**CAPITAL BUDGETING IMPLICATIONS ARISING FROM LOCUS OF HOTEL
OWNER/OPERATOR POWER IN AUSTRALIA AND NEW ZEALAND**

Michael J. TURNER¹
The University of Queensland
UQ Business School
QLD 4072
AUSTRALIA
Phone: +61 7 3346 8071
Fax: +61 7 3346 8199
Email: m.turner@business.uq.edu.au

and

Chris GUILDING
Griffith University
Griffith Business School
QLD 4222
AUSTRALIA
Phone: + 61 7 5552 8790
Fax: +61 7 5552 8507
Email: c.guilding@griffith.edu.au

¹ Corresponding Author

CAPITAL BUDGETING IMPLICATIONS ARISING FROM LOCUS OF HOTEL OWNER/OPERATOR POWER IN AUSTRALIA AND NEW ZEALAND

Abstract

The findings of a study concerned with the locus of power between hotel owners and operators in Australia and New Zealand with hotels operated via a management contract are reported. Hypotheses concerned with the potential of locus of power to be related to capital budgeting procedures are developed and tested. Using questionnaire survey data, support has been provided for the view that greater owner power is associated with: greater owner involvement in the capital budgeting process; greater emphasis on financial analytical tools in capital budgeting; and operators experiencing greater difficulty in securing a release of funds from the Furniture Fixture and Equipment reserve.

Keywords: capital budgeting; power; agency theory; hotel management contract; FF&E reserve; hotel; owner; operator.

CAPITAL BUDGETING IMPLICATIONS ARISING FROM LOCUS OF HOTEL OWNER/OPERATOR POWER IN AUSTRALIA AND NEW ZEALAND

1. Introduction

Hotel management contracts represent a written agreement between an owner and operator where an operator is appointed to operate and manage a hotel in the name of, on behalf of, and for the account of an owner (Guilding, 2003). Hotels mediated by a management contract would appear to represent a context with considerable scope for a power dynamic between owner and operator to be in evidence, particularly in respect to capital budgeting decision making. This is because not only is the capital budget widely seen to be the most important budget in a hotel (Condon, Blaney, & Harrington, 1996; Lynch, 2002), but the dynamics of capital budgeting in hotels operating with a management contract is complicated by the fact that a capital outlay decision must traverse the organisational boundary between hotel owner and operator. The hotel operator will tend to be the party that initiates a capital expenditure idea, but it will be the owner that needs to finance any capital outlay (Guilding, 2003).

It appears many hotel management companies appreciate the potential for capital expenditure funding challenges, as they tend to clearly spell out capital expenditure escrow fund expectations, the capital expenditure approval process, and remedies available to both operators and owners in case of conflicts. Brand standards and a quiet enjoyment clause are also usually included in management contracts. Owners not only retain control of the capital expenditure escrow account, they usually also retain the fixed assets accounting ledger.

It is notable that hotel owners and operators will not always have high goal congruency. For example they may well be focused on different time horizons, with hotel operators tending to be more short-termist and owners having a longer term perspective (Beals, 1995; Beals &

Denton, 2005). Turner & Guilding (2010b) demonstrate that as most operators are remunerated based on gross revenue and gross operating profit performance, they have an incentive to promote capital expenditure that maximises revenue and operating profit without necessarily giving due regard to the owner's interest of minimising capital employed relative to profit earned. Also, operators have an incentive to support capital expenditure that is consistent with enhancing their brand image (Beals & Denton, 2005; Haast et al., 2006; Schiff, 2006), which is not necessarily a goal that is consistent with equity value enhancement for the hotel owner (Turner & Guilding, 2010b).

A further capital budgeting challenge stems from the fact that most management contracts require the owner to establish a furniture, fixture and equipment (FF&E) reserve account (Turner & Guilding, 2010a). The FF&E reserve is designed to fund periodic replacement of furniture, fixtures, and equipment, but not the replacement of major building components, such as rooves, elevators and chillers (Bader & Lababedi, 2007; Mellen, Nylen, & Pastorino, 2000). The hotel operator typically administers the FF&E reserve. Deposits may be made either directly from the hotel's cash flow or on a notional (non-cash) basis (Eyster, 1997b; Haast, Dickson, & Braham, 2005). Release of funds from the FF&E reserve is typically achieved only after owner approval (Eyster, 1997a; Field, 1995; Rushmore, 2002). Turner & Guilding (2010a) demonstrate how operation of this account has the potential to be a source of significant tension between hotel owners and operators.

The objective of the study reported herein is to develop and test hypotheses concerned with the relationship between the locus of hotel owner/operator power and capital budgeting practice in Australia and New Zealand. Using questionnaire survey data, support has been provided for the view that greater owner power is associated with: greater owner involvement

in the capital budgeting process; greater emphasis on financial analytical tools in capital budgeting; and operators experiencing greater difficulty in securing a release of funds from the FF&E reserve. The relative novelty of this study signifies that it may carry significant forerunner qualities. We anticipate that researchers interested in hotel management contracts will find this study to be a valuable platform to build further research, which may stimulate further investment into global hotel markets.

The remainder of the paper is organised as follows. The next section provides background information concerning hotel management contracts. The ensuing section then describes the most pertinent literature in connection with power. After this, hypotheses concerned with factors that might be associated with hotel owner/operator power are developed. Subsequent sections address, in turn, the survey research method employed, measurement of key variables, the study's findings and a conclusion that discusses implications arising from the study.

2. Background

Under a hotel management contract, hotel owners retain legal ownership of the hotel site, building, plant and equipment, furnishings and inventories, while the operator assumes responsibility for managing the hotel's day-to-day business (Guilding, 2003). It has been claimed that management contracts have proven popular with owners because they can derive benefit from owning a hotel without the need to develop the specialist expertise required to operate it (Horwath & Horwath Ltd, 1988). The relationship signifies that the owner assumes the full economic risk associated with property ownership, while the operator is only responsible for managing hotel operations (Schlup, 2004). The intermediary nature of the contract forms an agency relationship between a hotel owner (principal) and operator (agent)

(Beals, 1995; Eyster, 1997b; Field, 1995). An agency relationship arises when there is a contract whereby one party (the principal) appoints another party (the agent) to perform a service on behalf of the principal (Jensen & Meckling, 1976). One of the problems that can be encountered in an agency relationship is that the agent can be motivated to pursue short-term goals, whilst the principal desires the achievement of longer-term goals (Lambert, 2001). Legal precedents (e.g. *Woolley v. Embassy Suites* and *2660 Woodley Road v. ITT Sheraton*) signify that even where a management contract indicates otherwise, hotel management companies are agents for the owner and must act in the principal's best interests (Renard & Motley, 2003). Court cases have led to the following understanding:

Agents owe their principals common-law fiduciary duties – specifically, the duties of loyalty, good faith, fair dealing, full disclosure, and due care. Agents must also eschew certain activities. They are obliged not to compete against their principals, not to engage in self dealing, not to take unauthorized and undisclosed profits, and not to use or appropriate the principal's property (including the owner's confidential information) without authorization to do so. (Renard & Motley, 2003)

Inequitable hotel management contracts that fail to provide a balanced distribution of power between owner and operator can result in lengthy and costly owner/operator legal disputes or early termination of the contract (Schlup, 2004). Like any contract, hotel management contracts require some negotiation and it is only when there is a fair balance between the two contracting parties that both will be able to achieve their business goals over time (Armitstead, 2004). The outcome of management contract negotiations have an immediate and long-lasting effect on the value of the property, the cash flow likely to accrue to the owner and the performance and manageability of the operator (Goddard & Standish-Wilkinson, 2002). Research into hotel management contracting is important as it may provide

insights that can lessen the potential for acrimonious relationships being formed (Haast et al., 2005; Mellen et al., 2000). Such research may also raise the profile of the hotel industry as a viable investment option. Greater understanding of hotel management contracting can lower the risk of investment, thereby enhancing the liquidity, size, and number of investors willing to be involved in the market.

In light of the significance of management contracting in the hotel industry, it is somewhat surprising that there has been a dearth of empirical literature concerned with the distribution of power between hotel owners and operators. It has been observed that in the 1970s, the power balance favoured operators, as a result of their superior industry knowledge and experience (Armitstead, 2004; Beals & Denton, 2005). By the 1990s owners had secured the upper hand in contract negotiations (Eyster, 1993; Hart & Connor, 1994). For contracts drawn up in the mid-2000s, there appears to be a relatively equitable balance of power between owners and operators (Beals & Denton, 2005). Factors affecting the power balance include the degree of competition among operators, with more competition leading to lower operator power (Bader & Lababedi, 2007); the relative size of a hotel owner, with larger hotel owners holding more power (Beals & Denton, 2005); and the strength of a hotel operator's brand, with stronger brands affording greater power to the operator (Armitstead, 2004; Forgacs, 2003).

3. Literature review

Within the social sciences, power has been investigated in a wide variety of contexts (see Keltner, Gruenfeld, & Anderson, 2003). At the organisational level, the study of power branches into three distinct but overlapping areas, which include: (1) the intraorganisational power literature, which investigates power between individuals within the same organisation

(see Brass, 2002 for a comprehensive review); (2) the organisational power literature, which studies the power of individuals and groups relative to their relationship with and their dependence on the organisation (see Ocasio, 2002 for a comprehensive review); and (3) the interorganisational power literature, which examines power between organisations (see Mizruchi & Yoo, 2002 for a comprehensive review). The main point of difference between these three power literatures is only that the actors change. The actors may be people (intraorganisational), groups (organisational), or organisations (interorganisational) (Brass, 2002). The theories of power can be applied across all three different levels of analysis (Brass, 2002).

