk-aversion that the principal and agent have.

Creating a boundary or limiting the freedom of decision making can be used to control agent opportunism. Fama and Jensen (1983) noted that the separation of ownership and control creates the agency problem. To change the structure of the decision making process within an organisation may reduce the likelihood of agents diverting resources for their own use. The creation of decision hierarchies would make it more difficult for one person to divert resources for personal use, to the detriment of the firm as a whole. Similarly, Michael and Pearce (2004) suggested that principals might implement rules and policies that limit agents' decision making authority in order to constrain the potential for agent opportunism. For example,

Mason and Slack (2005) mentioned that the International Olympic Committee (IOC) created hierarchies in the selection process for hosting the Olympic Games that ideally reduce the likelihood of certain members obtaining perks and taking bribes in order to influence the outcome of the selection votes. Watts and Zimmerman (1983) found that an audit changed the expectations of a firm and reduced the agency costs borne by the manager. However, this was only effective if it was expected that the auditor would report discovered breaches of contracts. In addition, Bathala and Rao (1995) noted that a firm can use a board of directors as a mechanism to reduce the agency problem.

2.2.4.2 Control approaches in traditional agency theory (owner-manager)

The focus of agency theory is to limit the agency problems which might arise in the relationship between the principal and the agent. To this end, the necessity for selecting the appropriate control approach and to apply this using the correct control instruments might be crucial. In traditional agency theory (owner-manager), there are two typical control approaches, which are behaviour-oriented control and outcome-oriented control. One of the challenges for the principal is to decide on the control approach used (behaviour-oriented, outcome-oriented, or a mix of these) for controlling an agent. From the previous literature, there are certain variables which might influence the suitability of the control approach, depending on the particular principal-agent relationship. This section will illustrate behaviour-oriented control versus outcome-oriented control as control approaches in traditional agency theory (owner-manager), key variables influencing the suitability of control approach, and the use of traditional control approaches in the relationship between the hotel owner and the hotel management company under HMCs.

2.2.4.2.1 Behaviour-oriented control versus outcome-oriented control as control approaches in traditional agency theory (owner-manager)

From the previous literature, there are two typical control approaches in traditional agency theory, namely behaviour-oriented control and outcome-oriented control.

The primary focus of agency theory is the identification of circumstances in which a behaviour-oriented control would generate superior results to those that would be achieved using an outcome-oriented control or vice versa (Fassina, 2004). Choosing between these two control approaches could minimise the potential for an agent to exhibit self-interested behaviour and maximise the probability of an optimal settlement for the principal (Jensen and Meckling, 1976; Eisenhardt, 1989). Both approaches of control are essential because they not only enable monitoring but also provide the necessary motivational force for the employee to make the expected contributions (Kowtha, 1997).

Behaviour-oriented control

Behaviour-oriented control aims to monitor the behaviour of the agent and to reward the agent for the required behaviour. The agent is rewarded or remunerated for the actions he or she takes e.g. a non-commissioned sales person, a human resource manager who is responsible for making job offers, or a divorce lawyer who channels communications between separating spouses.

Under ideal conditions, a principal is assumed to have the information needed to use behaviour-oriented control in the form of a behaviour-oriented contract and to subsequently monitor the agent's behaviour during the transaction (Fassina, 2004). By monitoring the agent's behaviour, the principal might curb the possibility of the agent engaging in opportunistic behaviours (Eisenhardt, 1989). The level of success is evaluated relative to the agent's behaviour and decisions along the way rather than by the settlement alone. Additionally, the agent is forced to take on less risk and is likely to require less compensation from the principal (Parks and Conlon, 1995). Similarly, Kowtha (1997) noted that in pure behaviour control, the employee does not promise to bring about specific measured outcomes. He or she performs prescribed behaviours and refrains from proscribed behaviours. Rewards are tied to a verification of these behaviours through supervision or records. Risk is minimised for the employee with regard to his or her income.

Conlon and Park (1995) noted that a behaviour-oriented contract may result in higher quality settlements because the volume and frequency of information sharing between the principal and agent are increased. Thus, enhanced communication results in better collaborative efforts by the principal-agent team. Accordingly, since information systems inform the principal about what the agent is actually doing, these are likely to curb agent opportunism because the agent will realise the difficulty of deceiving the principal (Eisenhardt, 1989). Additionally, behaviour-oriented control might reduce the occurrence of unwanted agent behaviour such as escalating commitment to a failing course of action (Eisenhardt, 1989; Tosi, Katz and Gomez-Majia, 1997; Kirby and Davis, 1998).

Outcome-oriented control

The outcome-oriented approach coaligns the preferences of agents with those of the principal because the rewards for both depend on the same actions. Consequently, any conflict of interest between the principal and the agent is reduced. Thus, the agent is likely to extend greater effort in the interests of the principal (Jensen and Meckling, 1976; Eisenhardt, 1989). This type of control approach can be applied in the form of compensation schemes or legally enforced contracts. Fassina (2004) noted that the agent is commonly rewarded for the negotiated settlement (e.g. a commissioned real estate agent).

Under less than ideal conditions, agency theory posits that a principal may not have the requisite knowledge or ability to monitor the agent's behaviours and may be unaware of exactly what the agent is doing. In fact the agents may be able to hide behaviour or misrepresent their skills to the principal (Eisenhardt, 1989; Gillespie and Bazerman, 1997). In such situation, the outcome-oriented control approach might be used to hold the agent responsible for the final settlement (the principals may align the goals of the agent with their own).

However, where the principal (who is in need of specific skills and technical knowledge) is dealing with the professional/expert (who possesses these), it might actually be difficult for the principal to judge the outcome, as this can be a highly

complex undertaking. Moreover, a principal who is unable to identify and evaluate an agent's behaviour may be unable to determine whether a settlement was the result of an inappropriate or irrational decision by the agent (Ross, 1973; Sharma, 1997).

By focusing on controlling the outcome, there might be a transfer of risk from the principal to the agent (Mason and Slack, 2005; Eisenhardt, 1989). Agents will make beneficial decisions that may affect the whole organisation, yet are only rewarded a portion of the result (e.g. commission, bonus). On the other hand, agents who make bad decisions or perform poorly might not receive any reward at all (if using a completely performance based reward system. Similarly, Kowtha (1997) noted that under pure outcome control, the employee is held accountable for specific outcomes and stands to forfeit income in the event of failure. Outcome control implies that the employee bears all the effects of any uncertainty associated with the outcome; therefore, the employee bears all the risk.

In such situations, agents may be encouraged to act in ways that ensure a minimum level of reward for them is achieved, rather than seeking opportunities that may be in the best interests of the organisation. Therefore, the result will be loss of welfare to the principal if the agent is risk-averse (i.e. the agent will choose activities and seek opportunities to reduce risk). As suggested by Mason and Slack (2005), the solution to risk problems would be to apportion a higher degree of the compensation to factors not directly related to output or performance such as part salary and part commission-based contracts. Ideally, a compensation scheme would be generated to accommodate the risk preference of each individual party. Therefore, both the principal and agent must be aware of their risk preferences in determining the most efficient contract. The appropriateness of the use of either behaviour or performance based compensation/contract might be highly dependent on the level of risk-aversion that the principal and agent have.

As noted by Ekanayake (2004), the advantage in outcome-oriented control is that both the principal and agent can observe outcomes. In contrast, efforts exerted by an agent cannot be observed by the principal and are known only by the agent. In spite

of this, principals frequently use behaviour-oriented control to monitor agent's efforts, thus effort is a disutility for the agent. In addition, Eisenhardt (1989) suggested that when the outcome-oriented approach is used and when the principal has information to verify the behaviour of the agent, it is likely that the agent behaves in the interests of the principal.

In traditional agency theory (owner-manger), there are two typical control approaches, behaviour control and outcome control. The approach chosen may minimise the potential for an agent to exhibit self-interested behaviour and maximise the probability of an optimal settlement for the principal (Eisenhardt, 1989; Jensen and Meckling, 1976). Thus, both approaches of control are essential because they not only enable monitoring but also provide the necessary motivational force for the employee to make the expected contributions (Kowtha, 1997). In relation to this area, the consensus of available literature is that it is likely that the opportunistic behaviour of the agent can be restrained when traditional control approaches (behaviour control and outcome control) are used.

2.2.4.2.2 Key variables influencing the suitability of control approach

The focus of agency theory is to limit the agency problems which might arise in the relationship between the principal and the agent. Moreover, it is necessary to understand the nature, characteristics of the relationship, or any variables in order to select the appropriate approach for resolving the agency problem through control instruments (e.g. monitoring mechanisms, incentive/compensation schemes, and the legally enforceable contracts).

In traditional agency theory, behaviour-oriented control and outcome-oriented control are two typical control approaches. One of the challenges for the principal is to decide the most appropriate control approach (i.e. behaviour-oriented, outcome-oriented, or a mix of these) for controlling an agent. From the previous literature, there are several variables which might influence the suitability of the control

approach. These variables need to be considered before deciding the control approach for a particular principal-agent relationship. These include task programmability, risk preference, information asymmetry, length of the agency relationship, and external variables (i.e. market condition/competition).

Task programmability

One of the key variables to be considered is that of task programmability, as this is likely to influence the ease of measuring and monitoring behaviour (Eisenhardt, 1989). Programmability is defined as the degree to which appropriate behaviour by the agent can be specified in advance, e.g. the job of a retail sales cashier is much more programmable than that of a high technology entrepreneur. In non-programmable tasks, agents can exert a high or low level of effort without being observed. The more autonomy the agent enjoys, the greater the information the agent possesses, and the greater the specialized knowledge required performing the task, then the greater the chances for the occurrence of moral hazards i.e. low level of effort (Ekanayake, 2004). Therefore, this situation favours on outcome oriented approach. However, in a highly programmable task, in which an agent's level of effort can be observed through behaviour controls, the opposite may occur because behaviours leading to desired outcomes can be stipulated. In relation to this, the consensus of the literature is that highly programmable tasks are more suited to a behaviour-oriented approach, while low levels of task programmability favour an outcome-oriented approach.

Risk preference of the agent

In terms of different risk preference, research by MacCrimmon and Wehrung (1986) indicated that individuals vary widely in their risk attitudes. This might be influenced by the outcome uncertainty which, as noted by Eisenhardt (1989), is concerned with factors that may cause uncontrollable variations in the outcome or the success of the business project (e.g. government policies, economic climate, competitor actions, technological change). The resulting outcome uncertainty introduces not only the inability to preplan, but also risk that must be borne by someone (normally the owner of the business project). In this situation, as the agent

becomes increasingly less risk-averse (e.g. a wealthy agent), it becomes more attractive to pass risk to the agent using an outcome-based contract to co-align the interest. Similarly, Ekanayake (2004) noted that an agent's risk preference impacts on the suitability of contracts. Outcome-based contracts transfer risk from the principal (who is risk-neutral because of the opportunity to diversify), to the agent (who is risk-averse because employment cannot be diversified). Logan (2000) suggested that outcome-based controls/contracts align the goals of the agent with the principal so that rewards for both depend on the same action, thereby, shifting the risks involved in the contract towards the agent. In contrast, behaviour-based controls or contracts shift the risk to the principal, because the agent is being paid for behaviour regardless of the results. In relation to this, the consensus of the literature is that the less the risk aversion of the agent, the more suitable will be a behaviour-oriented approach and an outcome-oriented approach less so.

Information asymmetry

Regarding asymmetry of information, this can dramatically affect the selection of the control approach (Mason and Slack, 2005; Eisenhardt, 1989). In cases where there is complete information, the principal knows what the agent has done by virtue of the agent's behaviour. Eisenhardt (1989) noted that in this situation, a behaviour-oriented control approach is most efficient. On the other hand, when the principal does not know exactly what the agent has done (and assuming the agent's self-interest), the agent may not behave as agreed. In this situation, Eisenhardt (1989) suggested that there might be a need to install an information system (e.g. budgeting system, reporting procedure, boards of directors, or additional layer of management) to discover the agent's behaviour. If the existence of an information system reveals the agent's behaviour to the principal, then the situation reverts to the complete information case. Additionally, if it is difficult for the principal to ascertain what an agent is doing and how well the agent has performed, an outcome-oriented control (e.g. rewards based on the cumulative performance of the firm) should be considered (Mason and Slack, 2005). This is because the principal cannot ascertain the individual agent's contribution, therefore, outcome-oriented control motivates the agent's behaviour by coaligning the agent's preferences with those of the principal,

albeit at a price that of transferring risk to the agent. The issue of risk arises because outcomes are only partly a function of behaviour, and in relation to this, the consensus of the literature is that the higher the information asymmetry, the less it favours a behaviour-oriented approach and the more it favours an outcome-oriented approach.

Length of the agency relationship

The length of the principal-agency relationship might influence the control approach selected (Shapiro, 2005; Stroth et al, 1996; Eisenhardt, 1989; Lambert, 1983). When the principal and the agent engage in a long-term relationship, Lambert (1983) noted that it is likely that the principal will learn more about the agent and will be able to assess their behaviour more readily. In contrast, in a short term relationship, the information asymmetry between the principal and the agent tends to be greater. In this situation, according to Eisenhardt (1989) an outcome-based approach/contract is more attractive. Similarly, Stroth et al (1996) noted that when organisations expect a relationship with a manager to last, they tend to have behaviour-based control systems. The organisations are interested in socialising their manager into their culture and tend to emphasise their manager's behaviour rather than the outcomes the managers are accountable for. On the other hand, organisations that do not expect a long-term relationship to develop, and do not expend much effort in socialising their managers, put less emphasis on behaviour and more on actual outcomes and would be expected to place greater emphasis on outcome-based controls. The consensus of the literature is, the longer the length of the agency relationship, the more this favours a behaviour-oriented approach and the less this favours an outcome-oriented approach.

External variables (market condition or competition)

External variables could influence the relationship, for example, market conditions/competition will reduce shirking as other potential agents will offer their services for a smaller reward (Alchian and Demsetz, 1972). The degree of environmental munificence that a firm is operating within will also affect the principal and agent relationship. Environmental munificence refers to the scarcity or

abundance of critical resources needed by (one or more) firms operating within an environment (Castrogiovanni, 1991). Park and Colon (1995) found that the agency model does not work properly under conditions of scarcity as risk aversion is likely to be higher in this type of condition. On the other hand, in conditions of abundance, agents will perceive less risk and have a greater willingness to accept an outcome-based control, and engage in more entrepreneurial behaviour on behalf of the firm. In relation to this, the consensus of the literature is, the lower the market competition, the more this favours a behaviour-oriented approach and less so favours an outcome-oriented approach.

Table 2.7: Summary of the condition of variables which influence the suitability of control approach and the control approach suggested

Variable	Condition	Control approach suggested
Task programmability	High-task programmability	Behaviour control
	Low-task programmability	Outcome control
Risk preference of the agent	High risk preference	Behaviour control
	Low risk preference	Outcome control
Information	Complete information case	Behaviour control
	Incomplete information case	Outcome control
Length of the agency relationship	Long relationship	Behaviour control
	Short relationship	Outcome control
External variables such as market condition or competition	High competition	Outcome control
	Low competition	Behaviour control

In summary, in traditional agency theory (owner-manager), there are two typical control approaches, namely behaviour-oriented control and outcome-oriented control. One of the challenges for the principal is to decide the ideal control approach (behaviour-oriented, outcome-oriented, or mix of them) for controlling an agent. The suitability of the control approach might be influenced by a variety of variables including task programmability, risk preference of each party, information systems, the length of the agency relationship, and external variables such as market condition or competition. Therefore, examining these variables in a particular agency relationship might be crucial, and consequently might imply the appropriateness of the control approach in resolving the agency problem through control instruments/mechanisms (e.g. monitoring mechanisms, incentive / compensation schemes, and legally enforced contracts), see Table 2.7 above.

2.2.4.2.3 The use of traditional control approaches in the relationship between the hotel owner and the hotel management company under hotel management contracts

The focus of agency theory is to limit the agency problems which might be arise in the relationship between the principal and the agent. Moreover, the necessity of selecting the appropriate control approach and control instruments might be crucial. In traditional agency theory (owner-manager), the typical control approaches used are, specifically, behaviour-oriented and outcome-oriented (or sometimes a mix of these). One of the challenges for the principal is to decide what would be the best control approach for controlling an agent. From the previous literature, there are several variables which might influence the suitability of the control approach, and which need to be considered before deciding the control approach for a particular principal-agent relationship.

In certain situations a principal might use an agent if the principal owns some asset but lacks the skills or technical knowledge to maximize the asset's value, as is often the case in the context of HMCs (Eyster, 1988a). This kind of agency relationship, where the principal (who is in need of such specific skills and technical knowledge) is dealing with an external professional/expertise (who possess the specific skills and technical knowledge), is somewhat different from that outlined in traditional agency theory (owner-manager). Understanding how traditional control approaches (behaviour control and outcome control) can be used in the context of hotel management contracts is likely to be crucial for both the hotel owner and the hotel management company. In relation to this, the first sub-research question is developed below:

Research Question 2a: Within hotel management contracts to what extent are behaviour and outcome controls used to restrain against opportunism and how suitable are these controls for hotel management contracts?

In order to address this sub-research question (see Table 2.8), this research intends, firstly, to explore how traditional control approaches (i.e. behaviour and outcome

control) are used in the operation of the HMC. This would clarify to what extent these approaches are used in the context of HMCs.

Table 2.8: The use of theoretical issues (control approaches in traditional agency theory and suitability of control approach) in exploring how agent opportunism is restrained in hotel management contracts

Theoretical Issues			**Restraint against agent opportunism in hotel management contracts**
Control approaches in traditional agency theory	Outcome control	→	How is the outcome control used in the operation of the hotel management contract?
	Behaviour control	→	How is the behaviour control used in the operation of the hotel management contract?
Suitability of control approach	Task programmability	→	To what extent can the task be programmed in the operation of the hotel management contract?
	Risk preference of each party	→	What is the risk preference of the hotel owner and the hotel management company?
	Information asymmetry/system	→	How can the information be revealed in the operation of the hotel management contract?
	Length of the agency relationship	→	Normally, how long is the hotel management contract?
	Market condition or competition	→	What is the degree of international hotel business competition?

Secondly, this research aims to identify the suitability of the control approach for a particular agency relationship (i.e. between the hotel owner and the hotel management company under the HMC). The suitability of the control approach might be influenced by several variables, including task programmability, the risk preferences of each party, information systems, the length of the agency relationship, and external variables such as market condition or competition. Therefore, examining these specific variables in a particular agency relationship (i.e. between the hotel owner and the hotel management company under the HMC) might be crucial. Consequently, it might imply the suitability of the various control approached in resolving the agency problem through specific control instruments/mechanisms (e.g. monitoring mechanisms, incentive/compensation schemes, and legally enforced contracts).

Regarding the task programmability, this refers to the ability of the principal to specify the appropriate behaviour of the agent in advance, and this research intends to examine to what extent the task can be programmed in the operation of the HMC. With respect to the risk preference of each party, the risk preference of the hotel

owner and the hotel management company will be explored, and in terms of information asymmetry/systems, how information can be revealed in the operation of the HMC will be examined. With regard to the length of the agency relationship, this research will explore how long the HMC normally is. Lastly, regarding the market condition or competition, the degree of international hotel business competition will be examined. After examining these variables, the suitability of the control approach to be used in the context of HMC will be clarified.

2.2.4.3 Control approaches in the principal/professional relationships

As has been noted, agency theory attempts to limit agency problems between the principal and the agent, including the issue of how to restrain agent opportunism within HMCs. Accordingly, the choice of control approach can be extremely important, especially in cases where professional service companies are hired by organisations and given limited decision making. Moreover, where agents know more than the principal the potential for opportunism is increased, and the feasibility of holding the agent accountable for their behaviour becomes highly limited without knowledge of what behaviours to expect (Eisenhardt, 1989). While traditional agency theory supports two typical control approaches (i.e. behaviour-oriented and outcome-oriented), there are number of additional control approaches which might be more appropriate to use. These additional control approaches are outlined below.

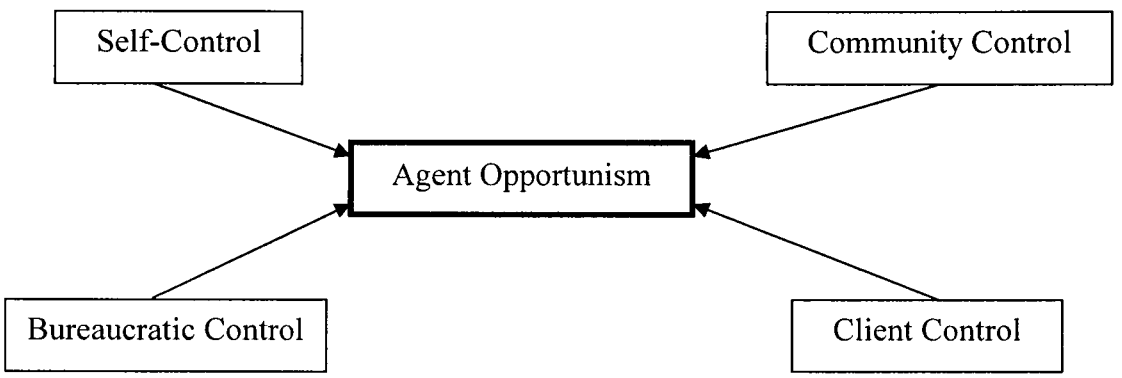
2.2.4.3.1 The four control approaches for controlling a professional agent

Because of their distinctive characteristics (as mentioned in section 2.2.3), there are difficulties in controlling professional agents, when they are more powerful than the principals by their virtue of expertise, and who cannot then be restrained easily via behaviour or outcome-oriented control (Sharma, 1997). This can be supported by some scholars such as Mason and Slack (2005) in sport organisations, Turner and

Muller (2004) in co-operation on projects between project owners and project managers, and Logan (2000) in transportation outsourcing.

Apart from behaviour-based and outcome-based control, it has been suggested that professional opportunism could be restrained by a combination of additional control approaches including self-control, bureaucratic control, community control, and client control (Sharma, 1997; Logan, 2000; Turner and Muller, 2004; Mason and Slack, 2005), see Figure 2.9. In addition, Turner and Muller (2004) noted that among these four control mechanisms professional certification is increasingly used to foster confidence on the side of the principal in the agent's competence and trustworthiness. In relation to this, it is likely that the opportunistic behaviour of the professional agent (who knows more than the principal) can be restrained when these additional control approaches are used.

Figure 2.9: Restraints on professional agent opportunism



Source: Sharma (1997)

Self-control

In respect of 'self-control', it arises from scepticism about the widely held belief that people are motivated by self-interest, and from the presumption of altruism among professionals. Professional agents are, in fact, driven by a complexity of motives, including not only self-preservation but also pride in their craft calling to serve the public (Sharma, 1997). The limitation of control mechanisms outlined in the mainstream of agency theory has been highlighted by the asymmetry of knowledge

in principal-professional exchange, i.e. both monitoring and metering are highly problematic when knowledge-intensive service products are involved.

Unlike the traditional agency relationship of owner-manager where the principal might be proactive in seeking information to verify the agent's behaviour, excessive attempts by the principal to control could end up having a negative effects for both the principal and professional agent. As Ghoshal and Moran (1996) have argued the surveillance of one party (e.g. employee) by another (i.e. employer) can induce feelings of anxiety and reduce productivity through a loss of motivation. Furthermore, Frey (1993) suggested that although agency theory deems it necessary to reduce information asymmetry by monitoring behaviour, the lack of trust implicit in this approach can induce feelings of resentment and invoke suspicions of motives among all involved. In particular, the lack of a professionals' intrinsic motivation could diminish the quality of service received by lay principals in situations where the professionals use a great deal of discretion (i.e. when they bring an abstract body of esoteric knowledge to bear on the specific problems). Thus, Ghoshal and Moran (1996) suggested that excessive rational control in one situation might encourage agents to 'play the system', in other important but less accessible areas.

Although the inclination to behave opportunistically might remain in professionals who retain power by virtue of a competence gap, the behavioural assumption of self-interest can be counterproductive in the context of the principal-professional agency exchange (Sharma, 1997). This is because the professional relies on the notions of altruism, trust, and self-control, derived from the view that professional work is a calling to which those people who respond have not only an orientation to make a living but also a desire to serve unselfishly others in need.

Unlike owner-managers, professional agents and their principals typically are engaged actively in the joint creation (or co-production) of the service product. Pfeffer (1992) suggested that interaction and routine consultation between these two parties enable a sharing of information, exercises social influence, reduces misunderstandings, and builds trust between them. For example, interaction between

lay principals and professional agents increases trust and generates the expectation that one will not undermine the other's interest, even in the face of countervailing short-term opportunities. Thus, Chiles and McMackin (1996) claimed that a high degree of trust is likely to strengthen the presumed altruistic orientation of professionals and further constrain their opportunistic inclination in professional agency exchanges.

Community Control

Controlling by community can be used becasue reputation effects are believed to extend beyond a single agent-principal exchange, and the value of human capital is presumed to be degraded if word spreads that a particular agent has not previously served principals in good faith. The adverse reputation of an agent in the market at large might deter other potential principals from engaging them in exchange. Unless an agent does not intend to remain in business beyond one transaction, or the principal has a short memory or is of a forgiving kind, concern about reputation and potential for future business inhibits opportunistic behaviour (Sharma, 1997). This was evident in sporting organisations where the opportunism of players' agents in professional ice hockey was reduced by agent competition and concern for reputation (Mason and Slack, 2003).

Agents who behave opportunistically are likely to affect their reputation adversely only if their behaviour is made common knowledge, and if the public at large can determine easily that the principals themselves were not the ones to break the agreement whether in letter or in spirit (Williamson, 1985). However, Sharma (1997) noted that the inability of principals to give opportunistic agents a poor reputation is greater when the task contracted is knowledge intensive and the agents are professionals. It is very difficult to determine whether a particular agent failed because of opportunistic behaviour, managerial incompetence, or exogenous factors beyond anyone's control. This is not only because of the lack of transaction-specific information available to outsiders, but also because of the involved nature of the task, which few non-professionals can understand without substantial investment in acquiring the relevant knowledge base. Moreover, as a result of presumed structural

autonomy, the standards of professional work are defined by the professionals themselves and usually are not amenable to evaluation by outsiders. The market for reputation is incomplete and is an inadequate safeguard against the opportunistic inclinations of professional agents.

Agent opportunism in exchanges involving professionals is, therefore, expected to be curbed by the institutions and collective organizations of the professions themselves (Noreen, 1988; Sharma, 1997). Formal associations can exercise self-regulation and discipline members by threatening expulsion and loss of associated privileges. Scrutiny by professional peers neutralizes the agent's advantage of unique access to an esoteric body of knowledge and exposes the behaviour of agents for comparison against the work and ethical standards of their respective community of professionals. Without any asymmetry of knowledge, the professional control of agents is accomplished by such means as determination and enforcement of a code of ethics, a formally organised audit of individual members, informal relations among colleagues, and licensure.

As noted by Von Glinow (1988), although professional agents are likely to be concerned about their reputations among lay principals, they are more loath to risk professional sanction and acquire poor reputation among their peers. Consequently, agents' opportunistic inclinations are likely to be curbed by the particular circumstances and effectiveness of internal control within their own profession rather than by the general market for reputation and the threat of being fired by the principals.

In practice, Noreen (1988) noted that while an ethical code could reduce opportunistic agent behaviour, it could not be enforced by means of traditional control mechanisms (e.g. sanctions for observed contractual breaches). Rather, the effectiveness of controls applied by peers depends on the clarity of the code of ethics, and standard of work, as well as on systematic and judicious enforcement of professional rules of conduct (Noreen, 1988; Sharma, 1997). Furthermore, the threat of harm to their general reputation is likely to influence a professional agent's

behaviour whenever any opportunistic behaviour can be advertised easily and when principals have a strong reputation. Social interaction and solidarity among principals is likely to make their claims more credible to one another.

Bureaucratic Control

In terms of bureaucratic control, restraining opportunistic inclinations is dependent on the nature of the internal structure and systems within the professional firm (Galbraith, 1973; Sharma, 1997; O'Donnell, 2000; Webber, 2000). Most professionals work in large firms and answer to professional peers and super-ordinates through the organizational hierarchy (Sharma, 1997; O'Donnell, 2000). Professionals are considered as the 'administrative elite'. They serve in executive or supervisory roles have hierarchical authority and are as subject to pressures regarding performance and corporate reputation. Internal organizational controls, when deployed with the help of loyal professionals in management and supervisory roles, serve to restrain the opportunistic inclinations of the professional employee.

Organisational control systems foster varying attitudes toward opportunism and risk in a given situation because of how and with what they reward individuals (Ghoshal and Moran, 1996; Sitkin and Pablo, 1992). The emphasis on internal process control systems is likely to result in less opportunistic behaviour by individual professional agents because there are standard practices against which they can be held accountable, and are usually rewarded for following these practices in order to serve the interests of the principal (Sharma, 1997; O'Donnell, 2000). This monitoring of individual behaviour will normally be done via systematic internal controls or via informal oversight by knowledgeable peers and superiors inside the professional firm, thus it is likely that professional agents interacting with clients will not behave opportunistically. In contrast, an emphasis on outcome control systems often results in greater discretion for individual professionals and therefore reduces the principal's ability to measure the professional's behaviour and practice against well-defined internal standards. This reduces internal accountability and makes possible opportunistic behaviour by less ethical professional agents.

Client Control

Client control works by principals (as client), creating a mechanism to control the professional agent's opportunistic behaviour, eventhough they lack the professional specialist knowledge.

Apart from the particular structures and systems in place within professional firms, the relative knowledge attributes of client firms can also influence an agent's behaviour (Sharma, 1997). Since the principal often lacks specific knowledge regarding the agent's trade (needed to determine how much service is required, and how much is actually performed), it may not be possible to design control mechanisms and agreements in which the agent's compensation is based on outcome of effort. In this situation, the problem can be reduced if the principal has sufficient knowledge, and these two ways that the principal can acquire the expertise needed to neutralise the expert power of professional agents. First, the principal might unbundle the given service into several parts and utilise independent specialists for each part (Wolinsky, 1993). Second, the principal may hire, or obtain on retainer, specialists who understand the business of the external agents (Baker and Faulkner, 1991), thus principals can lessen or even neutralize their vulnerability to agent opportunism by internalizing specialized knowledge. Sharma (1997) noted that the internalization of relevant knowledge in practice is an acknowledgement of the problem arising from the asymmetry of expertise, and it is actually a solution to that problem in the principal-professional context.

Principals can structure the exchange so as to raise the agent's costs if opportunistic behaviour becomes known or suspected (Sharma, 1997; Henderson et al, 2006). Moreover, they could reduce the hazards of opportunism by demanding agents invest in assets that are idiosyncratic to the exchange (depending on the permission of competitive context). If while defining the task or constructing the compensation contract, professional agents are aware that there are many competing providers of the same services (rivals) or similar services (substitute), then they are more likely to accommodate principals by assuming greater risk themselves. In contrast, when

principals have only limited options, transferring risk to the agents is unlikely to occur.

In a long-term relationship, not only would the agent minimise opportunism so as to improve the chances of a repeat contract, but the principal would also have a greater opportunity to observe and to assess the agent's behaviour and truthfulness (Shapiro, 2005; Sharma, 1997; Stroth et al, 1996; Eisenhardt, 1989; Lambert, 1983). Principals and professional agents engage in an arms-length contract, in which the co-production attribute of exchange encourages repeat contact. This would allow principals to make a judgement of the integrity of professionals and to build trust. The professional agent would not have an interest in behaving opportunistically in the relationship because if the opportunistic behaviour is suspected or revealed, all agency business relationships with the principal could be jeopardised.

2.2.4.3.2 The use of control approaches for controlling professional agent in hotel management contracts

Unlike a traditional agency relationship (owner-manager), where the professional agent knows more than the principal, the potential for opportunism is increased. The feasibility of holding the agent accountable for her or his behaviour becomes highly limited without prior knowledge of what behaviour to expect (Eisenhardt, 1989). Because of their distinctive characteristics, there are difficulties in controlling professional agents, who are more powerful than principals by virtue of their expertise, and who cannot be restrained easily via behaviour or outcome-oriented controls (Sharma, 1997). Thus, apart from behaviour-based and outcome-based controls, professional opportunism could be possibly restrained by a combination of additional controls including self-control, bureaucratic control, community control, and client control (Sharma, 1997; Logan, 2000; Turner and Muller, 2004; Mason and Slack, 2005).

In this context, in certain situations a principal might use an agent if the principal owns some asset but lacks the skills or technical knowledge to maximize the asset's

value, which is often the case in the context of HMCs (Eyster, 1988a). For example, where agents know more than the principal (i.e. between the hotel owner and the hotel management company under the HMC), the principal (who is in need of such specific skills and technical knowledge) would deal with an external professional/expertise (who possesses these specific skills and technical knowledge). Thereupon, it is likely that the potential for opportunism might be increased, though utilising the four control mechanisms outlined in the previous section (self-control, bureaucratic control, community control, and client control), could protect the principal from this. Understanding how these control approaches can be used in the context of hotel management contracts is likely to be crucial for both the hotel owner and the hotel management company. In relation to this, Research Question 2b is developed below:

Research Question 2b: To what extent are additional principle/professional agency relationship controls utilised in hotel management contracts to guard against agent opportunism?

Table 2.9: The use of theoretical issues (control approaches for controlling the agent) in exploring how the agent opportunism is restrained in hotel management contracts

Theoretical Issues (Control approaches for controlling the professional agent)		**Restraint against agent opportunism in hotel management contracts**
Self control	→	How is the self control used in the operation of the hotel management contract?
Bureaucratic control	→	How is the bureaucratic control used in the operation of the hotel management contract?
Community control	→	How is the community control used in the operation of the hotel management contract?
Client control	→	How is the client control used in the operation of the hotel management contract?

In order to address this sub-research question, (see Table 2.9) this research intends to examine how self-control, bureaucratic control, community control and client control are used in the operation of the HMC. Consequently, the use of these four control approaches will be explored in the context of HMCs, and the effectiveness of and the necessity for using additional approaches for controlling the hotel management company (as professional agents) in the HMC will be clarified.

2.3 Industrial Context: The Hotel Management Contract in Action

This section will illustrate industry practice regarding HMCs, and is divided into four sub-sections. First, the evolution of HMCs will explore the past, current, and future uses of these. Second, the anatomy of the HMC will illustrate the keys elements of a HMC, including core structure/content, and key provisions. Third, the pre-contract signing stage will focus on several key themes: the motivation for utilising HMCs, partner selection, and the nature of the contract negotiation process. Lastly, the post-contract signing stage will look at the roles and working relationships of the three key parties (i.e. owner, general manager, and head/regional office of the hotel management company), the control methods used and the on-going issues in HMC operations. In addition, along with an exploration of previous studies, the specific research questions used to address the secondary research problem of this study will be developed.

2.3.1 Evolution of hotel management contracts (past, current, and future uses of the hotel management contract)

The management contract has been a cornerstone of the hotel industry's rapid development over the past 20 years (Eyster, 1993). However, the key characteristics of the HMC have changed throughout this time due to the influence of a number of factors. This section will illustrate HMCs before and after 1990s (a decade which marks a key stage in the evolution of HMCs) and the factors influencing the changes which have occurred.

2.3.1.1 Hotel management contracts before the 1990s

According to Eyster (1993), the 1970s and 1980s were a period during which there was a huge demand for new hotel construction in the US and world markets. The number of the hotel management companies was limited and the typical owner of a hotel property did not have much experience or knowledge of running a hotel as a

business. The inception of the management contract (the concept of separating ownership from operation) created an opportunity for hotel management companies to sell their services and to expand their network and market share. Lloyd-Jones and Rushmore (1996) noted that the majority of management contracts signed in the USA before the 1990s involved new properties. In order to be financed, as both the debt and equity markets placed a high degree of importance on the brand name and management affiliation of the property, the property had to be affiliated with a major lodging chain. Since the number of acceptable/recognised brand names was limited, this provided the major hotel management companies with an advantage in the negotiation process.

As a consequence of the balance of power, most of the HMCs in the early years were written in favour of the hotel management company rather than the owner. The general characteristic of the contract was: (1) there was no or minimal contribution (i.e. equity or loan) and investment from the operator toward the hotel property; (2) the operator gained full control / freedom to operate the hotel property, and there was only loose monitoring and control by the owner; (3) the length of the contract tended to be long with rarely any cancellation clause; and (4) the management fee was commonly based on a basic fixed management fee. Therefore, in these circumstances the hotel management company had minimal risk, minimal monitoring from the owner and could generate revenue from managing each hotel property by virtue of management fees. Consequently, the owner was the risk bearer and occupied an entirely passive role.

As noted by Lloyd-Jones and Rushmore (1996) and Armitstead (2004), there is a lack of operator financial involvement in traditional management contracts. Not only has the owner developed the hotel and provided all the finance for it, but they provided the finance for the working capital and pre-opening costs, and funded any losses. The operator/hotel management company provided the intellectual capital, i.e. they provided the brand name and operational management, and acted to manage the hotel on behalf of the owner, supporting this with sales and marketing (access to the reservation and distribution system, loyally programme, etc.). It is important to

note that under this arrangement 100% of the risk stays with the owner, and that normally all staff, except perhaps the GM, are the employees of the owner.

Eyster (1993) noted that contract negotiations during the 1970s and 1980s (a period of rapid expansion) specifically delineated operators' rights and responsibilities as separate from those of the owner, providing the operator with the freedom to operate the hotel without interference or significant input from the owner. The hotel owner and the lender were thus entirely passive parties to the deal. Lloyd-Jones and Rushmore (1996) pointed out that the operators also enjoyed a high degree of freedom with respect to reporting and controlling issues and expense allocation. In addition, Adams (2000) also suggested that in the early years management contract companies did not normally look for a stockholding in the contractual arrangement, as their input was purely operational.

In traditional hotel management contracts, the length of the contract tended to be long and very rarely was there ever cancellation clause. The longer the length of the contract, the more stability in managing the hotel property for the hotel management company. Thus, at the early stage of the Hilton expansion as reported by Strand (1996), Hilton fought hard to gain the best terms in the management contract including the length of the contract, which extended up to 50 years, and had no earnings test or cancellation clauses. Generally, as Lloyd-Jones and Rushmore (1996) noted, it was common for the term of a contract to be long, and termination provisions or performance standards were rarely evident.

The management fee was commonly based on a basic management fee. Lloyd-Jones and Rushmore (1996) indicated that fees were largely based upon a percentage of gross revenues. Strand (1996) stated that during the early stage of Hilton's expansion, they tried to negotiate for management fees at 3 to 5% of revenue, plus 10% of Gross Operating Profit (GOP).

2.3.1.2 Factors influencing the changes in hotel management contracts

From the previous section, it can be seen that the hotel management companies traditionally possessed a superior bargaining power in respect of contract negotiations. However, this position has now shifted from the end of the 1980s, owners began to obtain greater bargaining power within management contracts, and by the early 1990s, the shifts toward owner bargaining strength had become well established. While today, owners have a stronger position in terms of negotiation, there are several factors which influenced this shift in the bargaining power of owners and operators in HMC negotiation.

Today owners are more sophisticated and have access to experienced negotiators, asset managers, and lawyers. Eyster (1997a) suggested that most of the hotel owners have substantially increased their understanding and sophistication of hotel operations through their own industry experience or by hiring third party or in-house asset managers. Hotel owners are also relying increasingly on input from lenders who themselves have expanded their knowledge of the hotel industry. The lender's interests are usually aligned more closely with those of the owner than the operator's concern. Consequently, the lender's influence and requirements typically boost the owner's bargaining power in contract negotiations. In addition, as Goddard and Standish-Wilkinson (2002) have suggested, hotel developers, owners and lenders alike understand the hotel business much better than previously and they realize that the quality of the agreement has a direct bearing on the saleability and value of the hotel.

A higher degree of competition is now present among hotel management companies, for as Goddard and Standish-Wilkinson (2002) indicated, there are now more international-standard operators competing for fewer property management opportunities. Eyster (1997a) also indicated that the intensity of the competition gave the hotel owners more bargaining power as the operators scrambled to lock up newly constructed properties. In order to expand, the operators may now be in direct competition with other operators to reflag their properties.

As mentioned by Eyster (1997a), important court decisions in USA in the late 1990s clarified the concept of agency, whereby the USA courts determined that management contracts are agency agreements between owners (principals) and operators (agents) and are, therefore, subject to agency law. Agency law places a fiduciary duty on agents, which is to place the principal's interest over their own; precludes agents from competing with their principals; and precludes self-dealing without full disclosure to and approval of their principal. In addition, by law, agency agreements are revocable by the principal at will, unless the agent has 'an interest that runs with the property' (Eyster, 1997a).

2.3.1.3 Hotel management contracts from the 1990s onwards

According to Lloyd-Jones and Rushmore (1996), the balance of power shifted from the operator to the owner during the 1990s. In fact, the negotiation position of the management company has now been eroded while that of the owner has been enhanced. As a result, the management contract might now be perceived to primarily serve the purpose of the owner.

The characteristics of HMCs after the 1990s changed in many ways, when compared to the period before 1990s. Specifically, the contracts now generally favoured the owner more than before, characterised by: (1) shorter contract terms; (2) management fees within more emphasis on incentive fees; (3) owners more involved in hotel operations; (4) the inclusion of a performance standard and a termination clause in the contract; and (5) the operators contributing more in terms of equity, loan or some other form of investment. In addition, in some cases, lenders and asset managers are now frequently part of the contract negotiations. However, although the owner may now have a better contract negotiation outcome, the overall business risk still resides with them.

The term of the contract is now shorter (Lloyd-Jones and Rushmore, 1996; Sangree and Hathaway, 1996; Eyster, 1997a; Goddard and Standish-Wilkinson, 2002) and shorter terms tend to benefit the hotel owner. As Eyster (1997a) noted: (1) compared to the past, contract terms better match the noticeably shorter holding periods of hotel real estate, which is being treated today more of as a commodity than a long term investment; (2) the shorter terms give owners more flexibility by reflagging and repositioning their properties in today's changing markets; (3) with shorter contract duration, owners decrease the extent of damages they must pay operators if they remove operators unilaterally without cause; and (4) many owners believe that a shorter contract duration provides on added incentive for operators to perform (eventhough the operators often say the opposite is true).

The management fee now emphasises on incentive fees (Lloyd-Jones and Rushmore, 1996; Sangree and Hathaway, 1996; Eyster, 1997a; Jones Lang LaSalle Hotels, 2002; Goddard and Standish-Wilkinson, 2002). Jones Lang LaSalle Hotels (2002) noted that the current trends of globalization and consolidation in the hotel investment market are affecting the management agreement negotiation balance between hotel owners and operators. Owners are recognizing the benefit of providing hotel operators with adequate incentives to deliver superior profits and results, over and above pre-agreed hurdle rates. There has been a strong trend towards financial performance criteria, with failure to achieve a specific benchmark resulting in possible termination of the management agreement. An operator guarantee gives a degree of certainty of return to the owner, but it comes at a price. These trends show that owners are increasingly willing to share profit risk with operators. In addition, Lloyd-Jones and Rushmore (1996) suggested that the strategy behind this structure is to align the operator with the owner's position by exposing the operator to a similar level of risk, related to both the operation and the capital structure of the deal.

The owner has now got more involved in the hotel operation, for as Eyster (1993) noted when the hotel and real estate industries crashed in the early 1990s, hotel operating results and cash flows drastically decreased and owners and lenders

became active in the monitoring of their properties. The involvement of the owners and the lenders in operations has increased significantly, and this has radically changed the way owners, operators, and lenders do business with management contracts. Furthermore, Goddard and Standish-Wilkinson (2002) and Eyster (1997a) noted that increasing competition among operators and the greater sophistication of owners has resulted in owners insisting upon greater control over areas such as budgets, spending and personnel.

Performance standards and termination clauses have now been inserted into many management contracts. As Eyster (1997a) mentioned, most operators are willing to accept performance standards as long as they are reasonable, flexible, and based on agreed-upon operating projections. Armitstead (2004) noted that an increasingly popular scenario is for an operator to provide a guarantee, whereby if a pre-agreed level of performance is not met, then they will make up any shortfall. Again, this is usually for a level of debt service (as opposed to a return on equity), and operators will usually only provide cash after a stand-aside of the incentive fee. Some operators will only provide these guarantees during the riskier (earlier) years of the hotel while it is becoming established, while others see this as being the owner's risk, and will only provide guarantees from the point of stabilization.

Operators now tend to contribute more equity, loans or other forms of investment (Eyster, 1997a; Armitstead, 2004). As mentioned by Armitstead (2004), some management companies will participate in the share capital of the owing company, or alternatively give loans to assist in funding the development. In some cases, operators fund the working capital and pre-opening costs or, even the furniture, fixtures and equipment (FF&E). However, Eyster (1997a) noted that some owners have displayed decreasing interest in accepting such contributions, because even though operators are willing to make equity contributions, this may create an irrevocable agency relationship, whereby owners might have less flexibility and find it more difficulty to making changes.

Table 2.10: Comparison of general characteristic of hotel management contracts before and after 1990s

Issues	Before 1990s	1990s Onward
Equity, Loan or Investment Contribution	➢ there was normally no or a minimal contribution (equity or loan) and investment from the operator toward the hotel property	➢ the operators tended to contribute more on equity, loan or other forms of investment
Length of the Contract	➢ length of the contract tend to be long	➢ term of the contract is shorter than before
Owner's Input in Hotel Operations	➢ the operator gained control / freedom to operate the hotel property	➢ the owner more involved in hotel operation
Management Fee Structure	➢ management fee was commonly based on basic management fee	➢ the management fee has an emphasis on incentive fees
Performance Standard	➢ loose monitoring and controlling by owner	➢ tight control and monitoring by owner ➢ performance standard has been put in the contract
Cancellation / Termination Clause	➢ there was rarely a cancellation clause	➢ termination clause invariably has been put in the contract

In summary, it appears that most of the early HMCs were written in favour of the hotel management company rather than the owner. However, at the end of the 1980s, the owners were beginning to gain greater bargaining power and from the beginning of the 1990s, the shifts toward owner bargaining strength had become well established. There are several factors that have influenced this shift of bargaining power between the owners and the operators in HMC negotiation: (1) owners are more sophisticated and have access to experienced negotiators, asset managers, and lawyers; (2) a higher degree of competition is now present among hotel management companies; and (3) the recent court decisions in USA regarding the applicability of agency law to management contracts. As a result, the characteristics of the HMC have been changed in many areas (see Table 2.10). Presently, owners have a much stronger position in negotiation than they have held previously.

2.3.2 Anatomy of the hotel management contract

Following on from the previous section, which highlighted that the traditional characteristics of HMC have changed, this section will illustrate the keys elements of the HMC including the core structure/content of the contract, and the key provisions in typical HMCs.

2.3.2.1 Core structure/content of the hotel management contract

It is common for each hotel management company to have its own standard format for the HMC, which would be used as a template contract in any negotiations with a property's owner. However, although each management contract is likely to be different from the other in the specific details, the structure will typically be the same.

From the content analysis of a sample of HMCs (see section 3.3.1 in chapter 3), the contract can be seen to be structured into several parts, namely: (i) a brief description

of the hotel, which will provide such general information as site, specification of the hotel, owner's name, the operator's name, etc.; (ii) the operating term/date of effect and duration/extension of contract, which would indicate the length of the contract including start and end dates, as well as an optional condition for contract extension; (iii) the financial/commercial terms and conditions, whereby, types, the amount of fee, all of the financial or loan contribution, and payment will be indicated; (iv) the use and operation of the hotel/the management of the hotel, to identify what the hotel management company's obligations are; (v) the general covenants of the owner and the hotel management company (including any particular issues which either parties may wish to raise); (vi) successor and assignor, the conditions regarding the assignment of the contract (to a person, whose property or right are legally transferred), clearly identified for both parties; (vii) early termination/termination rights, for both parties if things turn out wrong, with the condition of termination indicated; (viii) arbitration covering the settlement of disputes should they occur; (ix) definition of key technical terms, providing clarification to ensure both parties understand the meaning of key technical terms (e.g. gross operating profit, gross revenue, capital improvement), which must be clearly defined in the contract; and (x) protections in term of exclusivity, condemnation, damage, destruction of hotel, and *force majeure*, with the conditions of these terms indicated since these would effect operations, competitiveness, and benefits for both parties.

2.3.2.2 Key provisions in the hotel management contracts

In the USA during the late 1980s and early 1990s a series of important changes, driven by economic and legal developments, became increasingly evident in the content of HMCs and their operation. Research undertaken by Eyster (1997b) sought to identify the nature and scope of the changes which had taken place and to provide an insight into likely future developments in this area. This research identified twelve key areas/issues surrounding the use of HMCs in the USA: (1) operator equity and loan contribution; (2) initial terms and renewals; (3) management fee and structure; (4) operator-system-reimbursable; (5) operator performance standard; (6)

contract termination by owner; (7) owner input in operational decision-making; (8) financial and operational report; (9) restrictive (non-compete) covenants; (10) books and records; (11) insurance issues; and (12) dispute-settlement mechanism. The key areas and issues, identified by Eyster (1997b) and the other researchers, are outlined in the section below.

Operator capital contribution can be in form of loan, equity, or exemption of technical assistance service. Commonly, the operators tended not to contribute any form of capital to the hotel property, because minimal investment would enable them to save costs. However, Eyster (1997b) found that an increasing percentage of USA operators were taking equity stakes in the ownership of a property and/or providing loans to the property owner as part of the requirements for the award of a HMC. He also noted that due to a number of legal cases – based upon the application of agency law and its implications – the frequency of operators' sliver equity (i.e. small amounts of equity) investments would probably decline. The rationale here was that rather than accept a small equity contribution from the operator, owners will seek the flexibility accorded to them by the courts of maintaining a pure owner-operator agency relationship. Only when operators make substantial equity contributions will owners be willing to accept them. In addition, from the perspective of the owner, a contribution on capital from the operators would show a commitment toward the project.

With regard to initial and renewal terms, Goddard and Standish-Wilkinson (2002) stated that an operator will argue for a longer term, based on the premise that a company's initial set-up costs and effort can take up to five years to recoup, and a longer period will provide stability to the property and continuity in the market. However, the market is currently progressively favouring shorter management contract periods. Eyster (1997b) also found that the initial term had decreased in comparison to recent years and that an operator's options to renew were frequently being tied to an explicit performance provision as agreed and detailed in the formal contract at the outset. Typically, operators were likely to negotiate an 8-10 years term for the initial contract with one or two 3-5 year renewals. Such renewals were

subject to the operators achieving the negotiated performance level. Owners can often negotiate soft commitments on the initial term by including operator performance provisions and owner rights to terminate without cause after a negotiated time period. For instance, a 12-year contract term might typically include an operator-performance provision effective after the first year of operation, and allowing an owner to terminate without cause after the fifth year of operation.

In respect of the management fee and structure, Goddard and Standish-Wilkinson (2002) found that fees tend to be structured as a basic management fee, a basic management fee plus an incentive fee, or an incentive fee only. Eyster (1997b) also identified three distinct trends had emerged in the management fee structure by the mid 1990s in the USA. First, basic-fee percentages were found to be continuing to decline and much greater flexibility in base-fee formulas was present. This included such provisions as graduated (stepped-up) basic-fee percentages and the subordination of a portion of the base fee to the achievement of negotiated operating-cash-flow levels. Second, the emphasis on the incentive-fee portion of the total management fee payout had increased. Third, the bases for incentives fees had shifted from being calculated on a performance level of income before fixed charges to that of achieving a more challenging negotiated cash-flow level to service debt payments, often to achieve a negotiated return on the owner's equity.

Eyster (1997b) reported that median basic fees, for the chain operator managing full-service hotels, decreased to 2.25% of gross revenues (with no operator equity contribution) and to 2.5% of gross revenue (with operator equity contribution) respectively. Typically, the incentive fee structure would be based upon one of the five following calculations: (i) a percentage of operating cash flow after debt service (CFADS) or negotiated debt-service amount; (ii) a percentage of operating cash flow after debt service and a stipulated return on equity (CFADS and ROE); (iii) a percentage of improved income before fixed charges (improved IBFC); (iv) a percentage of income before fixed charges with the fee subordinated to debt service, to debt service and a stipulated return on equity (usually 8-12%); or finally, (v) a negotiated amount of operating income cash flow. In addition, some owners had

been able to negotiate a maximum or cap on the total management fee (basic and incentive fees combined). The maximum amount paid under these capped contracts ranged from 4.5-5.5% of gross revenue.

In terms of operator reimbursable expense, Eyster (1997b) said that it is important to recognize that the more obvious aspects of the fee structure outlined above must be accompanied by an explicit treatment in the contract of the provision for reimbursable fees related to costs incurred by the operator. Consequently, within HMCs there are normally provisions which require that the owners reimburse operators for a share of the operator's system costs such as marketing and sales, reservations, accounting, training, etc. In some instances operators might charge a procurement fee when purchasing furniture, fixtures, equipment, and other capital items for the hotels on the owner behalf. This issue of reimbursable expenses is important for the operators as such charges can frequently equal or even exceed the basic management fee.

For measuring operator performance standard, Eyster (1997b) reported the use of performance-related fees was found to have become more widespread by the mid-1990s. An operator's willingness to accept performance standards would be influenced by the extent to which these were seen as reasonable, flexible, and based on agreed-upon operating projection. The frequency of performance provisions had increased from 5%, in contracts signed during the period 1970-1981, to 58% in those contracts signed during the period 1993-96. This is a clear upwards trend and seems destined to become standard practice in the USA. Here performance provisions would normally be expected to contain the (i) performance-criteria base; (ii) start up exclusion period, (iii) shortfall-deviation allowance; (iv) short-fall time period; (v) operator cure; (vi) test for unfavourable economic conditions; and finally the (vii) contract-renewal hurdle. In addition, Goddard and Standish-Wilkinson (2002) found that the most common performance provisions relate to a level of GOP that needs to be achieved before the operator is entitled to the agreed incentive fee. Thus, failure to achieve the agreed level of GOP might be tied to the termination clause.

When new management contracts are being negotiated, the termination provision is often the most crucial. Lloyd-Jones and Rushmore (1996) said that termination provisions set forth the circumstances, in which a management contract may be cancelled, by either the owner or the operator. The frequency of provisions for contract termination by owner without cause, termination on sale, and termination on foreclosure has steadily increased in recent years. Eyster (1997b) found that in the case of the chain operators, no contracts existed that provided for the owner to remove the operator without cause at any time. Some 23% of contracts had provisions which permitted the owner to terminate the operator after a predetermined number of years. The termination fees typically were negotiated as a multiple of the most recent 12-month management fee. This multiple, depending on the length of the contract's term, ranged from 2 to 4 times the management fee. This multiple normally fell as the period of unexpired contract decreased.

Two specific areas where owners are likely to seek effective termination provisions concern the sale or foreclosure of a property. Termination-on-sale provisions have increased in frequency as holding periods have decreased. In these provisions, operators usually received some protection or compensation if an owner sold. The presence of termination-on-foreclosure provisions in most contracts is due primarily to lenders requiring flexibility when foreclosing on hotel properties. Termination fees for operators, when they existed, were usually at lower multiples than those found in termination-on-sale provisions.

With reference to the extent of operator independence and owner control, both Eyster (1997b) and Goddard and Standish-Wilkinson (2002) found that the owners appeared to have gained substantial input in two major areas of operational decision making, which are budgeting and personnel. In the case of budgeting, owners were found to have become increasingly active in the entire budgeting process than hitherto. Increasingly, owners had negotiated contracts giving them the right to provide input and to 'sign-off' annual operating budgets. Additionally, owners frequently demanded the right of approval on competitive bids concerning all reserve-for-

replacement/capital expenditure requests and cost-benefit analyses on major expenditures over a negotiated amount.

On the issue of personnel, owners were found to have gained considerable input into the selection of the hotel's general manager and members of the executive staff i.e. the financial controller and department heads. Most of the more recent contracts examined by Eyster (1997b) were found to provide for owner input in the selection process, with this participation ranging from an owner's right to interview and to provide input on candidates, through to having the right to approve or disapprove of specific candidates submitted by the operator.

The standards of financial and operational reporting were found by Eyster (1997b) to be defined more specifically in the more recently negotiated management contracts in two specific areas: formal written reports and owner-operator meetings. In the case of formal written reports, annual budgets with detailed monthly revenue, expense, and cash-flow projections were additionally required to include the operator's detailed market plan underlying the budget projections. This was required to be submitted with the budget for the owner's input and approval. In the case of monthly financial documentation, operators were required to provide a full operating statement with supporting schedules and a management report providing variance analysis, a critique of the month's performance, and a summary of the upcoming month's management plan to achieve projections, and franchise or affiliation inspection report.

Annual financial statements were usually audited by either the operator's independent accounting firm or by a firm chosen jointly by the owner and the operator. The cost of the audit would normally be attributed to operating costs. With regard to owner-operator meetings, contracts typically required either monthly or quarterly meetings in which owners and operators reviewed the property's just-completed performance, booking schedules and sales and marketing action plan for the upcoming period, budget and cash-flow revision, and status reports on ongoing capital projects.

Concerning the issue of restrictive covenants, Eyster (1997b) suggested that it is important to note that every contract's non-competition provisions must be viewed on a case-by-case basis, since different property types operated by the same chain might compete directly in some situations but in others can be beneficial and highly complementary. Any restrictions in USA contracts would be expected to address the definition of a restricted area, specific types of properties that the operator can add within the area, conditions for adding similar properties within the area, and a 'burn-off' timetable (that is, a schedule for decreasing the non-competition area in steps over a defined period of time).

USA owners increasingly insist that books and records be specifically defined in the contract (Eyster, 1997b). This would include the financial statement of the hotel, detailed invoices of all hotel expenses including all charges the operator makes to the property (i.e. payroll of hotel employee, system-reimbursable expense schedules for marketing, sales, reservations, accounting, training, and administrative functions, and replacement and capital-expenditure items), and all other reports generated at the property level (i.e. individual and group guest-history and sales files, ageing of accounts receivable, internal audit reports, health and safety, and franchise- or affiliation-inspection report).

The insurance costs associated with employment and businesses generally began to rise in the late 1980s and through the 1990s, with the result that insurance issues are now a major area of costs that must be addressed in contract negotiations. Eyster (1997b) found that insurance issues focused primarily on selecting an insurance carrier and employment-related insurance. Most operators were self-insured and wanted to be the insurance carrier for the hotel. Owners reported that insurance premiums required by the operators can be high and that it is highly desirable to obtain annual competitive bids from their operators and other carriers. Where an operator desired the right to include or exclude properties in its coverage, Eyster (1997b) advised owners to insist on the option to decide whether it will use the operator's insurance if offered.

Jones Lang LaSalle Hotels and Baker & McKenzie (2001) found that the majority of HMCs allowed alternative dispute resolution. Eyster (1997b) found that in most of the more recently negotiated contracts examined there was an explicit dispute-settlement mechanism specified. One typical mechanism was an owner-operator policy committee that attempted to settle disagreements that were not resolved in the regular reporting meetings. The committee usually consisted of three top-level owner representatives and three top-level operator representatives who reviewed issues and attempt to resolve them within a specified time period, usually 15 to 30 days. Where a committee did not reach a mutually acceptable solution, the dispute was sent to arbitration. Arbitration provisions were included most of contracts examined by Eyster (1997b). The arbitration provision in these contracts addressed three basic issues: (i) what method is to be used for selecting the arbitrator or arbitration panel; (ii) provisions concerning what can be submitted to arbitration; (iii) the process available to parties for presenting their position in relation to a recognized issue.

In summary, the key areas and issues identified by Eyster (1997b) and the other researchers are outlined above. Given that the HMC is widely used as a dominant business model in the Thai hotel industry, developing an understanding of the issues associated with their use is of great importance. In particular, the extent to which these issues correspond to those outlined above. This is the basis for the Research Question 3, namely:

Research Question 3: What are the key areas and issues addressed in hotel management contract documents?

2.3.3 Pre-contract signing

In this section, a couple of key issues in the pre-contract signing period will be identified, such as the motivation for using a HMCs of both owners and hotel management companies, partner selection by owners and hotel management

companies, and the nature of the contract negotiation process,. Along with the illustration of industrial practice from previous studies, some theoretical issues in developing alliances will be discussed.

2.3.3.1 Motivation for utilising a hotel management contract

As the HMC is a model which separates ownership and operation, it requires two parties (the owner and the operator) to work together as a team to meet their individual but overlapping objectives. In order to choose the business model of management contract, there needs to be the necessary motivation from both owner and operator which will enable them to work together. While this section will illustrate these motivations, initially, the context of strategic alliances and the strategic objectives for developing a strategic alliance will be introduced.

2.3.3.1.1 Strategic motives for developing international strategic alliances

Strategic alliances are defined as the linkage which is formed by two or more parties in order to carry out a project or specific activity jointly (Dussage and Garrrette, 1999). Any form of co-operative arrangement might have one or a combination of purposes. Contractor and Lorange (1988) identified that the cooperative arrangements can achieve seven, more or less, overlapping objectives: (1) risk reduction – diversification in a product portfolio, dispersion and/or reduction of fixed cost, lower total capital investment, faster entry and payback; (2) economies of scale – lower average cost from larger volume, lower cost by using comparative advantage of each partner; (3) exchange of complementary technologies and patents – technology synergy, exchange of patents and territories; (4) co-opting or blocking competition – defensive strategy to reduce competition or offensive strategy to increase costs and/or lower market share for a third company; (5) overcoming government mandated trade or investment barriers – receiving permits to operate as a local entity because of local partner, satisfying local content requirement; (6)

facilitating initial international expansion of inexperienced firms – who benefit from local partner's know-how; and (7) vertical quasi integration – advantages of linking the complementary contributions of the partners in a value chain, i.e. access to material, technology, labour, capital, or distribution channel, regulatory permits, benefits from brand recognition, establishing links with major buyers, drawing on existing fixed marketing establishment.

As mentioned by Dong and Glaister (2006), the extant literature on strategic motives for international strategic alliances (ISAs) is impressive, not least for the breadth of theoretical perspectives present but for the overlap across these perspectives in respect of these many motives (see Table 2.11). They also noted that there has been limited research on ISAs (specifically that which sought to investigate the perspective of local partners), while most of the presented perspectives tended to investigate foreign firms' motivations for entering a specific country. Indeed, a particular weakness of previous ISA research concerning developing countries has been the lack of consideration of the strategic objectives of local firms who have been largely treated as passive partners (Li and Shenkar, 1997). The resulting research gap has been noted by Hitt et al. (2004) and Luo (2002) who – recognising that foreign firms and local firms are likely to have very different strategic motivations for alliances from one another - have called for research that specifically seeks to investigate ISAs from the perspective of local partners.

While most of the identified strategic motives may be applied through form of a strategic alliance, the motivations of local firms and the foreign partners for the formation of such an alliance might differ. The main strategic motives of foreign firms might include faster entry in to the market (Glaister and Wang, 1993), conforming to the host government policy (Teagarden and Glinow, 1991) and potential low cost sourcing (Child et al., 1991). In contrast, the most commonly cited motives for local partners in seeking an alliance involves some form of technology transfer (in the broadest sense, i.e. 'know-how') learning managerial skills and access to international markets (Beamish, 1987, 1988; Datta, 1988).

Table 2.11: Strategic motives for international strategic alliances (ISAs) formation

Theoretical perspective	Main elements of strategic motives	Key references
Mainstream economics Transaction cost paradigm Resource based view of the firm	To spread investment cost and risk To enable diversification of product or services To enable faster entry to the market To establish presence in the market To share R&D costs To enable faster payback on investment	Contractor and Lorange (1988) Porter and Fuller (1986) Mariti and Smiley (1983) Harrigan (1985) Balakrishnan and Kaza (1993) (Hennart (1988); Hennart and Reddy (1997)
Mainstream economics	To transfer production to low cost market To obtain raw materials or natural resources To reap the benefits of economy of scale	Mariti and Smiley (1983) Contractor and Lorange (1988)
Organisation learning Transaction cost paradigm	To facilitate organisational learning To access to partner's knowledge of local market conditions To facilitate exchange of complementary technology	Kogut (1988); Hamel (1991) Contractor and Lorange (1988)
Strategic positioning approach Mainstream economics	To effectively compete with existing competitors To maintain competitive position in existing market To cooperate with existing or potential competitor to reduce competition	Harrigan (1985) Porter and Fuller (1986) Contractor and Lorange (1988) Glaister and Buckley (1996)
Strategic positioning approach Resource based view of the firm	To facilitate international expansion (e.g. cost savings or rent generations by capitalising on the combined resources and skills of partners)	Contractor and Lorange (1988) Glaister and Buckley (1996)
Institutional theory	To accommodate host government policy (e.g. ownership, industry, and export requirements, local content levels, tax holidays)	Hood and Young (1979); Killing (1983); Contractor and Lorange (1988) Gomes-Casseres (1989); Beamish (1993)

Source: Dong and Glaister (2006)

2.3.3.1.2 Motivation of the owner

Hospitality properties are generally high-value, capital-intensive assets that require concentrated management in order to generate adequate returns on the capital employed (Hasst, 2000). To achieve this outcome, generally the investor (as owner), must finance and develop a product at a reasonable cost that meets market needs. Then they must maximize revenue and profit from the investment by ensuring that the property is effectively marketed, efficiently operated and that adequate capital is reinvested in the product to maintain its competitive position. Although the hotel property is a capital intensive asset and needs hotel management expertise to operate the property, investors continue to investing in hotel property as they seek to enjoy both economic and non-economic benefits.

In terms of economic benefit, after developing the hotel property, the owner could enjoy economic benefits by generating cash from the hotel operation and, potentially, from the selling of the asset. Lloyd-Jones and Rushmore (1996) suggested that hotels were viewed as excellent investment opportunities providing revenue in two forms, namely profits from the ultimate sale of the asset, and on-going cash flow from their operation.

However, a hotel property could be viewed as prestigious real estate and owners tend to enjoy the non-economic benefit rather than fully enjoy the economic benefit, particularly in the case of Asian investors (Mattila, 1997). For two reasons this type of investor continues to invest heavily in hotel projects (despite their relatively low yields) when compared to other types of real estate investments. Firstly, investors in Southeast Asia are still interested in the perceived property value of hotel investments over and above their strict business value (although this emphasis on new asset values is likely to change over time). Secondly, the region's hotel market benefits from excess liquidity. Hotel investments are often viewed as more prestigious than investments in other types of real estate. Such non-economic benefits may drive up prices for hotels and make it possible to accept relatively low yields in comparison to other real estate opportunities or investments in other global markets.

There is frequently a need to seek input from a hotel management company in order to achieve a positive result from the investment as not all investors have the capacity and experience to run their hotel property. Dunning (1981) suggested that in some cases, particularly in newer tourism markets, the owner of the hotel may have little knowledge of hotel operations. Also, as Adams (2000) mentioned, many new hotel properties were constructed during the property boom of the 1990s, which were financed by owners with little operations experience. These groups of owners, who do not have a strong knowledge of running a hotel, typically seek to employ a professional hotel management company to operate the hotel on their behalf. Therefore, hotel management companies have taken the opportunity to offer their expertise in running hotel properties to such owners.

In addition, some owners, who may have enough capability and experience to operate the hotel property by themselves, still employ a hotel management company to manage the hotel for them. For as Litteljohn (2003) suggested such owners may expect that the operator will be able to run the operation more effectively than they could themselves. This is often the case in situations where a particular brand will be franchised alongside a management contract arrangement.

2.3.3.1.3 Motivation of the hotel management company

For the hotel management company, there are several factors which motivate them to use HMCs as their business model. Competition within the international hotel industry involves the placement of its units in significant and appropriate locations, therefore, size and coverage of the network is crucial. Research by Contractor and Kundu (1998b) suggested that in the hotel business, high equity and control modes are not always feasible, nor desirable for large global operations. Consequently, to be a global player, hotel firms will frequently place considerable reliance on non-equity partners and franchisees. A network of franchisees and operating hotels under management contracts can enable global chains to capture some of the vital economies necessary for competitive international operations. In addition, as Dunning (1981) mentioned, it might be that the hotel management company is unwilling to invest in the ownership of the hotel for a number of reasons, it might (i) regard itself as having little expertise or interest in property development; (ii) regard ownership as a high risk venture; or (iii) consider its growth would be constrained by the need to borrow large sums of capital.

In relation to the above, operating under a HMC can enable the hotel company to make attractive profits without a capital outlay, while at the same time, minimizing the perceived risk (Goddard and Standish-Wilkinson, 2002). Having a higher number of units would strengthen the company's competitive advantage as this would enable the hotel management company to economically utilise its facilities

and infrastructures (such as brand development, reservation system and network, human resources, and other centralised elements). The hotel management company could receive compensation for the use of and access to these facilities and infrastructures from each unit. Accordingly, the main motivation for a hotel management company in utilising HMCs would be to gain a management fee as compensation for them utilising their hotel management know-how with minimal associated risk.

Combining a management contract and franchise – in addition to supporting international brand development – also allows a higher level of control and thus alleviates some of the typical concerns with regards to maintaining quality levels in overseas markets (Gannon and Johnson, 1997). In terms of the transfer of organisational competence and quality competence, implementing a HMC would be considered to be more effective than a franchise. Research by Dev et al. (2002) provided strong support for the capabilities-based view that irreproducible capabilities, like organizational competence and quality competence, cannot be transferred effectively through franchising. The difficulty of reproducing competencies not only protects a firm from its competitors, but also thwarts its efforts to transfer the needed capabilities to associates and collaborators in the host market, forcing it to employ such mechanisms as management contracts. In addition, if irreproducible competencies are important for a brand's establishment and survival, it is imperative that the firm expand using management contracts.

In a market where there exists a strong demand for hotel management services, using a HMC might be an attractive choice. Dev et al (2002) suggested that management contracts become increasingly attractive the greater the availability of reliable investment partners in the host market, and are also more attractive for large firms and for those that construct large hotel properties. In some cases, the regulations with regard to the foreign direct investment, especially in some countries in the Middle-East, can obstruct the hotel management company from expansion using the direct ownership mode. Goddard and Standish-Wilkinson (2002) suggested that management contracts have been preferred in countries where direct land and

property ownership by foreign companies or nationals is not allowed, but where foreign business participation is sanctioned.

In summary, HMCs are essentially a form of strategic alliance. The owner and the hotel company have their own motivations for using HMCs and those motivations tend to be different. In situations where the owners are considered as a local partner and hotel companies are considered as foreign firms entering other countries, the motivation of an owner and a hotel company in relation to HMCs could possibly be linked to the ISA literature on the strategic motives of local partners and foreign firms in developing strategic alliance. In relation to this, Research Question 4 is stated below:

Research Question 4: What are the motivations of (a) owners and (b) foreign hotel management companies for using hotel management contracts?

2.3.3.2 Partner selection in hotel management contracts

With the right partner, both the owner and the hotel management company might accomplish their goals by using HMCs. In order to select the right partner, the partner selection criteria might be important. This section will illustrate the partner selection criteria of owners and hotel management companies. Initially, in relation to the strategic alliance literature, a typology of partner selection in strategic alliances will be introduced.

2.3.3.2.1 Typology of partner selection in strategic alliances

According to Geringer's (1988, 1991) typology of partner selection concerning strategic alliances, there are two types of criteria used, 'task related' and 'partner related'. In simple terms the 'task related' criteria refers to the know-how and resources required by the partner to achieve the desired outcome (i.e. functional performance including patents, technical knowledge, experience of management,

access to marketing and distribution system, financial resources). This tends to be an objective criteria as the appropriateness of the partner might be determined by their ability to supply the resources and capabilities which another party lacks. However, 'partner related' criteria is more concerned with the overall efficacy of the inter-organizational relationship (i.e. social performance including past association between partners, compatibility between the partner's management team, the national or corporate culture of the partners, and a partner's organisational size or structure). This kind of criteria tends to be subjective as it concerns how the partners can work together effectively (Arino et al., 1997), and focuses on achieving organisation fit (Luo, 1998). Therefore, in a situation where a number of firms could qualify to be the partner, the consideration on how well the chosen firm fits to the focal firm might be the key question.

Previous research is ambiguous as to the relative importance of each of these sets of factors. In some studies the importance of task related criteria has been found to be dominant (e.g. Arino et al., 1997) while others have found partner related criteria to be of more importance overall (e.g. Luo, 2002; Al-Kalifa and Peterson, 1999).

