How Hotel Owner-Operator Goal Congruence and GM Autonomy Influence Hotel Performance

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Abstract

A principal-agent relationship exists between hotel owners and the management companies which often operate their hotels. In addition, they both act as principals to a mutual agent, the hotel's General Manager, who is tasked with trying to achieve each parties' objectives. Extensive research on hotel management agreements which govern the owner-operator relationship has demonstrated that these objectives are often incongruent. However, the property-level managerial and performance implications of their goal incongruence has not been empirically examined. This study analyzes these issues using a matched sample of surveys from both owners and operators across 64 hotels operated under hotel management agreements. Using structural equations modeling, we demonstrate that owner-operator goal congruence positively impacts hotel performance and that this relationship is both mediated and moderated by the hotel General Manager's autonomy.

Keywords: hotel management agreement, owner, operator, goal congruency, performance, autonomy

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19 **Performance**

20 **1. Introduction**

21   Hotel owners frequently contract hotel management companies to operate their hotels

22 through formalized hotel management agreements (HMA) (deRoos, 2010; Melissen et al., 2016).

23 Separating hotel ownership and operations through an HMA is said to benefit both parties.

24 Owners are able to invest in hotel real estate and access the professional operating expertise of

25 hotel management companies. In turn, these operators can generate important income streams,

26 expand any brands they may have, and earn profits, without having to invest in the underlying

27 real estate (Sohn et al., 2013).

28   Although both parties have a vested interest in the hotel's success, their different sources

29 of income (see Turner and Guilding, 2010b for a review), risk profiles (Eyster, 1988), and

30 investment strategies (Turner and Guilding, 2014) mean that they often have misaligned goals

31 (Schlup, 2004; Turner and Guilding, 2013). Such goal incongruence is emblematic of the well-

32 established agency problem (Eisenhardt, 1989; Jensen and Meckling, 1976) whereby an agent

33 (i.e., operator) may not always act in the principal's (i.e., hotel owner) best interest, especially if

34 their interests are in conflict (Mitchell and Meacheam, 2011). In order to reduce goal

35 incongruence and improve firm performance, theory suggests that in a single agency scenario a

36 principal will expend effort to monitor, control and/or influence its agent's decisions and actions

37 (Eisenhardt, 1989).

38   Hotels under management agreement are not, however, subject to a traditional single

39 agency relationship. Instead, they involve a complex, tripartite, 'multiple agency' (Child and

40 Rodrigues, 2003) relationship between the hotel's owner, management company, and General

41   Manager (GM). Within this scenario the GM acts as an agent to two principals - the hotel's

42   owner and its operator (Hodari and Sturman, 2014) - while the latter is also the owner's agent

43   (Dev et al., 2010). As such, there are potential agency problems at two distinct levels of the

44   relationship - between the two principals (owner and operator) and between each of them and

45   their mutual agent (the GM).

46   Hotels operated under a management agreement thus provide a unique context within

47   which to study managerial and organizational performance implications emanating from a

48   'multiple agency' scenario. Understanding the role of the GM is particularly important as Child

49   and Rodrigues (2003) specifically note that while the agency theory literature has principally

50   focused on the relationship between ownership and corporate management, it has largely ignored

51   the second control relationship between corporate management and others in the firm (i.e., GMs)

52   who execute its plans and policies.

53   Although GMs are consistently considered to be fundamental to a hotel's success (e.g.,

54   Hodari and Sturman, 2014; Kim et al., 2015), the impact that the two principals' goal congruence

55   and control efforts have on GMs' decision making, and their hotels' performance, has not been

56   empirically examined. In fact, while owner-operator goal congruence issues have been

57   systematically studied with regard to HMA negotiations and contracts (Beals and Denton, 2005;

58   deRoos, 2010; Eyster, 1997), researchers have begun to note the lack of similar knowledge about

59   the implications of goal divergence and congruence once the management agreement has been

60   signed and the hotel is operating under this arrangement (Guilding, 2006; Melissen et al., 2016).

61   This study seeks to make several contributions towards addressing this knowledge gap.

62   First, we examine how owner-operator goal congruence relates to hotel performance. In this

63   relationship the pivotal role of GMs is recognized as carrying potentially significant

64   implications. This is because GMs are typically responsible for day-to-day decision-making as

65   they implement the hotel owner's and/or operator's strategic initiatives. Independently, both

66   owners and management company executives impact GM autonomy (Hodari and Sturman, 2014;

67   Takeuchi et al., 2008). Autonomy can also be influenced by conflicting objectives and demands

68   from multiple superiors (Kahn et al., 1964; Rizzo et al., 1970). We thus investigate whether

69   different degrees of owner-operator goal congruence have distinct relationships with GM

70   autonomy. Both autonomy (Braadbaart et al., 2007) and conflicting demands (Tubre and Collins,

71   2000) can impact managerial effectiveness. We therefore examine the link between GM

72   autonomy and hotel performance. The mediating and moderating roles of GM autonomy with

73   owner-operator goal congruence on hotel performance are also hypothesized and tested through

74   our unique matched sample of surveys obtained from both owners and operators across 64

75   hotels. Our study also contributes to the agency theory literature by specifically examining the

76   managerial and organizational performance implications emanating from the different

77   relationships in a multiple rather than single agency scenario.

78

79   **2. Literature review and hypothesis development**

80   *2.1. The agency problem*

81   An agency relationship arises when there is a contract whereby one party (the principal)

82   appoints another party (the agent) to perform some service on its behalf. However, because

83   principals and agents often have very different and/or conflicting goals, agents frequently act in

84   ways which are not necessarily in their principal's best interest (Eisenhardt, 1989; Zhang et al.,

85   2015). These agency problems commonly arise when ownership and management functions are

86   separated (Schulze et al., 2001).

87   Such agency problems may be mitigated to some extent through the monitoring of agent

88   activities (Heide et al., 2007). This is difficult for principals, however, when they suffer from a

89   large degree of information asymmetry vis-a-vis their agent because this limits their ability to

90   evaluate their agent's decisions and actions (Cuevas-Rodriguez et al., 2012; Sharma, 1997). In

91   such situations, the principal's involvement in their agent's decision making may help to control

92   and/or influence the latter's choices and actions and thus their potential for opportunistic

93   behavior.

94   Agency theory has almost exclusively investigated such behavior-based control

95   mechanisms in single agency settings involving only one agent and one principal (see Cuevas-

96   Rodriguez et al., 2012). However, due to strategic alliances and new organizational forms, there

97   is an increasing prevalence of organizational arrangements involving multiple principals and

98   agents (Child and Rodrigues, 2003). 'Multiple agency' problems arise because agency can exist

99   at several levels of the relationships between principals, agents and an agent's key manager. This

100   also often produces two sets of control relationships because an agent can report to two

101   principals. As a result, the clear hierarchical lines and formalized decision-making authority used

102   to achieve top-down operational control and influence in single agency situations are less clear

103   and likely less effective (Guthrie et al., 2008). Child and Rodrigues (2003) thus question the

104   applicability of previous agency research about the nature and control of the agency problem in

105   such scenarios and call for empirical work in 'multiple agency' organizational arrangements.

