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

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

Disciplines
Hospitality Administration and Management

Comments
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November 17, 2016

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Acknowledgement

The authors appreciate the support of the hotel owners and members of The Hospitality Asset Managers Association (HAMA) of Asia Pacific, Europe and the Middle East & Africa, the European Hotel Managers Association (EHMA), and The Master Innholders who graciously provided the data used in this study. The lead author also acknowledges the support of the HES-SO/University of Applied Sciences Western Switzerland which provided the funding for this study.
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.

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1. Introduction

Hotel owners frequently contract hotel management companies to operate their hotels through formalized hotel management agreements (HMA) (deRoos, 2010; Melissen et al., 2016). Separating hotel ownership and operations through an HMA is said to benefit both parties. Owners are able to invest in hotel real estate and access the professional operating expertise of hotel management companies. In turn, these operators can generate important income streams, expand any brands they may have, and earn profits, without having to invest in the underlying real estate (Sohn et al., 2013).

Although both parties have a vested interest in the hotel’s success, their different sources of income (see Turner and Guilding, 2010b for a review), risk profiles (Eyster, 1988), and investment strategies (Turner and Guilding, 2014) mean that they often have misaligned goals (Schlup, 2004; Turner and Guilding, 2013). Such goal incongruence is emblematic of the well-established agency problem (Eisenhardt, 1989; Jensen and Meckling, 1976) whereby an agent (i.e., operator) may not always act in the principal’s (i.e., hotel owner) best interest, especially if their interests are in conflict (Mitchell and Meacheam, 2011). In order to reduce goal incongruence and improve firm performance, theory suggests that in a single agency scenario a principal will expend effort to monitor, control and/or influence its agent’s decisions and actions (Eisenhardt, 1989).

Hotels under management agreement are not, however, subject to a traditional single agency relationship. Instead, they involve a complex, tripartite, ‘multiple agency’ (Child and Rodrigues, 2003) relationship between the hotel’s owner, management company, and General
Manager (GM). Within this scenario the GM acts as an agent to two principals - the hotel’s owner and its operator (Hodari and Sturman, 2014) - while the latter is also the owner’s agent (Dev et al., 2010). As such, there are potential agency problems at two distinct levels of the relationship - between the two principals (owner and operator) and between each of them and their mutual agent (the GM).

Hotels operated under a management agreement thus provide a unique context within which to study managerial and organizational performance implications emanating from a ‘multiple agency’ scenario. Understanding the role of the GM is particularly important as Child and Rodrigues (2003) specifically note that while the agency theory literature has principally focused on the relationship between ownership and corporate management, it has largely ignored the second control relationship between corporate management and others in the firm (i.e., GMs) who execute its plans and policies.

Although GMs are consistently considered to be fundamental to a hotel’s success (e.g., Hodari and Sturman, 2014; Kim et al., 2015), the impact that the two principals’ goal congruence and control efforts have on GMs’ decision making, and their hotels’ performance, has not been empirically examined. In fact, while owner-operator goal congruence issues have been systematically studied with regard to HMA negotiations and contracts (Beals and Denton, 2005; deRoos, 2010; Eyster, 1997), researchers have begun to note the lack of similar knowledge about the implications of goal divergence and congruence once the management agreement has been signed and the hotel is operating under this arrangement (Guilding, 2006; Melissen et al., 2016).

This study seeks to make several contributions towards addressing this knowledge gap. First, we examine how owner-operator goal congruence relates to hotel performance. In this relationship the pivotal role of GMs is recognized as carrying potentially significant
implications. This is because GMs are typically responsible for day-to-day decision-making as they implement the hotel owner’s and/or operator’s strategic initiatives. Independently, both owners and management company executives impact GM autonomy (Hodari and Sturman, 2014; Takeuchi et al., 2008). Autonomy can also be influenced by conflicting objectives and demands from multiple superiors (Kahn et al., 1964; Rizzo et al., 1970). We thus investigate whether different degrees of owner-operator goal congruence have distinct relationships with GM autonomy. Both autonomy (Braadbaart et al., 2007) and conflicting demands (Tubre and Collins, 2000) can impact managerial effectiveness. We therefore examine the link between GM autonomy and hotel performance. The mediating and moderating roles of GM autonomy with owner-operator goal congruence on hotel performance are also hypothesized and tested through our unique matched sample of surveys obtained from both owners and operators across 64 hotels. Our study also contributes to the agency theory literature by specifically examining the managerial and organizational performance implications emanating from the different relationships in a multiple rather than single agency scenario.

2. Literature review and hypothesis development

2.1. The agency problem

An agency relationship arises when there is a contract whereby one party (the principal) appoints another party (the agent) to perform some service on its behalf. However, because principals and agents often have very different and/or conflicting goals, agents frequently act in ways which are not necessarily in their principal’s best interest (Eisenhardt, 1989; Zhang et al., 2015). These agency problems commonly arise when ownership and management functions are separated (Schulze et al., 2001).
Such agency problems may be mitigated to some extent through the monitoring of agent activities (Heide et al., 2007). This is difficult for principals, however, when they suffer from a large degree of information asymmetry vis-a-vis their agent because this limits their ability to evaluate their agent’s decisions and actions (Cuevas-Rodriguez et al., 2012; Sharma, 1997). In such situations, the principal’s involvement in their agent’s decision making may help to control and/or influence the latter’s choices and actions and thus their potential for opportunistic behavior.