However, as suggested much earlier by Tomlinson (1970), the importance of the criteria in any given situation is likely to be a reflection of the specific contexts pertaining, for example, to the cultural/national context, the industry/sector context (Dong and Glaister, 2006) and even the organisational context (Al-Kalifa and Peterson, 1999). To add yet more complexity there is something of an overlap between the two sets of criteria which in turn appears to be linked to contextual variables (Dong and Glaister, 2006).

2.3.3.2.2 Partner selection of the hotel owner and the hotel management company

For the owner, the selection of the right management company for a particular hotel is one of the most important decisions to be made when using HMCs. Brand-name companies will not be selected unless they can perform to the satisfaction of hotel

owners and lenders, as the real issue is having the right personnel to make money at the property (Rainford, 1994).

When selecting a company to operate the property, research by Rainford (1994) suggested that owners and/or asset managers are interested in (i) the management company's ability to perform by looking at past performance as determined by previous contracts with the owner's firm, and/or past performance as determined by actual management results for other clients; (ii) the management company's reputation for integrity; (iii) accessibility of senior management to the owner or owner's representative; (iv) marketing strength of the management company's corporate staff as measured by those staff members' experience in hotel marketing; (v) recommendations from other knowledgeable owners. Furthermore, image, location of corporate offices, a reputation as safe and proven, willingness to take an equity position, and financial strength and size, based on number of properties operated, were deemed to be less important criteria. In some cases, the management company's willingness to reduce fixed fees and tie a portion of its fees to performance is viewed as a critical indicator of the company's commitment to performance (Trice, 1992).

There is no previous research concerning how the hotel management company selects its partners. However, based upon what is known about the motivation of hotel management companies, we can speculate that key criteria could possibly include location and specification of the hotel, profile of the owner, possibility of management fee/revenue gained, minimisation of the financial investment, and the market coverage provided.

From the different motivations of the owner and the hotel management company, it is possible to identify the likely criteria of each party in selecting its business partner (see Table 2.12). After selecting the appropriate partner, the hotel management contract relationship can be used to the mutual benefit of both parties.

Table 2.12: Comparison of key partner selection criteria between the owner and the hotel management company

Owner	Hotel Management Company
➢ The management company's ability to perform by looking at past performance. ➢ The management company's reputation for integrity ➢ Accessibility of senior management to the owner or owner's representative ➢ Marketing strength of the management company ➢ Recommendations from other knowledgeable owners	➢ Profile of the owner (kind of business, business track record) ➢ Location of the hotel ➢ Specification of the hotel (number of room, age, design, construction, etc.) ➢ Possibility of management fee/revenue gained ➢ None or minimal financial investment required ➢ Market coverage

Source: based on Rainford (1994) and Trice (1992)

In summary, although within the context of HMCs, Geringer's typology does not appear to have been explicitly applied in previous research, the presence of both task-related and partner-related criteria does appear (without the specific distinction). Selecting the right partner would enable both the owner and the hotel management company to accomplish their objectives under a HMC. Since, in relation to this, the partner selection criteria will be crucial, Research Question 5 is as stated below:

Research Question 5: What are the partner selection criteria of (a) owners and (b) the foreign hotel companies when using hotel management contracts?

2.3.3.3 Negotiation of the hotel management contract

As a consequence of holding different motivations, the hotel owner and the hotel management company might have different interests in the contract. Because of this the negotiation process is crucial as it allows both parties to address their conflicts of interest. Without successful negotiation there would be no signing of the HMC. This section will provide an overview of the main concerns of both the owner and the hotel management company and the nature and process of the HMC negotiation.

2.3.3.3.1 Main concerns of the hotel owner and the hotel management company in the contract negotiation

By the very nature of HMCs, owners and operators commonly have their own specific objectives for working together (see Table 2.13). These objectives often coincide but sometimes conflict. Resulting in both parties having different concerns in the management contract, consequently this influences and can be related to the provisions of the contract.

Table 2.13: Concerns of the hotel owner and the hotel management company in the negotiation of hotel management contracts

Hotel Owner	Hotel Management Company
1. Financial issue, this includes annual operating cash-flow return, annual budget (revenue and expense), capital appreciation, control of cost (management fees, reimbursable expenses, and other fees).	1. Financial issue, this includes compensation (such as management fees, reimbursable expenses, payment terms, termination fees), financial exposure (loan/equity contribution, owner's ability to fund, performance guarantees).
2. Influence over the hotel operation, such as the selection of key hotel executives (i.e. General Manager, Financial Controller), competitive hotel (quality and concept of product, marketing), approval of certain project or contract.	2. Brand strengthening and protection, such as market presence and share, control of hotel operation and management, quality of property.
3. Remedies in the event of underperformance, such as stand-aside of fees, guarantees, right to terminate.	3. Stability in managing, this includes contract terms and termination.
4. Flexibility to sell or refinance the hotel asset.	

Source: based on Eyster (1993) and Schlup (2004)

Property owners would, naturally, bear more of the risk in the business model of HMCs, therefore they have a direct reason for wanting the hotel to operate at a profit. Their primary objectives would be the long-term success of the hotel and the appreciation of the hotel real's estate. According to Schlup (2004) and Eyster (1993), there are four main concerns that owners commonly have with regard to the HMC: (i) financial issues, including annual operating cash-flow return, annual budget (revenue and expense), capital appreciation, control of cost (management

fees, reimbursable expenses, and other fees); (ii) influence over hotel operations, such as the selection of key hotel executives (e.g. General Manager, Financial Controller), competitive hotel (quality and concept of product, marketing), approval of certain project or contract; (iii) remedies in the event of underperformance, such as stand-aside of fees, guarantees, right to terminate; (iv) flexibility to sell or refinance the hotel asset.

The hotel management company would primarily focus on the presence of the brand (especially at high potential locations), gaining and sustaining management fees, maintaining quality of the brand, and minimising investment. According to Schlup (2004) and Eyster (1993), there are three main concerns which the hotel company would have with regard to the HMC: (i) financial issues, these include compensation (such as management fees, reimbursable expenses, payment terms, termination fees), and financial exposure (loan/equity contribution, owner's ability to fund, performance guarantees); (ii) brand strengthening and protection, (such as market presence and share, control of hotel operations and management, and quality of property); and (iii) stability in managing hotel, including contract terms and termination.

2.3.3.3.2 Nature and process of the hotel management contract negotiation

As a consequence of the different concerns of both owner and operator, there is no best contract that can be used as a template for all hotel properties. In an attempt to satisfy both parties and through the process and outcome of negotiation each contract would be unique.

According to Eyster (1997b), prior to beginning negotiations, the owner and the operator must develop a mutually agreed-upon set of long-term operating projections for the hotel based on a market analysis and the expected turn-key project cost of the hotel. This process takes time to complete, but the discussion, deliberation, and negotiation of these operating revenues and expenses, and of the assumptions

underlying the projections, should act to create a balanced set of expectations for each party of what revenues the hotel may produce given the investment. Thus the owner and operator should begin negotiations already knowing the necessary investment (given project cost) and the best-guess annual operating cash flows (both positive and negative). With these expectations, owner, operator, and lender can negotiate who will contribute what to fund the investment and how the operating cash-flows will be distributed to meet the requirements of each: the owner (return on equity), operator (basic and incentive management fee), and lender (debt service). These expectations directly affect the management contract provisions.

The interplay of bargaining power held by the owner and the operator directly influences the negotiated outcomes of contract provisions (Eyster, 1997b). Trade offs may need to be made by each party during the negotiation process, i.e. in accepting a fallback outcome in one provision to gain a desired outcome in another. For example, a lower basic management fee in exchange for a longer contract term, a lower incentive-fee percentage traded for a higher percentage of cash-flow further down the cash-flow payout schedule, or tighter operator-performance hurdles for more flexible tests for unfavourable economic conditions, and other, non-economic factors particular to the project (e.g. image, market share, location, personal ego, limitation of competition within the market). As such, each contract's set of negotiated provisions reflects its own distinctive conditions and should not be used as a template for other contracts. However, although bargaining power may be a crucial factor in influencing the result of the contract negotiation, the previous studies shed little or no light on the determinants of bargaining power.

HMCs that favour one party excessively will inevitably lead to conflicts that often escalate into costly legal disputes or result in early termination (Schlup, 2004). Consequently, in the long run only a balanced management contract can be in the best interests of both the owner and the operator. There is no standard form of well-balanced management contract that properly addresses the concerns of both parties in every case. The best approach to a balanced agreement is for each party to try to understand the main concerns of the other. Only if the owner and the operator are

aware of the issues on which the other side cannot compromise is it possible to arrive at a mutually beneficial contract. In addition, the shoe is clearly on the other foot from the distant owners no longer anxiously seek out the expertise of a management company, as they did previously (Strand, 1996). Reasonable solutions exist to most conflicts if both sides remain flexible. There is no certain answer to the question of the most appropriate balance of risk between owners and managers. Every business decision is right or wrong only at a particular moment, and when the situation changes, decisions will need to be changed accordingly.

In relation to the management contract the differing objectives and interests of both the owner and the operator have a significant link to the prospected contract provisions, because these enable both parties to view and to consider each provision differently. Therefore, during the negotiation process, the bargaining power of each party would influence the selection of the provision to be put in the contract and the negotiation of the details of each provision. Alternatively, the final contract will reflect which party, if any, has the greater bargaining power with respect to the particular property.

In summary, the contract negotiation is another important step for both the owner and the hotel management company before signing of the contract take place. This is because each party might have different concerns relating to the contract, and without mutual agreement there will be no signing. Moreover, the result of the negotiation would also be influenced by the interplay of bargaining power held by both parties. This might imply that through the process of negotiation, each HMC might be unique. In relation to this, Research Question 6 is stated below:

Research Question 6: What are the key issues associated with, and the nature of, hotel management contracts negotiation?

2.3.4 Post-contract signing

This section will focus on the on-going hotel management operations. The working relationship between the owner, the GM, and the head/regional office of the hotel management company, and the issues associated with on-going HMC operations will be illustrated.

2.3.4.1 Roles and working relationship of the three parties in the operations of hotel management contracts

In the operation of a HMC, there are three key parties; the owner, the hotel GM, and the head/regional office of hotel management company. Their roles and coordination of these three parties and the nature of their working relationship are explored below.

2.3.4.1.1 Roles of the three parties

Due to the nature of the working relationship identified in the HMC, especially with a first tier hotel company (see Figure 2.6), there are three main parties involved in the operation of the HMC, namely the owner, the head or regional office of the hotel management company, and the hotel GM (Eyster, 1988a).

The owner holds the title to the property, commonly bears the risk of the business project and has a right of ownership and control over the hotel property and asset. An owner would be either an institutional owner (group of share holders) or an entrepreneurial owner (individual). Often acting on behalf of the owner, an asset manager/owner representative monitors and coordinates the operator (the head or regional office and the general manager).

The head/regional office of the hotel management company would provide a supportive role to back up their general manager in each property. Beside the brand standard/guideline, the head/regional office will provide support in every area of the

hotel operation such as training human resources, sales and marketing, information and technology (IT), etc. The head/regional office will monitor the business performance and examine the quality and standard issues for each hotel unit. Furthermore, the head/regional office will liaise with the owner on matters of importance or should something go wrong.

The hotel general manager (GM) is the person responsible for running and managing the hotel on behalf of the hotel management company and the owner, in order to meet the objectives of both parties. The GM needs to ensure that the hotel has a positive business result, operate smoothly and that the product meets the required brand standard and quality. The GM is possibly the key person in the success of the hotel.

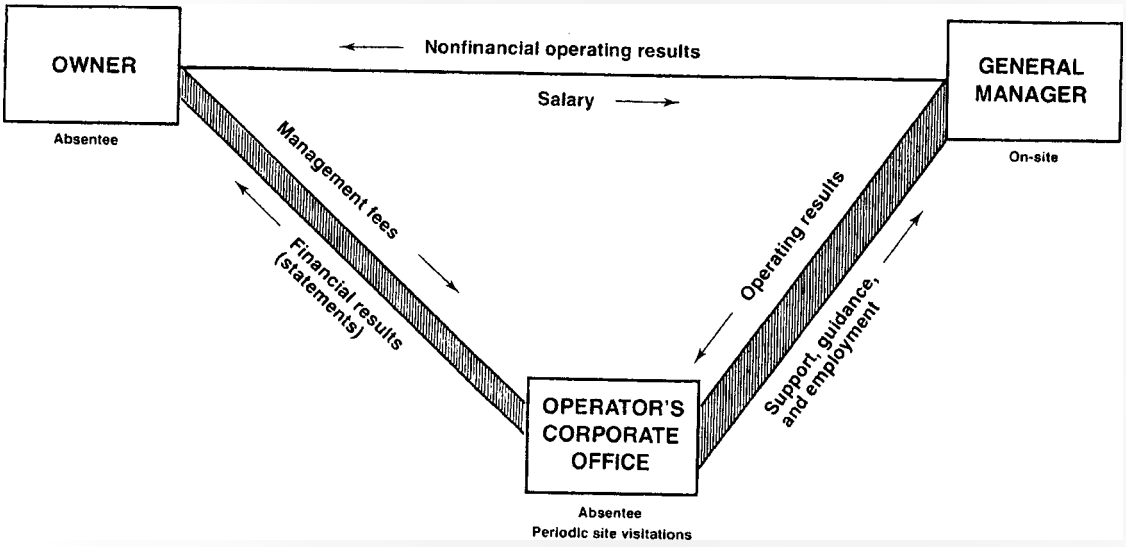
2.3.4.1.2 Nature of working relationship among the three parties

The HMC separates the ownership and the operation of the hotel property. As mentioned by Eyster (1988a), owners are commonly interested only in the business performance/financial result. However, in some cases, depending on the nature of the owner, they are also interested in, monitor and possibly get involved in the operations and management of their hotel property. Of course, this is likely to affect the relationship between the owner-operator identified in the HMC as well as the nature of the working relationship among the three parties.

Eyster (1988a) illustrated the relationship of the three decision-making parties in the HMC (see Figure 2.10), where there is little or no ownership involvement in operations. The distance among the three parties and the width of the connecting links show the relative degree of influence or control in each relationship. Two of the parties, the GM and the hotel company's office are shown close to each other and connected by a wide link, where the relationship is characterised by strong influence or control. A weak influence or control in the relationship between the owner and

the hotel company's office and between the owner and the GM is shown by a greater distance between the parties and the narrower connecting link.

Figure 2.10: Contractual relationships (minimum ownership involvement in operations)



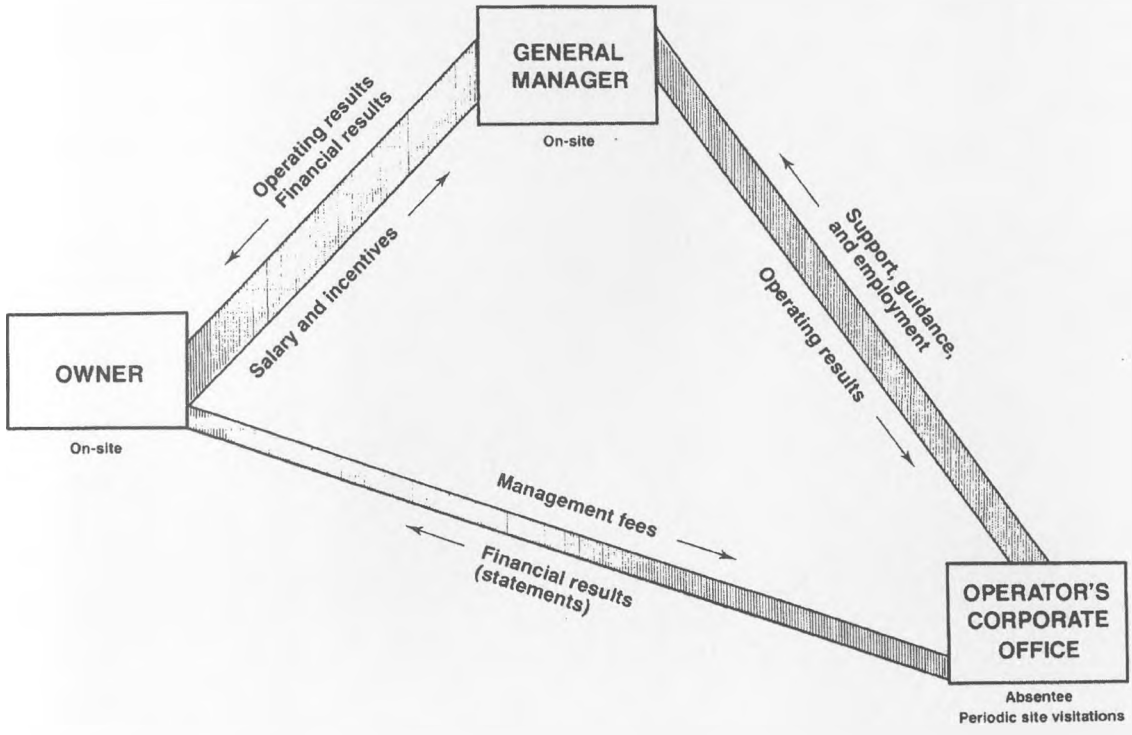
Source: Eyster (1988a)

Where there is a personal interest or the property has not achieved the expected financial return, then the owner may intend to get much more involved in the operations and the management of the hotel (Eyster, 1988a). As a result, the owner may attempt to alter the relationship identified in the contract to gain more control. Here the owner tries in good faith to influence the operations via the general manager when he does not fully understand the relationship laid out in the contract. This situation is more likely to happen when the owner resides near the property or is an entrepreneur, rather than an institutional owner.

An attempt by the owner to influence the general manager directly or to participate in operations of the hotel property without hotel company consent produces a significant shift in the relationships outlined in the contract (see Figure 2.11). The relationship between the owner and the GM is now closer and connected by a wide link, signifying strong influence or control. A weaker influence or control in the

relationship between the GM and the hotel company's office and between the owner and the hotel company's office is shown by a greater distance between the parties and a narrower connecting link. However, the operator can usually re-establish the owner and the operator roles (as defined in the HMC), through tactful but firm reiteration of the contractual relationship as long as the owner does not have financial concerns.

Figure 2.11: How maximum ownership involvement in operations affects relationships



Source: Eyster (1988a)

Owners are less likely to adhere to the owner-operator relationship identified in the HMC if the owner is an entrepreneurial rather than an institutional owner (Eyster, 1988a). This is because entrepreneurial owners invest funds possibly earned from their success in other fields of business into hotel projects. Because of their record of achievement, confidence in their business judgement, and business analysis experience (i.e. correcting problems or maximising the success of a business), the entrepreneurial owners may believe that their personal involvement is key to their

business success. Therefore, this kind of owner is likely to monitor operations at the property and take liberties in attempting to influence the general manager and/or operating policies of the property. In contrast, the institutional owner is more likely to respect the relationship identified in the contract, because this type of owner has a less personal view on the project. For them, the investment generally represents a staff or committee decision, with financial return their primary criterion.

In summary, each party has its own role in the operation of the HMC. As there are three key parties involved, this create three key relationships which are owner-GM, owner-operators' head/regional office, and operators' head/regional office-GM. The characteristics of the working relationships between each party might influence the overall working relationship, and therefore, might or might not lead to the successful of the operation of the HMC. In relation to this, Research Question 7 is developed below:

Research Question 7: What are the roles of the three key parties and their working relationship in the operation of the hotel management contracts?

2.3.4.2 Control methods in the on-going operation of hotel management contracts

One issue in the ongoing operation of HMCs concerns the control methods. Without effective control methods, the hotel management company may not be working in the best interests of the hotel owner. Although this issue is crucial, previous studies have shed little light on this matter.

During the on-going operations of a HMC, a hotel owner might control a hotel management company by virtue of control mechanisms in the HMC document. This involves certain provisions which are indicated in the HMC (see section 2.3.2.2), including management fees and structure, operator performance standard, financial and operational reports, termination clause etc.

Regarding the provision of operator performance standards, the achievement of the agreed level of revenue budget or gross operating profit is the most common criteria (Goddard and Standish-Wilkinson, 2002). Indeed, the performance of the operator might be tied to a provision concerning contract termination. Under such a provision, without achievement of the agreed revenue budget or gross operating profit for a specific period, the hotel owner has the right to terminate the operator. Therefore, this provision works to align the interests of the operator with those of the owner's.

With respect to the provision of financial and operational reports, Eyster (1997b) noted that the operator might produce formal written reports showing monthly financial and operational results. Under this provision, meetings with the owner will be specified to take place periodically (depending on the agreement), enabling the owners to monitor the performance of the operator and to discuss any relevant issues.

In the provision concerning management fees and structure, the contract tends to emphasise the proportion of incentive fees (Eyster, 1997b; Goddard and Standish-Wilkinson, 2002). This provision would influence the behaviour of the operator as well as the achievement of the expected outcome because the performance of the operator would determine the level of management fees. In other words, the higher the level of gross operating profit the operator made, the higher the amount of management fees to be gained.

In terms of the provision regarding owner input in operational decision-making, this determines the level of owner involvement in the process of approving the annual budget, and the selection of key hotel executives (Eyster, 1997b; Goddard and Standish-Wilkinson, 2002). Therefore, there is an opportunity for the owner to not only provide input or to have a final say in some key decision making, but also to formally monitor what is happening in the operation.

Concerning the restrictive covenants provision, Eyster (1997b) suggested that it is important to note that every contract's non-competition provisions must be viewed

on a case-by-case basis, since different property types operated by the same chain might compete directly in some situations, but in others be beneficial and highly complementary. Restrictions are identified in most contracts, including the definition of a restricted area, specific types of properties that the operator can add within the area, and conditions for adding similar properties within the area. This provision allows the hotel owners not only to monitor the behaviour of the operator in strengthening the network for its benefit but also to avoid the negative effect of unnecessary internal competition, so that maximum revenue/profit from the hotel operation would be gained.

Regarding the provision of books and records, this is specifically defined in the HMC (Eyster, 1997b). Thus, the owners could get access to the books and records including the financial statements of the hotel, detailed invoices of all hotel expenses including all charges the operator makes to the property (i.e. payroll of hotel employee, replacement and capital expenditure items), and all other reports generated at the property level (i.e. ageing of accounts receivable, internal audit reports). Accordingly, this provision allows the owners to search for more details if they suspect inappropriate behaviour on the part of the operator.

In the relationship between the hotel owner and the hotel management company in the HMC, it is crucial that the hotel owners are able to control their operator so that they work in the owners' interests rather than in the operators' interest. Since hotel owners are more sophisticated, then apart from the control mechanisms in the contract, there might be potentially more control methods being used in the on-going operation. In relation to this, Research Question 8 is developed below:

Research Question 8: What control methods are used in the operation of hotel management contracts?

2.3.4.3 On-going issues in the operation of hotel management contracts

According to Lloyd-Jones and Rushmore (1996), the balance of power has now shifted from the operator to the owner. In the USA especially, the negotiation position of the hotel management company has been eroded while that of the owners has been enhanced. As a result, the management contract, it is argued, now primarily serves the purpose of the owner. However, despite this, the business risk is still heavily skewed towards the owner.

There is evidence that there is now a higher degree of involvement of owners in the hotel operation, especially in budgeting, and personnel. Eyster (1993, 1997a) mentioned that the owners' involvement in operations has increased significantly, and that they had become more active in the monitoring of their properties. Owners had begun influencing hotel operating policies; operating, replacement, and capital improvement budget; and the selection of hotel management personnel. Similarly, Goddard and Standish-Wilkinson (2002) found that owners in the Middle East expected to continue increasing their control in the operations of their hotels, in areas such as budget, spending, and personnel, due possibly to increasing competition from among other operators and the greater sophistication of the owners.

With regards to budgeting, this would be a key issue, for as Goddard and Standish-Wilkinson (2002) noted, the approval of the annual budget and business plan is the single most important activity for an owner. It is the primary framework from which a number of matters will be determined i.e. the gross operating profit for the year, the operator's exposure to stand asides (i.e. basic management fee), the estimated incentive fees which will be payable to the operator, the performance of the operator for the purpose of any termination clause for non-performance, and the amount of money which will be spent on capital improvements. They also suggested that there are two main annual budgets, i.e. the operating budget and the capital improvement budget. In preparing annual budget, operators will often 'low-ball' (low estimation) the annual budget, where there are termination provisions for non-performance, stand asides and guarantees, in order to give them a cushion. Conversely, the owners will

often seek to increase the budgeted level of profit. There is an indication that the owners have increasingly greater control in the setting and approval of these budgets and business plans. In addition, there is a trend in owners retaining the right to approve expenditure on capital improvements, especially on large expenditure items.

Rainsford (1994) found that owners wanted to be active participants in the preparation of the annual business plan, which they want to be comprehensive. Specifically, there were several important items that owners expect to be contained in the annual business plan, which are a 12-month projected cash flow statement, a market analysis summary, the past year's projection and actual results, overall present year budget, and capital project summary.

It is crucial for the hotel owner and the hotel management company to be aware of the issues which might arise during the operation of the HMC. The previous studies on the on-going issues in the operation of HMC are very limited, and in fact the issue of budgeting is the only issue highlighted in these previous studies. As the owners' involvement in operations has now increased significantly, there might be potentially more issues arising during the contract operation. Therefore, Research Question 9 is developed below:

Research Question 9: What are the on-going issues in the operation of hotel management contracts?

2.4 Conclusion

In conclusion, an extensive literature review has been illustrated in terms of the strategic context, theoretical context, and industrial context and a total of nine research questions have been developed. This thesis is summarised in terms of its key components in the framework shown in Figure 2.12.

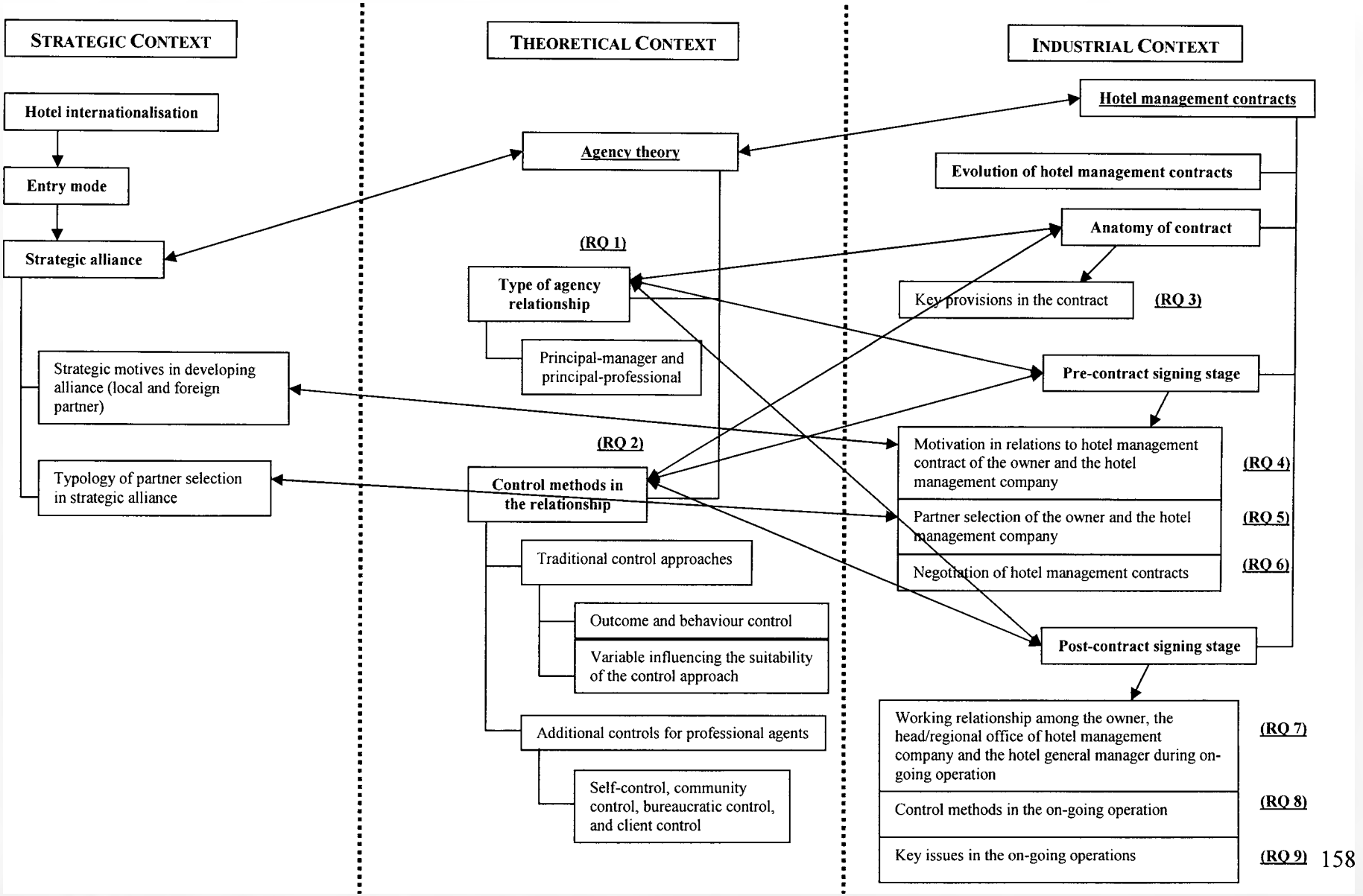
Regarding the strategic context, when there is an opportunity for the hotel company to internationalise, the correct choice of entry mode would be crucial for the

company's strategy. In the international hotel industry competition, placing the hotel properties in the most appropriate location and expanding the network are significant to competitive position. However, international hotels are a capital intensive business, and apart from investing and working alone, a strategic alliance might be a viable alternative for a hotel company. With a partner/alliances, the hotel company might be free from limitations and have the opportunity to strengthen and expand its network through various business models in the form of equity alliances (i.e. majority, 50-50 or minority joint venture); and non-equity alliances (i.e. franchising, consortia or management contract).

With less interest in investing for ownership, the hotel companies can now focus more on property management in return for management fees. Meanwhile, the hotel owner (as a local partner) might make a hotel investment without having the requisite management ability. By its very nature, a hotel is a capital-intensive business and it needs a specific level of expertise to take care of the investment in order to achieve a positive business performance. This creates the need for professional hotel management services. In this situation, a strategic alliance in the form of the HMC is commonly used. However, as Chathoth and Olsen (2003) suggested, although both parties combine specialised assets/resources, it does not resemble a true collaborative alliance contract due to the imbalance of risk sharing.

In the theoretical context, a number of theories are used to justify and to analyse cooperative/alliance strategy. These include market-power theory (MPT), resource based theory (RBT), transaction cost economics (TCE), and agency theory. However, none of these is sufficient to explain cooperative/alliance strategy in its entirety (Child et al, 2005). The overview of each theory clearly shows that TCE, MPT and RBT are mainly concerned with the strategic motive in the establishment of any form of cooperative relationship, while agency theory is mainly concerned with controlling or managing the co-operative relationship and is the primary concern of this thesis.

Figure 2.12: Conceptual framework of thesis



In the theoretical context of agency theory, regarding the nature of the agency relationship, agency theorists have recognised that separation of ownership and control (common in most corporations), creates conflicts of interest between a firm's managers and shareholders. These conflicts arise because managers have the opportunity to use the resources of the firm in ways that benefit themselves personally but which decrease the wealth of the firm's shareholders. As noted earlier, previous research on agency theory focused on the owner-manager as a principal-agent relationship (Jensen and Meckling, 1976; Eisenhardt, 1989; Barney et al., 1996; Scott, 1998; Fosberg, and Rosenberg, 2003; Mason and Slack, 2005; Shapiro, 2005). However, in situations where agents know more than the principal, the potential for opportunism is increased. This is normally the case where professional service organisations are hired by organisations and given limited decision making (Mill, 1990; Sharma, 1997; Webber, 2000). As is often the case in the context of HMCs, a principal might use an agent if the principal owns some asset but lacks the skills or technical knowledge to maximize the asset's value. Thus, there is an imbalance of risk sharing and difference in objectives. This kind of agency relationship, where the principal (who is in need of such specific skills and technical knowledge) is dealing with the professional/expertise (who possess the specific skills and technical knowledge), might also be different from the traditional agency theory (owner-manager).

In relation to resolving agency problems, the two typical control approaches in traditional agency theory are behaviour-oriented control and outcome-oriented control (Eisenhardt, 1989; Jensen and Meckling, 1976). However, the suitability of the control approach might be influenced by variables such as task programmability, risk preference of each party, information asymmetry, length of the agency relationship and the market condition/competition. Moreover, due to the distinct characteristics of the principal/professional, the traditional control methods (i.e. behaviour and outcome control) might not be effective in controlling the professional agent (Sharma, 1997). If a hotel management company is considered as a professional agent, it would have distinctive characteristics. Accordingly, there are difficulties in controlling professional agents although the hotel owners (as principal)

are more sophisticated in the hotel business. The use of outcome or behaviour control (as traditional control approach in agency theory) through the contract document or other control instruments might be a crucial element; however, it might not be effectively used to control professional agents. Therefore, the restraints on professional agent opportunism in the form of self-control, bureaucratic control, community control, and client control might also be needed.

Lastly, in the hotel industry context, the practice of HMCs is explored. First, the evolution of HMCs, this will explore the past, current, and future of the HMC. Second, the anatomy of a HMC is examined, which illustrate the keys elements of a HMC including core structure/content of the contract, and the key provisions in HMCs. Third, the pre-contract signing stage, which will focus on several key themes: the motivation towards utilising HMCs, partner selection, and the nature of the contract negotiation process. Lastly, the post-contract signing stage will look at the roles and working relationships among the three key parties (the owner, the general manager, and the head/regional office of the hotel management company), the control methods used and the on-going issues in HMC operations.

Due to their business potential, Thai hotel owners continue to invest in hotel properties and a number of new hotel/resort properties are developed each year. However, not all hotel owners have the necessary knowledge and know-how to manage a hotel property. Currently the business model of HMC is widely used in Thailand by, Thai hotel owners and international hotel management companies (Most of the international hotel management companies come from developed countries, e.g. USA and France). One issue that this research is placed to address is the extent to which the context of a developing country may influence the use/application of HMCs. The international hotel companies in Thailand all use HMCs in their domestic markets and the extent to which the local context influences their use is of interest. As a secondary objective of this thesis, this research attempts to identify and to explore the key issues associated with the use and operation of HMCs in Thailand.

In addition, in the next chapter, there is a discussion on how this research is designed to answer the two main research problems and their nine specific research questions developed in this chapter.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction

This chapter will illustrate how the research was designed in order to address the research questions and will discuss the methodological choices. This includes a discussion on research philosophy and the general approach to the research (qualitative/quantitative); the role of exploratory study as a research strategy; the research design (preliminary study and main field work); an overview of the data analysis; a discussion of the issue of research validity; and the limitations of the research methodology.

3.1 Research philosophy and approaches to research

As defined by Hussey and Hussey (1997), 'paradigm' refers to the progress of scientific practice based on people's philosophies and assumptions about the world and the nature of knowledge. Similarly, Denzin and Lincoln (2005) define a research paradigm as a basic set of beliefs that guide action, dealing with first principles, or the researcher's world views. In this context, a consideration of how a research will be conducted is crucial as Easterby-Smith, Thorpe and Lowe (2002) suggested that understanding the philosophical positioning of research is particularly useful in helping researchers clarify alternative designs and methods for a particular research study and identifying which are more likely to work in practice.

There are two distinct research paradigms, which are the positivism paradigm and the interpretative paradigm. The key concept of the positivism paradigm is that the social world exists externally and that research propositions should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Easterby-Smith, Thorpe and Lowe, 2002). On the other hand the interpretative (phenomenological) paradigm stems from the view that reality is

not objective and exterior, but is socially constructed and provided by people. Therefore, the task of the social scientist should not be to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place on their experience. Hussey and Hussey (1997) noted that some authors prefer to use the term 'interpretative' rather than 'phenomenological' because it suggests a broader philosophical perspective and prevents confusion with a methodology known as phenomenology. In addition, Clark et al. (1998) mentioned that both paradigms are based on a common desire to understand behaviour but each approach makes different assumptions about the world of phenomena.

Though the distinction between the two paradigms may be clear at the philosophical level, however, when it comes to the use of qualitative or quantitative methods and to the issues of research design, the distinction breaks down (Easterby-Smith, Thorpe and Lowe, 2002). The nature of the social phenomenon to be explored would drive the appropriateness of the research approach (Morgan and Smircich, 1980). Saunders et al (2003) suggest that neither approach should be thought as better than the other, since each are better at different things depending on where the research emphasis lies.

According to Hussey and Hussey (1997), quantitative research is conducted in the belief that the study of human behaviour might be done in a similar way to the study of natural science. The primary concern of quantitative research is the way in which data is created and its validity. It seeks the facts or causes of social phenomena with little regard to the subjective or the individual, and it is often associated with predictive objectives. Easterby-Smith et al. (1991) noted that the key idea of a quantitative study is that the social world exists externally and its properties are best measured through objective methods. Causality and fundamental laws are used to explain regularities in human social behaviour using large samples from a parent population, and implementing a hypothetic-deductive approach.

On the other hand, Denzin and Lincoln (2005) noted that the word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured (if measured at all) in terms of quantity, amount, intensity, or frequency. Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry. Such researchers emphasise the value-laden nature of inquiry. They seek answers to questions that stress how social experience is created and given meaning. Creswell (2003) also suggested that a qualitative approach tends to be used when the researcher seeks to establish the meaning of phenomenon from the views of participants. This also can be referred to as inductive research, in which the research builds sequentially from the data to broad themes and an emerging theory.

Research approach adopted

Before deciding upon the philosophy and approach to be adopted for this research study, there are several key assumptions which need to be taken into consideration. First, by nature, different owners and hotel management companies might have a different way of undertaking and managing their business leading to a great deal of difference and complexity in their use of HMCs. Second, while there are a number of hotel properties in Thailand which operate under the business model of HMCs, in terms of the total number of properties, one foreign hotel management company dominates the Thai hotel market (see Table 1.3 in Section 1.2.3). Third, the use of HMCs by hotel owners and hotel management companies commonly has been treated as confidential. Fourth, as mentioned in Chapter 1, the number of previous studies concerning the use of HMCs is a limited. Specifically, there is no research concerning the use of HMCs in Thailand or in this region of Asia.

As noted in Chapter 1, the overall aim of this research is to identify and to explore the issues which Thai hotel/resort property owners and international hotel management companies perceive to be key concerning their use of HMCs. Thus, there are two objectives in this research. The first objective of this research is to apply the agency theory to the HMC to gain an understanding of the nature of the

relationship between the hotel owner (as principal) and the hotel management company (as professional agent) within the HMC. The literature review in section 2.2, Chapter 2 identified further two research questions which are concerned with addressing the primary research problem of '*the extent to which the agency theory is a useful lens to examine the nature of the relationship of the hotel owner and the hotel management company in hotel management contracts*'. The associated research questions are shown in Table 3.1 below.

Table 3.1: Summary of research question 1 and 2

Research Question	Details
1	What is the nature of the agency relationship and the associated agency problems present in hotel management contracts?
2	How is agent opportunism restrained in the operation of hotel management contracts?
	2a: Within hotel management contracts to what extent are behaviour and outcome controls used to restrain against opportunism and how suitable are these controls for hotel management contracts?
	2b: To what extent are additional principle/professional agency relationship controls utilised in hotel management contracts to guard against agent opportunism?

Second, this research attempts to develop an insight into the use of HMCs in Thailand and to make a comparison between the use of HMCs in Thailand and elsewhere. The key issues associated with the use of HMCs (by hotel property owners and international hotel management companies) and seven specific research questions were identified upon a review of the extant literature in section 2.3, Chapter 2.

In attempting to gain a better picture and to understand the nature of the use of HMCs in Thailand, this research addresses the secondary research problem of establishing '*the extent to which the nature and associated issues of hotel*

management contracts in Thailand are similar to those identified in previous research'. The associated research questions are shown in Table 3.2 below.

Table 3.2: Summary of research questions 3 to 9

Research Question	Details
3	What are the key areas and issues in the hotel management contracts document?
4	What are the motivations of (a) owners and (b) foreign hotel management companies for using hotel management contracts?
5	What are the partner selection criteria of (a) owners and (b) the foreign hotel companies when using hotel management contract?
6	What are the key issues associated with, and the nature of, hotel management contract negotiation?
7	What are the roles of the three parties and their working relationship in the operation of hotel management contracts?
8	What control methods are used in the operations of hotel management contracts?
9	What are the on-going issues in the operation of hotel management contracts?

Arguably, both research problems could lend themselves to a quantitative approach through the administration of a detailed questionnaire across the whole population of relevant hotels in Thailand. However, the danger here is that such an approach imposes an etic perspective upon respondents. Given that a primary concern here is to establish the degree of similarity of the issues associated with the use of HMCs reported elsewhere, the emphasis needs to be upon uncovering emic constructs from respondents on this topic. Consequently, the research approach deemed most suitable here is that of phenomenology or an interpretative paradigm.

As indicated by Saunders et al (2003), a number of researchers critical to positivism argue that the social world of business and management is far too complex to lend itself to theorizing by definite laws in the same way as the physical sciences.

Consequently, phenomenology is concerned with how people experience social phenomenon and the world in which they live. It is characterized by a focus on particular sets of circumstances and individuals that are both complex in nature as well as unique. Taking this view, social actions are best explained by understanding them in the way that participants do. Remenyi et al (1998) support this argument suggesting that it is important to discover the details of the situation, to understand the reality or perhaps a reality working behind them. For this reason this paradigm would often argue that generisability is not of crucial importance. This focus on understanding the details of the situation, rather than the measurement, of social phenomenon again has a number of implications for the researcher and the way that research is conducted.

As applied to this research, the aim of the research is to seek the meaning of phenomenon from the views of the participant. Given that the emphasis of this research is upon uncovering the perceptions of Thai hotel owners and/or their representatives, and executives and hotel general managers of the hotel management companies, it was decided that a qualitative approach was appropriate as Denzin and Lincoln (2000) suggested that a qualitative research is concerned with capturing the individual's point of view and in the need for securing rich descriptions. In comparison, they argue that quantitative researchers are deliberately unconcerned with rich descriptions because such detail interrupts the process of developing generalisation. In this context, Patton (2002) also noted that qualitative methods facilitate the study of issues in depth and detail. Approaching the fieldwork without being constrained by predetermined categories of analysis contributes to the depth, openness and detail of qualitative inquiry. On the other hand, quantitative methods require the use of standardised measures so that the varying perspectives and experiences of people can fit into a limited number of predetermined response categories to which numbers are assigned.

Another factor leading to this approach being adopted was that HMCs in Thailand are a phenomenon upon which little or no previous research exists and in such circumstance a qualitative approach is considered appropriate (Creswell, 2003).

Similarly, a key advantage of qualitative research is that it facilitates the exploration of complexities which are beyond the scope of more controlled approaches such as questionnaire surveys (Gillham, 2000). Importantly, this approach avoids imposing an etic perspective and increases the possibility of accessing the emic view (Glaser and Strauss, 1967).

3.2 The exploratory study as a research technique

The choice of the use of exploratory study reflects the aims of research. As noted in Chapter 1, the focus of this research is to identify and to explore the key issues which Thai hotel/resort property owners and international hotel management companies perceive concerning their use of HMCs in Thailand. As defined by Robson (2002), an exploratory study is a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in a new light. This strategy is particularly useful if the researcher wishes to clarify their understanding of a problem. Saunders et al. (2003) also suggested that exploratory research provides information to be used in analysing a situation, not to uncover conclusive evidence to determine a particular course of action.

An exploratory study can use different research approaches, depending on the focus of the research questions (Yin, 1994). Much exploratory research provides qualitative data and as Zikmund (2003) has noted, exploratory research provides a greater understanding of a concept or crystallises a problem, rather than providing precise measurement or quantification. It also acts as a foundation for a strong, reliable research programme to uncover motivations, reasons, impressions, perceptions and ideas that relevant individuals have about a subject of interest (Peterson, 1994). Moreover, Denzin and Lincoln (1994) noted that an aim of exploratory research is to generate new ideas and to emphasize theory development from the data.

As mentioned in section 1.4 in Chapter 1, there is a lack of previous research on HMCs, thus the use of an exploratory study would be useful for as Zikmund (2003) noted that when there is a limitation on knowledge or experience on the research issue, exploratory research would ensure that a more rigorous, more conclusive future study will begin with an adequate understanding of the nature of the management problem. By providing qualitative data, exploratory research offers a greater understanding of a concept or an opportunity to crystallise a problem, rather than providing measurement or quantification.

For this research, the intention of the researcher is to utilize an exploratory study to explore and to identify, as well as to generate ideas and insights upon the key issues associated with the use of hotel management contracts in Thailand.

3.3 Research design

This section will illustrate how the research was designed and conducted through both the preliminary study and the main fieldwork.

3.3.1 Preliminary study

As noted by Saunders et al (2000), it is necessary to refine a research idea in order to turn it into a research project. This might be in the form of a critical literature review, revisiting the research techniques, and informal discussions with people who have personal experience of and knowledge about the research ideas. Not only can these activities provide a greater understanding of the research idea for the subsequent refining of the research question, but they also allow for testing the research ideas against the feasibility of conducting further research in relation to time, financial resources, accessibility to data, and so on.

For this first stage of the research, a preliminary study was conducted during the period of July to August 2004. By its very nature, the study of HMCs and their use by hotel owners and hotel management companies have commonly been treated as confidential because of the commercial sensitivity of data. Clearly, without accessibility or co-operation from the target respondents, such a study cannot be conducted. Therefore, the objectives of the preliminary study were to establish an initial connection to relevant target persons; to identify the key areas/issues in the HMC document as guided by Eyster (1997b); to explore the opinions and attitudes of the owners and hotel management companies toward participating in research in the area of HMC; to examine the feasibility of conducting further research; and to test the research methodology.

For collecting the data, the three target populations were hotel owners or hotel GMs of any hotel properties (operating under a HMC by foreign hotel management companies), and executives of the head/regional office of hotel management companies. As the researcher personally knew some members of the target populations (i.e. the hotel owners, the hotel GMs or the executive of the regional/head office of the operator), they were used as the starting point. From these initial contacts, a snowballing technique (Bryman and Bell, 2003) was used as a means of accessing additional members of the target populations. These referrals/introductions were of critical importance, as the researcher found that without any introduction from a third person or personal contact, it was very difficult to reach the target interviewees. After the initial referral an introduction letter (see appendix I) was sent, then a telephone call was made to follow up and to make an appointment.

A semi-structured interview was conducted with nine interviewees, including five owners or their representatives, three hotel GMs, and an executive of a hotel management company (see Appendix I for the list and the profile of these interviewees). The interview questions were developed in line with the literature review on the key areas/issues in the HMC document, as guided by Eyster (1997b). Before starting an interview, the researcher confirmed the confidentiality of the

interview and that the data would be used for academic purposes only. Each interview took approximately 30-45 minutes and was digitally recorded. At the end of the interview, the researcher asked the interviewees for permission to keep them as a contact for the main study.

There were a number of outcomes from the preliminary study. First, the key provisions/issues in HMCs in Thailand were explored. Second, in relation to the opinions and attitudes of the interviewees toward participating in research in the area of HMCs, the interviewees gave their full co-operation and were willing to cooperate in any future research. This was because they realised that there was no research concerning the use of HMCs in Thailand, and that this research was important to them in conducting their business by using the HMC as a business model. Hence, this tends to confirm the significance of this research topic. In terms of the direction of the research, most of the interviewees suggested that the researcher should focus upon the operational aspect (rather than commercial aspect) of the use of HMCs because it might be more difficult to collect what was perceived to be commercially sensitive information. Confidentiality of data was a key issue as the interviewees were not comfortable letting the researcher identify the sources of the data and this explains why respondents and their organisations are coded in the findings and subsequent discussion. Third, the researcher found that the interviewees (the hotel owner, the hotel GM and the executive of head/regional office of the hotel management company) were appropriate sources of data, as they were all relevant to the operation of the HMC. Finally, in terms of the research approach, the data collection techniques used (such as snowballing and semi-structured interviews) proved to be effective and suitable and were thus adopted for the data collection in the main study.

In addition, some interviewees provided a copy of their HMC document for the researcher. To take advantage of these materials, content analysis was performed to analyse the core structures of the contract and their details. Content analysis is a non-obtrusive measure which requires neither observation, interviews, nor questionnaires, so that the subjects of your study are normally unaware and

unaffected by your interest (Hussey and Hussey, 1997). The emerging structures, provisions or themes identified would be used in conjunction with those identified after the thematic analysis of the qualitative interviews.

3.3.2 Main Study

The main fieldwork was conducted during the period of July 2005 to January 2006. The key aim was to gather sufficient data to tackle both the primary and secondary research problems and their specific research questions (see Table 3.1 and Table 3.2) which are developed in Chapter 2.

Because the data collection techniques in the preliminary study (i.e. snowballing and semi-structured interview) proved to be effective and suitable for data collection, the researcher adopted these techniques in the main study. The specific technique chosen for data collection in the main study was semi-structured face-to-face elite interviewing. This approach was selected as it provides a degree of systematisation in questioning that is necessary when interviewing so many participants (Marshall and Rossman, 1999). An obvious added advantage of face-to-face interviewing is that it allows for greater reliability, in that the appropriateness of respondents can be verified and more complex or sensitive questions and issues can be explored (Saunders et al., 1997; Hussey and Hussey, 1997). As indicated by Van Mannen (1989), it could be very ineffective and inefficient should an inexperienced researcher use qualitative methods and an unguided data collection method. The interview questions were developed in line with the literature review. Thus, the interview questions were sequenced in relation to the interview progress direction (from the pre-contract signing stage to the post-contract signing stage).

The interviews were conducted with owners or their representatives, executives of head/regional office of the hotel management company, and hotel GMs. These persons were the key parties in the operation of HMC as indicated by Eyster (1988a) (see section 2.3.4.1.2 in Chapter 2) and as suggested by the preliminary study. These

interviews can be considered as 'elite interviews' representing a specialized case of interviewing which focuses upon a particular type of interviewee. Elite interviewing is a research strategy which selects only those individuals who have direct knowledge of the phenomenon for semi-structured, in-depth interviews on specific topics (Denzin, 1987). Elite individuals are those considered to be influential, prominent, or well-informed people in an organisation or community. They are selected for interviews on the basis of their expertise in areas relevant to the research. Elites can usually provide an overall view of an organisation or its relationship to other organisations, and are able to report on an organisation's policies, past histories, and future plans from a particular perspective. In addition, elites often contribute insight and meaning to the interview process because they are intelligent and quick-thinking people, at home in the realm of ideas, policies, and generalisations (Marshall and Rossman, 1999).

Accessibility was still a key issue, and although a number of connections were established during the preliminary study, more access was needed. Thomas (1993) noted that access to elites is often restricted. Researchers commonly need to approach interview subjects well in advance and in a formal way, deal with problems of incomplete and possibly unrepresentative samples, and gain approval from multiple gatekeepers prior to gaining direct contact with potential interviewees. The process can be far more complicated than making contact with non-elites. Thus, elite interviews tend to generate costs in terms of wasted time and resources (Macdonald and Hellgren, 1998).

In this situation, snowballing was deemed the key sampling technique to gain greater access. The key idea of snowball sampling is that the researcher makes initial contact with a small group of people who are relevant to the research topic and then uses these initial contacts to establish contact with the others (Bryman and Bell, 2003). Without an introduction from third parties/persons or personal contact, it is difficult to get access to elites. As suggested by the EPIC Workshop (2002), in gaining access to elites, and overcoming their potential reluctance to be interviewed, sponsorship by a third party, whether personal or institutional, may be very helpful

and indeed critical. Such sponsorship may come from a supervisor, an academic institution or possibly a former member of the elite. The latter can be especially useful in advising on key contacts and tactics.

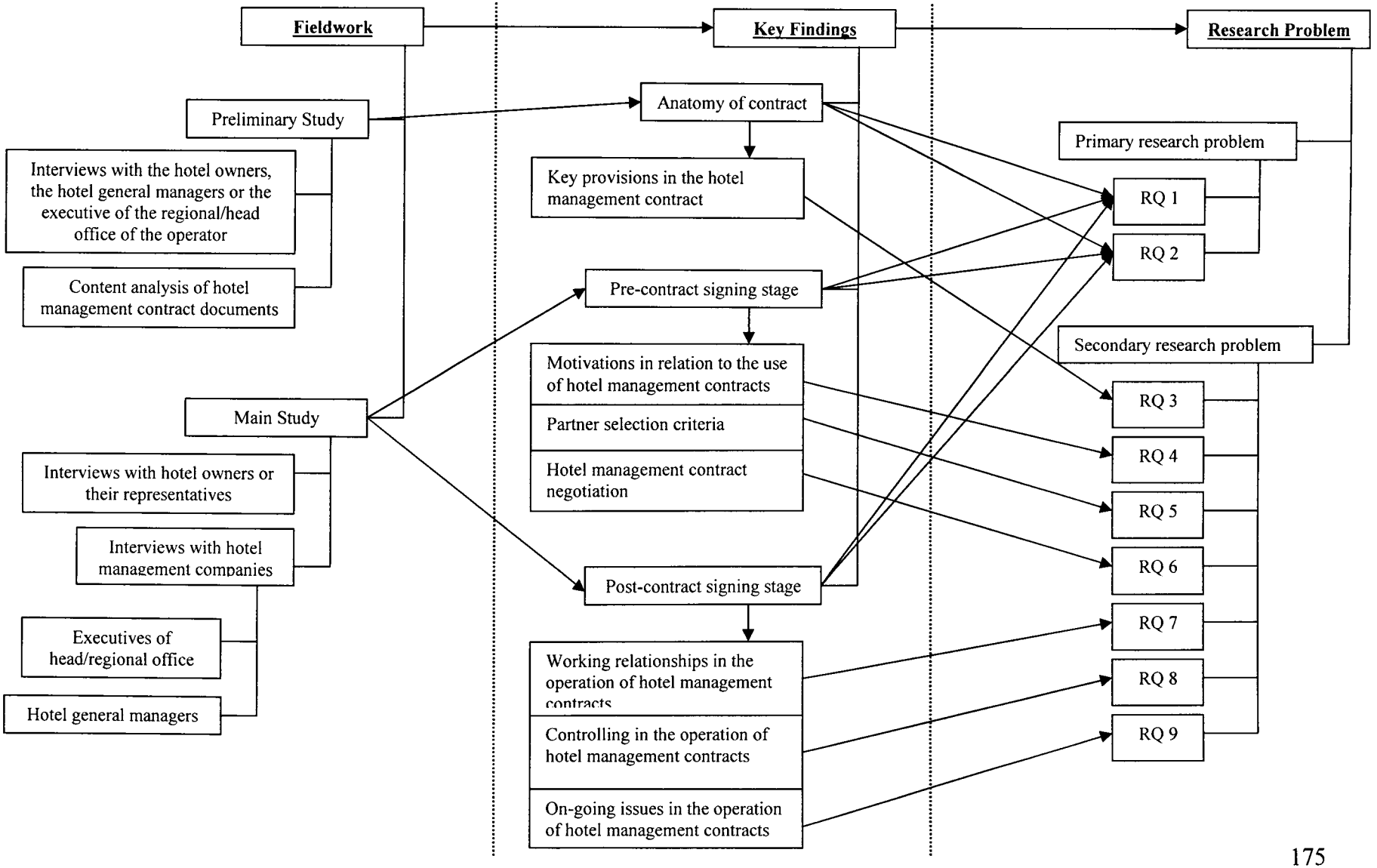
As noted by Oppenheim (1992), in a qualitative study, there is no definitive answer to how many in-depth interviews should be conducted, but quality, rather than quantity, should be the essential determinant of the total number. According to Boyd (2001), a number of respondents ranging from two to ten are sufficient to reach saturation, while Creswell (1998) recommends long interviews with up to ten people for a phenomenological study. Data-collection interviews should be continued until the topic was either exhausted or saturated, i.e. when interviewees (respondents) introduced no new perspectives on the topic.

With reference to the data sources used, Figure 3.1 illustrates how the data drawn from the various data sources links to the primary and secondary research problem and their nine specific research questions. The information collected during the preliminary study (from both the semi-structured interviews with Thai hotel owners, hotel GMs, the executive of the regional/head office, and the content analysis of HMC documents) contributed to research question 1, 2 and 3. For the main study, the information collected from the semi-structured interviews with Thai hotel owners (or their representatives) and hotel management companies (the head/regional office executives and the hotel GMs) contributed to research questions 1, 2, and 4-9.

Sample design

In designing the sample, based on connections from the preliminary study, the researcher established a very good relationship with an executive from the regional/head office of a foreign hotel management company. In terms of the number of hotel properties managed in Thailand (see Table 1.3 in Chapter 1), this particular foreign hotel management company is dominant in Thailand. Thus, this person could facilitate and establish the required contact with key interviewees. With this help from a third party, the target interviewees could be more readily accessed with full co-operation for the interview. Otherwise, there was a chance that

Figure 3.1: Data sources and their contribution toward the research problem



the process of data collection could take longer (e.g. through problems in seeking appointments), or that the interview may be refused because of the confidentiality of the data, time constraints, and/or the work load of the interviewees. It was due to these two key reasons: (a) the importance/dominance of this particular hotel management company in Thailand; and (b) the established relationship with an executive within the company willing to effect introductions, that this organisation became the main target of the research.

In addition, properties under the management of other foreign hotel companies were also explored. This was because of the desire to cover as many organisations as possible, but also to reduce the issue of bias in the research by considering the views from those respondents associated with a single hotel management company. This was the rationale for the sample design, whereby the interviewees were categorised into two groups (Group A and Group B). The first group (A) consisted of respondents connected with the dominant hotel company. The second group (B) were respondents associated with, and drawn from, the other foreign hotel management companies.

Table 3.3: Number of interviewees in main study

	Owner / Owner Representative	**Hotel General Manager**	**Executive of Head/Regional Office**	**Total**
Group A	6	7	1	14
Group B	5	5	3	13
			Total	*27*

For this research, those hotel and resort properties in Thailand who had entered into a management contract arrangement with an international hotel firm constituted the research population. The eleven owners (or their representatives) and twelve hotel GMs drawn from twelve properties, and four executives of regional/head office of four hotel management companies were interviewed (see Table 3.3). The details of these interviewees are shown in Tables 3.4, 3.5, and 3.6. As noted in Table 1.3, foreign hotel management companies accounted for a total of forty-nine hotel management contracts at the time of the research. From this population a total of twelve properties (approximately 25%) were included in this research.

Table 3.4: Profile of owners/owner representatives

ID	Gender	Nationality	Years in hotel business	Owner or owner representative	Background of owning company
OW-1	Male	Singaporean	20 years	owner representative	Construction company
OW-2	Male	Thai	15 years	owner representative	Insurance company
OW-3	Female	Thai	none	owner	Department store / shopping centre
OW-4	Male	Thai	none	owner representative	Property/land developer
OW-5	Male	German	25 years	owner representative	Retails and hospitality business
OW-6	Female	Thai	none	owner	Property/land developer
OW-7	Male	Thai	20 years	owner representative	Fishery business
OW-8	Male	Singaporean	10 years	owner representative	Property/land developer
OW-9	Female	Thai	5 years	owner representative	Hospitality business
OW-10	Male	Thai	More than 15 years	owner representative	Property/land developer
OW-11	Male	Thai	12 years	owner representative	Beverage and hospitality business

Table 3.5: Profile of hotel general manager

ID	Gender	Nationality	Years working for the group
GM-1	Male	British	12 years
GM-2	Male	French	14 years
GM-3	Female	Japanese	15 years
GM-4	Male	French	10 years
GM-5	Male	Spanish	15 years
GM-6	Male	German	12 years
GM-7	Male	French	14 years
GM-8	Male	British	10 years
GM-9	Male	German	10 years
GM-10	Male	Canadian	16 years
GM-11	Male	American	15 years
GM-12	Male	French	15 years

Table 3.6: Profile of regional/head office executive of the hotel management company

ID	Position	Gender	Nationality	Years working for the group
EXEC-1	Vice President (Operations Asia)	Male	British	20 years
EXEC-2	Cluster Manager (Southern of Thailand)	Male	German	More than 20 years
EXEC-3	Country Manager (Thailand)	Male	Canadian	16 years
EXEC-4	Vice President (Business Development)	Male	Hong Kong	More than 20 years

Interview protocols

After the introduction letters were sent, a follow up telephone call was made to the interviewees or their secretary in order to schedule the interview date and to intimate the interview questions. Although most of the interview requests were granted, in some cases it was difficult and it took considerable time to get permission and a confirmation of the interview date and time. Sometimes, even though the date and time of the interview was confirmed, interviewees asked for a postponement. Thus, it was crucial for the researcher to stay calm and be flexible. Furthermore, while some of the interview requests were rejected by the target interviewees although there was an introduction of third party and/or other researchers. The researcher found that this situation was in line with Okumus, Altinay, and Roper (2007) as they noted that qualitative data collection requires good planning and preparation, and a considerable amount of time on gaining access and collecting data. In addition, an element of luck is also necessary.

Before starting each interview, the confidentiality of the responses was assured to each interviewee and permission to record the interview was established. The interviewees were comfortable with the recording. The average length of the interview was approximately 60 minutes. An advantage of being introduced via other respondents was that most of the interviewees were flexible on the time frame and this allowed for friendly conversation, as Yin (2003) noted this reduced the risk that the interviewee might give only what the interviewer wants to hear. At the end of the interview, the researcher asked the interviewee for permission to keep in contact for further questions or future research.

In situations where the interviewees 'wore two hats' (i.e. held two positions), before starting the interview, the researcher determined the set of questions that applied for each specific role. As Hussey and Hussey (1997) suggested where a single interviewee may be 'wearing two hats', when asking questions, the researcher must, first, determine which hat the interviewees are wearing, and whether they are giving their own opinions or making a policy statement.

Interview questions were designed prior to the interviews (see Appendix II) and were developed in line with the issues in section 2.3. These consisted of a number of basic questions that were designed to guide the conversation. As noted by Bryman (2001), this set of guided questions provides a brief list of memory prompts of the areas to be covered in the interview. These questions were designed and sequenced based on the research questions, as well as being the key points associated with the use of HMC identified in the literature review. Yin (2003) noted that it is important for the questions to follow the sequence of the interview or conversation in order to know why a particular process occurred as it did.

While, there was no test of the interview questions, the researcher did amend and add some questions. Where questions were added in later interviews, the interviewees from earlier interviews were subsequently asked these additional questions via telephone, or e-mail.

3.4 Data analysis

It is crucial to carefully analyse any qualitative data if it is to provide useful and meaningful information and to enable a valid and reliable conclusion to be drawn. In analysing the qualitative data produced by the semi-structured face-to-face elite interviews (i.e. the transcription), Miles and Huberman (1994) suggested there were three major stages of data analysis, consisting of data reduction, data display, and conclusion drawing and verification.

Data reduction refers to the process of selecting, focusing, simplifying, and transforming the data that appear in the interview transcripts. Data display refers to a visual format that presents information systematically, which helps the researcher to understand what is happening, so that the researcher may draw valid conclusions and take any necessary action. The data can be displayed in the form of text, matrices, graphs, charts, and networks. In the drawing and verification of conclusions, the researcher begins to decide what things mean and notes regularities, patterns,

explanations, possible configurations, causal flows and propositions. The tactics for drawing initial meaning from display include forming patterns, looking at contrasts, clarifying relationships, and building a coherent understanding.

The coding process for this study relied on thematic analysis. This is an effective technique when trying to identify related themes and patterns, to discover relationships among the themes and patterns, and to develop explanations for these relationships (Walsh, 2003). Thematic analysis as a process is used for encoding qualitative information where the encoding requires an explicit code. A 'theme' is a pattern uncovered from the information which, as a minimum, describes and organizes the observations, while at a maximum can interpret aspects of phenomena (Boyatzis, 1998).

Before starting analysis, the researcher transcribed all recorded interviews of the 27 interviewees, see Appendix II for the sample of the interview transcript. Poland (2002) noted that the transcription of taped interviews is a method for making data available in textual form for subsequent coding and analysis, and which is widely used in qualitative research. This process took approximately five months from January to May 2006. However, personally completing all the transcription clearly provided advantages for the researcher during the analysis process.

With regard to transcription, there are two issues to note. First, while most of the interviews were conducted in English, seven interviews were conducted in Thai. This requires the meanings of the findings to be translated into English. The initial translation was undertaken by the researcher, and then verified by two other Thai students at the Scottish Hotel School and Department of Marketing in order to cross check the consistency of the translations with accurate interpretation. Second, the researcher intentionally decided not to use an English speaking editor for the transcriptions in order to preserve the meanings of the text before thematic analysis began. The actual of words used and context of the interviews can only be fully understood by the researcher and the interviewees.

In identifying themes, Miles and Huberman (1994) suggested the first step in the coding process was to use an inductive method, whereby the researcher read through the transcripts and assigned units of meaning to data and provisional codes. The codes and corresponding data pieces then go through multiple rounds of analysis that identified codes and data pieces as coherent units dealing with similar topics. A good code is one that captures the qualitative richness of the phenomenon, and this may emerge from one or more original themes.

Once a code is developed, it becomes the form for the original themes that the researcher uses throughout the inquiry. It is then used in the analysis, interpretation, and presentation of the research (Boyatzis, 1998). This process followed a modified scheme devised by Bogdan and Biklen (1992) that provided comprehensive categories into which codes could be inductively developed. Themes and sub themes that appear with regularity are then marked and recoded. This process reduced the large number of original highly specific codes to small numbers that could be used to identify important themes.

In this research, the researcher needed to repeatedly review the interview transcription, in order to identify conceptual themes in the interviews based on a consistent platform of argument or discussion. A careful line-by-line reading would enable the researcher to recognise the process, actions, assumptions, and consequences. At the same time, this would help the researcher in manually developing a coding scheme, by giving names to codes only when the notes and analysis start suggesting possible labels (in order to capture the essence of the discussion and to organise the concept).

As noted by Strauss and Corbin (1998), analysis of an initial few interviews relies on the process of textual deconstruction, meaning-based abstraction and conceptual labelling. However, while reading through new interview transcriptions, the analytic strategy may gradually shift from open coding of data to a comparison of the new data elements with previously coded incidents to find similarities or differences from the conceptual properties. This allowed the researcher to cluster the coded themes

into these categories that share similar or distinctive conceptual themes. Creswell (2003) noted that during qualitative data analysis the researcher should organise the data categorically and chronologically, review repeatedly and continually code. The process can also be described as a back-and-forth analysis that attempts to consistently compare and develop patterns that exist in the transcription.

The sample of key theme and sub-theme and the sample of thematic analysis are shown in Figure 3.2 and Table 3.7 respectively. As a result, the themes are clustered into nine broad categories, which come from nine research questions and become the main headings in the findings chapter, as follows:

- Nature of the agency relationship and the associated agency problems present in hotel management contracts
- Restraint against agent opportunism in hotel management contracts
- Key provisions in the hotel management contract
- Motivations in relation to the use of hotel management contracts
    - Owners' motivations in relation to the use of hotel management contracts
    - Hotel management companies' motivations in relation to the use of hotel management contracts
- Partner selection criteria
    - Owners' partner selection criteria
    - Hotel management companies' partner selection criteria
- Hotel management contract negotiation
    - Nature of the hotel management contract negotiation
    - Determinants of bargaining power in the hotel management contract negotiation
- Working relationships in the operation of hotel management contracts
    - Roles of the three parties in the operation of hotel management contracts
    - Nature of co-ordination among the three parties
- Controlling in the operation of hotel management contracts
- On-going issues in the operation of hotel management contracts

Figure 3.2: Sample of key theme and sub-theme

Category: On-going issues in the operation of hotel management contracts

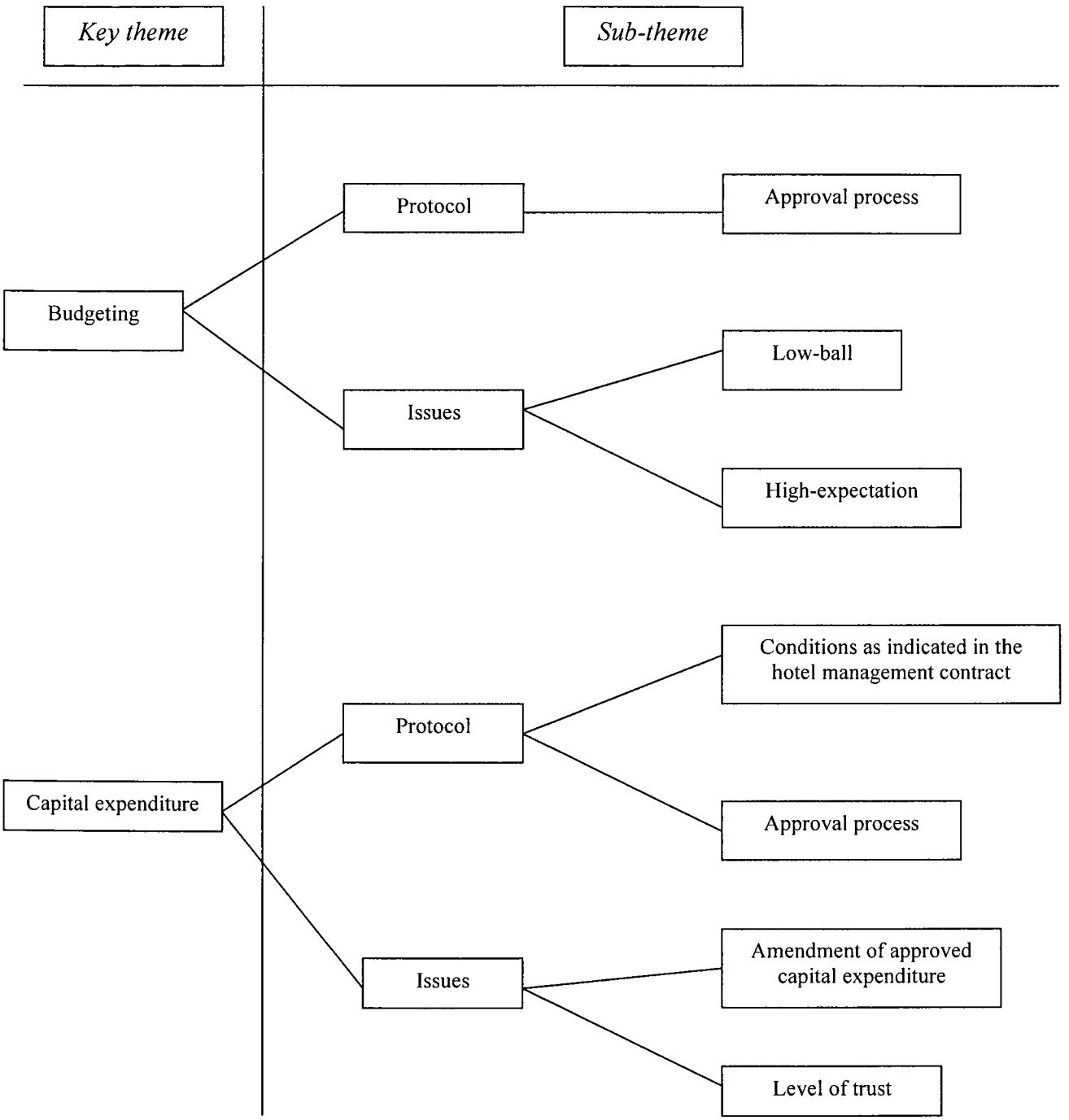


Table 3.7: Sample of thematic analysis

Category: On-going issues in the operation of hotel management contracts
Key Theme: Budgeting

Respondents in Group A

Respondent	Sub-theme		
	Protocol (approval process)	**Issues of Low-ball**	**Issue of High expectation**
OW-1	[this operator] has a standard form of the annual budget for the GM to propose. After getting the approval from the regional office, GM would present the annual budget to the owner.		
OW-2	Each year General Manager will propose the next year budget forecast and capital expenditure/FF&E and discuss to gain a mutual agreement on the target budget in annual budget meeting.	We, as owner, thought that the proposed budget was too low as we could possibly make more revenue/profit. However, the operator urged that the proposed budget was the realistic budget that we could possibly achieve. So we need a long discussion and everything had been sorted out.	
OW-3	GM proposes the annual budget annually.	If we are not satisfied as the proposed budget is too low or have inquiries, we would discuss and find the solution for the issues in the meeting.	
OW-4	For the budget and capital expenditure, the operator would propose it annually.	We along with Chief Financial Officer (CFO) of N-Park consider a proposed budget, and raise the issue, especially if we thought that the proposed budget is too low. Then have a meeting, to discuss and to negotiate for the budget until reach mutual agreement.	
OW-5	GM would propose the annual budget to us for considering	If we are not satisfied as the number of propose budget is lower than we could possibly make or there is any other issues, we would discuss it in the annual budget meeting.	
OW-6	After getting an approval from the Regional Office, GM proposes and presents the annual budget including capital expenditure to the owner.	However, if we are not agreed with the proposed annual budget as the number is too low, we will make a negotiation.	
GM-1	During September, after we prepared the annual budget, we would present it to the regional office for the first approval and then to the owning company for getting second approval. Of course, there will be questions and disagreements.		