106   Hotels operated under management agreement provide a unique context within which to study

107   this phenomenon.

108

109   *2.2. Hotel management agreements, goal congruence and agency*

110   The traditional scenario whereby a hotel owner engages a GM results in a single

111 principal-agent situation (Panvisavas and Taylor, 2008). An HMA, however, implies multiple

112 principals and agents since not only do owners and operators both act as principals to a single

113 agent (the GM), but because the operator is also the owner's agent (Dev et al., 2010). Although

114 the GM is usually an employee of the management company, given the position's responsibilities

115 and the HMA reporting structure, they are typically responsible to both the owner and operator.

116 As a result, the GM is effectively the primary agent acting on behalf of both principals (Hodari

117 and Sturman, 2014). HMAs therefore create a myriad of opportunities and incentives for

118 multiple agents to shirk on their efforts; they require extensive and expensive monitoring by

119 principals and are, unsurprisingly, considered to be the most problematic of all operating

120 concepts in the hospitality industry (Schlup, 2004).

121   Studies of HMAs have regularly demonstrated that owners and management companies

122 have specific and conflicting demands and expectations with regard to their respective roles,

123 responsibilities and objectives (e.g., Beals and Denton, 2005; Eyster, 1997; Turner and Guilding,

124 2013). For example, the vast majority of operator fees are derived as a percentage of the hotel's

125 sales and they may spend resources to generate these even if the owner does not receive a

126 corresponding increase in profit (Turner and Guilding, 2013). Operators are also strategically

127 focused on the reputation of their brands and hotel-level decisions may support this at the

128 owner's expense (deRoos and Wiseheart, 2016). Furthermore, because they do not share in the

129 corresponding profit, operator decisions may not be aligned with increasing the property's real

130 estate value even though asset value appreciation is of paramount importance to owners (Dev et

131 al., 2010). As such, operators may invest the hotels' financial resources in ways that strengthen

132 the brand's standards and reputation even though they may not increase the value of the owner's

133   underlying investment. There is also a potential 'horizon problem' (Turner and Guilding, 2013)

134   because operators tend to emphasize customer relationships and long-term success of their

135   business while owners are more likely to have a short-term focus that emphasizes payback and

136   return.

137   Implications of the divergent interests of owners and operators, and the challenges arising

138   from this split between ownership and management, have been studied and discussed most

139   extensively with regard to the contractual relationship achieved through the HMA, including, for

140   example, the establishment of specific clauses to better align their interests (Beals and Denton,

141   2005; deRoos, 2010; Eyster, 1997; Schlup, 2004). The increasing demand of owners to have

142   more say in property-level operational and managerial decisions (Beals and Denton, 2005), as

143   well as pressure for HMAs to include performance-based incentive fees, guarantees and more

144   generous termination clauses (Bader and Lababedi, 2007; deRoos, 2010; Gannon et al., 2010)

145   demonstrate not only an acknowledgement that the two parties' divergent goals require better

146   alignment, but also that as owners they must closely monitor and control their operators,

147   especially because owners have the ultimate burden to ensure that their hotels are properly

148   managed (deRoos and Wiseheart, 2016).

149   Researchers have recently begun to empirically investigate some of the capital

150   expenditure (Turner and Guilding, 2010a), human resources (Gannon et al., 2010) and

151   managerial (Hodari and Sturman, 2014) implications resulting from the owner-operator split.

152   These studies have found that the two parties' conflicting objectives often create challenges for

153   the management company to implement operational and strategic decisions. These challenges are

154   often due to increased owner influence (see Beals and Denton, 2005; Eyster, 1997). Owners'

155   influence, however, extends beyond the corporate boardroom and contract negotiations; they also

156 influence property-level decisions and performance (Gannon et al., 2010; Xiao et al., 2012),

157 which can reduce operator incentive fees (Schlup, 2004). This has led operators to complain that

158 if their management fee is contingent upon performance then, "shouldn't they be given the right

159 to manage the hotel free from the owner?" (Goddard & Standish-Wilkinson, 2002, p. 8).

160   As the nexus between owner and operator, GMs are highly subject to the challenges

161 which arise from their split (Guilding, 2006). Low goal congruence should have a particularly

162 strong impact on GMs as they act as agents to both owner and operator. This is because goal

163 incongruence between multiple principals often creates conflicting mandates for agents (Buckley

164 and Chapman, 1997) who thus face "wrenching choices among the legitimate interests of

165 multiple principals" (Shapiro, 2005; p. 279).

166   Greater goal alignment between principals, meanwhile, suggests that agents will be less

167 conflicted about what to do, and thus be more effective. One reason for this is that aligned

168 principals are more likely to send one clear management message to their mutual agent, thereby

169 reducing the conflict which normally arises when one receives incompatible job demands from

170 multiple superiors (Kahn et al., 1964). Similarly, their agent is more likely to receive a more

171 cohesive and explicit set of tasks and directives, thereby reducing ambiguity concerning his/her

172 role (Rizzo et al., 1970). This is important since alliances and outsourcing can increase a

173 hospitality manager's level of both ambiguity and conflict (Hodari et al., 2014), both of which

174 have been repeatedly found to decrease managerial performance (see Tubre and Collins, 2000).

175 Thus, greater goal congruence should mean that their mutual agent is less divided about which

176 principal to serve since his/her actions are more likely to simultaneously align with each of the

177 principals' goals.

178   Increased goal congruence between hotel owners and operators should therefore result in

179   a more consistent, cohesive and effective set of decisions with regard to the hotel's management.

180   Given this, and the importance of GMs to hotel success, we hypothesize that:

181   **H1.** Owner-operator Goal Congruence is positively associated with Hotel

182   Performance.

183

184   *2.3. Autonomy and the hotel general manager*

185   When multiple principals' performance objectives are different, or in conflict, then their

186   mutual agent's decisions cannot be simultaneously in all principals' best interests (Shapiro,

187   2005).To overcome this, agency theory suggests that each principal will be incentivized to invest

188   resources into monitoring their agent in order to exert additional control and thus better align

189   their agent's interests with their own rather than those of the other principal. Active monitoring

190   of an agent's behavior may, however, decrease managerial effectiveness and firm performance

191   (Eisenhardt, 1989; Jensen and Meckling, 1976).