In all branches of the organisational power literature, power is viewed as “a change in the belief, attitude, or behavior of [an actor] ... which results from the action or presence of another [actor]” (Raven, 1990). Within this definition, it is important to note that the “intentionality” of power must be addressed (Cartwright, 1965; Fairholm, 1993). This signifies that the term ‘power’ should only be used in connection with actions that are carried out intentionally. To include the unintended outcomes of the wielding of power would render the term too broad and would capture every conceivable action (Krause & Kearney, 2006).

Although many authors use the terms ‘power’ (i.e. actual power) and ‘influence’ (i.e. the ability to wield power) interchangeably (e.g. Argyle, 1990; Giddens, 1984; Pfeffer, 1992), it is important to distinguish between the two terms (Barry & Watson, 1996; Krause & Kearney, 2006). It is notable that some power researchers continue to define power as an ability (e.g. Etzioni, 1968; Fairholm, 1993; Hinkin & Schriesheim, 1989). Such a definition fails, however, to recognise that power is always a reciprocal interaction between an agent (A) and another party (B) (Emerson, 1962; Etzioni, 1968; Mintzberg, 1983). Failure to

recognise this reciprocal interaction can lead to a failure to appreciate that the power of A not only depends on the available resources of A, but also on the demand for those resources by B, as well as the opportunity of B to obtain those desired resources from another party (Thibaut & Kelley, 1959). In this way, B plays an active role in their relationship with A (Krause & Kearney, 2006). This aspect of power relations is often referred to as “relationality” (Fairholm, 1993; Hardy & O'Sullivan, 1998). Power in relations between A and B are typically imbalanced (Friedberg, 1992) due to a mismatch in the distribution of power between the pair. For this reason, it is common to find that conditions of superordination and subordination (dominance and submission) come into play (Krause & Kearney, 2006). In a situation where A has power over B, and B has power over C, it remains unclear, however, as to whether A can also wield power over C (Friedberg, 1992). Much of the reason for this stems from a lack of research into multiple-actor situations (Brass, 2002).

It is evident that the fact that A might have power over B does not necessarily signify that A will wield that power (Emerson, 1962; Etzioni, 1968; Mintzberg, 1983). This concept is referred to as ‘potentiality’, which distinguishes between potential power and actualised power (Collins & Raven, 1969; Etzioni, 1968; Raven, 1992). As Krause and Kearney (2006) explain, potential power is the discrepancy between all the resources of A compared to all the resources of B. On the other hand, actualised power refers to all the resources that A utilises in a specific situation relative to the resources deployed by B. It can be seen that the propensity for A to use its resources to wield power over B is constrained by the costs involved in doing so. Each agent will incur costs to affect the attitude and/or behaviour of the other party to the point where the costs equal the benefits. For this reason, the greater the potential power of A, the greater is the likelihood that they will wield power over B (Kipnis,

1976) and also restrict B's action options (Scholl, 1999) because power corrupts (Kipnis, 1976; Snyder & Kiviniemi, 2001).

Krause and Kearney (2006) also note that another concept that is important in power relations is the level of "dependency" (Fairholm, 1993; Hardy & O'Sullivan, 1998). Emerson (1962) explains that:

... the dependence of actor A upon actor B is (1) directly proportional to A's motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to A outside the A-B relation.

Emerson (1962) sees 'goals' as the "gratifications consciously sought as well as rewards unconsciously obtained through the relationship". With respect to the "availability of those goals to A outside of the A-B relation", he is referring to the "alternative avenues of goal-achievement, most notably other social relations" (Emerson, 1962). Therefore, the greater that B has a dependency on A, the greater will be A's power over B. Where B seeks to pursue alternative avenues of goal-achievement, however, the costs of such an approach must be included in the assessment of dependency (Emerson, 1962).

This review has highlighted that there are four attributes that are central to the term power in the organisational power literature: (1) the availability and demand of resources; (2) relationality; (3) dependency; and (4) intentionality.

4. Hypothesis development

4.1. Hotel owner involvement in the capital budgeting process

Where principals are involved in the preparation of capital budgeting proposals they are well positioned to reduce the amount of asymmetric information and decrease the information advantage that agents have over them (Antle, Bogetoft, & Stark, 1999). Greater involvement in the preparation of capital budgeting proposals allows owners to take a greater part in initiating such investments, which reduces the opportunity for operators to engage in self-serving behaviour in connection with capital budgeting proposal preparation (Gannon & Johnson, 1997; Guilding, 2006). For example, Turner and Guilding (2010b) highlight how operators may be motivated to seek projects that maximise revenue and operating profit, without giving due regard to pursuing the maximization of an owner's net present value. Firms controlled by principals typically have a stronger positive relationship between earnings and capital investment than agent-controlled firms (Sunder, 1980). Where a principal becomes more involved in the preparation of capital budgeting proposals, one would expect the resulting investment to be typically more aligned with their own interests relative to the interests of the agent. Low principal involvement has been shown to result in agent overspending (Marino & Matsusaka, 2005). This is because principals generally do not have ready access to the costless private information of their manager(s) (Cremer & Khalil, 1992, 1994; Cremer, Khalil, & Rochet, 1998). For example, it can be costly for an overseas owner to gain ready access to such information.

In the context of hotel management contracting, "owners are increasingly thinking beyond profit and loss and have become more involved in key decisions" (Bader & Lababedi, 2007). Greater owner involvement can be achieved through deployment of an asset manager, who is engaged by the owner in an effort to forge a more productive alignment of interests between the owner and operator (Armitstead, 2004; Feldman, 1995; Geller, 2002; Swing, 2004). Areas in which owners have gained increased input include budgeting, general manager

appointment, major supplier contract approval, and approval of major changes in hotel concept (Schlup, 2004). Owners have also gained considerable approval rights regarding certain aspects of the operation of their hotel (Rushmore, 2002). Some of the more important of these include: (1) expenditures for non-capital expenses (generally, those exceeding a specified level); (2) expenditures for capital items (generally, those exceeding a specified level); (3) plans to renovate the hotel; and (4) expenditures not covered in the annual budget (Rushmore, 2002). It is expected that where a hotel owner has a relatively high level of power in their relationship with an operator, they will draw on this power to achieve greater involvement in the capital budgeting process. Hypothesis 1 has been worded in a manner consistent with this expectation.

H1: Greater owner power is associated with greater owner involvement in the capital budgeting process.

4.2. Emphasis on financial analytical tools in capital budgeting

The capital budgeting decision-making process can be informed by both financial and non-financial considerations (Moyer, McGuigan, & Kretlow, 2001). Although there has been a substantial focus within the literature on the use of financial capital budgeting analytical tools such as net present value (NPV), internal rate of return (IRR) and payback (e.g. Graham & Harvey, 2001), limited research attention has been given to the relative importance of the non-financial perspective in investment appraisal (Chen, 2008). The literature suggests there has been an increase in the use of financial analytical tools in capital budget decision making (e.g. Graham & Harvey, 2001; Pike, 1996; Ryan & Ryan, 2002). Finance theory suggests that capital budgeting appraisal based on financial analytical tools will result in optimal investment decisions, provided the firm can estimate financial parameters accurately (Haka, 1987; Myers, 1984). When a firm is unable to estimate financial parameters accurately, non-

financial factors are recommended as an alternative (Carr & Tomkins, 1996; Kaplan, 1986; Shank & Govindarajan, 1993).

Analysis of a proposed capital expenditure that is based on financial analytical tools is generally considered to be more rigorous and therefore preferable to an analysis based on non-financial information (Chen, 2008). It follows that a hotel owner would prefer that capital budget decision making be based on financial analytical tools, to the extent possible, and will draw on its potential to exert power in order to impose its wishes in this regard. Hypothesis 2 has been posited in a manner consistent with this expectation.

H2: Greater owner power is associated with a greater emphasis on financial analytical tools in capital budgeting.

4.3. Operator difficulty in securing release of funds from the FF&E reserve

A release of funds from the FF&E reserve is typically achieved only after owner approval (Eyster, 1997a; Field, 1995; Rushmore, 2002). It is to be expected that an owner with greater power will use this power to make it harder for an operator to access funds held in an FF&E reserve. Hypothesis 3 is worded in a manner consistent with this expectation.

H3: Greater owner power is associated with greater operator difficulty in securing a release of funds from the FF&E reserve.

5. Research method

Due to proprietary reasons, it would be impossible to conduct a content analysis of a broad cross-section of hotel management contracts. In light of this, a mailed questionnaire survey has been undertaken. A questionnaire was sent to general managers (GMs) in Australian and New Zealand hotels with twenty or more rooms and a minimum star-rating of three. This

provided a total sample size of 664, comprising 463 Australian hotels and 201 New Zealand hotels. As no database containing only hotels operating with a management contract could be found, the questionnaire was sent to all hotels in the sampling frame and included a screening question that elicited whether the respondent worked in a hotel that was subject to a management contract.

Three weeks following the initial mailing, a follow-up mailing was sent to the whole sample. Two weeks after the second mailing, a number of hotel owner representatives familiar to the research team agreed to circulate the questionnaire to GMs with whom they had close contact. This generated a further 51 responses. Two weeks subsequent to the owner representatives' distribution of questionnaires, the sample was contacted by email and encouraged to complete the questionnaire which was provided as an attachment. Finally, two weeks after the email approach, random telephone calls were made to 31 GMs. The objective of these phone calls was threefold: to thank the GM if they had already completed the survey; to ascertain the main reasons for non-participation in the study; and to encourage participation in the study. The survey response pattern is reported in Table 1.