Table 3.7 (continued): *Sample of thematic analysis*

Respondents in Group A (continued)

Respondent	Sub-theme		
	Protocol (approval process)	**Issues of Low-ball**	**Issue of High expectation**
GM-3	I have to get approval from director of operation [at our regional office], and then we have to present it to the owning company to get the final approval.		There is always disagreement in the proposed budget .... We always prepare budget base on realistic, however, owning company may not agree and **would like to have higher number**.
GM-4	We do the first budget with our regional office. ... After got the approval from our regional office, we propose it to the owning company. Then, the owning company would validate the budget. If the owning company disagree, I have to revise it until both parties agree.		
GM-5	Before submitting annual budget to the owner, we need to submit it to our regional office for approval as they might disagree/negotiate and increase the target budget. After that we present the target budget to the owner for getting another approval.		Owner always tried to increase the budget as much as they could. However, the target budget must be challenging for the management team.
GM-6	We proposed the draft of annual budget to our regional office for getting approval. After that we would present and discuss the next year budget with the owner until reach a mutual agreement.		It is common for the owning company to push the budget up to high level.
GM-7	I present it [draft of annual budget] to our regional office first and they may make a suggestion for me to do this or that, or adjust some numbers in the budget until we agree. After that, I will present the budget to the owning company, they might ask me to modify, increase or decrease some numbers in the budget.		
EXEC-4	For budget, GM of each property would prepare draft of annual budget and discuss with the regional office. It need to be realistic and feasible. We need to consider it carefully as it would affect the level of management fees. After getting an approval from the regional office, GMs would present the draft of the annual budget to the owner, and discuss until they reach mutual agreement.		

Table 3.7 (continued): *Sample of thematic analysis*

Respondents in Group B

Respondent	Sub-theme		
	Protocol (approval process)	**Issues of Low-ball**	**Issue of High expectation**
OW-8	The operator work for the owner to give a bottom line, therefore, we need to tell them what our expectations are. We will spell out in the annual budget meeting, what we want GM to do, what to improve; everything will be discussed during the meeting.		
OW-9	Budgeting, each year GM will propose the target budget including business plan in annual budget meeting	Sometime we feel that the operator make and propose a lower budget than we expect, therefore, we try to push them for a higher budget.	
OW-10	For annual budget meeting, we have once a year for discussing 1) what we are going to do next year, 2) revenue and expenditure, and 3) capital expenditure. Normally, the operator would propose the target budget.	If we disagree as we thought that the propose budget is too low or have any other enquiries, we would discuss and find out the solution.	
OW-11	Each year our GM propose the annual budget for us to consider and approve. If any issue, we will discuss it in the meeting.	Sometime we thought that the numbers [bottom line] in proposed annual budget is lower than we possibly make so that we raise and discuss this issue in the meeting.	
GM-8	After preparing, I need to propose to the head office first. After got an approval from the head office, I will present it to the owner and discuss if any issue, until we reach a mutual agreement.		Of course, the owner would expect and want more from us, therefore, that comes to negotiation. We tried to work best for both parties.
GM-9	After preparing the business plan and everything, we send it to the head office to get approval. And then we send all of the plans to the owner for final approval.	When come to the budgeting, ... the owner worry, if they feel that we make too low revenue.	
GM-10	Each year we have to run in the same protocol. It normally starts in August. We have to propose the draft of budget to the regional office, and discussions are held until we get approval. And then we present it to the owning company. Once again the discussions are being held as the owning company may adjust the proposed budget, until we mutual agree on the budget.		I think that I put my best in the budget, and it is common that the owning company would like something different [higher number] from the proposed budget.
GM-11	Annually we would propose and ask for approval of the budget for the next year. For the preparation of the annual budget, we would do it internally and get approval from our regional office before presenting to the owner.		However, sometime owner/owner representative expect a higher bottom line more than us. The budget may be negotiated or adjusted until reach mutual agreement.

Table 3.7 (continued): *Sample of thematic analysis*

Respondents in Group B (continued)

Respondent	Sub-theme		
	Protocol (approval process)	**Issues of Low-ball**	**Issue of High expectation**
EXEC-1	Budget, normally GM of each property would prepare the draft of the budget and discuss with regional office. After get approval from regional office, GM would present the budget to the owing company and discuss it until it reach mutual agreement.		It is common that owner would have high expectation. However, we need to plan our budget according to the realistic and the business situation. We would put our best effort to set a target budget as it would affect our fees as well.
EXEC-2	After preparing the business plan and everything, we send it to the head office to get approval. And then we send all of the plans to the owner for final approval.	When come to the budgeting, … the owner worry, if they feel that we make too low revenue.	
EXEC-3	Each year we have to run in the same protocol. It normally starts in August. We have to propose the draft of budget to the regional office, and discussions are held until we get approval. And then we present it to the owning company. Once again the discussions are being held as the owning company may adjust the proposed budget, until we mutual agree on the budget.		I think that I put my best in the budget, and it is common that the owning company would like something different [higher number] from the proposed budget.

During the last stage, the researcher interpreted the information and themes in order to draw meaning from the displayed data. During this process, quotations from the interview transcriptions were used to represent the findings as Coolican (1999) suggested that this would enable the researcher to tell it like it is and focus the reader as to the reality of the situation being studied.

It is important to note that computer software was not used in the data analysis. This was to reduce the risk associated with using computer software of not being able to locate and to take into account important situational and contextual factors. Easterby-Smith (1991) argued that there is no package that can substitute for the interpretative skills of the researcher, where the identification of significant themes patterns and categories still has to be done by the researcher. Another point concerns the nature and amount of the qualitative data in this research, as noted by Creswell (1998) that not all qualitative researchers see the software as relevant to their needs. This is not to deny the advantage of computer software, which can help to reduce time, especially with the analysis of a large text database. However, the choice of manual analysis is believed to be appropriate for this research.

3.5 Research validity

As defined by Creswell (2003), validity is used to determine whether the findings are accurate from the standpoint of the researcher, the participant, or the reader of the account. To ensure the accuracy of the findings, there are a few tactics which were applied in this research.

First, as indicated by Eyster (1988a), there are three active parties to the HMC: the owner/owner representative, the hotel general manager, and the executive of the regional/head office of the hotel management company. In this research, the purpose of collecting data from the three key parties is to form a triangulation. The information gained from each party can be cross-checked with the others. The key

idea of data triangulation is to contrast the data and to validate the data if it yields similar findings (Bloor, 1997; Holloway, 1997; Arksey & Knight, 1999).

Second, Creswell (2003) highlighted the importance of clarifying the bias that a researcher brings to a study in order to create an open and honest narrative that will resonate well with readers. In this research, the main targets in the sample are the properties, operating under a HMC and managed by the dominant company in the Thai hotel market. In order to reduce any bias toward this company, a number of properties which operated under HMCs with the other companies were included (see sample design in section 3.3.2). A comparison between these two groups would provide a clearer picture of the use of HMCs in Thailand. Consequently, the research findings under each research question are categorised under Group A (the respondents from the dominant hotel company) and Group B (respondents from the other hotel companies). This approach enables any bias, created by the data generated from those respondents associated with the dominant management company to be identified.

3.6 Limitations of the research methodology

It was clearly recognised that limitations of accessibility influenced this study. As mentioned earlier in this chapter, the interviewees (owners/owner representatives, hotel GMs, and executives of regional/head office of the hotel management company) were considered as elite persons, and that generally access to these people is restricted (Thomas, 1993). Moreover, as the process can be far more complicated than simply making contact with non-elites, elite interviews tend to generate costs in terms of wasted time and resources (Macdonald and Hellgren, 1998). Therefore, the establishment of the contacts were relied on referrals/introductions, but without an introduction from third parties/persons or personal contact, it is difficult to get access to elites. As suggested by the EPIC Workshop (2002), in gaining access to elites, and overcoming their potential reluctance to be interviewed, sponsorship by a third party (whether personal or institutional) may be very helpful and indeed critical. In

this context, during the fieldwork, it was a time consuming process to establish the connection with these elites and to complete the subsequent interviews. At first, the data collection period was planned for four months; however, the period was then extended to six months.

In terms of the number of interviewees, a greater number of interviewees would increase the richness of information, however, due to the limits of accessibility, the total number of interviewees in this research is limited (see Table 3.3). Nonetheless, in a qualitative study, as noted by Oppenheim (1992), there is no definitive answer to how many in-depth interviews should be conducted, but quality, rather than quantity, should be the essential determinant of the total number. In this context, since elite individuals were selected for interview on the basis of their expertise in areas relevant to the research, the quality of the information would be greater. This is because the elite individuals have direct knowledge of the phenomenon for semi-structured or in-depth interviews on specific topics (Denzin, 1987). Elite individuals are those considered to be influential, prominent, or well-informed people in an organisation or community. Elites can usually provide an overall view of an organisation or its relationship to other organisations, and they are able to report on an organisation's policies, past histories, and future plans from a particular perspective (Marshall and Rossman, 1999).

Moreover, not only was a greater quality of information obtained, but the amount of information was sufficient to reach saturation enabling the data collection to cease (Morse, 1995; Flick, 1998; Silverman, 2005; Charmaz, 2005). Data saturation refers to data adequacy, whereby data is collected until no new information is obtained (Morse, 1995). Nonetheless, a number of respondents ranging from two to ten can be sufficient to reach saturation (Boyd, 2001). Similarly, Creswell (1998) recommends long interviews with up to ten people for a phenomenological study. Thus, data-collection interviews should be continued until the topic is either exhausted or saturated, i.e. when interviewees (respondents) introduce no new perspectives on the topic.

Lastly, it is important to note that there is a lack of previous academic studies concerning HMCs. This presents the researcher with limits in identifying and exploring the research methods and design which had been used before.

3.7 Summary

This chapter has discussed the research methodology and the strategy that was employed in conducting the research. This research adopted an exploratory research strategy using a qualitative approach as this was decided to be most appropriate for meeting the research aims and answering the research questions.

As the research required in-depth details of the key issues associated with the use of HMCs, semi-structured face-to-face elite interviews were utilised. Subsequently, this process yielded rich data in the form of interview transcripts. These were subsequently subjected to thematic analysis which was the key data analysis technique adopted in an effort to transform the qualitative data into findings. These findings are reported in the next chapter.

CHAPTER 4: FINDINGS

4.0 Introduction

This chapter will provide findings on the use of HMCs in Thailand, divided into two sections. In the first section, regarding the application of agency theory to the use of HMCs, the findings on the nature of the agency relationship and the associated agency problems present in HMCs and restraints against agent opportunism in HMCs will be shown. In the second section, concerning the key issues associated with the use of HMCs in Thailand, the findings on the anatomy of the HMC (i.e. key provisions in the HMC); the pre-contract signing stage (i.e. the motivations of the parties in relation to the HMC, the partner selection criteria, and the nature of contract negotiations); and the post-contract signing stage (the working relationship between the owner, the head/regional office of the hotel management company, and the hotel GM in the operation of HMCs, the control methods in the operation of HMCs, and the on-going issues in the operations of HMCs) will be presented.

4.1 The application of agency theory to the use of hotel management contracts

This section will present findings on the nature of the agency relationship and the associated agency problems present in HMCs and restraints against agent opportunism in HMCs.

4.1.1 Nature of the agency relationship and the associated agency problems present in hotel management contracts

This section will provide findings on research question 1 'What is the nature of the agency relationship and the associated agency problems present in hotel management contracts?'. The findings will be presented in line with the six criteria which were developed from an overview of principal-professional and owner-manager exchanges

(see Table 2.6 in section 2.2.3.3). A summary of the criteria and their associated questions regarding the relationship between the hotel owner and the hotel management company under the HMC, are shown in Table 4.1 below .

Table 4.1: Six criteria and their associated questions regarding the relationship between the hotel owner and the hotel management company under the hotel management contract

Criteria	Dimension	Key questions regarding the relationship between the hotel owner and the hotel management company under the hotel management contract
1	Problem domain	• To what extent are the goal and risk preference of hotel owners and hotel management companies different? • Do hotel owners require the specific knowledge of operators to perform task?
	Key idea	• How is the relationship between the hotel owner and the hotel management company built/designed under the hotel management contract to accommodate the problem of either knowledge or information asymmetry (due to the nature of hotel management contract task)?
2	Human assumptions	• To what extent do the motives of hotel management companies represent self-interest or altruism? • How do hotel owners and hotel management companies interact with each others under hotel management contracts? • To what extent does the working relationship between hotel owners and hotel management companies exhibit social embeddedness and individual autonomy? • To what extent are hotel owners able to share the risk with hotel management companies?
3	Organizational assumptions	• To what extent are goals of hotel owners and hotel management companies conflict? • How is the overall performance of the hotel management company evaluated by hotel owners? • To what extent are hotel owners able to know how hotel management companies do the task? • What are characteristics of hotel owners in working with their operators?
4	Assumption about oversight	• To what extent are hotel owners able to monitor and evaluate the performance of hotel management companies in the hotel management contracts?
5	Information assumptions	• To what extent are hotel owners able to obtain/reveal the information (what actually operators do) in hotel management contracts?
6	Contracting problems	• To what extent are hotel owners able to verify the behaviour of hotel management companies in hotel management contracts?

4.1.1.1 Problem domain and key idea

This section will provide findings on the problem domain (i.e. difference in goals and risk preferences, engaging in knowledge intensive task) and the key idea (i.e. the way in which the relationship is built or designed to accommodate the agency problem) in the relationship between hotel owners and hotel management companies under HMCs.

4.1.1.1.1 To what extent are goals and risk preferences of hotel owners and hotel management companies in using hotel management contracts different?

With respect to partly conflicting goals, the most obvious issue concerns financial issues (management fees). Thai owners wish to achieve a positive business performance and high operational performance/efficiency, and to make the best possible return from their investment, thus spending too much on management fees would adversely affect their return, '*beside the forecast of business, we need to consider the type and the amount of management fees. As it would affect our bottom line, we would make a negotiation if we think that it is too high and unfair*' (OW-7). In contrast, the hotel management companies expect to gain the highest possible level of management fees from providing the services of hotel management because it is their key source of revenue when using the business model of HMCs. Thus, those fees are at the expense of the owner, '*our company is a public company. We are trading our shares in the stock exchange; we need to make a profit for the company. We are not doing something for nothing, even if we love the owner or the hotel property. It also has to work for us although we work for the owner. ... If we are not going to agree on fees, we will walk away*' (EXEC-1). This clearly shows that both parties have partly conflicting goals.

Regarding risk preference, in most of the cases, hotel management companies commonly have no interest in investing in the ownership of the hotel property, '*our special skill is to manage the hotel, where our core competence is, for a management fee. ... The new structure of our company is to get the 100% management contract property, rather than partial or 100% own property*' (EXEC-3). Therefore, Thai hotel owners make the investment and hold all the business risk; while the hotel management companies are exposed to none of the risks. This clearly shows the difference in risk preference. In this sense, the hotel management companies are risk neutral as there is no concern regarding the business risk if the property is unsuccessful.

4.1.1.1.2 Do hotel owners require the specific knowledge of hotel management companies to perform hotel management contract task?

It is common that hotel management companies (as an expertise) typically offer a hotel management service in return for fees, *'over the last two years the board of our company announced that we will be purely a hotel management company. What we mainly do as a company now is to look for someone who wants to invest their capital for the hotel/resort property, and we manage it'* (EXEC-2). On the other hand, Thai hotel owners are in need of a hotel management service/know-how (which is offered and acquired by operators) to run their hotels. When making an investment, in many cases, Thai hotel owners are in need of such services because they lack the knowledge and the necessary know-how in managing hotels, *'during development of the hotel property, the owners and his partners were businessmen who did not have knowledge and experience in the hotel business'* (OW-1). Some of the Thai hotel owners, especially the property/land developer, have no interest in hotel operations other than the investment, *'the hotel is not our core business. We are a real estate developer. We develop land and property to become valuable property. If there is an opportunity, we would sell the property to make profit. Our company has no hotel operation expertise, so we need the expertise and know how of the hotel management company to operate and to manage the properties for us'* (OW-4). In this context, it can be clearly seen that Thai hotel owners are in need of hotel management services. Consequently, in most cases, the hotel management companies were approached by Thai hotel owners who were in need of special skills (hotel management) to manage their hotel. This situation clearly suggests that both the hotel owner and the hotel management company engage in a knowledge-intensive task because the Thai hotel owners require the specific knowledge (hotel management) of the operator to run the hotel for them.

4.1.1.1.3 How is the relationship built to accommodate the problem (due to the nature of the task)?

In most cases, there is an attempt by Thai hotel owners to efficiently accommodate power asymmetry arising from either a knowledge or information gap in the agent's favour. As such, acting on behalf of the hotel owner, there is commonly an owner

representative to look after the hotel property, '*as an owner representative, we need to ensure that the hotel property obtain an appropriate bottom line, to maximise net profit, to monitor and to control the performance of the operator. We also have to co-ordinate with both GM and the regional office of the hotel company*' (OW-5). With access to and the support of an owner representative, the effectiveness of owner control is greatly improved. This is because the sophisticated owner representative knows the business, what needs to be done, how to control and measure outcomes, and perhaps how to verify the behaviour of the operator, '*if the owner has strong knowledge and experience of hotel business and operations, the operator cannot tell anything nonsense ... and would give more power to the owner as we could control and expect more output from them*' (OW-5).

Moreover, there is typically an involvement of Thai owners in the hotel operations. This would enable Thai hotel owners to be in a better position when there is an operational issue, because Thai owners commonly reserve the right to have the final say, especially on the issue of budgeting, '*we thought that the proposed budget was too low as we could possibly make more revenue/profit. However, the operator insisted that the proposed budget was the realistic budget that we could possibly achieve. So we need a long discussion until everything had been sorted out. Both parties normally agreed to meet it half-way. It is common that the owner needs more, and the GM might need a low-target budget to achieve as it is a key performance indicator when evaluating the GM which related to the calculation of bonus. We insisted to rise up the numbers in the proposed budget, and to encourage/support the operator to work on. At the end of the year, although we cannot hit the target, we could make more profit'* (OW-2). Another crucial issue concerns spending on capital expenditure, '*the owner has definitely a final say as all of the asset and the money belongs to the owner. We can only make a recommendation on what to do'* (GM-2). From this evidence, this could suggest that due to the nature of the use of HMCs in Thailand, the relationship between Thai hotel owners and hotel management companies tends to be built around accommodating the power asymmetry which may arise due to the knowledge gap in hotel management companies' favour.

4.1.1.2 Human assumptions

This section will provide findings on the human assumption in the relationship between hotel owners and hotel management companies under HMCs.

4.1.1.2.1 To what extent are motives of the hotel management company self-interest or altruism?

The hotel management companies' motivation in relation to the use of HMCs is that they expect to strengthen themselves by expanding their network (without investing in the ownership of the hotel property) within the hotel business competition, '*a hotel management contract allows us to have less financial spending in hotel property investment to increase the number of properties and to strengthen the network for the hotel business competition'* (EXEC-4). The hotel management companies also aim to maximise revenue by gaining management fees, '*managing hotel/resort property becomes our core business activity, not fully or partial owning the hotel properties. The hotel management contract allows us to have ... an opportunity to gain the management fee in return for managing the hotel'* (EXEC-4). Accordingly, in some cases, hotel management companies have approached a hotel owner seeking the opportunity to manage a specific property, '*at that time this operator had no hotels in Thailand. They were looking for an opportunity to manage a hotel in Thailand and they got in touch with our company*' (OW-5). This explicitly highlights the self-interest of hotel management companies.

Meanwhile, in many cases, Thai hotel owners (who are in need and normally lack the necessary knowledge or interest in hotel operations) approached hotel management companies (who offer a hotel management service in return for management fees) to assist them in managing the hotel property to meet their goals, *'the hotel is not our core business. We are a real estate developer. We develop land and property to become valuable property. If there is an opportunity, we would sell the property to make profit. Our company has no hotel operation expertise, so we need the expertise and know how of the hotel management company to operate and to manage the properties for us ... therefore, we issued an invitation letter to them'* (OW-4). This situation highlights the altruism of hotel management companies, who as

professionals, have a calling to serve people in need. Furthermore, in many cases, many hotel properties were negatively affected by unexpected situations (e.g. Tsunami, SARS), and in these circumstances special treatment was provided by operators to resolve the situation, '*we and the operator worked closely in order to resolve the situation. The business was in a difficult period as there was less numbers of tourist and we needed to reforecast the business. The regional/head office of the operator also provided assistance, especially on marketing*' (OW-7). Similarly, '*we had the support from everyone. From the situation, it shows us an incredible team-work from everyone. The only one goal is to re-open the hotel*' (GM-9). This situation also highlights the altruism of hotel management companies in providing special assistance when the hotel owners were in a difficult situation.

Thus, these situations confirm that it is not only self-interest (strengthening the network without investing in the ownership of the hotel property; and maximising the revenue by gaining management fees), but also altruism (assisting hotel owners who are in need and lack the necessary knowledge or have no interest in hotel operations in managing the hotel property to meet their goals) that governs the behaviour of the hotel management companies in the use of HMCs in Thailand.

4.1.1.2.2 How do hotel owners and hotel management companies interact with each others under hotel management contracts?

In terms of bounded rationality, a boundary of action/behaviour (i.e. decision making, argument) in the agency relationship based on reasons rather than emotions is represented in the relationship between Thai hotel owners and hotel management companies. For Thai hotel owners, their key responsibilities are to co-ordinate with the operator (both the general manager and the executives of head/regional office), and to monitor the financial and operational performance of the hotel, '*as an owner representative, we need to ensure that the hotel property obtain an appropriate bottom line, to maximise net profit, to monitor and to control the performance of the operator. We also have to co-ordinate with both GM and the regional office of the hotel company*' (OW-5). For operators, their key responsibilities are to co-ordinate with hotel owners or their representatives and to ensure a positive business performance and that the hotel operation meets the set brand standards, '*I need to*

ensure that we have a positive business result, and the hotel operation is smooth and well managed (GM-7).

Behaving rationally is perceived as being crucial in the relationship, as cited by many respondents, *'in my opinion, conducting rational discussion and being a reasonable person would be factor that could enhance the relationship. This is because if both parties always talk, discuss or even make a recommendation, there will be less tension and there will be a positive result for both parties. Furthermore, this could enhance more understanding'* (OW-9). Therefore, these situations confirm that a boundary of action/behaviour (i.e. decision making, argument), based on reasons rather than emotions, exists in the relationship between hotel owners and hotel management companies.

4.1.1.2.3 To what extent does the working relationship between hotel owners and hotel management companies exhibit social embeddedness and individual autonomy?

In most cases, where Thai hotel owners and hotel general managers work closely, there are a number of activities that create a social interaction between them such as consultation, and involvement in the hotel operation, '*we normally get involved with the financial policy and general policy for the hotel property. ... the GM always asked for owner's opinion on some major policies and decision making, such as major renovation project, staff bonus, key staff movement or promotion, promotion for boosting up revenue'* (OW-6). In order to do this, there is a need for the operators (especially for the hotel general manager) to familiarise themselves with the working culture of Thai owners, '*I also need to adjust myself to the working culture of the owning company. Otherwise, it will be difficult to have a successful result in managing the property'* (GM-7). In this context, since the Thai hotel owners are active in the hotel operation, social embeddedness is clearly represented in the relationship between the hotel owners and hotel management companies.

In some situations, the Thai hotel owners and hotel general managers are only loosely coordinated. This is because the hotel owners might have too many businesses and no interest in the hotel operation, '*as we are developers ... in*

practice, we have no person visit the property and monitor the hotel operation. We never check on the property' (OW-4). Also some hotel owners are interested only in the bottom-line, '*I think that my owner would not like to know how we operate the hotel property. However, they would expect us only to make profit according to the budget at the end of the month or year*' (GM-3). Thus, it is clearly highlighted that there is no or very little social interaction between them as the Thai hotel owners are passive and allow the operator to independently produce the outcome. Therefore, the individual autonomy of the operator (as the agent) is represented in the relationship.

This situation shows that the issue of social embeddedness (whereby hotel owners are active and work closely with their operator in the hotel operation) and individual autonomy (whereby hotel owners are passive and not involved in the hotel operation) of the hotel management company are exhibited in the operation of HMCs in Thailand. Moreover, the nature of the co-ordination between hotel management companies and Thai hotel owners was varied, as there are two types of relationship.

4.1.1.2.4 To what extent are hotel owners able to share the risk with hotel management companies?

In the use of HMCs in Thailand, hotel management companies tend to avoid and minimise to themselves risks. In most cases, Thai hotel owners are the primary business risk holder, because hotel management companies commonly have no interest in investing in the ownership of the hotel property, '*our special skill is to manage the hotel, where our core competence is, for a management fee. ... The new structure of our company is to get the 100% management contract property, rather than partial or 100% own property'* (EXEC-3). Thus, in this situation, hotel management companies are not exposed to any business risk, and in this sense hotel management companies are risk-neutral, as there is no concern regarding the business risk if the property is unsuccessful.

However, there is an attempt by Thai hotel owners to share risk with the operators by emphasising the portion of incentive fee rather than a fixed basic fee, so that the management fee to be gained will be dependent upon the business performance. Another example of this is that the achievement of business performance being tied

in to the contract termination clause in the contract, '*in a normal situation, they would use the past years budget and consider growth in order to set up the budget for the next year. If the operator fails to meet the GOP target for two consecutive years, the owner has the right to terminate this contract by giving six-month written notice to the operator*' (OW-2). This means that the security of the contract/tenure (the employment) will depend on the achievement of the annual budget promised and the business performance of operators. Therefore, under these circumstances hotel management companies tend to be risk-averse since failure to achieve the promised annual budget and business performance might result in contract termination. This situation clearly shows that in Thailand, hotel owners and hotel management companies tend to have different risk preferences.

4.1.1.3 Organisational assumptions

This section will provide findings on the organisational assumption of the relationship between hotel owners and hotel management companies under HMCs.

4.1.1.3.1 Are goals of the hotel owner and the hotel management company in conflict?

Through the use of HMCs in Thailand, Thai hotel owners and hotel management companies can be shown to have partial goal conflicts in their relationship. The most obvious issue concerns financial issues (management fees). On one hand, Thai owners all want to achieve a positive business performance and high operational performance/efficiency, and to make the best possible return from their investment. Spending too much on management fees would adversely affect their return, '*beside the forecast of business, we need to consider the type and the amount of management fees. As it would affect our bottom line, we negotiate if we think that it is too high and unfair*' (OW-7). On the other hand, hotel management companies expect to gain the highest possible level of management fees from providing their services because it is their key source of revenue when using the business model of HMCs. Thus, those fees are at the expense of the owner, '*our company is a public company. We are trading our shares in the stock exchange; we need to make a profit for the*

company. We are not doing something for nothing, even if we love the owner or the hotel property. It also has to work for us although we work for the owner. ... If we are not going to agree on fees, we will walk away' (EXEC-1).

4.1.1.3.2 How is the performance of hotel management companies evaluated by hotel owners?

Due to the nature of the task, in the operation of the HMC in Thailand, Thai owners generally tend to get involved in the strategic management of the property, '*we will macro manage the property. We look at the market, what the hotel needs or does not need, the comments from people using it, and the things which help the hotel to generate more income/profit*' (OW-1). Thai owners also commonly have little or no involvement in day-to-day operations, '*after giving an assignment to the hotel company, we would trust them. We would not get involved in the day-to-day operation of the hotel*' (OW-7). Excessive involvement/control might provide a negative impact in the relationship, *'[the owner] should not walk direct into the hotel and give a direct order to the hotel department head or staff. That means there is a clearly misunderstanding between the owner and the hotel management company on what the roles are. No one will get any benefit in this situation, only frustration*' (GM-9).

Thus, given this, it is difficult for Thai hotel owners to observe the behaviour and the true contribution of their operator, therefore, Thai owners tend to focus on the performance outcome, as this is easier, and where their priority is to observe the outcome rather than behaviour of the operator, '*in practice, the best way to control them is to look at the annual budget. If everything is under the budget, it would be okay. It is not possible and there is no use in auditing every single spending item, and it could waste much more time to do it'* (OW-9). This situation shows that efficiency (achievement of the promised outcome or behaviour) is the effectiveness criterion with which to evaluate the performance of the hotel management company.

4.1.1.3.3 To what extent are hotel owners able to know how hotel management companies do the task?

In some cases, where the hotel owners lack knowledge and there is no hotel expertise working on their behalf (i.e. an owner representative), they might not know 'the game' and are unable to effectively monitor and control the operator, '*as we are developer ... in practice, we have no person to visit the property and monitor the hotel operation*' (OW-4). Moreover, in cases where the owners are not interested in the hotel operation, and do not work closely with the operators, the owners will not be able to effectively monitor and control the operator, *'this may be because the owning company has many businesses to take care of. If we could deliver the agreed budget, they would not spend much of their time to look at details in this property'* (GM-11). Therefore, in this situation the degree of knowledge asymmetry will be high.

However, in a relationship where the owners are keen on the hotel business, or they have a hotel business expert working on their behalf (i.e. an owner representative), there is enough evidence to suggest that there will be little or no knowledge asymmetry. If the owners (as the principals) possess the technical knowledge to evaluate the outcome accomplished by the hotel management company (as the professional agents), knowledge asymmetry might not arise in the relationship. With knowledge and experience in hotel business, the owners know the game, '*I think that the owner representative is a very smart person. He has experience in the hotel business, and knows the market very well ... He knows what I know and I cannot tell any stupid things ... sometimes, to be honest, I feel that he knows more than I know'* (GM-8). In this situation, the owners might be able not only to protect their benefit, but to control and to maximise output from the operator, '*if the owner has strong knowledge and experience of hotel business and operations, the operator cannot tell anything nonsense ... and would give more power to the owner as we could control and expect more output from them'* (OW-5). Nonetheless, information asymmetry also does exist in the relationship as in many cases, no matter how sophisticated Thai owners are; they will not get involved in the day-to-day hotel operation, '*after giving an assignment to the hotel company, we would trust them. We would not get involved in the day-to-day operation of the hotel*' (OW-7).

Therefore, this situation shows that the level of hotel business experience/knowledge of hotel owners does vary and a degree of knowledge asymmetry (imbalance of knowledge/know-how about the hotel business) does exist in the relationship when hotel owners lack of knowledge. However, if hotel owners are experienced in the hotel business, the degree of this knowledge asymmetry might be minimal (or none).

4.1.1.3.4 What are characteristics of hotel owners in working with their operators? Thai hotel owners tend to work closely with the GM and to get involved in the general policy and management of the hotel property, '*we are working very close with the owner of the hotel especially in the management aspect [not a day-to-day operation]*' (GM-7). By its nature, this situation creates a great deal of consultation and interaction between Thai hotel owners and their operator. This clearly shows that this group of Thai hotel owners tend not to be simply passive owners and that most Thai hotel owners and hotel management companies tend to co-produce the service in HMCs.

However, in some cases, Thai hotel owners are not interested in the hotel operations and focus only on the bottom-line, and are absent from routine hotel operations at both the macro and the micro levels, '*I think that owner would not like to know how we operate the hotel property. However, they would expect us only to make profit according to the budget at the end of the month or year*' (GM-3). In this situation, there is no (or limited) consultation and interaction between Thai hotel owners and their operator. This clearly highlights that this group of Thai hotel owners tend to be passive, and in this sense, shows that they delegate the task to their operator. In other words, both parties do not co-produce the service.

This situation clearly shows that the issue of co-production of service is potentially an ambiguous point in the relationship between Thai hotel owners and hotel management companies in Thailand. By nature of the operation of HMCs in Thailand, Thai hotel owners and hotel management companies tend to co-produce

the hotel management service. However, in some cases, they might not co-produce the service where Thai hotel owners are inactive.

4.1.1.4 Oversighting assumption

This section will provide findings on the oversighting assumption in the relationship between hotel owners and hotel management companies under HMCs.

4.1.1.4.1 To what extent are hotel owners able to monitor and evaluate the performance of hotel management companies in hotel management contracts?

In many cases, owner representatives are employed to be responsible for the hotel property on behalf of hotel owners. Due to the hotel business sophistication, this would enhance the ability of hotel owners to monitor and control their operators, '*if the owner [or owner representative] has strong knowledge and experience of hotel business and operations, the operator cannot tell anything nonsense ... and would give more power to the owner as we could control and expect more output from them*' (OW-5).

By nature of the operation of HMCs in Thailand, the control mechanisms specified in the HMC document (meeting, reporting) are apparently used by Thai hotel owners to control their operator in the operation of the HMC. Accordingly, this would be considered the organisational-based control, allowing Thai hotel owners to monitor and evaluate the performance of their operators. For example, achievement of GOP is typically used, '*the number on the bottom line in the balance sheet is the biggest concern*' (OW-1). The comparison of the actual performance with the approved annual budget is commonly used, '*revenue and expenditure of the hotel is crucial, but the net profit is the key point. Actual performance compared with the approved budget is the agreed performance standard*' (OW-2). In addition, periodic reporting is typical, submitted by hotel general managers, '*we prepare a monthly comprehensive report which shows how we perform, profit and loss, and all of activities in hotel*' (GM-9). In terms of meetings, formal monthly meetings are

commonly organised, *'there will be a monthly meeting with the owner representative to review and to discuss the situation or any other issues'* (GM-10).

To some extent, the information system contained within a particular HMC, might not reflect the actual potential of the hotel. However, the effectiveness of the operator might be examined by making performance comparisons with others in order to make the control more efficient. This is considered as the formal or informal checks by a community of professional peers. By its nature, performance comparison/benchmarking is an effective method of examining the performance of the hotel management company, as cited by many respondents, *'it is a very important method for monitoring our property. If we have a chance to use this method, it is a must'* (OW-2). In the context of the HMC, the focus will be on RevPar as in comparing the performance with direct/indirect competitors or other hotels at the same level, it allows the owners (as principal) to see how well the operators (as agent) are doing among the other operators, *'this would tell us if what we are doing is right or wrong. If we have 20% occupancy rate but the others have more than 60%, we would have a problem. It makes us ask ourselves a question when we look at the others. ... If the average room rate is far too high from the others, it could be good or bad. This is because we could lose our guest to stay in other cheaper property/competitors. If the rate is too low, it means that we are selling our product cheaply or our quality is not good enough. Therefore, we would revise our strategy'* (GM-4). Consequently, the correct RevPar would indicate the correct performance of the operator at the end of the month or year.

In this context, with reference to assumption about 'oversight', although organisational-based control is used including the control mechanisms specified in the HMC document (meeting, reporting) and the other more informal methods (i.e. property visits/observation, collecting feedback from several sources), the use of a community of peers (via performance comparison/benchmarking) has been emphasised by Thai hotel owners and their operators, because it enhances the effectiveness in controlling the performance of operator.

4.1.1.5 Information assumption

This section will present findings on the information assumption which exists in the relationship between hotel owners and hotel management companies under HMCs.

4.1.1.5.1 To what extent are hotel owners able to obtain/reveal the information in hotel management contracts?

In most cases, an owner representative, who is experienced in the hotel business, is employed by inactive owners for monitoring and controlling the operator, '*we [are] responsible for the performance and everything concerning the hotel properties. We need to monitor and control the operator including day-to-day operation, revenue and expenditure, profit and loss, position of the property (where we are in the business/in competition), and maintenance of the property*' (OW-10). However, it would be in help the best interests of Thai hotel owners to know what exactly their operators do in the operation, '*we do have a team who have a strong hotel business background and experience. We monitor and visit all of our properties regularly. We could make a comment or recommendation on every aspect of the hotel, and would conduct a discussion with General Manager*' (OW-10).

However, the specific knowledge and know-how in each hotel management company, such as marketing knowledge, cannot be purchased/obtained outright, '*the operator had established its brand for a long time. Know-how, brand reputation and image, and marketing distribution channels toward a particular market was much stronger than our own. Therefore, we need to use the operator's brand to do the business and to capture this target market because it is a brand that targets and is well-known among luxury and top-class customer'* (OW-9). Hotel operation know-how is also typically cited, *'if we manage our properties by ourselves, we feel that we could not get a level of success as good as we have had recently. Local knowledge was different from and not as good as international knowledge. If our property would like to serve foreigners, we would have an international knowledge and standard in hotel operations'* (OW-10).

Thus, because of the nature of the task, in many cases, although Thai hotel owners are sophisticated in the hotel business or work closely with the hotel general manager, there is typically no micro-management by Thai hotel owners in the actual hotel operation. Due to their lack of specific knowledge, they might ignore the operation details, '*we could get involved in the hotel management and operation as much as we would like to get involved. However, we do not get involved in the day-to-day operations or any micro management as there are too many specific details [which we do not know]. We do not act as a second GM*' (OW-1).

In relation to this, the specific knowledge and know-how (as esoteric knowledge) of each hotel management company (i.e. brand reputation and image, marketing distribution channels toward a particular market, or hotel operation know-how) tends to be incomplete in the market. It is also unlikely that hotel owners could obtain the esoteric knowledge as it is not available in the market. Thus, due to the nature of the task, hotel owners might not be able to sort-out the true contribution of the operator in achieving the observed outcome.

4.1.1.6 Contracting problems

This section will provide findings on the contracting problems in the relationship between hotel owners and hotel management companies under HMCs.

4.1.1.6.1 To what extent are hotel owners able to verify the behaviour of hotel management companies in hotel management contracts?

In some cases, where hotel owners lack hotel business knowledge (e.g. the specific knowledge in running hotel), they might not know 'the game' and not be able to effectively monitor and control the operator, '*as we are developer, we have no knowledge in hotel business ... in practice, we have no person to visit the property and to monitor the hotel operation...we do not know how the operator run our property*' (OW-4). Apart from their interest in bottom-line, this group of Thai hotel owners totally ignore the hotel operation, *'We have no interest and know-how in operating the hotel. We would like to have professional to run hotel. The operator*

obtains and would bring in their expertise in various areas to set up and to operate the hotel. With these expertises, we believed that they would provide us an appropriate bottom line...we do not want to have headache and spend much of our time in the hotel operation' (OW-8). Such a situation would highlight the indeterminacy and opacity of behaviour of the hotel management companies toward Thai hotel owners who lack hotel business knowledge because this group of hotel owners could not specify and sort out exactly what the operators are actually doing in the hotel operation.

However, in many cases, there is a hotel business sophisticated owner representative who works on behalf of the hotel owner. Experience and knowledge of the hotel business is perceived as being crucial by respondents for effective coordination and control, '*the GM could not cheat or tell a lie as we know the business and industry*' (OW-1). It would also put the owner in a better position in controlling, '*the more experience owner would get more control in their property, and more cover for themselves. And they will be more involved with the operations and more control*' (GM-4). Due to the nature of the task, in many cases, although Thai hotel owners are sophisticated in the hotel business, or work closely with the hotel general manager, there is typically no micro-management in the hotel operation, '*We can get much involve [in the hotel operation] as much as we could. However, we will not get involved in the day-to-day operations'* (OW-5). This situation highlights that this group of Thai hotel owners could partially specify and sort out exactly what the operators are actually doing in the operation. Therefore, to some extent, there is an indeterminacy and opacity of behaviour within hotel management companies.

As has been noted, depending on the level of hotel business knowledge of the hotel owners, it is likely that they could not completely specify and sort out exactly what the operators are actually doing in the operation of the HMC. Thus, in this sense, it can be highlighted that the indeterminacy and opacity of behaviour of the hotel management companies tend to be represented.

4.1.1.7 Summary

In summary, based upon the evidence from the use of HMCs in Thailand, it is possible to identify the characteristics in the relationship between the hotel owner and the hotel management company working together under a HMC (see Table 4.2).

In terms of the problem domain and key idea, Thai hotel owners and hotel management companies have differing risk preferences (Thai hotel owners make the investment and fully hold any business risk, which may be involved in the venture; hotel management companies are not exposed to any business risk) and partly conflicting goals (Thai owners wish to achieve a positive business performance and high operational efficiency, and to make the best possible return from their investment; hotel management companies expect to gain the highest possible level of management fees from providing their hotel management services). Thus, by engaging in a knowledge-intensive task, hotel management companies provide a hotel management service (i.e. this is their special skill) to Thai hotel owners who are in need of such skills to manage their hotel. Consequently, there is an attempt by Thai hotel owners to address the problem of knowledge asymmetry by employing a sophisticated owner representative in order to get more involved in the hotel operation.

Regarding the 'human assumption', it is not only self-interest (strengthening the network without investing in the actual ownership of the hotel property, and maximising the revenue by gaining management fees), but also altruism (assisting hotel owners who are in need and lack the necessary knowledge, or who have no interest in hotel operations, in managing the hotel property to meet their goals) that governs the behaviour of the hotel management companies in the use of HMCs. The issue of social embeddedness (as hotel owners are active and work closely with their operator in the hotel operation) and individual autonomy (as hotel owners are passive and not involved in the hotel operation) of the hotel management company do arise in the operation of hotel management contracts. In terms of the risk preference of the hotel management company, the issue of risk neutrality (Thai hotel owners are the

Table 4.2: Findings on the characteristics of the relationship between the hotel owner and the hotel management company in Thailand

Dimension	Findings		→	Characteristic of the relationship between the hotel owner and the hotel management company
	Key questions	Evidence from the use of hotel management contracts in Thailand		
Unit of analysis	• Exchange and contract between the hotel owner and the hotel management company.		→	• Contract and exchange between the hotel owner and the hotel management company.
Problem domain	• To what extent are the goals and risk preferences of hotel owners and hotel management companies different? • Do hotel owners require the specific knowledge of operators in order to perform task?	o Hotel owners are the primary risk holder; while there is no equity participation into the project and no business risk held by the hotel management company o Hotel owners aim to maximise the return from their investment, while hotel management companies aim to maximise the management fees. o Hotel management companies provide a hotel management service (i.e. their special skill) to Thai hotel owners who are in need of special skills (hotel management) to manage their hotel.	→	• The relationships between hotel owners and operators relies on the need to engage in a knowledge-intensive task, in which both parties have differing risk preference and partly conflicting goals.
Key idea	• How is the relationship between the hotel owner and the hotel management company built/designed under the hotel management contract to accommodate the problem of either knowledge or information asymmetry (due to the nature of hotel management contract task)?	o There is an attempt by Thai hotel owners to efficiently accommodate power asymmetry arising from knowledge and information gaps in the agent's favour (i.e. employment of hotel business sophisticated owner representative, and intention to get involved in the hotel operation).	→	• Principal-professional relationships tend to be designed/built to efficiently accommodate power asymmetry arising from knowledge gaps in agent's favour.
Human assumptions	• To what extent do the motives of hotel management companies represent self-interest or altruism? • How do hotel owners and hotel management companies interact with each other under hotel management contracts? • To what extent does the working relationship between hotel owners and hotel management companies exhibit social embeddedness and individual autonomy? • To what extent are hotel owners able to share risk with hotel management companies?	o While assisting Thai hotel owners in managing the hotel, the operators also work for themselves (i.e. strengthening their network and maximising management fees) o Thai hotel owners co-ordinate with their operator, and monitor the financial and operational performance of the hotel; operators, co-ordinate with Thai hotel owners or their representative, ensure a positive business performance and that the hotel operation meets the brand's set standards. o Most hotel owners or their representatives work closely and have social interaction with the operator (especially GM). In contrast, in some cases, hotel owners are not interested in the hotel operation so allow the operator to work independently to produce the agreed outcome. o Operators commonly have no business risk, but the security of the contract/tenure (the employment) will be reliant on business performance.	→ → → →	• Mixed motive (altruism and self-interest) of operators/agents tends to be represented. • Bounded rationality is represented. • Both social embeddedness and individual autonomy are represented. • Risk aversion of agent tends to be represented.

***Table 4.1** (continued): Findings on the characteristics of the relationship between the hotel owner and the hotel management company in Thailand*

Dimension	Findings		→	Characteristic of the relationship between the hotel owner and the hotel management company
	Key questions	Evidence from the use of hotel management contracts in Thailand		
Organizational assumptions	• To what extent are goals of hotel owners and hotel management companies conflict? • How is the overall performance of the hotel management company evaluated by hotel owners? • To what extent are hotel owners able to know how hotel management companies do the task? • What are characteristics of hotel owners in working with their operators?	• From a joint expectation on positive business performance, hotel owners wish to maximise the return on their investment, while operators need to maximise the management fees. • Hotel owners tend to macro-manage their property and there is little or no involvement in day-to-day operation. It is difficult to observe the behaviour and the true contribution of their operator, so hotel owners tend to focus on the performance outcome because it is easier and then become a priority. • Apart from the information asymmetry, knowledge asymmetry exists in the relationship; however, the degree of knowledge asymmetry depends on the level of hotel business experience which the owner possesses. • Most hotel owners work closely with hotel management companies. However, in some cases, owners absent themselves from the hotel operation (i.e. when their only concern is that of the bottom-line).	→ → → →	• Partial goal conflict is represented. • Efficiency as the effectiveness criterion is represented. • Knowledge asymmetry tends to be represented (rather than information asymmetry). • Both the co-production of service (involving both principal and professional) and agents being delegated tasks by passive owners/principals tends to be represented.
Assumption about oversight	• To what extent are hotel owners able to monitor and evaluate the performance of hotel management companies in the hotel management contracts?	• Control mechanisms specified in the HMC document and monitoring mechanisms in the operation of HMC (i.e. reporting and meeting, property visits/observation, collecting feedback from several sources) are evidently used. However, performance comparison/benchmarking is typically emphasised and used to make the control more efficient.	→	• While emphasis on community of peers, corporate control is used.
Information assumptions	• To what extent are hotel owners able to obtain/reveal the information (what actually operators do) in hotel management contracts?	• Hotel business sophisticated owner representative can be employed but the knowledge and know-how of the operator in managing hotel (i.e. marketing knowledge, hotel operation know-how), cannot be purchased.	→	• The information tends to be an incomplete market for esoteric knowledge – not a commodity.
Contracting problems	• To what extent are hotel owners able to verify the behaviour of hotel management companies in hotel management contracts?	• It is difficult for hotel owners to specify and monitor exactly what and how their operators are actually doing due to the level of knowledge of hotel owners and the nature of the task.	→	• The problem tends to be a problem of indeterminacy and opacity of behaviour of agent.

primary business risk holder because the hotel management companies commonly have no interest in investing in the ownership of the hotel property) and risk aversion (there is an attempt by Thai hotel owners to share a risk on the operators, such as emphasising the portion of incentive fee rather than basic fee, and the achievement of the business performance is tied with the contract termination clause) are clearly represented in the use of HMCs.

In terms of the 'organisation assumption', both parties (i.e. Thai hotel owners and hotel management companies) have partial goal conflict especially for the financial issue (e.g. management fees). On the one hand, Thai owners commonly desire to achieve a positive business performance and high operational performance/efficiency, and to make the best possible return from their investment. On the other hand, the hotel management companies expect to gain the highest possible level of management fees from providing the hotel management services (at the expense of the hotel owner). The issue of knowledge asymmetry does arise in the relationship; though the degree of knowledge asymmetry depends on the level of hotel business experience/knowledge which the hotel owner already has. Lastly, most of Thai hotel owners are active in the production of the hotel management service, working closely with the hotel management companies to co-produce the service. However, in a few cases, Thai hotel owners are clearly passive, being absent from the hotel operation and focusing only on the bottom-line.

With reference to assumptions about 'oversight', although organisational-based controls are in use including the control mechanisms specified in the HMC document (meeting, reporting) and other more informal methods (i.e. property visits/observation, collecting feedback from several sources), Thai hotel owners and their operators place particular emphasis on the use of a community of peers (through performance comparison/benchmarking) because it leads to more effective control of the operator's performance.

With respect to the information assumption, the specific knowledge and know-how (as esoteric knowledge) of each hotel management company (i.e. brand reputation

and image, marketing distribution channels toward a particular market, or hotel operation know-how) tends to be incomplete in the market. Therefore, it is unlikely that hotel owners (even if they are sophisticated in the hotel business) could obtain the esoteric knowledge as it is not actually available in the market. Also, due to the nature of the task, it is unlikely that hotel owners will be able to sort out the true contribution of the operator in achieving the observed outcome.

With regard to the contracting problem, depending on the level of hotel business knowledge of hotel owners, it is unlikely that they will be able to specify and sort out exactly what operators are actually doing in the operation of the HMC. Moreover, even if they are sophisticated in the hotel business, they are not commonly involved in the area of day-to-day hotel operations. In this sense, it can be highlighted that the indeterminacy and opacity of behaviour of the hotel management companies tend to be represented.

4.1.2 Restraint against agent opportunism in hotel management contracts

This section will provide findings on research question 2 'How is agent opportunism restrained in the operation of hotel management contracts?'. The findings will be presented in line with the two sub-research questions proposed in section 2.2.4.

4.1.2.1 The use of traditional control approaches in the relationship between the hotel owner and the hotel management company under hotel management contracts

This section will provide findings on the first sub-research question 2a 'Within hotel management contracts to what extent are behaviour and outcome controls used to restrain against opportunism and how suitable are these controls for hotel management contracts?'.

4.1.2.1.1 Traditional control approach (behaviour control and outcome control)

This section will provide findings on the use of traditional control approaches (behaviour and outcome control) in HMCs in Thailand.

4.1.2.1.1.1 Outcome control

In the use of HMCs in Thailand, outcome controls are evidently represented in both the contract document and the operation of the HMC.

In the contract documents, there is a presence of outcome control; for example, provisions regarding the operator's performance standards, and a contract termination clause. Additionally, the achievement of an agreed level of GOP is one of the key performance indicators which is typically used, '*bottom line/financial results are the main indicator*' (OW-10). In relation to this, without achievement of the performance standard/outcome (as indicated in the contract), there is a risk that the operator could be terminated as a result of this failure. This is because it is linked to the termination clause, '*we agreed to have not less than 85% achievement of budget as the average would be not less than 75-80% of budget. If the operator cannot deliver the agreed budget for three consecutive years, we have got a right to terminate them*' (OW-10). In this situation, the issue of low-ball arises (where the proposed budget is too low whenever it appears possible to achieve more revenue/profit) as cited by many respondents, '*sometime we feel that GM intended to make and to propose a lower budget [although we could possibly make more profit], therefore, we try to push them for a higher budget*' (OW-9). Similarly, '*we thought that the proposed budget was too low as we could possibly make more revenue/profit. However, the operator insisted that the proposed budget was the realistic budget that we could possibly achieve. ... the GM might need a low-target budget to achieve as it is a key performance indicator when evaluating their performance*' (OW-2).

In the operation of HMCs, outcome control is frequently used in monitoring performance, because Thai hotel owners typically focus on result of bottom-line/annual budget. In fact this is clearly perceived by Thai hotel owners to be

critical, '*bottom line/financial results are the main indicator*' (OW-10). Similarly, '*the number on the bottom line in the balance sheet is the biggest concern*' (OW-1). This is because achievement of the agreed bottom-line would reflect not only the status of the hotel project but also the status of the hotel owner who is the primary risk bearer. This is a clear representation of the use of outcome control. However, the achievement of the agreed bottom-line might not, in fact, reflect the actual business potential, as cited by many respondents, *'only achievement of bottom-line might not be enough to judge the performance of the operator as it does not tell us how well we are doing in the real business situation'* (OW-2).

4.1.2.1.1.2 Behaviour control

In the use of HMCs in Thailand, there is evidence of the use of behaviour control in both the contract document and the operation of HMCs.

In HMC documents, the behaviour control is applied via financial and operational reports, owner input in operational decision making, restrictive (non-compete) covenants, and books and records. These provisions tend to be used for controlling the behaviour of the hotel management company.

In terms of the financial and operational report provision, the performance of the operator will be reported in a formal written format, '*on monthly basis, we submit MIS report (a full monthly report) to the owner. This is a formatted report that includes every single detail of the hotel property including financial (revenue, expense, profit), departmental report (human resource, food and beverage, room division, etc.), and all of the past month activities'* (GM-2). Thus, there will be a periodic formal meeting between Thai hotel owner and the operator to review and to discuss the performance. The frequency of the meeting depends on mutual agreement, '*we [GM and owner representative] will have a monthly meeting to review and to discuss the past month performance, the future business and any issues which may arise'* (GM-8).

Regarding the owner's input into the operational decision making provision, in most cases, Thai hotel owners are able to get involved in various key areas of hotel operations such as budgeting, '*after preparing the business plan and everything, we send it to the head office to get approval. And then we send all of the plans to the owner for final approval'* (GM-9). Thai hotel owners also get involved in the selection of key hotel executives, '*commonly the hotel company would propose the candidates for GM and hotel executives, however, we have a right to finalise the selection of GM and some hotel executives, i.e. director of operation, executive chef, food and beverage manager, financial controller'* (OW-7). Despite this, some Thai hotel owners will never get involved in the day-to-day operation of the hotel, '*my owner always tell me that we are not interested in running this hotel and this is why you are here, and why we pay you fees, and we will not interfere in the day-to-day hotel operations'* (GM-9). In this context, it is possible that hotel owners get partially involved in hotel operations. However, without involvement in day-to-day operations, the hotel management company could run the property as they see fit.

In relation to the provision of restrictive covenants (regarding non-competition), in most cases, the hotel management companies could not put the same brand in the same area without the permission of the Thai hotel owner. For example, some owners gave a 'burn-off' timetable to the operators (a schedule for decreasing the non-competition area in steps over a defined time period). This might include a condition such as the operator not being allowed to add a similar type of property in the identified area during the first 10 to 15 years, *'it is restricted for the operator to set up additional same brand name property in the area of Phuket for the first ten years'* (Respondent 8). In some cases owners and operators agreed to identify certain areas as restricted, i.e. no similar type of property allowed. For instance, after establishing a property in Bangkok, an operator might be prevented from adding a similar type of property within the Bangkok area but would be permitted to do so in other Thai provinces, *'we will not allow ... as indicated in the contract, it is restricted for our operator to have another same brand property in the area of Bangkok'* (Respondent 3). Contracts would normally specify the conditions that would apply concerning the addition of similar properties in the same area. These

conditions could include specific details such as the location of the existing and the new property, the characteristics of the target market, occupancy levels etc. This allows Thai hotel owners to control hotel management companies who may focus on strengthening brand network while not maximising the best possible revenue as an additional similarly branded property in the same area might increase internal competition and affect the business performance.

Lastly, with regard to the provision of books and records, the findings (see section 4.1) suggest that the hotel owners could get access to the reports and the documents that are kept by the hotel management companies, including the financial statements of the hotel, detailed invoices of all hotel expenses e.g. payroll, system reimbursable expense schedule, replacement and capital-expenditure, and all other reports generated at the property level, i.e. guest history and sale files, aging of accounts receivable, internal audit reports, health and safety report, etc. This implies that the access to all of those reports and documents by the hotel owners would allow them to search for more operational details when necessary, thereby addressing the issue of opacity behaviour of the hotel management company.

In the operation of HMCs, behaviour control is also used by means of reporting procedures, whereby the operator is typically be required to submit monthly reports in a formal written format, '*on monthly basis, we submit MIS report (a full monthly report) to the owner. This is a formatted report that includes every single detail of the hotel property including financial (revenue, expense, profit), departmental report (human resource, food and beverage, room division, etc.), and all of the past month activities*' (GM-2). Additionally, in cases where the hotel owners are knowledgeable about the hotel business and work closely with the hotel GM, some owners required their hotel GM to submit a flash report (either daily, weekly, or two-weekly), which is a summary of the key business figures, '*we have daily report, which is called 'early bird report'. The flash result of previous day performance, which give us details of occupancy, average room rate, room revenue, laundry, food and beverage, and entertainment*' (GM-1). This would enable those owners to know what is going on during the month (before the formal monthly report is produced). Therefore, the

performance/outcome of the operator can be monitored not only at the end of the month, but also during the month.

Holding meetings is another method of controlling the behaviour of the operator. There will be periodic formal meetings between the owner and the operator to review and to discuss the performance, *'there will be a monthly meeting with the owner representative to review and to discuss the situation or any other issues*' (GM-10). Normally this is organised after the operator submits the formal monthly report. The frequency of the meeting (either monthly or quarterly) is by mutual agreement. Apart from the formal meeting, in some cases where the hotel owners are sophisticated in the hotel business and work closely with the hotel GM, informal meetings are also typical, *'there are informal meetings during each month, we would commonly have a dining meeting (lunch or dinner), [and a] morning or afternoon coffee meeting at least 2-3 times a month. This is to update the information and current situation of the property*' (OW-10). As perceived by many respondents, the more interaction (i.e. communication) between the hotel owner and the operator, leads to more understanding and a closer working relationship, '*Communication is the most important. We have a [formal and informal] meeting with each other regularly, not only for a business issue, but also any other issues'* (GM-6). Similarly, *'we normally keep informing the owner/owner representative on everything about the hotel, not only in the formal meeting. We always talk to owner representative via phone or communicate via e-mail. If something goes wrong, there will not be a big surprise and there will be less questions and misunderstanding. Furthermore, it would enable all parties to get closer and to have more trust with each other'* (GM-11).

Both formal and informal meetings do, to some extent, allow the hotel owner to verify the behaviour of the hotel management company (especially that of the hotel GM, who is the key person in running the hotel). There is also an opportunity to discuss any issues that may arise (not only the business performance, but also suspected behaviours, e.g. moral hazards). Thus, it would provide a positive effect

(more understanding and closer relationship) on the relationship between hotel owners and operators.

Additionally, in the use of HMCs in Thailand, there is evidence of a combination of outcome control and behaviour control, especially in the contract document. A combination of both outcome and behaviour control is applied within the provisions of management fee level and the fee structure. In most cases, the contracts tend to emphasise the incentive fee portion of the total management fee. A basic management fee with an added incentive fee basis was the most common fee structure adopted by the Thai hotels examined, *'it is the most common fee structure [basic management fee and added incentive fee] today'* (Respondent 9). These basic fees are commonly paid as the minimum for the required behaviour of the hotel management company, while the incentive fees are paid for the achievement of the desired outcome. Typically, the basic management fee was fixed at 1- 3% of total revenue and the incentive fee fixed at 3-10% of gross operating profit (GOP). However, for some contracts, the basic management fee and an incentive fee would be totally flexible with the percentage of both fees entirely dependent upon performance, *'in our case, the percentage of incentive fee depends on the level of Gross Operating Profit. It could be 0-7% of Gross Operating Profit'* (Respondent 8). This implies that the main income of the operator would be based on the incentive fee (and dependent on the achievement of GOP level). In other words, the more GOP the operator makes, the higher the incentive to be gained.

4.1.2.1.2 Factors influencing the suitability of control approach

This section will provide findings on factors influencing the suitability of control approach in HMCs in Thailand (i.e. task programmability; risk preference; information asymmetry; length of the agency relationship; and market competition).

4.1.2.1.2.1 To what extent can the task be programmed in the operation of the hotel management contract?

By nature of their operation, the degree of task programmability in HMCs in Thailand tends to be low. It is unlikely that Thai hotel owners would tell the operator what and how to do a task, because of the limited knowledge which hotel owners possess, *'during development of the hotel property, the owners and his partners were businessmen who did not have knowledge and experience in the hotel business'* (OW-1). The nature of the task might also be another crucial factor. In some situations, where Thai hotel owners are sophisticated in the hotel business, the target budget/outcome can be mutually agreed by both parties or there may be macro-management by Thai hotel owners in the operation of the HMC. However, there is no involvement in the day-to-day operation, as cited by many respondents, '*after giving an assignment to the hotel company, we would trust them. We would not get involved in the day-to-day operation of the hotel*' (OW-7).

Due to the limited knowledge possessed by Thai hotel owners and the nature of the tasks, it can be seen that they are not able to specify in advance the appropriate behaviour to be adhered to by the operator in order to achieve the outcome. Therefore, in terms of task programmability, the degree of task programmability in HMCs tends to be low.

4.1.2.1.2.2 How is the risk perceived by the hotel management company?

In the operation of the HMC in Thailand, the hotel management companies tend to be risk-averse. Hotel management companies typically tried to avoid bearing the business risk as there is no intention to invest in the equity of the hotel project, *'over the last two years the board of our company announced that we will be purely a hotel management company. What we mainly do as a company now is to look for someone who wants to invest their capital for the hotel/resort property, and we manage it'* (EXEC-2). However, in most cases, hotel owners attempt to share some risk with the hotel management company by co-aligning their interest with that of the hotel owner by tying the level of performance to the level of incentive fee, and tying achievement of the agreed GOP to the termination clause, '*in case of normal situation, they would use the past year budget and consider about the growth to set up the budget for the*

next year. If the operator fails to meet for two consecutive years the GOP target, the owner has the right to terminate this contract by giving six-month written notice to the operator' (OW-2).

Thus, hotel management companies tend to be risk-averse because the security of the contract is dependant on the achievement of the agreed performance.

4.1.2.1.2.3 How can the information be revealed in the operation of the hotel management contract?

Through the use of a HMC, information can be partially revealed so that it could not be turned to the complete information situation. There is an attempt to reveal the information of the operation of the HMC through the provisions in contract document, and the monitoring mechanism during the operation.

In the contract document, information on its operation can be revealed through the provisions relating to: 1) owner input in the operational decision making – this allows Thai hotel owners to gain substantial input in two major areas of operational decision making – budgeting and personnel; 2) financial and operational reporting - this requires the operator to submit formal written reports including annual budgets, monthly financial documentation, and annual financial statements, and to conduct either a monthly or quarterly owner-operator meeting, and 3) books and records – this requires the operator to keep, and allows the hotel owner to access, documents such as the financial statements of the hotel, detailed invoices of all hotel expenses i.e. payroll of the employee, system reimbursable expense schedule, replacement and capital-expenditure, and all other reports generated at the property level i.e. guest history and sale files, aging of account receivable, internal audit reports, health and safety report, etc.

Apart from these control mechanisms, there are additional monitoring mechanisms which are informally used by Thai hotel owners in the operation of a HMC, for instance, property visits/observation, in order to see what is happening at the property. Collecting feedback from several sources (such as business partners, local

community, ex-staff) is also subjectively used to view the performance of the operator.

To some extent the information system that is installed into the operation of the HMC (e.g. budgeting, reporting procedure, meeting) could reveal what the operator (as agent) is doing. However, where the behaviour of the agent cannot be verified, the hotel owner might not be able to ascertain what the agent is doing or how well the agent has performed. This might be considered as a gap, due in some ways to the characteristics of the hotel owners. In some cases, hotel owners lack hotel business knowledge, '*this is because they are real estate developer in stock market list and they are not interested and have no knowledge in the hotel operations. They might come here and get the comment but they are not much interested in the day-to-day operation*' (GM-9). Some Thai owners are interested only in the bottom-line, '*I think that owner would not like to know how we operate the hotel property. However, they would expect us only to make profit according to the budget at the end of the month or year*' (GM-3). In this situation, hotel owners are totally absent from the hotel operation so that the degree of information asymmetry remains high.

Nonetheless, the nature of the task could be another crucial factor. In many cases, Thai hotel owners have sophisticated knowledge of the hotel business or work closely with the hotel GM. Experience and knowledge of the hotel business is perceived as being crucial by some owners for effective co-ordination and control. It would also put the owner in a better position viz-a-viz controlling, '*if the owner has strong knowledge and experience of hotel business and operations, the operator cannot tell anything nonsense ... and this would give more power to the owner as we could control and expect more output from them*' (OW-5). However, there is typically no micro-management by Thai owners in the hotel operation. Due to the specific knowledge, they might ignore the operation details, '*we could get involved in the hotel management and operation as much as we would like to get involved. However, we do not get involved in the day-to-day operations or any micro management as there are too many specific details [which we do not know]. We do not act as a second GM*' (OW-1). In this situation, it is the operator who possesses

the specialised knowledge used in the performance of the task (day-to-day operation), and thus the information asymmetry still remains in the relationship.

Because of these characteristics (i.e. level of hotel business knowledge and/or interest in hotel operations) and the nature of the task, a Thai hotel owner (as principal) does not know exactly what the agent has done, despite attempt to install an information system (e.g. budgeting system, reporting procedure, or additional layer of management) to discover the agent's behaviour. This could partially reveal the agent's behaviour to the principal, and could change to one of complete information situations. Therefore, with respect to information asymmetry, there is sufficient evidence to show that although there is an attempt to install information system into the operation of HMC, the problem of information asymmetry is only partially resolved and, thus, still remains.

4.1.2.1.2.4 What is the normal length of a hotel management contract?
In the use of HMCs in Thailand, in most cases, both Thai hotel owners and hotel management companies expect to enter into a long-term relationship, '*we are looking for an outstanding company intending to be in a long-term partnership, this is very important as we will be in this thing for 15-20 years, and we would like to stay in this relationship for 15-20 years or more and expect to find a relationship like that*' (EXEC-1). Likewise, as indicated under the provision of contract length and renewal in most of the contract documents, the length of the HMC is normally 10 years with extension periods of 5 years.

Therefore, in relation to length of the agency relationship, both Thai hotel owners and hotel management companies expect to be in a long-term relationship under the HMC. Consequently, the length of the agency relationship in the use of HMCs in Thailand tends to be long.

4.1.2.1.2.5 How is the degree of international hotel business competition?
In Thailand, the degree of international hotel business competition tends to be high. With competition within the international hotel business now tougher than ever; the

need for strong networks is crucial, if the hotel management company wishes to compete with the other companies.

There is a need for the hotel management company to increase the number of the properties which exist in the network. Consequently, the hotel management company might attach strategic significance to a property or location in order to capture more of the market share, '*we have no property in Phuket...it would be advantageous to have a hotel anyhow. Phuket is a strategic location, we could reduce our gap and it could strengthen our network*' (EXEC-1). In some cases, there is a need to establish a flagship property, '*if our company does not have any property in the city at present, and see the owner is building the hotel in the city, we would try very hard to convince the owner, by lowering the fee structures or offering something special for the deal, in order for us to be given the hotel to manage, which would be our first property in the city*' (EXEC-4).

For many hotel management companies, managing hotel properties tended to be their core competence, not investing in ownership in hotel property. Accordingly, the HMC becomes the key business model because it would provide them with the advantage of reducing the amount of capital spending/investment required in increasing number of properties in the network, as typically cited by respondents, *'a hotel management contract is now our key business model .. it allows us to have less financial spending in hotel property investment to increase the number of properties and to strengthen the network for competition in the hotel business'* (EXEC-4). Therefore, hotel management companies might be proactive in order to get deals from hotel owners. In some cases, hotel management companies approached Thai hotel owners seeking the opportunity to manage a property, '*at that time this operator had no hotels in Thailand. They were looking for an opportunity to manage a hotel in Thailand and they got in touch with our company*' (OW-5). Moreover, in some cases, a number of hotel management companies might compete with each other to win the deal for managing the property, '*sometime the operator came in by themselves after they knew that we were looking for an operator or heard that the other operators had approached us*' (OW-4). A special deal might be given to Thai

hotel owners, '*if the operator knows that they are not the only operator who is interested in managing the property, they would provide us with a special deal to beat the other operators*' (OW-4).

Therefore, with regard to the market conditions/competition, there is sufficient evidence to believe that the degree of the international hotel business competition is high.

4.1.2.1.3 Summary

To summarise, this section provided findings on the sub-research question 2a: 'Within hotel management contracts to what extent are behaviour and outcome controls used to restrain against opportunism and how suitable are these controls for hotel management contracts?'. The findings were presented in line with two issues related to the use of traditional control approaches in the relationship between the hotel owner and the hotel management company under HMCs, namely the traditional control approach (behaviour control and outcome control) and factors influencing the suitability of such an approach.

First, in relation to traditional control approaches (behaviour control and outcome control), used in HMCs in Thailand, these are evidently represented in both the contract document and the exchange between Thai hotel owners and their operator in the operation of HMC (see Table 4.3).

Outcome control is applied in both the contract document and the operation of the HMC. In HMC documents in Thailand, there is an application of outcome control, whereby the provisions of the operator's performance standard, and contract termination clause tend to be used to control the outcome of the operator. In relation to this, the security of the contract for the operator is at risk as it depends on the achievement of the promised outcome. Thus, there might be an issue of low ball (i.e. the proposed budget is set low when there is a possibility that more profit can be

made). In the operation of HMCs, outcome control is used via monitoring performance. While Thai hotel owners typically focus on result of bottom-line/annual budget, the achievement of the agreed bottom-line might not reflect the real business potential which the hotel unit might achieve.

Table 4.3: Traditional control approaches (outcome control and behaviour control) and the use of hotel management contracts in Thailand

Type of control	The use of hotel management contracts in Thailand		
	Contract document	**Operation of hotel management contract**	**Key issues**
Outcome control	• Operator performance standard (achievement of agreed annual budget) • Contract termination by the owner (the clause is tied to the achievement of agreed annual budget)	• Monitoring performance (result of bottom-line/annual budget)	• Without achievement of the performance standard, there is a risk that the operator could be terminated. • Low-ball (the proposed budget is too low when there is a possibility to make more profit) • The achievement of the agreed bottom-line might not reflect the real business potential which the hotel unit might achieve.
Behaviour control	• Financial and operational report • Owner input in operational decision-making • Restrictive (non-compete) covenants • Books and records	• Reporting (formal monthly report and flash report) • Meeting (formal and informal meeting)	• Hotel owners partially get involved in the hotel operation, meaning operators could run the property (day-to-day operation) as they see fit. • The more interaction (i.e. communication) between the hotel owner and the operator, the better understanding and closer relationship.
Combination of behaviour and outcome control	• Management fee and structure (basic management fee with additional incentive fee)	n/a	• The main income of the operator is at risk as the incentive fee depends on the achievement of GOP level).

Behaviour control is also applied both in the contract document and in the operation of the HMC. In HMC documents in Thailand, behaviour control is applied through the provision of financial and operational reports, owner input in operational decision making, restrictive (non-compete) covenants, and books and records. These provisions tend to be used for controlling the behaviour of the hotel management company. In the operation of HMCs, behaviour control is also used through

meetings (both formal and informal). By the nature of the task, hotel owners could not completely verify what operators are doing in the hotel operation. This is because if hotel owners are only partially involved in the hotel operation, operators could run the property (day-to-day operation) as they see fit. In addition, more frequent interaction (i.e. meetings, communication) between the hotel owner and the operator would provide a positive effect (more understanding and closer relationship) on their relationship.

Additionally, there is a combination of outcome control and behaviour control in the use of HMCs in Thailand, especially in the contract document through the provision of management fee levels and the fee structure. The contracts tend to emphasise the incentive fee portion of the total management fee. A basic management fee with an added incentive fee basis was the most common fee structure. The basic management fees is commonly paid at the minimum for the required behaviour of the hotel management company; while the incentive fees is paid for the achievement of the desired outcome. The main income of the operator could be at risk as the incentive fee depends on the achievement of GOP level. In other words, the more GOP the operator makes, the higher the level of incentive fee to be gained

Second, regarding the examination of factors influencing the suitability of control approaches, in the use of HMCs in Thailand, the degree of task programmability tends to be low; the hotel management companies tend to be risk-averse; the information can be partially revealed and the operation of the HMC could not be turned to the complete information situation; the length of the relationship between Thai hotel owners and hotel management companies tends to be long; and the degree of the international hotel business competition tends to be high, see Table 4.4.