192   While they are formally in charge of their hotel and are responsible for achieving

193   property-level objectives, GMs of hotels operated under management agreement are accountable

194   to both the owner and corporate executives in their management company's hierarchy (Corgel et

195   al., 2011). GM autonomy has been found to be significantly less in chain-managed hotels than in

196   independently- managed hotels where there is only one principal (i.e., owner) (Hodari and

197   Sturman, 2014). GM autonomy is thus likely to be contingent on the amount of goal congruence

198   between owners and operators because greater congruence suggests a reduced need for each

199   party to seek to influence and control the GM. As such, we hypothesize that:

200 **H2.** Owner-operator Goal Congruence is positively associated with GM

201 Autonomy.

202 Greater monitoring also erodes the agent's autonomy to make important decisions

203 without control, approval and/or interference from higher hierarchical levels (Brock, 2003;

204 Ouakouk et al., 2014). This is important because the discretion that autonomy provides managers

205 with can improve their operational effectiveness (Brousseau and Glachant, 2002), resource

206 allocation decisions (Gong et al., 2007), new product and service development (Peteraf and

207 Reed, 2007), and firm performance (Yan et al., 2010). As such, decreased autonomy can often

208 reduce both managerial and firm performance (Braadbaart et al., 2007; Langfred and Moye,

209 2004). We thus hypothesize:

210 **H3.** GM Autonomy is positively related to Hotel Performance.

211 Given the overall importance of goal congruence for hotel performance, although we

212 expect that owner-operator congruence will be associated with greater GM autonomy, we do not

213 expect GM autonomy to fully capture the effect of such congruence. While goal congruence

214 should be positively related to hotel performance through its influence on GM autonomy, goal

215 congruence should also affect hotel performance through other means. As such, we predict:

216 **H4.** The effect of owner-operator Goal Congruence on Hotel Performance will be

217 partially, but not fully, mediated by GM Autonomy.

218 In fact, given the importance of goal congruence for the successful performance of a

219 hotel, we expect that the positive effects of this congruence will be greater than just its direct and

220 mediated effects. We expect that goal congruence will be more effective when the GM

221 simultaneously has the autonomy to act. That is, the potential value from the goal congruence

222 can be better unleashed when the GM has the ability to act on those goals and achieve the desired

223 results. As such we expect that in addition to its hypothesized direct (hypothesis 1) and mediated

224 (hypothesis 4) effects, goal congruence's relationship to performance should also be moderated

225 by autonomy. Specifically, we posit the following hypothesis:

226   **H5.** GM Autonomy will moderate the effect of owner-operator Goal Congruence

227   on Hotel Performance, such that the positive effect of owner-operator Goal

228   Congruence on Hotel Performance should increase with higher levels of GM

229   Autonomy.

230   Fig. 1 illustrates the different relationships between goal congruence, autonomy and

231 performance.

232

233 **3. Methods**

234 *3.1. Sample*

235   Online surveys were distributed to hotel owner, manager and asset management

236 associations during 2015. These included the Hospitality Asset Managers Associations (HAMA)

237 of Asia Pacific, Middle East & Africa, and Europe, the European Hotel Managers Association,

238 the Master Innholders, and HOFTEL. Our aim was to have *both* the hotel's owner and manager

239 (as management company representative) answer the survey so that we could generate matched

240 response pairs for each hotel. Not only did this provide a useful way to avoid common method

241 bias (Podsakoff et al., 2003) but also allowed us to specifically examine goal congruence in these

242 hotels.

243   We asked respondents to answer the questionnaire designated for them (with GMs

244 instructed to respond from the management company's perspective) and to forward a link with

245 the other party's questionnaire to their counterpart (i.e., an owner forwarded it to the hotel's GM

246   or vice-versa). Completed questionnaires from a total of 112 management companies and 89

247   hotel owners (or their asset manager) were collected.[1] This resulted in 64 matched pairs where

248   both a GM and an owner responded for the same hotel. There were 48 GMs whose response

249   could not be matched with an owner and 25 owners whose responses were not matched with a

250   GM. A total of 201 individuals thus completed our survey, of which 128 formed the 64 matched

251   pairs.

252   In order to assess potential concerns associated with nonresponse bias, we compared the

253   respondents with matched data with those with unmatched data. We found that hotel

254   performance as reported by owners ($p = 0.60$), GM Autonomy ($p = 0.19$) and GM Experience (p

255    $= 0.13$) were not significantly different across matched and unmatched hotels. We thus conclude

256   that our relatively small matched sample is representative of our total sample.

257   We also found that ($p < 0.05$) matched hotels were larger (358 rooms) than those that did not

258   match (194 rooms) and that owners of unmatched hotels reported higher performance than those

259   of matched hotels ($p < 0.05$). Given this difference, we sought to determine if this could limit the

260   generalizability of our results. It is possible that our tests for the relationship between congruence

261   and performance may have been based more heavily on underperforming hotels; however,

262   further examination of the performance measure suggests that this is not a substantive concern.

263   The final sample still had a wide range of performance levels (from 1.44 to 5.81). Additionally,

264   performance ratings were somewhat positively skewed (mean of 4.29, SD of 0.92). Thus, having

265   a somewhat greater number of lower-performing hotels actually provided data with better

266   distributional characteristics with which to test our hypotheses; furthermore, we are clearly not

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[1] Asset managers are employed by the owner to oversee the hotel's management company. In essence, they represent the owner on most if not all of the hotel's issues.

267 lacking representation from higher-performing hotels. Thus, while it is important to point out the

268 differences discovered in our sample for completeness, subsequent examination of the data

269 suggests that it should not have a detrimental effect on subsequent analyses or the

270 generalizability of findings.

271

272 **3.2. Measures**

273 *3.2.1. Goal congruence*

274 This was constructed by considering the level of agreement between owners and

275 operators' ratings about the relative priority of 21 different operational objectives across five

276 functional areas (Human Resource, Finance, Sales and Marketing, Property, and Operations)

277 over the following 2 years. A sample item asked "What should be the relative priority of each of

278 the following financial choices for the hotel over the next two years?" A scale from 1 to 6 was

279 used (where 6 indicated higher priority).

280 The overall measure of Congruence was computed as the Euclidian distance between

281 each of the individual priority questions. However, to rescale the measure so that higher values

282 indicate greater congruence, we subtracted the sum from the maximum possible (i.e., $(6\text{-}1)^2$)

283 value so that:

284
$$Congruence = \frac{\sum_{i=1}^{21}\sqrt{25 - ((Goal(i)_{GM}(i) - Goal(i)_{AM}(i))^2)}}{21}$$

285 Congruence measures for each individual functional area were similarly computed, but

286 using only the subset of items related to the specific function. These too were reverse-scored so

287 that higher values denoted more congruence. Note that a small number of individual items were

288 left blank by some respondents (<2%). We thus imputed missing values to avoid biases

289   associated with list-wise deletion and to maintain as much power as possible (Little and Rubin,

290   2014).

291   The measures had acceptable (alpha > .70) reliability for each of the functional areas.

292   These separate scales were computed for descriptive purposes. But the study's focus is on the

293   overall level of congruence, and the final 21-item congruence measure had a high level of

294   reliability (alpha = 0.91).

