

Hotel Management Contracts: a Particularly Rich Research Context

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The objective of this article is to outline what a hotel management contract is, the main challenges arising, and why it is a particularly rich research context. The separation between ownership and management through a hotel management contract has become relatively widespread [1] and is seen as one of the driving mechanisms for the rapid internationalization of the hotel industry [2]. A hotel management contract enables a hotel owner to retain legal ownership of the hotel site, building, plant and equipment, furnishings and inventories, while the operator is responsible for the day to day business of the hotel [3]. The owner assumes full economic risk associated with ownership of the commercial asset, whereas, the operator is only responsible for the operation of the hotel [4].

Much of the reason for the popularity of management contracts is that the expertise required to operate a large hotel is more readily available under such an arrangement [5]. It enables a hotel owner to derive the benefit of owning a hotel without the requirement of having to operate it [6]. However, despite its popularity, the management agreement is the most problematic of all operating concepts in the hospitality industry [4]. The main challenge involves the agency relationship that arises from the separation of ownership and management [3], which can create a volatile mix of economics and power that can explode due to the differing time horizons of the owner and operator [7]. Operators, for example, are typically interested in achieving short-term cash flows, while hotel owners prefer the achievement of longer-term goals [8]. This situation is known as the 'horizon problem' [9]. Operators also continually drive to increase the value of their brand and the longevity of their management contracts held so that they can secure good opportunities from new contracts and increase the number of rooms under their management [7]. On the other hand, owners typically want to put their limited resources into projects that will maximize bottom-line returns [7].

Despite this most idiosyncratic facet of the hotel industry, little research has examined hotel management contracting and implications on hotel operation. To do this, researchers are likely to benefit by considering topics in which they specialize and how they might exploit the hotel management contracting context to advantage. As an example, issues pertaining to the topic of 'capital budgeting' have been investigated in areas such as deficiencies in owner-operator capital expenditure goal congruency [10], accounting for the furniture, fittings and equipment reserve [11], motivation of hotel owners and operators to engage in earnings management [12], factors affecting biasing of capital budgeting cash flow forecasts [13], and capital budgeting implications arising from locus of hotel owner/operator power [14]. Investigation of such issues would not have been possible outside of the management contracting context, thus allowing novel contribution.

Overall, the context of hotel management contracting is particularly rich and further research is called for. Research of this kind is important because it is likely to reduce the potential for acrimonious relationships arising between hotel owners and operators. Further, a better understanding of hotel management contracting could lower the risk of investment, which might enhance the liquidity, size, and number of investors willing to be involved in the market. Additional studies of this nature can add to the diversity of research being conducted, which

is likely to significantly add to our knowledge, thereby aiding decision-making, planning and control.

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