Regarding task programmability, the degree of task programmability tends to be low. It is unlikely that hotel owners will tell the operator what and how to do the task because hotel owners might lack knowledge. Another factor is the nature of the task. Although some Thai hotel owners are sophisticated in the hotel business, they might macro-manage the property or set the target budget/outcome but typically have no

Table 4.4: Factors influencing suitability of control approach and the use of hotel management contracts in Thailand

Factors influencing suitability of control approach	The use of hotel management contracts in Thailand	Remark
Task programmability	• Level of hotel business knowledge, Thai hotel owners (especially property/land developer) lack knowledge and are not interested in any aspect of hotel operation. • The nature of task, Thai hotel owners (who sophisticated in hotel business) might macro-manage the property or set the target budget/outcome but there is typically no involvement in day-to-day operation.	Task programmability tends to be low
Risk preference	• Hotel management companies typically avoid holding the business risk, as there is no intention to invest in the equity of the hotel project that is managed under a HMC. • There is an attempt to put a risk on the hotel management company to co-align the interest with the hotel owner by tying the level of performance to the level of incentive fee and tying achievement to the agreed GOP with the termination clause.	Risk aversion of hotel management company
Information	• There is an attempt to reveal the information of the operation of the HMC via the contract document, and monitoring mechanism during the hotel operation. • The hotel owner might not be able to ascertain what the agent is doing and how well the agent has performed, so this might represent a gap where the behaviour of the agent cannot be verified, due to the characteristics of the hotel owner (such as lack of hotel business knowledge or interested only in the bottom-line). In this situation, hotel owners totally absent themselves from the hotel operation so that the degree of information asymmetry remains high. • The nature of the task could be another crucial factor. Although Thai hotel owners are sophisticated in hotel business or work closely with the hotel general manager, there is typically no micro-management by Thai owners in the hotel operation and they might ignore the operation details. In this situation, it is the operator who possesses the specialised knowledge that is required to perform the task (day-to-day operation) so that the information asymmetry still remains in the relationship	Information asymmetry (information can be partially revealed)
Length of the relationship	• Both Thai hotel owners and hotel management companies tend to expect to be in long-term relationship. • As indicated under the provision of contract length and renewal in most of the contract documents, the length of the HMC is normally 10 years with an extension period of 5 years.	Length of the relationship tends to be long
Degree of the international hotel business competition	• In the international hotel business competition, to strengthen the network is crucial for a hotel management company. Consequently, there is a need for each hotel management company to increase the number of existing properties in the network. Therefore, the company might attach strategic significance to a property or location in order to capture more market share or to establish the flagship property. • Currently managing hotel properties is the core competence, not investing in ownership. Accordingly, the HMC becomes the key business model because it provides the operators with the advantage by reducing the amount of capital spending/investment required in increasing number of properties in the network. • Hotel management companies might be proactive to get a deal from hotel owners, e.g. approaching Thai hotel owners seeking the opportunity to manage a property, competing with the others to win the deal for managing the property by offering a special deal to Thai hotel owners (i.e. lowering fees, revenue guarantee).	Degree of international hotel business competition tends to be high

involvement in the day-to-day operation (allowing operators to run the hotel as they see fit). These situations show that Thai hotel owners are normally not able to specify the appropriate behaviour for the operator in advance in order to achieve the outcome.

In terms of risk preference, hotel management companies tend to be risk-averse. Hotel management companies typically tried to avoid bearing the business risk as they have no intention to invest in the equity of the hotel project being managed under a HMC. However, in most of the cases, there is an attempt to apportion some risk to the hotel management company in order to co-align their interest with that of the hotel owner (e.g. by tying the level of performance to the level of incentive fee and tying achievement of the agreed GOP to the termination clause). Therefore, in this situation, it shows that hotel management companies tend to be risk-averse because the security of the contract is dependent on the achievement of the agreed performance.

With respect to information asymmetry, the information can be partially revealed and the operations of the HMC could not be turned to the complete information situation. There is an attempt to force the revelation of information through the contract document, and via monitoring mechanisms during the operation of the HMC. To some extent the information system that is installed into the operation of the HMC (e.g. budgeting, reporting procedure, or meetings) could reveal what the operator (as agent) is doing. However, because of the characteristics (level of hotel business knowledge or interest in hotel operation) of hotel owner and the nature of the task, the Thai hotel owner (as principal) does not know exactly what the agent has done, even where there is an attempt to install an information system to discover the agent's behaviour. The information system could partially reveal the agent's behaviour to the principal and the operations of the HMC could not be reverted to the complete information case. Therefore, with respect to information asymmetry, there is sufficient evidence to show that attempts to install an information system into the operation of HMC means the problem of information asymmetry is only partially resolved.

In terms of the length of the agency relationship, this tends to be long. Both Thai hotel owners and hotel management companies expect to be in long-term relationships. Thus, as indicated under the provision of contract length and renewal found in most of the contract documents, the normal contract length is 10 years, with an extension period of 5 years.

With respect to market conditions/competition, the degree of international hotel business competition tends to be high. Competition in the international hotel business is now tough, therefore, to strengthen their global network, it is crucial that the hotel management company is able to compete with the other companies in their field. Consequently, there is a need for hotel management companies to increase the number of their existing properties in the network. Therefore, hotel management companies might attach strategic significance to a property or location in order to capture more of the market share, or might feel the need to establish a flagship property.

At present, managing hotel properties tends to be core competence of hotel management companies, not investing in the ownership of hotel property. Accordingly, the HMC becomes the key business model because it allows them the advantage of reducing the amount of capital spending/investment required in increasing number of properties in the network. Therefore, hotel management companies might become proactive in order to get a deal from hotel owners, for example, approaching hotel owners seeking the opportunity to manage a property, or competing with the other operators to win the deal for managing the property by offering a special deal to hotel owners (i.e. lowering fees, revenue guarantee).

4.1.2.2 Additional control methods for controlling the professional agent

This section will provide the findings on the second sub-research question 2b 'To what extent are additional principle/professional agency relationship controls utilised in hotel management contracts to guard against agent opportunism?'.

4.1.2.2.1 The use of additional control methods for controlling the professional agent in hotel management contracts

This section will provide the findings on additional control approaches (self-control, bureaucratic control, community control and client control) in the use of HMCs in Thailand.

4.1.2.2.1.1 Self-control

In terms of self-control, this could be referred to any part of the task in which there is no interference or involvement of the principal (hotel owners). In other word, agents could complete the task as they see fit. Self-control is present within the contract document and the operation of HMCs.

In the HMC document, regarding the owner's input into the operational decision making provision, although owners are involved in various areas of the hotel operation, Thai hotel owners will usually not get involved in the day-to-day operation of the hotel, '*my owner always tell me that we are not interested in running this hotel and this is why you are here, and why we pay you fees, and we will not interfere in the day-to-day hotel operations*' (GM-9). In this context, without involvement in the day-to-day operation, the hotel management company could run the property as they see fit.

In the operation of a hotel management contract, by nature, there is room for the operator (both the hotel general manager and the head/regional office of hotel management company) to manage the hotel property without any owner interference. In most cases the hotel general manager (GM) is the key person in charge of running

the property. The level of trust accorded towards the operator (especially the GM) might play a crucial role. As mentioned, most of the owners will not get involved in the day-to-day operation and will not attempt to control and to micro manage the hotel. This situation would allow the operators to work independently and to control things themselves, '*after giving an assignment to the hotel company, we would trust them. We would not get involved in the day-to-day operation of the hotel*' (OW-7).

Excessive attempts at control by the principal might end up having a negative effect. Most of the respondents clearly understand that too much owner involvement can de-motivate the operator, especially the hotel GM, and actually cause even more problems in the operation, '*it is also good for managing the property and authority for the GM. It is good for the GM as the people will not feel that the GM is not in charge as there is somebody saying what you have to do or to make decisions for you. Staff will not get confused*' (GM-4). In addition, in most cases, allowing the operators to control themselves motivates them to do their task, '*giving me freedom in the running of the hotel property would motivate myself to do the job*' (GM-3).

4.1.2.2.1.2 Community control

Community control could refer to any form of control which is derived by institutions and collective organisations of professional (i.e. code of ethics, standard of work). However, in the context of a HMC, this can be achieved through performance comparison or benchmarking of selective members. This is represented in both the contract document and the operation of HMCs.

In the contract document, regarding the provisions concerning operator performance standard, there is a presence of community control. This can be referred to the performance comparison/benchmarking with the selected members in the comparison set. In Thailand, this method is typically used as another key indicator and is included in most of the contracts as the minimum performance criteria.

In the operation of the HMC, controlling the professional by performance comparison/benchmarking is an effective and formal method to examine a

professional agent's performance. The importance of this method is seen by most of respondents (both the hotel owners and the hotel management companies), '*it is a very important method for monitoring our property. ... If we have a chance to use this method, it is a must'* (OW-2).

In comparison, though average room and occupancy rates are crucial indicators, RevPar is the most important, '*the most important thing is RevPar. Although we had 100% occupancy rate, but we have not had the right room rate, it would mean nothing. Or we could have a higher room rate, but got less occupancy rate, which is also useless'* (GM-1).

This method allows both the owners and the operators to see where and how well they are doing in the business, when compared with selected direct or indirect competitors and/or the same or a different level of hotel, '*the result of comparing would enable us to see where we are among our competitive set in one specific period. Even if we are in unexpected situation like SARS, it would show us how badly and how long it would affect the whole competition set, and how good we are in the difficult period'* (OW-9).

Among the same level of hotel properties, the performance comparison could show the real potential for the achievement of the outcome in a particular period, '*this [the comparison] could show us how well we are doing when compared with the competitor set. If we are doing business badly, and the other hotels also are the same, there is nothing wrong. If the others are doing well and we are average, there will be something wrong with us*' (GM-11). In addition, for the reputation effect, target ranks can be set based upon these comparisons, '*it is a realistic assessment and it would indicate our hotel reputation. We [the owner and the hotel management company] will set the target rank*' (OW-5).

4.1.2.2.1.3 Bureaucratic control

Bureaucratic control could be any form of internal control structure/system within the professional firm. This might mean the internal control mechanisms within the

hotel management company, because sometimes an element of bureaucratic control exists in the operation of the HMC, especially in respect of the relationship between the head/regional office and the GM. These control methods are used by the head/regional office to control the general manager, not only through financial performance and operational efficiency but also transparency, *'although we have many properties around the world, we know what to monitor and to control at the property level ...it is a systematic review of the hotel performance and GM performance in term of profit and loss, profitability, technical aspect, finance control aspect'* (EXEC-1).

These methods include reporting, '*the regional office gets the same monthly report as the owner'* (GM-6). Each hotel property will be audited by head/regional representatives, '*as our company is a leased company, we must follow all of the company rules. They send an audit team to audit each department of the hotel yearly, which are mainly a financial audit and a departmental audit i.e. food and beverage, human resources, room division, and engineer. The report of the auditing is available for the owning company to look at'* (GM-8). In hotel auditing, hotel GMs are also appraised, *'We do annual appraisal of the GM; we would sit down with them and discuss about the result of his hotel'* (EXEC-1).

The quality of service provided and the operation is also examined to ensure the brand standard, *'our company also do a "mysterious shopper" once a year. The purpose is to check and to maintain the brand standard. The mystery guest will check-in into the property without any notice, examine the products and services, and give a feedback from the guest perspective. At the end of the stay, he will give us a report and discuss the issues, if any*' (GM-2). There is also a visit by a head/regional executive to see what happening in each property, '*the vice president (operation) will visit the property three to four times a year'* (GM-8).

A property's performance is often crucial for the future career of the GM, '*as we are an international hotel company, GMs are obligated to us; we have to take care of them in their career. If they do not perform well in the hotel level, they will know*

that the next assignment that they will get would not be good i.e. a smaller hotel or less demanding location hotel. GMs are very much motivated to perform well' (EXEC-4). Also, a property's performance is crucial for the overall performance of hotel management companies, *'as we are an international hotel company, we have our properties in every part of the world. A success at the property level [in terms of financial and service quality] would affect our reputation and overall performance'* (EXEC-1).

In addition, the internal control mechanisms within the hotel management company as perceived as crucial by many hotel owners as they might not be so familiar with details of the hotel operation, *'[Name of hotel company] also has various methods to monitor and to control each property such as GM meeting, mystery guest, hotel staff survey ... and we probably do need to rely on it as we don't know very much details of the hotel operation'* (OW-7).

4.1.2.2.1.4 Client control

Client control can be any form of control method which is initiated by the principal to control their agent. In the context of a HMC, this can refer to any informal method, initiated by hotel owners to control their operators. Client control is evident in the operation of the HMC, including employment of a knowledgeable owner representative, the use of property visits/observations, informal reporting, informal meetings, internal performance comparisons, and collecting feedback from various informal sources.

In most cases, acting on behalf of the hotel owner, there is an owner representative to look after the hotel property, '*as an owner representative, we need to ensure that the hotel property obtain an appropriate bottom line, to maximise net profit, to monitor and to control the performance of the operator. We also have to co-ordinate with both GM and the regional office of the hotel company'* (OW-5). With access to and the support of an owner representative, the effectiveness of owner control is greatly improved, ' *'the GM could not cheat or tell a lie as we know the business and*

industry' (OW-1). This clearly highlights that the imbalance of hotel business knowledge is resolvable.

Property visits/observation by the owner can be organised with or without advance notice and would allow the owner to see what is happening in the operation of the hotel. In addition, an informal meeting with the hotel general manager might be organised, '*I normally visit a couple times a week, to see around the property and informally talk with the GM to update the information or to discuss the issue, if any'* (OW-7).

In reporting, where the hotel owners are sophisticated in the hotel business and work closely with the hotel GM, some required their hotel GM to submit a flash report (either daily, weekly, or two-week) which is a summary of the key business figures, '*we also give a daily revenue and expenses, and key figures report; therefore, the owner would know what is going on in the property daily*' (GM-8). In relation to meeting, apart from formal meeting, these owners also organised an informal meetings (in addition to formal meetings). Perhaps meeting over a meal, *'there are informal meetings during each month, we would commonly have a dining meeting (lunch or dinner), [and a] morning or afternoon coffee meeting at least 2-3 times a month. This is to update the information and current situation of the property*' (OW-10). Communication by telephone is also used, '*if there is an issue, we and the GM would communicate informally by using e-mail, or telephone*' (OW-8).

There is also evidence that where the owners have more than one hotel/resort property with different operators, they make use of internal comparisons and might seek to create competition among their hotel business units, '*as we own many hotel/resort properties around Thailand which are managed by several different operators, we could possibly benchmark the business performance among our properties'* (OW-4). In addition, collecting feedback from external sources such as friends, business partners, or publications; could also prove to be crucial information in order to informally control the operator, '*the owning company always send their guests or business partners to stay in the property with the owner rate; this could be*

a business or vacation trip. This could also be an informal way to monitor the property' (GM-4).

In this context, and apart from the formal methods, there is an attempt by Thai hotel owners to create informal methods of monitoring and controlling the operation. Therefore, this clearly shows that Thai hotel owners seek to actively monitor and control the performance of the hotel management companies. Moreover, the imbalance of knowledge can be resolved which enhances the effectiveness of the owner control.

4.1.2.2.2 Summary

In summary, with respect to additional control approaches for professional agent (i.e. self-control, bureaucratic control, community control and client control), in the use of HMCs in Thailand, there is evidence of their presence in both the contract document and the exchange between Thai hotel owners and their operators in the operation of the HMC (see Table 4.5).

In terms of self-control, this is evident in the contract document and in the operation of the HMC. In the HMC document, regarding the owner's input into the operational decision making provision, although there is some involvement by owners in the various areas of hotel operations, Thai hotel owners will typically not get involved in the day-to-day operation of the hotel. Therefore, the hotel management company could run the property as they see fit. In the operation of HMC, by nature, there is room for the operator (both the hotel general manager and the head/regional office of hotel management company) to manage the hotel property without any owner interference. The hotel general manager (GM) is the key person running the property. The level of trust in the operator (especially the GM) might play a crucial role. Most of owners will not get involved in the day-to-day operation and will not attempt to control and to micro manage the hotel. This situation would allow the operators to work independently and to control themselves. In addition, excessive

attempts at control by the principal might end up having a negative effect. In contrast, allowing the operators to control themselves could be a good motivator in their willingness to do their task.

Table 4.5: Additional control approaches for professional agent (self control, bureaucratic control, community control and client control) and the use of hotel management contracts in Thailand

Type of control	The use of hotel management contracts in Thailand		
	Key provisions in hotel management contracts	**Operation of hotel management contract**	**Key issues**
Self-control	• Owner input in operational decision-making (no interference by the hotel owner in day-to-day operation).	• Operators could run the hotel as they see fit because there is no involvement in the day-to-day operation by the hotel owner.	• Excessive attempts to control by hotel owners might end up having a negative effect. • Allowing operators to control themselves could be good motivation for them to do their task.
Bureaucratic Control	n/a	• The internal control mechanism within the hotel management company (i.e. reporting, hotel property audit, and visit of head/regional office executive).	• These methods enhance the effectiveness of hotel operation control. • It is crucial for many hotel owners who might not be keen on hotel operation.
Community Control	• Operator performance standard (RevPar comparison among selective members).	• Monitoring performance (Performance benchmarking -RevPar comparison among selective members).	• The performance comparison could show the real potential of the achievement of the outcome in a particular period. • The comparison could affect the hotel reputation.
Client Control	n/a	• Employment of sophisticated hotel owner representative. • Flash report (daily, weekly or two-weekly report). • Informal meeting (i.e. meal meeting). • Property visit/observation • Collecting feedback from various sources.	• Reduce the imbalance of knowledge. • Hotel owners tend to be proactive in controlling. • These methods enhance the effectiveness of owner control.

For community control is represented in the contract document and the operation of HMCs. In the context of HMCs, this can be achieved through performance comparison/benchmarking among selective members. In the contract document, the provision concerning operator performance standard represents the presence of community control. This can be referred to the performance comparison/benchmarking with the selected members in the comparison set. In

Thailand, this method is normally used as another key indicator and has been included in most of the contracts as the minimum performance criteria. In the operation of the HMC, controlling the professional by performance comparison/benchmarking is an effective and formal method of examining a professional agent's performance. In comparison, while the average room rate and average occupancy rate are crucial indicators, RevPar is the most important. This method allows both the owners and the operators to see where and how well they are doing in the business, when compared with selected direct or indirect competitors and/or the same or a different level of hotel in a particular period. Thus, the comparison could effect the reputation of the hotel.

Bureaucratic control is also represented in the operation of the HMC. This might refer to internal control mechanisms within the hotel management company, especially the relationship between the head/regional office and the GM. These control methods are used by the head/regional office to control the general manager, (not only via financial performance and operational efficiency, but also transparency), and include reporting, hotel property auditing, examination of quality of service provided and the operation, or a visit by a head/regional executive. It is important to note that a property's performance is crucial for the future career of the GM and overall performance of the hotel management company. In addition, these methods enhance the effectiveness of hotel operation control and are crucial for many hotel owners who might not be keen on the hotel operation.

With regard to client control, this is evident in the operation of the HMC, i.e. informal methods initiated by the hotel owners to control their operators. These methods include employment of a knowledgeable owner representative, the use of property visits/observations, informal meetings, internal performance comparisons, and collecting feedback from various informal sources. In this context, it means that apart from the formal methods, there is an attempt by Thai hotel owners to create informal methods in monitoring and controlling the operation. Therefore, this clearly shows that Thai hotel owners seek to actively monitor and control the performance of

the hotel management companies. Thus, imbalance of knowledge can be resolved which enhances the effectiveness of the owner control.

4.2 Key issues associated with the use of hotel management contracts in Thailand

This section will present the findings on the key issues associated with the use of HMCs in Thailand. The findings will be presented in line with the specific research questions (3-9) which were developed in section 2.3. This section begins with the anatomy of the HMC (key provisions in the HMC as research question 3), the data for which was gathered during the preliminary study. This is followed by the pre-contract signing stage (as research questions 4-6) concerning the motivations of the parties in relation to the HMC, the partner selection criteria, and the nature of contract negotiations. Lastly, the post-contract signing stage (as research questions 7-9) concerning the working relationship between the owner, the head/regional office of the hotel management company, and the hotel GM in the operation of the HMC, the control methods in the operation of HMCs, and the on-going issues in the operations of HMCs. Additionally, for the findings on the pre and post contract signing stage the data for which was gathered during the main study, due to the rationale of the research design discussed in Chapter 3 (see section 3.3.2), the findings are reported in two sections, classified into two groups (A and B). A comparison of the findings between the two groups is also provided.

4.2.1 Anatomy of the hotel management contract (key provisions in the hotel management contract document)

Research Question 3 addresses 'What are the key areas and issues in the hotel management contracts document in Thailand?'. This section will provide the findings on key provisions in the HMC document in Thailand.

4.2.1.1 Key provisions in the hotel management contract document in Thailand

Drawing upon data gathered during the preliminary study, this section focuses upon the key provisions in HMCs. The findings are structured around the framework of the twelve key issues identified in previous research undertaken by the Eyster (1997b), see section 2.3.2.2.

4.2.1.1.1 Loan and equity contribution of operator

The majority of the foreign hotel companies (the operators) approached in Thailand had rarely contributed either a loan or equity to owners. However, there were a few cases where the operators did. In relation to equity contributions, this was sought where owners wished to gain greater operator commitment. In one particular instance, *'the operator and owner had no previous dealings with one another, the operator was required to contribute in the region of 30% of the total equity to strengthen their commitment to the owners'* (Respondent 6).

With regards to loan contributions, there are only a few cases that the operator contributed a loan with either a fixed or floating interest rate to the owner. Loans were attractive to owners when the interest rate offered was substantially cheaper than the prevailing market rate or other sources of funds. The loans appear to have always been given in a foreign currency such as US$, thus the owners would carry any risks associated with fluctuations in foreign exchange rates. The minimum loan term was for 1 year, with a maximum term of 12 years. The uses of these loans were limited to specific purposes such as funding for renovations, or funding initial working capital. Alternatively, instead of accepting a loan or equity contribution, the owners were offered operator contributions for a renovation project, *'there was no loan or equity contribution but there was an offer for renovation'* (Respondent 2). In another instance, the operator offered an exemption of the technical-service or pre-opening management fees, *'our operator had no loan or equity contribution; however, there was an exemption for pre-opening assistance fee and technical service fee'* (Respondent 4).

4.2.1.1.2 Initial terms and renewals

In Thailand the length of the initial contract term was found to be in the range of 10 to 12 years with one or two renewal options for a further period in the range of 5 to 10 years. During the initial term, some owners included a provision for early termination if an operator's performance did not meet the specified criterion. Automatic renewal terms were typically provided where an operator's performance met the owner's specified objectives. In some cases the length of the initial contract could be much longer than the range of 10 to 12 years. For example, some contracts were for periods in the range of 20 to 30 years. Here the hotel owners had leased the land from a third party with a contract in the range of 25 to 60 years *'the initial term is 20 years and the renewal period is 10 years. Our contract length tends to be long because our company lease the land to run the hotel business for 30 years from [name of company])'* (Respondent 2).

4.2.1.1.3 Management fee and structure

In Thailand, there were two management fee structures found to be in operation: (i) those which were a basic management fee only and; (ii) those which were a basic management fee plus an incentive fee. In the case of the simple management fee only basis, only one contract had adopted this structure. Here the management fee was 6% of gross revenue, *'we have only the basic management fee and it is 6% of gross revenue'* (Respondent 5). A basic management fee with an added incentive fee basis was the most common fee structure adopted by the Thai hotels examined. Typically, the basic management fee was fixed between 1-3% of total revenue and the incentive fee fixed between 3-10% of gross operating profit (GOP). However, for some contracts, the basic management fee and an incentive fee would be totally flexible and the percentage of both fees entirely dependent upon performance, *'in our case, the percentage of incentive fee depends on the level of Gross Operating Profit. It could be 0-7% of Gross Operating Profit'* (Respondent 8). Owners would normally pay the agreed basic management fee on a monthly basis with any incentive fee element being paid upon either a monthly or quarterly basis depending on negotiation. All fees were calculated and paid in the local currency (Thai Baht). For any additional fees, such as those concerning any pre-opening service or technical

service, these would typically be calculated as either a fixed charge or a charge per room. Interestingly, the use of fee caps was very rare with only one case where a fee cap operated, *'we set a fee cap at a maximum 6% of Gross Revenue'* (Respondent 3).

4.2.1.1.4 Operator reimbursable charges

While the methods of calculation for the charge rates of the operator system reimbursable charges was found to be different across the Thai operators, in all cases, the operator reimbursable charges would include: (i) a marketing support fee; (ii) use of central reservations fee; (iii) human resource support fee; and (iv) any expenses associated with operator executives' visits.

For marketing support, there were three primary methods used to calculate the fee: (i) as a percentage of gross revenue (in range of 0.5-1.5%); (ii), as a fixed charge per room per year; or (iii) as a percentage of room revenue (in range of 1-2%). The central reservation system fee could be charged in many ways such as a fixed amount of charge per room per month, as a fixed charge per transaction (in range of 4-10 US$) or per booking (in range of 5-10 US$), or as a percentage per revenue per booking (up to 10%). For human resource support, typically each operator will charge the owner at cost by via hotel operating expenses. However, some operators did use different ways to charge for these such as a fixed charge per year per person (in range of 10-15 US$) or a percentage of total revenue (in range of 0.5-1.5%). Other widely recognized reimbursable charges included the expenses associated with the operator's executives visiting properties, (including transportation, room, meals and so on) and, where the operator's computer systems were used, any software maintenance charges.

4.2.1.1.5 Performance criteria / standard

In addition to setting an agreed level of gross operating profit (GOP) for measuring performance, Thai owners and the hotel operators typically agreed to use the comparison of revenues per available room (RevPar) with competitive properties in the same local market area, *'for our hotel, we make a comparison of RevPar among a set of competitor'* (Respondent 7). This was the most popular tool amongst the

owners for establishing the minimum performance criteria for operators. In case of a performance shortfall, owners would generally allow a period of 2 to 3 years for operators to achieve a recovery. However, if the performance shortfall was due to unfavourable economic or market conditions, most of the owners and the operators would not expect the performance guarantee to be enforced.

4.2.1.1.6 Contract termination

Generally, for the initial term of contracts, most of the owners and the operators had agreed that no contract terminations without cause were permitted. However, an early termination during the initial term could occur if an operator failed to meet the agreed level of operating profit or objectives during any identified test period, *'an early year termination can be made. During the first and the second three year test period - if average gross operating profit from year 3 to 5 or average gross operating profit from year 6 to 8 is less than 75% of average gross operating profit set in the mutually agreed annual budgets'* (Respondent 8). For some properties, a termination fee would be paid to the operator if there was a 'without cause termination' during and/or after the initial contract term. The termination fees were usually negotiated as a multiple of the most recent 12-months' management fee depending on the length of the contract's term. In addition, in the case of a property being sold, all of the operators had a contractual right to remain with the property, *'our operator will stay on if the property is sold'* (Respondent 4).

4.2.1.1.7 Owner input in operation decision making

There are two main areas of operational decision making which most of the owners need to gain an input, budgeting and personnel. The majority of the Thai owners tended not to become involved in any aspect of the hotel's day-to-day operations. Operators were typically given full freedom to operate the property as they saw fit. However, all owners required approval of the annual budget, and in some cases, operators required owner approval on major expenditures, such as replacement of heavy equipment (kitchen, laundry), guest room facilities etc., *'in our case, we need to ask for an approval if we intend to have a major renovation or replacement'* (Respondent 5). For key hotel executive appointments such as the GM or financial

controller, most Thai owners would require the right of approval/veto of the proposed person.

4.2.1.1.8 Financial report and operational reports

All operators were required to submit to owners, on either a monthly or a quarterly basis, financial and operational reports. Typically there would be monthly meetings between operators and owners to review operator performance in light of agreed targets and operating conditions. However, in some cases, the meeting is conducted quarterly, *'we will have quarterly meeting with the owner to review the hotel performance and situation'* (Respondent 6).

Annual budgets were required to be submitted for the owner's input and approval. These included monthly revenue, expenses and cash-flow projections, a marketing plan, and so on. Monthly reporting involved the operators providing a number of financial documents to owners such as: (i) a balance sheet; (ii) a cash flow statement; (iii) a calculation of the operator's basic and incentive management fee; (iv) full details of the operator's system reimbursable expenses charged to the property; and (v) a management report. In addition, at the end of each fiscal year operators were required to prepare and provide annual financial statements. These annual financial statements were audited by an independent accounting firm chosen by the owner and/or operator.

4.2.1.1.9 Books and records

All the books and records kept by the operators in relation to a property were accessible to the Thai owners, *'we could access all books and records which are kept by our operator at the hotel any time'* (Respondent 3). These books and records included the financial statements of the hotel, detailed invoices of all the hotel's expenses e.g. payroll of the employee, system reimbursable expense schedule, replacement and capital-expenditure, and all other reports generated at the property level, e.g. guest history and sales files, aging of accounts receivable, internal audit reports, health and safety reports, etc.

4.2.1.1.10 Restrictive (non-competition) provision

Each operator and owner examined had agreed the restrictive (non-competition) provision differently. For example, some owners gave a 'burn-off' timetable to the operators (a schedule for decreasing the non-competition area in steps over a defined time period). This might include a condition such as the operator not being allowed to add a similar type of property in the identified area during the first 10 to 15 years, *'it is restricted for the operator to set up additional same brand name property in the area of Phuket for the first ten years'* (Respondent 8). In some cases owners and operators agreed to specifically identify a restricted area for not having a similar type of property. In one instance, after establishing a property in Bangkok, an operator might be prevented from adding a similar type of property within the Bangkok area but would be permitted to do so in other Thai provinces, *'we will not allow ... as indicated in the contract, it is restricted for our operator to have another same brand property in the area of Bangkok'* (Respondent 3). Contracts would normally specify the conditions that would apply concerning the addition of similar properties in the same area. These conditions could include specific details such as the location of the existing and the new property, the characteristics of the target market, occupancy levels etc.

4.2.1.1.11 Insurance issue

Each operator had its own standard or requirement for insurance in running the hotel property. Some operators were self-insured and wanted to be the insurance carrier for the hotel. However, in most cases, the operator gave the right to the owner for deciding the selection of the insurance carrier. However, the responsibility for ensuring the level of insurance cover would meet the property's requirements and cover all of aspects (such as third party insurance, business interruption etc.), remained with the operators.

4.2.1.1.12 Dispute settlement mechanism

Commonly the owners and the operators agreed to use an 'owner and operator policy committee', which commonly consisted of representatives from the owner, the operator and any third parties, in order to settle all disputes. For instance, *'in our*

case, the committee consists of 2 persons from the owing company, 2 persons from the operator, and 2 experts' (Respondent 4). However, if disputes cannot be settled via this mechanism then typically disputes would be required to be settled by arbitration. Both owners and operators would jointly agree on the process to be adopted, the language to be applied and the location for conducting all arbitrations.

4.2.1.2 Summary

Based upon the preliminary study, drawing upon the content analysis of actual HMCs and the interviews with both the hotel owners, and the hotel general managers of a range of hotel/resort properties in Thailand (managed by foreign hotel management companies), the findings above outline the key provisions typically found in the HMCs. These provisions included loan and equity contributions of operator, initial terms and renewals, management fee and structure, operator reimbursable, performance criteria (standard), contract termination, owner input in operation decision making, financial and operational reports, books and records, restrictive (non-competitive) provision, insurance issue, and dispute settlement mechanism.

The majority of the foreign hotel companies (the operators) approached in Thailand rarely contributed either a loan or equity to owners. The length of the initial contract term was found to be in the range of 10 to 12 years with one or two renewal options for a further period in the range of 5 to 10 years. In terms of fees structure, a basic management fee with an added incentive fee basis was the most common fee structure adopted by the Thai hotels examined.

In relation to the performance standard, there are two popular minimum performance criteria. Typically, Thai owners and the hotel operators agreed to use the agreed level of gross operating profit (GOP) for measuring performance, and the comparison of revenues per available room (RevPar) with competitive properties in the same local market area. The termination clause has typically been put in the

contract, however, for the initial term of contracts, most of the owners and the operators had agreed that no contract terminations without cause were permitted. Additionally, an early termination during the initial term could occur if an operator failed to meet the agreed level of operating profit or objectives during any identified test period.

Budgeting and personnel are two main areas of the operational decision making which most of the owners need to gain an input. However, the majority of the Thai owners tended not to become involved in any aspect of the hotel's day-to-day operations. With regard to financial and operational reports, all operators were required to submit the reports to owners, on either a monthly or a quarterly basis. Typically there would be monthly or quarterly meetings between operators and owners to review operator performance in light of agreed targets and operating conditions. Thus, all the books and records kept by the operators in relation to a property were accessible to the Thai owners.

Each operator and owner examined had agreed the restrictive (non-competition) provision differently. Contracts would normally specify the conditions that would apply concerning the addition of similar properties in the same area. In terms of the insurance issue, each operator had its own standard or requirement for insurance in running the hotel property. In most cases, the operator gave the owner the right to decide the insurance carrier.

Lastly, with regard to the dispute settlement mechanism, the owners and the operators typically agreed to use an 'owner and operator policy committee', which commonly consisted of representatives from the owner, the operator and any third parties, to settle all disputes. However, if disputes cannot be settled via this mechanism then, typically, disputes would be required to be settled by arbitration.

4.2.2 Motivations in relation to the use of hotel management contracts

With reference to the Research Question 4 'What are the motivations of (a) owners and (b) foreign hotel management companies for using hotel management contracts in Thailand?', this section presents the findings on the motivations in relation to the use of HMCs of both the owners and the hotel management companies.

4.2.2.1 Owner's motivations in relation to the use of hotel management contracts

In this section the findings of owners' motivations in relation to the use of HMCs of Group A and Group B will be shown.

4.2.2.1.1 Owners' motivations in relation to the use of hotel management contracts: Group A

From the interviews with the owners in Group A, several major reasons as to why they are interested in using HMCs can be identified. These include (i) their lack of knowledge and know-how in managing and operating hotels/resorts; (ii) having other businesses to take care of; (iii) the hotel business not being considered their core business; (iv) the expectation of having a better business and operation performance/efficiency than managing by themselves; and finally, (v) a mix of related factors concerning personal preferences, reputation and status issues.

Lack of knowledge and know-how in managing and operating the hotel/resort was typically cited by the owners in Group A, *'during development of the hotel property, the owners and his partners were businessmen who did not have knowledge and experience in the hotel business'* (OW-1).

Many owners in Group A also highlighted that they have other businesses to take care of, and/or that the hotel business is not their core business. Therefore, they felt that it would be better for them to find a hotel business expert to manage and to run the hotel property for them. This could also enable them to have more time to look

at their current and future business interests, *'we currently have many businesses to take care of in our company, for example, real estate, and car service centre...this [a hotel management contract] could give us more time for both running the current business and looking for future business opportunities'* (OW-6). In some cases, the hotel business is not the core business of the owner and they are purely interested in the property development aspect, *'the hotel is not our core business. We are a real estate developer. We develop land and property to become valuable property. If there is an opportunity, we would sell the property to make profit. Our company has no hotel operation expertise, so we need the expertise and know how of the hotel management company to operate and to manage the properties for us'* (OW-4).

Several owners in Group A stated that they expected to have a better business and/or operations performance/efficiency through using the HMC, than if they were managing and running the hotel by themselves. With their proven hotel operation expertise, they believed that the hotel management company would reduce problems and provide a smooth hotel operation, for example *'when we look at the operation, there are too many details to overlook. As the operator is an expert in running and managing hotels, we believe that the operator could handle all of the issues that arise in the operations more effectively than us'* (OW-3).

Owners in Group A also believed that the hotel management company (as their current operator) had strong marketing, brand, distribution channels, and image. They perceived that this would enable them to create a strong business and positive business results, *'at the time of development, we thought that we needed a company with global reach that could create and conduct business around the world. This hotel company has strong marketing and world-wide distribution channels'* (OW-1).

In some situations, although owners in Group A may have considerable personal capacity for running and managing their property, they perceived a need to rely on the operator's marketing capabilities, *'today, it would not be a problem for us to run this property. We have many hotel and resort properties around Thailand.*

However, we feel that this hotel company has a stronger marketing, brand, distribution channels world-wide and international image' (OW-5).

Personal preference, reputation and status issues were found to be perceived as crucial by some owners in Group A, *'this project was unique ...the payback was the second priority and the social acceptance and reputation became the first priority. We needed to build this hotel as best as we could, although it is not a practical investment in business terms. ... We felt that we needed to have an international brand name hotel on our property which would enhance the reputation and social status of the owning company'* (OW-6). Accordingly, ownership of a hotel property and its operation may not be always be seen in purely financial terms, *'when we looked at the investment cost and rate of return on investment, "return of face" is much higher than return on investment in financial terms. The brand could provide us with more than the logo as it enhanced the image and the value of the property'* (OW-3).

4.2.2.1.2 Owners' motivations in relation to the use of hotel management contracts: Group B

The owners in Group B highlighted several reasons motivating them to use a HMC. These included their lack of knowledge and know-how in hotel/resort operations, having other businesses/ the hotel is not their core business, an expectation of better operations and business performance/efficiency than through undertaking the management by themselves, and some economic factors.

Due to their lack of knowledge and know-how in operating the hotel/resort, particularly with regard to meeting the needs of foreign guests, owners in Group B highlighted the need to have internationally focused professionals to run the hotel, *'if we manage our properties by ourselves, we feel that we could not get a level of success as good as we have had recently. Local knowledge was different from and not as good as international knowledge. If our property would like to serve foreigners, we would have an international knowledge and standard in hotel operations'* (OW-10).

Having other businesses to take care of, or that the hotel business was not their core business, was cited by several respondents. Using a HMC was perceived by these owners in Group B to save time in running the hotel operation and to provide them with more time for taking care of their current businesses and looking for future business opportunities, *'we would like to find someone to be responsible for the hotel operations, therefore, we could then have more time to expand our related businesses'* (OW-7). In some cases, owners in Group B were not interested in running the hotel as they were property developers and therefore, the hotel business is not their core business, *'our company is a real estate developer. We have no interest and lack the know-how for operating the hotel. We would like to have professionals to run the hotel'* (OW-8).

Several owners in Group B also mentioned that by using a contract arrangement that they expect to have a better business and operational performance/efficiency than by managing the hotel by themselves. In term of operations, the hotel management company has the know-how and expertise in various areas of the hotel. With this know-how and expertise, owners in Group B expected the hotel management company would provide a smooth and high standard of hotel operations, *'the operator would apply their expertise in various areas in order to set up and operate the hotel to a high standard'* (OW-8).

In terms of business performance, foreign hotel management companies were perceived to offer significant marketing features including an international brand image and access to established marketing distribution channels. Owners in Group B believed that this enhanced the opportunity for creating a business, and to attract the targeted customer, *'the operator had established its brand for a long time. Their know-how, brand reputation and image, and marketing distribution channels toward a particular market was much stronger than our own. Therefore, we need to use the operator's brand to do business and to capture this target market because it is a brand that targets and is well-known among luxury and top-class customer'* (OW-9).

Although some owners in Group B could manage their properties by themselves, they still preferred to have a hotel management company run the property for them, as the perceived additional economic benefits of doing so were key, *'when we managed the property by ourselves, the cost of managing was low. Although the cost of managing the property has increased with a hotel management company, especially for marketing and payroll, the total revenue has also increased and the net profit has increased as well; that is why we are quite happy even though the cost of managing the property has increased'* (OW-7).

Table 4.6: Summary of owners' motivations in relation to the use of hotel management contracts (Group A and Group B)

Owners' motivations in relation to the use of hotel management contracts	
Group A	**Group B**
• Lack of knowledge and know-how in managing and operating hotel/resort • Have other businesses to take care of, and hotel business is not their core business • Expect to have a better business and operation performance/efficiency than managing by themselves. • Reputation and status issue	• Little or no knowledge and know-how in managing and operating hotel/resort • Have other businesses to take care of, and hotel business is not their core business • Expect to have a better business and hotel operations performance/efficiency

4.2.2.1.3 Summary of motivations in relation to the use of hotel management contracts of owners in Group A and Group B

In summary, it appeared that the motivations in relation to the use of HMCs of the owners in Group A and Group B tended to be broadly the same (see Table 4.6). Both groups of owner highlighted the lack of knowledge and know-how in managing and operating their hotels, having other business interest, and expecting to have a better business and operation performance/efficiency. The only difference noted was that the some of the owners in Group A highlighted the issue of reputation and status. These mean that for Thai owners, not only economical benefits, but also the non-economical benefits (e.g. reputation and status issue) are also important to them.

4.2.2.2 Hotel management companies' motivations in relation to the use of hotel management contracts

This section will illustrate the findings on hotel management companies' motivations in relation to the use of HMCs of Group A and Group B.

4.2.2.2.1 Hotel management companies' motivations in relation to the use of hotel management contracts: Group A

For the hotel management company in Group A, four main reasons were cited as to why the company uses the HMC as a key business model in expanding its number of properties in Thailand.

Compatibility of the HMC with the core business activity of the company was highlighted as a key factor. The core competence of the company in Group A is that of managing and operating a hotel property, not in investing for the ownership. Using the HMC as a business model for expanding would allow the company in Group A to use this core competence to create a business with local hotel investors. Indeed, as one executive explained, *'managing a hotel/resort property becomes our core business activity, not fully or partial owning the hotel properties. The hotel management contract allows us to have ... an opportunity to gain the management fee in return for managing the hotel'* (EXEC-4). Additionally, this strategy also had the advantage of reducing the amount of capital spending or investment required when increasing the number of hotel/resort properties, *'a hotel management contract allows us to have less financial spending in hotel property investment to increase the number of properties and to strengthen the network for competition in the hotel business'* (EXEC-4).

In commenting on Thailand, this respondent noted that the demand by investors/owners seeking hotel management services in Thailand continues, *'up until now, we always get invitations from owners to manage their hotels, both existing and newly constructed'* (EXEC-4). In this context, this respondent also mentioned restrictions on foreign direct investment, *'in Thailand, the foreign direct investment*

regulations do not allow a foreign company to have 100% ownership or a majority equity joint venture in the hotel business. Therefore, most companies, when they come to Thailand, have found that the hotel management contract would usually be the most practical way in doing business' (EXEC-4).

4.2.2.2.2 Hotel management companies' motivations in relation to the use of hotel management contracts: Group B

For the hotel management companies in Group B, interviewees highlighted three reasons that motivated them to use HMCs. The compatibility of the HMC with the core competence of the company was again cited as an important factor. As managing hotel properties tended to be a core competence, not investing in ownership in hotel property, using the HMC would allow hotel management companies in Group B to use their competence to service the owners in return for management fees, *'our special skill is to manage the hotel, where our core competence is, for a management fee.. The new structure of our company is to get the 100% management contract property, rather than [the] partial or 100% ownership of a property'* (EXEC-3). Similarly, as another respondent reported, *'over the last two years the board of our company announced that we will be purely a hotel management company. What we mainly do as a company now is to look for someone who wants to invest their capital for the hotel/resort property, and we manage it'* (EXEC-2).

The attraction of management contracts as a method of expansion to increase the number of hotel properties in the network was typically highlighted, *'this is because it needs less of our capital to do it'* (EXEC-1). This is an important consideration because, as another respondent highlighted, financial resource scarcity is an issue for the operators *'investing capital is not a good choice for expanding the hotel properties especially when we would like to place our properties around the world as we may not have enough capital'* (EXEC-2). This scarcity of capital is fortunately matched by an apparent scarcity of management know-how among Thai property owners for as one company executive reported, *'we, most of the time, get an*

approach from the owners, we do not approach them. ... We regularly receive an invitation from the owners' (EXEC-3).

4.2.2.2.3 Summary of hotel management companies' motivation in using hotel management contracts: Group A and Group B

In summary, motivations in relation to the use of HMCs, as highlighted by the hotel management companies in Group A and Group B, tended to be the same (see Table 4.7). These included the compatibility of the HMC with the core business activity of the company, reducing the amount of capital spending in investing while increasing the number of hotel/resort properties, and the demand from property owners for hotel management services. The only difference is that the company in Group A mentioned the restrictions on foreign direct investment as a factor.

Table 4.7: Summary of hotel management companies' motivations in using hotel management contracts (Group A and Group B)

Hotel management companies' motivations in relation to the use of hotel management contract	
Group A	**Group B**
• Compatibility of hotel management contract with the core business activity of the company • Reducing capital investment and increasing the number of hotel/resort property • Owners' demand in seeking hotel management services • Restriction of foreign direct investment	• Compatibility of hotel management contract with the core competence of the company • Reducing capital investment and increasing the number of hotel property in the network / financial resource scarcity • Existence of demand for hotel management services

4.2.3 Partner selection criteria

In relation to Research Question 5 'What are the partner selection criteria of (a) owners and (b) the foreign hotel companies when using hotel management contracts in Thailand?', this section will illustrate the findings on partner selection criteria of the owners and the hotel management companies. Factors that the respondents highlighted can be classified into two categories: (i) objective factors, e.g. financial, numerical, statistical or any tangible issues, and (ii) subjective factors, e.g. impression upon the negotiation, relationship with the operator, appropriateness of brand toward specification and location of the property, or any intangible issue.

4.2.3.1 Owners' partner selection criteria

In this section the findings on partner selection criteria of the owners in Group A and Group B when they are selecting a hotel management company will be illustrated.

4.2.3.1.1 Owners' partner selection criteria: Group A

From the perspective of owners in Group A, they highlighted objective factors such as an operator's financial projections and commercial terms, and the ease of accessibility to executives at the head/regional office.

The importance of financial projections and the implications of these in terms of the return on investment and cash flow was commonly cited by owners in Group A, for example, *'for our company, we also considered the feasibility of the forecast of return on investment and the cash flow, which had been proposed by the operator'* (OW-2). Not only was the operator's revenue projection important, but the costs incurred in terms of management and operating fees was also explicitly noted by one respondent, *'the main reason for choosing this operator was the cheaper administrative fees and other expenses when compared with the other operators'* (OW-2).

In some situations, as noted by some owners in Group A, the financial contribution into the project by the operators would show their sincerity and commitment. This was sometimes a key factor in selecting a particular hotel management company, *'most of the hotel management companies refused to invest in the project, although they proposed a very attractive financial projection, and showed the confidence in managing...our current operator showed sincerity by investing their own money into the project. It was not a token amount, but it was enough to have a say, while not enough to have a majority of shareholder. In our opinion, it was enough to show us sincerity'* (OW-1).

The need for ease of accessibility and communication with the head/regional office of the operator was often highlighted by the owners in Group A, *'we need to*

consider the difficulty of communication with the operator. For our operator, their regional office is in Bangkok, therefore, it would be easier for us to contact them' (OW-6). Similarly, *'with a regional office close by, it is easy access and convenient for us. Whenever we have an issue or problem, we could contact them directly and they would respond right away'* (OW-4).

For the subjective factors, owners in Group A highlighted the following factors: (i) the impression gained during the negotiation; (ii) the personal relationships and contacts; and (iii) the perceived appropriateness of the operator's brand for a particular hotel property.

The impression gained during the negotiation was, for some owners in Group A, important as they needed to feel comfortable with the operator, *'we got a good impression of this operator. Their team was more Asian style and the members were young, new generation and talented, although this operator is not Asian company. Furthermore, we felt that they were fair and not taking advantages of us...after talking and negotiating, we were getting along well with this operator rather than the others'* (OW-6). The perceived status and personality of the operator are often important, as one respondent noted that *'at the time of selection, there were not many international hotel companies available, especially in Thailand. Most of them were 'old school' hotel companies and we felt that they were arrogant'* (OW-1).

Personal relationships and contacts were also highlighted as an important factor, *'one of our board members personally knows an executive of this hotel management company. This was the key reason why we decided to work with this operator'* (OW-3). Similarly, personal recommendations were also cited as being important, *when we were looking for the operator, personal relationships would be a key factor. We got a connection and this operator had been introduced to us. After talking with their executives, we finalised the deal'* (OW-4).

The perceived appropriateness of brand toward the specifications and location of the property were two important factors mentioned by several owners in Group A. The

appropriateness of a given brand would depend on many factors such as: the owner's personal preference; the characteristics of the location; the nature and specification of the existing property or project; the target market; the existence of direct and indirect competitors in the same area, etc., *'for our property, as the hotel is situated on the river bank in the city centre of Bangkok, the luxury brand would enable us to compete with the other neighbour luxury hotels'* (OW-3). Another respondent also noted that *'in selecting an operator, we would know what level [in term of quality] of hotel we are building, who the customer will be, and which hotel company (operator) and brand is suitable for the property'* (OW-2).

However, it is debatable how subjective the process of selecting the specific brand actually is, as this is directly linked to investment level and clearly involves assessment of more objective elements, as one respondent commented that *'the number of outlets and facilities, size and number of rooms, and level of interior design would indicate the investment budget. After considering the investment budget and the potential of the location, we would know which brand would appropriate for the property'* (OW-4).

4.2.3.1.2 Owners' partner selection criteria: Group B

Owners in Group B highlighted objective factors such as financial projections and commercial terms, the availability of the brand in a given location area, and the profile of the hotel company.

The financial projection and its implications in terms of the project's overall investment were commonly cited as important factors, *'it is crucial that we would consider that the proposal is achievable proposal, not just a nice or high number in return of investment. If the operator cannot deliver the promised budget, what are we going to do as we invested too much money into the project?'* (OW-8). The commercial terms, such as management and other operating fees, were also important, *'we would consider the financial forecast, management fees (such as*

percentage of basic management fee and incentive fee), and all of the reimbursable expenses. These must be feasible and reasonable' (OW-10).

Owners in Group B looked at the relative availability and strength of the specific brand for a given location. This can be difficult in developed areas, *'at the time of searching [for a hotel management company], most of famous brands were already established in the province, including Sheraton, Marriott, Holiday Inn, Le Meridien, etc. For our property, there were not too many brands of the major hotel companies still available for us to select from'* (OW-7).

In profiling the operator, owners in Group B examined their past and current performance not only in terms of the business performance but also the number of properties and rooms in each region and their percentage of growth, *'before we selected them, we looked at its past performance and the current situation and its brand in Thailand'* (OW-9). The operator's current market position was seen as important, for as another respondent noted *'we would look at and consider the number of properties, the number of rooms, the number of brands, and distribution ...the more properties, the more potential of the hotel management company and the strength of its marketing network'* (OW-7).

The need for business growth and performance wase balanced with the need for stability and depth of strength, *'we need to look at the hotel management company, whether they are a one-man-show or a team-working company. Commonly a smaller hotel management company would rely on particular persons; this would not be secure for a long period management contract'* (OW-10). In addition, the consistency of service standards was a factor to be looked at, *'during selection stage, some hotel companies have many properties in Thailand or South-East Asia, we did a survey or visited their current properties to see how their service standard is. We found that for a particular brand, there was high degree of variation of the consistency of service standard. Therefore, we are not sure about their service standards and we hesitated to select them'* (OW-7).

For the subjective factors, owners in Group B highlighted intangible issues, such as the relationship with the operator, and the appropriateness of the brand toward the specifications and location of the property. The importance of personal relationships/contacts was cited by several respondents as a crucial factor, *'the chairman of our company has a very good relationship with high level key executives of the operator. It helps us a lot in many ways, such as in operations and in developing the new property'* (OW-9).

Owners in Group B typically highlighted the perceived appropriateness of the brand toward the specifications and location of their properties as an important factor in inducing them to select a particular hotel management contractor. The appropriateness of a given brand would depend on factors such as the characteristics of the location, and the nature and specifications of the existing property/project, *'in the selection process, we need to consider the location, business potential and nature of the property. After consideration, we would know which brand would potentially [be most] appropriate for the property'* (OW-9). Another respondent noted that the nature and specifications of the existing property/project is a key factor, *'as our property has nearly 700 rooms with leisure and business facilities, it is unlikely for us to use a very luxurious brand. However, it would be better for us to use an upper class or 4 stars brand'* (OW-7).

However, as indicated earlier, it is debatable how subjective the process of selecting the brand really is. This is because the process of selecting a brand is also related to the level of proposed investment, *'for our company, if we have a piece of land to be developed as a hotel property, we would set up an analysis team to project and to decide how we could use this land to maximise the profit. Which type of property would give us the best yield? Will it be a three, four or five star property? And we will look at our budget, and consider if we could afford the investment or not'* (OW-8).

4.2.3.1.3 Summary of owners' partner selection criteria: Group A and Group B

In summary, for the partner selection criteria (see Table 4.8 below), in terms of objective factors, both owners in Group A and Group B highlighted the factors of financial projection and all commercial terms. However, between the two groups, the owners in Group A highlighted ease of accessibility to the executives at head/regional office, while the owners in Group B highlighted other factors, such as the availability of the brand in a given location, and the profile of the hotel management company. In considering subjective factors, the criteria of personal relationships and contacts, and perceived appropriateness of brand toward specification and location of the property are cited by both groups of owners. One difference is that the owners in Group A highlighted the importance of impressions gained during the negotiation process.

Table 4.8: Summary of partner selection criteria of Thai owners (Group A and Group B)

Thai owners' partner selection criteria			
Objective factors		**Subjective factors**	
Group A	**Group B**	**Group A**	**Group B**
• Financial projections and all commercial terms • Ease of accessibility to executives at head/regional office	• Financial projections and all commercial terms • Availability of the brand in a given location • Profile of hotel management company	• Impressions during the negotiation (need to feel comfortable, perceived status of operator) • Personal relationships and contacts • Perceived appropriateness of brand toward the specifications and location of the property	• Personal relationships and contacts • Perceived appropriateness of brand toward the specifications and location of the property

4.2.3.2 Hotel management companies' partner selection criteria

In this section the findings on the selection criterion used by the hotel management companies in Group A and Group B when selecting a hotel owner as their partner will be illustrated.

4.2.3.2.1 Hotel management companies' partner selection criteria: Group A

For the company in Group A, the head office respondent highlighted objective factors such as the profile of the owner, the business forecast, and the location of the project. In profiling the owner, the company in Group A examined the business track record of the owner, *'just like getting married, both parties must be compatible. For us as an operator, the reputation, the kind of the business, and the track record of the owner are very important'* (EXEC-4). Additionally, the financial strength of the owner was of importance, *'it is very important to know that the owner has enough financial support to run the hotel business'* (EXEC-4).

The business potential forecast of the hotel/resort project was also cited, *'another factor is that we also consider the business potential forecast of the property in five to ten years'* (EXEC-4). Of particular importance is the potential level of management fee to be gained, *'we would forecast the amount of management fee that we could possibly make with the specific property'* (EXEC-4). Finally, the location of the project was also highlighted as a key factor, *'we need to consider the location very well before placing our property as it could strengthen our network and reflect upon the possible revenue to be gained'* (EXEC-4).

For subjective factors, the respondent cited that the attitudes and perceptions of owners towards the business vision of the hotel management company was important, *'the normal reaction from most of the people [hotel owners] is that we have a property here and why would we place another one; and will they compete internally with each other? Most of the people [hotel owners] would ask me how I could make enough business as there are so many hotels. Some of them feel comfortable with our strategy, while some may not. We look forward to working with the owners who understand and feel comfortable with our nature'* (EXEC-4).

4.2.3.2.2 Hotel management companies' partner selection criteria: Group B

Hotel management companies in Group B highlighted objective factors which included the profile of the owner, financial issues including business forecasts, possible management fee gain, and the location of the project.

In profiling the owner, hotel management companies in Group B typically cited that the business track record of the owner was an important factor, '*we would [need to] know who you are, what is your business vision, what is your business track record, have you walked-away from other deals, have you declared bankruptcy. We would like to work with the good corporate citizens; we do not want to work with someone who has a bad business record. We have no preferences for colour or gender or whatever. The company looks pretty much at corporate governance, are they responsible businessmen?*' (EXEC-2).

The financial strength of the owner was cited as a key factor by several respondents, '*we are looking for an outstanding company or individual that has an excellent track record in business and has the assets or is rich enough to do it*' (EXEC-1). The hotel investment potential of owners was also highlighted, '*we also want not only one owner with one hotel, but two, three, or four hotels [with an owner]*' (EXEC-1).

The business forecast was usually cited as an important factor, '*we will do a forecast, probably for ten years, and that forecast would give us a clear picture of how the business is going to look in that period of time*' (EXEC-1). The level of management fee which could possibly be achieved from the project was frequently highlighted, '*our objective is to make sure that we [can] earn a reasonable fee and [that the] owner could cover all obligations and have reasonable profit*' (EXEC-1). Similarly, '*we also looked at other financial aspects, including potential management fee to be gained*' (EXEC-3).

The location of the project is also a crucial factor and was cited by several respondents, '*we look into at the strategic location where we want to be*' (EXEC-3). Another respondent stated '*therefore the criteria were to find an outstanding*

company or individual with the property located in the place where we want to be' (EXEC-1).

In discussing subjective factors, the hotel management companies in Group B highlighted the factors of perceptions and attitudes of owners towards the brand, '*we are looking for an outstanding company or individual [who] feels comfortable being associated with our brand [we are] very protective of that*' (EXEC-1). Owners taking a long term perspective of the partnership was also highlighted as being important, '*we are looking for an outstanding company intending to be in a long-term partnership, this is very important as we will be in this thing for 15-20 years, and we would like to stay in this relationship for 15-20 years or more and expect to find a relationship like that*' (EXEC-1). Likewise, '*we aim to form and to manage the hotel for the long-run. We do not want to go and put our name on the property for a short period of time*' (EXEC-3).

Table 4.9: Summary of partner selection criteria of hotel management companies (Group A and Group B)

Hotel management companies' partner selection criteria			
Objective factors		**Subjective factors**	
Group A	**Group B**	**Group A**	**Group B**
• Profile of owner (business track record, financial strength) • Business forecast and level of management fee • Location of the project	• Profile of the owner (business track record, financial strength, hotel investment potential) • Business forecast and possible level of management fee gain • Location of the project	• Attitudes and perceptions of owner toward business vision of the hotel management company	• Attitudes and perceptions of owner toward brand and business vision of the hotel management company

4.2.3.2.3 Summary of hotel management companies' partner selection criteria: Group A and Group B

In summary, considering the hotel management companies' partner selection criteria, it appeared that both groups tended to highlight the same criteria with only slight differences in details (see Table 4.9 above). In terms of objective factors, they highlighted the criteria of the profile of owner, the business forecast and the level of management fee, and the location of the project. The difference is that the companies in Group B highlighted the factor of hotel investment potential in the

owner profile. For the subjective factors, attitude and perception of owner towards the management company's business vision are cited by both groups.

4.2.4 Hotel management contract negotiation

In relation to Research Question 6 'What are the key issues and the nature of hotel management contract negotiation in Thailand?', this section provides the findings on HMC negotiation. These include the nature of the HMC negotiation process and the determinants of bargaining power in contract negotiations.

4.2.4.1 The nature of the hotel management contract negotiation

In this section the findings on the nature of the HMC negotiation of both Group A and Group B will be shown.

4.2.4.1.1 Nature of the hotel management contract negotiation: Group A
In the case of Group A, initially, normally an owner would issue an invitation letter to a selected number of operators inviting them to 'tender' for the contract to manage the property. This can be on a one-by-one approach, '*we normally approached the hotel companies one by one by sending the invitation letter with details of the project*' (OW-4). Alternatively, it might involve approaching more than one operator, '*in 1988-89, we looked for the hotel company to manage the property. There were a couple of international hotel management companies who had been approached*' (OW-2).

In some cases, the hotel management company (as operator) approached an owner seeking the opportunity to manage a specific property, '*at that time this operator had no hotels in Thailand. They were looking for an opportunity to manage a hotel in Thailand and they got in touch with our company*' (OW-5). Similarly, '*sometime the operator came in by themselves after they knew that we were looking for an operator*

or heard that the other operators had approached us' (OW-4). In addition, in a situation where there is competition to win a particular deal, owners recognised the positive effects of operator competition, '*if the operator knows that they are not the only operator who is interested in managing the property, they would provide us a special deal to beat the other operators'* (OW-4). When there is interest, after accepting the invitation, an evaluation of the project is done by the operator, '*after receiving the invitation letter, if interested, we would do a business forecast and inspect the site or existing property to see feasibility*' (EXEC-4).

Before starting negotiations, parties would typically establish a framework, or conditions, to apply to the process, such as the time-frame, a restriction on talking with other companies or owners, confidentiality of the negotiations and so on, '*we would ask them to keep negotiation confidential as we invited them first. If they are interested, we will sign a contract with them. If they need time to consider, we will give them a period of time and we will not talk to the others [hotel management companies] until we get an answer from them'* (OW-4). A similar stance was voiced by an operator, '*we also do discuss with owners to set the framework or conditions for the negotiation, such as confidentiality, time-scale, limitation to talk with the others'* (EXEC-4).

It is normal that a draft of HMC is proposed by the operator to the owner of the hotel property for consideration, '*normally all of the hotel management companies have their own template or standard contract. Owners do not have to sign a contract everyday or as often as us. Normally the owners will rely on the hotel management company to provide them with the proposed contract and our company also have our own standard contract which will be given to the owners to review before signing*' (EXEC-4).

In reviewing the contract, owners would typically consider the draft of the HMC with a lawyer and will raise any issues where there is disagreement, '*we worked with the lawyer to analyse and to consider the proposed contract. If there was any issue that we were unhappy about, we would raise the issue and negotiate until reaching a*

mutual agreement' (OW-3). Given the source of the contract document, the following observation by one owner is probably not surprising, '*as the contract was drafted by the operator; a lot of things in the contract were biased to the operator. After receiving the draft contract, we hired a lawyer and professional hotel consultants to review it and to identify all the issues to be negotiated*' (OW-1).

From the perspective of owners in Group A, as typically discussed, there are four main concerns in the negotiation of the HMC, which are the financial arrangement, the length of the contract, degree of involvement in hotel operations, and the selling of the property.

In terms of finance, the main issue concerns the types and amount of management fee, '*for the management fees, it was the first key question of the owner to the operator. How will they charge for basic fee, incentive fee, and marketing fee?*' (OW-1). In addition to the level of fees, the variety of fees charged was a common area of concern for owners, '*we carefully consider the type and rate of the management fee... We thought that there were too many types of management fee - that is basic management fee, incentive fee, marketing fee- and the rate of each management fee was too high, so that we negotiated for fewer types of management fee*' (OW-6).

The level of hotel operations involvement was also typically cited as an issue, though some owners are relaxed about this matter '*generally the biggest point that they might feel uncomfortable with was that we gave management control of the hotel property to the management company and GM to run the hotel as he/she would like to do. A lot of owners may not feel comfortable about it*' (OW-1). Other owners might be more conscious of the potential tension between the rights of ownership and the operational control of the property, '*[the] owner is an investor and the property belongs to him, therefore, sometimes owners can make a stand for some issues that can be non-negotiable. Especially for the issues, that may limit the rights of the owner toward the property, such as involvement in the operations'* (OW-5).

The length of the contract was also highlighted as an issue. This appeared to be a particular concern in those instances where an owner might be unsure about a particular operator, '*normally a owner would prefer a short term contract for the first contract signing as we are not sure about the operator and we could pay more on termination costs if things go wrong. After the first term and increased confidence and trust, in later contracts both owners and operators normally look for 8-10 years contract'* (OW-2). In some cases, selling a property or changing an owner is an issue, particularly in those cases where the owner is a property developer, '*as we are a developer, we also need to carefully look at the issue of property sale. In our case, we need to pay a termination fee if the operator cannot be retained to manage the property with the new owner*' (OW-4).

In the negotiations, there are likely to be some issues that neither party wishes to discuss, however agreement may frequently reside on the ability of owners and operators to reach a workable compromise, '*there will be certain things that both sides will not be able to or do not intend to negotiate and it comes to the matter of compromise. We may start the negotiation with a hundred points, and we must work by breaking them down as much as we could. Therefore, we could have only few points at the end to finish them up*' (EXEC-4).

From the perspective of the hotel management company in Group A, there are three main concerns in the negotiation of a contract. These are the protection of the brand standard, the involvement of the owner in the hotel operations, and management fees.

Protection of brand standards is significant because a failure to meet standards would directly damage the brand and it would negatively affect the hotel management company in the long-run. Consequently, the hotel management company places a great deal of emphasis on the consistency of brand standards across their properties, '*for us, it will be on brand standard as the company would not like its brand to have inconsistence in standard throughout the world such as room size, specification of in-room facilities or amenities, and safety standards*' (EXEC-4).

Management fees are also a key concern. This is because, for the hotel management company, management fees would be a key source of revenue in using a business model of HMC, '*the most common issues that both parties discuss in the negotiation would be all of the commercial terms including the fees. For us, it would affect our level of revenue*' (EXEC-4).

With regards to the involvement of owners in the hotel operation - i.e. approval of finance (budget and capital expenditure) and the key hotel management positions - the operator in Group A does realise that by their nature, Asian owners would like to know how the hotel management company operates their property. Therefore, the operator in Group A indicated that it tended to adjust its management style and to be more open by giving some flexibility for the owner to be involved in hotel operations, '*the reason behind our success is that we know how to adjust our management system/management style to match and to compliment the need, expectation and requirement of our partners. Most Asian owners would like to see how much you buy of this and that....and would like to check or approve the GM, purchasing, or major FF&E. ... they would like to have more say in that respect and it comes to the matter of compromise*' (EXEC-4).

4.2.4.1.2 Nature of the hotel management contract negotiation: Group B

For Group B, the owners would commonly issue an invitation letter to the operator for managing their property under a management contract, '*we sent an invitation letter to the hotel management company*' (OW-7). In some cases, owners issue an invitation to more than one operator, '*once we have issued the invitation letter to the operators, we do inform them about our project such as concept, size, and location of the hotel; and who (other hotel companies) we did issue the letter to. Our company does not rely on, or is associated with one hotel management company. Regarding our company policy, we must call for a bid from at least 2-3 the hotel companies*' (OW-10). In addition, there is a perceived positive effect from competition, '*therefore, there would be competition among hotel companies in order to get the deal and it would be a benefit for us*' (OW-10).

Producing a business forecast, and inspection of the hotel site or existing property are cited as key activities for the operator after receiving the letter of invitation, '*after receiving an invitation from owner, before talking or discussing about the terms and conditions in the contract, we will do a forecast, probably for ten years. Then, if interested, we would do an inspection on the hotel site or existing property*' (EXEC-1). This process was confirmed by another operator, '*after receiving an invitation letter, ... if interested, we need to look at the business opportunity and make a forecast. Then, make an inspection of the existing property or location/site*' (EXEC-3).

Discussion and agreement on frameworks and conditions concerning the negotiation were frequently mentioned, '*we and the operator would agree on main frameworks and principles before moving into the details in the contract*' (OW-7). Time frame, confidentiality, and competition restrictions might be an issue, '*at first normally we and owner would sign a letter of intention in order to agree to work together for the deal in the specific period of time, and not disclose any of information. The owner would not deal with the other hotel companies and the hotel company would not go for a talk or get another deal with the other owners*' (EXEC-2).

The hotel management company typically proposes the draft of the HMC to the owner for consideration, '*normally we propose the contract to the owning company to consider*' (EXEC-1). Similarly, '*we would propose the draft management contract for the owner to consider. The draft of the management contract is the standard format contract with the adjustment for a specific hotel. This is because we are hotel management company and we have to manage hotels around the world under the management contract, and in practice, it would be easier for us to propose the terms and conditions in the contract rather than consider terms and conditions in the proposed contract from each owner*' (EXEC-2). This situation was confirmed by property owners, '*as the operator has a standard contract, they proposed the contract to the owner to consider*' (OW-9).

Usually after receiving the draft of the contract, owners, along with a lawyer and/or a professional hotel consultant, will review it and raise any issues where they disagree, '*after receiving the proposed contract, we along with the lawyer would consider and pick up the issues that we were unclear or unhappy. Then, we could raise these issues and make negotiation until reaching mutual agreement in the meeting*' (OW-7).

For the owners in Group B, in the negotiation of the HMC, their typical concerns covered issues such as financial arrangement, methods of performance monitoring and evaluation, owner involvement in hotel operations, impact of sale/change of ownership of the hotel property, and the competitiveness of property.

Financial issues tended to concern the management fees, '*beside the forecast of business, we need to consider the type and the amount of management fees. As it would affect our bottom line, we would make a negotiation if we think that it is too high and unfair*' (OW-7). This highlights that it was not just the level, but the range of fees that required owners' attention and their assessment of how realistic these were, '*management fee, such as percentage of based fee and incentive fee, all of the reimbursable expense. If the proposed type and amount of management fees are unrealistic, we would raise an issue and seriously discuss about it*' (OW-10).

The methods of performance monitoring and evaluation were cited as an area of negotiation, '*we need to discuss and to agree the criteria that could be used to evaluate the performance of the operator. For both properties, we used comparison of RevPar of the competitor set in the same category*' (OW-10). The role of the budget as a control mechanism was also subject to negotiation, '*the operator asked for a deviation of the number in the budget because it may be risky for them to achieve. However, we would like to use target budget without any deviation in controlling the performance of the operator*' (OW-9).

The owner's involvement in the operation of hotel property was also highlighted as an issue for negotiation, for example, the right of approval on hotel executives

selection, '*the hotel company proposed us to approve only a recruitment of General Manager, but we asked for a right to approve the recruitment of three key hotel executives, which are General Manager, Financial Controller, and Director of Human Resources*' (OW-10).

Another topic of negotiation was highlighted by the owners in Group B, who were keen to avoid unnecessary competition, '*we do not want to have any other same brand property in the same area as it would compete with our property. Therefore, we tried to negotiate for a restriction area*' (OW-9).

Selling or changing the ownership of property is highlighted as another area for negotiation, especially for the leased company, '*the operator would prefer the owner not to sell the property or share to, especially, the other hotel companies (competitors). However, our company is a leased company. We cannot control the other hotel companies if they are interested in buying our share from the market. Therefore, after identifying who the competitors are, the operator asked for a right to walk away from the contract if there is a sale*' (OW-9).

The operators might also have issues that they do not intend to negotiate upon. If both parties cannot reach mutual agreement on these issues, then either the owner or the operator might walk away as ultimately the deal has to work for both parties, '*when negotiating the contract, both parties need to find a common ground whenever there is disagreement on some of the terms, otherwise, we or the owner would walk away. ... It also has to work for us although we work for the owner. If we get to a situation where either we want too much or the owners want too much, then we will pull out and look for somebody else. It is business and the way it goes*' (EXEC-1).

For the hotel management companies in Group B, there were four main concerns which they were likely to focus upon during the negotiation stage, i.e. the financial arrangements, brand standard protection, involvement of the owner in the hotel operation, and the overall contract stability.

Financial issues included the commercial terms, and the management fees. This is crucial issue because the operators' source of revenue in the HMC comes from the management fees and the operators need to make a profit, '*our company is a public company. We are trading our shares in the stock exchange; we need to make a profit for the company. We are not doing something for nothing, even if we love the owner or the hotel property. It also has to work for us although we work for the owner. If we are not going to agree on fees, we will walk away*' (EXEC-1). Similarly, '*we also need to ensure that we could agree on certain commercial terms including management fees*' (EXEC-3).

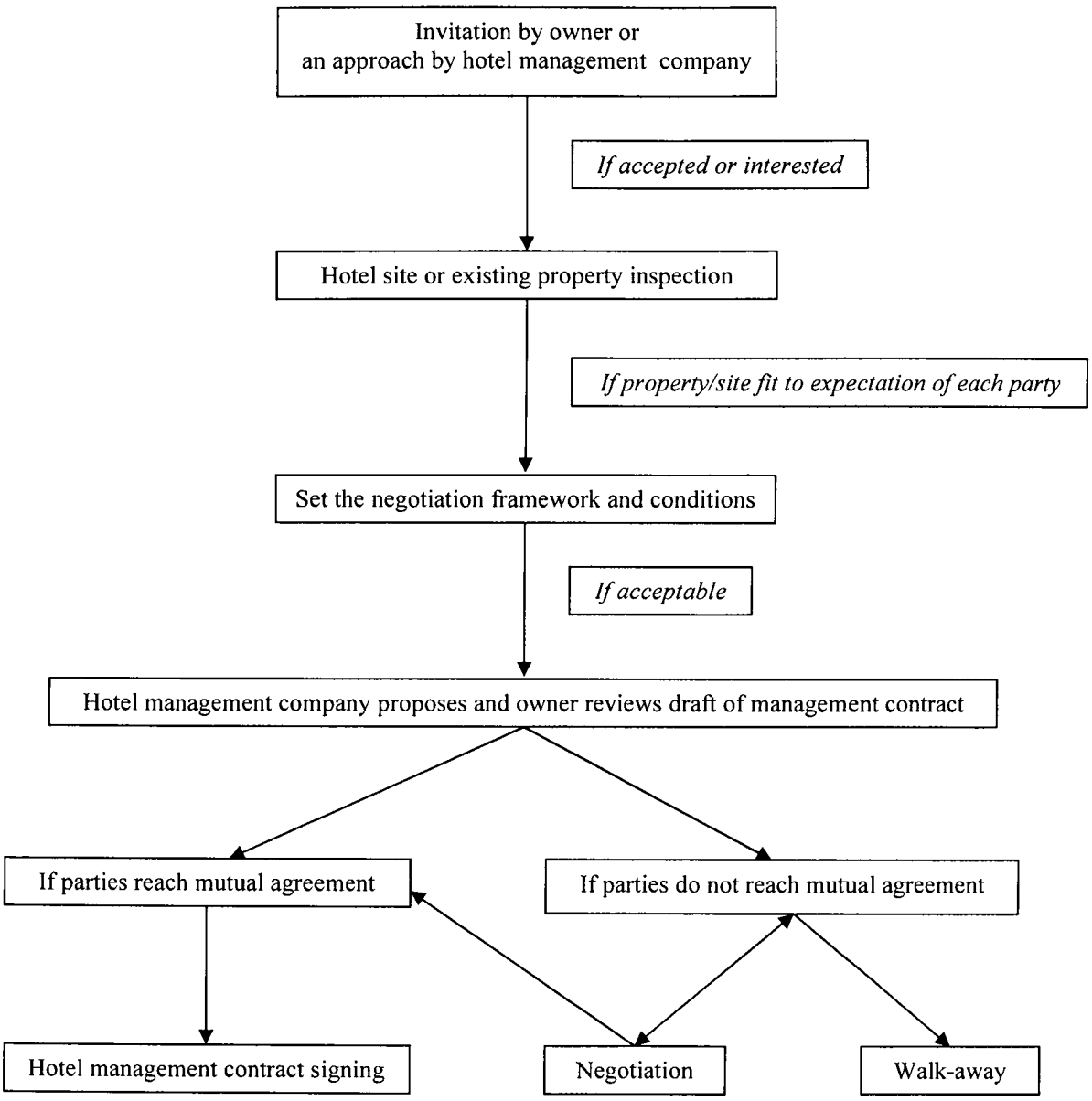
In protecting the brand standard, keeping the consistency of the brand standard is crucial as any inconsistency in standard would confuse the customer and have a negative impact upon the overall value and reputation of the brand, '*we need to ensure that the specification of the existing or new property must be in line with our brand standard and safety standard as in-consistency in standard will destroy our image and brand*' (EXEC-3).