295   *3.2.2. GM autonomy*

296   This was measured for each functional area (HR, Operations, Finance, Marketing, and

297   Property) and based on an established scale (Hodari and Sturman, 2014). A sample item included

298   "what is the relative amount of influence the GM has on each of the hotel's financial decisions?"

299   One item was asked for each functional area, on a scale from 1 to 5 (5 indicating higher

300   autonomy). The final scale was computed as the average of the 5 items. The resultant scale had

301   high internal reliability (alpha = 0.93).

302   *3.2.3. Hotel performance*

303   This was measured by the owners on 16 different performance aspects across the

304   functional areas: 4 corresponded to operations; 4 to marketing; 3 to human resources; 4 to

305   finance; and 2 corresponded to the hotel's physical property. We incorporated non-financial

306   measures of performance. Patiar and Wang (2016) note that while the practice of using such

307   measures is not yet common among hotels, they are increasingly used in the wider business

308   environment to monitor business processes and development. A sample item asked "In your

309   opinion, how successful has the hotel been with regard to (Guest Satisfaction) over the past 12

310   months?" Each item was evaluated on a 6-point scale (with 6 indicating higher performance). A

311   small number of individual items were left blank by some respondents (<5%). We thus imputed

312   missing values to avoid biases associated with list-wise deletion and to maintain as much power

313   as possible (Little and Rubin, 2014). The final scale was computed as the average of the 16 items

314   and had high internal reliability (alpha = 0.95).

315

316   *3.3. Analytical approach*

317   Analyses were conducted using MPlus 7.4 (Muthen and Muthen, 2015) with the

318   maximum likelihood estimator to conduct the hypothesis tests. To test our model, we followed

319   an item-parceling strategy (Landis et al., 2000). This method is particularly appropriate when the

320   study focuses on the relationships between latent constructs and not specifically about scale

321   items (Williams and O'Boyle, 2008). Previous research has shown that parceling positive affects

322   fit indices without biasing parameter estimates (Nasser- Abu Alhija and Wisenbaker, 2006;

323   Nasser and Wisenbaker, 2003). Specifically, we pursued a random parceling strategy by creating

324   four parcels of four randomly selected items (without replacement). Landis et al. (2000) showed

325   that random parceling is an effective strategy for both improving model fit and facilitating model

326   estimation. To test the robustness of the approach, we repeated the process of creating random

327   parcels a total of five times; however, there were no differences across the five models in terms

328   of the statistical significance of any of the path coefficients.

329   To serve as a base case, and to help rule out alternative explanations for the role

330   autonomy may have, we first conducted a baseline model (Model 1) with both GM Autonomy

331   and Hotel Performance being predicted by four control variables: GM experience, if the owner

332   employs an asset manager, if the GM primarily reports to the owner/asset manager (as opposed

333   to a management company executive), and the number of rooms in the hotel. GM experience was

334   controlled for as it has been shown to impact both autonomy (Hodari and Sturman, 2014) and

335   hotel performance (e.g., Guerrier, 1987). We wanted to control for the presence of asset

336   managers because they may impact hotel performance (Singh et al., 2012), and because failing to

337   control for their presence could provide alternative explanations for our hypothesized

338   relationships because an asset manager represents an additional individual in the owner- operator

339   - GM relationship. It is our understanding that in Europe, it is usually the owner that employs the

340   GM while in the U.S. the GM is employed by the operator, and given the nature of the study we

341   believed that the difference in to whom the GM reports could be a potentially important variable

342   to consider. Finally, the number of rooms was used as we suspected that because of previous

343   research, hotel size could impact hotel performance (Claver-Cortes et al., 2007). Note that

344   because of the skewed distribution of hotel size, expressed in rooms, we used a logarithmic

345   transformation of rooms to reduce the leverage of high values and to make the distribution of

346   room sizes more approximate of a normal distribution. Tests of the five hypotheses then required

347   a variety of additional analyses that built upon this base model.

348   *3.3.1. Test of hypotheses 1-3*

349   The first three hypotheses consider the relationships between GM Autonomy, Goal

350   Congruence, and Hotel Performance. We used correlation analyses to look at overall effects. We

351   also examined the parameter estimated from the structural equations model (SEM). The SEM

352   model included a path from Goal Congruence to GM Autonomy, as well as a path to Hotel

353   Performance. The model also included a path from GM Autonomy to Hotel Performance.

354   *3.3.2. Test of hypothesis 4*

355   Hypothesis 4 predicts that GM Autonomy will partially mediate the effects of Goal

356   Congruence on Hotel Performance. For this analysis, we tested the significance of the indirect

357 effect using bootstrapping procedures (Preacher and Hayes, 2004; Shrout and Bolger, 2002)

358 based on sample of 5000 draws.

359   *3.3.3. Test of hypothesis 5*

360   Hypotheses 5 considered the hypothesized moderation of autonomy and goal congruence

361 in the prediction of hotel performance. To test moderation, we examined the interaction of GM

362 Autonomy with the Congruence measure. To test the interaction, the latent moderated structural

363 equations approach was used (Klein and Moosbrugger, 2000) using the XWITH command in

364 Mplus (Muthen and Muthen, 2015).

365   It is important to note that for the latent moderated structural equations approach, model

366 fit indices generally used to interpret the fit of SEMs—such as CFI, TLI, RMSEA, and X^2—

367 have not been developed for LMS models. Instead, to determine if the model with the interaction

368 has better relative fit, we conducted a log-likelihood ratio test (Satorra and Bentler, 2010). The

369 test statistic for a log- likelihood ratio test is calculated using the following equation:

370   D = -2[(log-likelihood for model without interaction)-(log- likelihood for with

371 interaction)], which follows a chi-square distribution with the degrees of freedom equalling, in

372 this case, one.

373

374 **4. Results**

375 *4.1. Descriptive statistics*

376   Table 1 provides descriptive statistics for the survey's variables. In terms of controls, the

377 mean level of GM experience was 13.99 years, which indicates that our GM sample had

378 substantial managerial experience and therefore the necessary inferential ability to suitably

379 complete the questionnaire. Nearly half (48%) of our surveyed hotels had an asset manager.

380   About 13% of the GMs reported to the owner. The mean hotel size was 358.31 rooms. As

381   expected, there was a reasonably large degree of difference between our smallest hotel (30) and

382   largest hotel (3700), which is why in our subsequent regression models we use the Log of room

383   size. Logging room size resulted in smoother normalized distribution of scores around the mean

384   of 5.34 and standard deviation of 0.85.

385   Table 1 shows that the overall mean for GM autonomy was 4.16 (std. dev. 0.95) on a 5-

386   point scale, with 5 indicating higher autonomy. Moreover, the individual item level autonomy

387   means ranged from 3.86 (for property) to 4.42 (for operations).