INSERT TABLE 1 ABOUT HERE

Two investigations for non-response bias were undertaken. Non-response reasons provided by the hotels contacted by phone included “completing questionnaires contravenes company policy”, “too busy” and “the GM was away on holiday”. No factors cited suggested the presence of any systematic non-response bias. Secondly, an investigation for profile differences between the first mailing respondents and the remainder of the respondents was undertaken. Although a Mann-Whitney *U* Test revealed some differences, the statistical

strength of association between the two groups (r value) was small (i.e. $r < .2$) (see Cohen, 1988). These investigations suggest the issue of non-response bias does not constitute a strong threat to the validity of the study's findings.

6. Variable measurement

6.1. Hotel owner involvement in the preparation of capital budgeting proposals

An extensive literature search failed to identify any prior studies that have measured the extent of hotel owner involvement in the preparation of capital budgeting proposals. In the context of annualised budgeting, however, Milani's (1975) six item budgetary participation questionnaire instrument, which measures the amount of influence an individual has on the budget as well as his or her involvement in the process of establishing the budget, has been widely used in studies focused on budgetary participation (e.g. Agbejule & Saarikoski, 2006; Bento & White, 2006; Parker & Kyj, 2006). Four of Milani's (1975) six items of budgetary participation were adapted for use in this study. Two of Milani's (1975) six items were dropped due to questionnaire space considerations and because they were not considered to lend themselves to the capital budgeting context. As part of the adaptation process, it needs to be recognised that Milani's (1975) questionnaire instrument was designed to be administered to subordinates to measure the degree to which they participate in the budget setting process. Within the current study, however, GMs are being asked to comment about their hotel owner's participation in the preparation of capital budgeting proposals. For this reason, questions in the current study were framed in a directionally opposite manner to those posed by Milani (1975). Table 2 provides an overview of the Milani items and how they have been adapted for use in the current study. Column one indicates the questionnaire item number. Column two outlines the six questions posed by Milani (1975). Column three shows the

current study's adaptations of Milani's (1975) questions. The fourth column describes the seven point Likert type scale adopted for each question.

INSERT TABLE 2 ABOUT HERE

An assessment of the suitability of applying factor analysis to the data collected via the four items was undertaken. All items were statistically significantly correlated ($p < .05$). Kaiser Meyer Olkin and Bartlett's Test indicated favourable sampling adequacy. Communalities were greater than the recommended .5 threshold, except for item 2 at .149. Consistent with Hair et al. (2006), the decision was taken to remove item 2 from the factor analysis. After doing this, a one factor solution with an Eigenvalue greater than 1 was extracted, which explained 59.64% of the variance. All item loadings were above the recommended .55 threshold and were statistically significant ($p < .05$). Hotel owner involvement in the capital budgeting process has been measured by calculating the mean of items 1, 3 and 4. The consolidated item yielded an acceptable Cronbach Alpha of .653.

6.2. Emphasis on financial analytical tools in capital budgeting

Butler, Davis, Pike, and Sharp (1993) see three distinct orientations in non-financial approaches to investment appraisal: (1) strategically-oriented investment appraisal, which is evident when high importance is attached to a project's capacity to deliver competitive advantage (Lefley, 2004); (2) politically-oriented investment appraisal, which is evident when an organisation has highly self-interested individuals who employ guile and strategies such as coalition building to enhance the likelihood of their preferred project proposal being sanctioned by senior management (Hickson, Butler, Cray, Mallory, & Wilson, 1986), and (3) intuition-based investment appraisal, which is evident when high importance is attached to

the exercise of senior management's intuition and judgment (Chami & Fullenkamp, 2002). Drawing on this categorisation, three questions were developed relating to each of these non-financial investment appraisal orientations. In addition, three questions were developed to gauge the extent to which financial considerations influence whether a capital expenditure proposal is supported. Table 3 provides an overview of the 12 items developed. The first column identifies the categorisation in Butler et al. (1993). The second column documents the 12 items developed together with an identifying code for each question. The final column provides the mean and standard deviation for each item. For each item, a Likert scale was used ranging from '1' (not at all) to '7' (to a large extent). The 12 items were preceded by the wording: 'In your hotel, to what extent do the following factors influence whether an investment proposal is given the go ahead?'

INSERT TABLE 3 ABOUT HERE

A factor analysis was undertaken, justified on the grounds of the four thematic origins of the 12 questions. Kaiser Meyer Olkin and Bartlett's Test indicated favourable sampling adequacy. The factor analysis generated three factors with eigenvalues greater than 1 (3.830, 2.608 and 1.128). The relative association of the items with these three factors is evident from Table 4, which presents principal component analysis findings. The thematic origin of each of the items is provided in the table's second column. While this initially suggested a three factor result, inspection of the eigenvalue scree plot revealed a significant break in the curve occurring at the locus of the third highest eigenvalue (the fourth and fifth highest eigenvalues were .888 and .798, respectively). Accordingly, and consistent with Hair et al's (2006) recommendations, it appeared most appropriate to consider two strong underlying factors:

1. Non-financial emphasis (items I2, P2, P3, P1, I1, I3); and

2. Financial emphasis (items F2, F3, F1).

INSERT TABLE 4 ABOUT HERE

The three items associated with financial emphasis (the second factor in Table 4) were consolidated by computing their mean. These three variables yielded a Cronbach Alpha of .726. The six items associated with non-financial emphasis (the first factor in Table 4) were also consolidated by computing their mean. These six items yielded a Cronbach Alpha of .850. The measure for financial emphasis in investment appraisal has been calculated by deducting the consolidated non-financial investment appraisal emphasis indicator from the consolidated financial emphasis indicator. The resultant measure produced a mean of 2.18 with a standard deviation of 1.44 ($n = 99$).

6.3. Operator difficulty in securing release of funds from the FF&E reserve

Three items were employed to measure difficulty in securing a release of funds from the FF&E reserve. The first question asked respondents to indicate their affirmation with the statement: “In my hotel it can be hard to get the owner to release funds from the FF&E reserve” on a Likert scale ranging from ‘1’ (‘strongly disagree’) to ‘7’ (‘strongly agree’) (mean 3.33, std. dev. 1.85). The second question asked: “How often does your hotel owner refuse to release funds from the FF&E reserve?”, with responses provided on a Likert scale ranging from ‘1’ (‘never’) to ‘7’ (‘frequently’) (mean 2.72, std. dev. 1.51). The final question asked “How much do you have to pressurise your hotel owner in order to get funds released from the FF&E reserve?” with responses recorded on a Likert scale ranging from ‘1’ (not at all) to ‘7’ (very much) (mean 3.17, std. dev. 1.83). A correlation analysis revealed statistically significant positive associations between all three items ($p < .01$). A factor analysis revealed

all items having a communality greater than .8 with a single factor solution explaining 83.02% of the variance. In light of this, difficulty in securing a release of funds from the FF&E reserve account has been measured by calculating the mean of the three items. The three items yielded a strong Cronbach Alpha of .895. The consolidated item developed had a mean of 3.07 with a standard deviation of 1.58 ($n = 88$).

6.4. Locus of power between hotel owner and operator

Given that two distinct organisations are involved in a hotel management contract, the owner and the operator, it appeared appropriate to guide the current study's operationalisation of a power measure by the inter-organisational power literature. Inter-organisational power survey research is usually framed according to two common power perspectives: (1) an assessment of the alternative choices available to both organisations in the negotiation phase; and (2) the strategic importance of the relationship to the organisations at the time of contract negotiation. Difficulties arise when attempting to apply these conceptualisations of power to the context of the current study. These relate to the fact that the best placed party to comment on the locus of power between hotel owner and operator is the hotel GM. There is a low likelihood, however, that a GM responding to the survey questionnaire would be in a position to comment on the conditions existing at the time that the hotel management contract was negotiated. This is because of GMs' notoriously high job mobility (Akrivos, Ladkin, & Reklitis, 2007) and also that hotel management contracts are typically entered into for ten or more years (Haast et al., 2005). Despite these concerns, the hotel GM would appear to be in a very strong position to provide a well-informed perspective on the locus of power between owner and operator. This is because while the operator employs the GM, the GM's appointment typically requires approval of the owner, and it is the owner that funds the GM's salary (Guilding, 2003). Guilding (2006) comments:

... the general manager ... can be seen to be well placed to observe any 'cross-fire' between a hotel owner and operator. [GMs are strategically placed] ... with respect to mediating the relationship between hotel owner and operator.

Based on the view that a GM is motivated to maintain a strong working relationship with both the owner and operator, it is argued that for the purpose of gauging power in the current study, a GM's relationship with both the owner and the operator can be viewed as being similar to a 'within organisation' relationship. This is because a hotel owner and operator are in an enduring organisational relationship. In light of this, the well-established intra-organisational power literature can be drawn upon to inform the development of a measure of the locus of power between hotel owners and operators.