Regarding the involvement of owners in hotel operations, in order to avoid conflict in running the property, the hotel management companies in Group B typically tried to minimise the level of owner involvement, '*if we are not going to agree on the owner's want on a level of involvement running in the business, which we consider unacceptable, we will walk away. We consider it unacceptable because we have been around for fifty years, we generally know what works or does not work in the relationship*' (EXEC-1).

In respect of stability in managing the hotel property, the hotel management companies in Group B typically tended to look for a long-term contract, '*we intend to be in a long-term partnership, this is very important as we will be in this thing for 15-20 years, and we would like to stay in this relationship for 15-20 years or above. We have many partners that are with us for more than forty years, and we expect to find relationship like that*' (EXEC-1). Accordingly, operators preferred owners who also shared a longer term perspective towards the arrangement, '*we aim to form and*

to manage the hotel in the long-run. We do not want to go to put our name on the property for a short period of time. Then we look into ... the owner that deals with the long-term relationship' (EXEC-3).

Figure 4.1: Key stages in contract negotiation process of both Group A and Group B



4.2.4.1.3 Summary of nature of the hotel management contract negotiation of Group A and Group B

In summary, the key processes of the contract negotiation of both Group A and Group B are the same (see Figure 4.1 above). The process would start with an invitation by the owner or, in some cases, by an approach from the hotel management company. Then, the hotel company would make a hotel site or property inspection. Before starting negotiation, both parties will reach initial agreement on the conditions and the framework of the negotiation. Following this, the hotel management company proposes a draft of the HMC which is submitted to the owner for consideration. If they reach mutual agreement, they will finalise and sign the contract. If they do not reach mutual agreement, they will raise their particular issues of concern, and these will form the basis for subsequent negotiations.

Depending on their individual motivations/needs, both the owner and the hotel management company would have their own topics of concern. These concerns would be raised during the negotiations. Most of the owners' concerns, in both Group A and Group B tended to be the same (see Table 4.10). These concerned the financial arrangements, the degree of owner's involvement in the hotel operation, and the impact of selling/changing of the ownership. However, the owners in Group A were also concerned with the length of the contract; while the owners in Group B were concerned with methods of performance monitoring and evaluation, and the overall competitiveness of the property.

Table 4.10: Summary of owners' concerns in the negotiation of hotel management contracts (Group A and Group B)

Owners' concern in the negotiation of hotel management contracts	
Group A	**Group B**
• Financial • Involvement in hotel operations • Selling of property • Length of the contract	• Financial • Involvement in hotel operations • Sale/change of ownership of hotel property • Methods of performance monitoring and evaluation • Competitiveness of property

For the hotel management companies, both Group A and Group B tended to have the same concerns regarding the negotiation of the HMC (see Table 4.11). They highlighted a concern with financial arrangements, the brand standard protection, and

the involvement of owners in the hotel operation. However, the only difference is that hotel management companies in Group B also cited a concern regarding the security of tenure in managing the hotel property.

Table 4.11: Summary of hotel management companies' concerns in the negotiation of hotel management contracts (Group A and Group B)

Hotel management companies' concern in the negotiation of hotel management contracts	
Group A	**Group B**
• Financial • Protection of brand standard • Involvement of owner in the hotel operation	• Financial • Brand standard protection • Involvement of owner in hotel operation • Security of tenure in managing hotel property

4.2.4.2 Determinants of bargaining power in the hotel management contract negotiation

In any contract negotiation, there would be key factors which could influence the result of the negotiation. Every negotiation would be unique in some dimension. At any particular time, these factors would determine how much bargaining power each party held relative to one another. This section will show the findings on the determinants of bargaining power within the HMC negotiation process in both Group A and Group B.

4.2.4.2.1 Determinants of bargaining power in the hotel management contract negotiation: Group A

From the perspective of respondents in Group A, a number of factors were highlighted that apparently influenced the bargaining power of each party, including the degree of 'who-needs-who', the experience and knowledge of the hotel business of the owner, the profile of the owner, the existing relationship between the owner and the hotel management company, degree of personal relationship/contact between the parties, the location of the project/hotel property, and the strategic objectives and expansion policy of the hotel management company.

Degree of 'who-needs-who'

The degree of 'who-needs-who' is typically cited as a crucial factor. At the time of negotiation, if the need of the hotel management company to operate the property is more than the need of the owner, or vice versa, the result of the negotiations tended to favour the party who is needed most, '*on the one hand, if the need of operator to manage the property is more than the need of the owner to let the others operate/manage their property. Then, the result of negotiation would be especially favourable to the owner, when compared with any normal deal. On the other hand, if the operator had already established their name and properties, and this next property would not give the operator much advantages or benefits to its overall network/profit, the bargaining power would tend to favour the operator, when the owner approach*' (OW-2).

Thus, In such a situation, where one party is in a better position than another, as the weaker party would be very flexible in order to gain what it desires, '*like in all key contract negotiations in hotel management contract or any other kinds of business, it is the matter of who need who more. ... If the girl wants to marry you, she will do anything she has to do. Or if I would like to marry the girl, I will do anything to make sure she marries me; I will promise that I will not smoke or drink or will take her on holiday every year*' (EXEC-4).

Experience and knowledge in the hotel business of the owner

The level of experience and knowledge in the hotel business held by the owner is typically highlighted as a factor which affects the result of the negotiation. Lesser experience and knowledge in the hotel business, the more difficult the exercise would be for the owner, '*we were not familiar and had no experience of the hotel business, thus the negotiation was the first time. Therefore, we did not know the industrial practice and the details in hotel management contract. And it was difficult for us*' (OW-6). As related to the level of experience and knowledge in the hotel business, the ability to raise the issues or to protect the benefit is recognised, '*hotel business experience and knowledge of the owner would affect the bargaining power. The more experience and knowledge would enable the owner to protect his own*

benefit and could raise the issue to prevent the operator to take much advantage' (OW-3). However, prior business experience in other sectors was clearly transferable when it came to the negotiation process, '*although we had done various kinds of business, we did not know the hotel industry practice. However, we could use our experience in contract negotiation for other business in negotiation with the hotel company*' (OW-6).

Profile of the owner

As typically highlighted, the profile of the owner is also a crucial factor. Financial strength and the future hotel business potential might be a key element which positively influences the result of the negotiation for owners, '*it would enhance the owner's position greater if the owner has strong financial position and a potential for hotel investment in the future, although the owner has limited experience and knowledge of hotel business*' (OW-2). The owners from other businesses who intend to invest in the hotel business are the preferred partners of the hotel management company, as cited by respondents, '*potential of the investor/owner for the future investment, especially investor from another business, who would like to invest in hotel business, would be a vital factor. We are preferred partner of this hotel management company in Thailand. They would like to work with the hotel property that is owned by a company who are not in the hotel business. The owning company develops the hotel property and the hotel management company runs it*' (OW-5).

Existing relationship between the owning company and the hotel management company

The existing relationship between the owning company and the hotel management company is typically cited as having a positive influence on the negotiation, '*the closer and longer the relationship of both parties, the more flexibility and the easier contract negotiation. When both parties really know and understand the interests and limitations of each other, they would behave with give and take*' (OW-2). Sometimes it might give the owner an advantage, '*the relationship between our company and the operator is the key factor...that is why we received a special treatment*' (OW-5).

Personal relationship/contact

The personal relationship/contact between the owner and the executive of the hotel management company is also highlighted as a factor that provides a positive influence in the negotiation, '*[the] relationship between the owner and the executives of the hotel management company would play an important role in negotiation. Although both parties had different interests, it would reduce degree of taking advantage from each other*' (OW-6). The relationship/contact might help make the negotiation process go more smoothly, '*the owner representative originally came from this hotel management company. He had been with them for 15 years before joining the owning company. Therefore knowing the operator, and knowing the owning company would make the life easier*' (OW-5).

In addition, with the presence of an existing relationship/contact might enable the operator to provide a degree of special treatment to the owner, '*the personal relationship between owner and operator would also be a factor in balancing the power. For example, we approached the operator after the hotel had been built. The specifications of the hotel building were not a match with some of the requirements of the brand (the operator could turn down the negotiation, however, they did not), this was resolved after signing contract by them agreeing to renovate some part of the hotel piece by piece until it meets the brand standard*' (OW-3).

Location of project/hotel property

The location of project/property is highlighted as a factor which may enhance the bargaining power of the owner, '*if we have a nice location to build the hotel, it would enable the operator to work with us*' (OW-3). Similarly, '*location would enhance the bargaining power of the owner*' (OW-4). To have a hotel property in a specific location was, not surprisingly, very important to operators, '*we need to carefully appraise each project because it will fulfil our strategic location in the network, either increasing the number of properties or acting as a good flagship hotel*' (EXEC-4). Many respondents recognised that a property in a prime location would provide not only high business potential but also act as a landmark within the city,

'*the property would have a high potential in making a positive business performance. Thus the property could enable the operator to be well represented and it could be a landmark of the city*' (OW-4).

The strategic and expansion policy of the hotel management company

The number of existing properties under the hotel management company in the area could put one party in a better position than another. In some cases, it would place the owner in a better position in negotiation if the location of property is where the operator currently has no presence, '*if today our company has no any property in the city, and see the owner is building the hotel in the city, we would try very hard to convince the owner, by lowering the fee structures or offering something special for the deal, to give the hotel to us to manage which would be our first property in the city*' (EXEC-4). On the other hand, if the operators already have a number of properties in the area, then the bargaining power of the owner might be low, '*if the operator has already established its properties, putting in another property may not give them significant benefit; it would be difficult for the owner to negotiate the best deal*' (OW-5). This type of situation was also echoed by the hotel operators, '*if we already have two same brand hotels in the city, and the owner would like us to manage another under that brand, we are not so excited. We would like to have it but we would not have to fight very hard to have it*' (EXEC-4).

In some cases the hotel management company would attach strategic significance to a property and this would favour the owner. In other situations, gaining more market share might be a priority of the operator, '*sometimes the operator needs to gain more market share. After working with this operator at one of our hotel properties, we had a project to build a new hotel property in another area of Bangkok, and we approached them about managing the new property. The operator had no hesitation in taking the opportunity and they also offered a special deal*' (OW-4). Other owners also recognised this situation and its impact upon bargaining power, '*if the operator needs to expand their network by putting more of their properties in the area, they will do everything to put more properties*' (OW-5). In addition, the operator might intend to establish a flagship hotel in the city and this could be to the

advantage of the owner, '*in the case of one of our properties, at that time, this operator was looking for a hotel to be the flagship hotel for their brand in Bangkok. They gave us a special deal when comparing with the normal deal*' (OW-4).

4.2.4.2.2 Determinants of bargaining power in the hotel management contract negotiation: Group B

From the perspective of the respondents in Group B, the factors that would influence the bargaining power of each party in the contract negotiation included the degree of 'who-needs-who', the existing relationship between the owing company and the hotel management company, the personal relationship/contact, the profile of the owner, the location of the hotel property/project, the level of experience and hotel business background of the owner, the strategic and expansion policy of the hotel management company, and the level of demand by an owner towards a particular brand.

Degree of 'who-needs-who'

The degree of 'who-needs-who' is highlighted as a crucial factor. In this situation, it would require one party working harder in order to get a preferred partner, '*if someone come along and asks us to invest in a hotel in that city, in term of putting our flag, we would ask ourselves "is this city important to us?" We probably say no in making an investment. However, if that person wants us only to run the hotel for him, we probably say yes and it has to be in our terms*' (EXEC-2).

Level of experience and hotel business background of the owner

The level of experience and hotel business background of the owner would directly influence the negotiation result. The more experience and hotel business background, the easier the negotiation for owners, '*if we have experience or know their game, it would be easier for us to make a negotiation*' (OW-8). Prior experience and a hotel business background might help in protecting the owner's interests, '*knowledge/experience in hotel business of the owner or the negotiator would influence the result of each negotiation. The more sophisticated, the better the*

ability of the owner or the negotiator to raise the issues and to negotiate for benefit of his own business' (OW-9).

Existing relationship between the owing company and the hotel management company

The relationship between the owning company and the hotel management company is typically highlighted as a key factor. It provides a positive impact on the result of negotiation, '*so far, we received more degree of flexibility and more special treatment from this hotel management company than we expect. This may come from long-term relationship*' (OW-9). Similarly, '*the relationship with the hotel management company plays crucial role. We have a very good record with this hotel management company and received very good support and treatment from them*' (OW-8).

Personal relationship/contact

The degree of personal relationship/contact between the owner and the executive of the hotel management company is cited as providing a positive influence on the negotiation, '*the owner of our company personally knows the chairman of the hotel management company. This could make things easier at the beginning*' (OW-9).

Profile of the owner

The profile of the owner is typically highlighted as a factor that could put the owner in a better position during negotiations. For instance, reputation and financial strength, '*the reputation and the financial strength of our company is quite good. We have the capability to raise funds from financial sources and we are also reliable when we make a proposal for building up a hotel property. Whenever, we call for a proposal from the operators, a number of the operator would commonly respond to the call...so that we might be benefit from the competition*' (OW-10). Hotel business investment potential and the scope for building upon the relationship were also cited by respondents as a positive influence on the owner's position, '*this would enable us to have a better position and more bargaining/negotiation power. If we have only one property and no plan for expansion, then we would not have this*' (OW-9).

Location of the hotel property/project

The location of the hotel property/project could also put the owners in a better position during negotiations, as cited by respondents, '*the bargaining power would possibly come from the location of the property, if the property is located in a nice location; there will be high business potential and a number of operators will come to you*' (OW-8). As placing a property in the right location would enhance the potential competitive advantages, the operator may need to try harder in order to put its name on a particular property, '*we have no property in Phuket...it would be advantageous to have a hotel anyhow. Phuket is a strategic location, we could reduce our gap and it could strengthen our network. Therefore, compared to our normal deal, we might offer something slightly different*' (EXEC-1). Indeed, operators recognised that some important locations might require an investment contribution if these were to be secured, '*what we will do is to look at the strategic location, and there will be some places that we would have to sacrifice our capital for putting our flag*' (EXEC-2).

The strategic and expansion policy of the hotel management company

The number of existing properties of the hotel management company in the area is cited as important factor that influences the bargaining power of each party. In a situation where there is no existing property, the hotel management company might work harder in launching this flagship property, '*if we do not have any hotel in Bangkok and we consider that we must enter the hotel market in Bangkok, ...the company would have a look and possibly deploy some capital in order to put our flag in the city*' (EXEC-2).

In a situation where the hotel management company attaches strategic significance to a property/location would put the owner in a better position during negotiations. For instance, the desire to capture more market share, '*there were few properties under this hotel management company in Thailand at the time of negotiation, and there was none of their property in Phuket before. This hotel management company was also looking to increase their number of properties in Thailand, therefore, it was an*

opportunity for them to put their flagship property in Phuket. This might give us some favour' (OW-7). In some instances the opposite situation might occur, '*if there are other properties of the operator in the same area, and the market is tough, they will do it but it has to be on their terms. The bargaining power of the owner is very low*' (OW-10).

However, in some cases even a single property can have a significant impact on a operator's market position and thus provide the owner with a strong bargaining position, '*if the operator manages our property, it would become a big player in the market because our property has nearly 700 rooms, various size of function/meeting rooms (max 1,200 pax), full leisure facilities including spa, sport & fitness, pool, and large green area. Therefore, the work of the operator to make the property well known is easier. That is why in the past there were many hotel companies approaching us to manage their property*' (OW-7).

Demand of the owner toward a particular brand

The demand of the owner toward a particular brand can be a factor which can put the hotel management company in a better position. If the demand toward the brand is high, the bargaining power of the owner might be low as the hotel company would have a chance to select those owners who provide the most benefit to the company, '*by now, we are very fortunate that we can choose who we are entering into a partnership with. ... Our demand is high and this might give us some favour*' (EXEC-3).

4.2.4.2.3 Summary of determinants of bargaining power in the hotel management contract negotiation of Group A and Group B

In summary, see Table 4.12, the determinants of bargaining power in hotel management contract negotiations highlighted by respondents in Group A and Group B tended to be the same. These include the degree of 'who-needs-who', the experience and knowledge in hotel business of the owner, the profile of the owner, the existing relationship between the owning company and the hotel management company, the personal relationship/contact, the location of project/hotel property,

and the strategic and expansion policy of the hotel management company. However, there is a slight difference as respondents in Group B raised the issue of the level of demand from the owners towards a particular brand.

Table 4.12: Summary of determinants of bargaining power in hotel management contract negotiation (Group A and Group B)

Determinants of bargaining power in hotel management contract negotiation	
Group A	**Group B**
• Degree of 'who-needs-who' • Level of experience and knowledge in hotel business of the owner • Profile of the owner • Existing relationship between the owning company and the hotel management company • Personal relationship/contact • Location of project/hotel property • The strategic and expansion policy of the hotel management company	• Degree of 'who-needs-who' • Level of experience and knowledge in hotel business of the owner • Profile of the owner • Existing relationship between the owning company and the hotel management company • Personal relationship/contact • Location of project/hotel property • The strategic and expansion policy of the hotel management company • Demand of the owner toward a particular brand

4.2.5 Working relationship of the three parties in the operation of hotel management contracts

In relation to Research Question 7 'What are the roles of the three parties and their working relationship in the operation of hotel management contracts in Thailand?', this section will provide the findings on the working relationship of the owner, the head/regional office of hotel management company, and the hotel general manager (GM) in the operation of a HMC. This includes the roles of each party in the operation of a HMC, and the nature of the working relationship among the three parties.

4.2.5.1 Roles of each party in the operation of hotel management contracts

In the operation of HMCs there are three key parties involved in the working relationship, these are the owner/owner representative, the regional/head office of the

hotel management company, and the hotel general manager (GM). This section will provide the findings regarding the parties' roles in the operation of the HMCs.

4.2.5.1.1 Roles of each party in the operation of hotel management contracts: Group A

In Group A, the owner is either an individual or a group of shareholders who make an investment and own all of the assets of the hotel project, '*we are a company under the big umbrella of [name of the mother company], who is the owner of this property*' (OW-2). In the operation of the HMC, the owners are usually inactive and there will typically be owner representatives, '*the owner representative is a connector between the owner and the GM and also the operator*' (OW-1). The key responsibilities of the owner representative are to monitor the performance and co-ordinate with the GM and the hotel company as cited by respondents, '*as an owner representative, we need to ensure that the hotel property obtains an appropriate bottom line, to maximise net profit, to monitor and to control the performance of the operator. We also have to co-ordinate with both GM and the regional office of the hotel company*' (OW-5).

For the regional/head office of the hotel management company, the key task is commonly to play a supportive role for the hotel GM, '*we let him/her [the GM] run the hotel freely. We would play a supportive role and provide assistance when [the] GM calls for it*' (EXEC-4). All key aspects of operating a hotel property are supported, '*in the regional office, they have expertises in different area of the hotel to support each property if need assistance, i.e. IT, human resources, sales and marketing, engineer, public relations, financial*' (GM-2).

Monitoring the financial and operational performance of each hotel property is also a crucial role of the regional/head office, '*we are responsible for the GMs and the GMs report directly to us. We do the internal audit including department audit check and financial audit' (EXEC-4).* Coordinating/following up with the owner is also another important responsibility as cited by respondents, *'our executives meet with owner on a monthly, quarterly, or yearly basis*' (EXEC-4).

The hotel general manager (GM) is typically the key person in the running of the hotel property, '*I have responsibility for all aspects concerning the hotel property*' (GM-6). This situation is well understood by owners, '*the hotel management company and the owner do not run the hotel. The GM runs the hotel*' (OW-1). Ensuring a positive business and operational performance is cited as the GM's main task, '*I need to ensure that we have a positive business result, and the hotel operation is smooth and well managed*' (GM-7). Acting as a co-ordinator between the hotel management company and the owner is also a crucial responsibility, '*my job is pretty much to balance the owner and the hotel management company and to make both parties happy. I try to accommodate the owner, and also respect my company*' (GM-4). The need to serve two separate parties is inherent in the GM's role, '*I am also a co-ordinator between the hotel management company and the owning company. It seems that I have two bosses and I need to make both bosses happy*' (GM-7).

However, the GMs recognised the reality of their appointment and its implications, '*I am a representative of the hotel management company. My company selected me and the other GMs to be their representative on the property*' (GM-4). This role extends beyond the property level as it also involves a wider scope, '*the GM would also be ambassador of the hotel company within the city or community and GM has to develop and to maintain relationship with the community and to ensure the property has a good reputation by working with the community*' (GM-1).

With regard to the GM selection process for each property, most typically, the operator's regional office would propose the candidate and the owner would have the final say, '*according to the management contract, the hotel management company has a right to select and to appoint GM, but with the owner approval. The company will propose the list of candidates with a recommendation to owner for consideration and approving*' (GM-2). An initial 3 year term of appointment for the GM would be common plus two years optional extension. However, by mutual agreement with the owner and the GM, the term might be even longer, '*I have been with this property for five years already (3 years plus 2 year extension), and I am now in another two*

years extension, which is a special case' (GM-1). In addition, the owner is a key person in selecting and placing the GM as highlighted by respondents, '*the owner could recruit or change GM anytime*' (OW-4).

4.2.5.1.2 Roles of each party in the operation of hotel management contracts: Group B

For Group B, once again, the owner is commonly an individual or a group of shareholders, '*we are responsible for ... every hotel property which are the asset of [name of mother company]*' (OW-9). In practice, as the owner is typically inactive in the operation of the HMC, there will be an owner representative who acts on behalf of the owner to liaise with the operator, '*the owner representative is a middle man who is a co-ordinator between shareholder/the executive board of the owning company and the operator*' (OW-10).

The key responsibility of the owner representative is commonly to monitor performance in both the financial and the operational dimensions, '*we [are] responsible for the performance and everything concerning the hotel properties. We need to monitor and control the operator including day-to-day operation, revenue and expenditure, profit and loss, position of the property (where we are in the business/in competition), and maintenance of the property*' (OW-10).

For the regional/head office of the hotel management company, the key role in the operation of the HMC is to give support to the GM and his/her team in all aspects of operating the property, '*our corporate office would act as a support system. If I need more businesses from the West-Asia, I would call sale department at the corporate office to help us. They are very much there to prepare and to give us tools in running the hotel'* (GM-9). Monitoring the performance of the management team of each property is cited as another important head office task, '*we require the GM of each property to submit a monthly profit and loss account, the operational and departmental report, market share, three-month forecast, and some comment on the standard*' (EXEC-1). To co-ordinate with the owner is also another responsibility of

the regional/head office, '*I do visit all of our properties and meet the owner in my region occasionally*' (EXEC-1).

In the operation of a HMC, the General Manager (GM) typically acts as a co-ordinator and works for both the owner and the hotel management company, '*I am also like a co-ordinator of both the owner and my company*' (GM-8). Thus, the GM is a key person in running the hotel property in both financial and operational aspect, '*as a word 'general', it is generally responsible for the overall of the hotel. I need to ensure the financial well being, and smooth operation of the hotel*' (GM-10). Acting as a brand manager is also another task of the GM, as one respondent cited, '*as a GM of an international hotel company, we are the brand manager. We are managing the brand. It is important for the GM to understand the brand, drive it, and protect it. And we need to be clear with the owner that certain things must be done, and a certain standard must be kept at certain level at all time*' (GM-9). In addition, representing the hotel management company is another role of GM, as cited by one respondent, '*we have a GM ... to maintain a good relationship with the owner and the locals*' (EXEC-1).

In placing a GM for each hotel property, it was widely reported that the operator would propose the candidate to the owner for consideration and approval, '*the head office proposed the name of candidate to the owner, and then the owners make a decision in selecting the GM*' (GM-10). The term of GM is typically three to four years, with an option for extension, '*usually the contract is three to four years plus option for extension, which is depending on the satisfaction of both GM and owning company*' (GM-9). However, in some cases, depending on the satisfaction of the owner and the GM, the GM might stay longer than the stated term '*in practice, the length of term would depend on the relationship and the satisfaction of both parties (owner and GM). If performance is good and they are happy to work together, the term could be extended upon their mutual agreement*' (GM-11). In addition, the owner might request a change of GM at anytime, '*if the owner is not happy, he may request to change the GM after the first term or before*' (GM-11).

4.2.5.1.3 Summary of roles of each party in the operation of hotel management contracts of Group A and Group B

In summary, the individual roles of the three parties (the owner, the GM, and the head/regional office of the hotel management company) of both Group A and Group B are essentially the same (see Table 4.13). The owner, is an individual or a group of investors who own all of the assets in the hotel project, but typically inactive in the operation of the HMC. However, there is usually an owner representative who acts on behalf of the owner. The key responsibilities of the owner representative are to co-ordinate with the GM and the regional/head office of the operator as well as to ensure and to monitor financial and operation performance of the hotel.

Table 4.13: Summary of roles of each party in the operation of hotel management contracts (Group A and Group B)

	Roles in the relationship
Owner	• An individual or a group of shareholders who makes an investment, bears all of the risk in the project, and own all of the asset in the hotel project • Inactive in the operation of the hotel management contract • On behalf of the owner, owner representative is responsible for co-ordinating with hotel company and general manager as well as monitoring performance in both financial and operations
Head/regional office of hotel management company	• To give support in all aspect of operating a hotel property • Monitor the performance of management team of each property in both business and operation performance • Co-ordinate and meet the owner
Hotel general manager	• A key person in running the hotel property • Act as a co-ordinator and works for both the owner and the hotel management company • Ensures the positive business performance as well as the smooth and up to brand standard operation

In relation to the head/regional office of the hotel management company, its key focus is to play a supportive role in all aspects of operating the hotel, such as human resources, sales and marketing, information technology, etc. The head/regional office also monitors the performance of the management team of each property in terms of overall performance as well as co-ordinating with the owner. Lastly, the hotel general manager (GM) is typically the key person, who is charged with running the hotel property for both the owner and the operator and ensuring a positive business performance and a smooth operation that observes brand standards. The GM also acts as a co-ordinator for the two parties. In the GM selection process, the head/region office proposes the candidate to the owner for consideration and

approval. Normally the term of GM tends to be three to four years with an extension option. Owners normally have a right to request a change of GM during or after the first term of appointment.

4.2.5.2 Nature of working relationship among the three parties in the operation of hotel management contracts

This section will illustrate the findings on the nature of the working relationship among the three parties (i.e. the owner, the head/regional office of hotel management company and the GM) in the operation of the HMC of both Group A and Group B. As there are three key parties in the operation of a hotel management contract, the co-ordination among them can be divided into three parts, which are (i) the owner-the GM; (ii) the owner-the head/regional office; and (iii) the head/regional office-the GM. The nature of working relationship of each will be shown.

4.2.5.2.1 Nature of working relationship among the three parties: Group A

This section will show the findings on the nature of the working relationship among the three parties in the operations of HMCs of Group A. These include the relationships between the owner-the GM, the owner-the head/regional office, and the head/regional office-the GM.

4.2.5.2.1.1 Working relationship between the owner and the general manager: Group A

In the hotel operations, owner representatives typically have a close working relationship with their GM in managing the hotel property, '*we need to work closely with the GM. The hotel management company and the owner do not run the hotel. The GM runs the hotel, and report to the head office, and owner/owner representative*' (OW-1). In addition, the GM need to adjust to the working culture of the owner representative, as highlighted, '*I also need to adjust myself to the working culture of the owning company. Otherwise, it will be difficult to have a successful result in managing the property*' (GM-7). Accepting, convincing, and balancing are

key skills in minimising problems and facilitating smooth co-ordination, '*we need to work with the owners, hand in hand. We need to have the ability to accept their view, convince them to our view, and balance both. If we could get the balance, the problem is sorted. If we cannot get the balance, a small issue would be a major problem*' (GM-1).

Experience and knowledge of the hotel business is perceived as being crucial by some owners for effective co-ordination and control, '*the GM could not cheat or tell a lie as we know the business and industry*' (OW-1). It would also put the owner in a better position in controlling, '*if the owner has strong knowledge and experience of hotel business and operations, the operator cannot tell anything nonsense ... and would give more power to the owner as we could control and expect more output from them*' (OW-5). Similarly, '*the more experienced owner would get more control in their property, and more cover for themselves. And they will be more involved with the operations and more in control*' (GM-4).

The involvement of the owner in the operation is usual, although they are the institutional owner, as cited by many respondents '*yes, our owner is involved very much although they are big company. Most Asian owners would get involved in the operation, but not in a negative sense. They would like to be involved in order to know what is going on, to know the result, to know the problems, and to know the changes, which is fine and fair because it is their investment*' (GM-1). The character and flexibility of the operator is cited as a crucial factor which influences the degree of owner involvement, '*this operator is an easy going company, we can get as much involvement as we would like*' (OW-5). Involvement with a positive approach creates more understanding, as cited by one respondent, '*getting involved up to a point, helps us to understand, and helps them to justify at the same time. We always conduct the positive argument, and it is a rational discussion. We are open to listening to the new ideas; the hotel executives always propose any new idea to improve the hotel property*' (OW-1).

Owners typically look at the overall picture of the property, '*we will macro manage the property. We look at the market, what the hotel needs or does not need, the comments from people using it, and the things which help the hotel to generate more income/profit*' (OW-1). Similarly, '*we are working very closely with the owner of the hotel especially in the [strategic] management aspect*' (GM-7). Financial and general policy is highlighted by respondents, '*we normally get involved with the financial policy and general policy for the hotel property. [t]he GM always asked for owner's opinion on some major policies and decision making, such as major renovation project, staff bonus, key staff movement or promotion, promotion for boosting revenue*' (OW-6). Also, the importance of the selection of key hotel executives is typically cited, '*the GM is hired and decided on by the key hotel executives. When the GM has his candidate, he will consult, interview the candidate, and get approval from us*' (OW-1). The importance of getting key executive appointments correct was widely understood, '*we carefully select the key hotel executives such as the GM, financial controller, and purchasing*' (OW-6).

The owners typically have little or no involvement in day-to-day operations, '*we could get involved in the hotel management and operation as much as we would like to get involved. However, we do not get involved in the day-to-day operations or any micro management. We do not act as a second GM*' (OW-1). Several respondents cited that this approach was a healthy one, '*it is also good for managing the property and authority for the GM. It is good for the GM as the people will not feel that the GM is not in charge and that there is somebody else telling you what you have to do or making decisions for you. Staff will not get confused*' (GM-4). Thus, it could act as a form of motivation for the GM, as respondents cited that '*giving me a freedom in running the hotel property would motivate myself in doing the job*' (GM-3). In a rare case, a problem is raised when there is interference in the day-to-day operation, as cited by one respondent, '*although the management contract stated that the owner representative would not interfere in the day-to-day operation of the hotel, in practice, he tends to get involved, and it is a very dangerous thing as the owner representative tries to be the second GM and then starts to micro manage the*

property. This could cause a problem, although the business result is good' (GM-2).

The number of businesses of the owner is cited as being a factor in these being only loose working relationships/co-ordination with the hotel operations, '*in our case, as the owner has other businesses to take care of, we do have a meeting at least four times a year (quarterly meeting), unlike other properties which have monthly meeting, and the owner rarely visits the property*' (GM-3). Being not interested in the general hotel operations is highlighted by a property developer, '*as we are developer ... in practice, we have no person to visit the property and monitor the hotel operation. We never checked on the property*' (OW-4). Some owners are interested only in the bottom-line, '*I think that owner would not like to know how we operate the hotel property. However, they would expect us only to make profit according to the budget at the end of the month or year*' (GM-3).

4.2.5.2.1.2 Working relationship between the owner and the head/regional office: Group A

In the relationships between the owner and the head/regional office, respondents have highlighted that this is generally only a loose co-ordination. During the operation of a HMC, it has been typically highlighted that they are rarely in contact with each other unless there is an issue, '*if there is a matter, they will send a document to us. On the other hand, if we have inquires, we the normally contact them directly by phone*' (OW-6). Another respondent also noted that '*normally owner would bother the head office when something goes wrong with their hotel*' (EXEC-4).

4.2.5.2.1.3 Working relationship between the head/regional office and the general manager: Group A

In terms of the working relationship/co-ordination of the regional/head office and the GM, after giving the assignment to the GM, the regional/head office will typically not micro-manage the hotel and will let GMs manage the hotel property on their own, '*we let him/her [GM] to run the hotel freely. We give them a freedom, the ability to make decisions, and make them accountable. These are the key policies.*

We cannot rule over and be mothering them all the time. We must give them freedom and they must be accountable for their action. That is the best way to motivate and the best way to manage. There is no centralised management as in the early days anymore, just give them a guideline, manual and support, and then let them play' (EXEC-4).

GMs typically call for assistance where and when needed, '*the contact will be made, whenever we need assistance or have inquiries*' (GM-2). The back up role of head office is well understood, '*the supports are at all times available. Whenever there is a question or problem, the head office is be there to be called, i.e. director of operation, or all of the support department such as marketing, finance, human resource, technical, and IT*'(GM-6).

4.2.5.2.2 Nature of working relationship among the three parties: Group B

This section will show the findings on the nature of the working relationship among the three parties in the operations of HMCs of Group B. These include the relationships between the owner-the GM, the owner-the head/regional office, and the head/regional office-the GM.

4.2.5.2.2.1 Working relationship between the owner and the general manager: Group B

In case of Group B, in relation to co-ordination between the owner and the GM, it has been highlighted by respondents that the owner representatives typically work closely with the GM, '*we need to work closely with the GM because he is a key person in running the property*' (OW-7).

The level of knowledge and experience of the hotel business, as possessed by the owner, is cited as being important in terms of co-ordination and control. More knowledge and experience, equals more self-protection for the owner, '*I think that the owner representative is a very smart person. He has experience in the hotel business, and knows the market very well ... He knows what I know and I cannot tell him any stupid things ... sometimes, to be honest, I feel that he knows more than I*

know' (GM-8). Thus, this might help the owner to be in a better position for monitoring and controlling, '*we do have a team who have a strong hotel business background and experience. We monitor and visit all of our properties regularly. We could make a comment or recommendation on every aspect of the hotel, and would conduct a discussion with General Manager*' (OW-10). However, although at the beginning there might be a knowledge gap, these gaps will not last very long for, as cited by one respondent, '*the imbalance of the knowledge would be less and less after a certain period of time, the less knowledgeable party would learn very fast*' (GM-9).

Owners typically look at and get involved in the overall/general direction of the hotel, such as pricing policy, '*we would comment on certain thing which we feel that it is not appropriate in our opinion. For example, there was a case when neighbouring hotels cut down the room rate in order to increase the occupancy rate. When this situation happens, we would have a mutual understanding for pros and cons and agreement for the solution. If we do not decrease the room rate, we would have less occupancy rate and our level of revenue might be drop, and it is not our fault because of the market. On the other hand, if we also cut down the room rate, we would have less revenue as well, but our occupancy rate would be high*' (OW-8). Selection of key hotel executives is also typically highlighted, '*commonly the hotel company would propose the candidates for GM and hotel executives, however, we have a right to finalise the selection of GM and some hotel executives, i.e. director of operation, executive chef, food and beverage manager, financial controller*' (OW-7).

No matter how close the owner-the GM co-ordination is, no or very little owner involvement in the day-to-day operation was usually highlighted, '*after giving an assignment to the hotel company, we would trust them. We would not get involved in the day-to-day operation of the hotel*' (OW-7). Owners usually recognised that they were paying the operators to run the hotel and to try and do so themselves was self-defeating, '*my owner always tell me that we are not interested in running this hotel and this is why you are here, and why we pay you fees, and we will not interfere in the day-to-day hotel operations*' (GM-9). However, when there is an issue

concerning the hotel operation, the owners will typically talk or discuss directly with the GM, '*the owner will not get involved in the day-to-day operations of the hotel; however, we could visit and observe the hotel. If we have any comment, recommendation, or inquiries, we could ask GM*' (OW-10).

It has been cited by many respondents that inappropriate owner involvement will cause a problem, *'owners could comment, give feedback or have preferences. But they should not walk directly into the hotel and give a direct order to the hotel department head or staff. That means there is clearly some misunderstanding between the owner and the hotel management company on what the roles are. No one will get any benefit from this situation, only frustration*' (GM-9).

The degree of how close co-ordination is and the degree of owner involvement, will be affected by the interest of the owner, especially in the case of owners who are real estate developers, '*this is because they are real estate developer in stock market list and they are not interested in the hotel operations. They might come here and give the comment but they are not much interested in the day-to-day operation*' (GM-9). The total number of the owner's businesses is highlighted as a factor influencing level of involvement, *'this may be because the owning company has many businesses to take care of. If we could deliver the agreed budget, they would not spend much of their time to look at details in this property'* (GM-11).

4.2.5.2.2.2 Working relationship between the owner and the head/regional office: Group B

For the working relationship/co-ordination between the owner and the head/regional office, it appeared that they typically have a loose co-ordination. In practice, they are rarely in contact with each other during the operation of the HMC as cited by respondents, '*normally, the owner rarely contacts head/regional office in the normal situation or when there is nothing wrong with his property*' (EXEC-1).

4.2.5.2.2.3 Working relationship between the head/regional office and the general manager: Group B

In the working relationship between the head/regional office and the GM, it is usual that after assigning the task to the GM, the head/regional office would not get involved and would let the GM operate the property independently, *'the head office will not sit behind you and say this is good or bad. By the nature of this business, today the independent business unit need to be self-motivated, not motivated by someone who sit behind them all the time, it will never work'* (EXEC-2).

The head/regional office is commonly contacted by GMs when they have a problem and/or ask for assistance on the hotel operation, '*when we have inquiry or need assistance, we will contact them*' (GM-10). Another respondent also noted that, '*if I need more businesses from the West-Asia, I would call sales department at the corporate office to help us. If I have a problem with the revenue system or human resources, I would call the team in Singapore to help us on these issues*' (GM-9).

4.2.5.2.3 Summary of nature of working relationship among the three parties of Group A and Group B

In summary, the nature of the working relationship between the three parties (the owner, the hotel general manager (GM), and the head/regional office of the hotel management company) of Group A and Group B tended to be the same (see Table 4.14). In respect of the nature of the working relationships between the owner and the GM, they typically work closely but with little, or no, owner involvement in the day-to-day hotel operation. However, owners are always involved in the general policy or macro-management of the property. The number of an owner's businesses and their level of interest in the hotel operation are the key factors which influence the degree of owner involvement in the operation, and which determine how close between the parties is.

The working relationship between the owner and the head/regional office, by nature, is typically a loosely co-ordinated. They are rarely in contact with each other unless there is an issue which needs resolved, or something is wrong with the property.

Lastly, from the nature of the working relationship between the head/regional office and the GM, it appeared that the general policy of the head/regional office was to let the GM manage the hotel independently and not to get involved in the operation of each hotel property. However, GMs would contact the head/regional office whenever they had inquiries or needed assistance on an operational matter.

Table 4.14: Summary of nature of working relationship among the three parties (Group A and Group B)

Nature of working relationship among three parties		
Relationship	**Group A**	**Group B**
Owner - GM	• Owners and GMs typically work closely • None/less of involvement of owners in day-to-day hotel operations, but mainly in the general policy/macro picture • Loose co-ordination as too many other businesses, and not interested in hotel operation but only bottom-line	• Owners and GMs typically work closely • None/less involvement by owners in day-to-day hotel operations, but mainly in the general policy • Loose co-ordination due to number of owner's businesses, and interest
Owner-head/regional office	• Typically have loose co-ordination • Rarely make contact with each other, unless there is an issue, or something goes wrong with the property	• Typically have loose co-ordination • Rarely co-ordinate/contact with each other during normal situation of the operation of the management contract
Head/regional office - GM	• Regional/head offices will not micro-manage each hotel, GMs manage the hotel freely • Calling for/providing assistance concerning the hotel operation	• Head/regional offices will not involve in the hotel operation, GMs operate independently • Asking for/providing assistance on hotel operation

4.2.6 Controlling the operation of hotel management contracts

With reference to Research Question 8 'What control methods are used in the on-going operations of hotel management contracts in Thailand?', this section will illustrate the findings on controlling the operation of HMCs. As there are three key parties involved in the operation of a HMC, each relationship (the owner-the GM, the owner-the head/regional office, and the head/regional office-the GM), will be examined separately.

4.2.6.1 Controlling the operation of hotel management contracts: Group A

This section will show the findings on the issue of controlling the operation of HMCs of Group A, with reference to the relationships between the owner-the GM, the owner-the head/regional office, and the head/regional office-the GM.

4.2.6.1.1 Controls: the owner and the GM in Group A

With reference to the relationship between the owner and the GM, the need to monitor and to control the performance of the operator is crucial for the owners. There are several control methods which are typically highlighted. These methods include formal reporting, meetings (both formal and informal), results of bottom-line/annual budgets, incentive programs, performance benchmarking (comparisons), feedback from external sources, and property visits (observation).

With regard to reporting, the GM is typically required to submit a regular report, '*on a monthly basis, we submit MIS report (a full monthly report) to the owner. This is a formatted report that includes every single detail of the hotel property including financial (revenue, expense, profit), departmental report (human resource, food and beverage, room division, etc.), and all of the past month activities*' (GM-2). A "flash report" is also required daily, weekly, or every ten days depending on the agreement, '*we have daily report, which is called 'early bird report'. The flash result of previous day performance, which give us details of occupancy, average room rate, room revenue, laundry, food and beverage, and entertainment*' (GM-1). Similarly, '*we send a flash report of only the key figures and revenue, where we are standing at, every ten days*' (GM-6).

In terms of meetings, these can be either formal or informal. A formal monthly or quarterly meeting is typically required, '*we will have a monthly meeting with the owner representative to review and to discuss the past month performance, the future business and any issues which may arise*' (GM-2). Informal meetings/talks are also commonly organised, '*we regularly have an informal meeting or talk with the GM to update the situation or to discuss a particular issue if it should arise*' (OW-1).

The "bottom-line" result is highlighted as being an important thing, '*the number on the bottom line in the balance sheet is the biggest concern*' (OW-1). The comparison of the actual performance with the approved annual budget is commonly used, '*revenue and expenditure of the hotel is crucial, but the net profit is the key point. Actual performance compared with the approved budget is the agreed performance standard*' (OW-2). It is clear that the use of the budget and the actual numbers achieved is widely perceived as being critical, '*we monitor and control the operator by using an annual budget. Bottom line is crucial for us*' (OW-4). This is normally tied to the termination clause, '*in case of normal situation, they would use the past year budget and consider about the growth to set up the budget for the next year. If the operator fails to meet for two consecutive years the GOP target, the owner has the right to terminate this contract by giving six-month written notice to the operator*' (OW-2).

An incentive program is normally available to reward the GMs, and encourage them to achieve the target budget, '*we would monitor and strictly control by using the annual budget and the financial statement. The achievement of the budget will be tied with the incentive programs for the GM and the hotel executives*' (OW-6). In addition, achievement of the budget might influence the intention of the owner to become more involved in the hotel operation, '*as we have many businesses to take care of, we use mainly the annual budget/bottom line to control the performance of the operator. As long as the operator could deliver the annual budget, it would not be a problem for us. Therefore, we do loosely control and monitor the operations of the hotel*' (OW-3).

The use of performance comparison/benchmarking is typically cited as an effective monitoring method, '*it is a very important method for monitoring our property. If we have a chance to use this method, it is a must*' (OW-2). This method enables each property to examine how well the performance is on a relative basis, '*we can see how well we are in the business, and how far we can go when we compare with our competitor*' (OW-5). Another respondent also noted that, '*this would tell us if*

what we are doing is right or wrong. If we have 20% occupancy rate but the others have more than 60%, we would have a problem. It makes us ask ourselves a question when we look at the others. ... If the average room rate is far too high from the others, it could be good or bad. This is because we could lose our guest to stay in other cheaper property/competitors. If the rate is too low, it means that we are selling our product cheaply or our quality is not good enough. Therefore, we would revise our strategy' (GM-4). On the other hand, it might help predict the strategy of the other hotels, '*we could see how our neighbour's hotel strategy is, for example, sometimes the other hotels drop the room rate to increase the occupancy rate*' (OW-5). In addition, it might help to see the trend of the business, '*it also allows us to know the trend and where we are in the business*' (GM-3).

With the use of comparisons, the average room rate, average occupancy rate are important but it is RevPar, which is the key measurement, '*the most important thing is RevPar. Although we had a 100% occupancy rate, if we have not had the right room rate, it would mean nothing. Or we have a higher room rate, but have got less occupancy rate, it is also useless*' (GM-1). In addition, the target rank among the members might be set, '*it is a realistic assessment and we [the owner and the hotel management company] will set the target rank*' (OW-5). Normally the same level of hotel in the same area/location or direct competitors will be selected to be members of the competitive set, however, hotels of a different level might also be compared to give wider picture, '*they are not direct competitors, but it helps us as well to compare the limitation with these properties. With higher level properties, we would see how big the gap is, and how much we could increase the room rate. This would enable us to know how the market is going, and how we are doing in the business*' (OW-1). In some cases, internal comparisons might be made where there are other properties under the same brand or operator in the same location/area, '*we look at the other properties of our operator in Bangkok, they may not be our direct competitor but they are indirect competitor within a group*' (OW-1).

Not all of the hotels can use this method as there is not always an appropriate hotel/resort to be compared, '*we tried to use this method before, however, we found*

that it was not useful and did not show us anything as there were no appropriate competitors in the area to make a comparison' (OW-2). In those locations where there is no property of the same level, comparing with other major hotels is an alternative, '*we compared our property with the other major hotels in the city. However, these major hotels were on a different level (3-4 star property). It would enable us to know at least where we are in the hotel business in this area, and how well we are doing in the business*' (OW-6). In some cases, more sophisticated financial measurements are used, '*apart from bottom line, we also use financial techniques to examine ourselves including return on investment (ROI), interest rate of return (IRR), return on capital (ROC), and the current value of the property. So we thought that these monitoring methods would show us a real picture of our property*' (OW-2).

In situations where the owners have more than one property under different operators, they might internally compare the performance of each property, '*as we own many hotel/resort properties around Thailand which are managed by several different operators, we could possibly benchmark the business performance among our properties*' (OW-4).

Feedback from several sources, such as friends, business partners, local people/community, and current/ex-staff, is highlighted as an informal way to monitor properties by owners, '*the owning company always send their guests or business partners to stay in the property with the owner rate; this could be a business or vacation trip. This could also be an informal way to monitor the property*' (GM-4). Informal feedback appears particularly useful in the more provincial locations, '*as our province is not a big city and the owner is well-known, we could receive feedback/comment from our friends, and business partners. Most of the hotel staff were local people and they knew the owner quite well. Therefore, we often received feedback and comment from hotel staff on many issues such as management policy*' (OW-6). In addition, another respondent also cited that '*other things that we look at are subjective, for example, the reputation of the hotel in community, and the comment of our ex-staff or competitors about the hotel*' (OW-1).

To see what is happening in the hotel, a property visit/observation is generally cited as a crucial method, '*we regularly have a meal or have a meeting in the hotel, and also visit the property from time to time and talk to the staff*' (OW-1). Personal visits by owners, while important, do need to observe certain protocols, '*owners would come to the property often to see how we run things in the hotel. They may come to the hotel to have a meal, meet their guests, or even talk to the staff. However, while the owners visit the property, if there is a comment or suggestion, they will not talk directly to the staff, they will talk to me, which is a very good practice*' (GM-7).

4.2.6.1.2 Controls: the owner and the head/regional office in Group A

In the relationship between the owner and the head/regional office, although there tends to be only very loose co-ordination, there are a couple of controlling activities which have been highlighted. In terms of formal reporting, the GM of each property would make a report on behalf of the head/regional office. Meetings will typically be organised on a different frequency, depending on the situation of each property, '*our executives will meet with owners on a monthly, quarterly or yearly basis depending on the situation to review the strategic planning and profit and loss for the hotel*' (EXEC-4).

4.2.6.1.3 Controls: the head/regional office and the general manager (GM) in Group A

There are a couple of control methods used in the relationship between the GMs and the head/regional office which were typically highlighted. These are formal reporting, property audits and visits by the head/regional office executives.

With reference to formal reporting, GMs are required to submit a monthly report, '*the regional office gets the same monthly report as owner*' (GM-6). A two weekly report is also required to be submitted by the GMs, '*we send the same monthly report to both the owning company and our regional office. We send them a two-week forecast, a booking and financial report (revenue and expense), the key important numbers that would let them see where we are in the middle of the month*' (GM-4).

Each hotel property is typically formally audited on an annual basis and this involves a full departmental and financial audit, '*we do the internal audit including department audit check and financial audit. We do an annual appraisal of the GM; we would sit down with them and discuss the result of his hotel. It is a systematic review of the hotel performance and GM performance in terms of profit and loss, profitability, technical aspect, finance control aspect*' (EXEC-4). As one GM noted, *'our company has a system in place. There will be an internal auditor, to check back of the house, all of the documents, especially the financial and accounting department'* (GM-6).

The quality of service provided and the operation is also examined, *'our company also do a "mysterious shopper" once a year. The purpose is to check and to maintain the brand standard. The mystery guest will check-in into the property without any notice, examine the products and services, and give a feedback from the guest perspective. At the end of the stay, he will give us a report and discuss the issues, if any*' (GM-2). Guest comments/complaints are cited as another method used to monitor the service quality of the hotel operation, '*guests may make comment direct to the head office or via the guest comment card. The regional office will have report at the end of the month to see how we deal with it*' (GM-7).

The visit of executives from the head/regional office is commonly reported as a control method. However, the frequency of the visit varied depending on the situation of the property as highlighted by several respondents, '*if the hotel is in opening stage, they may come more often. On the other hand, if the hotel is well established, and running with a strong financial performance and result, and there is no irregularity in the rate, then the authority is given to the hotel management on-site, rather than controlled or micro-managed by head office*' (GM-6). Physical distance between the regional office and the hotel property is cited as another factor, '*the executives from the regional office would visit the property approximately two to four times a year. This is because we are quite far from Bangkok*' (GM-4). The status of the property, e.g. a flagship hotel, is also highlighted by one respondent as an influence upon how much attention it receives from the head office '*executives*

from the regional office visit the property often. This is because this property is currently a flagship property of our company' (GM-1).

In addition, a property's performance is often crucial for the future career of the GM, '*as we are an international hotel company, GMs are obligated to us; we have to take care of them in their career. If they do not perform well in the hotel level, they will know that the next assignment that they will get would not be good i.e. a smaller hotel or less demanding location hotel. GMs are very much motivated to perform well*' (EXEC-4). Incentive programs might also be tied to the performance, '*there is an incentive program for the GM. If they could achieve the budget, they would get financial reward*' (EXEC-4). These incentives could be calculated in a number of different ways, '*yes, there is an incentive program. If GMs could deliver the budget, depending on agreement, the incentive might be a fixed sum of money, a percentage from the excess, or a bonus calculated from the salary*' (GM-3).

4.2.6.2 Controlling the operation of hotel management contracts: Group B

This section will show the findings regarding controls used in the operation of the hotel management contracts of Group B with the reference to the relationship between the owner-the GM, the owner-the head/regional office, and the head/regional office-the GM.

4.2.6.2.1 Controls: the owner and the GM in Group B

In the relationship between the owner and the GM, there are several monitoring and controlling methods which have been highlighted, including formal reporting, meetings (formal and informal), bottom-line results, incentive programs, performance benchmarking (comparison), property visits (observation), and feedback from several sources.

In terms of reporting, the GM is commonly required to submit a full monthly report, '*on a monthly basis, we give the owner a full monthly report at the end of the month.*

This includes financial (revenue, expense, profit), owner return, departmental report (human resource, food and beverage, room division, etc.), and all of the past month activities' (GM-8). Another respondent also noted that, '*we prepare a monthly comprehensive report which shows how we perform, profit and loss, and all of activities in hotel*' (GM-9). A daily report is also typically submitted, '*we also give a daily revenue and expenses, and key figures report; therefore, the owner would know what is going on in the property daily*' (GM-8). As cited by one respondent, a weekly report is required to be submitted, *'the owner will get the weekly report which show some key numbers and figures*' (GM-9).

In terms of meetings, these are organised on both a formal and an informal basis. Formal monthly meetings are commonly organised, *'there will be a monthly meeting with the owner representative to review and to discuss the situation or any other issues*' (GM-10). These meetings are used for both review and short-term planning purposes, '*we [GM and owner representative] will have a monthly meeting to review and to discuss the past month performance, the future business and any issues which may arise*' (GM-8). The frequency of formal meetings can be less if there is a higher level of trust, as one respondent cited '*we usually have between four to eight owner-meetings (every two months) a year, so that it is very loose and unusual. This may be because I have been working for this hotel for fourteen years already, and I think that the level of trust is much higher. We used to have owner meetings once a month, and that is the usual thing*' (GM-9).

The use of informal meetings/talks is often cited, '*I [GM] and owner representative always informally meet at least once a week to talk and to update, and sometimes to discuss if there is an issue, for example, sales and marketing, the market in Bangkok, the wholesaler in Phuket and Bangkok, what the other hotels are doing, the market talk, government policies*' (GM-8). Different formats for these meetings were mentioned, such as the "meal meeting", *'there are informal meetings during each month, we would commonly have a dining meeting (lunch or dinner), [and a] morning or afternoon coffee meeting at least 2-3 times a month. This is to update the information and current situation of the property*' (OW-10). E-mail and telephone

are also used as a means of informal communication/co-ordination between owners and the GMs, '*if there is an issue, we and GM would communicate informally by using e-mail, or telephone*' (OW-8).

The bottom-line result is typically a crucial performance indicator, '*the business performance is the first priority*' (OW-8). Similarly, '*bottom line/financial results are the main indicator*' (OW-10). Achievement of the agreed budget might be a reason for less owner involvement in the operation, '*if the operator could deliver the budget and bottom line, we would not go asking for detailed information*' (OW-10). This pragmatism was widely evidenced, '*in practice, the best way to control our operator is to look at the annual budget. If everything is under the budget, it would be okay. It is not possible, and it is of no use, to audit every single spending item, and it could waste much more time to do it*' (OW-9). Failure to achieve the agreed budget is a serious matter and was typically tied with the contract's termination clause as typically cited by respondents, '*we agreed to have not less than 85% achievement of budget as the average would be not less than 75-80% of budget. If the operator cannot deliver the agreed budget for three consecutive years, we have got a right to terminate them*' (OW-10).

The incentive programs for GMs were invariably tied to the business performance, '*the achievement of the annual budget would tie with the incentive program of the GM and hotel executives*' (OW-7). This is commonly a financial reward and can be quite a significant amount, '*we do have an incentive program if we could achieve the target budget. It could be up to 30-35% of the total annual salary. It is also a good motivation'* (GM-9). Frequently these schemes will apply to the entire executive team, not just the GM, *'there is an incentive program in place for the key management team of the hotel. If we do well, there will be a financial reward that is tied to the financial result'* (GM-10).

Performance benchmarking/comparison is typically used and is considered to be an effective method of monitoring performance, '*the result of comparing would enable us to see where we are among our competitive set in one specific period. Even if we*

are in unexpected situation like SARS, it would show us how badly and how long it would affect the whole competition set, and how good we are in the difficult period' (OW-9). The value of such benchmarking was widely understood and appreciated by the GMs too, '*this could show us how well we are doing when compared with the competitor set. If we are doing business badly, and the other hotels also are the same, there is nothing wrong. If the others are doing well and we are average, there will be something wrong with us. So we could find out the way to resolve the situation*' (GM-11). An additional value of benchmarking was highlighting performance deviations by key competitor properties, '*if one of our competitors is doing very well and the others are doing average, we could also find out why our competitor is doing well in a particular month*' (GM-11).

In terms of the comparison approach, the information on average room rate, average occupancy rate and RevPar will be collected. However, RevPar is highlighted as being the key indicator to focus on, '*we compete on yield (RevPar) which is a combination between average rate and occupancy rate. That is the big factor that we compare and measure our success with the competitors*' (GM-10). Additionally, target ranking based upon the comparisons might be used, '*we agreed with the operator to target the rank in the competition set*' (OW-9).

In the selection of the members for the comparison set, the same level of hotels in the same area/location or direct competitors will be commonly selected. In some cases, different level hotels might also be compared to give a wider picture, '*the majority of members would be a same level property; however, we also select some slightly higher or lower level properties. This could enable us to see how well we are doing in the business, when compared with both our direct and indirect competitors*' (OW-7).

In a situation where there are the same or other brand properties in Thailand, an internal comparison might not be made because of differences in the nature of the properties, '*The information from the other hotel/resort properties under our company is also available. However, in my opinion, it does not make much sense to*

make a comparison as they are located in different areas and have different types of guest' (GM-9). The need to ensure comparisons with an appropriate selection of other properties was well understood by owners, '*we could not compare the performance among the other properties of our company because they are different in terms of location, nature of property (city or resort), target market, size of property, room rate, and seasonality*' (OW-9).

However, it has been highlighted that a comparison of operational issues (i.e. cost, number of staff) might be made across properties more widely, '*it would make sense only when benchmarking on the number of staff and remuneration and things like these. Within the Thailand cluster, we would know and compare how high is the profit margin, how high is the energy cost, how is the administration and undistributed expenses, and how high is the pay-roll. The percentage of the cost would be pretty much the same*' (GM-9). In addition, the percentage of gross operating profit (GOP) level might also be compared, '*the only thing that we may compare is the percentage of level of GOP. If there are more revenues/profits, there will be more potential to spend because it could maintain the level of GOP percentage*' (OW-9).

A property visit/observation is typically cited as a key operational monitoring method to see what is happening in the property, '*I normally visit a couple times a week, to see around the property and informally talk with the GM to update the information or to discuss the issue, if any*' (OW-7). As one GM indicated, '*either the owner or the owner representative visits the property regularly to see what is going on in the hotel. And they could come to the property anytime. If there is an issue, they will let me know*' (GM-10). Visits to the other same brand properties by owners was also highlighted as it would show the degree of differences or similarities, '*we commonly travel for business or vacation to see, and to stay in other same brand properties around the world. Especially, whenever the new same brand property has been established, we always go there to see. Each same brand property of our operator might be different from each others. However, we realised that the service is still the same*' (OW-9). This same brand comparison was recognised to be useful

by some owners, '*we also stay in other same brand properties to see how the other properties are doing. We pick the unique service or specialty of the product and recommend to the management, if any*' (OW-8).

Several respondents highlighted that feedbacks obtained from various external sources (i.e. friends, business partners, etc.), as an important way to monitor performance and this was also recognised by the GMs, '*as the owning company is a big leased company, they also possibly obtain a feedback from their guests/friends, business partners, their employees who spend their time in our property, or even from the market or any publications. If there is an issue, they will let me know right away*' (GM-10). In some cases owners might have particularly strong informal linkages to a property, '*as our owner representative was GM for this property for a long time, hotel staff may possibly talk or give him a feedback. He would also hear a feedback from their guests, business partners, or even from his business friends or the market*' (GM-8).

4.2.6.2.2 Controls: the owner and the head/regional office in Group B

The use of meetings was the only control activity highlighted by respondents, or a. visit by the executives from the head/regional office, '*at least once a year, executives from regional office will make an official visit to discuss about [the] business plan/budget*' (OW-10). Operators saw this link as important in theory, but in practice it appears to largely aspirational, '*I do visit ... and meet the owners in my region occasionally. Ideally four times a year but it rarely happens*' (EXEC-1).

4.2.6.2.3 Controls: the head/regional office and the general manager (GM) in Group B

There are key methods of monitoring and control in the relationship between the head/regional office and the GM, such as reporting, regional/head office executive visits, and property audits.

In reporting, GMs are typically required to submit a monthly report, '*we do submit a monthly report which is similar to the owners*' (GM-9). GMs are also typically required to submit a report during the month, such as a weekly report, '*we will send a*

weekly report to the head office' (GM-10). In some cases, a fortnightly report is cited, '*we will submit a report on hotel performance/revenue & expenses every 15 days*' (GM-8).

The executives from head/regional office typically visit the property every three to four months, '*the vice president (operation) will visit the property three to four times a year*' (GM-8). However, the frequency of the visit would depend on the situation of the property, the more established and well performing a property, the less the frequency of the visits of regional/head office executive, as one respondent cited, '*for the visit of the executives of head office, normally if our hotel achieves the target budget, the head office feels that there is no need to have a formal review, why waste at least three days reviewing everything. If we are under-performing, we might have a formal review every month, quarter or six months*' (GM-9).

A property audit, including both the financial and departmental aspects, undertaken by a team from the head/regional office was widely reported, '*as our company is a leased company, we must follow all of the company rules. They send an audit team to audit each department of the hotel yearly, mainly a financial audit and a departmental audit i.e. food and beverage, human resources, room division, and engineer. The report of the auditing is available for the owning company to look at*' (GM-8). The internal audit was seen as a useful exercise by some GMs and a form of feedback as much as one of control, '*our company also do an internal audit once a year, and it is a good measurement and it is very objective. They will audit every department, and will give a feedback/report at the end*' (GM-10).

Service quality and operational standards are also examined without advance notice, '*our company also do a "mystery guest" who stays in the property once a year. The purpose is to check and to maintain the brand standard. Nobody in the hotel will be informed before, even the GM. The mystery guest will check-in and give a feedback on all of the service from the guest perspective. After couple of days of staying, he will let us know, give a report, and discuss the issues, if any*' (GM-8). This was a widely reported control mechanism used by the operators, '*our company would send*

an unknown guest to stay in the hotel property to examine the quality of the product and service of the brand standard. None of executives or staff will be informed in advance. After completing the examination, the unknown guest would identify himself to the GM and give feedback/report, and discuss any issues if there were some' (EXEC-3).

4.2.6.3 Summary of controlling the operation of hotel management contracts of Group A and Group B

In summary, the controls used in the operation of the HMC of Group A and Group B tended to be the same (see Table 4.15). In the relationship between the owner and the GM, several control methods were highlighted including reporting, meetings, bottom-line/annual budget, incentive program, performance benchmarking (comparison), property visit (observation), and feedback from several sources. In reporting, a monthly report is typically required along with a flash report (the frequency depending on the agreement, i.e. daily, weekly, two-week). With meetings, a formal monthly meeting is typically organised as well as an informal meeting/talk when appropriate. The achievement of the bottom-line/annual budget is typically tied with the incentive program of GMs as well as the contract's termination clause. For performance benchmarking/comparisons, the average room rate, average occupancy rate, and RevPar are the key indicators. Property visits/observation and gaining feedback from several sources, such as friends, business partners, staff, is typically done by owner.

Between the owner and the head/regional office, apart from the report which the GM would do on behalf of the office, the only control method that is highlighted here is that the owner and the head/regional office will have a meeting to review business plan at least once a year or depending on the situation of the hotel. Lastly, in the relationship between the head/regional office and the GM, there were several key monitoring and control methods highlighted, such as reporting, visits of head/regional office executives, and property audit. In reporting, GMs are typically required to submit a monthly report as well as interim reports (perhaps weekly or

two-weekly). There are visits by head/regional office executives, though the visit frequency depends on the situation of the hotel and the importance of the property. The property audit will be conducted by head/regional office annually. An audit team will be sent to audit every department in terms of both operational and financial aspects. The quality of services and operations will often be examined without advance notice through the use of mystery guests.

Table 4.15: Summary of controls in the operation of the hotel management contracts (Group A and Group B)

Controls in the operation of the hotel management contracts		
Relationship	**Group A**	**Group B**
Owner - GM	• Reporting - monthly report, and flash report (daily, weekly, two-week) • Meeting - formal and informal meeting/talk • Result of bottom-line/annual budget • Incentive program • Performance benchmarking/comparison • Property visit/observation • Feedback from several sources	• Reporting - monthly report, and daily report • Meeting - formal and informal meeting/talk • Result of bottom-line/annual budget • Incentive program • Performance benchmarking/comparison • Property visit/observation • Feedback from several sources
Owner – head/regional office	• Meetings which vary in frequency (monthly, quarterly, or annually) depending on the situation to review the plan for the hotel	• Meetings which vary in frequency (quarterly, annually) to review business plan
Head/regional office - GM	• Reporting on hotel performance • Visit of regional office executives with varied frequency depending on the situation of the property, and/or the importance of the property (e.g. flagship hotel) • Property audit	• Reporting on hotel performance • Visit of head/regional office executive with different frequency would depend on the situation where the well-perform property, the less visit will be • Property audit

4.2.7 On-going issues in the operation of hotel management contracts

In relation to Research Question 9 'What are the on-going issues in the operation of hotel management contracts in Thailand?', this section will show the findings on the on-going issues identified in the operation of HMCs in Thailand.

4.2.7.1 On-going issues in the operation of hotel management contracts: Group A

In the case of Group A, respondents highlighted the range of issues that would commonly happen in ongoing contract operations, including budgeting and capital expenditure, disagreement, mismanagement, contract re-negotiation, and unexpected situations.

Budgeting

In budgeting, it has been typically highlighted that the draft of the annual budget which is prepared by the GM, is needed to get approval from both the regional office and the owner, '*for the budget, the GM of each property needed to prepare a draft of the annual budget and discuss it with the regional office. After getting approval from the regional office, GMs present the draft of the annual budget to the owner, and have a discussion until they reach mutual agreement*' (EXEC-4). In a situation where the GM and the owner are in very good relationship, the GM might consult the owner during the budget preparation, as cited by respondents, '*in our case, we are in a very good relationship, the GM would inform us about what he is going to do in the annual budget at the time he prepare*' (OW-1).

It is common that both the owners and the regional office have a high expectation that the GM should perform well on budget. For the owners, the result of the bottom line is typically cited as being the important thing, '*commonly we look at the bottom line and the growth percentage*' (OW-3). Another respondent also mentioned that, '*as an owner representative, we need to ask the right question. We do not look at a single point or line in the budget. We just look at the general picture as we know the market well and we know how much we could make it. At the end of the day, we need to focus on the result*' (OW-1). Not only the owner, but also the head/regional office expects the GM to prepare and to perform well on the budget as it impacts upon the level of the management fees which is crucial, '*we need to consider it [budget which proposed by the GM] carefully as it would affect the level of management fees*' (EXEC-4). Trust is cited as important, '*we will not look between the lines as there is too much details and we do need to give them trust*' (OW-3).

There are a couple of key issues in budgeting which were highlighted by respondents. The issue of low-balling, where the proposed budget is set low when it is possible to raise more revenue/profit, is cited, '*we thought that the proposed budget was too low as we could possibly make more revenue/profit. However, the operator insisted that the proposed budget was the realistic budget that we could possibly achieve. So we need a long discussion until everything had been sorted out. Both parties normally agreed to meet half-way. It is common that the owner needs more, and the GM might need a low-target budget to achieve as it is a key performance indicator when evaluating the GM which related to the calculation of bonus. We insisted on increasing the numbers in the proposed budget, and to encourage/support the operator to work on. At the end of the year, although we cannot hit the target, we could make more profit*' (OW-2).

High expectation on the target budget of the owner and the regional office is typically highlighted, '*there is always disagreement in the proposed budget with both the regional office and the owning company as they thought that we could make more revenue/profit or have less expense. We need to discuss and to adjust the number until we reach mutual agreement [GM - director of operation, and the operator - owning company]. We always prepare budget base on a realistic basis, however, they may not agree and would like to have a higher number*' (GM-3).

Capital Expenditure

For capital expenditure, it is commonly standard practice (and stated in the HMC), that a certain amount of percentage of total revenue will be reserved for capital expenditure/FF&E with the approval of the owner, '*according to the management contract, the capital expenditure would be around 3-5% of the total revenue, with the approval of the owner/owner representative in spending. Normally we will propose the budget for capital expenditure with the details along with the annual budget*' (GM-2).

In principal, GMs should be allowed to spend the reserved money. However, for all spending, respondents cited that GMs need to get approval from their owner as all the money belongs to the owner, not the operator, '*the owners have definitely a final say as all of the asset and the money belongs to the owner. We can only make a recommendation on what to do*' (GM-2). On obtaining this approval, typically there is a discussion about the purpose of spending/investment, cost and benefit of project, and cost of replacement/investment, '*it is usual that we need to justify the need, cost and benefit*' (GM-6). So, despite the formula present in the hotel management contract all capital expenditure is subject to discussion and agreement between the parties, '*especially, on the expenditure, we need to convince and justify the need because the owner may not agree on some items. It is all a matter of discussion*' (GM-1).

There are a couple of additional issues concerning capital expenditure. The amendment of approved capital expenditure can arise as sometimes the priority and the need of purchase/replacement is changed, '*in practice, during the year the operator may have to change the priority of the item to spend in capital expenditure because the need had been changed. They need to get approval from the owner*' (OW-6). A special need might arise during the cause of year, '*sometime there would be a big argument, and we need to be flexible as some proposed items were not in the annual budget or not a hundred percent necessary. We need to be reasonable and listen to their needs*' (OW-1). Flexibility is a key element when it comes to the capital budget spending, '*for some items, we could plan to replace in advance. However, for some items, we could not know when they could break or need to be replaced, especially old equipment like hot water/boiler system. Therefore, we do need flexibility in approval of these kinds of item*' (GM-2).

The level of trust toward the GM is a crucial factor in these circumstances, as cited by several respondents, '*if the owner trusts us, they will not say much in spending*' (GM-5). Typically, positive results in the return of investment/renovation enhance the level of trust, '*before approving the project, we looked at the past record, discipline of spending, and the expected result of the investment. The more success*

or positive result in the return on investment/renovation, the more trust will be gained' (OW-3).

Disagreement

Party disagreement is also highlighted as a common issue in the operation of the HMC, but this is usually on minor uses, '*dispute or disagreement, there is always, we have to look at it, and think about why. But we never had a serious disagreement*' (OW-1). The cultural characteristics of Thais are a factor for there rarely being any strong conflict, as cited by respondents, '*in Thailand, it rarely heard about the strong conflict or dispute between the owner and the operator. By their nature, Thais always avoid a big battle with the partner, and they always try to find a gentle way to resolve the situation by making negotiation and compromising on the conflict/dispute*' (OW-5). The difference in points of personal views/professional perspectives is typically cited as a cause, '*I always do have disagreements with the owner representative. It may arise from a different point of view. This is because the owner representative is an accountant (CPA), and he tends to look at the way of managing the property by using his background, sometimes not from the hotelier point of view*' (GM-2).

Sometimes there is a conflict regarding a corporate policy that affects the relationship, such as a new marketing campaign by the operators, '*the head office of our operator changed the standard on bedding throughout the world. The purpose is to let the guests have a unique experience while sleeping at their properties. From our point of view, if all of the bedding materials are still in good condition, why should we have to change them as it is not necessary at the moment. Therefore, after discussion, we changed the bedding materials in all of [our] suite rooms, and we will change all of the bedding materials for all the other guest rooms later on*' (OW-6). Another example concerned an employee benefit, '*the policy was to offer a free or a special rate for the operator employees to stay in any property, at a very special rate. However, the owner found that the staff of his property rarely used this benefit, on the other hand, it is expected that staff from other properties would come to his*

property. After discussion, both parties agreed to set a new employee room rate which was applicable to this property only' (OW-2).