388   Overall Goal Congruence had a mean of 3.31 (std. dev. 0.35) on a scale from 1 to 6

389   (where 6 indicated higher goal congruence). While it can be difficult to interpret mean scores

390   with any degree of statistical accuracy, normatively a mean only around the mid-point (as is the

391   case here) serves to demonstrate that amongst the sampled hotels, owner-operator goal

392   congruence can only be described as moderate.

393   The mean level of hotel performance was 4.29 (std. dev.0.92) (on a scale of 1 to 6; 6

394   indicating higher performance) and there was a relatively wide range of performance scores,

395   from 1.44 to 5.81.

396

397   *4.2. Hypotheses 1-3*

398   Both correlation analysis (see Table 2) and the SEM model results support Hypothesis 1.

399   Goal Congruence was significantly correlated with Hotel Performance (see Table 3: r=0.35,

400   p<0.01). The SEM model (see Model 2 in Table 3) had generally good fit (CFI = 0.91; TFI =

401   0.90; RMSEA=0.09; SRMR=0.08), and was significantly better fitting than the baseline model

402   ($\Delta X^2 = 15.66$; D = 15.66; dr= 2; p<0.01). Furthermore, as shown in Model 2, after controlling

403 for the effects of GM experience, presence of an asset manager, if the GM reports to the owner

404 rather than the management company, and hotel size, Goal Congruence had a positive effect on

405 Hotel Performance (B = 0.89; p<0.01).

406 Similar results were found for the effect of Goal Congruence on GM Autonomy. Not

407 only is the correlation between the two significant (r = 0.30, p< 0.05), but the effect remains

408 significant in the regression analysis after partialling out the variance attributable to the control

409 variables (B = 0.94; p < 0.01).

410 The third hypothesis predicted that GM Autonomy would be positively related to Hotel

411 Performance. The correlation between these two variables was indeed significant (r = 0.41; p <

412 0.001), and the variable remained significant in the SEM analyses (Model 2: B = 0.32; p<0.05).

413

414 *4.3. Hypothesis 4*

415 Results from the regression indicate support for Hypothesis 4. As described above, Goal

416 Congruence had a positive effect on GM Autonomy (B = 0.94). Further, GM Autonomy had a

417 positive effect on Hotel Performance (B = 0.32). Together, this indicates an indirect effect of

418 Goal Congruence on Hotel Performance of 0.30 (0.94 * 0.32) (Preacher and Hayes, 2004). The

419 bootstrapping estimate of the indirect effect (based on 5000 draws) indicates that this effect is

420 positive (i.e., significantly greater than zero) as hypothesized (p < 0.05). Given that, even after

421 controlling for GM Autonomy, the effect of Goal Congruence on Hotel Performance remained

422 significant (B = 0.89, p < 0.01), this indicates that the hypothesis of partial mediation is

423 supported.

424 In other words, we find support that Goal Congruence affects Hotel Performance both

425 directly and indirectly through its influence on GM Autonomy. The indirect effect is indeed

426 statistically significant, but the effects of Goal Congruence are not fully explained by its effects

427 on GM Autonomy. That is, if there are two GMs with the same level of Autonomy, the GM at

428 the hotel with higher Goal Congruence would still be predicted to have higher levels of

429 performance.

430

431 *4.4. Hypothesis 5*

432 Finally, we predicted a moderating effect of GM autonomy on goal congruence in the

433 prediction of hotel performance. As indicated in Model 5, the interaction of Goal Congruence

434 and GM Autonomy is indeed significant (B = 0.65, p < 0.01). The change in the model's log-

435 likelihood was also statistically significant (D = 5.742, df=1, p<0.05). It is also worth noting that,

436 even with the inclusion of the interaction score, the effects of GM Autonomy on Hotel

437 Performance remain positive and significant (at p<0.01).

438

439 **5. Discussion**

440 Although there are many implicit assumptions about the managerial and performance

441 implications of the hotel owner-operator split, the extant research literature is largely

442 inconclusive about this. This study's results support our assertions that goal congruence leads to

443 superior hotel performance, causes greater GM autonomy which in turn causes greater hotel

444 performance, and still increases hotel performance even after controlling for the effects of GM

445 autonomy. Furthermore, our findings demonstrate that while goal congruence is important

446 because of both these direct and indirect effects, its true value may only be realized when it is

447 simultaneously present with higher GM autonomy. This indicates that when GMs are better able

448 to implement plans to achieve the goals that are shared by both the hotel owner and management

449 company, they can best achieve greater hotel performance. These results both support and extend

450 findings from previous studies about the agency relationship and implications pertaining to the

451 split between hotel owners and operators.

452 Previous studies on how the relative power of owners and operators can shape HMAs

453 have shown that there is often substantial disagreement during the negotiation of HMA terms,

454 largely because the two sides have different and often conflicting objectives (deRoos, 2010;

455 Turner and Guilding, 2010). Our finding that owners and operators have only moderate goal

456 congruence corroborates previous researchers who have found that owner-operator goal

457 congruence is not particularly strong (Eyster, 1988; Panvisavas and Taylor, 2008; Turner and

458 Guilding, 2010, 2013). More importantly, it furthers our understanding about the owner-operator

459 relationship by demonstrating that this goal disparity extends beyond the HMA negotiation phase

460 and into when the hotel is actually operating under the management agreement. This finding is

461 particularly important because, while HMAs are supposedly written to ensure alignment between

462 owner and operator goals (e.g., deRoos, 2010), success on this front appears to be rather limited.

463 Our results thus call into question operators' frequent claims that HMAs do align the two sides'

464 interests. Furthermore, given that the operator is the owner's agent, and the two sides have little

465 goal congruence, our finding is consistent with, and supported by, the predictions of agency

466 theory, which suggests that agents do not always act (or want to act) in the principal's best

467 interest (Eisenhardt, 1989; Sharma, 1997).

468 Although owners and operators may have little goal congruence, those relationships that

469 do include greater congruence appear to benefit both sides. This is because we found that goal

470 congruence impacts a hotel's performance, with greater congruence being significantly

471 positively related to hotel performance. This happens directly (hypothesis 1), indirectly through

472   GM autonomy (hypotheses 2, 3, and 4), and with greater effect when GM autonomy is greater

473   (hypothesis 5). Combined, these results add to the growing stream of research that has focused

474   on the relationship between a hotel owner and its management company (e.g., Panvisavas and

475   Taylor, 2008; Renard and Motley, 2003; Turner and Guilding, 2013). More specifically, our

476   results, from what we believe is the first such study of its kind, empirically demonstrate the

477   positive performance implications of greater degrees of owner-operator goal congruence.

