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Hotel Performance: The Impacts of Owner-Operator Goal Alignment and GM Autonomy

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Abstract

Hotel are increasingly owned by one entity and operated under management agreement by another. The split between owners and operators poses potential agency problems as the two entities are often interested in conflicting objectives and the operator may not always take decisions in the owner's best interest. The hotel general manager, meanwhile, is tasked with satisfying both parties' objectives. This study investigated how owner-operator goal alignment, and the ensuing impact on GM autonomy, influences hotel performance. We surveyed matched pairs of owners (or their asset manages) and operators (their GMs). We found that while autonomy and alignment are both highly correlated to hotel performance, autonomy does not moderate or mediate the impact that alignment has on performance. Hotel owners and operators who have found a way to align their goals have thus demonstrated that such alignment can result in better hotel performance.

Key words

Hotel management agreement, owner, operator, autonomy

Theme: What is going well in Strategic Management

Focus of Paper: *Theoretical/Academic*

Introduction

The international hotel industry is increasingly relying on the use of hotel management agreements as a means for hotel owners to access the operational expertise of professional management companies. These agreements now represent the single most common organizational modality in the international hotel industry (Boyen and Ogasavara, 2014). They enable a hotel owner to retain legal ownership of the hotel, whereas the operator (i.e., the management company) assumes responsibility for managing the hotel's day-to-day business. While the operator is ostensibly tasked with managing the property, hotel owners often desire to remain involved in many operational and strategic decisions (Hodari and Sturman, 2014). Operators, however, generally seek to limit as much as possible the owner's involvement and power in such decisions (Schlup, 2004). Even though the management agreements stipulate each entity's parameters and responsibilities, in practice each side often struggles to exert their influence on the hotel which can result in costly legal battles (e.g., Dev et al, 2010) and/or unknown benefits to the hotel's performance (deRoos, 2010).

Hotel management agreements offer the potential for high degrees of goal incongruence between owners and operators because an agency relationship exists between them as the operator is the owner's agent (Dev et al, 2010). Simultaneously, they both act as principals for a common agent, the hotel general manager, which thus creates a double agency situation (Child & Rodriguez, 2005) whereby the GM is responsible to these two principals who often have conflicting objectives. When performance objectives are not equally important to each principal, their agent's decisions cannot, therefore, be simultaneously in both principals' best interest (Shapiro, 2005). To overcome this, agency theory suggests that each principal will be incentivized to invest resources into monitoring their agent in order to exert additional control so as to better align their agent's interests with their own interests rather than those of the other principal. Greater monitoring, however, erodes the agent's autonomy to make important decisions without owner and parent firm approval and/or interference (Brock, 2003; Takeuchi et al, 2008).

This study examines these problems from the well-established agency theory perspective since goal incongruence between principals (i.e., hotel owners) and their agents (i.e., the hotel's operator) often decreases managerial effectiveness and firm performance due to residual loss associated with principals needing to take actions to monitor their agent's behaviour (Jensen & Meckling, 1976). The extensive agency theory literature has, however, been largely limited to 'single' agency relationships in which one agent (manager) reports to only one principal (see Shapiro, 2005).

Literature Review

Agency Theory, Multiple Principals and Double Agency

An agency relationship arises when there is a contract whereby one party (the principal) appoints another party (the agent) to perform some service on its behalf (Eisenhardt, 1989). Substantial literature exists on the agency problem which results from goal incongruence between principals and their agents (see e.g., Bosse & Phillips, 2014; Eisenhardt, 1989;Jensen & Meckling, 1976). Agency problems arise not only because of a potential conflict of interests and goals between the different parties, but also because of the principal's information asymmetry and ensuing difficulty to observe and control the agent's decisions and actions.

Agency theory has, however, almost exclusively investigated situations involving only one agent and one principal even though there is an increasing prevalence of organizational arrangements involving multiple principals and double agency. According to Child and Rodrigues (2003), a double agency situation occurs when there are agents at two main levels of a relationship and as such two sets of control relationships. In other words, when multiple agents interact with a common principal. Hierarchy has been the usual means for achieving this top-down operational control as in principle it provides control through the specification of formalized and either centralized or delegated decision-making authority. However, when the agent reports to multiple principals, who often have different incentives and agendas, clear hierarchical lines are less clear and may be less effective (Guthrie, Xiao and Wang, 2008).