Contract renegotiation

Contract renegotiation is highlighted by a couple of respondents as another issue in the on-going operation of the hotel management contract. Some terms/issues are raised and renegotiated on, which had not been put in the original contract (i.e. it was not practical to do so at the time of original signing), such as fees, *'there was an amendment on the amount of central sales office fee*' (OW-6). Such changes can probably be viewed as the fine tuning or customisation of specific owner-operator relationships, '*we did re-negotiate and amend some of the issues in the contract, i.e. management fees, getting involved with appointment/selection of staff. The owner asked the operator to have one of his family member or his people to take charge as a purchasing officer, to keep an eye on the spending*' (OW-5).

Mismanagement

For the issue of mismanagement, the use of the hotel for the personal benefit of the GMs is typically cited, for instance, '*there were cases concerning alcohol beverage consumptions in the past. All of the executives had limited allowance to consume any food and drink within the hotel property. One of the previous GMs signed an official check for drinking wine in the hotel worth around 30,000-40,000 baht in one night, which was not acceptable. Another case is when the GM gave a best room to his relatives/friends as complimentary*' (OW-2). Serious abuse was however rarely reported and typically involved minor issues, '*there was no serious case concerning mismanagement, only a personal use of the hotel by the hotel executives*' (OW-3). Indeed, the owners appear to perceive the situation as 'normal' and typically ignore it, '*there is always [an issue of use of hotel for the personal benefit] but it does not happen seriously. Therefore, we overlook this*' (OW-1).

Unexpected Situations

The issue of unexpected situations is one that has been widely cited due to a number of key events during the past five years. In Thailand there were two major events

which had an affect upon hotels in Group A in Thailand, i.e. SARS and a natural disaster (Tsunami). Each incident had a different impact upon different properties as highlighted by respondents, '*our property had been affected by the Tsunami, but in positive way, this is because more people avoided travel to southern part of Thailand (Andaman Sea), they travel to enjoy the beach on the East part (Bay of Thailand) in stead. On the other hand, for SARS, we had [a] negative effect, less people were travelling, therefore, less occupancy and less revenue*' (GM-2). However, due to overlapping goals and dependency on the property's performance, when a property is negatively affected, it directly affects both the owner and the operator, '*everyone was hurt, the hotel management company could not make any fees, the owning company could not make any profit. Somehow both parties had to find the way out*' (GM-7). In such situations, team working is seen as the key, '*we have to work closely with the owner and the GM to find the best way to resolve the situation*' (EXEC-4).

As typically cited, such situations need to be addressed on a case by case basis. Commonly GMs are the key person in analysing the affect, reforecasting the business, preparing a plan and discussing with owners to find out the possible solutions to resolve the situation, '*we had to sit down together, present the forecast and action plan, and to see how far we could go with the plan/action. We will not revise the budget, but we will reforecast the business. In the reforecast, we need to put the action plan to ensure that at the end we could prevent or reduce the big loss*' (GM-7). Similarly, while the initial budget might be retained a new forecast must be produced to reflect the change in circumstances '*we will re-do, reforecast the budget, but we will keep it as a reference. We did solve the situation case by case, and we needed to work more closely with the owner. Our owner was very supportive*' (GM-4).

Although, as a result of unexpected situations, there is typically an attempt to reduce costs, staff termination was not always used for this purpose, '*we needed to reforecast and to reduce the costs, however, we did not do staff termination*' (GM-2). Similarly, '*in our case, there was no staff termination, unlike the other hotels*' (GM-4). This type of situation could show how effective the operator is, as cited by one

respondent, '*the crucial point is if we reforecast the business and budget and the result does not match with the forecast, it would show that we don't know much about our product*' (GM-4).

4.2.7.2 On-going issues in the operation of hotel management contracts: Group B

Amongst Group B, the respondents typically highlighted the on-going issues that commonly happen in contract operations, such as budgeting and capital expenditure, disagreement, mismanagement, contract re-negotiation, and unexpected situations.

Budgeting

In budgeting, the draft of the annual budget, prepared by the GM, will typically be approved by both the head/regional office and the owner, '*each year we have the same protocol. We have to propose the draft budget to the regional office, and discussions are held until we get approval and then we present it to the owning company. Once again the discussions are being held as the owning company may adjust the proposed budget, until we mutually agree on the budget*' (GM-10). Thus, it is normal practice for the operator to set a budget internally before consulting with the owner, '*after preparing the business plan and everything, we send it to the head office to get approval and then we send all of the plans to the owner for final approval*' (GM-9). However, where a closer relationship between the owner and the GM exists/is established then the expectation of the owner might be ascertained first before preparing annual budget, '*before I prepare the budget each year, I talked with the owner representative asking for his expectation, and what they want in average room rate and occupancy, food and beverage, spa and etc.*' (GM-8).

Commonly the details of the budget/business plan include the details of the estimated revenues/expenses, amount of gross profit, etc., '*what we do by late September is to give our owner next-year's business plan including estimated revenue, expenses, and profit; and the capital expenditure plan, where we indicate what we are going to do in terms of marketing plan, what are our strategies for certain markets, what are our*

strategies in the restaurants, what is our strategy for quality, what kind of salary should we pay, what kind of competitive position are we in. We give them a plan where the business is developed, what strategy we are going to put in place' (GM-9).

Thus, respondents highlighted the key issues in budgeting, including the high expectations of the owner and the head/regional office, and the lowering of the budget by the GM. High expectations of owners is typically cited, '*of course, the owner would expect and want more from us, therefore, that comes to negotiation. We try to work out what's best for both parties*' (GM-8). Such expectations regarding budgets on the part of the owner were widely recognised, '*it is common that the owning company would like something different from the proposed budget*' (GM-10). Not only owners, but also regional/head offices have high expectations regarding the budget as it would affect the amount of fees, '*we would put our best effort to set a target budget as it would affect our fees as well*' (EXEC-1).

Sometimes the GM is perceived to propose an annual budget, which is lower than expected, '*sometime we feel that GM intended to make and to propose a lower budget, therefore, we try to push them for a higher budget*' (OW-9). However, this issue can be reduced by the track record of the GM, '*of course, when it comes to the budgeting, the owner worries, if they feel that we forecast a level of revenue too low. If we work for the owner for a period of time, I think that the track record would speak for us. At the end, I think that we need to show the owner that we out perform the market*' (GM-9).

Capital Expenditure

Capital expenditure, these are commonly standard procedures regarding calculation of and this would be specified in the contract. Each property would reserve a specific percentage of the total revenue as a budget for capital expenditure upon approval of the owner, '*it is an agreed percentage of total/gross revenue. The hotel proposes what we believe is necessary, to do with regular capital expenditure, and it is upon the approval of the head office and the owing company toward the details of the capital expenditure budget and proposal*' (GM-10). Accordingly, the operator

will use this figure for formulating specific capital expenditure proposals, '*according to the hotel management contract, normally we will have 4 percent of the total revenue for FF&E. We will propose the budget for capital expenditure with the details along with the annual budget*' (GM-8). In practice, all of the money belongs to the owner so the GM might not be allowed to spend on everything, although the operators could earn more revenue and have a higher level of capital expenditure to spend, as cited by respondents, '*the more the operator could earn, the more level of capital expenditure the operator could spend. However, the capital expenditure is still the owner's money; we do not allow them to spend on everything*' (OW-8).

In spending, discussion and justification on the necessity, purpose, and the cost involved is typically held, '*we will discuss the purpose of investment i.e. for renovation, to set up new outlet, creating new things to defend the property's position from competitors; cost and benefit of project; and cost of investment. Most of the projects, which have been proposed by the operator, had been positively responded to. However, some projects had been refused, and some were postponed for a year or until more appropriate time*' (OW-10). The need for discussion and justification of capital expenditure requests was well understood by the GMs, '*if I was an owner, I would question my GM on spending capital investment anyhow. If the GM could not convince or explain [to] the owner that the capital spending would not drive profit, guest/employee satisfaction, eliminate some waste, then the owner should not approve it'* (GM-9).

Issues such as change in the approved capital expenditure and the uncertainty of the expected results were highlighted. Because sometimes the priority and the need for a purchase or a replacement may be changed during the year, change of approved capital expenditure becomes an issue, '*sometimes the priority of purchase may be changed during the year, therefore, as long as the amount does not exceed the budget, we would allow them to do that*' (OW-7).

Uncertainty of the expected result is cited as an issue to be aware of, '*although the operator justifies the need and the return plan, there is no guarantee that it will be*

value for the investment. How we can prove that if we do not invest on these luxury items or latest technology, it would affect the competitive position' (OW-9). Owners were realistic about what they might expect from capital expenditure projects, '*there is one point that we need to be aware of. After investment or renovation, although the operator proposed a feasible financial projection or cost and benefit, it is not possible to guarantee the actual result*' (OW-10).

Disagreement

The issue of disagreement is typically cited as being a common, but rarely serious, issue in the working relationship, '*yes, we do always have [disagreements], especially in the opinion on where we should put our investment, but we never have a relationship where it is near a breaking point. It is common in working relationships*' (GM-9). Thus, there is no example of strong disagreements as cited by respondents, '*there was not any strong disagreement before*' (OW-9). Conducting a rational discussion was cited as being key to resolving disputed issues, '*whenever there was a dispute/disagreement, we would have a rational discussion to find a cause and a solution to make the situation better*' (OW-9).

Commonly a source of conflict cited was an operator's corporate policy that was seen to affect the benefits of each party, for instance the operator's centralised purchasing policy, '*the operator proposes purchasing some hotel equipment via central purchasing. However, when calculating the cost of purchase, it is not as cheaper than making a purchase in Thailand, and the quality of the equipment is the same or even better. After discussion, we allowed the operator to purchase via central purchasing only if the item is cheaper and has a better quality*' (OW-9).

Contract Renegotiation

Some terms/issues, which had been put in the contract at the time of signing, may not be practical at a future point in time and, thus, might need to be raised and renegotiated. For instance, in terms of performance monitoring, '*the members of the competitor set for comparing performance, as some of the members selected at the beginning may not maintain their performance, or if there are new properties in the*

same level, we need to add or to change the members in competitor set to give us more accurate picture and performance evaluation' (OW-10). The amount of percentage in reserve for capital expenditure and other expenses is raised where the property is negatively affected by an unexpected situation, '*as our property got affected by natural disaster (Tsunami) and from which we are not fully recovered, we asked them to reduce the percentage of capital expenditure/FF&E from 4% to 2%; and reduce other expenses, i.e. the incentive for the hotel executives, until we are fully recovered*' (OW-7). Additionally, where there is a big project which needs a lot of money such as room renovation, '*there was a case for amendment of percentage of capital expenditure reserve from 3 percent to 6 percent of the revenue, as we had a plan to do room renovation which cost us a lot of money and we need to reserve more money to do this project. This would make our company to have less management fee because higher expenditure, however, we agreed on amendment*' (GM-11).

Mismanagement

The issue of mismanagement is also cited by a couple of respondents, with the use of the hotel for the personal benefit of the hotel executives mentioned, '*there were cases about the use of hotel property for personal benefit of hotel executives. For example, using the best view room as his accommodation, or having high amount of official check in food and beverage outlets*' (OW-9). The existence of abuse was suspected but not always easy to evidence, '*abuse of hotel resources for personal use had sometime occurred but it was very difficult to prove the cases*' (OW-10). However, a positive business performance is a key factor in owner's overlooking this issue, '*as we concentrate on the performance, especially on the budget (financial), as long as the hotel management company could maintain growth of RevPar, level of GOP, and deliver the committed bottom line and budget each year, then we would not dig into all of the details in the day-to-day operations*' (OW-10).

Unexpected Situation

The issue of an unexpected situation was cited as something that could impact upon the agreed relationship between the parties. The two most recent unexpected

situations were SARS, and a tsunami. Each situation affected the hotels differently. In the case of the tsunami, one property was destroyed, *'we had tsunami last year. In our case, both parties were aware that we had a serious problem/crisis in the hotel as parts of the hotel were completely destroyed by sea water'* (GM-9). Thus, fewer tourists travelled at that time, '*we signed the contract before the tsunami. Although the resort was minimally destroyed, the business was in a difficult period as there was a lower number of tourists'* (OW-7). In the case of SARS, this resulted in a low level of occupancy, was cited by respondents, '*a few years ago, we had been hit by SARS. This meant less people travelling and our level of occupancy was only 5-10%*' (GM-10).

The GM typically is a key person in resolving the situation, '*if situations happen, I will analyse the situation (how bad is it?) and reforecast the business. We also have to inform and to consult with the owner and the head office about the situation or damage*' (GM-10). Typically the owner and the GM would work closely with one another to develop a solution, '*the situation will be solved case by case as it is an unforeseen situation. Normally we would discuss things with the GM to find out the effect and the solution, and we have to reforecast the business*' (OW-8).

Although there was an attempt to reduce costs to help the businesses survive during such difficult periods, a policy of staff reduction was not used by all operators, '*most of the hotels lay off their staff; however, we did not do that. This is because we need to ensure that when the situation gets back to normal, we would maintain and provide the same level of service to our customer. Furthermore, we would not spend much cost on training when getting new staff*' (GM-10). Clearly, with a decline in revenues, cost reduction was important, however labour costs were again not the automatic area of focus, '*I thought we dealt with the situation very well, especially with the cost reduction. We did not reduce the number of staff. We also cut a lot of expenses including payroll, purchasing, but we did continue spending on sales and marketing*' (GM-8).

Due to the parties overlapping goals, team-working is cited as a key means to resolve difficult situations, '*we do need support from both the owner and our head office. ... We had the support from everyone. From the situation, it shows us incredible team-work from everyone. The only one goal is to re-open the hotel. And throughout the construction, when there was a problem, no party say that it was your problem. It is always how can we fix/solve it or how can we solve it together*' (GM-9). The importance of all three parties, i.e. the owner, the GM and the operator's head office, working together to resolve such problems is clearly understood, '*we and the operator worked closely in order to resolve the situation. The business was in a difficult period as there was less numbers of tourist and we needed to reforecast the business. The regional/head office of the operator also provided assistance, especially on marketing*' (OW-7). In addition, such difficult situations frequently had a positive effect on relationships, '*I think that the relationship between the owner and the hotel management company is much stronger than before*' (GM-9).

4.2.7.3 Summary of on-going issues in the on-going operation of hotel management contracts: Group A and Group B

In summary, see Table 4.16, the on-going issues in the operation of HMCs, which were highlighted by respondents in Group A and Group B, are generally the same although some of the specific details within each issue are slightly different. These issues include budgeting, capital expenditure, disagreement, mismanagement, renegotiation of contract terms, and unexpected situations.

In budgeting, the draft of the annual budget, which is prepared by the GM, will be approved by the head/regional office and the owner. The key challenges here typically are low-budgeting by the operator; and the high expectation on budget by the owner. For capital expenditure, although the specific percentage of total revenue to be reserved as a budget for capital expenditure was typically specified in the contract, the operators need to get the owner's approval before spending. The GMs commonly need to justify the reasons for spending, cost and benefit of project, and cost of replacement / investment. A problem might arise when there is an

Table 4.16: Summary of issues in the on-going operations of hotel management contracts (Group A and Group B)

Issues in the on-going operations of hotel management contracts		
Issue	**Group A**	**Group B**
Budgeting	• Annual budget needs to be approved by the head/regional office and the owner • Key issues: low- budgeting; and high expectation of the owner and the regional office	• Annual budget needs to be approved by the head/regional office and the owner • Key issues: low-budgeting and high expectation of the owner and the head/regional office
Capital expenditure	• Specific amount of percentage on total revenue need to be reserved as a budget for capital expenditure • Need to get a owner's approval • Discussion on purpose of spending, cost and benefit of project, and cost of replacement / investment • Key issues: amendment of approved capital expenditure; and trust can reduce the big discussion	• Specific amount of percentage on total revenue need to be reserved as a budget for capital expenditure • Need to get a owner's approval • Discussion on the necessity, purpose, and the cost in spending • Key issues: change of approved capital expenditure, and uncertainty of the expected result
Disagreement	• Always happens but never serious • Rational discussion would be key to resolving • Key issues: different personal view, conflict on the corporate policy that effects the benefit of each party	• Common issue in working relationship, however, there is no strong case • Rational discussion would be key to resolving • Key issue: conflict on the corporate policy that effects the benefit of each party
Mismanagement	• Use of property for personal benefit • Owners overlook this issue as it does not happen seriously	• Use of the hotel for the personal benefit of the hotel executives • Owners might not dig into the details of the day-to-day operation as long as the performance of the business is positive
Renegotiation of terms in the contract	• Some terms are renegotiated such as management fees, involvement in the operation • Memo or supplement contract will be used for correction	• Some terms might be raised and renegotiated, such as percentage of capital expenditure reserve • Memo or supplement contract will be used for correction
Unexpected situation	• GMs analyse the affect, reforecast the business, prepare a plan and discuss with the owner to find out the possible solutions to resolve the situation. • Need to reduce costs but no staff termination • Team working is a key issue, and all parties working closely together	• GMs would analyse the affect, reforecast the business, prepare a plan and discuss with the owner to find out the possible solutions to resolve the situation • Need to reduce costs but no staff termination • Team working is a key issue, and all parties working closely together

amendment to the approved capital expenditure; and here a low level of trust could create much discussion, and a high level of uncertainty of the expected result.

While disagreement typically did arise, in all situations this was only on minor issues with no major disagreements reported. It has been typically highlighted that rational discussion is a key to resolve disagreements. The most common disagreement would come from different personal views and conflict surrounding the corporate policies that affect the benefit of each party, e.g. centralised purchasing policy. The use of the hotel for personal benefit is typically cited as an area in the issue of mismanagement. However, this issue is overlooked by the owner as long as it is minor in nature or where the hotel business performance is positive. Renegotiating the terms of a contract is also highlighted; however, the details differ from property to property. These terms include management fees, involvement in the operation, and amount of percentage of capital expenditure reserve.

In respect of the issue of unexpected situations, both SARS and the Tsunami are cited as major recent incidents, and each had a different impact. Here GMs are typically the key person, who analyse, reforecast, and suggest the possible solution. Although these events did mean that the business was operating under difficult circumstances, staff termination was not used as a strategy for cost reduction. As both the owner and the hotel management company have an overlapping goal, they would suffer from the negative impact of these unexpected situations. Under this situation, team working is typically highlighted as being a key to its resolution.

4.3 Conclusion

This chapter has provided the findings on the use of HMCs in Thailand, divided into two sections. In the first section, regarding the application of agency theory to the use of HMCs, the findings on the nature of the agency relationship and the associated agency problems present in HMCs and the restraint against agent opportunism in HMCs were shown. In the second section, concerning the key issues associated with

the use of HMCs in Thailand, the findings on the anatomy of the HMC (key provisions in the HMC); the pre-contract signing stage (the motivations of the parties in relation to the HMC, the partner selection criteria, and the nature of contract negotiations); and the post-contract signing stage (the working relationship between the owner, the head/regional office of the hotel management company, and the hotel general manager in the operation of HMCs, the control methods in the operation of HMCs, and the on-going issues in the operations of HMCs) were presented. A discussion of the findings on the use of HMCs in Thailand and the previous studies in Chapter 2 will be conducted in the next chapter.

CHAPTER 5: DISCUSSION AND CONCLUSIONS

5.0 Introduction

In this chapter the findings as presented in Chapter 4 are considered in the context of the literature review (Chapter 2) and the nine research questions indentified therein, which was undertaken regarding the strategic context, the theoretical context and the industrial context. Cross referencing to other chapters and headings is done. The discussion and conclusion will be structured around the research problem and its associated research questions. This chapter begins with, as the primary research problem, the discussion of the application of agency theory to HMCs. This is followed by, as the secondary research problem; the discussion of the use of HMCs in Thailand and elsewhere. Final conclusions on the research are then drawn, research implications and contributions are highlighted, and, lastly, recommendations on future research are made.

5.1 Application of agency theory to hotel management contracts

This section will provide a discussion on the application of agency theory to HMCs. In addressing the primary research problem of this research, the discussion will be conducted in line with two specific research questions which were developed in section 2.2 in chapter 2.

5.1.1 Nature of the agency relationship and the associated agency problems present in hotel management contracts (Research Question 1)

This section will provide a discussion and conclusion on Research Question 1 'What is the nature of the agency relationship and the associated agency problems present in hotel management contracts?'. In addressing this research question, the discussion will be conducted in line with the six criteria which were developed from the

comparison of the overview of principal-professional exchanges and owner-manager exchanges, as proposed in section 2.2.3.3.

5.1.1.1 Discussion on research question 1

In relation to the nature of the agency relationship (principal-professional and owner-manager) in section 2.2.3.3, the findings (see section 4.1.1) confirm that the characteristics of the principal/professional relationship are broadly represented in the relationship between a hotel owner and a hotel management company in the HMC, and the characteristics of the principal/manager relationship less so, see Table 5.1. These are mainly evidenced in the problem domain and key idea, the information assumptions, and the contracting problems; while there are some ambiguous points in the human assumptions, the organisational assumptions and the assumptions about oversight.

5.1.1.1.1 Problem domain and key idea

Regarding the problem domain and the key idea, in relation to the comparison of the overview of principal-professional and owner-manager exchanges (see section 2.2.3.3), there is strong evidence to suggest that the relationship between the hotel owner and the hotel management company represents the characteristics of the principal-professional type relationship.

The findings (see section 4.1.1.1) suggest that hotel owners and hotel management companies have: 1) differing risk preferences, as there is no equity participation into the project and no business risk held by the hotel management company; and 2) partly conflicting goals as hotel owners aim to maximise the return from their investment, while hotel management companies aim to maximise the management fees. Both parties engage in a knowledge-intensive task as hotel management companies provide a hotel management service (as their special skill) to Thai hotel owners in need of these special skills (hotel management) to manage their hotel. Consequently, Thai hotel owners attempt to address the problem of knowledge

Table 5.1: Comparison of relationship between the hotel owner and the hotel management company in Thailand and theoretical framework of principal-professional and owner-manager

Criteria	Dimension	Theoretical framework (agency type)		Findings	Agency Type
		Principal-Professional (P/P)	Owner-Manager (O/M)	Hotel Owner-Hotel Management Company	
	Unit of analysis	• Exchange between lay principal and professional agent	• Contract between principal and agent	• Contract and exchange between hotel owner and hotel management company	
1	Problem domain	• Relationships in which lay principal and professional agent engage in a knowledge-intensive task. The two parties have differing risk preferences and partly conflicting goals	• Relationships in which the principal and agent have partly differing goals and risk preferences	• Relationships of hotel owners and operators tend to engage in a knowledge-intensive task and both parties have differing risk preference and partly conflicting goals	P/P
	Key idea	• Principal-professional relationships should efficiently accommodate power asymmetry arising from knowledge gap in agent's favour	• Principal-agent relationships should reflect efficient organization of information and risk-bearing costs	• Principal-professional relationships tend to be designed/built to efficiently accommodate power asymmetry arising from knowledge gap in agent's favour	P/P
2	Human assumptions	• Mixed motive (altruism and self-interest) • Bounded rationality • Social embeddedness	• Self-interest • Bounded rationality • Individual autonomy • Risk aversion	• Mixed motive (altruism and self-interest) of operators agent tends to be represented • Bounded rationality is represented • Both social embeddedness and individual autonomy are represented • Risk aversion of agent tends to be represented	P/P & O/M
3	Organizational assumptions	• Partial goal conflict • Efficiency as the effectiveness criterion • Knowledge asymmetry • Co-production of service involving both principal and professional	• Partial goal conflict • Efficiency as the effectiveness criterion • Information asymmetry • Agent delegated the task by passive owner/principal	• Partial goal conflict is represented • Efficiency as the effectiveness criterion is represented • The knowledge asymmetry tends to be represented (rather than information asymmetry) • Both the co-production of service (involving both principal and professional) and agent delegated the task by passive owner/principal tend to be represented	P/P & O/M
4	Assumption about oversight	• Community of peers	• Market (corporate control/reputation)	• While emphasise on community of peers, corporate control is used	P/P & O/M
5	Information assumptions	• Incomplete market for esoteric knowledge – not a commodity	• Information as a purchasable commodity	• The information as esoteric knowledge (i.e. brand reputation and image, marketing distribution channels toward a particular market, operational how-how) tends to be an incomplete market– not a commodity	P/P
6	Contracting problems	• Agency (indeterminacy and opacity of behaviour)	• Agency (moral hazard and adverse selection)	• The problem of indeterminacy and opacity of behaviour of agent tends to be represented	P/P

asymmetry (i.e. by employing a hotel business sophisticated owner representative, and increasing their involvement in the hotel operation). This evidence clearly suggests that both the hotel owner and the hotel management company have differing risk preferences, have partly conflicting goals, and engage in a knowledge-intensive task.

There is sufficient evidence (see section 4.1.1.1) to suggest that there is an attempt by the hotel owner (as principal) to accommodate power asymmetry arising from a knowledge or information gap in the agent's favour. In most cases, acting on behalf of the hotel owner, there is an owner representative to look after the hotel property. With access to, and the support of, an owner representative, the effectiveness of owner control is greatly improved. This is because the hotel business sophisticated owner representative knows the game, what needs to be done, how to control and measure the outcome, and perhaps how to verify the behaviour of the operator. Moreover, there is some involvement by the owner in the hotel operations. Consequently, the hotel owners are then in a better position because when there are any issues needing resolved in the operation, the owners commonly have the final say, especially with regard to budgeting and the spending on capital expenditure.

Therefore, with regard to the problem domain and the key idea, hotel owners and hotel management companies have differing risk preferences and partly conflicting goals, and they engage in a knowledge-intensive task. Thus, there is an attempt by hotel owners to address the problem of knowledge asymmetry. In relation to the nature of the agency relationship (principal-professional and owner-manager), see Table 2.5 in section 2.2.3.3, which clearly highlights the characteristics of this principal-professional type relationship.

5.1.1.1.2 Human assumptions

In relation to the human assumption, the comparison of the overview of principal-professional and owner-manager exchanges (see section 2.2.3.3), there is strong evidence (see section 4.1.1.1) to suggest that the relationship between the hotel owner and the hotel management company represents both

the characteristic of principal-professional and owner-manager type relationships.

The findings (see section 4.1.1.2) confirm that self-interest and altruism (in respect of the 'human assumption' and human nature) are two mixed motives which govern the behaviour of the hotel management company (as the professional). The nature of the hotel management companies' motivation in relation to the use of HMCs, is that they expect to strengthen themselves by expanding their network (without investing in the ownership of the hotel property) in order to compete within the hotel business. Hotel management companies also aim to maximise the revenue by gaining management fees. Thus, in some cases, hotel management companies approached hotel owners seeking the opportunity to manage a specific property. At the same time, hotel management companies (who offer a hotel management service in return for management fees) often respond to calls from hotel owners (who are in need and normally lack the necessary knowledge or interest in hotel operations) to assist them in managing a hotel property to meet their goals. In some cases, operators provided special assistance to hotel owners when their hotel properties were going through a difficult period (i.e. Tsunami or SARS). Therefore, this situation confirms that it is not only self-interest, but also altruism that governs the behaviour of hotel management companies in HMCs. This clearly highlights one of the characteristics of the principal/professional relationship.

The findings (see section 4.1.1.2) suggest that bounded rationality (a boundary of action/behaviour based on reasons rather than emotions) is represented in the relationship between the hotel owner and the hotel management company. With regard to hotel owners, their key responsibilities are to co-ordinate with the operator (both the GM and the executives of head/regional office), and to monitor the financial and operational performance of the hotel. As for the operators, their key responsibilities are to co-ordinate with the hotel owners or their representative and to ensure a positive business performance and that the hotel operation meets the set brand standards. Thus, behaving rationally is perceived to be crucial in the relationship.

On the issues of social embeddedness and individual autonomy, the findings (see section 4.1.1.2) suggest that both issues are represented. On the one hand, where hotel owners and their hotel GMs work closely, there are a number of activities that create social interaction between them, such as consultation, and involvement in the hotel operation. In order to do this, there is a need for the operator (especially for hotel GMs) to familiarise themselves with the working culture of their owners. This implies that social embeddedness is clearly represented in the relationship between the hotel owner and the hotel management company. On the other hand, where hotel owners and their hotel GMs have only loose co-ordination, hotel owners tend to focus only on the bottom-line, and not on the operation of the hotel. This is because hotel owners might have too many businesses and no interest in the hotel operation. In this context, it means that there is no or very little social interaction between them. Therefore, it implies that the individual autonomy of the operator (as agent) is present in the relationship.

In terms of risk preference, the findings (see section 4.1.1.2) suggest that hotel management companies commonly have no interest in investing in the ownership of the hotel property. Therefore, hotel management companies are not exposed to any business risk. In this sense, they are risk-neutral as there is no regard for the business risk should the property prove to be unsuccessful. However, there is an attempt by hotel owners to apportion risk to their operators, for example by emphasising a portion of the fees to be incentive-based rather than a basic (fixed) fee, so that the management fee to be gained will be dependent upon the business performance. Another example is for the achievement of the business performance to be tied to the contract termination clause. This means that the security of the contract/tenure (the employment) will depend on the achievement of the annual budget promised as well as the business performance. Therefore, in this circumstance hotel management companies tend to be risk averse as failure to achieve the promised annual budget and business performance might result in contract termination. This clearly highlights one of the characteristics of the traditional principal/manager relationship.

Nevertheless, this situation confirms that the risk is very much with the hotel owner, rather than the operator, in the HMC.

Therefore, regarding the human assumption, in relation to the nature of the agency relationship, i.e. principal-professional and owner-manager, see Table 2.5 in section 2.2.3.3, it can be concluded that a combination of characteristics from both the principal/professional and the owner/manager is represented in the relationship between hotel owners and hotel management companies. While the mixed motive (altruism and self-interest), as one of the characteristics of the principal/professional relationship, governs their behaviour, hotel management companies tend to be risk averse, as one of the characteristics of the traditional principal/manager relationship, because without achievement of the contracted outcome this might put the security of the contract/tenure at risk. In addition, for the issues of social embeddedness and individual autonomy, both are represented in the relationship. This shows that two types of agency relationship (the principal/professional type and the owner/manager type) are represented in the relationships of hotel owners and hotel management companies.

5.1.1.1.3 Organisational assumptions

With respect to the organisational assumption, in relation to the comparison of the overview of principal-professional and owner-manager exchanges (see section 2.2.3.3), there is strong evidence to suggest that the relationship between the hotel owner and the hotel management company represent characteristics from both the principal-professional and owner-manager type relationships.

The findings (section 4.1.1.3) suggest that the hotel owner and the hotel management company have partial goal conflict in their relationship. The most obvious issue concerns financial issues (e.g. management fees). On one hand, hotel owners desire to achieve a positive business performance and high operational performance/efficiency, and to make the best possible return from their investment. Spending too much on management fees would adversely affect their return. On the other hand, hotel management companies expect to gain the highest possible level of

management fees from providing the hotel management services because this is their key source of revenue when using the business model of HMCs. Of course, those fees are at the expense of the hotel owner.

There is sufficient evidence to suggest that efficiency (achievement of promised outcome, i.e. achievement of business result, or behaviour, i.e. how the operator is operating the hotel unit) is the effectiveness criterion in the relationship. Regarding the achievement of promised behaviour, the findings (see section 4.1.1.3) suggest that hotel owners generally tend to get involved in the strategic management of the property and to have little or no involvement in the day-to-day operation. However, excessive involvement/control might have a negative impact in the relationship. Therefore, by its nature, it is difficult for hotel owners (as principal) to observe the behaviour and the true contribution of the professional agent. In relation to this, with regards to the achievement of promised outcome), hotel owners tended to focus on the performance outcome (i.e. achievement of GOP) as it is easier to observe outcome rather than behaviour of the operator.

The findings (see section 4.1.1.3) suggest that knowledge asymmetry (imbalance of knowledge/know-how in the hotel business) tends to be represented in the relationship between the hotel owner and the hotel management company, though the degree of the problem might vary. This clearly highlights one of the characteristics of the principal/professional relationship.

On one hand, the degree of knowledge asymmetry will be high, where hotel owners lack knowledge and there is no hotel expertise working on their behalf (i.e. an owner representative) or where hotel owners do not work closely with their operators. This is because hotel owners might not know 'the game' and are unable to effectively monitor and control their operators. Thus, the problem of power asymmetry, in favours of the operator, could arise. On the other hand, in a relationship where hotel owners are keen on the hotel business or have hotel business expertise working on their behalf (i.e. an owner representative), there is enough evidence (see section 4.1.1.3) to suggest that there will be little or no knowledge asymmetry. If hotel

owners (as principals) possess the technical knowledge to evaluate the outcome accomplished by hotel management companies (as professional agents), knowledge asymmetry might not occur at all in the relationship. With knowledge and experience in hotel business, hotel owners know the game. This implies that hotel owners (as principals) might be able not only to protect their benefit, but also to control and to maximise output from their operators (as professional). In this context, the problem of any power asymmetry, favouring the operator, might not arise. Additionally, the findings (see section 4.1.1.3) suggest that information asymmetry exists within these relationships due to the nature of the tasks involved. No matter how sophisticated hotel owners are; they will not get involved in the day-to-day hotel operation. Therefore, it is unlikely that hotel owners will be able to verify the true contribution of the operator.

The findings (see section 4.1.1.3) confirm a potentially ambiguous point in the relationship between the hotel owner and the hotel management company concerning co-production of service. There is sufficient evidence to confirm that most of owners and hotel management companies co-produce the service under the HMC. Hotel owners tend to work closely with their GMs and to get involved in the general policy and management of the hotel property. By its nature, this situation requires a great deal of consultation and interaction between the owner (the principal) and the operator (the professional agent). This implies that hotel owners tend not to be a passive owner and shows one of the characteristics of the principal/professional relationship. On the other hand, there is also sufficient evidence to suggest that in some cases, hotel owners and hotel management companies do not co-produce the service. In a relationship where hotel owners are not interested in the hotel operations and focus only on the bottom-line, there is an absence of hotel owners in the routine hotel operation at both the macro and the micro levels. In this situation, there is no or limited consultation and interaction between the owner (the principal) and the operator (the professional agent). This situation implies that hotel owners tend to be passive and highlights one of the characteristics of the owner/manager relationship.

Therefore, regarding the organisational assumptions, in relation to the nature of the agency relationship, i.e. principal-professional and owner-manager, see Table 2.5 in section 2.2.3.3, it can be concluded that the characteristics of both are represented in the relationship of hotel owners and hotel management companies. While the problem of knowledge asymmetry does exist in the relationship, most of hotel owners are active and work closely with hotel management companies to co-produce the service, characteristic of the principal/professional relationship. In some cases, hotel owners are clearly passive as they are absent from the hotel operation and focus only on the bottom-line, this is represented characteristics of the owner/manager relationship.

5.1.1.1.4 Assumption about oversight

With reference to the assumption about 'oversight', in relation to the comparison of the overview of principal-professional and owner-manager (see section 2.2.3.3), there is strong evidence to suggest that the relationship between the hotel owner and the hotel management company represent characteristics from both the principal-professional and owner-manager type relationship.

There is sufficient evidence (see section 4.1.1.4) to confirm that hotel owners are partially able to monitor and evaluate the performance of their operators. Apart from employment of hotel business sophisticated owner representatives, the control mechanisms specified in the HMC and other more informal methods (i.e. property visits/observation, collecting feedback from several sources) are evidently used by hotel owners to control their operators in the operation of the HMC. This would be considered as organisational/corporate based control. In this context the use of those control mechanisms in controlling the operator, clearly highlights the characteristics of the owner-manager type relationship.

However, the effectiveness of the operator might be examined by making performance comparisons with the others in order to make the control more efficient and to reflect the real business climate. This might refer to the community of peers, and in the context of the HMC, can be done through performance

comparison/benchmarking among selective members. This is an effective method of examining the performance of the hotel management company, with the focus being on RevPar. In comparing the performance with direct/indirect competitors or other hotels at the same level, it allows the owners (as the principal) to see how well the operators (as the agent) are doing among the other operators and to know where they stand in the local hotel business. In contrast, without comparing the RevPar, hotel owners might be unable to gouge the effectiveness of their operator. In this context the use of a community of peers (in form of performance comparison/benchmarking) to enhance the effectiveness of controlling the operator, clearly highlights the characteristics of a principal/professional type relationship.

In relation to this, although the use of control mechanisms specified in HMCs, as well as other more informal methods (as organisational / corporate based control), the use of a community of peers has been emphasised by hotel owners and their operators as enhancing the effectiveness in controlling the operator. Therefore, in relation to the nature of the agency relationship (principal-professional and owner-manager), see Table 2.5 in section 2.2.3.3, this situation shows that there is a combination of the characteristics of principal/professional and owner-manager type relationship.

5.1.1.1.5 Information assumption

Regarding the information assumption, in relation to the comparison of the overview of principal-professional and owner-manager exchanges (see section 2.2.3.3), there is strong evidence to suggest that the relationship between the hotel owner and the hotel management company represents the characteristics of a principal-professional type relationship. The esoteric knowledge of each hotel management company (i.e. brand reputation and image, marketing distribution channels toward a particular market, operational how-how) is not a purchasable commodity.

The findings (see section 4.1.1.5) confirm the incomplete market which exists for the esoteric knowledge of the hotel management company. There is clear evidence that an owner representative, sophisticated in the hotel business, might be employed by

hotel owners (who are inactive or who lack knowledge) for monitoring and controlling their operators. However, the specific knowledge and know-how contained within each hotel management company cannot be purchased/obtained outright, for example the marketing knowledge, the hotel operation know-how, etc. Furthermore, in many cases, because of the nature of the task, although hotel owners are sophisticated in the hotel business or work closely with the hotel GM, there is typically no micro-management in the hotel operation. In other words, due to a lack of specific knowledge, they might have no interest in the operational details. In this context, the hotel owner might not ascertain what the agent is doing and how well the agent has performed.

Therefore, since the specific knowledge and know-how (as esoteric knowledge) of each hotel management company (i.e. brand reputation and image, marketing distribution channels toward a particular market, operational how-how, etc.) is incomplete in the market, hotel owners might not be able to sort-out the true contribution of the operator in achieving the observed outcome. In relation to the nature of the agency relationship, i.e. principal-professional and owner-manager, see Table 2.5 in section 2.2.3.3, the characteristics of a principal/professional relationship are once again clearly highlighted.

5.1.1.1.6 Contracting problem

With respect to the contracting problem, in relation to the comparison of the overview of principal-professional and owner-manager exchanges (see section 2.2.3.3), there is strong evidence (see section 4.1.1.6) to suggest that the relationship between the hotel owner and the hotel management company represents the characteristics of a principal-professional type relationship, regarding the indeterminacy and opacity of behaviour of the hotel management companies.

The findings (see section 4.1.1.6) suggest that hotel owners could not, or can only partially, verify what their operators do in the operation of HMC. Due to the specific knowledge required, in some cases, hotel owners, who lack hotel business knowledge, might not know 'the game' and not be able to effectively monitor and

control their operators. This group of hotel owners commonly ignore the hotel operation. Due to the nature of the task, in many cases, hotel owners are sophisticated in the hotel business or work closely with hotel GMs, but there is typically no micro-management (day-to-day operation) in the hotel operation. This means that operators could run the hotel property as they see fit.

In this context, this implies that it is likely that hotel owners are unable to pinpoint and monitor exactly what and how their operators are actually doing, particularly in the day-to-day operation. Operators tend to have the specialised knowledge and/or more autonomy to perform the task. Therefore, this evidently shows indeterminacy and opacity of the operator's behaviour. In relation to the nature of the agency relationship, i.e. principal-professional and owner-manager, see Table 2.5 in section 2.2.3.3, this clearly highlights the characteristics of the principal/professional type relationship.

5.1.1.2 Conclusion on research question 1

The findings confirm that the characteristics of the principal/professional relationship are broadly represented in the relationship between the hotel owner and the hotel management company in HMCs. These are mainly evidenced in the problem domain and key idea, the information assumption, and the contracting problem.

With respect to the problem domain and key idea, the findings suggested that hotel owners and hotel management companies engage in a knowledge-intensive task and that they have differing risk preferences and partly conflicting goals. Thus, there is an attempt by hotel owners to address the problem of knowledge asymmetry. As for the information assumption, the findings suggested that the specific knowledge and know-how (as esoteric knowledge) of each hotel management company (i.e. brand reputation and image, marketing distribution channels toward a particular market, operational how-how, etc.) is incomplete in the market. Thus, hotel owners might not be able to sort out the true contribution of their operators in achieving the

observed outcome. Finally, the contracting problem, the findings revealed that it is difficult for hotel owners (as the principal) to observe and to control the behaviour and the true contribution of hotel management companies (as the agent). Therefore, this implies that hotel management companies tend to have indeterminacy and opacity of behaviour as they tend to have more autonomy and/or the specialised knowledge to perform the task.

However, the findings clearly suggest that distinct characteristics of the hotel owner and the hotel management company were highlighted in relation to the human assumption, the organisation assumption and the oversight assumption.

In terms of the human assumption, there is a mix of characteristics from that of the principal/professional and the principal/manager exchanges in the relationship between the hotel owner and the hotel management company under HMCs. The findings clearly confirm that the motives of the hotel management company (as the agent) are mixed motive (i.e. self-interest and altruism), which is the characteristic of a principal/professional relationship. However, the findings also confirm that the issue of risk aversity (as a characteristic of the principal/manager relationship) is clearly represented in the relationship between the hotel owner and the hotel management company under HMCs. Therefore, this might make the relationship between the hotel owner and the hotel management company under HMCs differ from the characteristics of the pure principal/professional relationship.

Nonetheless, the first unique point of the relationship between hotel owners and hotel management companies under HMCs is that the issues of social embeddedness and individual autonomy are presented in the relationship. Social embeddedness is represented in the relationship where hotel owners and hotel general managers work closely together. This is because there are a number of activities that create a social interaction between them, such as consultation, and involvement in the hotel operation. Thus, in most cases, hotel GMs need to adjust themselves to the working culture of hotel owners. In contrast, where hotel owners and their hotel GMs have loose coordination, hotel owners tend to focus only on the bottom-line, not the

operation of their hotel (both macro and micro aspect). This is because hotel owners might have too many businesses and no real interest in hotel operations. In this situation there is little or no social interaction between them, which this implies that the individual autonomy of the operator (as the agent) is presented in the relationship.

Regarding the organisational assumption, there might be a mix of characteristics from the principal/professional relationship and the principal/manager relationship in the relationship of the hotel owner and the hotel management company under HMCs. This is because there are a couple of ambiguous points in the relationship between hotel owners and hotel management companies under HMCs. First, in relation to the distinctive characteristic of the principal/professional exchanges, the problem of power asymmetry in favour of the operator remains ambiguous. In relation to this, the level of knowledge and experience in the hotel business of hotel owners might be the key. This is because if hotel owners (as the principal) know 'the game', the knowledge gap is narrowed so that hotel owners could have better control and it is unlikely that their operators (as the professional agency) will be favoured by any knowledge asymmetry (although the knowledge asymmetry does exist). However, when there is a wider knowledge gap between hotel owners and their operators, the opposite situation might occur.

The last point concerns being an active owner, who co-produces the service, or being a passive owner who delegates tasks to the agent. Both types of owner are represented in the relationship. Where hotel owners work closely with their GMs and get involved in general policy and strategic management of the hotel property, this situation creates a great deal of consultation and interaction between the owner (the principal) and the operator (the professional agent). This implies that there is co-production of service and hotel owners tend not to be passive. In contrast, in the relationship where the hotel owners are not interested in the hotel operations and focus only on the bottom-line, then they are absent from routine hotel operations at both a macro and a micro level. In this situation, there is limited or no consultation

and interaction between the owner (the principal) and the operator (the professional agent). This situation implies that hotel owners tend to be passive.

Regarding the oversight assumption, the findings revealed that although there is the use of control mechanisms specified in HMCs as well as other more informal methods (such as organisational/corporate based control), the use of a community of peers (in the form of performance comparison/benchmarking among selective members) has been emphasised by hotel owners and their operators, which enhances the effectiveness in controlling the operator.

Table 5.2: Characteristics of two types of agency relationships represented in the relationship between the hotel owner and the hotel management company under the hotel management contract

Dimension	Characteristics of two types of agency relationships which represented in hotel management contracts			
	Principal-Professional (P/P)		Owner-Manager (O/M)	
Problem domain	• Relationships in which lay principal and professional agent engage in a knowledge-intensive task. The two parties have differing risk preferences and partly conflicting goals	X	• Relationships in which the principal and agent have partly differing goals and risk preferences	-
Key idea	• Principal-professional relationships should efficiently accommodate power asymmetry arising from knowledge gap in agent's favour	X	• Principal-agent relationships should reflect efficient organization of information and risk-bearing costs	-
Human assumptions	• Mixed motive (altruism and self-interest)	X	• Self-interest	-
	• Bounded rationality	X	• Bounded rationality	X
	• Social embeddedness	X	• Individual autonomy	X
			• Risk aversion	X
Organizational assumptions	• Partial goal conflict	X	• Partial goal conflict	X
	• Efficiency as the effectiveness criterion	X	• Efficiency as the effectiveness criterion	X
	• Knowledge asymmetry	X	• Information asymmetry	-
	• Co-production of service involving both principal and professional	X	• Agent delegated the task by passive owner/principal	X
Assumption about oversight	• Community of peers	X	• Market (corporate control/reputation)	X
Information assumptions	• Incomplete market for esoteric knowledge – not a commodity	X	• Information as a purchasable commodity	-
Contracting problems	• Agency (indeterminacy and opacity of behaviour)	X	• Agency (moral hazard and adverse selection)	-

Note: X = represented in the relationship between the hotel owner and the hotel management company under the HMC

In this context, it is clearly suggested that the characteristics of the principal/professional relationship tend to be represented in the relationship between the hotel owner and the hotel management company under the HMC, rather than the characteristics of the principal/manager relationship. Nonetheless, neither the principal/professional relationship nor the principal/manager relationship fully

captures the characteristics of the relationship between the hotel owner and the hotel management company under the HMC, which is effectively a hybrid of the two types of agency relationships (see Table 5.2). This would represent the uniqueness of the type of agency relationship between the hotel owner and the hotel management company under the HMC.

5.1.2 Restraints against agent opportunism in the operation of hotel management contracts

This section will provide a discussion and conclusion on Research Question 2 'How is agent opportunism restrained in the operation of hotel management contracts?'. In addressing this research question, the discussion will be conducted in line with the two sub-research questions (regarding the use of traditional control approaches in HMCs and the use of additional control approaches for controlling professional agent in HMCs) which were proposed in sections 2.2.4.2.3 and 2.2.4.3.2.

5.1.2.1 The use of traditional control approaches in hotel management contracts

In traditional agency theory, there are two typical control approaches, which are behaviour control and outcome control. This section will provide a discussion and conclusion on Research Question 2a: 'Within hotel management contracts to what extent are behaviour and outcome controls used to restrain against opportunism and how suitable are these controls for hotel management contracts?'. The discussion will be conducted in line with the literature review in sections 2.2.4.1, 2.2.4.2.1, and 2.2.4.2.2

5.1.2.1.1 Discussion on research question 2a

In relation to the use of traditional control approaches in the relationship between the hotel owner and the hotel management company under HMCs, the findings (see section 4.1.2) confirm that, firstly, with regard to traditional control approaches (i.e.

outcome and behaviour control), in the use of HMCs, the use of these is in line with that of previous studies. However, both outcome and behaviour control approaches might not be fully effective in controlling hotel management companies. Secondly, regarding the variables which influence the suitability of the control approach, outcome control tends to be favoured in the use of HMCs as the task programmability tends to be low, the agents are clearly risk-averse, there is a problem of information asymmetry in the relationship, the length of the agency relationship tends to be long, and the degree of competition in the international hotel business is high.

The use of outcome and behaviour control in hotel management contracts

With regard to traditional control approaches (i.e. outcome and behaviour control), the findings (see section 4.1.2.1.1) suggested that the use of traditional control approaches in the context of HMCs is in line with that of previous studies. However, there is enough evidence to suggest that outcome and behaviour control are not fully effective in controlling hotel management companies under hotel management contracts.

In terms of outcome control, the findings (see section 4.1.2.1.1) suggest that it is applied both in the contract document and in the operation of the HMC. In HMC documents, the provisions of the operator's performance standard, and contract termination clause tend to be used to control the performance of the operator. In relation to this, for the operator, the security of the contract is at risk as it depends on the achievement of the promised outcome. This situation is in line with that of previous studies (see section 2.2.4.2.1), in which the use of outcome control could transfer risk to the agent and could co-align the goals of the agent with the principal. By the very nature of the HMC, the business result is crucial to hotel owners as they are the holders of the business risk. Each year the level of GOP or outcome will be mutually set. Upon the failure in achieving these figures of their hotel management companies, there will be an opportunity for hotel owners to change operators. In this sense, the outcome or the performance of the hotel management company can ultimately be controlled.

The findings (see section 4.1.2.1.1) reveal that there might be an issue of low ball by operators (i.e. the proposed budget being set too low when there is a possibility of making more profit) in HMCs. This is because without achievement of the performance standard/outcome, there is a risk that the operator could have their contract terminated because this outcome is linked to the termination clause. This situation is in line with the previous studies (see section 2.2.4.2.1), whereby agents may be encouraged to act in ways that guarantee a minimum level of outcome is achieved, rather than seek opportunities that may be in the best interest of the principal. The result will be loss of welfare to the principal if the agent is risk-averse, as the agent will seek opportunities to reduce risk.

In the operation of HMCs, outcome control is used via the monitoring performance mechanism. The findings (see section 4.1.2.1.1) suggest that hotel owners typically focus on the bottom-line/annual budget; however, achievement of the agreed bottom-line might not reflect the real business potential of the hotel unit. Therefore, hotel owners might have difficulty judging the true outcome of their operator (who possess specific skills and technical knowledge and can therefore be considered as a professional agent) because the agreed level of GOP/outcome alone might not be relevant to the actual business situation or potential which the hotel unit could achieve. This situation implies that in the context of HMCs, the control of outcome might not be fully effective in controlling the performance of the operator. This situation is in line with previous studies (see sections 4.1.2.1.1 and 2.2.4.2.3) whereby if hotel management companies are considered as professional agents and possess specific skills and technical knowledge, but outcome control might be only partially effective as it might be difficult for the principal to judge the quality of outcome.

With regards to behaviour control, the findings (see section 4.1.2.1.1) suggest that this is applied in both the contract document and the operation of the HMC. In HMC documents in Thailand, behaviour control is applied in the contract via the provisions regarding financial and operational reports, owner input in operational decision

making, restrictive (non-compete) covenants, and books and records. These provisions tend to be used for controlling the behaviour of hotel management companies so that the information concerning the hotel operation can be revealed. Consequently, hotel owners can keep up-to-date on the current situation of their hotel property and on the performance of their operator; and can search for more details in the hotel operation when necessary or where there is suspect behaviour. This situation is in line with the previous studies (see section 2.2.4.2.1), in which the information system could be used to verify a suspect behaviour or reduce the unwanted behaviour of the agent.

The findings (see section 4.1.2.1.1) suggest that in the operation of HMCs, behaviour control is also used through reporting and meetings (both formal and informal). The performance of the operator will be reported on monthly in a formal written format. Thus, there will be a periodic formal meeting between the owner and the operator to review and to discuss performance. The frequency of the meeting (either monthly or quarterly) is by mutual agreement. Therefore, the use of formal written reports and periodic meetings allows hotel owners to be updated on the current situation of their hotel property (and, thus, on the performance of the operator). There is also an opportunity to enquire about or to discuss any particular issues that may arise (not only the business performance, but also the suspected behaviour). This situation implies that the interaction and communication between hotel owners (as the principal) and hotel management companies (as the agent) are increased. A high frequency of interactions (i.e. meetings, communication) between the hotel owner and the operator would have a positive effect (more understanding and closer relationship) on their relationship. Therefore, this situation is in line with the previous studies (see section 2.2.4.2.1), in which behaviour control could result in higher quality settlement and in better collaborative effort of the principal and agent (due to the volume and frequency of information sharing).

However, the findings (see section 4.1.2.1.1) suggest that by the nature of the task, hotel owners are unable to completely verify what operators are doing in the hotel operation. This is because while hotel owners are partially involved in the hotel

operation (i.e. selection of key hotel executives, budgeting), operators can run the property (i.e. day-to-day operations) as they see fit. Therefore, this implies that the control of behaviour is not fully effective in controlling operators in HMCs. This then could be an opportunity for the occurrence of moral hazard. Moreover, this situation is in line with previous studies (see section 2.2.4.1 and 2.2.4.2.1), in which if the principal has difficulty in monitoring the agents (because the information system could not completely verify a behaviour of the agent) in order to ensure that they are acting in the principal's interest, then the agents might be able to act opportunistically.

Additionally, the findings (see section 4.1.2.1.1) suggest that in the use of the HMC in Thailand, there is a combination of outcome and behaviour control, especially in the contract document through the provision of management fee level and the fee structure. The contracts tend to emphasise the incentive fee portion of the total management fee. A basic management fee with an added incentive fee basis was the most common fee structure. The basic management fees is commonly paid at the minimum for the required behaviour of the hotel management company, which have been adhered to; while the incentive fees is paid for the achievement of the desired outcome. This implies that the main income of the operator could be at risk as the incentive fee depends on the achievement of GOP level. In other words, the more gross operating profit (GOP) the operator makes, the higher the incentive fee the operator could gain. This situation is in line with previous studies (see sections 2.2.4.1 and 2.2.4.2.1), in which the use of outcome control could transfer the risk to the agent (as their level of income depends on the performance) and co-align the goal of the agent with that of the principal. Thus, behaviour control is applied, in the sense that compensation (i.e. basic management fee) is payable for promised behaviour.

Variables that influence the suitability of the control approach

In relation to variables that influence the suitability of the control approach, in examining these variables, such as task-programmability, risk aversion of agent, information asymmetry, length of the agency relationship and the market

condition/competition, the findings (see section 4.1.2.1) evidently suggest that in the use of HMCs in Thailand, task programmability tends to be low, agents are clearly risk averse, there is a problem of information asymmetry in the relationship, the length of the agency relationship tends to be long; and the degree of competition in the international hotel business is high, see Table 5.3.

Table 5.3: The examination of variables which influence the suitability of the control approach in the use of hotel management contract

	Findings	Theoretical issue	
Variable	**The use of hotel management contract**	**Condition**	**Control approach suggested**
Task programmability	Task programmability tends to be low	High-task programmability	Behaviour control
		Low-task programmability	Outcome control
Risk preference of the agent	The agent tends to be risk averse (e.g. a wealthy agent)	More risk to hold	Behaviour control
		Less risk to hold	Outcome control
Information	Incomplete information case as the information system could partially reveal the agent's behaviour	Complete information case	Behaviour control
		Incomplete information case	Outcome control
Length of the agency relationship	The length of the agency relationship tends to be long	Long relationship	Behaviour control
		Short relationship	Outcome control
External variables such as market condition or competition	The market competition tends to be high	High competition	Outcome control
		Low competition	Behaviour control

In term of task programmability, there is strong evidence (see section 4.1.2.1.2) that the degree of task programmability in the HMC tends to be low. Hotel owners normally lack knowledge and are not interested in any aspect of hotel operations; therefore, it is unlikely that they would tell their operators what and how to do a task. Thus, in some situations where hotel owners are sophisticated in the hotel business, although the target budget/outcome can be mutually agreed by both parties or there is macro-management by hotel owners in the operation of the HMC, hotel owners are normally not able to specify the appropriate behaviour which the operator would need to adhere to in order to achieve the outcome.

In this situation, it implies that operators tend to have more autonomy and/or the specialised knowledge required to perform the task. Thus, operators tend to possess greater information, and/or there is more likelihood for the occurrence of moral hazards. This situation might refer to non-programmable tasks (see section 2.2.4.2.2) in which agents can exert a high or low level of effort without being observed. The more autonomy the agent enjoys, the greater the information the agent possesses, and

then the greater the specialized knowledge required to perform the task, the greater the chances for the occurrence of moral hazards. Therefore, in this context, it shows that in the use of HMCs, the behaviour of the operator cannot be clearly specified in advance, so it is unlikely that hotel owners will place any emphasis on behaviour-based control. In relation to the condition of variables which influence the suitability of control approach and the control approach suggested (see Table 2.7), this situation favours an outcome control approach.

Risk preference, there is sufficient evidence (see section 4.1.2.1.2) to suggest that the hotel management company (as the agent) tend to be risk-averse. Hotel management companies tried to avoid bearing the business risk, as there is no intention to invest in the equity of the hotel project managed under the HMC. With no equity participation, hotel management companies (as the agent) have no business risk, and thereby failure of the project will not affect their wealth. This situation refers to being risk-averse (see section 2.2.4.2.2). In this situation, as the agent becomes increasingly risk-averse (i.e. a wealthy agent), it becomes more attractive for the owner to pass risk to the agent using an outcome-based contract in order to co-align their interest. Nonetheless, the findings (see section 4.1.2.1.2) clearly show that there is an attempt to achieve this by linking the level of performance to the level of incentive fee and tying achievement of the agreed GOP to the termination clause. However, hotel owners would still be the primary risk bearer. In relation to the condition of variables which influence the suitability of control approach and the control approach suggested (see Table 2.7), this situation favours an outcome control approach.

With respect to information asymmetry, there is sufficient evidence (see section 4.1.2.1.2) to suggest that although there is an attempt to install information systems into the operation of a HMC, the problem of information asymmetry can only be partially resolved and, this, will remain an issue.

There is an attempt to install information systems via the contract document, and to apply monitoring mechanisms in the operations. However, to some extent the

information system that is installed (e.g. budgeting, reporting procedure, meeting) into the contract document and the operation of the HMC can only partially reveal what the operator (as the agent) is doing. This is because hotel owners might lack the knowledge while operators might possess the specialised knowledge that is required to perform a task. At the minimum, where hotel owners are sophisticated in the hotel business or work closely with their hotel GMs, there is still some degree of information asymmetry because there is no micro-management in the hotel operation. On the other hand, where hotel owners lack hotel business knowledge, have no interest in the hotel operation and focus only on the outcome, or are absent from the operation and passive, the degree of information asymmetry remains high. Therefore, in the use of HMCs, hotel owners might not ascertain what the agent is doing and how well the agent has performed, thus indicating a gap where the behaviour of the agent cannot be verified.

In this context, it is implied that information systems could only partially reveal the agent's behaviour to the principal and the situation (the operation of a HMC) could not be reverted to the complete information case (see section 2.2.4.2.2). In other words, it is a case of incomplete information, whereby the information system could not reveal all of the agent's behaviour to the principal. Therefore, as it is difficult for the principal to ascertain what an agent is doing, and how well the agent has performed, in relation to the condition of variables which influence the suitability of control approach and the control approach suggested (see Table 2.7), this situation favours the outcome control approach.

In relation to the length of the agency relationship, the findings (see section 4.1.2.1.2) suggest that the length of the agency relationship in HMCs tends to be long. Both hotel owners and hotel management companies expect to be in long-term relationships. As indicated under the provision of contract length and renewal in the contract document, the length of the HMC is normally 10 years with an extension period of 5 years. Thus, in some situations, hotel owners and hotel management companies have been engaged in a long relationship and have renewed their contract many times.

Thus, it is implied that both hotel owners and hotel management companies tend to expect, and to be in a long-term relationship under the HMC. As mentioned in section 2.2.4.2.2, when organisations expect the relationship with a manager to last, they are interested in socialising their manager into their culture and tend to emphasise their manager's behaviour rather than the outcomes the managers are accountable for. Thus, when the principal and the agent engage in a long-term relationship, it is likely that the principal will learn more about the agent and will be able to assess behaviour more readily. Therefore, in relation to the condition of variables which influence the suitability of control approach and the control approach suggested (see Table 2.7), behaviour control is suggested.

Lastly, regarding the market condition/competition, there is sufficient evidence (see section 4.1.2.1.2) to believe that the degree of the international hotel business competition is high. Competition within the international hotel business is now tough. Therefore, it is crucial for the hotel management company to strengthen the network in order to compete with the other companies in the international hotel business. Hotel management companies need to increase the number of existing properties in the network. Consequently, hotel management companies might attach strategic significance to a property or location in order to capture more market share. In relation to this, managing hotel properties tended to be perceived as a core competence, not investing in the ownership (because of the financial resource scarcity). Accordingly, the use of HMCs would provide them with the advantage of reducing the amount of capital spending/investment required in increasing the number of properties in their network. Consequently, some hotel management companies approached hotel owners seeking the opportunity to manage a property. Moreover, a number of hotel management companies might compete with each other to win the deal for managing a property. As such, hotel management companies (as the agent) might offer their services for a smaller reward, offer a revenue guarantee, or have a greater willingness to accept an outcome-based control.

In this context, this situation implies that the degree of competition tended to be high. As mentioned in section 2.2.4.2.2, in conditions of abundance, agents will perceive less risk and have a greater willingness to accept an outcome-based control, and engage in more entrepreneurial behaviour on behalf of the firm. Therefore, In relation to the condition of variables which influence the suitability of control approach and the control approach suggested (see Table 2.7), the outcome control approach tends to be favoured in this situation.

5.1.2.1.2 Conclusion on research question 2a

In conclusion, regarding the use of traditional control approaches in the relationship between the hotel owner and the hotel management company under HMCs, there is sufficient evidence to confirm that, firstly, with regard to the traditional control approaches (outcome and behaviour control), the use of outcome and behaviour control in the context of HMCs is in line with the previous studies. However, both outcome and behaviour control might not be fully effective in controlling the hotel management company. Secondly, regarding the variables which influence the suitability of a control approach, outcome control tends to be predominant within the use of the HMC. This is because in the context of HMCs, task programmability tends to be low, agents were clearly risk-averse, there was a problem of information asymmetry in the relationship, the length of the agency relationship tended to be long; and the degree of competition in the international hotel business was high.

In exploring the use of traditional controls (i.e. outcome and behaviour control) in HMCs, the findings suggested that the use of outcome and behaviour control in the context of HMCs is in line with that of previous studies. The use of outcome control could transfer risk to the agent and co-align the goals of the agent with these of the principal. The security of tenure will be at risk because hotel management companies (as the operator) can have their contracts terminated by hotel owners if they fail to achieve the promised outcome. Thus, the income of operators could be at risk as the incentive fee (which is the main portion of management fee) depends on

the achievement of GOP level. In other words, the more gross operating profit (GOP) the operator makes, the higher the incentive fee the operator could gain. In relation to this, it is important to note that agents might seek opportunities to reduce risk by acting in ways which achieve a minimum level of outcome, rather than seeking opportunities that may be in the best interest of the principal. There might also be an issue of low ball by operators (whereby the proposed budget is set low when there is a possibility of making more profit) in HMCs. This is because, without achievement of the performance standard/outcome (which is tied to the termination clause), there is a risk that operators could have their contracts terminated for this failure.

The use of behaviour control could verify a suspect behaviour or reduce an unwanted behaviour of the agent. Installation of information systems may reveal what the operator is doing in the operation of HMCs. This would allow hotel owners (as the principal) to be updated on the current situation of their hotel property and the performance of their operator (as the agent). Moreover, they could search for more details in the hotel operation when necessary or if there was any suspect behaviour, which required clarification. The use of behaviour control could result in higher quality settlement and a better collaborative effort by the principal and agent (due to the volume and frequency of information sharing). In HMCs, a periodic reporting and meetings could increase the frequency of interaction and communication between hotel owners (as the principal) and hotel management companies (as the agent). As with information systems, these allow hotel owners to be updated on the current situation of their hotel property (and on the performance of their operator) and to enquire about or discuss any issues that may have arisen (not only relating to the business performance, but also any suspect behaviour).

However, there is sufficient evidence to suggest that the application of both behaviour and outcome control (i.e. the traditional control approach in the agency relationship between owner and manager) might not be effective in controlling the hotel management company. First, in monitoring performance, hotel owners might have difficulty judging the true or quality of outcome of their operators (who possess

the specific skills and technical knowledge and might be considered as the professional agent). The achievement of the agreed level of GOP is one of the key performance indicators which is typically used. However, in controlling the performance of the operator, achievement of the agreed level of GOP might not be enough to judge their true performance. This is because the achievement of agreed level of GOP might not indicate where the hotel unit is or how well the operator has performed in the specific location/area. In other words, the agreed level of GOP alone might not be relevant to the hotel unit's actual business situation or potential. Therefore, in this context, outcome control might be only partially effective in controlling.

Second, by the nature of the task, hotel owners might also have difficulty in monitoring their operator as they could not completely verify what operators are doing in the hotel operation. Typically, hotel owners could get involved in various key areas of hotel operation such as budgeting and the selection of key hotel executives (e.g. hotel general manager, financial controller). However, hotel owners will not get involved in the day-to-day operation of the hotel (due to the nature of the task and/or level of hotel business knowledge of hotel owner) so the hotel management companies could run the property as they see fit. This situation could lead to the occurrence of moral hazard. Therefore, in this context, the control of behaviour may not be fully effective in controlling the operators in HMCs.

In examining the variables which influence the suitability of control approach in the use of HMCs, the findings clearly suggest that task programmability tends to be low, agents are clearly less risk-averse, there is a problem of information asymmetry in the relationship and the degree of competition in the international hotel business is high. In relation to this, these variables would positively relate to outcome-based control. In this context, it implies that the outcome-based control could possibly be a priority in the relationship between the hotel owner and the hotel management company. First, hotel owners are commonly the primary risk bearer; the failure of the project will affect their wealth but not that of hotel management companies, who commonly have no equity participation and no business risk in the project. Second,

hotel owners are normally not able to specify the behaviour of the operator in advance in order to achieve outcomes; while operators tend to have more autonomy and/or the specialised knowledge needed to perform the task. Third, it is difficult for hotel owners to ascertain what hotel management companies are doing and how well they have performed, as information systems cannot reveal all of the agent's behaviour to the principal. Fourth, due to the high degree of competition, to win the deal for managing a property, the hotel management companies might offer their services for a smaller reward, offer a revenue guarantee, or have a greater willingness to accept an outcome-based control.

In addition, although the length of the agency relationship tends to be long, it might not have any influence in the selection or suitability of the control approach in the relationship between the hotel owner and the hotel management company under the HMC. It might also be a unique characteristic of the relationship between the hotel owner and the hotel management company. In previous studies, when the principal and the agent engage or intend to be in a long-term relationship, it is likely that they tend to emphasise on behaviour-based control (Shapiro, 2005; Stroth et al, 1996; Eisenhardt, 1989; Lambert, 1983). However, in the context of HMCs, there is sufficient evidence to suggest that although both the hotel owner and the hotel management company tend to be in a long-term relationship, the emphasis is, and should be, on outcome-based control.

5.1.2.2 The use of additional control approaches for controlling the professional agent in hotel management contracts

This section will provide a discussion and conclusion on Research Question 2b: 'To what extent are additional principle/professional agency relationship controls utilised in hotel management contracts to guard against agent opportunism?'. The discussion will be conducted in line with the literature review in sections 2.2.4.1 and 2.2.4.3.1

5.1.2.2.1 Discussion on research question 2b

In relation to additional control approaches for controlling agents in the principal/professional relationships in section 2.2.4.3, there is enough evidence (see section 4.1.2.2) to suggest that the use of additional control approaches (i.e. self-control, bureaucratic control, community control, and client control) in the context of HMCs is in line with previous studies (see section 2.2.4.3.1). Thus, there is sufficient evidence to suggest that these control approaches can be used to fostering the confidence and effectiveness in controlling the hotel management company (as the professional agent).

In terms of self-control, the findings (see section 4.1.2.2.1) suggest that the use of self-control in the context of the HMC is in line with previous studies (see section 2.2.4.3.1). The findings (see section 4.1.2.2.1) reveal that self-control is evident in both the contract document and the operation of HMCs.

In the contract document, the findings (see section 4.1.2.2.1) suggest self-control is applied via the provision of the owner's input into the operational decision making. As indicated in the contract document, although there is owner involvement in various strategic areas of the hotel operation (i.e. budgeting, selection of key hotel executives), hotel owners will not get involved in the day-to-day operation of the hotel, so operators could run the hotel as they see fit. In the operation of HMCs, the findings (see section 4.1.2.2) suggest that there is an application of self-control. By nature of the operation of a HMC, the hotel owners typically macro-manage but not micro-manage the hotel. In relation to this, there is room for operators (both the hotel GM and the head/regional office of hotel management company) to manage the hotel property without any interference by the hotel owners. This situation would allow operators to work independently and to control themselves. Therefore, this situation is in line with the previous studies (see section 2.2.4.3.1) in which, without involvement in the day-to-day operation, operators are allowed to control themselves. Since this relies on the trustworthiness and goodwill of operators in

performing their tasks, a gap for the occurrence of moral hazard or any unwanted behaviour is present.

The findings (see section 4.1.2.2) reveal that in HMCs, trustworthiness towards the operator (especially the GM) might play a crucial role. This is because the hotel GM is the key person running the property in the operation of the HMC. Allowing hotel GMs to work independently and to control themselves could be good motivation for them to do their task. In this context, it implies that giving freedom to hotel management companies to run the hotel property provides a positive impact. This not only reduces confusion and problems in the hotel operation, but also enhances the motivation of operators (especially hotel GMs) to perform their task. This situation is in line with previous studies (see section 2.2.4.3.1) in which a high degree of trust is likely to strengthen the presumed altruistic orientation of professionals and further constrain their opportunistic inclination in the relationship.

Moreover, there is sufficient evidence (see section 4.1.2.2) to confirm the previous studies (see section 2.2.4.3.1) that being proactive or excessive attempts to control by the principal might end up having a negative effect. Most of respondents clearly understand that too much involvement by the owner might de-motivate the operator (especially the hotel GM), and in fact cause more problems in the operation.

With respect to community control, the findings (see section 4.1.2.2.1) suggest that the use of community control in the context of HMCs is partially in line with previous studies (see section 2.2.4.3.1). The findings (see section 4.1.2.2.1) reveal that community control is evident in both the contract document and the operation of HMCs.

In the contract document, the findings (see section 4.1.2.2.1) suggest that community control is applied in the contract under the provision of operator performance standard. This can be referred to the performance (RevPar) comparison/benchmarking with the selected members in the comparison set. Apart from the achievement of the agreed level of GOP, this method is typically used as

another key indicator and has been included in most of the contracts as the minimum performance criteria. In the operation of HMCs, in monitoring performance, the findings (see section 4.1.2.2) suggest that apart from the result of bottom-line/annual budget, performance benchmarking is clearly perceived by hotel owners to be critical.

In using community control, the findings (see section 4.1.2.2) suggest that it could enhance the effectiveness in monitoring the performance of hotel management companies. The use of performance comparison / benchmarking allows hotel owners to see how good the performance of their hotel management company is when making a comparison with selected competitors. This implies that in controlling the performance of the operator, achievement of only the agreed level of GOP might not be enough to judge their true performance. For example, achievement of agreed level of GOP might not indicate where the hotel unit is or how well the operator is performing in the specific location/area. In other words, the agreed level of GOP might not reflect to the actual business situation or potential which the hotel unit could achieve. This situation is in line with the previous studies (see section 2.2.4.3.1) in which, in principal/professional relationships, it is very difficult to determine whether a particular agent failed or succeeded because of opportunistic/appropriate behaviour, managerial (in)competence, or other factors beyond anyone's control.

The findings (see section 4.1.2.2) suggest that the use of community control can reflect the reputation of the hotel management company. In comparison, while average room rate and average occupancy rate are crucial indicators, RevPar is the most important. This method allows both hotel owners and operators to see where and how well they are doing in the business, when compared with selected direct or indirect competitors and/or the same or a different level of hotel. In relation to this, if the operator underperforms while the other hotel properties perform well in the same period, it might imply that there is a problem with the operator, which would effect its reputation. In addition, most hotel properties do a performance comparison. Consequently, among professional agents (operators) or perhaps the other hotel

owners, they would all know the performance of each other so if they under-perform or their performance is lower than their competitors (peers), it would effect their reputation to pursue future business. This situation is in line with previous studies (see section 2.2.4.3) in which, in the principal/professional relationship, the value of human capital is presumed to be degraded if word spreads that a particular agent has not previously served principals in a good faith. As a result of the adverse reputation of an agent in the market at large, other potential principals might be loath to engage in exchange.