Agency theory has almost exclusively investigated such behavior-based control mechanisms in single agency settings involving only one agent and one principal (see Cuevas-Rodriguez et al., 2012). However, due to strategic alliances and new organizational forms, there is an increasing prevalence of organizational arrangements involving multiple principals and agents (Child and Rodrigues, 2003). ‘Multiple agency’ problems arise because agency can exist at several levels of the relationships between principals, agents and an agent’s key manager. This also often produces two sets of control relationships because an agent can report to two principals. As a result, the clear hierarchical lines and formalized decision-making authority used to achieve top-down operational control and influence in single agency situations are less clear and likely less effective (Guthrie et al., 2008). Child and Rodrigues (2003) thus question the applicability of previous agency research about the nature and control of the agency problem in such scenarios and call for empirical work in ‘multiple agency’ organizational arrangements.

Hotels operated under management agreement provide a unique context within which to study this phenomenon.

2.2. Hotel management agreements, goal congruence and agency
The traditional scenario whereby a hotel owner engages a GM results in a single principal-agent situation (Panvisavas and Taylor, 2008). An HMA, however, implies multiple principals and agents since not only do owners and operators both act as principals to a single agent (the GM), but because the operator is also the owner’s agent (Dev et al., 2010). Although the GM is usually an employee of the management company, given the position’s responsibilities and the HMA reporting structure, they are typically responsible to both the owner and operator. As a result, the GM is effectively the primary agent acting on behalf of both principals (Hodari and Sturman, 2014). HMAs therefore create a myriad of opportunities and incentives for multiple agents to shirk on their efforts; they require extensive and expensive monitoring by principals and are, unsurprisingly, considered to be the most problematic of all operating concepts in the hospitality industry (Schlup, 2004).

Studies of HMAs have regularly demonstrated that owners and management companies have specific and conflicting demands and expectations with regard to their respective roles, responsibilities and objectives (e.g., Beals and Denton, 2005; Eyster, 1997; Turner and Guilding, 2013). For example, the vast majority of operator fees are derived as a percentage of the hotel’s sales and they may spend resources to generate these even if the owner does not receive a corresponding increase in profit (Turner and Guilding, 2013). Operators are also strategically focused on the reputation of their brands and hotel-level decisions may support this at the owner’s expense (deRoos and Wiseheart, 2016). Furthermore, because they do not share in the corresponding profit, operator decisions may not be aligned with increasing the property’s real estate value even though asset value appreciation is of paramount importance to owners (Dev et al., 2010). As such, operators may invest the hotels’ financial resources in ways that strengthen the brand’s standards and reputation even though they may not increase the value of the owner’s
underlying investment. There is also a potential ‘horizon problem’ (Turner and Guilding, 2013) because operators tend to emphasize customer relationships and long-term success of their business while owners are more likely to have a short-term focus that emphasizes payback and return.

Implications of the divergent interests of owners and operators, and the challenges arising from this split between ownership and management, have been studied and discussed most extensively with regard to the contractual relationship achieved through the HMA, including, for example, the establishment of specific clauses to better align their interests (Beals and Denton, 2005; deRoos, 2010; Eyster, 1997; Schlup, 2004). The increasing demand of owners to have more say in property-level operational and managerial decisions (Beals and Denton, 2005), as well as pressure for HMAs to include performance-based incentive fees, guarantees and more generous termination clauses (Bader and Lababedi, 2007; deRoos, 2010; Gannon et al., 2010) demonstrate not only an acknowledgement that the two parties’ divergent goals require better alignment, but also that as owners they must closely monitor and control their operators, especially because owners have the ultimate burden to ensure that their hotels are properly managed (deRoos and Wiseheart, 2016).

Researchers have recently begun to empirically investigate some of the capital expenditure (Turner and Guilding, 2010a), human resources (Gannon et al., 2010) and managerial (Hodari and Sturman, 2014) implications resulting from the owner-operator split. These studies have found that the two parties’ conflicting objectives often create challenges for the management company to implement operational and strategic decisions. These challenges are often due to increased owner influence (see Beals and Denton, 2005; Eyster, 1997). Owners’ influence, however, extends beyond the corporate boardroom and contract negotiations; they also
influence property-level decisions and performance (Gannon et al., 2010; Xiao et al., 2012),
which can reduce operator incentive fees (Schlup, 2004). This has led operators to 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, p. 8).

As the nexus between owner and operator, GMs are highly subject to the challenges
which arise from their split (Guilding, 2006). Low goal congruence should have a particularly
strong impact on GMs as they act as agents to both owner and operator. This is because goal
incongruence between multiple principals often creates conflicting mandates for agents (Buckley
and Chapman, 1997) who thus face “wrenching choices among the legitimate interests of
multiple principals” (Shapiro, 2005; p. 279).