478   Based on our findings we argue that this goal congruence- performance relationship may

479   be largely due to the tripartite relationship that a GM has with the property's owner and operator,

480   especially since the impact of congruence on performance has greater effect when the GM has

481   increased autonomy. While researchers often suggest that GMs are vital to a hotel's performance

482   (e.g., Giousmpasoglou, 2014), our study supports this empirically by demonstrating that hotels in

483   which GMs have more autonomy, and thus a greater role in shaping the hotel's plans and

484   policies, outperform hotels where they have less autonomy. Our findings thus confirm previous

485   research which has found GMs to have varying degrees of autonomy (Hodari and Sturman,

486   2014; Takeuchi et al., 2008) and extends this in an important new direction by demonstrating, for

487   the first time, that not only is GM autonomy related to hotel performance, but that it also both

488   mediates and moderates the effect of goal congruence on such performance. This may be

489   because GMs are tasked with making and implementing both operational and strategic decisions

490   that help determine the hotel's direction and success. As such, our results also confirm the notion

491   that decreased autonomy can reduce managerial and firm performance (Braadbaart et al., 2007

492   and Langred and Moye, 2004).

493   Our study also demonstrates that within a 'multiple agency' scenario (Child and

494   Rodrigues, 2003), principals with greater goal congruence provide their agents with more

495   autonomy than do principals with less congruence. Given our finding on the positive impact that

496   congruence has on performance, we suggest that in a multiple-agency scenario, managers who

497   receive a more unified directive, with a minimum of conflicting objectives, are able to pursue a

498   more cohesive plan which results in superior operating performance. Furthermore, our finding

499   that as GM autonomy is increased, goal congruence's positive effect on hotel performance also

500   increases further supports the notion that managerial autonomy is important in order to

501   successfully implement the goals of multiple principals, and especially those which are important

502   to the various principals.

503   The traditional top-down operational control often prescribed for single agency settings

504   does not, therefore, seem to be necessarily as beneficial in a multiple agency scenario. Our

505   findings thereby provide some support for Child & Rodrigues' (2003) suspicion that some of the

506   managerial recommendations emanating from traditional single agency research may not be

507   applicable in situations of multiple agency. In fact, greater control, as demonstrated through

508   reduced GM autonomy, was found to negatively impact hotel performance. Our findings are,

509   meanwhile, supported by some agency theorists who have suggested that active monitoring can

510   in fact decrease managerial effectiveness and firm performance (e.g., Eisenhardt, 1989; Jensen

511   and Meckling, 1976).

512   Our findings may be explained by the notion that when multiple principals seek to control

513   or influence their mutual agent, they provide conflicting "mandates" which prevent the agent

514   from pursuing a coherent and/or cohesive set of operational and strategic choices, which in turn

515   negatively impacts performance. Instead, we suggest that multiple principals who are themselves

516   aligned with regard to firm objectives, may not only be less concerned with controlling their

517   mutual agent's decisions, but also more likely to help provide a context within which managerial

518   decisions can help the firm achieve internal alignment. This, in turn, not only influences the

519   firm's performance, but also both principals' economic returns.

520

521   **6. Conclusion**

522   This study is innovative for several reasons. First, it examines a unique agency scenario

523   where there exists multiple principals and agents with diverse and potentially conflicting goals. It

524   thus answers calls for empirical investigations into 'multiple agency' scenarios since these are

525   notoriously difficult to study (Child and Rodrigues, 2003). Particularly novel is the fact that one

526   principal (operator) is also the other principal's (owner's) agent (Dev et al., 2010), thereby

527   creating a tripartite scenario of interaction between multiple principals and multiple agents. Our

528   study thus adds to the agency theory literature in that while previous studies into the principal-

529   agent relationship have largely focused on the relationship between owners and corporate

530   management, it has lacked similar depth in examining the relationship between corporate

531   management and those within the firm that execute its plans and policies (Child and Rodrigues,

532   2003).

533   Our study has also contributed to the agency theory literature by demonstrating that in a

534   multiple agency scenario it is important for principals to have congruent objectives. Agency

535   theory research has long demonstrated that agents may diverge from principals' goals, and that

536   the latter must control this. Our study has, however, also demonstrated that in multiple agency

537   situations the principals must also ensure that their own goals are congruent as this results in

538   greater performance, especially because of the effect this has on the principals' mutual agent.

539   Thus while the link between principals and agents' objectives was already firmly established,

540   this study has demonstrated the importance of such congruence between multiple principals

541   because such congruence, unlike increased control (and decreased managerial autonomy), had a

542   positive impact on performance. Not only does such congruence improve performance, but it

543   also means less need to control the mutual agent, thereby implicitly reducing the principals'

544   monitoring costs. Thus, the fears that the various principals have about an agent acting

545   opportunistically (or in favor of another principal) due, at least in part to information asymmetry,

546   while perhaps warranted, seem to be best attenuated by focusing on goal congruence rather than

547   increased control and decreased managerial autonomy.

548   Third, it contributes to the hospitality management's goal congruence and autonomy

549   literatures by specifically studying their relationship, something lacking in the extant literature. It

550   also provides a much needed examination of how GM autonomy and owner-operator goal

551   congruence can impact hotel performance, the latter being particularly important given the

552   important role HMAs play in the modern hotel industry structure.

553   In terms of our sample and methodology, it is the first study that has been able to gather

554   and analyze the views and information from the two primary stakeholders in hotel management

555   agreements - hotel owners and management companies. Gathering their views for the same

556   properties meant that this study was uniquely able to match responses in order to analyze goal

557   congruence from a joint analysis. The SEM approach we used allowed us to test our

558   hypothesized paths in the context of the full model as indicated by our hypotheses, as well as

559   most appropriately tested for the significance of the indirect effects. The use of the latent

560   moderated structural equations approach (Klein and Moosbrugger, 2000) is also the most current

561   approach for testing for moderation in an SEM model, thus allowing us to test for the

562   hypothesized moderator while simultaneously appropriately handling the measurement error

563   associated with the latent interaction construct.

564

6.1. Managerial implications

566   This study demonstrates the need for owners and management companies to agree upon a

567   core set of common goals for their hotels; as such, congruence is linked to superior operating

568   performance. While each party will clearly have their own objectives, an ability to better align

569   these will end up better serving each party as superior operating performance should ultimately

570   result in higher fees for most operators and greater asset valuations and returns for owners. The

571   study's findings provide several recommendations to help hotel owners, management companies

572   and GMs achieve such congruence and performance.

573   Firstly, it highlights scope for hotel owners to make better decisions prior to HMA

574   negotiation with regard to the selection of a suitable hotel management company that has

575   property-level goals which are well aligned with their own. Similarly, we suggest that

576   management companies heed Gannon et al.'s (2010) warning that they often do not do enough to

577   select owners with similar objectives. Even though HMAs may be written to help align the two

578   parties' interests, they may not help prevent discord if they already disagree about the property's

579   challenges and opportunities, and plans to address these. A healthy discussion should hopefully

580   lead to better and more aligned objectives which should benefit not only the hotel's performance

581   but also both parties' economic returns.