Within the intra-organisational power literature, Krause and Kearney (2006) explain that much empirical questionnaire survey based research has been conducted within a broad range of organisational contexts and that a classical five power base typology developed by French and Raven (1959) has been used. This typology comprises: (1) reward power; (2) coercive power; (3) legitimate power; (4) referent power; and (5) expert knowledge power. French and Raven (1960) describe their five bases of power in which a power-wielder, O, can exert influence over a person, P, as follows: Reward power is based on P's perception that O has the ability to grant rewards for him/her in exchange for compliance. For example, O might provide a monetary incentive to P in exchange for P completing a task that is not part of their job description. Coercive power is based on P's perception that O has the ability to mediate punishments to P in exchange for compliance. For example, O may threaten P with termination should they not comply with a certain request. Legitimate power is based on P's perception that O has a legitimate right to prescribe behaviour for P. Legitimate power stems

from O having a justifiable right to request compliance from P. For instance, P may comply with a request from O simply because O has a right to ask P to do their work in a certain way. Referent power is based on P's identification with O. Referent power is derived from P's desire to please O because they are highly attracted to O and desire to become closely associated with O. Referent power is therefore in evidence when P complies with the request of O due to P's identification with O. For instance, P wishing to move up the organizational hierarchy will likely comply with requests made by O due to P wanting to be in a similar position to O in the future. Expert power is based on P's perception that O has some special knowledge or expertness. Expert power is at use when O relies on their superior knowledge in order to gain compliance from P. For example, P may follow the advice of O because O is perceived as possessing a high-level expertise in their field.

Within the current study, it was determined that the locus of power between hotel owner and operator could be most effectively elucidated by determining which of the two contracting parties exerted the greatest influence over the GM. Following a review of the intra-organisational power literature, Krause and Kearney (2006) recommend that: (1) power bases be measured through the use of multi-item measurement; (2) that responses be rated rather than ranked; and (3) that future studies measure the wielding of power in its dependency on the particularities of the situation (i.e. context specific). Krause and Kearney's (2006) recommendations have been heeded in developing the current study's power measure. This resulted in three separate context specific questions being posed for each of French and Raven's (1959) five power bases, using a seven-point Likert-type measurement scale. The following statement was presented in the questionnaire immediately prior to the 15 items: "In terms of your hotel owner and your hotel operating company, which entity is in a stronger position to:" Column four of Table 5 presents the 15 items posed together with an identifying

code for each item. The Table's first three columns capture the origin of each item and the final column provides each item's mean and standard deviation.

INSERT TABLE 5 ABOUT HERE

An assessment of the suitability of applying factor analysis to the data collected via the 15 items was undertaken. Consistent with the view that power is a multidimensional variable (French & Raven, 1960), an independent factor analysis was conducted for each of the three sets of items comprising the five dimensions of power. In all cases, correlations between the three items were highly statistically significant ($p < .01$). Kaiser Meyer Olkin and Bartlett's Test indicated favourable sampling adequacy. Communalities were greater than the recommended .5 threshold in all but one case (item L1 at .382). Hair et al. (2006) indicate that items yielding communalities below .5 can be ignored. As the L1 item derives from a measure that has been used in prior studies, it was deemed preferable to retain the item within the factor solution. For each of the five dimensions of power, a single factor solution with an Eigenvalue greater than 1 was extracted, with a variance explained greater than the 60% recommended threshold (Hair et al., 2006). All item loadings were above the recommended .55 threshold and were statistically significant ($p < .05$). These findings support the measurement of the five dimensions of power by calculating the mean of the three underlying items for each of the five item groupings. The degree of association between the five dimensions of power was examined using correlation analysis. All items were found to be highly statistically significantly correlated at $p < .01$.

6.5. Hotel size

With respect to hotel size, it could be argued that larger owners will tend to own larger hotels. This would suggest that owner power is greater in larger hotels. On the other hand, however, it is in large hotels where we tend to find large international hotel management companies (e.g. Hilton, Hyatt, Marriott, etc). This factor suggests that power in large hotels could well rest with the operator. The potential significance of hotel size has resulted in it being included as a control variable in the analyses undertaken. Although there are other possibilities, such as acres of land, number of employees, annual sales turnover or net profits (Vallen & Vallen, 2005), the number of rooms in a hotel is the most commonly accepted measure of a hotel's size (Garcia-Falcon & Medina-Munoz, 1999; Vallen & Vallen, 2005). To determine the number of rooms in a hotel, questionnaire measures are typically categorical (e.g. Kasavana & Brooks, 1995; Vallen & Vallen, 2005) or discrete (e.g. Guilding & Lamminmaki, 2007). In light of the advantages of discrete data, respondents were asked to indicate the number of rooms in their hotel.

6.6. Hotel owner size

Hotel owner size has been included in the study as a control variable. As noted earlier, a factor affecting the power balance is the relative size of a hotel owner, with larger hotel owners tending to hold more power (Beals & Denton, 2005), ie, large owners have a greater capacity to wield power. In light of the potential importance of owner size in connection with a study focused on power, we felt it prudent to control for hotel owner size in the regression formulations described below. There appears to have been little empirical academic research that has sought to measure hotel owner size. The questionnaire survey asked respondents to indicate the approximate number of hotels that their owner owns worldwide.

7. Results

Table 6 presents a correlation matrix that includes all of the variables contained within the formulated regression models. Ideally, all independent variables should be statistically significantly correlated with the dependent variable (Hair, Black, Babin, & Anderson, 2010). As one or more of the five bases of power (independent variables) are significantly correlated with each of the dependent variables, the statistical tests conducted appear warranted. For each of the regression models formulated, all variable inflation factors (see Tables 7, 8 and 9) are well below the suggested threshold of 5, which suggests that multicollinearity does not pose a serious threat to the validity of the study's results (Kutner, Nachtsheim, & Neter, 2004).

INSERT TABLE 6 ABOUT HERE

Consistent with the view that power is a multidimensional variable (French & Raven, 1960), hypothesis 1 was tested via calculation of five separate regression analyses, one for each of the five dimensions of power. The following regression equation was applied:

$$Y = \beta_1 \text{POWER_LOCUS} + \beta_2 \text{HOTEL_SIZE} + \beta_3 \text{HOTEL_OWNER_SIZE} + e$$

where:

Y = Hotel owner involvement in the capital budgeting process.

POWER_LOCUS = Each of the five locus of power dimensions substituted into five separate regression equations.

HOTEL_SIZE = Size of hotel (control variable 1).

HOTEL_OWNER_SIZE = Size of hotel owner (control variable 2).

Table 7 presents the results of the five separate multiple regression analyses. In all cases, the models are statistically significant ($p < .000$). Hypothesis 1 stated that greater owner power is associated with greater owner involvement in the capital budgeting process. In all five regression equations formulated, it has been found that the measure of power is significantly

positively associated with hotel owner involvement in the capital budgeting process ($p < .01$; one-tail), thus providing strong support for hypothesis 1.

INSERT TABLE 7 ABOUT HERE

Hypothesis 2 was also tested via the calculation of five separate regression analyses, one for each of the five dimensions of power. The following regression equation was applied:

$$Y = \beta_1 \text{POWER_LOCUS} + \beta_2 \text{HOTEL_SIZE} + \beta_3 \text{HOTEL_OWNER_SIZE} + e$$

where:

Y = Emphasis on financial analytical tools in capital budgeting.

POWER_LOCUS = Each of the five locus of power dimensions substituted into five separate regression equations.

HOTEL_SIZE = Size of hotel (control variable 1).

HOTEL_OWNER_SIZE = Size of hotel owner (control variable 2).

Table 8 presents the results of the five separate multiple regression analyses. In all cases the model is statistically significant ($p < .000$). Hypothesis 2 stated that greater owner power is associated with a greater emphasis on financial analytical tools in capital budgeting. In all five regression equations formulated, it has been found that the measure of power is significantly positively associated with greater emphasis on financial analytical tools ($p < .01$; one-tail), thus providing strong support for hypothesis 2.

INSERT TABLE 8 ABOUT HERE

Hypothesis 3 was also tested via the formulation of five separate regression analyses, one for each of the five dimensions of power. The following regression equation was applied:

$$Y = \beta_1 \text{POWER_LOCUS} + \beta_2 \text{HOTEL_SIZE} + \beta_3 \text{HOTEL_OWNER_SIZE} + e$$

where:

Y = Operator difficulty in securing a release of funds from the FF&E reserve.

POWER_LOCUS = Each of the five locus of power dimensions substituted into five separate regression equations.

HOTEL_SIZE = Size of hotel (control variable 1).

HOTEL_OWNER_SIZE = Size of hotel owner (control variable 2).

Table 9 presents the results of the five separate multiple regression analyses. In all cases the model is statistically significant ($p < .000$). Hypothesis 3 stated that greater owner power is associated with greater operator difficulty in securing a release of funds from the FF&E reserve. Table 9 shows that all five dimensions of power are significantly positively associated with operator difficulty in securing a release of funds from the FF&E reserve ($p < .01$; one-tail), thus providing strong support for hypothesis 3.

INSERT TABLE 9 ABOUT HERE

8.1. Discussion and conclusions

The broad objective of this study has been to shed light on the importance of power between hotel owners and operators mediated by a management contract. More specifically, the study has developed and tested hypotheses concerned with how the locus of hotel owner/operator power affects capital budgeting practice in Australia and New Zealand.