Greater goal alignment between principals, meanwhile, suggests that agents will be less
conflicted about what to do, and thus be more effective. One reason for this is that aligned
principals are more likely to send one clear management message to their mutual agent, thereby
reducing the conflict which normally arises when one receives incompatible job demands from
multiple superiors (Kahn et al., 1964). Similarly, their agent is more likely to receive a more
cohesive and explicit set of tasks and directives, thereby reducing ambiguity concerning his/her
role (Rizzo et al., 1970). This is important since alliances and outsourcing can increase a
hospitality manager’s level of both ambiguity and conflict (Hodari et al., 2014), both of which
have been repeatedly found to decrease managerial performance (see Tubre and Collins, 2000).
Thus, greater goal congruence should mean that their mutual agent is less divided about which
principal to serve since his/her actions are more likely to simultaneously align with each of the
principals’ goals.
Increased goal congruence between hotel owners and operators should therefore result in a more consistent, cohesive and effective set of decisions with regard to the hotel’s management.

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

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

### 2.3. Autonomy and the hotel general manager

When multiple principals’ performance objectives are different, or in conflict, then their mutual agent’s decisions cannot be simultaneously in all principals’ best interests (Shapiro, 2005). To overcome this, agency theory suggests that each principal will be incentivized to invest resources into monitoring their agent in order to exert additional control and thus better align their agent’s interests with their own rather than those of the other principal. Active monitoring of an agent’s behavior may, however, decrease managerial effectiveness and firm performance (Eisenhardt, 1989; Jensen and Meckling, 1976).

While they are formally in charge of their hotel and are responsible for achieving property-level objectives, GMs of hotels operated under management agreement are accountable to both the owner and corporate executives in their management company’s hierarchy (Corgel et al., 2011). GM autonomy has been found to be significantly less in chain-managed hotels than in independently-managed hotels where there is only one principal (i.e., owner) (Hodari and Sturman, 2014). GM autonomy is thus likely to be contingent on the amount of goal congruence between owners and operators because greater congruence suggests a reduced need for each party to seek to influence and control the GM. As such, we hypothesize that:
H2. Owner-operator Goal Congruence is positively associated with GM Autonomy.

Greater monitoring also erodes the agent’s autonomy to make important decisions without control, approval and/or interference from higher hierarchical levels (Brock, 2003; Ouakouk et al., 2014). This is important because the discretion that autonomy provides managers with can improve their operational effectiveness (Brousseau and Glachant, 2002), resource allocation decisions (Gong et al., 2007), new product and service development (Peteraf and Reed, 2007), and firm performance (Yan et al., 2010). As such, decreased autonomy can often reduce both managerial and firm performance (Braadbaart et al., 2007; Langfred and Moye, 2004). We thus hypothesize:

H3. GM Autonomy is positively related to Hotel Performance.

Given the overall importance of goal congruence for hotel performance, although we expect that owner-operator congruence will be associated with greater GM autonomy, we do not expect GM autonomy to fully capture the effect of such congruence. While goal congruence should be positively related to hotel performance through its influence on GM autonomy, goal congruence should also affect hotel performance through other means. As such, we predict:

H4. The effect of owner-operator Goal Congruence on Hotel Performance will be partially, but not fully, mediated by GM Autonomy.

In fact, given the importance of goal congruence for the successful performance of a hotel, we expect that the positive effects of this congruence will be greater than just its direct and mediated effects. We expect that goal congruence will be more effective when the GM simultaneously has the autonomy to act. That is, the potential value from the goal congruence can be better unleashed when the GM has the ability to act on those goals and achieve the desired
results. As such we expect that in addition to its hypothesized direct (hypothesis 1) and mediated (hypothesis 4) effects, goal congruence’s relationship to performance should also be moderated by autonomy. Specifically, we posit the following hypothesis:

**H5.** GM Autonomy will moderate the effect of owner-operator Goal Congruence on Hotel Performance, such that the positive effect of owner-operator Goal Congruence on Hotel Performance should increase with higher levels of GM Autonomy.

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

### 3. Methods

#### 3.1. Sample

Online surveys were distributed to hotel owner, manager and asset management associations during 2015. These included the Hospitality Asset Managers Associations (HAMA) of Asia Pacific, Middle East & Africa, and Europe, the European Hotel Managers Association, the Master Innholders, and HOFTEL. Our aim was to have both the hotel’s owner and manager (as management company representative) answer the survey so that we could generate matched response pairs for each hotel. Not only did this provide a useful way to avoid common method bias (Podsakoff et al., 2003) but also allowed us to specifically examine goal congruence in these hotels.

We asked respondents to answer the questionnaire designated for them (with GMs instructed to respond from the management company’s perspective) and to forward a link with the other party’s questionnaire to their counterpart (i.e., an owner forwarded it to the hotel’s GM
or vice-versa). Completed questionnaires from a total of 112 management companies and 89 hotel owners (or their asset manager) were collected.\(^1\) This resulted in 64 matched pairs where both a GM and an owner responded for the same hotel. There were 48 GMs whose response could not be matched with an owner and 25 owners whose responses were not matched with a GM. A total of 201 individuals thus completed our survey, of which 128 formed the 64 matched pairs.

In order to assess potential concerns associated with nonresponse bias, we compared the respondents with matched data with those with unmatched data. We found that hotel performance as reported by owners (\(p = 0.60\)), GM Autonomy (\(p = 0.19\)) and GM Experience (\(p = 0.13\)) were not significantly different across matched and unmatched hotels. We thus conclude that our relatively small matched sample is representative of our total sample.