582   An owner may, as well, realize from these discussions that it should in fact defer to the

583   management company's plans, which could in turn also help to align their objectives. We thus

584   also suggest that management companies fully commit to ensuring that their hotels' owners not

585   only know management's plans for the property, but also the underlying reasons for these

586   decisions as this may help achieve owner support. Lack of such support may mean that the

587   benefits of pursuing the operator's property-level strategy may be undermined or even negated.

588   While raising one caveat to this research, the findings have an additional and potentially

589   important implication. Due to the cross-sectional nature of this study's data, the measured

590   variables have been captured at a single time point. As such, we have not been able to determine

591   whether owner-operator goal congruence is a static phenomenon or if it is dynamic over time.

592   Inference from related research, however, suggests that it may be dynamic (see Turner and

593   Guilding, 2013). Should this be the case, hotel owners with HMAs already in place (sometimes

594   long-lasting) might be able to improve their hotel's performance by working toward bridging any

595   goal incongruence with their operator (and vice versa for the operator).

596   If goal congruence is dynamic, it might be beneficial for hotel owners and operators to

597   work toward further instilling a greater degree of collaboration and flexibility into their

598   relationship instead of potentially leaning toward a strict enactment of HMA clauses. Normative

599   understanding of the hotel industry, for example, suggests that in some hotels their HMA may,

600   figuratively speaking, never leave the owner and/or operator's file cabinet. In other words, HMA

601   contractual clauses are not relied upon nor enacted by either party. Instead, a flexible operating

602   arrangement full of trust is enacted so that there is much give-and-take, which results in a great

603   deal of decision-making that falls outside of what was negotiated into the HMA. By working

604   together in this way, the relationship between a hotel owner and operator could be seen as

605   drawing closer toward the sort of relationship which exists between the parties to a strategic

606   alliance, who themselves are not engaged in an agency relationship but who nevertheless often

607   have a manager as their mutual agent.

608 The above point leads us to make a similar argument for providing GMs not only with a

609 clear set of unified objectives, but also with greater autonomy as this has been shown to be a

610 predictor of better hotel performance. GMs are thus recommended to, as much as possible, flag

611 any incongruent goals so as to not only reduce their role ambiguity and/or conflict, but also the

612 likelihood of under-satisfying their principals.

613

614 *6.2. Limitations*

615 Although this study has demonstrated clear relationships between performance and both

616 goal congruence and GM autonomy, we do recognize that this may be because when hotels are

617 performing well, owners and operators may accept that the current goals, as well as GM's

618 decision-making, are correct, and thus there is greater congruence between the principals and

619 more autonomy may also be granted to their mutual agent. However, the end result remains the

620 same: hotel performance is clearly related to both goal alignment and GM autonomy. While our

621 study was able to match the responses of both owners and operators from individual hotels, and

622 therefore provide us with matched samples, which as far as we know is the first to do so in hotels

623 and specifically those under HMA, it would have benefited from a larger overall sample of

624 matched pairs. We thus acknowledge that our findings should be interpreted with some caution

625 until additional studies with greater or different samples are undertaken. It should be noted

626 however, that the sample size achieved is considered sufficient for a meaningful statistically

627 powerful analysis to be undertaken.

628 While relevant theory was used to derive each hypothesis with requisite directional

629 implication, causality cannot be determined from the cross-sectional survey methodology. As a

630 result, the potential for reverse or reciprocal causality cannot be ruled out. In consequence,

631   further research on this question using a longitudinal methodology and examining one or more

632   hotels and goal congruence (and the other variables of interest) at two time points would allow

633   empirical testing of the direction of causality, as well as potentially shedding light on the process

634   of achieving better goal congruence. It would also be valuable to supplement the asset- manager

635   rated performance metrics with objective measures of hotel performance (RevPAR, profitability,

636   etc.), but such data was unable to be collected as part of the current research effort. Of course,

637   getting such data may prove quite challenging. It is worth noting that to the best of our

638   knowledge no research to date has been able to get matched surveys from both GMs and the

639   owners of their hotels. The uniqueness of this data allowed us to test previously untested

640   propositions, and so although causality cannot be definitively determined, this research

641   nonetheless helps explain how the evolving relationships between owners, operators and

642   managers play an important role in the performance of a hotel property.

643

644   *6.3. Suggestions for further research*

645   While unique in that it matched owners and operators, our sample would have been

646   preferable had it been larger. Nonetheless the 64 owner-operator matches had sufficient power to

647   support all of our hypotheses. This only demonstrates the importance of autonomy and

648   congruence for understanding hotel performance. It would, however, be valuable for future

649   research to employ our approach to further investigate issues in the interaction between owners

650   and operators. We also note that our study may have provided different results if responses from

651   the management company had been provided by individuals from the corporate hierarchy who

652   oversee the hotel. GMs, as the management company employees specifically tasked with

653   achieving a hotel's objectives, are, however, considered to be the most informed about the firm's

654   objectives for the hotel. It would thus be interesting to analyze their views with those of the

655   management company's corporate executives in a future study, and also with objective measures

656   of performance such as customer satisfaction ratings, RevPAR, profitability, and related

657   measures. It should be noted, however, that accessing a suitable number of such persons, and

658   matching them with hotel owners, securing permission to collect such objective measures, would

659   likely prove even more difficult than the approach we took in this study. Furthermore, most such

660   executives oversee multiple hotels and may not, as such, be as knowledgeable about the specific

661   goals the company has laid out for them.

662   Researchers could also examine goal congruence between owners and GMs of hotels

663   unencumbered by management in order to determine if owner-GM goal congruence differs from

664   owner- management company congruence. Findings could help clarify whether the potential

665   agency problem is in fact greater in a multiple versus single agency setting. Similarly, we

666   suggest investigating whether the addition of a third party, the asset manager, could also alter

667   GM autonomy and/or goal congruence. Thus, studies with greater sample sizes and different

668   objectives could distinguish between these four scenarios in order to demonstrate how the

669   involvement of multiple stakeholders impacts GM autonomy, firm performance and owner-

670   operator goal congruence.

671

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Table 1. Descriptive Statistics of Variables in Study.

Variable	Cronbach's Alpha	Mean	Std devn	Min	Max
GM Experience (Years)	–	13.99	7.12	1	32
Asset Manager Present	–	0.48	0.50	0	1
Reports to Owner	–	0.13	0.33	0	1
Rooms	–	358.31	570.00	30	3700
Log(Rooms)	–	5.34	0.85	3.40	8.22
GM Autonomy (Overall)	0.93	4.16	0.95	1.2	5
Human Resources	–	4.13	1.13	1	5
Finance	–	4.28	1.03	1	5
Sales and Marketing	–	4.13	1.08	1	5
Property	–	3.86	1.10	1	5
Operations	–	4.42	1.00	1	5
Goal Congruence (Overall)	0.91	4.31	0.34	3.58	5
Human Resources	0.79	4.29	0.47	3.06	5
Finance	0.73	4.32	0.40	3.29	5
Sales and Marketing	0.71	4.43	0.33	3.63	5
Property	0.75	4.14	0.53	3.10	5
Operations	0.70	4.31	0.38	3.36	5
Hotel Performance (Overall)	0.95	4.29	0.92	1.44	5.81

Table 2. Correlations.