Support has been provided for the view that greater owner power is associated with greater owner involvement in the capital budgeting process. Observation of this relationship gives reason to anticipate the existence of several problematical hotel management contracting issues. Operators, for example, often complain that if their management fee is contingent upon performance then, “shouldn’t they be given the right to manage the hotel free from the

owner?” (Goddard & Standish-Wilkinson, 2002), as owner interference may carry the potential to reduce fee levels earned (Schlup, 2004). A further concern from an operator’s perspective concerns whether greater owner involvement may compromise their capacity to enhance the value of their brand. Schlup (2004) claims that for an operator to maximise the value of its brand, it needs full control over day-to-day operations. This factor underscores the potential for greater owner involvement giving rise to greater acrimony in the owner/operator relationship. Indeed, an owner’s engagement of an asset manager has been found to frequently trigger a more hostile relationship between owner and operator (Eyster, 1997a). Many operators react to the presence of an asset manager by attempting to keep the asset manager at arms-length and not well-informed with respect to senior hotel decision making (Feldman, 1995). Where acrimony in the hotel owner/operator relationship arises, it is likely to adversely affect a hotel’s performance. Further research investigating factors relating to owner involvement in hotels managed via a management contract is to be welcomed. It is notable that in recently negotiated management contracts, there appears to be an increasing incidence of ‘non-disturbance’ clauses, whereby owners provide an assurance that they will not encumber or prevent the operator from undertaking the job that they have been contracted to perform (Crandell, Dickinson, & Kanter, 2004).

The finding concerning a significant positive relationship between owner power and an emphasis on financial analytical tools in capital budgeting was supported across all dimensions of power. Rationale for this hypothesis was built on the premise that owners will view a financial analysis as constituting a more rigorous examination of a capital expenditure proposal than a non-financial analysis. Several commentaries have noted that financial emphasis in investment appraisal should be calibrated to the scale, risk and nature of a project under consideration (Burns & Walker, 1997; Hill, 1985; Ross, 1995). It has been noted that

heavy emphasis on financial analytical tools in capital budgeting does not necessarily translate into better firm performance in the market place, however (Baldwin & Clark, 1994; Cooper & Petry, 1994; Johnson, 1994). Accordingly, owners with high power and a concern to closely monitor the actions and performance of a hotel operator may in fact stifle investment appraisal through excessive use of financial analytical tools. Another factor could also be at play here. A further advantage of an emphasis on financial analytical tools is that it would lay the basis for a post completion audit being conducted. A post-completion audit involves a comparison between pre-investment cash flow estimates and the actual cash flow achievements of a project once it is underway (see Chenhall & Morris, 1993; Gadella, 1986; Pierce & Tsay, 1992). Motivation for conducting a post completion audit would appear to be heightened in the context of a management contract, as it promotes greater accountability of a hotel operator to a hotel owner.

Hypothesis 3 posited that greater owner power is associated with greater operator difficulty in securing a release of FF&E reserve funds. Support was provided for this hypothesis across all five dimensions of power. Turner and Guilding (2010b) note that the majority of management contract base fees are determined by gross revenue and then describe how this provides operators with an incentive to promote capital expenditure proposals that maximise revenue, without necessarily yielding a positive impact on profit. Further, an operator with a remuneration based on revenue has no incentive to initiate cost-saving hotel capital expenditure proposals. Operator base fees aligned with profit also promote a lack of capital expenditure goal congruency (see Turner & Guilding, 2010b). Given the finding that owners with greater power exercise greater restraints with respect to the release of FF&E reserve funds, we anticipate that owners may be using their power advantage to control the way FF&E reserve funds are expended. Powerful owners, for example, would be well positioned

to block funding for those projects that they see as providing an insufficient return on investment. Further research is called for to not only further examine this relationship, but also to more generally explore the ways in which FF&E reserve accounting can reflect and affect the particularities of a hotel owner/operator relationship.

With respect to the way that power has been measured in this study, it should be acknowledged that the context of the current study necessitated the measure being adapted from what was available in the literature. This signifies that the measurement of the variable that lies at the heart of this study does not carry the benefit of a history of prior application in research. It is also noteworthy that within each of the separate regression analyses run in connection with testing the three hypotheses, each dimension of power was found to be highly statistically significantly associated with the three dependent variables under examination. As a result, and despite the power literature advancing five distinct dimensions of power (French & Raven, 1959), this study provides a justification, in future hotel management contracting studies, to measure power using a much more parsimonious holistic measure that would greatly reduce the number of items used to measure power in the current study. For future researchers specifically interested in this variable, a second alternative approach to measuring power that could be adopted would be to administer the questionnaire survey to a matched sample of owners and operators of hotels. This would enable a reliability check to be made of the data collected from each hotel site. Gaining access to a broad enough sample of matched owners and operators could prove difficult, however.

Further research concerned with hotel owner/operator power could examine the antecedents of power. Questionnaire based research that determines to what extent the locus of power is affected by factors such as the strength of an operators brand, the size of an owner, whether a

hotel has an iconic location, etc., could usefully extend our understanding of the nature and significance of the locus of power variable. A further potentially interesting area of research that could build on the study reported herein could seek to determine the sensitivity of hotel management contract clauses to different distributions of power between hotel owners and operators. It could be, for example, where an owner is in a powerful negotiating position, there is a high likelihood that the FF&E reserve is notionally based and not cash based, as it appears owners prefer the additional flexibility of notional FF&E reserves (Turner & Guilding, 2010a). It is notable, however, that Schlup (2004) claims that it is likely to be extremely difficult to weigh up the advantages and disadvantages of all hotel management contract clauses. Further possible research avenues could examine the owner / operator power balance in connection with important outcome variables such as performance, as well as operational facets, such as an owner's control of accounting and the manner in which a capital expenditure bank account is maintained. An examination could also be made of factors affecting the sufficiency of capital expenditure reserve accounts, as capital expenditure reserve account adequacy could be a key factor affecting a range of capital expenditure dynamics in hotels mediated by a management contract.

The relative novelty of this study signifies that it may carry significant forerunner qualities. We anticipate that researchers interested in hotel management contracts will find this study to be a valuable platform from which to build further research. An ambitious, but potentially fruitful line of further research enquiry would be to replicate this study across a range of countries. If this were done, a potentially useful lens through which to examine observed differences would be Hofstede's (see 2001, 2005) five dimensions of culture (i.e. power vs. distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, and long vs. short term orientation). Should data be collected across several countries, a

comparison of results using Hofstede's model may allow for a more in-depth understanding of the reasons behind any cross-country differences. Both hotel owners and operators would find such information useful if they were considering engaging in new overseas markets. It would appear the rapid growth of hotels in China could constitute a particularly rich domain of enquiry. Any reduction in barriers to entry would likely stimulate further investment into global hotel markets, which could serve to increase the overall size of the hotel industry on an international basis (Allison, 2004).

References

- Agbejule, A., & Saarikoski, L. (2006). The effect of cost management knowledge on the relationship between budgetary participation and managerial performance. *The British Accounting Review*, 38(4), 427-440.
- Akrivos, C., Ladkin, A., & Reklitis, P. (2007). Hotel managers' career strategies for success. *International Journal of Contemporary Hospitality Management*, 19(2), 107-119.
- Allison, S. (2004). Inward investment into the European hotel investment market. *Journal of Retail & Leisure Property*, 4(1), 50-60.
- Antle, R., Bogetoft, P. B., & Stark, A. W. (1999). Selection from many investments with managerial private information. *Contemporary Accounting Research*, 16(3), 397-418.
- Argyle, M. (1990). Soziale Beziehungen [Social relationships]. In W. Stroebe, M. Hewstone, J. P. Codol & G. M. Stephenson (Eds.), *Sozialpsychologie. Eine einfuehrung* (pp. 232-257). Berlin, Germany: Springer.
- Armitstead, M. (2004). Hotel management and operations options: Intellectual capital versus financial capital. *Journal of Retail & Leisure Property*, 3(4), 299-307.
- Bachman, J. G., Smith, C. W., & Slesinger, J. A. (1966). Control, performance, and satisfaction: An analysis of structural and individual effects. *Journal of Personality and Social Psychology*, 4(2), 127-136.
- Bader, E. E., & Lababedi, A. (2007). Hotel management contracts in Europe. *Journal of Retail & Leisure Property*, 6(2), 171-179.
- Baldwin, C., & Clark, K. (1994). Capital-budgeting systems and capabilities investments in U.S. companies after the Second World War. *Business History Review*, 68, 73-109.
- Barry, B., & Watson, M. R. (1996). Communications aspects of dyadic social influence in organizations: A review and integration of conceptual and empirical development. In B. R. Burleson (Ed.), *Communication yearbook* (pp. 269-317). Thousand Oaks, CA: Sage.
- Beals, P. (1995). The hotel management contract: Lessons from the North American experience. In P. J. Harris (Ed.), *Accounting and finance for the international hospitality industry*. Oxford: Butterworth-Heinemann.
- Beals, P., & Denton, G. A. (2005). The current balance of power in North American hotel management contracts. *Journal of Retail & Leisure Property*, 4(2), 129-146.
- Bento, A., & White, L. F. (2006). Congruence in management control practices. *International Journal of Accounting, Auditing and Performance Evaluation*, 3(3), 304-319.
- Brass, D. J. (2002). Intraorganizational power and dependence. In J. Baum (Ed.), *Companion to organizations* (pp. 138-157). Malden, MA: Blackwell Business.
- Burns, R. M., & Walker, J. (1997). Capital budgeting techniques among the Fortune 500: A rationale approach. *Managerial Finance*, 23(9), 3-16.
- Butler, R., Davis, L., Pike, R., & Sharp, J. (1993). *Strategic investment decisions: Theory, practice, and process*. London: Routledge.
- Carr, C., & Tomkins, C. (1996). Strategic investment decisions: The importance of SCM. A comparative analysis of 51 case studies in U.K., U.S. and German companies. *Management Accounting Research*, 7(2), 199-217.
- Cartwright, D. (1965). Influence, leadership, control. In J. March (Ed.), *Handbook of organizations* (pp. 1-47). Chicago: Rand McNally.
- Chami, R., & Fullenkamp, C. (2002). Trust and efficiency. *Journal of Banking and Finance*, 26(9), 1697-1933.
- Chen, S. (2008). DCF techniques and nonfinancial measures in capital budgeting: A contingency approach analysis. *Behavioral Research in Accounting*, 20(1), 13-29.