We also found that \((p < 0.05)\) matched hotels were larger (358 rooms) than those that did not match (194 rooms) and that owners of unmatched hotels reported higher performance than those of matched hotels \((p < 0.05)\). Given this difference, we sought to determine if this could limit the generalizability of our results. It is possible that our tests for the relationship between congruence and performance may have been based more heavily on underperforming hotels; however, further examination of the performance measure suggests that this is not a substantive concern.

The final sample still had a wide range of performance levels (from 1.44 to 5.81). Additionally, performance ratings were somewhat positively skewed (mean of 4.29, SD of 0.92). Thus, having a somewhat greater number of lower-performing hotels actually provided data with better distributional characteristics with which to test our hypotheses; furthermore, we are clearly not

\(^{1}\) 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.
lacking representation from higher-performing hotels. Thus, while it is important to point out the differences discovered in our sample for completeness, subsequent examination of the data suggests that it should not have a detrimental effect on subsequent analyses or the generalizability of findings.

3.2. Measures

3.2.1. Goal congruence

This was constructed by considering the level of agreement between owners and operators’ ratings about the relative priority of 21 different operational objectives across five functional areas (Human Resource, Finance, Sales and Marketing, Property, and Operations) over the following 2 years. A sample item asked “What should be the relative priority of each of the following financial choices for the hotel over the next two years?” A scale from 1 to 6 was used (where 6 indicated higher priority).

The overall measure of Congruence was computed as the Euclidian distance between each of the individual priority questions. However, to rescale the measure so that higher values indicate greater congruence, we subtracted the sum from the maximum possible (i.e., (6-1)^2) value so that:

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

Congruence measures for each individual functional area were similarly computed, but using only the subset of items related to the specific function. These too were reverse-scored so that higher values denoted more congruence. Note that a small number of individual items were left blank by some respondents (<2%). We thus imputed missing values to avoid biases.
associated with list-wise deletion and to maintain as much power as possible (Little and Rubin, 2014).

The measures had acceptable (alpha > .70) reliability for each of the functional areas. These separate scales were computed for descriptive purposes. But the study’s focus is on the overall level of congruence, and the final 21-item congruence measure had a high level of reliability (alpha = 0.91).

3.2.2. GM autonomy

This was measured for each functional area (HR, Operations, Finance, Marketing, and Property) and based on an established scale (Hodari and Sturman, 2014). A sample item included “what is the relative amount of influence the GM has on each of the hotel’s financial decisions?” One item was asked for each functional area, on a scale from 1 to 5 (5 indicating higher autonomy). The final scale was computed as the average of the 5 items. The resultant scale had high internal reliability (alpha = 0.93).

3.2.3. Hotel performance

This was measured by the owners on 16 different performance aspects across the functional areas: 4 corresponded to operations; 4 to marketing; 3 to human resources; 4 to finance; and 2 corresponded to the hotel’s physical property. We incorporated non-financial measures of performance. Patiar and Wang (2016) note that while the practice of using such measures is not yet common among hotels, they are increasingly used in the wider business environment to monitor business processes and development. A sample item asked “In your opinion, how successful has the hotel been with regard to (Guest Satisfaction) over the past 12 months?” Each item was evaluated on a 6-point scale (with 6 indicating higher performance). A small number of individual items were left blank by some respondents (<5%). We thus imputed
missing values to avoid biases associated with list-wise deletion and to maintain as much power as possible (Little and Rubin, 2014). The final scale was computed as the average of the 16 items and had high internal reliability (alpha = 0.95).

3.3. Analytical approach

Analyses were conducted using MPlus 7.4 (Muthen and Muthen, 2015) with the maximum likelihood estimator to conduct the hypothesis tests. To test our model, we followed an item-parceling strategy (Landis et al., 2000). This method is particularly appropriate when the study focuses on the relationships between latent constructs and not specifically about scale items (Williams and O’Boyle, 2008). Previous research has shown that parceling positive affects fit indices without biasing parameter estimates (Nasser- Abu Alhija and Wisenbaker, 2006; Nasser and Wisenbaker, 2003). Specifically, we pursued a random parceling strategy by creating four parcels of four randomly selected items (without replacement). Landis et al. (2000) showed that random parceling is an effective strategy for both improving model fit and facilitating model estimation. To test the robustness of the approach, we repeated the process of creating random parcels a total of five times; however, there were no differences across the five models in terms of the statistical significance of any of the path coefficients.

To serve as a base case, and to help rule out alternative explanations for the role autonomy may have, we first conducted a baseline model (Model 1) with both GM Autonomy and Hotel Performance being predicted by four control variables: GM experience, if the owner employs an asset manager, if the GM primarily reports to the owner/asset manager (as opposed to a management company executive), and the number of rooms in the hotel. GM experience was controlled for as it has been shown to impact both autonomy (Hodari and Sturman, 2014) and
hotel performance (e.g., Guerrier, 1987). We wanted to control for the presence of asset managers because they may impact hotel performance (Singh et al., 2012), and because failing to control for their presence could provide alternative explanations for our hypothesized relationships because an asset manager represents an additional individual in the owner- operator - GM relationship. It is our understanding that in Europe, it is usually the owner that employs the GM while in the U.S. the GM is employed by the operator, and given the nature of the study we believed that the difference in to whom the GM reports could be a potentially important variable to consider. Finally, the number of rooms was used as we suspected that because of previous research, hotel size could impact hotel performance (Claver-Cortes et al., 2007). Note that because of the skewed distribution of hotel size, expressed in rooms, we used a logarithmic transformation of rooms to reduce the leverage of high values and to make the distribution of room sizes more approximate of a normal distribution. Tests of the five hypotheses then required a variety of additional analyses that built upon this base model.