The multiple principal problem is an area within the agency theory framework which requires further study in the business domain (Guthrie Xiao and Wang, 2008; Shapiro, 2005). Similarly, the double agency problem, as noted by Child and Rodrigues (2003), is an under-researched area. They note that while the literature has largely focused on the relationship between ownership and corporate management, it has ignored the second control relationship between corporate management and others in the firm (i.e., GMs) who execute plans and policies.

Hotel Management Contracts and the Agency Problem between Owners and Operators

Due to the agency issues that arise from the separation of owners and operators, the management agreement is the most problematic of all operating concepts in the hospitality industry since contractual terms often create incentives for operators to shirk on their effort, which can cause monitoring costs to be high (Schlup, 2004). The extent of agency conflict between hotel owners and operators can depend on whether the hotel owner is a "sleeping partner" or more active in the hotel's day-to-day operations, as with more involvement it may become more difficult for operators to act in a self-interested manner (Gannon & Johnson, 1997, p. 196). Hotel owners and operators may attempt to monitor and control their agent (GM) through their input into operational decision making. Owners who are more powerful relative to operators, for example, are more likely to become involved in the capital budgeting process (Turner & Guilding, 2013). Owner and operator involvement, however, may be counterproductive. As Frey (1993) argues, that which interferes with the intrinsic motivations of professionals (here understood to be the GM) may decrease the quality of work that principals receive. This, he suggests, is particularly prevalent in situations where professionals utilize large degrees of discretion as they apply esoteric knowledge to the principals' specific problems.

Hotel owners' involvement in property-level decisions has not yet received enough attention (e.g., Gannon & Johnson, 1997; Turner & Guilding, 2010).There is, as well, a large gap in the knowledge of actual goal congruence between hotel owners and operators once the management agreement has been signed and the hotel is operating under this arrangement (Guilding, 2003). Further, while some research has examined the agency relationship between hotel owners and operators, and its impact on the management agreement, no studies have examined the actual agency implications on the GM and the hotel emanating from the fact that the GM reports to both owner and operator (multiple principals) and because the operator is in turn the owner's agent (double agency).

Autonomy and the Hotel General Manager

Autonomy refers to the degree to which an individual may take important decisions without the consent of others (Brock, 2003). It is often confused with other more commonly studied structural variables such empowerment, participation and centralization, yet the differences are important. For example, autonomy is conceptually distinct from empowerment since the latter is a psychological state representing an individual's orientation with his/her work role (Spreitzer, 1996). Similarly, it differs from participation which refers to joint decision making between more than one person (e.g., Evans and Fischer, 1992). While autonomy refers to the *extent* of decision making authority held by an individual (or organizational unit), centralization addresses the *locus* of such authority within the organization and the extent to which decision making is concentrated or diffused throughout the organization (Brock, 2003).

Figure 1: The proposed relationship between goal congruency, autonomy and performance

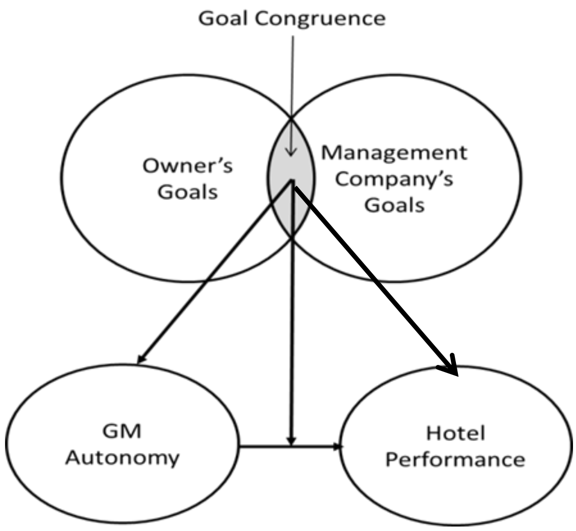


Figure 1 above represents the belief that higher GM autonomy will lead to higher overall hotel performance. First, GM autonomy *mediates* the impact that owner-operator goal congruence has on hotel performance. When there is higher congruence, GMs will have higher autonomy and subsequently achieve on average higher hotel performance. Second, hotel owner-operator goal congruency *moderates* the relationship between GM autonomy and overall hotel performance in that greater hotel owner-operator goal congruence will make the effect of GM autonomy on overall hotel performance stronger. As such, the study proposes a mediated moderation model to explain the chain of relationships between owner-operator goal congruency, GM autonomy and hotel performance.