It is important to note that in the context of HMCs, community control can be achieved through performance comparison/benchmarking. In relation to this, control by the community in the context of HMCs is quite different from that of the principal/professional exchanges in previous studies (see section 2.2.4.3.1) in which the control is achieved through the professional community using their codes of ethics and professional standards.

With respect to bureaucratic control, the findings (see section 4.1.2.2.1) suggest that the use of bureaucratic control in the context of HMCs is in line with previous studies (see section 2.2.4.3.1). The findings (see section 4.1.2.2.1) reveal that bureaucratic control is evident in the operation of HMCs.

The findings (see section 4.1.2.2) suggest that the use of bureaucratic control within the operation of HMCs can be via the internal control mechanisms of the hotel management companies, especially in respect to the relationship between the head/regional office and the GM. Thus, this might be referred to as a form of bureaucratic control. Thus, control methods are used by head/regional offices to control their GMs, not only on financial performance and operational efficiency but also transparency. These include reporting, a hotel property audit, and visits by head/regional executives.

The findings (see section 4.1.2.2) suggest that the use of bureaucratic control could enhance effectiveness in the control the professional agent. As the GM is a (perhaps,

the) key person in operating the hotel property, the performance of the GM might affect the security of the HMC and the actual reputation of the hotel management company. This is because the achievement of the agreed business performance is tied to that of the contract termination clause. Thus, an underperforming GM might affect the level of management fees (and, therefore the source of revenue for the hotel management company), as the structure of the management fee emphasises incentive fees (which rely on the performance). Moreover, too many underperforming, under-standard or unsuccessful hotel properties, would seriously affect the overall reputation of the hotel management company. This situation implies that the internal control mechanism might be crucial for the hotel management companies, since an underperforming hotel GMs might have a negative effect on the hotel management company.

Accordingly, allowing professional peers (hierarchy internal control) to monitor the hotel GM's performance in both financial and operational aspects (through internal reporting, a property audit, visits of head/regional executives and mysterious guest) might be effective because they know what and how to measure and monitor. In this sense, hotel GMs can be held accountable against the standards of the firm. In addition, with the availability of the internal control mechanisms of the hotel management company, hotel owners could rely on this to indirectly control their hotel GMs in the area where the behaviour cannot be verified (i.e. day-to-day operations). Therefore, this situation confirms previous studies (see section 2.2.4.3.1) that it is unlikely for professional agents to behave opportunistically when they are monitored by their professional peers through systematic internal controls or informal oversight by knowledgeable peers and superiors inside the professional firm.

With respect to client control, the findings (see section 4.1.2.2.1) suggest that the use of client control in the context of HMCs is in line with previous studies (see section 2.2.4.3.1). The findings (see section 4.1.2.2.1) reveal that client control is evident in the operation of HMCs.

The findings (see section 4.1.2.2) suggest that the use of client control is evident in the operation of HMCs. This can be any form of control method which is initiated by the principal to control their agent. In the context of HMCs, this can be referred to any method which is initiated by hotel owners to control their operators, including employment of a knowledgeable owner representative, the use of property visits/observations, informal reporting, informal meetings, internal performance comparisons, and collecting feedback from various informal sources.

There is sufficient evidence (see section 4.1.2.2) to suggest that the use of client control could enhance the effectiveness in controlling professional agents. In most cases, acting on behalf of hotel owners, there is an owner representative to look after the hotel property. With access to, and the support of, an owner representative, the effectiveness of owner control is greatly improved. This is because the hotel business sophisticated owner representative knows the game, i.e. what needs to be done, how to control and measure the outcome, and perhaps how to verify the behaviour of the operator. This situation is in line with previous studies (see section 2.2.4.3.1) in which hiring/obtaining a specialist who understands the business of the external agents could be a solution to the problem of knowledge asymmetry as it enables the principal to obtain sufficient knowledge to control the professional agent.

In reporting, operators will typically be required to submit monthly reports in a formal written format. However, apart from this, especially in the cases where hotel owners are sophisticated in the hotel business and work closely with hotel GMs, hotel owners required hotel GMs to submit flash reports (daily, weekly, or two-week) which is basically a summary of the key business figures. This would enable those owners to know what is going on during the month (and before the formal monthly report is produced). Therefore, this implies that the performance/outcome of the operator can be monitored not only at the end of the month, but also during the month.

In relation to meetings, it is common that there will be a periodic formal meeting (monthly or quarterly) between the owner and the operator to review and to discuss

the performance. However, apart from the formal meeting, in cases where hotel owners are sophisticated in the hotel business and work closely with hotel GMs, an informal meeting was typically organised by hotel owners. This could be a meeting over a meal or simply a telephone conversation. This implies that both formal and informal meetings do, to some extent, allow hotel owners to verify the behaviour of their hotel management company (especially the hotel GM who is the key person in the running of the hotel). Moreover, property visits/observations by hotel owners can be organised with or without advance notice. An informal meeting with the hotel GM might be organised during the property visit. This would allow hotel owners to see what is happening in the operation of the hotel.

In cases where the hotel owners have more than one hotel/resort property with different operators, hotel owners (even if they are not sophisticated in the hotel business) could make use of internal comparisons and might seek to create competition among their hotel business units. In addition, there is sufficient evidence that feedback from external sources (such as friends, business partners, or publications); could also be crucial information with which to informally control the operator. This kind of information would provide a subjective view regarding the quality of service and reputation of the hotel unit.

In this context, it means that apart from formal methods (which are mostly identified in the contract document), there is an attempt by hotel owners to create their own methods in monitoring and controlling the operation. Therefore, this clearly implies that hotel owners seek to actively monitor and control the performance of hotel management companies. This situation is in line with previous studies (see section 2.3.1.3) in which hotel owners become proactive in controlling their operators. It also implies that these informal methods that initiated by all hotel owners (not just those sophisticated in the hotel business), allow them to more effectively control the hotel management companies. This is because these informal methods could obtain more information (concerning the operation of the HMC) than the formal methods. This situation is in line with previous studies (see section 2.2.4.3.1) in which

principals could create a mechanism to control their professional agent even though they lack the professional specialist knowledge.

5.1.2.2.2 Conclusion on research question 2b

In conclusion, regarding the additional control approaches for controlling agents in principal/professional relationships in section 2.2.4.3, the findings (see section 4.1.2.2) suggest that the use of additional control approaches (i.e. self-control, bureaucratic control, community control, and client control) in the context of HMCs is mainly in line with previous studies (see section 2.2.4.3.1). Thus, there is sufficient evidence to confirm that these control approaches can be used to foster confidence and effectiveness in controlling the hotel management company (as the professional agent).

In terms of self-control, the findings reveal that this could enhance the performance of the operator. By not becoming involved in the day-to-day operation and allowing operators to control themselves, hotel owners rely on the trustworthiness and goodwill of the operator to perform this task. In this context, it implies that giving freedom to hotel management companies in running the hotel property provides a positive impact. Moreover, it reduces likelihood of confusion and problems in the operation, and enhances the motivation of operators (especially hotel GMs) to perform their task. In other words, a high degree of trust is likely to strengthen the presumed altruistic orientation of professionals and further constrain their opportunistic inclination in the relationship. Moreover, the findings confirm that being too proactive or excessive attempts to control by the principal might end up having a negative effect. Most of respondents clearly understand that too much involvement by the owner might de-motivate the operator, especially the hotel GM, or indeed cause more problems in the operation.

With regard to community control, the findings confirm that it could enhance the effectiveness in controlling the operator. In monitoring performance, the use of performance comparison/benchmarking with selected members in the comparison set

(as community control) would enhance the effectiveness in controlling performance of the operator, illustrates whether a particular agent failed or succeeded because of opportunistic/appropriate behaviour, managerial (in)competence, or factors beyond their control. In controlling the performance of the operator, achievement of the agreed level of GOP only might not be enough to judge the true performance of the operator. This is because achieving this might not indicate how well the operator is performing in a specific location/area. In other words, the agreed level of GOP on its own might not be relevant to the actual business situation or potential of the hotel unit. In this context, the use of performance comparison/benchmarking with selected members in the comparison set (as community control) allows hotel owners to see how good the performance of their hotel management company is in comparison with their selected competitors.

Nonetheless, it is also important to note that the application of community control in the context of HMCs differs from Sharma (1997) as there is no formal organisation (i.e. professional body) representing the community of hotel management companies (determining and enforcing the standard of professional work via a code of ethics, etc.). Nevertheless, in the HMC, a selection of members from the community of hotel management companies is used to control the performance of the specific hotel management company. In relation to this, performance (RevPar) comparison with selected hotel properties (of the other hotel management companies) is commonly used.

With respect to bureaucratic control, the findings reveal that it could enhance the effectiveness in controlling the operator as it is unlikely that professional agents behave opportunistically when they are being monitored by their professional peers through systematic internal controls or informal oversight by knowledgeable peers and superiors inside the professional firm. By the nature of the operation of the HMC, hotel owners typically will not get involved in the day-to-day operation. In this situation, hotel owners could not verify how operators (especially the hotel GM) perform their tasks; this would mean there is an opening for the occurrence of moral hazard. In relation to this, there is an internal control mechanism within the hotel

management company, especially in respect of the relationship between the head/regional office and the GM. This might be referred to as bureaucratic control. These control methods are used by head/regional offices to control their GMs, not only on financial performance and operational efficiency but also transparency. These methods include reporting, a hotel property audit, and visits of head/regional executives. In this context, as the GM is a key person in operating the hotel property, the performance of the GM might affect the security of the HMC and the actual reputation of the hotel management company. To allow professional peers (i.e. through a hierarchy internal control) to monitor the hotel GM's performance might be effective. Consequently, hotel owners could rely on this to indirectly control their hotel GM in areas where their behaviour cannot be verified.

Regarding client control, the findings reveal that it could be used to foster confidence and effectiveness in controlling the operator. For example, with access to and the support of an owner representative, the effectiveness of owner control is greatly improved. This is because the hotel business sophisticated owner representative knows the game, what needs to be done, how to control and measure the outcome, and perhaps how to verify the behaviour of the operator. This situation implies that to hire/obtain a specialist who understands the business of external agents could be a solution to the problem of knowledge asymmetry as it enables the principal to obtain a sufficient knowledge in order to control the professional agent.

On the use of informal periodic reports and meetings, this allows hotel owners to keep updated on the current situation of their hotel property not only at the end of the month/quarter but at anytime during the month/quarter. Moreover, this also allows them the opportunity to enquire about or to discuss any issues that may arise (related not only to business performance, but also any unusual behaviour). In addition, there is sufficient evidence that collecting feedback from external sources, such as friends, business partners, or a publication; could provide crucial information to the informal control of the operator. This kind of information could provide a subjective view regarding the quality of service and reputation of the hotel unit, whereby hotel owners obtain more information regarding their hotel operation. Nonetheless, this

clearly implies that hotel owners are becoming more proactive in controlling their operators, and that most hotel owners (not only those sophisticated in the hotel business) seek to actively monitor and control the performance of hotel management companies.

5.1.2.3 Overall conclusion on the restraint against agent opportunism in hotel management contracts (Research Question 2)

In conclusion, with respect to the restraint against agent opportunism in HMCs, there is sufficient evidence to believe that the traditional control approach (i.e. outcome and behaviour control) could possibly be used to control hotel management companies (as the agents) in HMCs. However, although outcome control is the preferred approach, it may be neither approach would be fully effective in controlling hotel management companies. There is sufficient evidence to suggest that additional control approaches (e.g. self-control, bureaucratic control, community control, and client control) might be needed, which could be used to foster confidence and create effectiveness in controlling the hotel management company (as professional agent).

Regarding the performance monitoring, hotel owners might have difficulty judging the true outcome or the quality of their operator's outcome (operators who possess the specific skills and technical knowledge, and who might be considered as the professional agent). The achievement of the agreed level of GOP is one of the key performance indicators typically used (and a component in the use of outcome control). However, in controlling the performance of the operator, the achievement of the agreed level of GOP only might not be enough to judge the true performance of the operator. This is because achieving this might not indicate where the hotel unit is or how well the operator has performed in the specific location/area. In this context, the use of performance comparison/benchmarking with selected members in the comparison set (as a means of community control) would enhance the effectiveness of controlling the performance of the operator, and could illustrate whether a particular agent failed or succeeded because of opportunistic/appropriate behaviour, managerial (in)competence, or factors beyond anyone's control. The use

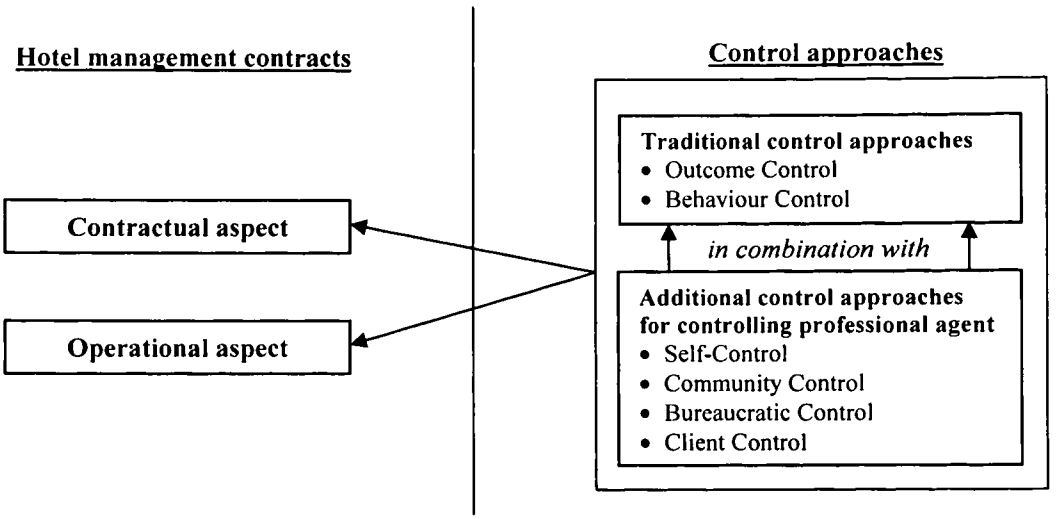
of performance comparison/benchmarking allows hotel owners to see how well their hotel management company is performing in comparison with selected competitors in a particular business climate.

Due to the nature of the task, hotel owners might have a difficulty in monitoring their operator as they are not able to completely verify what operators are doing in the hotel operation (a typical problem which the use of behaviour control can address). Typically, hotel owners could get involved in various key areas of hotel operation such as budgeting and the selection of key hotel executives (e.g. the hotel GM, financial controller). However, since hotel owners will not get involved in the day-to-day operation of the hotel (due to the nature of the tasks involved and/or level of hotel business knowledge which the hotel owner has), hotel management companies could run the property as they see fit. In this situation, there would be an opportunity for the occurrence of moral hazard, as the control of behaviour would not be fully effective in controlling the operators in HMCs. In this context, the use of self-control might be effective at reducing the opportunistic behaviour of the operator, as a high degree of trust is likely to strengthen the presumed altruistic orientation of professionals and further constrain their opportunistic inclination in the relationship. This could enhance the motivation of the operators (especially hotel GMs) to perform their task, and thereby enhance their performance. Being proactive, or any excessive attempts to control by the principal might end up having a negative effect so that too much involvement by the owner could de-motivate the operator, especially the hotel GM, and actually cause more problems in the operation.

Meanwhile, the use of bureaucratic control (through reporting, a hotel property audit, and visits of head/regional executives) could reduce the opportunistic behaviour of operators (especially hotel GMs, who are the key person in operating the hotel property). This is because it is unlikely that professional agents will behave opportunistically when being monitored by their professional peers, through a series of systematic internal controls, or informal oversight by knowledgeable peers and superiors inside the professional firm. Consequently, hotel owners could rely on the internal control mechanisms of hotel management companies (as the use of

bureaucratic control) to indirectly control their hotel GMs in those areas where the behaviour cannot be verified. Lastly, the use of client control could be used to foster confidence and improve effectiveness in controlling the operator. Particularly, in the situation where there is an employment of the hotel business sophisticated owner representative, with access to and the support of an owner representative, the effectiveness of owner control is greatly improved. This also could be a solution to the problem of knowledge asymmetry as it enables the principal to acquire a sufficient knowledge to control the professional agent.

Figure 5.1: Two aspects in restraining against agent opportunism in hotel management contracts and the applied control methods



Therefore, in this context, the hotel management company (as the professional agent) is less likely to behave opportunistically when the hotel owner (as the principal) uses additional control approaches (i.e. self-control, bureaucratic control, community control, and client control) in combination with the traditional control approach (i.e. behaviour control and outcome control). Accordingly, these additional control approaches could be applied via either of the two key aspects of contractual and operational, see Figure 5.1 above.

5.2 The use of hotel management contracts in Thailand and elsewhere

This section will provide a discussion on the use of HMCs in Thailand and elsewhere. In addressing the secondary research problem of this research, the discussion will be conducted in line with the seven specific research questions which were developed in section 2.3 of chapter 2.

5.2.1 Key areas and issues in the hotel management contracts document

This section will provide a discussion and conclusion on Research Question 3 'What are the key areas and issues in the hotel management contracts document?'.

5.2.1.1 Discussion on research question 3

In relation to key provisions in the HMC document, there are a number of clear similarities and differences in the nature of HMCs as they operate in Thailand (see section 4.2.1), compared to the previous studies (see section 2.3.2.2). The summary of comparison can be seen in Table 5.4.

In terms of similarity, it would appear that both the Thai HMCs investigated here and those examined in the previous studies are essentially similar in the areas of contract termination, restrictive (non-compete) covenants, owner involvement in operational decision-making, operator reporting requirements, the provision of, and access to books and records, and insurance issues. In addition, the issue of operator-system-reimbursable expenses was found to be generally the same in both the previous studies and in Thailand. However, it cannot be concluded that a similar method of calculation and applicable percentages operate, as these were not reported in the previous research.

Table 5.4: Comparison of 12 issues in hotel management contracts between Thailand and previous studies

12 Issues in Hotel Management Contracts	Hotel Management Contracts in Thailand	Hotel Management Contracts (previous studies)
Operator Equity and Loan Contribution	• Mostly do not contribute either equity or loans, but offer contribution for a renovation project or the exemption for the technical-service or pre-opening management fee	• There is an increasing percentage of the operators who contribute equity and loan
Initial Terms and Renewals	• Commonly in the range of 10 – 12 years term for the initial contract with two 5-10 year renewals	• 8-10 years term for the initial contract with one or two 3-5 year renewals
Management Fee and Structure		
Structure	• Most of the contract are using basic management fee with incentive fee	• The emphasis on the incentive fee portion of the total management fee has increased
Basic Management Fee	• In range of 1-6% of Gross Revenue	• 1-3.5% of Gross Revenue
Incentive Fee	• In range of 0-10% of Gross Operating Profit	• 8-40% of CFADS*, ROE*, or IBFC*
Fee Cap	• Very rare, only one case at 6% of Gross Revenue	• 4.5-5.5 percent of Gross Revenue
Currency	• Thai Baht	• US$
Operator-System-Reimbursable	• Marketing support, central reservation, and human resource support are the key Operator-System-Reimbursable expense. Furthermore, the expense of the operator's corporate personnel for carrying out the duties at the hotel can be reimbursed.	• In chain operator, these charges can equal or exceed the basic management fee. This include chain affiliation and sales, marketing, reservation, accounting service, training expense, as well as the cost of travel, room, and board for the operator's corporate personnel carrying out the duties supervising the hotel.
Operator Performance Standard	• Commonly use comparison of RevPar among the competitor set. However, performance provision also contain performance-criteria base (negotiated amounts of annual income before fixed charge), start up exclusion period, shortfall deviation allowance, shortfall time period, operator cure, test of unfavourable economic conditions, and contract renewal hurdle.	• Performance provision should contain performance-criteria base (negotiated amounts of annual income before fixed charge), start up exclusion period, shortfall deviation allowance, shortfall time period, operator cure, test of unfavourable economic conditions, and contract renewal hurdle.

***Note:** CFADS = cash flow after debt service, ROE = return of investment, IBFC = income before fixed charges

Continued - **Table 5.7**: Comparison of 12 issues in hotel management contracts between Thailand and previous studies

12 Issues in Hotel Management Contracts	Hotel Management Contracts in Thailand	Hotel Management Contracts (previous studies)
Contract Termination by Owner	• The provision of contract termination by owner without cause, termination on sale, and termination on foreclosure has been put in the contract • All of the operator are given a right to stay on if the property is to be sold	• The frequency of provisions for contract termination by owner without cause, termination on sale, and termination on foreclosure has steadily increased.
Owner Input in Operational Decision-Making	• Budgeting and selection of key personnel are the key inputs of the owner in operational decision	• Owners have gained substantial input in two major areas of operational decision making – budgeting and personnel
Financial and Operational Report	Formal written reports • Annual budget • Monthly financial documentation • Annual financial statement • Owner-Operator meeting - monthly or quarterly	Formal written reports • Annual budget • Monthly financial documentation • Annual financial statement • Owner-Operator meeting - monthly or quarterly
Restrictive (Non-compete) Covenants	Different from one property to the other. The restrictions also address at least one of the following: • Definition of the restricted area • Specific types of properties that the operator can add within the area • Conditions for adding similar properties within the area • A 'burn-off' timetable (a schedule for decreasing the non-competition area in steps over a defined period of time)	Each contract must be viewed on a case-by-case basis. The restriction should address the following: • Definition of the restricted area • Specific types of properties that the operator can add within the area • Conditions for adding similar properties within the area • A 'burn-off' timetable (a schedule for decreasing the non-competition area in steps over a defined period of time)

Continued – **Table 5.7:** Comparison of 12 issues in hotel management contracts between Thailand and previous studies

12 Issues in Hotel Management Contracts	Hotel Management Contracts in Thailand	Hotel Management Contracts (previous studies)
Books and Records	The books and records, which will be kept and can be accessed by the owner, include: • The financial statements of the hotel • Detailed invoices of all hotel expenses i.e. payroll of the employee, system reimbursable expense schedule, replacement and capital-expenditure • All other reports generated at the property level i.e. guest history and sale files, aging of account receivable, internal audit reports, health and safety report, etc.	The books and records to be defined in contract include: • The financial statements of the hotel • Detailed invoices of all hotel expenses i.e. payroll of the employee, system reimbursable expense schedule, replacement and capital-expenditure • All other reports generated at the property level i.e. guest history and sale files, aging of account receivable, internal audit reports, health and safety report, etc.
Insurance Issues	• The operators give the right to the owner to decide for selecting the insurance carrier. The operator will ensure that the insurance would meet the requirement and cover all of aspects such as third party insurance, business interruption, and etc.	• The chain operators are mostly self-insured and want to be the insurance carrier for the hotel. However, owner could decide whether it will use the operator's insurance if offered. Owner report that insurance premiums required by chain operators can be high and it is highly desirable to obtain annual competitive bids from their operators and other carriers.
Dispute-Settlement Mechanism	• Owner-operator policy committee • Arbitration (the method of selecting the arbitrator or arbitration panel, stipulate provisions that can be submitted to arbitration, the process of presenting one's position, and place and language to be used)	• Owner-operator policy committee • Arbitration (the method of selecting the arbitrator or arbitration panel, stipulate provisions that can be submitted to arbitration, and the process of presenting one's position)

With regard to the differences between HMCs in the previous studies and those in Thailand, these emerge from the finer detail within the issues concerning equity and loan contributions, the initial term and renewal of contracts, management fees and structure, the measurement of operator performance, and dispute settlement mechanisms. While these were found in broad terms to be similar to the previous studies, some of the details associated with these areas are different – and may even be unique – in Thailand.

The findings in the previous chapter suggest that in Thailand operators rarely take equity in a property or make a loan to hotel owners. Eyster's (1997b) findings suggest that in the USA while traditional equity contributions might be in decline due to agency law rulings, these were being effectively substituted by operator loan contributions. Thus the standard practice of operator financial commitment in the USA does not appear to be typical in Thailand.

With regard to the initial term and renewal of contracts, in Thailand this appears to be in the range of 10 – 12 years term with two 5-year renewals. As such, this is slightly longer than in the previous studies where initial terms are for an 8-10 years term with one or two 3-5 year renewals. With respect to the management fee level and structure, in Thailand, the use of a basic management fee with an incentive fee was the most commonly used approach identified. As with the previous studies, the emphasis on the incentive fee portion of the total management fee has increased. The differences here reside in the applicable percentages applied for fee calculation – especially for the incentive fee – and the apparent rareness of the use of fee caps in Thai contracts.

In Thailand the issue of operator performance measurement appears to reside heavily in the use of comparisons with competitive properties in terms of RevPar. There was no evidence in previous research that this particular performance measure was so routinely used. That said, other performance provisions present in Thailand were similar to those routinely used within the previous studies. Where disputes arise a similar resolution mechanism appears to operate in both Thailand and previous

studies although in the case of Thai contracts, both the language and location of any arbitration requires to be specified.

5.2.1.2 Conclusion on research question 3

In conclusion, in terms of areas of concerns, the respondents – both the property owners and the hotel management companies – generally identified the same areas of concerns as outlined in the earlier study. While the specific details of contracts for each hotel property are unique, there also – perhaps not surprisingly – exists broad similarities across these documents used in both Thailand and those reported in previous studies.

Consequently, based upon this exploratory study it appears likely that the issues associated with the management contracts which foreign hotel chains (the operators) are currently using in Thailand are broadly similar to those issues identified in previous research. That said, there are some differences in the specific details – on the mechanics of the contracts – within these broadly similar issues. For instance, the issue of operator equity and loan contribution, the operators rarely take equity in a property or make a loan to the hotel owners. In contrast, in the USA, while traditional equity contributions might be in decline due to agency law rulings, these were being effectively substituted by operator loan contributions. For the issue of initial term and renewal of contract, in Thailand, this appears to be in the range of 10-12 years with two 5-year renewals and this is slightly longer than the previous studies where initial terms are in the range of 8-10 years with one or two 3-5 year renewals.

For the issue of operator performance standard, apart from the other agreed performance standards, comparison of RevPar among the competitor set is commonly used in Thailand, while there is no evidence that this method is routinely used in the previous studies. However, at this juncture it would appear reasonable to

conclude that the Thai hotel sector is principally the same as the previous studies in respect of the issues associated with the use of HMCs.

5.2.2 Motivations of owners and hotel management companies for using hotel management contracts

This section will provide a discussion and conclusion on Research Question 4 'What are the motivations of owners and hotel management companies for using hotel management contracts?'.

5.2.2.1 Discussion on research question 4

In comparison, the findings revealed that the motivations in using a HMC of both owner and hotel management company in Thailand (see section 4.2.2) are generally the same as reported in previous studies (see section 2.3.3.1), see Table 5.5 below.

With respect to the motivation of owners (as local partner) in relation to the use of HMCs, in comparison between the previous studies (see section 2.3.3.1.2) and the findings reported above (see section 4.2.2.1), the owners' motivations were essentially similar, being primarily concerned with a lack of knowledge and experience in the hotel business, non-interest in operating hotel business and a desire to achieve better business and operational performance/efficiency. However, the findings suggest one specific aspect that has not been mentioned in previous studies on HMCs and this concerns the non-interest of the owner in hotel operations or management, which might be due to the hotel business not being a core business.

The findings (see section 4.2.2.1) also support the broad literature on strategic motives of local partners for international strategic alliances (see section 2.3.3.1.1) where the need to effect some form of technology transfer and/or access needed but missing managerial skills being widely cited. One specific aspect that has not been

Table 5.5: Comparison of owners' and hotel management companies' motivations in relations to hotel management contracts in Thailand and previous studies

	Motivations in relations to hotel management contracts		
	Findings (in Thailand)	Previous Studies	
		Hotel management contracts	International strategic alliances
Hotel owner (as local partner)	• Lack of knowledge and know-how in managing and operating hotel/resort • Have other businesses to take care of, and hotel business is not a core business • Desire to have a better business and operation performance/efficiency than managing by themselves • Reputation and status issue	• Expect economical (i.e. cash from operation or selling of asset) and/or non-economical (i.e. perceived value) benefit • Eager to invest in hotel business with no or limited hotel management knowledge • Expect better efficiency on the hotel operations and management	• Technology transfer / know-how • Learning managerial skills • Access to international markets
Hotel management company (as foreign firm)	• Compatibility of hotel management contract with the core business activity of the company • Reducing amount of capital spending in investing and increasing number of hotel/resort property • Availability of owners' demand in seeking hotel management service • Restriction of foreign direct investment	• Necessity in expanding network in term of size and coverage for competition with limited resources • Making profit without capital layout and minimise risk • The transfer of organisational and quality competence • Strong existence of demand on hotel management service • Expanding into country where there is a restriction from the foreign direct investment regulations and land ownership regulations	• Faster entry in to the market • Conforming to the host government policy • Potential low cost sourcing

previously highlighted in international strategic alliances literatures surrounds the owner's status and image of selecting the 'correct' operator.

While financial payback is important, from the local partner's perspective the single biggest motivation remains the overall marketing impact of an established operator managing a property. Thai owners clearly recognized that international brands created more added value for their property than lesser known indigenous brands given the perceived importance of attracting the overseas business and leisure markets. Accordingly, the strongest motivation would appear to be the desire to secure access to the tangible and intangible marketing benefits (e.g. know-how, brand reputation/image, marketing distribution channels toward a particular market) associated with large international hotel chains.

With respect to hotel management companies' motivations (as foreign partner), in comparison with the previous studies (see section 2.3.3.1.3) and the findings reported here (see section 4.2.2.2), these are broadly similar. The hotel management companies' motivations, in relation to HMCs, mainly concern business aspects such as: the compatibility of the use of HMCs with the core business activity of the company (expanding its network for business competition); reducing the amount of capital spending in investing and increasing the number of hotels/resort properties; the existence of demand from local investors/owners for hotel management service; and a restriction upon foreign direct investment. However, the transfer of organisational and quality competences does not appear to be an issue in Thailand based upon the responses reported above.

The findings (see section 4.2.2.2) support previous studies on the strategic motives of foreign partners for international strategic alliances (see section 2.3.3.1.1) which mainly concern faster market entry, conforming to host government policy, and lowering costs. However, the findings suggest one specific aspect that has not been previously highlighted in the international strategic alliances literature. This concerns the perceived compatibility of management contracts with the core business activity in the sense that the perceived core business activity is to focus on managing

the hotel in return for fees. In leveraging core competences, the business model of a HMC allows the hotel company to provide professional hotel management services to the inexperienced or disinterested hotel owners in return for fees.

The hotel management companies have identified that the business model of a HMC facilitates international network expansion as it provides a reduction/minimisation in the amount of capital exposure and financial risk while increasing the number of hotels/resort properties and improving competitiveness. Thus, along with the desire of hotel management companies not to make an investment in the ownership of a hotel property (unless it is a necessity) in the Thai hotel market, there is the existence of local investors/owners' demand for hotel management services. This situation would encourage management companies to utilise their knowledge and know-how of hotel management in return for fees by using HMCs. Not only does this minimise the capital exposure and the financial risk (as commonly the hotel property is funded by the hotel owner), but also provides an opportunity to gain an attractive profit and to strengthen the brand's network. This might be a crucial factor for the apparent popularity and success of this business format.

5.2.2.2 Conclusion on research question 4

In conclusion, the motivations in relation to HMCs, which were highlighted by both the owners (as local partners) and the hotel management companies (as foreign firms), are generally the same as reported in previous studies in both the context of HMCs and international strategic alliances. However, in relation to the strategic motives, the apparent importance of the local partner's status/image as a key strategic motivation was not something previously reported in the ISA or HMC literature.

The findings also confirm that, increasingly, the core business of hotel management companies is to manage the hotel property in return for fees, and need not involve direct ownership of a hotel property. In addition, the motivations in relation to the use of HMCs of the property owner and the hotel management company imply the

presence of an underlying conflict of interest. On one hand, the owners desire to achieve a positive business and high operational performance/efficiency, and to achieve the best possible return from their investment. On the other hand, the hotel management companies expect to gain the highest possible level of management fees from providing the professional services associated with modern hotel management, and these fees are at the expense of the owner's financial return. Moreover, even without investing in hotel property, the HMC affords the opportunity to manage a hotel on behalf of an owner, which is also an opportunity to strengthen the network and the competitive advantage of the hotel management company.

5.2.3 Partner selection criteria of owners and hotel management companies when using hotel management contracts

This section will illustrate a discussion and conclusion on Research Question 5 'What are the partner selection criteria of owner and the foreign hotel company when using hotel management contracts?'.

5.2.3.1 Discussion on research question 5

In the previous studies of HMCs concerning partner selection criteria (see section 2.3.3.2) there is no attempt to provide an overall classification of the selection criteria identified. However, from the findings (see section 4.2.3), it is possible to classify the selection criteria of both the owners and the hotel management companies into objective and subjective factors. In relation to Geringer's (1988, 1991) typology of partner selection concerning strategic alliances (see section 2.3.3.2.1), the findings (see section 4.2.3) suggest that both task-related and partner related criteria can be identified. In this context, objective factors can be referred to as task-related factors, while subjective factors can be referred to as partner-related factors. This can be seen in Table 5.6.

Table 5.6: Comparison of owners' and hotel management companies' partner selection criteria in Thailand and previous studies

	Criteria	Findings (Thailand)	Previous Studies
Owner	Objective/ task-related factor	• Financial projection and all commercial terms • Ease of accessibility toward executives at head/regional office • Availability of the brand in the given location • Profile of hotel management company	• The management company's ability to perform by looking at past performance. • The management company's reputation for integrity • Accessibility of senior management to the owner or owner's representative • Marketing strength of the management company
	Subjective / partner- related factor	• Impression upon the negotiation (need to feel comfortable, perceived status of operator) • Personal relationships / contacts • Perceived appropriateness of brand toward specification and location of the property	• Recommendations from other knowledgeable owners
Hotel management company	Objective/ task-related factor	• Profile of owner (business track record, financial strength) • Business forecast and level of management fee • Location of the project	• Profile of the owner (kind of business, business track record) • Location of the hotel • Specification of the hotel (number of room, age, design, construction, etc.) • Possibility of management fee/revenue gained • None or less the financial investment • Market coverage
	Subjective / partner-related factor	• Attitude and perception of owner toward brand and business vision	n/a

The findings suggest that the criteria for selection used by Thai hotel owners (see section 4.2.2.1) are broadly in line with previous studies (see section 2.3.3.2.2), particularly in respect to objective factors or task-related factors, see Table 5.6. This category includes financial projections, the commercial terms, availability of the brand, profile of the operator, specification and strength of brands and accessibility to executives at the head/regional office.

Not surprisingly, the financial projection and its implications in term of the project's overall investment were (given the criteria highlighted) very important to Thai owners. The hotel brand name and the operator's reputation for strong management were also, given their motivations, very important to Thai owners.

A key difference in the criteria for selecting operators would appear to emerge with reference to the subjective factors or partner-related criteria. Here the cultural importance of doing business through personal introductions or recommendations was very evident from respondents' replies. Additionally, the perceived appropriateness of a brand towards the specification and location of the property was also highlighted as an important subjective factor.

For hotel management companies, although there is no previous study (see section 2.3.3.2.2), the findings (see section 4.2.2.2) suggested that the criteria for selecting the partner is likely to be the same as the theorised criteria, especially on the objective factors or task-related factors which tended to be their priority. These are mainly on the profile of the owner (business track record, financial strength, and hotel investment potential), the business forecast and the possible level of management fee gain, and the location of the project. As business potential in gaining fees or making profit is crucial, not surprisingly, the forecast of the business was highlighted as being a top priority criteria.

Moreover, the profile of the owner (e.g. reputation, the kind of the business, and the track record of the owner) is also evidently recognised by the hotel management companies as a crucial part of the selection criteria. However, although it was not

mentioned in the speculated criteria, subjective factors or partner-related criteria are also evidently stated. This mainly concerns the attitude and perceptions of the owner towards the business vision of the hotel management company.

In relation to Geringer's (1988, 1991) typology of partner selection concerning strategic alliances (see section 2.3.3.2.1), the findings (see section 4.2.2) also confirm the ambiguity of the relative importance of both task-related and partner-related criteria in selecting a partner. On the one hand, there is some evidence to suggest that in the case of the hotel management companies the objective factors tended to dominate the subjective factors when selecting a partner. This is because the criteria of the forecast of the business and the profile of the owner tend to be crucial for them in selecting their partner. On the other hand, there is also some evidence to suggest that in the case of Thai owners the subjective factors tend to dominate the objective factors when selecting hotel management companies. The personal relationships/contacts tend to be a key criteria for the owners as trust and confidence might be gained, although the findings suggest that financial projection and all commercial terms are also important to the owners.

5.2.3.2 Conclusion on research question 5

In conclusion, the partner selection criteria highlighted by respondents (owners and hotel management companies) are generally the same as previous studies in the context of both HMCs and international strategic alliances. In the context of HMCs, the findings support the previous studies, especially on the owners' selection criteria. The findings reported here have filled the research gaps concerning the partner selection criteria of hotel management companies and the classification of the criteria, as used by both the owners and the hotel management companies into objective and subjective factors.

In relation to international strategic alliances, it can be confirmed that when selecting a partner, a combination of task-related (objective) factors and partner-related

(subjective) factors are used. However, the findings confirm that the relative importance of such selection criteria is still ambiguous. Specifically, for Thai owners, there is a variation concerning the greater importance of the relational nature of business practices which gives a greater emphasis to personal/subjective considerations than that typically exhibited in the North American/European context. It would appear that international hotel chains overlook these subjective aspects at their peril if they wish to compete successfully in other Asian countries where business practices frequently reflect a similar concern for such relational issues as found in Thailand. In such circumstances, factors related to the latter (i.e. subjective) criterion might be of particular importance.

5.2.4 Key issues and the nature of hotel management contract negotiation

This section will provide a discussion and conclusion on Research Question 6 'What are the key issues and the nature of hotel management contract negotiation?'.

5.2.4.1 Discussion on research question 6

Essentially, the nature and focus of the contract negotiation between Thai hotel owners and international operators (see section 4.2.4) do not appear substantially different from those reported in previous studies (section 2.3.3.3). However, it is not possible to conclude that the specific details regarding the negotiation process are the same as this is an area where previous studies have shed little or no light.

As identified in previous studies, the findings here show that it is common for the owner and the operator to begin negotiation with the consideration of the necessary investment (given project cost) and the best-guess annual operating cash flows (both positive and negative). However, in Thailand, it appeared that normally, there is no lender involvement in the negotiation as there might be in the USA.

Table 5.7: Comparison of owners' and hotel management companies' concern in the hotel management contract negotiation in Thailand and previous studies

	Concern in the hotel management contract negotiation	
	Findings (Thailand)	**Previous Studies**
Owner	• Financial issue • Involvement in the hotel operations • Sell/change of ownership of hotel property • Performance monitoring and evaluation methods • Competitiveness of property (restrictive covenants) • Length of the contract	• Financial issue • Influence over the hotel operation • Remedies in the event of underperformance • Flexibility to sell or refinance the hotel asset
Hotel management company	• Financial • Brand standard protection • Involvement of the owner in the hotel operation • Stability in managing hotel property	• Financial issue • Brand strengthening and protection • Stability in managing

Although there are no specific details in previous studies concerning the negotiation process, the findings here suggest that the process of contract negotiation in Thailand can start from either an invitation by the owner or an approach by the hotel management company. At this point a hotel site or existing hotel property inspection is conducted. A mutual agreement on the broad conditions and the framework for the negotiation would typically be reached before starting the negotiation proper. After this, a draft of the HMC is proposed to the owner for consideration. If there is any disagreement, then the relevant issues will be raised and negotiated. If mutual agreement is reached, the HMC will be signed by both parties.

With respect to owners' and hotel management companies' concerns in the negotiation, the findings (see section 4.2.4.1) tend to support the previous studies (see section 2.3.3.3.1), see Table 5.7. For Thai owners, their key focus of negotiations would appear to surround fee levels, lengths of contracts, restrictive covenants etc which, as previous research suggests, is typical in negotiations concerning HMCs.

For hotel management companies, they tended to focus on the financials (i.e. fees), brand standard protection, and owner involvement in the hotel operation. However, in Thailand the hotel management companies highlighted a concern at the degree of involvement of owners in hotel operations, which is not reported in previous studies. This might imply that in Thailand, the owners might expect to have a greater degree of involvement than their counterparts elsewhere.

Thus, the findings (see section 4.2.4.1) indicate that the owners and the hotel management companies have different concerns at the negotiation stage. Once again this might confirm the existence of an underlying conflict of interest, especially on financial issues (i.e. management fees). On one hand, the owners quite naturally might desire to minimise expenses. On the other hand, the hotel management companies might seek to maximise management fees from each project.

One issue/influence that is perhaps different from that reported in previous studies concerns the relative bargaining power of the parties. As Thailand is a growing market this creates a dynamic not found in the context of previous studies, these being largely based in the mature USA hotel market. Nonetheless, there is clear evidence that the bargaining power for any single negotiation can swing either way depending upon the specific circumstances of the parties involved.

In terms of the determinants of bargaining power, this is an area where previous studies have shed little or no light. However, the findings suggest that in Thailand, the level of bargaining power of each party might be influenced by factors such as: the degree of who-needs-who most; the level of experience and knowledge in hotel business of the owner; the profile of the owner; the existing relationship between the owning company and the hotel management company; any personal relationship/contact; the location of project/hotel property; the strategic and expansion policy of the hotel management company; and the disposition of the owners toward a particular brand. Some of the factors might directly influence on the level of bargaining power of the owners. For instance, a low level of experience and knowledge in the hotel business of the owner would provide a negative influence upon the owner's bargaining powers. Future business potential of the owner and the good location of a project/hotel property might provide a positive influence on the bargaining power of the owners.

On the other hand, some factors might put the hotel management companies in a better position in the negotiation, such as the disposition of the owners towards a particular brand. Therefore, at a particular level, during an actual contract negotiation, some of those factors as mentioned above might interplay with each other. Once again this highlights the importance of recognising that, in the final analysis, every HMC is unique in some dimension or other.

5.2.4.2 Conclusion on research question 6

In conclusion, the findings broadly confirm previous research concerning the negotiation of HMCs (the key negotiation processes and the concerns of the hotel owner and the hotel management company in the negotiation). Thus, the findings also fill the research gap on the determinant of bargaining power in contract negotiation. These determinants include: the degree of who-needs-who most; the level of experience and knowledge in the hotel business of the owner; the profile of the owner; the existing relationship between the owning company and the hotel management company; any personal relationship/contact; the location of the project/hotel property; the strategic and expansion policy of the hotel management company; and the disposition of the owners toward a particular brand.

Accordingly, many of the issues identified by previous research on HMCs are reflected in the findings here. That said, there is sufficient evidence to suggest the differences concern the relatively early stage of market development evident in the Thai hotel industry which provides a dynamic largely long gone in the more developed western hotel markets. This situation enables each hotel management contract to be unique in some dimension, since the bargaining power for any single negotiation can swing either in favour of the owner or the hotel management company depending upon the specific circumstances of the parties involved. Success factors in the Thai market for international hotel chains will include recognition of these differences when dealing with Thai property owners.

5.2.5 Roles and working relationship of the three parties in the operation of the hotel management contracts

This section will provide a discussion and conclusion on Research Question 7 'What are the roles of the three parties and their working relationship in the operation of the hotel management contracts?'.

5.2.5.1 Discussion on research question 7

Principally the findings (see section 4.2.5) reveal that the roles and the working relationship of the three parties (i.e. the owner, the hotel GM, and the head/regional office of the hotel management company) in the operation of the HMC in Thailand are essentially the same as those described in previous studies (see section 2.3.4.1). However, it cannot be concluded that the specific details as reported in the findings above are the same as these were not provided in the previous studies.

In terms of the roles of each party, the findings (see section 4.2.5.1) confirm the roles of the three parties as described in previous studies (section 2.3.4.1.1). The hotel owner is an individual or a group of shareholder who makes an investment and owns the property asset in the hotel project. The key responsibility of the hotel owner is to co-ordinate with the GM and the executives of head/regional office of the hotel management company, and to monitor the financial and operational performance of the hotel. In cases where the hotel owners are inactive, the owner representative will act on behalf of the hotel owner.

With respect to the head/regional office of the hotel management company, their responsibilities are to give support in all aspects of hotel operations (i.e. human resource, sales and marketing), to monitor the business and operational performance of the management team at the property level, and to co-ordinate with the hotel owners or their representative. The hotel GM is the key person in running the hotel. Their key responsibilities are to act as overall co-ordinator and to work for both the hotel owner and the hotel management company, in ensuring a positive business performance and that the hotel operation meets the set brand standards.

With regard to the working relationship of the three parties, although the previous studies shed no light on specific details, the findings (see section 4.2.5.2) tend to be principally in line with the broad position outlined in the literature review (see section 2.3.4.1.2).

The findings suggest that in the operation of HMCs, there are three key relationships: (i) the owner-head/regional office of the operator; (ii) the owner-hotel GM; and (iii) the head/regional office of the operator-hotel GM. In the relationship between the owner and the head/regional office of the operator, there is typically a great distance between them. By nature, they frequently have loose co-ordination and they rarely contact each other unless there is a specific issue, which needs to be resolved or discussed.

In the relationship between the head/regional office of the operator and the hotel GM, the head/regional office will not get involved in the day-to-day hotel operation and the hotel GM will manage the hotel independently. However, the distance between them is not so great. The GMs need to regularly report and to co-ordinate with the head/regional office of the operator, while the head/regional offices need to monitor the performance of the GMs and to provide assistance when the GMs call for it.

Lastly, the relationship between the owner and the hotel GM, here the findings reveal that they tend to have a very close working relationship. It appears that it is typically the intention of the owner to work closely with the GM. By the nature of their working relationship, the owners tend not to get involved in the day-to-day operations, but typically are involved in the general policies. In other words, the owners tend not to micro manage the hotel or to act as a second hotel GM. Moreover, many clearly recognise the negative effect of excessive owner involvement in the operation.

The primary difference from the previous studies is that Thai owners frequently intend to work closely with their GM and to actively monitor on the performance, and this includes not only entrepreneurial but also institutional owners. However, in some cases, the findings also suggest that both the owner and the hotel GM might have a loose working relation. This is because the owners are not interested in the hotel operation.

In relation to this, the findings (see section 4.2.5.2) support the characteristics of the working relationship as identified by Eyster (1988a), in section 2.3.4.1.2. In the case where owners tend to have little or no involvement, they tend to have a weaker degree of influence and control over the management of hotel. Although in practice the GM would independently manage/operate the hotel property, the head/regional office might have a stronger influence and control over the GM and the management of hotel. The gap between the owner and the GM would become wide (as less interaction), while the gap between the GM and the head/regional office would become narrow (as more interaction) in this situation. This kind of working relationship tends to be the same as described in the formal HMC, and this supports Figure 2.10 in section 2.3.4.1.2. This situation might be preferred by the operator.

On the other hand, in the case where the owner actively monitors and works closely with the GM, it appeared that the owner would have a greater degree of influence or control in management of the hotel and the GM. This situation would create a wider gap between the regional/head office and the GM, while narrowing the gap between the owner and the GM. Therefore, in this situation the relationship between the owner and the operator might deviate from the relationship identified in the HMC, and this supports Figure 2.11 in section 2.3.4.1.2. By the nature of the working relationship of the three parties, the findings suggested that the co-ordination between the owner and the GM is the key relationship for the successful operation of a HMC because it would influence the overall characteristics of the working relationship among three parties.

In addition, there is sufficient evidence to confirm that currently most of the owners investigated have a high level of involvement in the operation and closely monitor the operator. This situation implies that the owners are more sophisticated in the hotel business than before as they might have more experience and knowledge in the hotel business or recruit an experienced hospitality professional (i.e. owner representative), to look after the hotel business on their behalf.

5.2.5.2 Conclusion on research question 7

In conclusion, the findings confirm the roles, and the working relationship of the three parties which were identified in previous studies. Thus, the findings also confirm the characteristics of the working relationships as identified by Eyster (1988a). The findings indicate that the hotel GM is the key person in running the hotel property for both the owners and the hotel management companies.

However, there is an important difference, as the findings show that in Thailand the institutional owners tend to work and to monitor the hotel operation closely, while in the previous studies, Eyster (1988a) suggested that the institutional owners tended not to get much involved in the operation. This might confirm that the general shift of power, as discussed in section 2.3.1.3, had also occurred Thailand or reflect a longer term desire to control properties directly. In the cases where the owners have previous relevant experience and know the hotel business, it appears that they actively monitor and control the operator. This might imply that today's hotel management companies would have a more difficult life than in the earlier years. Moreover, there is strong evidence that the hotel management companies tend to be more flexible when the owners are intentionally getting more involved in the hotel operation, especially with regards to the operating and management policies. In addition, both the owner and the hotel management company also clearly recognised the negative effect of interference in day-to-day operations.

5.2.6 Control methods which are used in the operations of hotel management contracts

This section will provide a discussion and conclusion on Research Question 8 'What are the control methods which are used in the operation of hotel management contracts?'.

5.2.6.1 Discussion on research question 8

Although the previous studies have shed a little light on the control methods which are used in the operations of HMCs (see section 2.3.4.2), the findings (see section 4.2.6) reveal that the control mechanisms specified in HMCs and other more informal methods are evidently used by the owners to control the operator in the operation of these HMCs.

In relation to the control mechanisms in the HMC, the findings suggest that Thai owners use those mechanisms in the HMC which are principally the same as those described in previous studies (see section 2.3.4.2). The hotel owners control the operator through the provisions indicated in the contract document. Those provisions contain several control methods including formal reporting, meetings, achievement of the annual budget/gross operating profit, and performance benchmarking/comparisons.

Under the provisions of financial and operational reports, formal written reports, in the form of a full monthly report and a flash report (daily, weekly, or every two weeks) are required by the owners. Apart from this, a formal meeting is periodically (either monthly or quarterly) organised. The key purpose is to review the past month/quarter performance, the future business, and any other relevant issues. Thus, an informal meeting might also be organised to follow up and to discuss any issue which might be arise during the month or quarter. These two methods are crucial for the owners in controlling the behaviour of the operator, as they allow the owner to examine and to make enquiries on the operator's activities.

Since the bottom-line is crucial for the owners, the achievement of the annual budget, as indicated in the contract provisions for operator performance standard, is a key method of controlling the performance outcome of the operator. Another control method is the use of performance benchmarking/comparison. This method aims to examine the performance outcome of the operator by comparing this with the outcome of competitor (i.e. similar) properties. In practice, both owners and

operators select the members in the comparison set, and might also agree on the target rank in the comparison set.

However, the findings reveal that not all of the properties use performance comparison as a formal control method in the contract document. This will typically occur where there are no other appropriate hotel properties in the area where the hotel is situated.

Apart from the control mechanisms in the HMC, the findings reveal that there are additional control methods which are informally used by the owners. For instance, property visits/observation, in order to see what is actually happening in the property. Collecting feedback from several sources (such as business partners, local community, ex-staff, etc.) is also subjectively used to view the performance of the operator.

5.2.6.2 Conclusion on research question 8

In conclusion, the findings reported here confirm the range and types of control mechanisms used in HMC documents and other informal control methods which are used by the owners to control the operator in the operation of the HMC. Although the previous studies shed limited light on these, the findings suggest that Thai owners will apply control mechanisms in the HMC, and that these are principally the same as those described in previous studies (see section 2.3.4.2). Through the provisions that indicated in the contract document, there are several control methods used such as reporting, meetings, achievement of the annual budget/gross operating profit, and performance benchmarking/comparison.

The findings extend the previous studies, by showing that informal control methods, such as property visits/observation and collecting feedback from various sources, are also evidently being used. In addition, this situation implies that the owners tend to

actively control and monitor the operator through both formal methods (through control mechanisms in the contract) and informal methods.

5.2.7 On-going issues in the operation of hotel management contracts

This section will illustrate a discussion and conclusion on Research Question 9 'What are the on-going issues in the operation of hotel management contracts?'.

5.2.7.1 Discussion on research question 9

There is sufficient evidence to confirm that the degree of owners' involvement in the operation of HMCs evidenced in Thailand is greater than that reported in previous studies. The findings (see section 4.2.5.2) indicate that Thai owners commonly influence hotel operating policies through influencing the operating, replacement, and capital improvement budgets. However, while owners will not get involved in the day-to-day operations, they will typically be involved in selecting the GM and some key hotel executives, such as the financial controller.

The findings (see section 4.2.7) reveal that the issues highlighted by respondents in Thailand are likely to be the same as those reported in previous studies (see section 2.3.4.3), particularly in respect of budgeting. However, unlike previous studies, the findings suggest that a number of additional issues arising during the operation of HMCs, such as unexpected situations, disagreements, suspected mismanagement, and the need for contract re-negotiation.

The findings confirmed that budgeting is always a key issue in the operation of HMCs. On one hand, there is frequently an issue of 'low-ball estimates' from the operators. On the other hand, the issue of over-budget estimated by the owner can frequently arise.

Each year this issue of the 'correct' level of revenue budget can create extensive discussions between the owner and the operator, although, the findings suggest that the owners tend to have the final say. In terms of capital expenditure, while there is a reserve of capital expenditure (a specific amount of percentage on the total revenue), the findings suggest that the operators are not allowed to spend this freely. The operators need to justify the need as well as the cost. Most of the proposed items must be approved by the owners, and the findings suggest that not all of the proposed items will be approved.

The capital expenditure budget is approved at the beginning of the agreed fiscal year. However, during the fiscal year, the need and priority for items might change so that the flexibility in the use of capital expenditure is needed. In addition, the findings also confirm that today owners tend to have a greater control over the budget and the spending of capital expenditure. In budgeting and capital expenditure, the findings suggest that trust towards the operator might play an important role. This implies that the more positive a performance record by the operator in the past, the higher the level of trust.

With regard to the issue of disagreement, the findings suggest that owner/operator disagreements, while quite common, typically only involve minor issues. These minor disagreements might come from holding a different point of view. Thus, there may be conflict over a particular corporate policy that affects the benefit of each party (e.g. change of operator's service standard will increase the hotel owner's expense).

The findings indicate that conducting rational discussions is key to resolving these types of issues and to reaching mutual agreement. In addition, the findings suggest that a strong disagreement rarely happens in Thailand because of the cultural characteristics of Thais (which is always to try to find a way of compromising).

With respect to the issue of mismanagement, the findings reveal that this issue could happen anywhere, especially on the issue of using the hotel for personal benefit.

However, the findings suggest that the owners tended to overlook this issue as long as it was not too serious, the operator could deliver the promised budget, and the business performance is good.

Although it is rare, in some case, there is an issue of the need for contract renegotiation. The findings suggest that there might be a need to renegotiate some terms or conditions in the HMC, such as fees or the amount of percentage of capital expenditure reserve. This is because those terms and conditions, which had been put in the contract at a time of signing, might not be practical at the present time. For instance, in a situation where there is a need to spend a large amount of money on the room renovation.

The findings reveal that the issue of having to deal with an unexpected situation might occur during the operation of a HMC, such as Tsunami or SARS, both of which occurred recently in Thailand. Each incident might provide both negative and positive effects for a specific property. The findings suggest that in cases where unexpected incidents have a negative effect, both the owner and the operator would suffer. This implies the existence of overlapping goals. In order to resolve the situation, the findings suggest that team-working by both the hotel owner and the hotel management company is crucial. The cost reduction would be a priority for ensuring business survival, however, perhaps surprisingly, a staff reduction policy was not typically used. After having been through such a difficult period together brought on by an unexpected situation, the relationship between the owner and the operator can be made much stronger, particularly where team-working and sincerity was shown in resolving the situation.

5.2.7.2 Conclusion on research question 9

The findings confirm that the owners' involvement in the hotel operation in Thailand is greater than historically reported elsewhere. Although the previous studies shed little light on specific details, the findings here indicate that budgeting is a key issue

in the operation of a HMC. Furthermore, apart from the issue of budgeting, the findings extend the previous studies by showing that in Thailand there were more issues evident in the on-going contract operation such as disagreements, mismanagement, and the impact of unexpected situations.

The cultural characteristics of Thais might provide a positive influence in the operations as the findings suggest that strong disagreements rarely happened. As the owners tend to be more involved and to have a bigger say (or even to have a final say) in issues that may arise in the operation, this implies that the owners tend to be more actively involved and to have a greater control in the operations of HMCs than has been the traditional case with HMCs.

5.3 Overall conclusions of the research

In conclusion, as mentioned in section 1.3, there are two objectives for this research. A conclusion will be drawn around each research objective.

5.3.1 First research objective

The first research objective concerns the application of agency theory and its value to HMCs. The attempt of this research is to gain an understanding of the nature of the relationship between the hotel owner (as the principal) and the hotel management company (as the professional agent) in HMCs for addressing the research problem of '*the extent to which the agency theory is a useful lens to examine the nature of the relationship of the hotel owner and the hotel management company in hotel management contracts*'. From the discussion in section 5.1, there is strong evidence to suggest that agency theory can be a useful theory to examine the relationship of the hotel owner and the hotel management company in the HMC. This is because the theory can be used to identify the nature of the relationship between the hotel owner and the hotel management company and to suggest the appropriate control methods to be used in the operation.

With regards to the nature of the agency relationship and the associated agency problems present in HMCs (see section 5.1.1), the findings confirm that the characteristics of the principal/professional relationship are broadly represented in the relationship between the hotel owner and the hotel management company in HMCs. These are mainly evidenced in the problem domain and the key idea, the information assumption, and the contracting problem.

With respect to the problem domain and the key idea, the findings suggested that hotel owners and hotel management companies engage in a knowledge-intensive task and they have differing risk preferences and partly conflicting goals. Thus, there is an attempt by hotel owners in addressing the problem of knowledge asymmetry. On the information assumption, the findings suggested that the specific knowledge and know-how (as esoteric knowledge) of each hotel management company (i.e. brand reputation and image, marketing distribution channels toward a particular market, operational how-how) is incomplete in the market. Thus, hotel owners might not be able to sort out the true contribution of their operators in achieving the observed outcome. Finally, regarding the contracting problem, the findings revealed that it is difficult for hotel owners to observe and to control the behaviour and the true contribution of hotel management companies. Therefore, this implies that hotel management companies tend to have indeterminacy and opacity of behaviour as they tend to have more autonomy and/or the specialised knowledge to perform the task.

However, the findings clearly suggest the distinct characteristic of the hotel owner and the hotel management company were highlighted in the human assumption, the organisation assumption and the oversight assumption.

In terms of the human assumption, there is a mix of characteristics of the principal/professional relationship and characteristics of the principal/manager relationship in the relationship of the hotel owner and the hotel management company under HMCs. The findings clearly confirm that the motive of the hotel management company (as the agent) is driven by mixed motive (self-interest and altruism), which is the characteristic of principal/professional relationship. However,

the findings also confirm that the issue of risk aversity (as a characteristic of the principal/manager relationship) is clearly represented in the relationship between the hotel owner and the hotel management company under HMCs. Therefore, this might make the relationship between the hotel owner and the hotel management company under HMCs differ from the characteristics of the pure principal/professional relationship.

Nonetheless, the first unique point in the relationship between hotel owners and hotel management companies under HMCs concerns the issue of social embeddedness and individual autonomy. Both issues are represented in the relationship. The social embeddedness is represented in the relationship where hotel owners and hotel GMs work closely. This is because there are a number of activities that create social interaction between them such as consultation, and involvement in the hotel operation. Thus, in most cases, hotel GMs need to adjust to the working culture of hotel owners. In contrast, where hotel owners and their hotel GMs have loose co-ordination, hotel owners tend to focus only on the bottom-line, not on the operation of their hotel (both macro and micro aspect). This is because hotel owners might have too many businesses and no interest in the hotel operation. In this situation there is little or no social interaction between them. Therefore, this implies that the individual autonomy of the operator (as agent) is presented in the relationship.

Regarding the organisational assumption, there might be a mix of characteristics of the principal/professional relationship and characteristics of the principal/manager relationship in the relationship of the hotel owner and the hotel management company under HMCs. This is because there are a couple of ambiguous points in the relationship between hotel owners and hotel management companies under HMCs. First, in relation to the distinctive characteristic of the principal/professional relationship, the problem of power asymmetry which favours the operator is still ambiguous. In relation to this, the level of knowledge and experience in hotel business of hotel owners might be the key. This is because if the hotel owner (as the principal) know 'the game', the knowledge gap is narrow, meaning that hotel owners could have better control and it is unlikely for their operators (as the professional

agency) to be favoured (even though there is knowledge asymmetry). However, when the knowledge gap between hotel owners and their operators is wider, the opposite situation might occur.

The last point concerns being an active owner who co-produces the service or being a passive owner who delegates a task to the agent. Both types of owner are represented in the relationship between hotel owners and hotel management companies under HMCs. Where hotel owners work closely with their GMs and get involved in general policy and strategic management of the hotel property, this situation creates a great deal of consultation and interaction between the owner (as the principal) and the operator (as the professional agent). This implies that there is co-production of service and hotel owners tend not to be passive. In contrast, where hotel owners are not interested in the hotel operations and focus only on the bottom-line, they are absent from the routine hotel operations at both a macro and a micro level. In this situation, there is limited or no consultation and interaction between the owner and the operator. This situation implies that hotel owners tend to be passive.

Regarding the oversight assumption, the findings revealed that although the use of control mechanisms is specified in HMCs and other more informal methods (e.g. organisational/corporate-based control), the use of a community of peers (in form of performance comparison/benchmarking among selective members) has been emphasised by hotel owners and their operators and it enhances the effectiveness of controlling the operator.

In this context, it is clearly suggested that the characteristics of the principal/professional relationship (rather than the characteristics of the principal/manager relationship) tend to be represented in the relationship between the hotel owner and the hotel management company under the HMC. Moreover, it is important to note that neither the principal/professional relationship nor the principal/manager relationship fully captures the characteristics of the relationship between the hotel owner and the hotel management company under the HMC, which is effectively a hybrid of the two types of agency relationships (see Table 5.2). This

would represent a uniqueness of the type of agency relationship between the hotel owner and the hotel management company under the HMC.

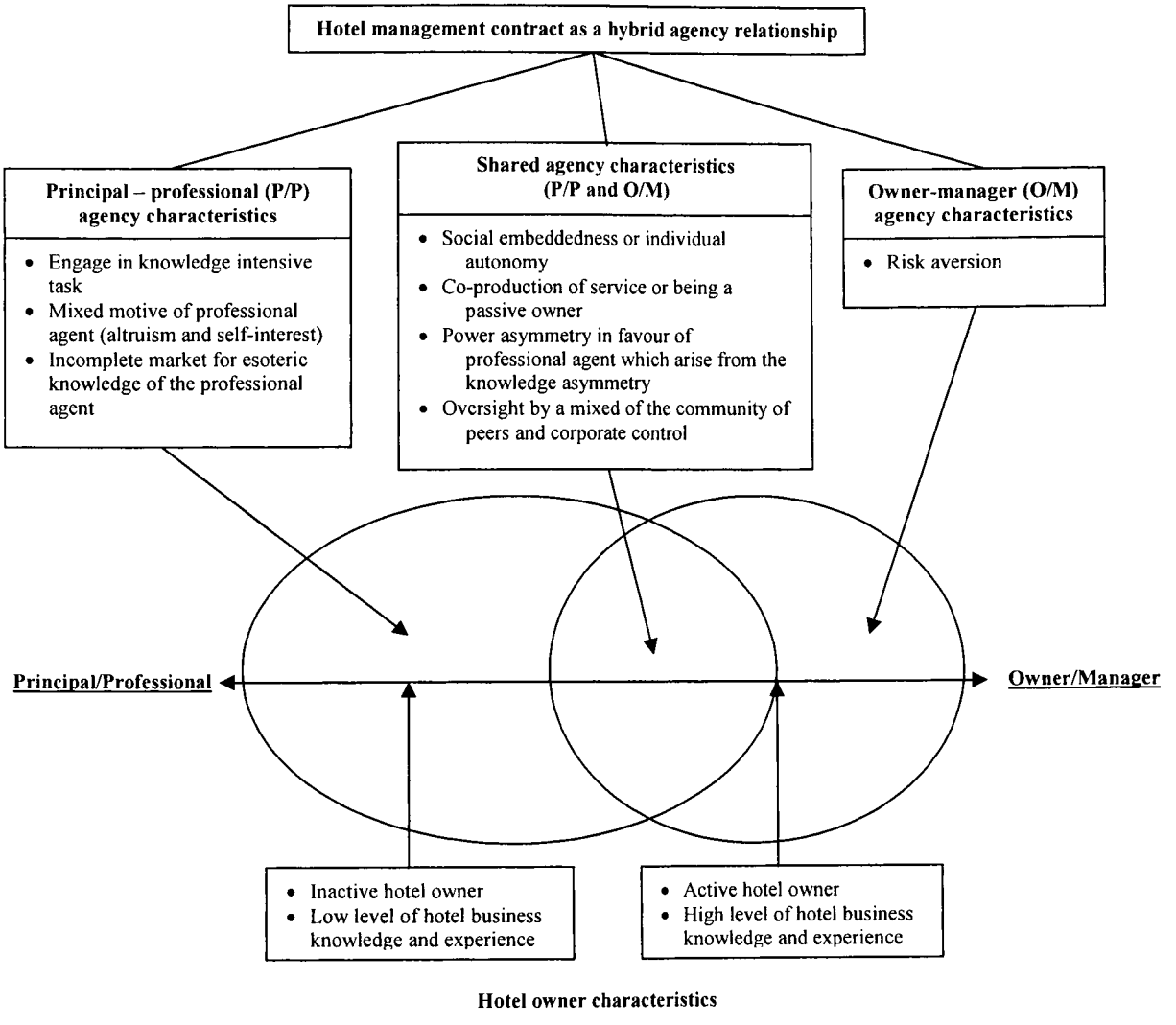


Figure 5.2: A hybrid of the two types of agency relationships of the hotel owner and the hotel management company under the hotel management contract

Additionally, regarding the hybrid of the two types of agency relationships in the relationship between the hotel owner and the hotel management company in the HMC (see Figure 5.2 above), although there is a presence of the characteristics of the owner-manger relationship (i.e. risk aversion), the characteristics of the principal/professional agency (i.e. engaging in knowledge intensive task, mixed motive between altruism and self-interest of professional agent, incomplete market for esoteric knowledge of the professional agent) are broadly present. This implies

that the overall nature of the relationship between the hotel owner and the hotel management company in the HMC tends to be best characterised as that of the principal-professional relationship rather than the owner-manager relationship.

Nonetheless, it is important to note that the level of hotel business knowledge or experience and the level of hotel operational involvement of the hotel owner (as the principal) are the key factors to indicate the true nature of the particular relationship with the hotel management company under the HMC. This is because the characteristics of hotel owner would clarify shared agency characteristics, whether the relationship tends to be more the principal-professional relationship or vice versa. In other words, the lower level of hotel business knowledge or experience and the lower level of hotel operational involvement of the hotel owner, the more likely the principal-professional relationship will be evidenced (due to the issue of social embeddedness and co-production of service).

In relation to this, by its very nature, hotel owners (as principals) and hotel management companies (as agents) engage in a knowledge intensive task (in which agents possess a specific knowledge/know-how and could normally be a dominant party in the relationship), here the power tends to be in balance and, perhaps, might lie more towards the hotel owner's hand as the hotel management company's contract can be terminated if there is failure or they behave inappropriately. This implies that hotel management companies might now face a much tougher period in operating HMCs, especially when they are working with those owners who have a high level of hotel business experience and knowledge.

With respect to the restraint against agent opportunism in HMCs (see section 5.1.2), there is sufficient evidence to believe that the traditional control approach (outcome and behaviour control) could possibly be used to control hotel management companies (as the agents) in HMCs. However, both control approaches might not be fully effective in controlling hotel management companies; although outcome control tends to be given priority. There is sufficient evidence to suggest that additional control approaches (e.g. self-control, bureaucratic control, community control, and

client control) might be needed as these could be used to foster the confidence and effectiveness in controlling the hotel management company (as the professional agent).

Regarding the use of traditional control approaches in the relationship between the hotel owner and the hotel management company under HMCs, there is sufficient evidence to confirm that, firstly, with regard to traditional control approaches (i.e. outcome and behaviour control), the use of these in the context of HMCs is in line with that of previous studies and they are evident in both the contractual and operational aspects of HMCs. However, both outcome and behaviour control might not be fully effective in controlling the hotel management company. Secondly, regarding the variables which influence the suitability of control approach, outcome control tends to be priority in the use of HMCs as the task programmability tends to be low, agents are clearly risk-averse, there is a problem of information asymmetry in the relationship, the length of the agency relationship tends to be long; and the degree of competition in the international hotel business is high.

In exploring the use of traditional control (outcome and behaviour control) in HMCs, the findings suggested that the use of outcome and behaviour control in the context of HMCs is in line with the previous studies. The use of outcome control could transfer risk to the agent and could co-align the goals of the agent with the principal. The security of tenure will be at risk because hotel management companies (as the operator) can have their contracts terminated by hotel owners if there is failure to achieve the promised outcome. Thus, the income of the operator could be at risk as the incentive fee (which is the main portion of the management fee) depends on the achievement of GOP level. In other words, the more gross operating profit (GOP) the operator makes, the higher the incentive fee the operator could gain. In relation to this, it is important to note that agents might seek opportunities to reduce risk by acting in ways that a minimum level of outcome is achieved, rather than to seek opportunities that may be the best interest of the principal. There might be an issue of low ball by operators (i.e. the proposed budget is set too low when it is possible to make more profit) in HMCs. This is because without achievement of the

performance standard/outcome, there is a risk that the operator could be terminated because this failure is tied to the termination clause.

The use of behaviour control could verify a suspect behaviour or reduce an unwanted behaviour of the agent. Installation of information systems could reveal what the operator is doing in the operation of HMCs. This would allow hotel owners (as the principals) to update the current situation of their hotel property and the performance of their operators (as the agents); and also allow them to search for more details on the hotel operation when necessary (or if there is suspect behaviour). Moreover, the use of behaviour control could result in higher quality settlements and better collaborative effort by the principal and the agent (due to the volume and frequency of information sharing). In HMCs, a periodic reporting and meetings could increase the frequency of interaction and communication between hotel owners and hotel management companies. These allow hotel owners to keep updated on the current situation of their hotel property (the performance of the operator), and to enquire about or to discuss any issues that may arise (not only the business performance, but also the suspected behaviour).

However, there is sufficient evidence to believe that the application of both behaviour and outcome control (as traditional control approach in agency relationship of owner-manager) might not be fully effective in controlling the hotel management company. First, in monitoring performance, hotel owners might have difficulty judging the true or quality of outcome of their operators (who possess the specific skills and technical knowledge and might be considered as professional agent). The achievement of the agreed level of GOP is one of the key performance indicators which is typically used. However, in controlling performance of the operator, the achievement of the agreed level of GOP only might not be enough to judge the true performance of the operator. This is because the achievement of agreed level of GOP might not indicate where the hotel unit is or how well the operator is performing in a specific location/area. In other words, the agreed level of GOP on its own might not relate to the actual business situation or potential which

the hotel unit could possibly achieve. Therefore, in this context, the outcome control might be only partially effective in controlling.

Second, due to the nature of the task, hotel owners might have difficulty in monitoring their operators as they are not be able to completely verify what operators are doing in the hotel operation. Typically, hotel owners could get involved in various key areas of the hotel operation, such as budgeting and the selection of key hotel executives (e.g. hotel GM, financial controller). However, hotel owners will not get involved in the day-to-day operation of the hotel (due to the nature of the tasks and/or level of hotel business knowledge possessed by the hotel owner), so that hotel management companies could run the property as they see fit. In this situation, there would be an opportunity for the occurrence of moral hazard. In this context, the control of behaviour could not be fully effective in controlling operators in HMCs.

In examining the variables which influence the suitability of control approach in the use of HMCs, the findings clearly suggest that the task programmability tends to be low, agents are clearly risk-averse, there is a problem of information asymmetry in the relationship and the degree of competition in the international hotel business is high. In relation to this, these variables would positively relate to outcome-based control. In this context, it implies that the outcome-based control could possibly be a priority in the relationship between the hotel owner and the hotel management company. This is because first, hotel owners (as the principals) are commonly the primary risk bearer; the failure of the project will affect their wealth but will not ffect the wealth of hotel management companies (as the agents) who commonly have no equity participation and no business risk in the project. Second, hotel owners are normally not able to specify the behaviour of the operator in advance in order to achieve the outcome; while the operators tend to have more autonomy and/or the specialised knowledge to perform the task. Third, it is difficult for hotel owners to ascertain what their hotel management companies are doing and how well they have performed, as the information systems are unable to reveal all of the agent's behaviour to the principal. Fourth, due to the high degree of competition, in order to

win the deal for managing a property, hotel management companies might offer their services for a smaller reward, offer a revenue guarantee, or have a greater willingness to accept an outcome-based control.