3.3.1. Test of hypotheses 1-3

The first three hypotheses consider the relationships between GM Autonomy, Goal Congruence, and Hotel Performance. We used correlation analyses to look at overall effects. We also examined the parameter estimated from the structural equations model (SEM). The SEM model included a path from Goal Congruence to GM Autonomy, as well as a path to Hotel Performance. The model also included a path from GM Autonomy to Hotel Performance.

3.3.2. Test of hypothesis 4

Hypothesis 4 predicts that GM Autonomy will partially mediate the effects of Goal Congruence on Hotel Performance. For this analysis, we tested the significance of the indirect
effect using bootstrapping procedures (Preacher and Hayes, 2004; Shrout and Bolger, 2002) based on sample of 5000 draws.

3.3.3. Test of hypothesis 5

Hypotheses 5 considered the hypothesized moderation of autonomy and goal congruence in the prediction of hotel performance. To test moderation, we examined the interaction of GM Autonomy with the Congruence measure. To test the interaction, the latent moderated structural equations approach was used (Klein and Moosbrugger, 2000) using the XWITH command in Mplus (Muthen and Muthen, 2015).

It is important to note that for the latent moderated structural equations approach, model fit indices generally used to interpret the fit of SEMs—such as CFI, TLI, RMSEA, and $X^2$—have not been developed for LMS models. Instead, to determine if the model with the interaction has better relative fit, we conducted a log-likelihood ratio test (Satorra and Bentler, 2010). The test statistic for a log-likelihood ratio test is calculated using the following equation:

$$D = -2[(\text{log-likelihood for model without interaction}) - (\text{log-likelihood for with interaction})],$$

which follows a chi-square distribution with the degrees of freedom equalling, in this case, one.

4. Results

4.1. Descriptive statistics

Table 1 provides descriptive statistics for the survey’s variables. In terms of controls, the mean level of GM experience was 13.99 years, which indicates that our GM sample had substantial managerial experience and therefore the necessary inferential ability to suitably complete the questionnaire. Nearly half (48%) of our surveyed hotels had an asset manager.
About 13% of the GMs reported to the owner. The mean hotel size was 358.31 rooms. As expected, there was a reasonably large degree of difference between our smallest hotel (30) and largest hotel (3700), which is why in our subsequent regression models we use the Log of room size. Logging room size resulted in smoother normalized distribution of scores around the mean of 5.34 and standard deviation of 0.85.

Table 1 shows that the overall mean for GM autonomy was 4.16 (std. dev. 0.95) on a 5-point scale, with 5 indicating higher autonomy. Moreover, the individual item level autonomy means ranged from 3.86 (for property) to 4.42 (for operations).

Overall Goal Congruence had a mean of 3.31 (std. dev. 0.35) on a scale from 1 to 6 (where 6 indicated higher goal congruence). While it can be difficult to interpret mean scores with any degree of statistical accuracy, normatively a mean only around the mid-point (as is the case here) serves to demonstrate that amongst the sampled hotels, owner-operator goal congruence can only be described as moderate.

The mean level of hotel performance was 4.29 (std. dev.0.92) (on a scale of 1 to 6; 6 indicating higher performance) and there was a relatively wide range of performance scores, from 1.44 to 5.81.

### 4.2. Hypotheses 1-3

Both correlation analysis (see Table 2) and the SEM model results support Hypothesis 1. Goal Congruence was significantly correlated with Hotel Performance (see Table 3: r=0.35, p<0.01). The SEM model (see Model 2 in Table 3) had generally good fit (CFI = 0.91; TFI = 0.90; RMSEA=0.09; SRMR=0.08), and was significantly better fitting than the baseline model (ΔΧ² = 15.66; D = 15.66; dr= 2; p<0.01). Furthermore, as shown in Model 2, after controlling
for the effects of GM experience, presence of an asset manager, if the GM reports to the owner rather than the management company, and hotel size, Goal Congruence had a positive effect on Hotel Performance ($B = 0.89; p < 0.01$).

Similar results were found for the effect of Goal Congruence on GM Autonomy. Not only is the correlation between the two significant ($r = 0.30, p < 0.05$), but the effect remains significant in the regression analysis after partialling out the variance attributable to the control variables ($B = 0.94; p < 0.01$).

The third hypothesis predicted that GM Autonomy would be positively related to Hotel Performance. The correlation between these two variables was indeed significant ($r = 0.41; p < 0.001$), and the variable remained significant in the SEM analyses (Model 2: $B = 0.32; p < 0.05$).

### 4.3. Hypothesis 4

Results from the regression indicate support for Hypothesis 4. As described above, Goal Congruence had a positive effect on GM Autonomy ($B = 0.94$). Further, GM Autonomy had a positive effect on Hotel Performance ($B = 0.32$). Together, this indicates an indirect effect of Goal Congruence on Hotel Performance of 0.30 ($0.94 \times 0.32$) (Preacher and Hayes, 2004). The bootstrapping estimate of the indirect effect (based on 5000 draws) indicates that this effect is positive (i.e., significantly greater than zero) as hypothesized ($p < 0.05$). Given that, even after controlling for GM Autonomy, the effect of Goal Congruence on Hotel Performance remained significant ($B = 0.89, p < 0.01$), this indicates that the hypothesis of partial mediation is supported.