The following hypotheses were put forth:

H1: GM autonomy is positively associated with performance

a. at the hotel level
b. in each functional area

H2: Owner-operator goal congruence is positively associated with performance

a. at the hotel level
b. in each functional area

H3: Owner-operator goal congruency is positively associated with GM autonomy

a. at the overall hotel level
b. in each functional area

H4. GM Autonomy mediates the effects of Goal Congruence on Hotel Performance

H5: GM Autonomy moderates the effect of Goal Congruence on Hotel Performance: This should be exhibited by the (hypothesized) positive effect of Goal Congruence on performance becoming weaker at lower levels of autonomy.

Methods

Sample:

Online surveys were originally distributed to hotel and asset management associations between February and April 2015. In order to elicit a greater response rate, the associations were contacted again via email on 16 June, 23 October and 2 December, 2015. A total of 112 GMs representing the management companies, and 89 Asset Managers/Owners, was collected. This resulted in 64 matched pairs where both a GM and an owner (or asset manager) responded for the same hotel. There were 48 GMs whose response could not be matched with an owner/AM and 35 owner/AM whose response was not matched with a GM. That is, while matches were made for 64 hotels, matched pairs were not established in an additional 83 hotels since only the GM or owner/AM responded in these cases.

Measures

Goal congruency was measured by asking both owners and operators about the relative importance of 21 different operational goals across five functional areas over the following 2 years. A sample item asked "What should be the relative priority of each of the following financial choices for the hotel over the next two years?" GM Autonomy was measured by both GMs and Owner/AMs. This was done for each of the functional areas and based on an established scale (Hodari & Sturman, 2014). A sample item included "what is the relative amount of influence the GM has on each of the hotel's financial decisions?" Performance was measured by the asset manager along 16 different indicators. Of these 4 corresponded to operations; 4 corresponded to marketing; 3 corresponded to human resources; 4 corresponded to finance; and 2 corresponded to the hotel physical property. A sample item asked "In your opinion, how successful has the hotel been with regard to (Guest Satisfaction) over the past 12 months?"

The overall measure of Congruence was computed as the total squared distance between each of the individual congruence questions. However, to rescale the measure so that higher values indicate greater congruence, we subtracted the sum from the maximum possible value $(4-0)^2*21=336$.

$$Congruence = 336 - \sum_{i=1}^{21} \left(Goal(i)_{GM}(i) - Goal(i)_{AM}(i)\right)^2$$

Congruence measures for each individual functional area were similarly computed, but using only the subset of items related to the specific function. These too were subtracted from the potential maximum amount of incongruence to provide a measure where higher values equalled more congruence.

The five hypotheses required a variety of different analytical approaches in order to fully test them. The approach taken to test each hypothesis is provided as follows.

Test of Hypothesis 1

Hypothesis 1 involved examining the relationship between autonomy and hotel performance. We examined overall autonomy, calculated as the average of the five functional dimensions. To help rule out alternative explanations for the role autonomy may have, we conducted OLS Regression Analysis to assess the effect of Autonomy. We first conducted a baseline model, which includes five control variables: GM experience, if an AM is present, if the GM reports to the owner, if the GM reports to the management company, and the number of rooms in the hotel. Note that because of the skewed distribution of hotel size, expressed in rooms, we used a logarithmic transformation of rooms to reduce the leverage of high values and to make the distribution of room sizes more approximate of a normal distribution.

Standardized beta-coefficients were calculated, so no intercept term is reported. For all subsequent models, the baseline model represents the control variables.

To test the effect of autonomy, GM-Reported Autonomy as rated by the GM, and GM-Reported Autonomy as rated by the Owner/AM were added as independent variables.

Test of Hypothesis 2

The OLS Regression Analysis added Overall Congruence as an independent variable beyond the control variables mentioned previously.

Test of Hypothesis 3

Regression analysis examined the same set of control variables, with the addition of Overall Congruence as an independent variable in the prediction of GM Autonomy.

Test of Hypothesis 4

For this analysis, OLS Regression included the control variables in addition to GM-Reported GM Autonomy, AM-Reported GM Autonomy, and Goal Congruence as independent variables. Mediation should be exhibited by the significant effects of Congruence (from the regression analyses used to test Hypothesis 2) should either decline (for partial mediation) or become non-significant (for full mediation).