	1	2	3	4	5	6	7
1. GM Experience	–						
2. AM Present	0.11	–					
3. Reports to Owner	0.32	0.11	–				
4. Log(Rooms)	0.04	−0.17	−0.24	–			
5. GM Autonomy	0.23	0.28	−0.17	−0.08	(.93)		
6. Goal Congruence	0.08	0.14	−0.02	−0.22	0.30	(.91)	
7. Hotel Performance	0.12	−0.15	−0.22	−0.03	0.41	0.35	(.95)

Notes: N = 64. Correlations ≥ 0.24 are significant at $p < 0.05$.

Table 3. Structural Equations Model Results.

Predictor	Model 1		Model 2		Model 3	
	Outcome Variable					
	GM Autonomy	Hotel Performance	GM Autonomy	Hotel Performance	GM Autonomy	Hotel Performance
GM Experience	0.044	0.036	0.039	0.016	0.039	0.022
	(0.017)**	(0.018)*	(0.016)*	(0.016)	(0.015)*	(0.014)
AM Present	0.48	−0.35	0.40	−0.58	0.41	−0.55
	(0.22)*	(0.24)	(0.21)	(0.22)**	(0.23)	(0.22)*
Reports to Owner	−1.04	−0.97	−0.86	−0.47	−0.87	−0.68
	(0.37)**	(0.39)*	(0.34)*	(0.36)	(0.40)*	(0.40)
Log(Rooms)	−0.16	−0.16	−0.075	−0.030	−0.077	−0.024
	(0.14)	(0.15)	(0.13)	(0.13)	(0.16)	(0.13)
Goal Congruence			0.94	0.89	0.94	0.92
			(0.34)**	(0.36)**	(0.45)*	(0.63)
GM Autonomy				0.32		0.40
				(0.14)*		(0.14)**
GM Autonomy x Goal Congruence						0.65
						(0.22)**
R^2	0.23	0.14	0.31	0.37	0.31	0.51
CFI	0.90		0.91		NA	
TFI	0.88		0.90		NA	
RMSEA	0.10		0.09		NA	
SRMR	0.16		0.08		NA	
Chi-square	207.55		191.89		NA	
df	124		122		121	
Log-Likelihood	−621.83		−614.001		−611.13	

Notes: *<0.05; **p < 0.01; ***p < 0.001. Unstandardized coefficients are reported with standard errors underneath in parentheses.
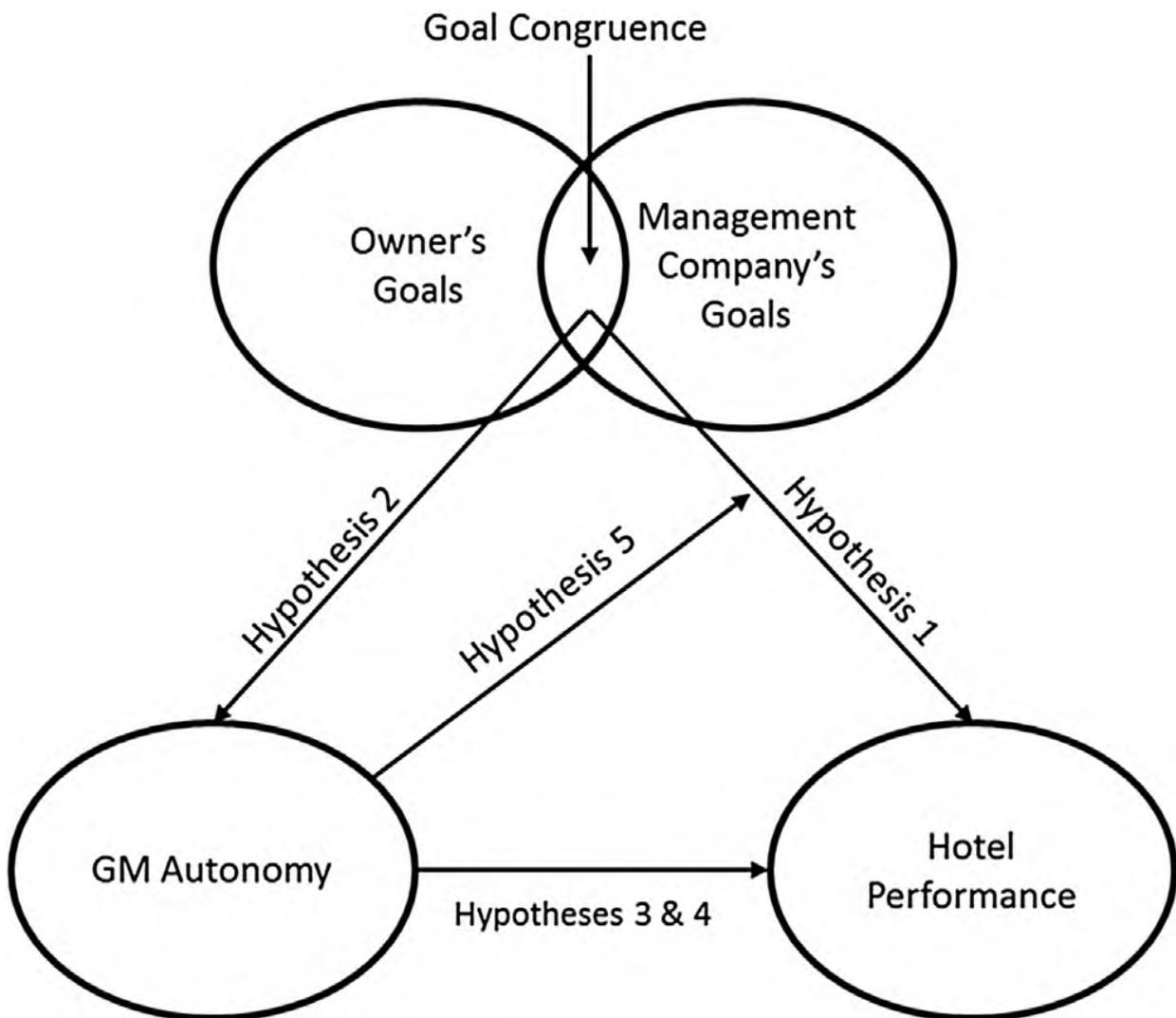
Figure 1. Relationship between congruence, autonomy and performance.