In other words, we find support that Goal Congruence affects Hotel Performance both directly and indirectly through its influence on GM Autonomy. The indirect effect is indeed
statistically significant, but the effects of Goal Congruence are not fully explained by its effects on GM Autonomy. That is, if there are two GMs with the same level of Autonomy, the GM at the hotel with higher Goal Congruence would still be predicted to have higher levels of performance.

4.4. Hypothesis 5

Finally, we predicted a moderating effect of GM autonomy on goal congruence in the prediction of hotel performance. As indicated in Model 5, the interaction of Goal Congruence and GM Autonomy is indeed significant (B = 0.65, p < 0.01). The change in the model’s log-likelihood was also statistically significant (D = 5.742, df=1, p<0.05). It is also worth noting that, even with the inclusion of the interaction score, the effects of GM Autonomy on Hotel Performance remain positive and significant (at p<0.01).

5. Discussion

Although there are many implicit assumptions about the managerial and performance implications of the hotel owner-operator split, the extant research literature is largely inconclusive about this. This study’s results support our assertions that goal congruence leads to superior hotel performance, causes greater GM autonomy which in turn causes greater hotel performance, and still increases hotel performance even after controlling for the effects of GM autonomy. Furthermore, our findings demonstrate that while goal congruence is important because of both these direct and indirect effects, its true value may only be realized when it is simultaneously present with higher GM autonomy. This indicates that when GMs are better able to implement plans to achieve the goals that are shared by both the hotel owner and management
company, they can best achieve greater hotel performance. These results both support and extend findings from previous studies about the agency relationship and implications pertaining to the split between hotel owners and operators.

Previous studies on how the relative power of owners and operators can shape HMAs have shown that there is often substantial disagreement during the negotiation of HMA terms, largely because the two sides have different and often conflicting objectives (deRoos, 2010; Turner and Guilding, 2010). Our finding that owners and operators have only moderate goal congruence corroborates previous researchers who have found that owner-operator goal congruence is not particularly strong (Eyster, 1988; Panvisavas and Taylor, 2008; Turner and Guilding, 2010, 2013). More importantly, it furthers our understanding about the owner-operator relationship by demonstrating that this goal disparity extends beyond the HMA negotiation phase and into when the hotel is actually operating under the management agreement. This finding is particularly important because, while HMAs are supposedly written to ensure alignment between owner and operator goals (e.g., deRoos, 2010), success on this front appears to be rather limited. Our results thus call into question operators’ frequent claims that HMAs do align the two sides’ interests. Furthermore, given that the operator is the owner’s agent, and the two sides have little goal congruence, our finding is consistent with, and supported by, the predictions of agency theory, which suggests that agents do not always act (or want to act) in the principal’s best interest (Eisenhardt, 1989; Sharma, 1997).

Although owners and operators may have little goal congruence, those relationships that do include greater congruence appear to benefit both sides. This is because we found that goal congruence impacts a hotel’s performance, with greater congruence being significantly positively related to hotel performance. This happens directly (hypothesis 1), indirectly through
GM autonomy (hypotheses 2, 3, and 4), and with greater effect when GM autonomy is greater (hypothesis 5). Combined, these results add to the growing stream of research that has focused on the relationship between a hotel owner and its management company (e.g., Panvisavas and Taylor, 2008; Renard and Motley, 2003; Turner and Guilding, 2013). More specifically, our results, from what we believe is the first such study of its kind, empirically demonstrate the positive performance implications of greater degrees of owner-operator goal congruence.

Based on our findings we argue that this goal congruence-performance relationship may be largely due to the tripartite relationship that a GM has with the property’s owner and operator, especially since the impact of congruence on performance has greater effect when the GM has increased autonomy. While researchers often suggest that GMs are vital to a hotel’s performance (e.g., Giousmpasoglou, 2014), our study supports this empirically by demonstrating that hotels in which GMs have more autonomy, and thus a greater role in shaping the hotel’s plans and policies, outperform hotels where they have less autonomy. Our findings thus confirm previous research which has found GMs to have varying degrees of autonomy (Hodari and Sturman, 2014; Takeuchi et al., 2008) and extends this in an important new direction by demonstrating, for the first time, that not only is GM autonomy related to hotel performance, but that it also both mediates and moderates the effect of goal congruence on such performance. This may be because GMs are tasked with making and implementing both operational and strategic decisions that help determine the hotel’s direction and success. As such, our results also confirm the notion that decreased autonomy can reduce managerial and firm performance (Braadbaart et al., 2007 and Langred and Moye, 2004).

Our study also demonstrates that within a ‘multiple agency’ scenario (Child and Rodrigues, 2003), principals with greater goal congruence provide their agents with more
autonomy than do principals with less congruence. Given our finding on the positive impact that congruence has on performance, we suggest that in a multiple-agency scenario, managers who receive a more unified directive, with a minimum of conflicting objectives, are able to pursue a more cohesive plan which results in superior operating performance. Furthermore, our finding that as GM autonomy is increased, goal congruence’s positive effect on hotel performance also increases further supports the notion that managerial autonomy is important in order to successfully implement the goals of multiple principals, and especially those which are important to the various principals.