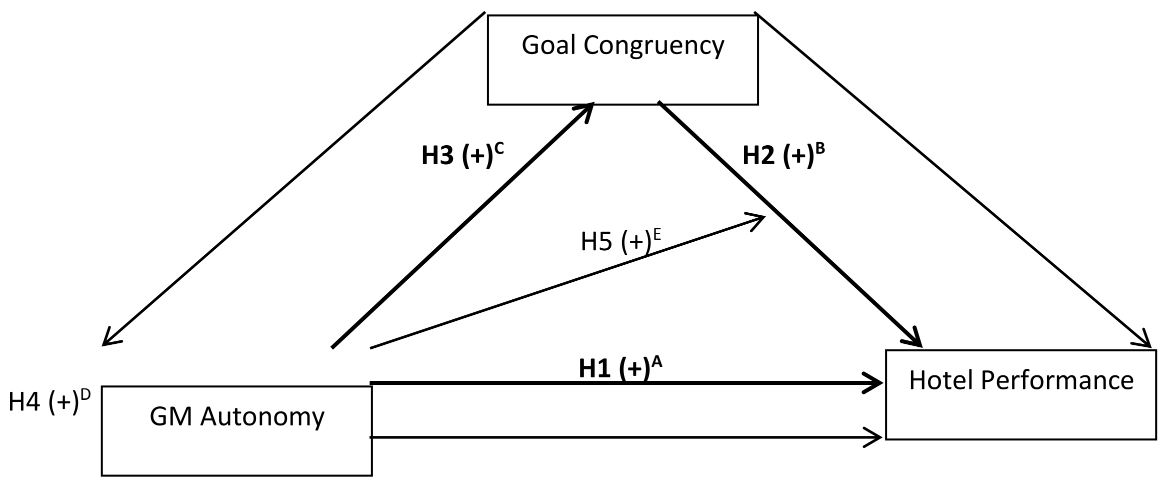
Test of Hypothesis 5

To test moderation, we examined the interaction of GM-Autonomy with the Congruence measure. Specifically, both measures were mean centred, and the resultant values were multiplied by each other. To fully specify the model, we examined these interactions after the addition of the main effects from both congruence and autonomy.

Results:

Figure 2 provides the results from the hypothesis testing.

Figure 2: Model Diagram and Hypotheses Results



Notes:
[A] $p < .05$ for GM Autonomy as rated by the GM; and $p < .01$ for GM Autonomy as rated by the AM).
[B] $p < .01$
[C] $p < .10$
[D] GM Autonomy did not mediate the relationship between Goal Congruency and Hotel Performance.
[E] GM Autonomy did not moderate the relationship between Goal Congruency and Hotel Performance.

Hypothesis 1:

Correlational Analysis generally showed that ratings of autonomy were significantly correlated with the associated functional area's assessment of performance.

GM autonomy, as rated by the GM, was found to be significantly correlated with performance in four of the five functional areas which were examined: HR (0.37**, Finance, 0.33**, Sales/Marketing 0.38**, and operations 0.35**). The only exception was the correlation in the domain of property. GM autonomy, as rated by the owner/AM, was found to be significantly correlated with performance in all five functional areas: HR (0.42**, Finance, 0.24**, Sales/Marketing 0.36**, property 0.47**, and operations 0.28**). We also find that the overall measure of GM autonomy was significantly correlated with the overall assessment of performance, for both autonomy as rated by the GM (.43***) and the Owner/AM (.47***). As such we find strong support for H1 since GM autonomy is positively associated with performance. Furthermore, in terms of predicting hotel performance, GM autonomy as rated by both the GM and Owner/AM were significantly predictive of Hotel Performance. Note that even after controlling for the effects associated with GM experience, having an AM present, who the GM reports to, and the size of the hotel, GM autonomy as rated by both the GM and Owner/AM were both related to hotel performance ($p < .05$ for autonomy as rated by the GM, and $p < .01$ for autonomy as rated by the AM). Thus we again support Hypothesis 1 because we show that GM autonomy is positively associated with hotel performance. Note that we also compared the effects of GM-rated GM Autonomy to that of Owner/AM-rated GM Autonomy. We found that the effect of autonomy as rated by the AM was greater than the size associated with autonomy as rated by the GM. This provides additional support for our measure of GM autonomy.