- Chenhall, R. H., & Morris, D. (1993). The role of post completion audits, managerial learning, environmental uncertainty and performance. *Behavioral Research in Accounting*, 5, 170-186.
- Cohen, J. (1988). *Statistical power analysis for the behavioral sciences* (2nd ed.). Hillsdale, NJ: Lawrence Erlbaum Associates.
- Collins, B. E., & Raven, B. (1969). Group structure: Attraction, coalitions, communications, and power. In G. Lindzey & E. Aronson (Eds.), *The handbook of social psychology* (Vol. IV, pp. 102-204). Reading, MA: Addison-Wesley.
- Condon, D. T., Blaney, T., & Harrington, D. J. (1996). How to finance capital expenditures: Capital spending decisions are a key to a club's future. *The Bottom Line*, 11(7), 6-7.
- Cooper, D. J., & Petry, G. (1994). Corporate performance and adherence to shareholder wealth-maximizing principles. *Financial Management*, 23(1), 71-78.
- Crandell, C., Dickinson, K., & Kanter, G. I. (2004). Negotiating the hotel management contract. In P. Beals & G. A. Denton (Eds.), *Hotel asset management: Principles & Practices*. East Lansing, MI: University of Denver and American Hotel & Lodging Educational Institute.
- Cremer, J., & Khalil, F. (1992). Gathering information before signing a contract. *American Economic Review*, 82(3), 566-578.
- Cremer, J., & Khalil, F. (1994). Gathering information before the contract is offered: The case with two states of nature. *European Accounting Review*, 38(3-4), 675-682.
- Cremer, J., Khalil, F., & Rochet, J.-C. (1998). Strategic information gathering before a contract is offered. *Journal of Economic Theory*, 81(1), 161-203.
- Emerson, R. A. (1962). Power-dependence relations. *American Sociological Review*, 27(1), 31-40.
- Etzioni, A. (1968). *The active society: A theory of societal and political processes*. London: Free Press.
- Eyster, J. J. (1993). The revolution in domestic hotel management contracts. *Cornell Hotel and Restaurant Administration Quarterly*, 34(1), 16.
- Eyster, J. J. (1997a). Hotel management contracts in the U.S.: The revolution continues. *Cornell Hotel and Restaurant Administration Quarterly*, 38(3), 14-21.
- Eyster, J. J. (1997b). Hotel management contracts in the U.S.: Twelve areas of concern. *Cornell Hotel and Restaurant Administration Quarterly*, 38(3), 21-34.
- Fairholm, G. W. (1993). *Organizational power politics: Tactics in organizational leadership*. Westport & London: Praeger.
- Feldman, D. S. (1995). Asset management: Here to stay. *Cornell Hotel and Restaurant Administration Quarterly*, 36(5), 36-52.
- Field, H. M. (1995). Financial management implications of hotel management contracts: A UK perspective. In P. J. Harris (Ed.), *Accounting and finance for the international hospitality industry*. Oxford: Butterworth-Heinemann.
- Forgacs, G. (2003). Brand asset equilibrium in hotel management. *International Journal of Contemporary Hospitality Management*, 15(6), 340.
- French, J., & Raven, B. (1959). *The bases of social power*. Ann Arbor: Institute for Social Research.
- French, J., & Raven, B. (1960). The bases of social power. In D. Cartwright & A. Zander (Eds.), *Group dynamics: Research and theory* (2nd ed., pp. 607-623). Evanston, Ill: Row, Peterson.
- Friedberg, E. (1992). Zur politologie von organisationen [On the politics of organizations]. In W. Kupper & G. Ortmann (Eds.), *Opladen, Germany*. Westdeutscher Verlag.
- Gadella, J. W. (1986). Post auditing the capital-investment decision. *Management Accounting (UK)*, November.

- Gannon, J., & Johnson, K. (1997). Socialization control and market entry modes in the international hotel industry. *International Journal of Contemporary Hospitality Management*, 9(5/6), 193-209.
- Garcia-Falcon, J. M., & Medina-Munoz, D. (1999). The relationship between hotel companies and travel agencies: An empirical assessment of the United States market. *The Service Industries Journal*, 19(4), 102-123.
- Geller, L. (2002). The demands of globalization on the lodging industry. *FIU Hospitality Review*(Spring), 1-6.
- Giddens, A. (1984). *The constitution of society*. Cambridge, England: Polity.
- Goddard, P., & Standish-Wilkinson, G. (2002). Hotel management contract trends in the Middle East. *Journal of Retail & Leisure Property*, 2(1), 66-71.
- Graham, J., & Harvey, C. (2001). The theory and practice of corporate finance: Evidence from the field. *Journal of Financial Economics*, 60(2, 3), 187-243.
- Guilding, C. (2003). Hotel owner/operator structures: Implications for capital budgeting process. *Management Accounting Research*, 14(3), 179-199.
- Guilding, C. (2006). Investment appraisal issues arising in hotels governed by a management contract. In P. J. Harris & M. Mongiello (Eds.), *Accounting and financial management: Developments in the international hospitality industry* (pp. 400 - 422). Oxford: Butterworth-Heinemann.
- Guilding, C., & Lamminmaki, D. (2007). Benchmarking hotel capital budgeting practices to practices applied in non-hotel companies. *Journal of Hospitality and Tourism Research*, 31(4), 486-503.
- Haast, A., Adler, A., Wynne-Smith, M., Gibson, D., Nair-Grepinet, A., Ottevaere, J., et al. (2006). The hotel ownership pendulum in motion (pp. 1-40): Jones Lang LaSalle Hotels.
- Haast, A., Dickson, G., & Braham, D. (2005). Global hotel management agreement trends (Vol. June, pp. 1-24): Jones Lang LaSalle Hotels.
- Hair, J. F., Anderson, R. E., Tatham, R. L., & Black, W. C. (2006). *Multivariate data analysis* (6th ed.). Englewood Cliffs, New Jersey: Prentice Hall.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate data analysis* (7 ed.): Upper Saddle River.
- Haka, S. F. (1987). Capital budgeting techniques and firm specific contingencies: A correlational analysis. *Accounting, Organizations and Society*, 12, 31-48.
- Hardy, C., & O'Sullivan, L. (1998). The power behind empowerment: Implications for research and practice. *Human Relations*, 51(4), 451-483.
- Hart, W., & Connor, F. L. (1994). Owners have power to cancel contracts. *Cornell Hotel and Restaurant Administration Quarterly*, 35(1), 14.
- Hickson, D. J., Butler, R., Cray, D., Mallory, G. R., & Wilson, D. C. (1986). *Top decisions: Strategic decision-making in organizations*. Oxford: Blackwell.
- Hill, T. (1985). *Manufacturing strategy*. London: MacMillan.
- Hinkin, T. R., & Schriesheim, C. A. (1989). Development and application of new scales to measure the French and Raven (1959) bases of social power. *Journal of Applied Psychology*, 74(4), 561-567.
- Hofstede, G. (2001). *Cultures consequences: Comparing values, behaviors, institutions, and organizations across nations* (2nd ed.). Thousand Oaks, CA: SAGE Publications.
- Hofstede, G. (2005). *Cultures and organizations: Software of the mind* (2nd ed.). New York: McGraw-Hill.
- Horwath & Horwath Ltd. (1988). Hotels of the future: Strategies and action plan. London: International Hotel Association.

- Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(October), 305-360.
- Johnson, H. T. (1994). Relevance regained: Total quality management and the role of management accounting. *Critical Perspectives on Accounting*, 5, 259-267.
- Kaplan, R. S. (1986). Must CIM be justified by faith alone? *Harvard Business Review*(March-April), 87-94.
- Kasavana, M. L., & Brooks, R. M. (1995). *Managing front office operations* (1st ed.). Michigan: The Educational Institute of the American Hotel and Motel Association.
- Keltner, D., Gruenfeld, D. H., & Anderson, C. (2003). Power, approach, and inhibition. *Psychological Review*, 110, 265-284.
- Kipnis, D. (1976). *The powerholder*. Chicago: University of Chicago Press.
- Krause, D. E., & Kearney, E. (2006). The use of power bases in different contexts. In C. A. Schriesheim & L. L. Neider (Eds.), *Power and influence in organizations: New empirical and theoretical perspective*. Greenwich, Conn: Information Age Publishing.
- Kutner, M. H., Nachtsheim, C. J., & Neter, J. (2004). *Applied linear regression models* (4th ed.). New York: McGraw-Hill/Irwin.
- Lambert, R. A. (2001). Contracting theory and accounting. *Journal of Accounting and Economics*, 3-87.
- Lefley, F. (2004). An assessment of various approaches for evaluating project strategic benefits: Recommending the strategic index. *Management Decision*, 42(7/8), 850-862.
- Lynch, B. (2002). Maximising FM's contribution to shareholder value part 1: Can the capital expenditure process for fixed assets be improved? *Journal of Facilities Management*, 1(1), 48-56.
- Marino, A. M., & Matsusaka, J. G. (2005). Decision processes, agency problems, and information: An economic analysis of capital budgeting procedures. *The Review of Financial Studies*, 18(1), 301-326.
- Mellen, S., Nylen, K., & Pastorino, R. (2000). CapEx 2000: A study of capital expenditures in the U.S. hotel industry (pp. 1-150). Alexandria, VA: International Society of Hospitality Consultants.
- Milani, K. (1975). The relationship of participation in budget-setting to industrial supervisor performance and attitudes: A field study. *The Accounting Review*, 50(2, April), 274-284.
- Mintzberg, H. D. (1983). *Power in and around organizations*. Englewood Cliffs, NJ: Prentice Hall.
- Mizruchi, M. S., & Yoo, M. (2002). Interorganizational power and dependence. In J. Baum (Ed.), *Companion to organizations*. Padstow, GB: Blackwell Business.
- Moyer, R. C., McGuingan, J. R., & Kretlow, W. J. (2001). *Contemporary financial management*. Cincinnati, Ohio: South-Western.
- Myers, S. (1984). Finance theory and financial strategy. *Interfaces*, 14(1), 126-137.
- Ocasio, W. (2002). Organizational power and dependence. In J. Baum (Ed.), *Companion to organizations* (pp. 363-385). Malden, MA: Blackwell Business.
- Parker, R. J., & Kyj, L. (2006). Vertical information sharing in the budgeting process. *Accounting, Organizations and Society*, 31(1), 27-45.
- Pfeffer, J. (1992). *Power-management*. Wien, Austria: Wirtschaftsverlag Ueberreuter.
- Pierce, B., & Tsay, J. (1992). A study of post-completion audit practices of large American corporations: Experience from 1978 to 1988. *Journal of Management Accounting Research*, 4, 131-149.
- Pike, R. (1996). A longitudinal survey of capital budgeting practices. *Journal of Business Finance*, 23(1), 79-92.

- Raven, B. (1990). Political applications of the psychology of interpersonal influence and social power. *Political Psychology*, 11(3), 493-520.
- Raven, B. (1992). A power/interaction model of interpersonal influence: French and Raven thirty years later. *Journal of Social Behavior and Personality*, 7(2), 217-244.
- Renard, J. S., & Motley, K. (2003). The agency challenge: How Woolley, Woodley, and other cases rearranged the hotel-management landscape. *Cornell Hotel and Restaurant Administration Quarterly*, 44(3), 58.
- Ross, S. (1995). Uses, abuses, and alternatives to the net-present-value rule. *Financial Management*, 24(3), 96-102.
- Rushmore, S. (2002). Hotel investments handbook. New York: HVS International.
- Ryan, P. A., & Ryan, G. P. (2002). Capital budgeting practices of the Fortune 1000: How have things changed? *Journal of Business and Management*, 8(4), 355-364.
- Schiff, C. (2006). What's next for better decision-making? *DM Review*, 16(12), 30-32.
- Schlup, R. (2004). Hotel management agreements: Balancing the interests of owners and operators. *Journal of Retail & Leisure Property*, 3(4), 331-343.
- Scholl, W. (1999). Restrictive control and information pathologies in organizations. *Journal of Social Issues*, 55(1), 101-118.
- Shank, J. K., & Govindarajan, V. (1993). *Strategic cost management: The new tool for competitive advantage*. New York, NY: The Free Press.
- Snyder, M., & Kiviniemi, M. T. (2001). Getting what they came for: How power influences the dynamics and outcomes of interpersonal interaction. In A. Y. Lee-Chai & J. A. Bargh (Eds.), *The use and abuse of power: Multiple perspectives on the causes of corruption* (pp. 133-158). Ann Arbor, MI: Sheridan Books.
- Sunder, S. (1980). Corporate capital investment, accounting methods and earnings: A test of the control hypothesis. *The Journal of Finance*, 35(2), 553-558.
- Swing, R. (2004). Asset success hinges on relationship between owner, asset manager, GM. Retrieved 18 Sept, 2006, from <http://www.reforum.com>
- Thibaut, J. W., & Kelley, H. H. (1959). *The social psychology of groups*. New York: Wiley.
- Turner, M. J., & Guilding, C. (2010a). Accounting for the furniture, fittings & equipment reserve in hotels. *Accounting and Finance*, 50(4), 967-992.
- Turner, M. J., & Guilding, C. (2010b). Hotel management contracts and deficiencies in owner-operator capital expenditure goal congruency. *Journal of Hospitality and Tourism Research*, 34(4), 478-511.
- Vallen, J. J., & Vallen, G. K. (2005). *Check-in check-out: Managing hotel operations* (7th ed.). Upper Saddle River, New Jersey: Pearson Education.
- Yukl, G., & Falbe, C. M. (1991). Importance of different power sources in downward and lateral relations. *Journal of Applied Psychology*, 76(3), 416-423.

TABLE 1 Questionnaire survey reply pattern				
	Country			
	Australia (<i>n</i>)	New Zealand (<i>n</i>)	Total (<i>n</i>)	% of final responses
First mailing	55	28	83	41.5%
Second mailing	36	11	47	23.5%
Industry distribution	41	10	51	25.5%
Emailing distribution	10	6	16	8.0%
Telephone	3	0	3	1.5%
<i>Total number of responses</i>	<i>145</i>	<i>55</i>	<i>200</i>	<i>100%</i>
<i>Total number in sample</i>	<i>437</i>	<i>184</i>	<i>621</i>	
<i>Total response rate</i>	33.18%	29.89%	32.21%	
Hotels with a management contract	85	16	101	50.5%

TABLE 2 Overview of items used to measure hotel owner involvement in the capital budgeting process			
Q'naire Item	Elements of Milani's (1975) six item budgetary participation instrument	Current study's question	Likert scale
1	The portion of the budget the subordinate was involved in setting?	To what extent is your hotel owner involved in the hotel's capital budgeting process?	1 = Not at all 7 = To a large extent
2	The frequency of budget-related discussions initiated by the subordinate?	How often does your hotel owner initiate capital budgeting proposals without being asked?	1 = Never 7 = Very often
3	The amount of influence the subordinate felt he had on the final budget?	How much influence do you feel your hotel owner has on the final approved capital budget in your hotel?	1 = No influence 7 = A great deal of influence
4	The importance of the subordinate's contribution to the budget?	How do you view your hotel owner's contribution to the capital budgeting process?	1 = Not substantial 7 = Very substantial
Not used	The frequency of budget-related discussions initiated by the subordinate's superior when budgets are being set?	-	-
Not used	The kind of reasoning provided to the subordinate by a superior when the budget is revised?	-	-

<p style="text-align: center;">TABLE 3 Questionnaire items used to measure emphasis on financial analytical tools</p>				
Categories of Butler <i>et al.</i> (1993)	Current study's measurement statements^a	Mean	Standard deviation	<i>n</i>
Financial	F1. The proposal is justifiable on financial grounds.	6.15	0.82	101
	F2. Cash flow and profitability forecasts support the proposal's viability.	5.96	1.06	101
	F3. The project's budget provides a good financial return.	6.02	1.03	101
Strategic factors (non-financial)	S1. The proposal can be justified on the basis of gaining marketplace competitive advantage.	5.30	1.23	101
	S2. The proposal is justified by a thoroughly conducted strategic analysis (e.g. competitive positioning analysis, SWOT analysis).	5.16	1.30	101
	S3. The project represents an opportunity to pre-empt the competition.	4.50	1.44	101
Political factors (non-financial)	P1. The proposal's main sponsor (i.e. the manager most closely associated with the project's initiation and development) has a strong company track record.	3.90	1.73	101
	P2. The manager acting as the proposal's sponsor is a shrewd negotiator.	3.43	1.61	99
	P3. The manager acting as the proposal's sponsor understands internal politics and uses this to their advantage in seeking company approval.	3.50	1.85	101
Intuitive factors (non-financial)	I1. The proposal appears justifiable on intuitive grounds.	3.00	1.53	101
	I2. Experience suggests that the project will be successful.	4.13	1.54	101
	I3. On the face of it, the proposal makes sound commercial sense.	5.19	1.49	101

^a Prior to posing the questions, the questionnaire stated: 'In your hotel, to what extent do the following factors influence whether an investment proposal is given the go ahead?' All items were posed using a 7-point Likert scale: 1 = 'not at all'; 7 = 'to a large extent'

TABLE 4 Factor analytic pattern matrix of items underlying the emphasis on financial analytical tools measure				
Questionnaire item	Thematic origin^a	Intuitive and political factor	Financial factor	Strategic factor
I2	Intuitive	.863		
P2	Political	.830		
P3	Political	.786		
P1	Political	.743		
I1	Intuitive	.687		
I3	Intuitive	.598		
F2	Financial		.869	
F3	Financial		.795	
F1	Financial		.640	
S1	Strategic			.904
S2	Strategic			.497
S3	Strategic			.481
<i>Eigenvalue</i>		<i>3.830</i>	<i>2.608</i>	<i>1.128</i>

^a The ‘strategic factor’, ‘political factor’ and ‘intuitive factor’ are each distinct orientations concerning non-financial approaches to investment appraisal. The ‘financial factor’ gauges the extent to which financial considerations influence whether a capital expenditure proposal is supported.