The traditional top-down operational control often prescribed for single agency settings does not, therefore, seem to be necessarily as beneficial in a multiple agency scenario. Our findings thereby provide some support for Child & Rodrigues’ (2003) suspicion that some of the managerial recommendations emanating from traditional single agency research may not be applicable in situations of multiple agency. In fact, greater control, as demonstrated through reduced GM autonomy, was found to negatively impact hotel performance. Our findings are, meanwhile, supported by some agency theorists who have suggested that active monitoring can in fact decrease managerial effectiveness and firm performance (e.g., Eisenhardt, 1989; Jensen and Meckling, 1976).

Our findings may be explained by the notion that when multiple principals seek to control or influence their mutual agent, they provide conflicting “mandates” which prevent the agent from pursuing a coherent and/or cohesive set of operational and strategic choices, which in turn negatively impacts performance. Instead, we suggest that multiple principals who are themselves aligned with regard to firm objectives, may not only be less concerned with controlling their mutual agent’s decisions, but also more likely to help provide a context within which managerial
decisions can help the firm achieve internal alignment. This, in turn, not only influences the
firm’s performance, but also both principals’ economic returns.

6. Conclusion

This study is innovative for several reasons. First, it examines a unique agency scenario
where there exists multiple principals and agents with diverse and potentially conflicting goals. It
thus answers calls for empirical investigations into ‘multiple agency’ scenarios since these are
notoriously difficult to study (Child and Rodrigues, 2003). Particularly novel is the fact that one
principal (operator) is also the other principal’s (owner’s) agent (Dev et al., 2010), thereby
creating a tripartite scenario of interaction between multiple principals and multiple agents. Our
study thus adds to the agency theory literature in that while previous studies into the principal-
agent relationship have largely focused on the relationship between owners and corporate
management, it has lacked similar depth in examining the relationship between corporate
management and those within the firm that execute its plans and policies (Child and Rodrigues,
2003).

Our study has also contributed to the agency theory literature by demonstrating that in a
multiple agency scenario it is important for principals to have congruent objectives. Agency
theory research has long demonstrated that agents may diverge from principals’ goals, and that
the latter must control this. Our study has, however, also demonstrated that in multiple agency
situations the principals must also ensure that their own goals are congruent as this results in
greater performance, especially because of the effect this has on the principals’ mutual agent.
Thus while the link between principals and agents’ objectives was already firmly established,
this study has demonstrated the importance of such congruence between multiple principals
because such congruence, unlike increased control (and decreased managerial autonomy), had a positive impact on performance. Not only does such congruence improve performance, but it also means less need to control the mutual agent, thereby implicitly reducing the principals’ monitoring costs. Thus, the fears that the various principals have about an agent acting opportunistically (or in favor of another principal) due, at least in part to information asymmetry, while perhaps warranted, seem to be best attenuated by focusing on goal congruence rather than increased control and decreased managerial autonomy.

Third, it contributes to the hospitality management’s goal congruence and autonomy literatures by specifically studying their relationship, something lacking in the extant literature. It also provides a much needed examination of how GM autonomy and owner-operator goal congruence can impact hotel performance, the latter being particularly important given the important role HMAs play in the modern hotel industry structure.

In terms of our sample and methodology, it is the first study that has been able to gather and analyze the views and information from the two primary stakeholders in hotel management agreements - hotel owners and management companies. Gathering their views for the same properties meant that this study was uniquely able to match responses in order to analyze goal congruence from a joint analysis. The SEM approach we used allowed us to test our hypothesized paths in the context of the full model as indicated by our hypotheses, as well as most appropriately tested for the significance of the indirect effects. The use of the latent moderated structural equations approach (Klein and Moosbrugger, 2000) is also the most current approach for testing for moderation in an SEM model, thus allowing us to test for the hypothesized moderator while simultaneously appropriately handling the measurement error associated with the latent interaction construct.
6.1. Managerial implications

This study demonstrates the need for owners and management companies to agree upon a core set of common goals for their hotels; as such, congruence is linked to superior operating performance. While each party will clearly have their own objectives, an ability to better align these will end up better serving each party as superior operating performance should ultimately result in higher fees for most operators and greater asset valuations and returns for owners. The study’s findings provide several recommendations to help hotel owners, management companies and GMs achieve such congruence and performance.

Firstly, it highlights scope for hotel owners to make better decisions prior to HMA negotiation with regard to the selection of a suitable hotel management company that has property-level goals which are well aligned with their own. Similarly, we suggest that management companies heed Gannon et al.’s (2010) warning that they often do not do enough to select owners with similar objectives. Even though HMAs may be written to help align the two parties’ interests, they may not help prevent discord if they already disagree about the property’s challenges and opportunities, and plans to address these. A healthy discussion should hopefully lead to better and more aligned objectives which should benefit not only the hotel’s performance but also both parties’ economic returns.

An owner may, as well, realize from these discussions that it should in fact defer to the management company’s plans, which could in turn also help to align their objectives. We thus also suggest that management companies fully commit to ensuring that their hotels’ owners not only know management’s plans for the property, but also the underlying reasons for these
decisions as this may help achieve owner support. Lack of such support may mean that the
benefits of pursuing the operator’s property-level strategy may be undermined or even negated.