Hypothesis 2:

Correlation Analysis largely supports Hypothesis 2. Goal Congruence was associated with Hotel Performance for Finance (.50****), Sales and Marketing (.48****), and Operations (.45***). We did not find statistically significant relationships in Human Resources or Property. Yet, the Overall Congruence measure was significantly correlated with overall performance (.41**). Looking at the regression analysis, and thus ruling out alternative explanations that hotel performance may be attributable to GM experience, the presence of an AM, whom the GM reports to, and hotel size, we find that Overall Congruence has a significant relationship with Hotel Performance ($p < .01$).

Hypothesis 3:

Overall GM autonomy, as rated by the GM, was significantly correlated (0.31*) with overall goal congruency. In addition, GM autonomy in three out of five specific functional areas were significantly correlated with performance in those areas (Finance 0.37**; Sales/Marketing 0.44***; Operations 0.32*). We did not find statistically significant correlations for Human Resources or Property. Note that we did not find statistically significant relationships between Congruence and GM Autonomy as rated by the Owner/AM. Thus, we largely support Hypothesis 3 with regard to Autonomy as rated by the GM, but do not support effects of Autonomy as rated by the Owner/AM. We thus conclude that H3 is confirmed since GM-rated GM Autonomy is positively associated with owner-operator goal congruency. Looking at the regression analysis, and thus ruling out alternative explanations that hotel performance is attributable to GM experience, the presence of an AM, who the GM reports to, and hotel size, we find that Overall Congruence has a marginally significant relationship with GM-Autonomy as rated by the GM ($p < .10$).

Hypothesis 4:

Results from the regression indicate that we failed to support Hypothesis 4, as GM autonomy did not mediate the relationship between owner-operator goal congruency and hotel performance. The results show that the significant effects of congruence ($\beta_7 = .39$, $p < .01$) from Model A did not change even after the inclusion of the measures of GM Autonomy (rated by both the GM and Owner/AM).

Hypothesis 5:

Hypothesis 5 predicted a moderating effect of GM autonomy on goal congruence in the prediction of hotel performance. Due to the results we failed to support H5 because we found that the effect of owner-operator goal congruency on performance does not change based on the level of GM autonomy (as rated by the GM or Owner/AM). In fact, our tests find that the effects of both measures of GM autonomy, as well as the effect of overall congruence, remain stable when we consider the interaction of autonomy and goal congruence.

Discussion and Conclusion

This study provides several important contributions to the agency theory, autonomy and goal congruency research literatures. First, we found that both autonomy and goal congruence have significant relationships to hotel performance. These are important finding as the extant literature is largely inconclusive about the impact that these factors can have on a firm's overall performance. We, however, found important relationships both for overall firm performance as well as performance within specific functional areas. We also demonstrated a positive relationship between autonomy and goal congruence, suggesting that within a multiple agency scenario the various principals provide their agents with more autonomy when there is greater congruence between the different principals. However, we did not find that agent (GM) autonomy mediates or moderates the relationship between the goal congruence of the different principals and the firm's performance. This indicates that goal congruence is a highly salient predictor of hotel performance, and adding in information to the regression analysis about GM autonomy did not alter the predictive ability of goal congruence on hotel performance. In addition, because we found that the effect of goal congruency between the different principals on performance does not change based on the level of agent autonomy, we demonstrate that even at low levels of GM autonomy, goal congruence still has a positive effect on hotel performance. At the same time, however, autonomy is still important in and of itself for predicting hotel performance.

The findings demonstrate the importance of goal congruence between owners and managers. We had previously thought that autonomy and congruence had to work together in order to achieve performance. However, we find that while related, they each have their own effects: Congruence does lead to autonomy but it also leads directly to hotel performance. In addition, the congruence between GM and owner with regards to their goals positively affects performance even after controlling for the effects of autonomy. In addition, more congruence does lead to greater autonomy, showing that congruence has direct and indirect effects on hotel performance. This highlights that the importance of congruence is even more than we had anticipated. Previously we thought congruence was only important if and when the GM had autonomy, but the study determined that congruence is important even if the GM does not have a great deal of autonomy. While autonomy is important as it also can lead to higher firm performance, the study found that its existence was not necessary for congruence to result in greater performance. Thus owners and operators who are able to agree on their hotel's key objectives and priorities do not necessarily need to provide greater autonomy to their GMs in order for this to translate into stronger performance. In effect, the greater congruence probably provides the GM with a clear direction even if not with greater autonomy.

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