TABLE 5 Overview of items used to measure locus of power between hotel owner and operator				
French and Raven's (1959) power base	Author	Author's original item	Current study's adapted item ^a	Mean (standard deviation)
Reward Power	Hinkin and Schriesheim (1989)	My supervisor can increase my pay level?	RW1: Which entity is in a stronger position to provide you with increased pay?	2.68 (1.74) <i>n</i> = 101
	Hinkin and Schriesheim (1989)	My supervisor can influence my getting a promotion?	RW2: Which entity is in a stronger position to influence your next promotion?	2.23 (1.45) <i>n</i> = 100
	Bachman, Smith and Slesinger (1966)	My supervisor can give special help and benefits to those who cooperate with him?	RW3: Which entity is in a stronger position to give you special help and benefits in return for your co-operation?	3.18 (1.28) <i>n</i> = 99
Coercive power	Bachman, Smith and Slesinger (1966)	My supervisor can apply pressure or penalize those who do not cooperate [with them]?	C1: Which entity is in a stronger position to put pressure on you if they perceive you to not be supportive of their wishes?	3.33 (1.39) <i>n</i> = 101
	Hinkin and Schriesheim (1989)	My supervisor can make things unpleasant here?	C2: Which entity is in a stronger position to make things unpleasant for you at the hotel?	3.96 (1.17) <i>n</i> = 97
	Hinkin and Schriesheim (1989)	My supervisor can make my work difficult for me?	C3: Which entity is in a stronger position to make your work difficult?	3.79 (1.25) <i>n</i> = 97
Legitimate power	Bachman, Smith and Slesinger (1966)	My supervisor has a legitimate right, considering his position, to expect that his suggestions will be carried out?	L1: Which entity is in a stronger position to require that their suggestions are carried out?	3.63 (1.28) <i>n</i> = 101

	Hinkin and Schriesheim (1989)	My supervisor can give me the feeling that I have responsibilities to fulfill?	L2: Which entity in a stronger position to give you a sense of importance associated with fulfilling your responsibilities?	3.62 (1.19) <i>n</i> = 100
	Hinkin and Schriesheim (1989)	My supervisor can make me feel like I should satisfy my job requirements?	L3: Which entity is in a stronger position to make you want to achieve a high level of performance?	3.50 (1.40) <i>n</i> = 100
Expert power	Yukl and Falbe (1991)	My supervisor has the experience and knowledge to earn my respect, and for me to defer to his/her judgment in some matters?	E1: Which entity is in a stronger position to command your respect?	3.91 (1.19) <i>n</i> = 101
	Hinkin and Schriesheim (1989)	My supervisor can give me good technical suggestions?	E2: Which entity is in a stronger position to provide you with good technical suggestions?	2.77 (1.26) <i>n</i> = 101
	Hinkin and Schriesheim (1989)	My supervisor can provide me with sound job-related advice?	E3: Which entity is in a stronger position to provide you with sound job-related advice?	2.59 (1.30) <i>n</i> = 100
Referent power	Bachman, Smith and Slesinger (1966)	I admire my supervisor for his personal qualities, and want to act in a way that merits his respect and admiration?	RF1: Which entity is in a stronger position to expect you to act in order to win their respect and admiration?	3.80 (0.98) <i>n</i> = 98
	Hinkin and Schriesheim (1989)	My supervisor can make me feel valued?	RF2: Which entity is in a stronger position to make you feel valued?	3.43 (1.36) <i>n</i> = 99
	Hinkin and Schriesheim (1989)	My supervisor can make me feel personally accepted?	RF3: Which entity is in a stronger position to provide you with a sense of being personally accepted?	3.46 (1.31) <i>n</i> = 100

^a Prior to posing the questions, the questionnaire stated “In terms of your hotel owner and your hotel operating company, which entity is in a stronger position to:”. All items were measured on a Likert scale where 1 signifies high operator power and 7 signifies high owner power.

<p>TABLE 6 Correlation matrix of model variables</p>										
	Hotel owner involvement in the capital budgeting process	Emphasis on financial analytical tools	Operator difficulty securing a release of funds from the FF&E reserve	Hotel size	Hotel owner size	Reward power	Coercive power	Legitimate power	Expert power	Referent power
Hotel owner involvement in the capital budgeting process	1.000	.246**	.100	.185*	-.029	.273**	.244**	.335***	.246**	.276***
Emphasis on financial analytical tools	.246**	1.000	.064	.210**	-.062	-.031	.127	.044	-.020	.176*
Operator difficulty securing a release of funds from the FF&E reserve	.100	.064	1.000	-.211**	-.007	-.033	.338***	.036	.101	.084
Hotel size	.185*	.210**	-.211**	1.000	-.063	.078	.090	.031	.014	.063
Hotel owner size	-.029	-.062	-.007	-.063	1.000	-.188*	-.312***	-.371***	-.228	-.353***
Reward power	.273***	-.031	-.033	.078	-.188*	1.000	.267***	.650***	.623***	.577***
Coercive power	.244**	.127	.338***	.090	-.312***	.267***	1.000	.442***	.277***	.335***
Legitimate power	.335***	.044	.036	.031	-.371***	.650***	.442***	1.000	.667***	.746***
Expert power	.246**	-.020	.101	.014	-.228**	.623***	.277***	.667***	1.000	.666***
Referent power	.276***	.176*	.084	.063	-.353**	.577***	.335***	.746***	.666***	1.000

* Significant ($p < .10$) two-tailed.

** Significant ($p < .05$) two-tailed.

*** Significant ($p < .01$) two-tailed.

TABLE 7 Regression analysis of hotel owner involvement^a						
	Reward power	Coercive power	Legitimate power	Expert power	Referent power	Variable inflation factor range^b
Power	.588*** (10.080)	.769*** (13.972)	.763*** (15.925)	.696*** (13.423)	.761*** (14.399)	3.08 – 3.95
Hotel size	.388*** (6.602)	.203*** (3.660)	.215*** (4.451)	.286*** (5.488)	.212*** (3.970)	3.13 – 3.99
Hotel owner size	.074** (2.187)	.075*** (2.635)	.087*** (3.435)	.063** (2.238)	.085*** (3.066)	1.05 – 1.05
Adjusted R²	.901	.933	.945	.930	.936	
F	273.21	406.99	518.10	405.31	423.18	
p	.000	.000	.000	.000	.000	
n	90	87	90	91	86	

a: Each cell reports the standardised regression coefficient followed by t-statistic in parentheses. For ‘Power’, one-tailed tests of statistical significance were employed. For the control variables of hotel size and hotel owner size, two-tailed tests of statistical significance were employed.

b: Due to some missing values for the dependent variable, the variable inflation factors (VIFs) exhibit a small degree of variation across the five regression equations formulated. The observed range of VIFs are reported.

** $p < .05$; *** $p < .01$.

<p>TABLE 8 Regression analysis of emphasis on financial analytical tools^a</p>						
	Reward power	Coercive power	Legitimate power	Expert power	Referent power	Variable inflation factor range^b
Power	.373*** (3.423)	.609*** (5.170)	.536*** (4.696)	.479*** (4.319)	.627*** (5.461)	3.08 – 3.93
Hotel size	.477*** (4.348)	.249** (2.097)	.323*** (2.804)	.383*** (3.441)	.233** (2.017)	3.12 – 3.97
Hotel owner size	.029 (.450)	.030 (.499)	.038 (.621)	.021 (.340)	.040 (.654)	1.05 – 1.05
Adjusted R²	.657	.696	.691	.683	.702	
<i>F</i>	57.89	66.51	67.19	65.61	67.72	
<i>p</i>	.000	.000	.000	.000	.000	
<i>n</i>	89	86	89	90	85	

a: Each cell reports the standardised regression coefficient followed by t-statistic in parentheses. For ‘Power’, one-tailed tests of statistical significance were employed. For the control variables of hotel size and hotel owner size, two-tailed tests of statistical significance were employed.

b: Due to some missing values for the dependent variable, the variable inflation factors (VIFs) exhibit a small degree of variation across the five regression equations formulated. The observed range of VIFs are reported.

** $p < .05$; *** $p < .01$.

TABLE 9 Regression analysis of operator difficulty securing a release of funds from the FF&E reserve (H3)^a						
	Reward power	Coercive power	Legitimate power	Expert power	Referent power	Variable inflation factor range^b
Power	.565*** (4.910)	1.011*** (10.454)	.820*** (7.383)	.787*** (7.298)	.844*** (7.531)	2.96 – 3.72
Hotel size	.253** (2.180)	-.160 (-1.640)	.014 (.122)	.058 (.532)	-.011 (-.097)	3.01 – 3.77
Hotel owner size	.091 (1.323)	.092* (1.787)	.105* (1.738)	.079 (1.312)	.104* (1.713)	1.06 – 1.06
Adjusted R²	.642	.804	.724	.722	.729	
<i>F</i>	48.73	107.60	71.10	70.18	71.09	
<i>p</i>	.000	.000	.000	.000	.000	
<i>n</i>	80	78	80	80	78	

a: Each cell reports the standardised regression coefficient followed by t-statistic in parentheses. For ‘Power’, one-tailed tests of statistical significance were employed. For the control variables of hotel size and hotel owner size, two-tailed tests of statistical significance were employed.

b: Due to some missing values for the dependent variable, the variable inflation factors (VIFs) exhibit a small degree of variation across the five regression equations formulated. The observed range of VIFs are reported.

* $p < .10$; ** $p < .05$; *** $p < .01$.