While raising one caveat to this research, the findings have an additional and potentially
important implication. Due to the cross-sectional nature of this study’s data, the measured
variables have been captured at a single time point. As such, we have not been able to determine
whether owner-operator goal congruence is a static phenomenon or if it is dynamic over time.

Inference from related research, however, suggests that it may be dynamic (see Turner and
Guilding, 2013). Should this be the case, hotel owners with HMAs already in place (sometimes
long-lasting) might be able to improve their hotel’s performance by working toward bridging any
goal incongruence with their operator (and vice versa for the operator).

If goal congruence is dynamic, it might be beneficial for hotel owners and operators to
work toward further instilling a greater degree of collaboration and flexibility into their
relationship instead of potentially leaning toward a strict enactment of HMA clauses. Normative
understanding of the hotel industry, for example, suggests that in some hotels their HMA may,
figuratively speaking, never leave the owner and/or operator’s file cabinet. In other words, HMA
contractual clauses are not relied upon nor enacted by either party. Instead, a flexible operating
arrangement full of trust is enacted so that there is much give-and-take, which results in a great
deal of decision-making that falls outside of what was negotiated into the HMA. By working
together in this way, the relationship between a hotel owner and operator could be seen as
drawing closer toward the sort of relationship which exists between the parties to a strategic
alliance, who themselves are not engaged in an agency relationship but who nevertheless often
have a manager as their mutual agent.
The above point leads us to make a similar argument for providing GMs not only with a clear set of unified objectives, but also with greater autonomy as this has been shown to be a predictor of better hotel performance. GMs are thus recommended to, as much as possible, flag any incongruent goals so as to not only reduce their role ambiguity and/or conflict, but also the likelihood of under-satisfying their principals.

6.2. Limitations

Although this study has demonstrated clear relationships between performance and both goal congruence and GM autonomy, we do recognize that this may be because when hotels are performing well, owners and operators may accept that the current goals, as well as GM’s decision-making, are correct, and thus there is greater congruence between the principals and more autonomy may also be granted to their mutual agent. However, the end result remains the same: hotel performance is clearly related to both goal alignment and GM autonomy. While our study was able to match the responses of both owners and operators from individual hotels, and therefore provide us with matched samples, which as far as we know is the first to do so in hotels and specifically those under HMA, it would have benefited from a larger overall sample of matched pairs. We thus acknowledge that our findings should be interpreted with some caution until additional studies with greater or different samples are undertaken. It should be noted however, that the sample size achieved is considered sufficient for a meaningful statistically powerful analysis to be undertaken.

While relevant theory was used to derive each hypothesis with requisite directional implication, causality cannot be determined from the cross-sectional survey methodology. As a result, the potential for reverse or reciprocal causality cannot be ruled out. In consequence,
further research on this question using a longitudinal methodology and examining one or more
hotels and goal congruence (and the other variables of interest) at two time points would allow
empirical testing of the direction of causality, as well as potentially shedding light on the process
of achieving better goal congruence. It would also be valuable to supplement the asset-manager
rated performance metrics with objective measures of hotel performance (RevPAR, profitability,
etc.), but such data was unable to be collected as part of the current research effort. Of course,
getting such data may prove quite challenging. It is worth noting that to the best of our
knowledge no research to date has been able to get matched surveys from both GMs and the
owners of their hotels. The uniqueness of this data allowed us to test previously untested
propositions, and so although causality cannot be definitively determined, this research
nonetheless helps explain how the evolving relationships between owners, operators and
managers play an important role in the performance of a hotel property.

6.3. Suggestions for further research

While unique in that it matched owners and operators, our sample would have been
preferable had it been larger. Nonetheless the 64 owner-operator matches had sufficient power to
support all of our hypotheses. This only demonstrates the importance of autonomy and
congruence for understanding hotel performance. It would, however, be valuable for future
research to employ our approach to further investigate issues in the interaction between owners
and operators. We also note that our study may have provided different results if responses from
the management company had been provided by individuals from the corporate hierarchy who
oversee the hotel. GMs, as the management company employees specifically tasked with
achieving a hotel’s objectives, are, however, considered to be the most informed about the firm’s
objectives for the hotel. It would thus be interesting to analyze their views with those of the management company’s corporate executives in a future study, and also with objective measures of performance such as customer satisfaction ratings, RevPAR, profitability, and related measures. It should be noted, however, that accessing a suitable number of such persons, and matching them with hotel owners, securing permission to collect such objective measures, would likely prove even more difficult than the approach we took in this study. Furthermore, most such executives oversee multiple hotels and may not, as such, be as knowledgeable about the specific goals the company has laid out for them.

Researchers could also examine goal congruence between owners and GMs of hotels unencumbered by management in order to determine if owner-GM goal congruence differs from owner-management company congruence. Findings could help clarify whether the potential agency problem is in fact greater in a multiple versus single agency setting. Similarly, we suggest investigating whether the addition of a third party, the asset manager, could also alter GM autonomy and/or goal congruence. Thus, studies with greater sample sizes and different objectives could distinguish between these four scenarios in order to demonstrate how the involvement of multiple stakeholders impacts GM autonomy, firm performance and owner-operator goal congruence.
References


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Notes: N=64. Correlations ≥ 0.24 are significant at p < 0.05.
Table 3. Structural Equations Model Results.

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Notes: *p<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.