In addition, although the length of the agency relationship tends to be long, it might not have any influence in the selection or suitability of the control approach in the relationship between the hotel owner and the hotel management company under the HMC. This might also be a unique characteristic of the relationship between the hotel owner and the hotel management company. In previous studies, when the principal and the agent engage or intend to be in a long-term relationship, it is likely that they will emphasise on the behaviour-based control (Shapiro, 2005; Stroth et al, 1996; Eisenhardt, 1989; Lambert, 1983). However, in the context of HMCs, there is sufficient evidence to suggest that although both the hotel owner and the hotel management company tend to be in a long-term relationship, it is likely that outcome-based control tends to be emphasised.

With regards to the additional control approaches for controlling professional agents (i.e. self-control, bureaucratic control, community control, and client control), there is enough evidence to suggest that the use of additional control approaches for controlling professional agents in the context of HMCs is mainly in line with the previous studies and they are evident in both contractual and operational aspect of HMCs. Thus, there is sufficient evidence to confirm that these control approaches can be used to fostering confidence and effectiveness in controlling the hotel management company (as the professional agent).

In terms of self-control, the findings reveal that it could enhance the performance of the operator. Without involvement in the day-to-day operation and allowing operators to control themselves, hotel owners rely on the trustworthiness and goodwill of the operator to perform this task. In this context, it implies that giving freedom to the hotel management company in running the hotel property provides a positive impact. This is not only to reduce the confusion and problems in the operation, but also to enhance the motivation of operators (especially hotel GMs) to

perform their task. In other words, a high degree of trust is likely to strengthen the presumed altruistic orientation of professionals and further constrain their opportunistic inclination in the relationship. Moreover, the findings confirm that being proactive or excessive attempts to control by the principal might end up creating a negative effect. Too much involvement of the hotel owner might de-motivate the operator, especially the hotel GM, and might cause more problems in the operation.

With regard to community control, the findings confirm that it could enhance the effectiveness in controlling the operator. In monitoring performance, the use of performance comparison/benchmarking with selected members in a comparison set (as community control) would enhance the effectiveness in controlling the performance of the operator, and illustrates whether a particular agent failed or succeed because of opportunistic/appropriate behaviour, managerial (in)competence, or factors beyond anyone's control. In controlling performance of the operator, the achievement of the agreed level of GOP might not be enough to judge the true performance of the operator, because it might not indicate where the hotel unit are or how well the operator is performing in the specific location/area. In other words, the agreed level of GOP alone might not relate to the actual business situation or potential which the hotel unit could achieve. In this context, the use of performance comparison/benchmarking with the selected members in the comparison set (as community control) allows hotel owners to see how good the performance of their hotel management company is in comparison with the selected competitors.

Nonetheless, it is also important to note that the application of community control in the context of HMCs differs from Sharma (1997) as there is no formal organisation (i.e. professional body) of the community of the hotel management companies to determine and enforce the standard of professional work via a code of ethics, etc. In the HMC, a selection of members are formed into a community of hotel management companies for comparison purposes, to control the performance of the specific hotel management company. In relation to this, a performance (RevPar) comparison of the

selective hotel properties (of the other hotel management companies) is commonly used.

With respect to bureaucratic control, the findings reveal that it could enhance the effectiveness in controlling the operator as it is unlikely that professional agents behave opportunistically when they are monitored by their professional peers through systematic internal controls, or informal oversight by knowledgeable peers and superiors inside the professional firm. By the nature of the operation of the HMC, hotel owners typically will not get involved in the day-to-day operation. In this situation, hotel owners are unable to verify how operators (especially the hotel GM) perform the task; this would be a gap for the occurrence of moral hazard. In relation to this, there is an internal control mechanism within the hotel management company, especially in respect of the relationship between the head/regional office and the GM. These control methods are used by the head/regional office to control their GMs, not only on financial performance and operational efficiency but also transparency. These include reporting, hotel property audit, and visits by head/regional executives. In this context, as the GM is a key person in operating the hotel property, the performance of the GM might affect the security of the HMC and the actual reputation of the hotel management company. To allow monitoring via professional peers (hierarchy internal control) might be effective in monitoring the hotel GM's performance. Consequently, hotel owners could possibly rely on this to indirectly control their hotel GM in the area where the behaviour cannot be verified.

Regarding client control, the findings reveal that it could be used to foster confidence and effectiveness in controlling the operator. For example, with access to and the support of an owner representative, the effectiveness of owner control is greatly improved. This is because the hotel business sophisticated owner representative knows the game, what needs to be done, how to control and measure the outcome, and perhaps how to verify the behaviour of the operator. This situation implies that to hire/obtain a specialist who understands the business of external agents could be a solution to the problem of knowledge asymmetry, as it enables the principal to obtain a sufficient knowledge to control the professional agent.

With the use of informal periodic reports and meetings, this allows hotel owners to update the current situation of their hotel property not only at the end of the month/quarter but also at anytime during the month/quarter. There is also an opportunity to enquire about or to discuss any issues that may arise (not only regarding business performance, but also suspected behaviour). In addition, there is sufficient evidence that collecting feedback from external sources such as friends, business partners, or publications; could also be crucial information in order to informally control the operator. This kind of information would provide a subjective view regarding the quality of service and reputation of the hotel unit. This situation implies that while hotel owners could possibly obtain more information regarding their hotel operation, they have become proactive in controlling their operators. Hotel owners (not only those sophisticated in the hotel business, but also those who lack knowledge) seek to actively monitor and control the performance of hotel management companies.

In relation to this, it is clearly suggested that in the use of HMCs, apart from traditional control approaches (i.e. outcome and behaviour control), additional control approaches for controlling professional agents (i.e. self-control, bureaucratic control, community control, and client control) might be needed.

Regarding the performance monitoring, hotel owners might have difficulty judging the true or quality of outcome of their operators (who possess the specific skills and technical knowledge and might be considered as the professional agents). The achievement of the agreed level of GOP is one of key performance indicators which is typically used (this can be referred to the use of outcome control). However, in controlling the performance of the operator, only the achievement of the agreed level of GOP might not be enough to judge the true performance of the operator. This is because the achievement of the agreed level of GOP might not indicate where the hotel unit are or how well the operator is performing in the specific location/area. In this context, the use of performance comparison/benchmarking with the selected members in the comparison set (as community control) would enhance the

effectiveness of controlling the performance of the operator and it illustrates whether a particular agent failed or succeed because of opportunistic/appropriate behaviour, managerial (in)competence, or factors beyond anyone's control. The use of performance comparison/benchmarking with the selected members in the comparison set (as community control) allows hotel owners to see how good the performance of their hotel management company is in comparison with the selected competitors in a particular business climate.

Due to the nature of the task, hotel owners might have difficulty in monitoring their operator (this can be referred to the use of behaviour control) as they are unable to completely verify what operators are doing in the hotel operation. Typically, hotel owners could get involved in various key areas of hotel operation such as budgeting and the selection of key hotel executives (e.g. hotel GM, financial controller, etc.). However, hotel owners will not get involved in the day-to-day operation of the hotel (due to the nature of the task and/or their level of hotel business knowledge) so that hotel management companies could run the property as they see fit. In this situation, there would be an opportunity for the occurrence of moral hazard, as the control of behaviour could not be fully effective in controlling operators in HMCs. In this context, the use of self-control might reduce the opportunistic behaviour of the operator, as a high degree of trust is likely to strengthen the presumed altruistic orientation of professionals and further constrain their opportunistic inclination in the relationship. This could enhance the motivation of the operator (especially the hotel GM) to perform their task, and thereby could enhance the performance of the operator. Being proactive or excessive attempts to control by the principal might end up having a negative effect. For example, too much involvement of the owner might de-motivate the operator, especially the hotel GM, and might cause more problems in the operation.

Meanwhile, the use of bureaucratic control (through reporting, hotel property audit, and visits by head/regional executives) could reduce opportunistic behaviour of the operator (especially hotel GMs who are the key person in operating the hotel property). This is because it is unlikely that professional agents behave

opportunistically when they are monitored by their professional peers through systematic internal controls or informal oversight by knowledgeable peers and superiors inside the professional firm. Consequently, hotel owners could possibly rely on the internal control mechanism of hotel management companies (through the use of bureaucratic controls) to indirectly control their hotel GMs in areas where their behaviour cannot be verified. Lastly, the use of client control could be used to foster confidence and effectiveness in controlling the operator. Particularly, in a situation where there is an employment of the hotel business sophisticated owner representative, with access to and the support of an owner representative, the effectiveness of owner control is greatly improved. This could also be a solution to the problem of knowledge asymmetry, as it enables the principal to obtain sufficient knowledge to control the professional agent.

Therefore, in this context, it implies that the hotel management company (as the professional agent) is less likely to behave opportunistically when the hotel owner (as the principal) uses additional control approaches (i.e. self-control, bureaucratic control, community control, and client control) in combination with traditional control approaches (i.e. behaviour control and outcome control). In addition, those control approaches could be applied within two key aspects, contractual and operational.

5.3.2 Second research objective

The second research objective concerns issues associated with the use of HMCs in Thailand. In attempting to gain a better picture and to understand the nature of the use of HMCs in Thailand, this research addressed the secondary research problem of establishing '*the extent to which the nature and associated issues of hotel management contracts in Thailand are similar to those identified in previous research*'. From the discussion (see section 5.2), there is strong evidence that the nature and the associated issues of HMCs in Thailand are generally similar to issues which were identified in previous research, although there are some differences in the specific details. In respect of a number of issues, it is impossible to draw direct

comparisons with previous studies, as these provided insufficient details across a number of the areas investigated in the current study.

In terms of the key provisions in HMC documents, it appears likely that the issues associated with the contracts which the foreign hotel chains (the operators) are currently using in Thailand are broadly similar to those issues identified in the previous research, although there are some differences in the specific details – the mechanics of the contracts – within these broadly similar issues. However, at this juncture it would appear reasonable to conclude that the Thai hotel sector is principally the same as previous studies, in respect of the issues associated with the use of HMCs.

In relation to the motivations of Thai owners (as local partners) and the hotel management companies (as foreign firms) in relation to the use of a HMC, their motivations are generally the same as previous studies in both the contexts of HMCs and international strategic alliances. However, in relation to the strategic motives, the apparent importance of the local partner's status/image as a key strategic motivation was not something previously reported in the international strategic alliances or HMCs literature.

With respect to the partner selection criteria of Thai owners and the hotel management companies, their criteria are generally the same as reported in previous studies in the context of both HMCs and international strategic alliances. In the context of HMCs, the findings support the previous studies only in respect of the owners' selection criteria as the previous studies shed no light on the hotel management companies' criteria. In the context of international strategic alliances, it can be confirmed that when selecting partner, a combination of task-related (objective) factors and partner-related (subjective) factors is typically used by owners. However, the findings confirm that the relative importance of those two selection criteria is still ambiguous. Specifically, concerning the greater importance of the relational nature of business practices, Thai owners appear to give a greater

emphasis to personal/subjective considerations than is typically exhibited in the North American/European context.

For the negotiation of HMCs, the findings broadly confirm previous research concerning the negotiation of HMCs (the key processes and the concerns of each party in the negotiation). However, it cannot conclude that the determinants of bargaining power in the contract negotiation are either the same or different, because once again this is an area not covered in previous studies. There is sufficient evidence to suggest that the apparent differences concern the relatively early stage of market development evident in the Thai hotel industry, which provides a dynamic largely long gone in the more developed/mature western hotel markets. This situation enables each HMC to be unique in some dimension as the bargaining power during any single negotiation can swing either in favour of the owner or the hotel management company, depending upon the specific circumstances of the parties involved.

With reference to the roles, and the working relationship of the three parties, the findings confirm the roles, and the working relationship of the three parties which are identified in previous studies, especially the characteristics of the working relationships as identified by Eyster (1988a). By nature, the findings indicate that the hotel GM is the key person in running the hotel property for both the owners and the hotel management companies. However, the findings show some differences from the previous studies, as in Thailand the institutional owners tend to work and to monitor the hotel operation more closely than their western counterparts. Moreover, there is strong evidence that the hotel management companies tend to be more flexible when the owners are intentionally more involved in the hotel operation, especially with regards to the operating and management policies. This situation might confirm that the general shift of power, as discussed in section 2.3.1.3, had also occurred in Thailand and/or point to the existence of a cultural dynamic that naturally seeks more direct involvement than exhibited within western culture.

In relation to the control methods used in the operation of HMCs, this is an area which previous studies have provided little meaningful insight. However, the findings reported here confirm the range and types of control mechanisms in both the HMC document and other informal control methods which are used by the owners to control the operator in the operation of the HMC. In relation to the control mechanisms in HMCs, through the provisions that are indicated in the contract document, there are several control methods such as reporting, meetings, achievement of the annual budget/gross operating profit, and performance benchmarking or comparison. In addition, the findings extend the previous studies on informal control methods, highlighting that property visits/observation and collecting feedback from various sources, are also evidently used.

For the on-going issues in the operation of HMCs, although the previous studies provide limited insight, the findings here confirm the previous studies in that the owners' involvement in the hotel operation has increased. The findings indicate that budgeting is typically the key issue in the ongoing operation of the HMC. Apart from the issue of budgeting, the findings extend the previous studies by suggesting that in Thailand there were more issues uncovered in the ongoing operation such as disagreement, mismanagement, and unexpected situations. In addition, the distinct cultural characteristics of the Thai owners might provide a positive influence in the operations due to the rare occurrence of any strong disagreement.

5.4 Implications of the research

The findings of this study guide us to certain conclusions, which have implications in understanding how HMCs have been used in Thailand.

With respect to the application of agency theory to HMCs, the findings here suggest that agency theory can be very effectively used to describe and understand the nature and characteristics of both parties (the hotel owner and the hotel management company) in the HMC. In other words, for the academic, agency theory can be an

extremely useful and powerful theoretical lens for examining the relationship of the hotel owner and the hotel management company under a HMC. It is suggested that their relationship is a hybrid of the principal/professional and principal/manager relationships although in fact the characteristics of their relationship tended to be much more closely and accurately reflected in the principal/professional relationship. In relation to this, both parties are able to not only understand the nature and the characteristics of the relationship, but also to see the problems which might arise in the relationship, especially on the issue of oversight.

In this context, this research would suggest that it is crucial for hotel owners (as practitioners) to carefully look at this issue because it is difficult to control and to monitoring their hotel management company (who possess the specific knowledge and know more than hotel owners).

In considering the variables that might influence the suitability of control approach, in the context of HMCs, the task programmability tends to be low, agents are clearly risk-averse, there is a problem of information asymmetry in the relationship and the degree of international hotel business tends to be high. By the very nature of the HMC, it is important to note that for practitioners, achievement of the business result is crucial to hotel owners as they are the holders of the business risk, not hotel management companies who normally have no equity participation. Therefore, the outcome or the performance of the hotel management company needs to be carefully controlled. Moreover, as the degree of international hotel business competition tends to be high, the hotel management company might be more willing to accept outcome-based controls (because of competition from other companies to win the deal). In this context, this research would recommend that the outcome-based control could be a priority although the hotel owner and the hotel management company engage in a long agency relationship.

With an understanding of the distinct nature of the professional agent, if the hotel management company is considered as the professional agent, for the academic, it is important to note that behaviour and outcome control (i.e. traditional control

approaches) might not be effective enough in controlling the hotel management company through the control instruments (i.e. contract document and monitoring mechanism). The additional control approaches (i.e. self-control, bureaucratic control, community control, and client control) could be used to foster confidence and effectiveness in controlling the hotel management company. Therefore, this research would suggest that it is crucial for hotel owners (as the practitioners) to take into consideration using these control approaches when designing the appropriate control instruments for both the contract document and the monitoring mechanism in the ongoing operation of a HMC.

Although overall the issues associated with the use of HMCs in Thailand are principally similar to previous studies (mainly based on the US hotel market), there are some differences in specific details. For instance, the domination of subjective factors in selecting partner of Thai owners, and the shift of bargaining power in the negotiation process (as Thailand is a growing market). In some dimensions, this enables the uniqueness of the use of HMCs in Thailand. This implies that both the knowledge from previous studies and this current research can be used as a guideline for developing or using HMCs in Thailand. However, this research would recommend that the awareness of these differences might be crucial for both the hotel owners and the hotel management companies (as the practitioners).

5.5 Contributions of the research

In the theoretical context, for the academic, agency theory is used to examine the relationship between the hotel owner and the hotel management company in HMCs. This research is believed to extend the body knowledge of agency theory knowledge through the application of agency theory to the HMC context for the first time. This research suggests that neither of the two variants of agency theory outlined, the traditional one of the owner-manager relationship, nor the more recent variant, the principal-profession relationship, fully captured the nature of the agency relationship between hotel owners and hotel management companies under HMCs. Instead, it

was found that the type of agency relationship operating in HMCs demonstrated evidence of the existence of characteristics of both types of agency relationship being represented to some extent.

Specifically, this research illustrates that the particular agency characteristics present, and the actual nature of the agency relationship between the hotel owner (as the principal) and the hotel management company (as the agent) will be largely shaped by the characteristics of the owner. Overall, the HMC was found to be effectively a hybrid of the two types of agency relationship, although the overall relationship can typically, be best characterised as reflecting that of the principal/professional variant rather than the traditional principal/manager relationship. However, the actual agency relationship in any given HMC, may be more representative of one or other of the agency theory variants. The actual variant more dominant typically reflecting the owner characteristics present in any given HMC (see pp.407-408 and Figure 5.2). Consequently, as the nature and characteristics of the HMC agency relationship can vary (although it is more likely to be broadly representative of the principal/professional variant) this was shown to directly and significantly impact on the type of control methods appropriate within HMCs.

With regarding to the challenge of restraining against agent opportunism, depending on the type of agency relationship evidenced, this would directly influence the control approach required (see Figure 5.3 below). This research highlights that within both the contractual and operational aspects of HMCs that the control methods most appropriate are typically a combination of both the traditional agency control methods (outcome and behaviour control) and those control methods adopted within the principal/professional variant of agency relationships (i.e. self-control, bureaucratic control, community control, and client control). In short, a reliance upon using only the traditional agency control methods might not be fully effective in controlling hotel management companies in the HMC and the use of the principal/professional control methods might be needed to foster both confidence and effectiveness.

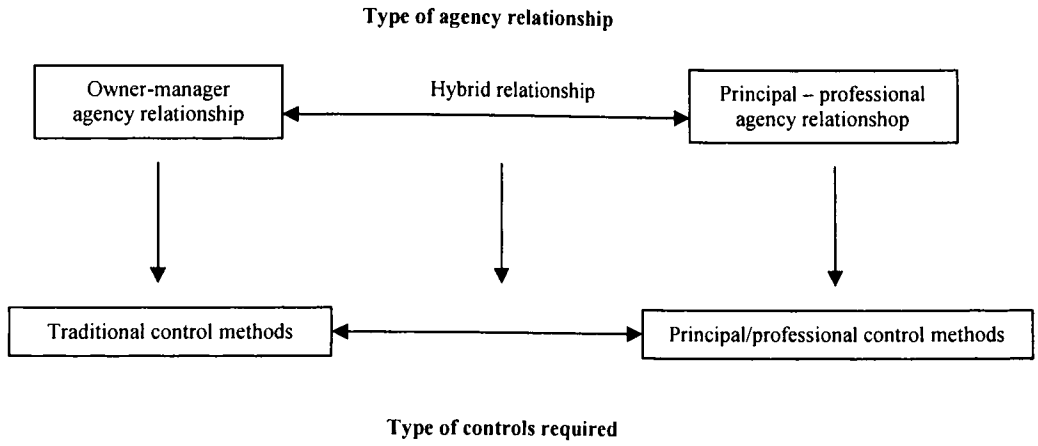


Figure 5.3: Type of agency relationship and type of controls required

Moreover, this research suggests that the application of community control in the context of HMCs differs from previous studies (Sharma, 1997; Noreen, 1988) as there is no formal organisation (i.e. professional body) of the community of the hotel management companies to determine and enforce the standard of professional work, a code of ethics, etc. In HMCs, a selection of members are formed into a community of the hotel management companies for comparison purposes, to control the performance of the specific hotel management company. In relation to this, a performance (RevPar) comparison of the selective hotel properties (of the other hotel management companies) is commonly and effectively used.

In addition, with respect to theories concerning the area of international strategic alliances this research examined the strategic motives for developing strategic alliances in the form of the HMC and the typology of partner selection criteria used. This research illustrated the strategic motives of hotel owners (as local partners) and hotel management companies (as foreign partners) in developing an alliance in the form of a HMC. Moreover, this research also identified the partner selection criteria in terms of partner-related criteria and task-related criteria, and their importance in selecting a partner. This research enables both parties to begin to understand the motives of each party (which might imply conflict of interest) in developing the alliances, and the way each party typically selects its partner.

In the context of industrial practice, generally this study is believed to extend the current body of knowledge by investigating the use of HMCs in Thailand. As an exploratory research, this thesis provides insight into how HMCs have been used in Thailand by Thai hotel owners and foreign hotel management companies. This research also addressed the research gap which exists due to the limited number of previous studies in the area of HMCs.

For hotel owners and foreign hotel management companies (as practitioners) who intend to utilise the business model of a HMC in Thailand, this research would provide specific guidelines on the key provisions in the HMC, and the key issues to be tackled in both the pre and post contract signing stage of the use of HMCs in Thailand.

In terms of key provisions in the contract document, this research updated and extended earlier research upon the key provisions and the details which have been identified in the HMC. In the pre-contract signing stage, this research explored the motivations of both the hotel owners and the hotel management companies in using HMCs, developed a criteria used for partner selection, and illustrated the nature and the key issues associated with the negotiation process. In the post-contract signing stage, this research illustrated the roles and working relationship of the owner, the head/regional office of the hotel management company, and the hotel GM, explored the control methods which are used in the operations of the HMC, and identified the key issues in the on-going operations of the HMC.

This research fills a research gap, as there are no previous studies concerning the partner selection criteria of the hotel management companies and the overall classification of this criteria, as used by both the owners and the hotel management companies. Additionally, this research also extends the existing knowledge on the control methods in the operations of the HMC, and the key issues in the on-going operations of the HMC.

Additionally, this research suggests that the characteristics of the principal/professional agency are broadly present in the relationship between the hotel owner and the hotel management company in the HMC. By developing an understanding of the distinct characteristics of the principal/professional relationship, this research provides the principal with a set of guidelines for designing the most appropriate control methods for controlling the professional agent through both the contract document and the ongoing operation of the HMC.

5.6 Recommendations for future research

With reference to the strategic motives, the apparent importance of the local partner's status/image as a key strategic motivation was not something previously reported in the international strategic alliances or HMC literature. While this was not as frequently cited as the more traditional strategic motivations associated with foreign partner selection, it did occur often enough to suggest it is worthy of further investigation. More specifically, the apparent cultural influences that suggest a greater emphasis upon subjective rather than objective influences in the partner selection criteria to be an area for further research not just in respect of HMCs but in international strategic alliances more generally.

The suggestion above links directly to the final area suggested for future research. Geringer's (1988, 1991) typology of partner selection concerning strategic alliances and the findings reported here support the observation made by Dong and Glaister (2006) as to the complex overlapping between task-related and partner-related selection criteria. There exists scope to undertake further research which may provide greater clarification of these criteria. Linked to this is the opportunity to determine those key variables which ultimately influence the importance of task-related versus people-related criteria for any given partner selection exercise.
In relation to the distinct characteristics of the hotel owner (as the principal) and the hotel management company (as the professional agent) in the HMC, the level of experience and knowledge in the hotel business of the hotel owner might influence

the power asymmetry (which favours one party in the relationship). The specific influences upon, and the degree, of power asymmetry within the HMC is an area worthy of further investigation. Finally, and more generally, the extent to which agency theory and its imagery might be usefully be applied across a wider range of alliances within hospitality and tourism, for example, franchise arrangements and marketing consortia, is an interesting topic for future research.

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Appendices

Appendix I: Preliminary study

I. List of interviewee and appointment details

Position	Respondent	Organisation	Appointment Details
Owner Representative	1	Ho-1	22 July 2004, 10 a.m.
Hotel General Manager	2	Ho-2	29 July 2004, 2 p.m.
Owner Representative	3	Ho-3	26 July 2004, 2.30 p.m.
Owner Representative	4	Ho-4	3 August 2004, 10 a.m.
Hotel General Manager	5	Ho-5	4 August 2004, 10 a.m.
Owner Representative	6	Ho-6	15 July 2004, 2 p.m.
Hotel General Manager	7	Ho-7	5 August 2004, 5 p.m.
Owner Representative	8	Ho-8	13 July 2004, 10.30 a.m.
Executive of Head/Regional Office	9	HoCom-1	8 July 2004, 4 p.m.

II. Profile of interviewees

Position	Respondent	Gender	Nationality	Years in hotel business or working in a group	Background of owning company
Owner Representative	1	female	Thai	5 years	Hospitality business
Hotel General Manager	2	male	American	15 years	Property/land developer
Owner Representative	3	male	Thai	More than 15 years	Property/land developer
Owner Representative	4	male	Thai	12 years	Beverage and hospitality business
Hotel General Manager	5	male	American	12 years	Airline, shopping centre business, and hotel business
Owner Representative	6	male	Singaporean	20 years	Construction company
Hotel General Manager	7	male	American	15 years	Property developer
Owner Representative	8	male	Thai	20 years	Fishery business
Executive of Head/Regional Office	9	male	Thai	10 years	

III. Introduction letter



Professor Thomas G Baum PhD
(Head of Department)

July 2004

To Whom It May Concern:

This letter is to introduce Veerades Panvisavas (Oak) who is a graduate research student here at The Scottish Hotel at the University of Strathclyde in Scotland, UK.

He is undertaking research which examines international hotel company entry modes in Thailand and the nature and use of hotel management contracts.

I would be extremely grateful if you could extend what help and cooperation you can to support Oak's research.

Many thanks.

Yours faithfully

J. Stephen Taylor
Supervisor

(james.s.taylor@strath.ac.uk)

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Eddie Friel
Ken McCulloch
Dr Alastair M Morrison
Anton Mosimann
Dr Geoffrey Wall

IV. Interview Questions and Guidelines

Detail of Hotel Property

Name of Property: _____

Form of relationship: _____ Since Year: _____

Quality: _____ No. of room: _____

Value of the property: _____

Ownership of the property: _____

_____

_____

_____

Details of International Hotel Company

Name: _____

Country of Origin: _____

Regional office in Asia: _____

No. of property and room in Thailand: _____

No. of property and room in Asia: _____

No. of property and room in the origin country: _____

Total no. of property and room: _____

Ownership of the hotel company: _____

_____

_____

Type of property (100% ownership, joint venture, franchise, management contract):

_____

A. Details of Hotel Management Contract

There are 12 areas to be explored in the interview, as follows:

1. operator equity and loan contribution

1.1 loan
- loan terms
- use of the loan: free use or limited use such as funding initial working capital or covering negative operating cash flows up to a specified amount
- interest rate: minimal fixed rate, floating rate, interest-only annual payment, accrue interest until the end of the loan's term

1.2 equity
- contribution percentage
- form of equity contribution: cash or discount/rebate on technical-service, pre-opening, or on going management fees
- buy-sell condition

1.3 Other contribution

2. initial terms and renewals
- length of initial contract term
- the number of renewals
- the length of renewals

3. management fee, structures, and calculation methods
- basic management fee, basic management fee plus incentive fee, or incentive fee only
- fee caps (maximum amount of fee to be paid)
- pay monthly, quarterly, yearly
- currency (thai baht, us dollar, euro, etc.)
- technical service / pre-opening assistance

4. operator-system-reimbursable
- marketing support
- central reservation system
- centralised human resources support and training
- accounting services
- others?

5. operator performance standard
    - performance criteria base
    - start-up exclusion period
    - shortfall deviation allowance
    - shortfall time period
    - operator cure
    - test for unfavourable economic conditions

6. contract termination by owner
    - without cause
    - on sale
    - on foreclosure
    - other cause?
    - termination fee?

7. owner input in operational decision-making
    - operating policies
    - budgeting
    - personnel

8. financial and operational report
    - annual budgets (include detailed monthly revenue, expense, cash flow projections, detailed marketing plan)
    - monthly financial documentation
    - annual financial statement
    - monthly or quarterly meeting

9. restrictive (non-compete) covenants
    - definition of the restricted area (based on the geographical or political entity, distance in road miles, or distance in air miles)
    - specific types of properties that the operator can add within the area
    - conditions for adding similar properties within the area (e.g. occupancy-level requirements or existing properties, owner's first right to develop additional hotels)
    - a 'burned-off' timetable (a schedule for decreasing the non-competition area in steps over a defined time period)

10. books and records
    - the financial statement of the hotel
    - detailed invoices of all hotel expenses including all charges the operator makes to the property (e.g. payroll of hotel employees by name and position, system-reimbursable expense schedules for marketing, sales, reservations, accounting, training, and administrative functions, and replacement and capital-expenditure items)
    - all other reports generated at the property level (e.g. individual and group guest history and sales files, aging of accounts receivable, internal audit report, and health, safety, and franchise-affiliation-inspection reports)

11. insurance issues
    - selecting an insurance carrier and employment-related insurance
    - type of insurance

12. dispute-settlement mechanism
    - mechanism (owner-operator policy committee)
    - in case of the mutual agreement or solution has not been reached, three basic issues of contracts' arbitration provision to be addressed in the contract: the method of selecting the arbitrator or arbitration panel, stipulated provisions that can be submitted to arbitration, the process of presenting one's position

13. any other key issues??

B. Others:

- Motivation of operator and owner for using management contract
- Criteria for selecting suitable partner
- Interaction between two parties (what actually happens in operation)
- Issues in actual operation of hotel management contract
- Legal issue in Thailand concerning hotel management contract i.e. agency laws

Appendix II: Main study

I. Introduction letter

Professor Alison J Morrison, PhD
Head of Department

August 2005

To Whom It May Concern:

Mr Veerades Panvisavas – PhD Researcher

This letter is to introduce Veerades Panvisavas (Oak) who is a graduate research student here at The Scottish Hotel at the University of Strathclyde in Scotland, UK.

Oak is undertaking research which is focused upon the use of hotel management contracts in Thailand. Specifically, this involves an examination of the experiences of both hotel owners and hotel operators as parties to a management contract.

All information you provide will be treated in the strictest confidence and never revealed to any third parties in way that its source could possibly be attributed. All data will be disguised and only reported in an aggregated format. No commercially sensitive information will be gathered.

A copy of the findings will be made available to you on completion of the research.

I would be extremely grateful if you could extend what help and cooperation you can to support Oak's research.

Many thanks.

Yours faithfully

J. Stephen Taylor
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II. List of interviewees and appointment details

Table I: List of interviewees (owners/owner representatives and GMs)

Organisation		Interviewee					
Group A	A-1	Owner Representative	OW-1	21 Nov 2005, 10.30 a.m.	General Manager	GM-1	23 January 2006, 10 a.m.
	A-2	Owner Representative	OW-2	7 Nov 2005, 10a.m.	General Manager	GM-2	10 Nov 2005, 11.30 a.m.
	A-3	Owner Representative	OW-3	24 January 2006, 11a.m.	General Manager	GM-3	19 Dec 2005, 1.30pm
	A-4	Owner Representative	OW-4	30 Nov 2005, 5 p.m.	General Manager	GM-4	5 January 2006, 2 p.m.
	A-5				General Manager	GM-5	31 Oct 2005, 3 p.m.
	A-6	Owner Representative	OW-5	9 Nov 2005, 9.00am	General Manager	GM-6	23 Nov 2005, 2-3.30pm
	A-7	Owner Representative	OW-6	15 Nov 2005, 10 a.m.	General Manager	GM-7	15 Nov 2005, 3 p.m.
Group B	B-1	Owner Representative	OW-7	24 October 2005, 9.30 a.m.	General Manager	GM-8	24 October 2005, 10.30 a.m.
	B-2	Owner Representative	OW-8	26 October 2005, 2 p.m.	General Manager	GM-9	5 January 2006, 4 p.m.
	B-3	Owner Representative	OW-9	20 October, 10 a.m.	General Manager	GM-10	3 January 2006, 2 p.m.
	B-4	Owner Representative	OW-10	12 October, 3 p.m.	General Manager	GM-11	20 Dec 2005, 2 p.m.
	B-5	Owner Representative	OW-11	10 January 2006, 2 p.m.	General Manager	GM-12	10 January 2006, 4 p.m.

Table II: List of interviewees (executives of the hotel management company)

Organisation		Interviewee		
Group B	HoCom-1	Vice President (Operations Asia)	EXEC-1	24 October 2005, 2 p.m.
	HoCom-2	Cluster Manager (Southern of Thailand)	EXEC-2	5 January 2006, 4 p.m.
	HoCom-3	Country Manager (Thailand)	EXEC-3	3 January 2006, 2 p.m.
Group A	HoCom-4	Vice President (Business Development)	EXEC-4	8 Nov 2005, 3 p.m.

III. Interview Questions/Guidelines

Owner / Owner Representative

- What were the motivations of the owner for using hotel management contract?
- What were the criteria for selecting hotel management company? Why choosing the current hotel management company?
- What are key areas / issues in the current contract? Explore the content of the key areas in the contract (if possible).
- What was the nature of negotiation process?
    - What were the factors that influence the negotiation? How these factors did effect the negotiation?
    - Who did propose the contract?
    - How much did the owner have experience or familiar with hotel business at the time of contract negotiation?
    - How did the owner negotiate the contract? How did the owner deal with the unsatisfied issues?
- Is there any Asset Manager? If yes, what are the roles? What are advantages and disadvantages of having asset manager?. If no, potential for having asset manager?
- What are the legal issues and status concerning hotel management company in Thailand?
- What is the nature of involvement by owner in the hotel management contract?
- What are the ongoing issues in contract operation?
    - Capital expenditure
    - Mismanagement / inappropriate behaviour of management team
    - Dispute or disagreement with hotel company
    - Unexpected situation i.e. natural disaster, SAR, terrorism
    - Renegotiation of the contract during the recent contract period
    - Any other issues?
- What are the performance monitoring and control method using in the contract? How effective are they? Any advantages and disadvantages?
- What are key ingredients in maintaining and strengthening the relationship?

Executive of head/regional office of hotel management company

- What were the motivations of the hotel management company for using hotel management contract to expand the business?
- What were the criteria for selecting owner? What are the factors that effect the decision for selecting?
- What was the nature of negotiation process?
    - Who did propose the contract?
    - What were the factors (i.e. owner's experience, location/potential of the property) influencing negotiation? How much does each factor effect the negotiation?
    - How did the hotel company deal with the unsatisfied issue?
- Is there any Asset Manager? If yes, how the hotel company deal with them?
- What are the legal issues and status concerning hotel management company in Thailand?
- What are the ongoing issues in contract operation?
    - Capital expenditure
    - Mismanagement / inappropriate behaviour of management team
    - Involvement of owner, degree of flexibility / rational control?
    - Dispute or disagreement with the owner
    - Under performance
    - Unexpected situation i.e. natural disaster, SAR, terrorism
    - Renegotiation of the contract during the recent contract period
    - Any other issues?
- What is the nature of involvement by the hotel company in the hotel management contract?
- How does the owner formally and informally monitor the hotel management company?
- How does the hotel company monitor performance of the management team of each property?
- What are key ingredients in maintaining and strengthening the relationship?

Hotel general manager (GM)

- What are key areas / issues in the current contract?
- Is there asset manager? If yes, how does GM deal with asset manager?
- What are the ongoing issues in contract operation?
    - Capital expenditure
    - Mismanagement / inappropriate behaviour of management team
    - Involvement of owner, degree of flexibility / rational control?
    - Renegotiation of the contract during the recent contract period
    - Under performance
    - Dispute or disagreement with owner
    - Unexpected situation i.e. natural disaster, SAR, terrorism
    - Any other issues?
- What is the nature of involvement in the operation by the hotel company in the hotel management contract? And how about involvement of the owner?
- How does the owner formally monitor the management team? What are the performance monitoring and control method using in the contract? How effective are they? Any advantages and disadvantages?
- How does the owner informally monitor the management team?
- How does the hotel company monitor performance of the management team? What to report? Effectiveness?
- What are key ingredients in maintaining and strengthening the relationship?

IV. Samples of interview transcription

Sample of interview transcription of the owner/owner representative (OW-7) on 24 October 2005

What were the motivations of the owner for using hotel management contract?
Our property had been established and managed by ourselves for almost 15 years. We could say that we are one of the leading local hotels in Phuket. Today we are the biggest resort property in Phuket with nearly 700 rooms with completed leisure and business facilities including a various size of function room (max 1,200 pax), spa, fitness, pool, etc. Our excellent reputations had been accepted by both foreigners and local people.

However, there are a couple of objectives why we let the hotel management company to take care of our property, which are 1) we would like to find someone to responsible for the hotel operations, therefore, in long-run, this could enable us to be an purely investor, and we could have more time to expand our related business; 2) we thought that after signing contract with major hotel management company, we could possibly enhance the competence of our property, in term of brand, know-how, and marketing network. As a result, with this operator, there is an opportunity that we could generate more net profit than we did in the past.

Since the past, we are local brand hotel and we are always underdog when compete with foreign brand competitors (i.e. Le Meridian, Sheraton, Novotel, Holiday Inn). For example, when comparing year round average room rate, we were below them, although our product quality and level of average occupancy was on the same level.

Bargaining power toward tour operator/travel agent would also be in a better position. When we were local brand, we could not sell the room at high rate as foreign brand hotel. Furthermore, the tour operator/travel agent also tried to pull our proposed room rate down as they could get a same or slightly different level of product quality with a lower room rate from other local hotels.

After working with [name of the hotel management company], we found that [their] marketing network and the brand are strong and consistence. We expected to have an increase of room rate around 30%. They [the hotel management company] have a better bargaining power toward tour operator/travel agent and they also talk in the same language as they are mostly from Europe/America. It is easier for them to negotiate for a business. When Phuket was down, they could convince the tour operators/travel agents to send guests for us or design tour package by including Phuket along with the other popular destinations. Furthermore, the room rate is more consistent than before as all of the tour operator/travel agents know the minimum rate of [name of the hotel management company] around the world.

On one hand, after the room rate increased and changing the brand, we would loss some of our old customer. On the other hand, with the new brand, there are new customers, and we could sell the room in a higher rate.

When we managed the property by ourselves, the cost of managing was low. Although the cost of managing property has been increased, especially for marketing and pay-roll, the total revenue has also been increased. And the net profit has increased as well, that is why we are quite happy although the cost of managing property increased.

What were the criteria for selecting a hotel management company and its brand? Why did you choose the current hotel management company?

Appropriateness of the brand toward the characteristics of the property, we need to consider each brand of the hotel company carefully, whether it would appropriate with our property. As our property has 700 rooms with leisure and business facilities, we could not use a very luxurious brand like Ritz Carlton, Conrad. However, it would be better for us to use an upper class or 4 stars brand, such as Hilton, Hyatt.

The availability of the hotel management company in Phuket, at the time of searching, most of famous brands are already established in Phuket, i.e. Sheraton, Marriott, Holiday Inn, Le Meridien, etc. There were not too many brands of the major hotel company available for us to select. We need to move a bit fast to select before all brand are occupied.

Relationship between the hotel company with the other local owner/investor, some hotel company may have a very good relationship with famous and large local investors/company. Both parties may have a property where else in Thailand already. And these local investors would have more potential for expansion or building up more hotel/resort properties in Thailand, including Phuket, if they are interested in. This is because these investors would have a land blank, and may invest in the near future. Therefore, when there is an invitation from other owners, the hotel company may hesitate or uncomfortable to talk with the other owners.

Number of the property in Thailand, in South-East Asia, or in Asia-Pacific, in my opinion, the more property, the more potential of hotel company and the strength of its marketing network.

Consistency of service standard, some hotel companies have many properties in Thailand. When we did a survey/visit their current properties, we found that the consistency of service standard is varied. Therefore, we are not sure about their service standard for a particular brand.

The past performance and the current situation of the brand in Thailand, for [name of the hotel management company], they established their brand in for long time in Bangkok. There were only two properties in Thailand at that time. Their latest

property is in Hua Hin. We got information that they could increase average room rate and average occupancy rate, and then net profit would be increase as well.

We also visited many properties under this hotel management company in Asia. We found that [name of the hotel management company] was an old fashion hotel chain and most of the properties were old. However, for their resort property, when we did visit their resort properties in Asia, we found that they [the hotel management company] adjusted the image of the resort by making the property more trendy and fashionably. And we believed in the brand of this hotel management company as it was established for a long time and the service standard was consistent.

What would be factors that determine bargaining power of each party during contract negotiation?

Size and its components/facilities of the property, we thought that if the operator manages our property, it would become a big player in the market. This is because 1) there are 700 rooms; 2) various size of function/meeting rooms (max 1,200 pax); full leisure facilities including spa, sport & fitness, pool; 3) large green area.

Our old reputation in the industry, we established the property for more than 15 years, most of the tour operator/travel agent and also both local and foreign people know us as the leading local hotel in Phuket.

With our property and reputation, once the operator work together with us, it could enhance the competence of the property, in terms of brand and quality of product, to compete in the business. Therefore, the operator could work easier to make the property well known. That is why in the past, there were many hotel companies approaching us for managing the property.

There were few properties [of this hotel management company] in Thailand at the time of negotiation, and there was no property [this hotel management company] in Phuket before. They were also looking for increase the number of property in Thailand, therefore, it was an opportunity for them to put their flag in Phuket.

What was the nature of negotiation process? What were the factors that influence the negotiation? How did the owner deal with the unsatisfied issues?

It was the first time that we did a negotiation with the hotel company, and it was tough for us. After issuing an invitation letter to [name of the hotel management company], the executives from regional office come to the property and did an inspection. Unfortunately, they knew our property and intend to do the business together. Therefore, we and the operator would agree on main frameworks and principles before moving in details. Then the operator proposed the management contract to us for considering. After received the proposed contract, we along with the lawyer would consider and pick up the issues that we were unclear or unhappy. Then we could raise issues and start negotiation in the meeting. It is a time consuming process, for us, it took around a year to finalise the management contract.

It is unlikely to make a successful negotiation, and to reach a mutual benefit for the future business if both parties were not sincere, had no intention to work together, and did not compromise on protecting its own benefit. Both parties would be flexible, conduct rational discussion, and not taking advantage from each other.

For our case, we were not satisfied that there were issues in the contract that the operator protects themselves although the owner is in the difficult situation. For example, if the property damage and cannot run, if we have an insurance, we require to pay them during rebuild. Or if the property damage and we need to stop the business, they ask for a termination fee.

Apart from the forecast of business, we need to consider type and amount of management fees. As it would affect our bottom line, we would make a negotiation if we think that it is too high and unfair.

Is there any Asset Manager? If yes, what are the roles?
There is no asset manager, but I thought that owner representative would be responsible for the same thing as asset manager. As an owner representative, my responsibilities are 1) to ensure that the hotel property is in good business, to maximise net profit, 2) to monitor and to control the performance of the operator, 3) to ensure that the property and all of the asset are in good condition.

What are the legal issues and status concerning hotel management company in Thailand?
There is no issue concern with the legal system in Thailand.

What are the ongoing issues in contract operation?
Budgeting, each year the GM would propose the next year target budget, which include the details of estimate revenue, expense, amount of GOP, net profit, owner return, etc. If we are not satisfied with the number of revenue and expense in the proposed budget, we would make a negotiation and discuss until reach mutual agreement. Then we make an adjustment.

We have a monthly meeting with GM and hotel executives to review the past month performance and to look at the in coming business of next month. If there is an issue, we would discuss during this meeting

Capital expenditure, we will save 4% of total revenue to use for capital expenditure/FF&E. GM will propose the expense and the details during annual budget. However, sometime the priority of purchase may be changed during the year, therefore, as long as the amount is not exceed the budget, we would allow them to do that.

Mismanagement / inappropriate behaviour of management team, so far we have not found any mismanagement or inappropriate behaviour of member of hotel management team.

Dispute or disagreement with the hotel company, there was no strong dispute/disagreement since working together. Normally the hotel company would accommodate the owner when they are not happy. If both parties cannot get along well, the co-operation may not smooth.

Unexpected situation i.e. natural disaster, SAR, terrorism, we signed the contract before tsunami. After the natural disaster effect, we and the operator worked closely in order to resolve the situation. This is because the business was in the difficult period and we need to reforecast the business.

Renegotiation of the contract during the recent contract period, there was no renegotiation for the issues in the contract before. However, as we are not fully recovered from the Tsunami, we asked for them to reduce the percentage of FF&E from 4% to 2%. And also reduce other expenses, i.e. the incentive for the hotel executives, as we are in the difficult period.

What are the performance monitoring and control method using in the operation of hotel management contract?

The operator is required to submit full monthly report (revenue/expense of each department), and financial statement. We would use the annual budget and comparison of competitive set to monitor and to control the operator.

For the annual budget, after finalised it, we and the operator would use it to monitor the performance. Monthly financial statement would be a effective way to monitor the performance (revenue/expense). If we could not achieve the budget in a specific period, we would discuss and find out the cause and the way to resolve it. Furthermore, the achievement of the annual budget would tie with the incentive program of the GM and hotel executives.

For the comparison of competitive set, we and operator would select the member of the competitive set. The majority of members would be a same level property; however, we also select some slightly higher or lower level properties. This could enable us to see how well we are doing in the business, when we compare with our direct or indirect competitors.

The revenue manager of the hotel would check the information on average room rate, average occupancy rate, and RevPar. We could not ensure that all of the given information from the other hotels was accurate. If we were not sure, we would double check it. However, since the past, there was much nothing wrong with exchanged information. Not only we gained information from the other hotels, we also gave our information to the other hotels in exchange, when there was a request.

As an owner representative, I normally visits couple times a week, to see around the property and informally talk with GM to update the information or to discuss any issue if there is.

Furthermore, this hotel management company also has various methods to monitor and to control each property such as 1) the GM meeting, 2) mystery guest (to examine the service of the each property without notice), 3) hotel staff survey (feedback toward hotel executives)

What is the nature of involvement by the owner in the hotel management contract?
After giving an assignment to the hotel company, we would trust them. We would not get involve in the day-to-day operation of the hotel. If there is an issue or suggestion, we would talk to GM directly. We will not talk to hotel staff directly.

In selection of the GM and the hotel executive, commonly the hotel company would propose the candidates for the GM and the hotel executives; however, we have a right to select the GM and some hotel executives (director of operation, executive chef, food and beverage manager, financial controller). In practice, we let them select the GM for us and we have a right to terminate or to request changing the GM if he does not perform well.

What are the key ingredient to maintain and to enhance the relationship between owner and operator?
In my opinion, sincerity and rational discussion would be the key ingredients. Without sincerity, there would be more taking advantage from each other. When both parties feel not secure, there will be more problem later on. Rational discussion would enable both parties to generate idea which lead to the mutual benefit. And this would minimise the strong disagreement.

Sample of interview transcription of the head/regional office executive of the hotel management company [EXEC-4] on 8 November 2005

What were the motivations of the hotel management company for using hotel management contract to expand the business?
Generally speaking, now [name of the hotel management company] is the biggest hotel company in the world in term of number of hotel, we have more than 4,000 hotels. In Europe, more than 50% of the properties are 100% own by [name of the hotel management company]. In Asia, it is quite different as it has different rules and regulations in many countries that they do not allow foreign company to have a 100% ownership in term of hotel or registered company. Therefore, most of the companies when they come to Asia, they found that hotel management contract would possibly be the most practical way in doing business.

Another thing is that Asian people are different from European or American people, in term of the way the businesses are set up. In Europe or USA, a lot of hotels are institutional owners. They owned by big bank or big company. In Asia, they probably owned by public leased company, but we know that father, son or daughter would be the biggest shareholder. It is still very much family oriented kind of business; we have to take this into our consideration. Furthermore, Asian attitude, sometime if you do not have to same family name or come from the same or related family, it is difficult to be trusted. How can I give my money or give this hotel which I invested a lot of money to foreigner to run? I cannot trust them as they are not part of my family, not my nephew, not my son or daughter in law. This is also another issue.

Thus, managing hotel/resort property is becoming our core business activity. Hotel management contract allows us to have less financial spending and an opportunity for gaining management fee in return of managing hotel.

Taking all of those issues into the consideration, hotel management contract would be the most reliable and practical way. In Thailand, we could say that we are the most successful hotel company. Now we have over 21 properties under the different brand names, such as [name of their brand]. We appeared in Thailand for 14 years. If we look at other hotel companies, Le Meridien, Intercontinental Group, or other companies, none of them has more than 4-5 properties. Most of them got 1or 2 properties, the nearest competitor just has 5 properties. This would be the crucial indicator for judging the success of our company. The reason behind the success is that we know how to or adjust our management system/management style of the hotel to match and to compliment the need, expectation and requirement of our partners. For the American system, generally speaking, it seems to be my way or the highway, do not get involve in the operations; we will see each other once a month or once a year during the annual budget meeting and do not come to interfere the operation, I run the hotel as I am an expertise and I know better. However, for this region, it will not or difficult to work. This is because most of Asian owner would like to see how much you buy this and that, I would like to check or approve for the GM, purchasing, or major FF&E.

For us, we know how to adjust accordingly. We are European hotel company and international in respect to our network, and we are very localise in respect to our execution of our management.

I think that the key thing in managing the hotel correctly or convincing owner to sign a contract with us [name of the hotel management company] is to bring confidence and trust. It is essential for any owner as there are many hotel management companies in the world. All of them have their own strength and limitation. The owner has to choose a company that has management style and philosophy that match with what the owner want. We have different kinds of owner with different needs. Some owners want to make sure that every hotel that they invested in, two, three or four star property, make a good profit and return. For some owners, especially in the Asian context, profit is not the main motivating factor in doing hotel business. It would be concern about face issue. It would show the society that they would possibly richest man as the best way to show their wealth is to own the hotel that people recognise. The hotel business is the high profile business. To this kind of owner, they have other businesses which making a lot of money; and for them, to open the hotel which not making money would be okay for them and it will not be a big issue. Therefore, we, as a hotel management company, have to understand the expectation and the need of the owner. This is because the owner may possibly not tell us at the beginning unless you ask the right question to them and analyse the answer that why they are doing the hotel business. For instance, sometime they do hotel business because their son or daughter graduated in hotel management and they need to build the hotel for their son or daughter. We have to find out exactly. If it will be for their son or daughter, we come in and manage everything for them without any involvement from them, they will say goodbye for this contract. However, if we realise that they are doing this for merit for his son or daughter who going to graduate in few years time, we need to make sure that we compliment their needs as their son or daughter would need a specific programme to be corporate with the management team of the hotel. He or she would undergo extensive training exposure within all of department of the hotel. Barely in mind that the owner tends to groom his son or daughter to be able to run the hotel as GM or owner. Once we could understand the motivation and the expectation of the owner, we could win them over for the deal.

The other key thing is that trust and confidence. Most of the owner, they are not stupid, they are rich because they are really good in business. They would look at the track record of the hotel company, which may be the best in USA or Europe. But if those companies do not have a track record in Asia, they would be in doubt. How those hotel companies perform in the city or in the country or even in the region; how many property they have (many or less; are the current owner happy with their performance?; do the local people accept their brand?. These things are very important and when the owner looks at the track record, they will know. Even the hotel company is the biggest company or most famous in the world, if it does not compliment the city, there is no point.

What were the criteria for selecting owner? What are the factors that effect the decision for selecting?

Just like getting married, both parties must be compatible. For us as an operator in Asian context, the reputation, the kind of the business, and the track record of the owner are quite very important. For example, if today we have to sign contract with [CP group], which is a respected group and famous food company in Thailand, there is no problem. This is because we have confidence as they have an excellent track record, they are profitable company, and they are professional as it is not the first time that they are going to work with other international companies, they worked with overseas people in food, retails, and superstore business, so that they are very professional in that outlook. On the other hand, if today, the owner of message parlour want to do a hotel business, we will be a bit doubtful as where the money come from, is it really clean, how they do want to run the hotel, how will be the reputation, will it be compliment to [name of the hotel management company] as a company that associated with the owner who perceived to be in entertainment business. It works both ways. And, of course, it is very important to know that the owner has enough financial support to run the hotel business.

Another factor is that we also consider the business potential of the property as we could forecast the amount of management fee that we could possibly gain.

[name of hotel management company] is multiple brands hotel company. We have from one to five star hotel brands. We need to know the local very well before placing our property as it could strengthen our network. We have been in Thailand and open our regional office here since 1989. We were the first international hotel company who base in Thailand. We did extensive market study and we did establish the property exactly what the market was, how many hotel we could have in a period of time.

The normal reaction from most of the people was that we had a property here and why we place another one; and will it complete internally with each other? Actually the truth is in opposite way. [name of the hotel management company] has the biggest room inventory in Thailand with over 21 properties now. Any tour operator or company who need rooms would knock my door. This is because it would save their time in order to inspect hundreds of properties, and negotiate for the allotment for those properties. They [the tour operator] come to us [name of the hotel management company] and possible know the standard of each our brand, we show them and could negotiate for price and allotment at one time. [name of the hotel management company] could negotiate for a higher price as we have better bargaining power. If the owner owns the stand-alone hotel, the tour operator press the price, what can the owner does, possibly nothing. Because we are the biggest, so we have better control, and importantly we could bring in the business. Because we are in control, it would be better for the owner to have another hotel across the street or nearby which also managed by [name of the hotel management company] rather by the other hotel companies which you cannot control. This is because when the hotels across the street drop their price, we would be in the better position. If the properties managed by [name of the hotel management company], by certain agreement, the integrity could be up keep. Purchasing procurement, today I

represent 20,000 rooms, when I order things; I would have a better price than the others. In term of training, staff, and human resources, because we have a huge network in Thailand, people want to join us as they know that we are expanding. When your group or company is not expanding, the only way that you get promoted is to wait until your boss resign. Or because we are a big group, some of staff asks for a transfer or to work in same place as his or her couple; if there is a vacant position, we would do it. Therefore, the benefit in having more properties, not only the marketing aspect but also purchasing procurement, human resources, and also benchmarking.

We would know overall Thailand picture. We would know the occupied room in Thailand, the level of average power consumption, if energy consumption rate per room of this hotel is higher than the others every much, we would go there and check. Therefore, under our properties, we could check and benchmark the cost ratio. The only two ways we could increase profit are to increase business and control our cost so that benchmarking is very important. Therefore, ironically the bigger we are the better for the owner.

[name of the hotel management company] is very diligent and we are monitoring very closely and we look at the potential of each city. In Paris, we have more than 210 hotels under various brands, but all of the hotels could make profit. Now in Bangkok, we have currently 9 hotels, and when we look at marketing trend, it is possible to have 12-15 hotels now in different brands and location. And most of the people would ask me how I could make enough business as there are so many hotels. However, track record is very important. Since the past, all of the owners are very happy with our performance.

What was the nature of negotiation process?
After receiving the invitation letter, if interested, we would do a business forecast and inspect the site or existing property. We also do discuss with owner to set the framework or conditions on the negotiation, such as confidentiality, time-scale, limitation to talk with the others.

Normally all of the hotel management companies have its own template/standard contract. Owners do not have to sign a contract everyday or often as us. Normally the owners will rely on the hotel management company to provide them the proposed contract. And [name of the hotel management company] also have our own standard contract which will give to the owners to review before signing.

Upon the negotiation, both sides, the owner and the operator, have their own bargaining power in different ways. I think like in all key contract negotiations in hotel management contract or any other kinds of business, it is the matter of who need who more. If the girl wants to marry you, she will do anything she has to do. Or if I would like to marry girl, I will do anything to make she marry me; I will promise that I will not smoke or drink or will take her to holiday every year. There are also many variable factors. Both sides would have pro and cons. There will be certain things that both sides will not be able to or not intend to negotiate, for

example, for operator, it will be on brand standard as [name of the hotel management company] would not like their properties/brands to have in-consistence in standard throughout the world (room size, specification of in-room facilities or amenities, safety standard). For the owner side, normally they would like to have a certain degree of control in term of finance, budget, capital improvement expenditure, and they may would like to have more say in that respect or operations. And it comes to the matter of compromise.

If today [name of the hotel management company] does not have any [name of the brand] property in the city and see the owner is building the hotel in the city, we would try very hard to convince the owner, by lower the fee structures or offer some special for the deal, to give the hotel to us to manage as it will be our first [name of the brand] property in the city. On the other hand, if we already have two [name of the brand] hotels in the city, then the owner would like us to manage under the brand [name of the brand], we are not so excited, we would like to have it but we do not have to fight very hard to have it. Therefore, as an operator, we need to carefully appraise each project. This is because it will fulfil our strategic location in the network, increasing the number of the property or it will be a good flagship hotel. In life, we cannot choose everything; same as in getting married, your wife will never be perfect. We need to compromise toward the end that you want to compromise. You would like a pretty wife, but in fact or later, you said never mind, average looking and good personality would be enough. And also when we grow, our expectation would be change as well. Ten years ago what we want when we were in Bangkok would be different from what we want today. As an international hotel company, we cannot call ourselves international hotel company unless we have a hotel or representation in all key cities in the world or in the region. If we have many properties in other provinces in Thailand but not in Bangkok or Phuket, we could call ourselves international hotel company. This way of thought would be applied into the level of country, or region.

The most common issues that both parties discuss in the negotiation would be all of the commercial terms including the fees. And then the issues would be on approval of finance (budget and capital expenditure) and the key hotel management positions.

When we negotiate, we must know who we are negotiating with. From the start, we must have already in our head that what we are or are not willing to give. Then there will be time frame and trend in the negotiation process which would allow you to say yes or no in certain points. We may start the negotiation with a hundred points, but at the end, we must work to breaking it down as much as you could go; and it could have only few points at the end and finish them up.

Different owner would come up with different things, sometime fees would be the issue, but sometime branding would be more debating issue, especially in Asia, in some case owner would like to have [name of the brand A] brand for his property concerning with face issue, however, the potential of the location and property would more suitable for [name of the brand B] rather than [name of the brand A]. This will be a long discussion. If the owner is building a hotel not for the money, the fee structure would not be the most important thing. Sometime is for his son/daughter or

face issue. Some owners build three-star hotel and they would like to have marble as a decoration in the lobby even if it is not necessary for three star hotel to have marble in the hotel as it would increase the cost of building. For Asian, having marble, it means nice.

What are the legal issues and status concerning hotel management contract in Thailand?

There is no problem concerning legal issue toward the hotel management contract. Laws in Thailand were well drawn up to compliment. Most of the management contracts, the owner agree to go to arbitration locally or internationally if any incident and it will be more than enough.

What are the ongoing issues in contract operation?

For budget, GM of each property would prepare draft of annual budget and discuss with regional office. After get approval from the office, GM would present the draft of the annual budget to owner, and discuss until they reach mutual agreement.

For capital expenditure, it would be a big challenge for us, especially in Asia. This is because some Asian owners when they build hotel and they will never repair or maintain or improve the property until their property nearly die and start do something about it. This group of owner never believe in preventive and maintenance. I would say that the preventive and maintenance system of [name of the hotel management company] is quite practical. When you maintain your car on a regular basis, you spend on every quarter or yearly basis for servicing i.e. motor oil, or any spare parts which cost small amount of money. However, if you do not do this thing at all, when your car breakdown, it may cost you large amount of money. Therefore, the preventive and maintenance program is very important. Like in the hotel business, every year we have to sit down with owner and justify why we propose the capital expenditure budget and to change this and that in the property.

Inappropriate behaviour of management team, this has never happened with the GMs or any of senior executive. However, sometime it happened with local staff or ground staff level. For policy of [name of the hotel management company], we will never place GM if he has never worked with us for a period of time. For our GM, we do not care that he/she was a GM before, when they join us; they have to be resident manager/assistance GM for one to two years before being GM.

Under performance, if it happened, we need to justify. However, our philosophy is to be proactive. When we do and agree on annual budget, it does not mean that it is not adjustable throughout the year. When the situation like SAR, tsunami, or government announced campaign, then we must be able to change a policy, strategy or plan. Every month or quarter, we will sit down with owners to review what did happen in the last month or last three month, and to discuss what we plan to do for the next month or quarter and the rest of the year. We have to plan ahead and be flexible. The world has changed very rapid so that we could not rely only on the annual budget; we have to be able to adjust it accordingly. Once we build trust and

confidence with the owner, one of our philosophies is that our GM would run the hotel like his own business. Once the owners realise how we run the hotel for them and the way we spend the money, they will be very happy, confident and trust us. It would be better to be proactive than wait and be reactive. Owner will appreciate that.

Involvement of owner, they are very much involved. GM must work closely with the owner. If the GM could work well with owner, half of the problems have already gone. The key relationship would be GM and the owner. Head office act pretty much as a supporting role in relation to the hotel such as sales and marketing, technical services, training, human resources, etc. For example, we co-ordinate as a regional, if something happen with Thailand, let's do some promotion against SAR or Tsunami, all hotels and resorts do promotion in Hong Kong.

Renegotiation of the contract during the recent contract period, it happened. Sometime we have to do it as the new laws or regulations have been announced by government. The key thing is that once we win over the trust and confidence with the owner, everything is fine, no matter how hard is the problem, it will be soft. On the other hand, if owner does not trust you, it will be a big problem. Once contract had been signed, we never take it out and come across and quote each other from the contract. The contact has been put in the shelf or save and almost forgotten until ten to fifteen years later when the time of renewal has come.

Unexpected situation i.e. natural disaster, SAR, terrorism, when this happened, we would analyse how these situation will effect on us. We have to work closely with owner and GM to find the best way to resolve the situation.

How does the owner co-ordinate with the hotel management company?
The owners would border the head office when something goes wrong with their hotel.

How does the hotel company monitor performance of the management team of each property?
For us, we have Area Vice President; he is responsible for the GM. He is the one who select GM and present to the owner. He is the one that GM report directly. He is also the one that meet with owner on monthly or quarterly basis depending on the situation to review the strategic planning and profit and loss for the hotel.

As we are an international hotel company, GMs are obligated to us; we have to take care of them in the career. If they do not perform well in the hotel level, they will know that the next assignment that they will get would not be good i.e. a smaller hotel or less demanding location hotel. Furthermore, there is an incentive program for the GM. If they could achieve the budget, they would get financial reward. Therefore, they are very much motivated to perform well.

We do the internal audit including department audit check and financial audit. We do annual appraisal of the GM; we would sit down with them and discuss about the result of his hotel. It is a systematic review of the hotel performance and GM performance in term of profit and loss, profitability, technical aspect, finance control aspect.

We send auditor to the property and check on the cash issuing system or storage system, whether they implement it correctly or check the balance are proper, or fire and guest safety.

Once when give the assignment to GM, we let him/her to run the hotel freely. We give them a freedom, ability to make decision, and make them accountable. These are the key policy. We cannot rule and be mothering them all the time. We must give them freedom and they must be accountable for their action. That is the best way to motivate and the best way to manage. There is no centralised management as the early day anymore, just give them a guideline and manual, and let them play.

What are the key ingredients for maintaining and enhancing relationship between owner, GM, and head office?

Communication, it is very essential to have good communication among owner, GM, and the head office. Once we have good communication, it means we have good relationship. There is nothing to hide thing even it is a bad news. Talk on the fact. We need to report and to update all of the situation and the issue to all parties.

Sample of interview transcription of the hotel general manager (GM-1) on 23 January 2006

How have you been selected as a GM? How long is one term?
[name of the hotel management company] has a process of selection GM for its hotel property when needed. [name of the hotel management company] will provide couple candidates for the owner to select. [name of the hotel management company] will look at the property profile and nature to match with the appropriated person as it is very important to get the right person to the right property, for example, for the resort property, we would assign/propose the candidates who had an experience in managing resort property because by nature of the property, it would different from the city hotel. After proposed the candidates to the owner, owner would conduct an interview in order to select the GM of the property. Not only the experience and ability that [name of the hotel management company] guaranteed them, but to get the feeling and to know that person, before making final decision for selection.

Before being GM at this property, I had been GM at [another property of this hotel management company] for five years. The [name of the hotel management company] put my name on the list of candidate as I have Thailand experience and managed the large hotel property. The usual contract is 3 years plus 2 year optional for extension, which depending on both owner and GM as both parties need to feel comfortable to work with each other. However, for me, I have been with this property for five years already (3 years plus 2 year extension), and I am now in another two years extension, which is a special case.

Different company, different believe on this matter, some hotel company believe that the longer the GM work with the same owner and property, it would be benefit for the property as he would know owner, staff, the property, city, the business and trend very well. On the other hand, some companies believed that if the GM stays too long, GM may not have the same energy and creativity to drive the business, and it would be better to change GM to keep the same level of energy and creativity.

What is the responsibility of GM?
The term 'General Manager' is quite broad. The primary task is to ensure the property is well managed in term of financial, human resource, maintenance. GM would also be ambassador of the hotel company within the city or community and GM has to develop and to maintain relationship with the community and to take property with the good reputation by working with the community or doing community service, i.e. helping people with education or providing training. For the latest community service, we re-build the two schools in Khao-Lak, Phand-nga province, where had been hit by Tsunami and we support the students who loss their parent during the disaster.

What are the ongoing issues in contract operation?
Budgeting, every year we need to present the business plan which includes revenue/expenditure, profit/loss, sources of business and capital expenditure. We could analyse the historical data that we could see where to increase or to reduce. Capital expenditure, it is a part of the budget. It is around 4% of the total revenue. As this hotel is 17 years old, last year we spend 17% of total revenue, which is a very high amount, to renovate the property. We do need to plan for new or replacement of the equipment, room renovation.

During September, after we prepared the annual budget, we would present it to the regional office for the first approval and then to the owning company for getting second approval. Of course, there will be questions and disagreements. Especially, on the expenditure, we need to convince and justify the need because owner may not agree on some item. It is all of the matter of discussion.

From my experience, it is depending on relationship. If we have a good relationship, we could go through any problems/many issues without conflict. Without good relationship, even you do or mean the best for the property, it may not be enough.

Working in Asia is not like working in the Europe or other parts of the world, in Europe, most of the properties belong to [name of the hotel management company] and everything will be reported to the head office. Unlike in Asia, most of the properties are under management contract, we need to work with the owners, hand in hand. We need to have ability to accept their view, convince them to our view, and balance both. If we could get the balance, the problem is sorted. If we cannot get the balance, a small issue would be a major problem.

Disagreement, there were disagreements; however, we need to find the balance. We have to have an experience and ability as a mature executive to find the balance.

Involvement of the owner, yes, the owner involve very much. Most the Asia owner would get involve in the operation, not in a negative sense. They would like to be involved to know what is going on, to know the result, to know the problems, and to know the changes, which is fine and fair because it is their investment. So GM would be comfortable to be transparent. Everything that we do in the hotel, the owner knows, for example, any hiring of the senior executives, amount of revenue and expenses. They have all information; there is no need for them to feel negative when something wrong.

Some GMs may not feel uncomfortable with it. For their right in the contract, they do not want owner to get involve. However, I don't think that it is a right mentally on this matter. As long as it is a positive involvement, you will get only benefit out of that. The more involvement of the owner would not de-motivate us, unless it is negative involvement.

For the renegotiation of some terms in contract, there was no case during my term.

Unexpected situation, I had it one time here which was SAR. We will re-do, re-forecast the budget, but we will keep it as a reference. We did solve the situation case by case, and we needed to work more closely with the owner. Owner was very supportive. In our case, there was no staff termination, unlike the other hotels. The crucial point is if we reforecast the business and budget and the result is not match with the forecast, it would show that we don't know much about our produce.

How does the owner informally monitor the management team?
Owner representative is representing the group of the owner or owning company. He would bring the owning company up to the secure and safe position. Today the most of the owning companies are well mature. Like our case, our owner/owner representative knows exactly what we know. They know the business very well. However, for the new owner, it may be difficult as they may be in the learning period. And sometime I need to explain more.

The owning company always send their guest or business partners to stay or to use the services in the property with the owner rate. This hotel, we have a very high percentage of room guests, even in the food and beverage department, the booking come through the owner. They booked through the owning company to stay at the property with the owner rate, or using the outlet or organise the function. And these people that used our service would go back to the owner for giving some feedback if any. If there was a negative feedback or something wrong, I would receive a call from the owner or [name of the hotel management company] to clarify the situation or to how we could avoid it. Or sometime I need to say apologise for the incident. This could also be an informally way to monitor the property.

What are the performance monitoring and control method using in the contract?
We have, firstly, dairy report, which is called 'early bird report'. The flash result of previous day performance, which give us details of occupancy, average room rate, room revenue, laundry, food and beverage, and entertainment. The information is categorised into segmentation/ department / outlet. It is a comprehensive result. This report will be sent to owner only. If there is an issue, owner might call us.

Secondly, every month we will have profit and loss statement. The statement will be sent to the owner, and we will have a meeting, to analyse the statement. During the meeting, the owner has a right to ask or to discuss anything, any question. For example, why food cost went up by 10%?, or why we spend much money on this area?. So we discuss and take minute. If there is a problem, we will take correction or do action plan together. Then in next meeting, we will discuss what action we took and discuss the result.

Thirdly, at year end, we present the next year business plan and the previous year performance, and what we have done well and wrong.

We also benchmark with the other hotels in Bangkok on dairy basis. We do compare average room rate, average occupancy, and room revenue/RevPar. And we also

benchmark on food and beverage revenue. In benchmark, we take 20 hotels in Bangkok, which including 4-5 star properties, direct competitors. If we only look at competition, we will not see the trend and the situation of the city, busy or not busy, and we would know the reason, why?. Therefore, we will look at the major hotels in the city as well. For example, when there will be a big fair or event in the city, we will see the occupancy rate is quite high. If not, there will be a problem with us, and we have to know why, what is going on wrong? We may overlook something, or we may over-price.

Most of the hotels give us information and we share our information with them. If they do not share, they will know that we will get it somehow. Some hotels don't give us but we know their staff.

Some hotel tried to give us wrong information, however, as we had dairy information, we would recognise about wrong information, and we would double check. For example, some hotels may have average occupancy at 70-75%, when they tell us that they had 95%, we need to double check as they may have a big event or function in their property.

This method is not 100% accurate in term of information from other properties in Bangkok, sometime we got wrong information, except from the properties of [name of the hotel management company]. As long as the information is close to accuracy, it would not be a problem. This is because the main purpose of benchmarking is to look at our own performance, and where we are in the business.

The most important thing is RevPar. Although we had 100% occupancy rate, but we have not had the right room rate, it would mean nothing. Or we have a higher room rate, but got less occupancy rate, it is also useless. For example, if we drop our occupancy and cut the low yield business, we increase our room rate, therefore, RevPar would higher and we would make the same or more amount of revenue. Furthermore, we would reduce the amount of the usage of the room.

Are there any incentive programs for GM or hotel executives?
Yes, it is. Most of the company offers salary plus incentive. If we could hit the target, everything on top will be the incentive. They may give us X amount on top of the salary.

How does head office/regional office co-ordinate with the property?
The executives from the regional office visit the property often. This may be because it is located near the regional office and this property is currently a flagship property of the [name of the brand]. We also communicate them by e-mail, telephone call, whenever we need assistance or have inquiries.

How does the hotel company monitor performance of the management team?
We send them the same report as owning company but we send every 15 day and at the end of the month. It is a format report from [name of the hotel management company]. We send them a segmentation report, market segment report, human resource report, profit and loss report.

[name of the hotel management company] also send someone who call 'mysterious shopper' to stay in the property every six month. The purpose is to check the brand standard. GM will not know before. The mystery guest will check-in into the property and give a feedback on all of the service from the guest perspective after couple of day of staying.

[name of the hotel management company] also have auditor/analyst come to property to audit in each department of the hotel, i.e. food and beverage, human resources, room division, finance, etc.

What are the key ingredient for maintaining and enhancing relationship between owner, GM, and head office?

Trust, it would be established firmly and strongly. Both the owner and [name of the hotel management company] would trust me that I am taking a right decision, and it is good and safe decision to make sure that the property is running well.

Management company has to trust me that their GM make good decision and will get back to them if any problem. I have to have a trust from the owner as they would trust and protect me, if I need help i.e. for the large investment. And I have to trust my management company that they are behind me.

The most important thing is to build the trust quickly. Once we establish, we can go or do anything smoothly. If no trust, they will ask more questions, why have to spend this, why put this person there, why do not do this. And this would create more problems later on.