Managers' stock ownership and performance in lodging industry

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MANAGERS' STOCK OWNERSHIP
AND PERFORMANCE IN LODGING INDUSTRY

by

Yu J. Qian

A thesis submitted in partial fulfillment
of the requirements for the degree of

Master of Science

in

Hotel Administration

William F Harrah College of Hotel Administration
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ABSTRACT

Separation between owner and manager in the lodging industry may cause a conflict of the interests between them. An investigation was conducted to determine the relationship between managerial ownership and performance in the lodging industry and to further determine whether this relationship differ across the two sectors, regular hotels and casino hotels, in the lodging industry.

Statistical tests, using regression, revealed size adjusted managers' ownership percentage had a significant relationship with hotels performance in terms of operational and managerial activities and shareholder's relevance, such as profit margin, hotels operating return and hotels return on equity. Performance measured by these ratios is positively, linearly related to managers' ownership. Furthermore, the results of profit margin and operating return did show significant difference between different ownership levels. The findings also indicated that managers' ownership may be a more effective tool in interests alignment for regular hotels than for casino hotels.
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CHAPTER 1

INTRODUCTION

Background and Purpose of the Study

The relationship between stockholders and management is an agency relationship. Such a relationship exists whenever someone (the principal) hires another (the agent) to represent her/his interests. Since there is no perfect agency contract that can guarantee that managers act to maximize the principle's interest, conflict of interests between the principal and agent may arise. The conflict between managers and stockholders is called an agency problem that prevails in corporations when management and ownership are separated. The principal can limit divergence from his interest by establishing appropriate incentives for the agent (Jensen and Meckling, 1976). It is, however, generally impossible for the principal at zero cost to ensure that the agent will make optimal decisions from the principal's viewpoint. This cost stemming from agency relationship is termed as agency cost.

The traditional pattern of the hotel industry made up of individually owned hotels has been changing in many
countries to resemble more closely to manufacturing industries. With a number of companies going public as modern corporations, sometimes managers are hired as agents for hotel owners under management contracts, which provide for the payment of expenses, management fees and/or sharing of profits. This might cause agency problem in the same way as in other industries.

The goal of a lodging company is to maximize its owners’ or the shareholders’ wealth (Andrew and Schmidgall, 1993). To achieve this goal, the company must maximize its revenue by providing customers with satisfactory services and products while minimizing its cost. When managers operate hotels as agents, the objectives of management may differ from those of stockholders. In a large corporation, the stocks may be so widely held that stockholders cannot even make known their objectives, much less control or influence management. This situation allows management to act in its own best interests rather than those of the stockholders. The conflict of interests between hotel managers and shareholders is an important cause of the slide in the lodging industry in the 1980s (Trice, 1992).

Stockholders hope that managers as their agents will act in their best interests, and delegate decision-making
authority to them. Jensen and Meckling (1976) were the first to develop a comprehensive theory of the firm under the agency/owner framework. They show that the principals (stockholders) can assure themselves that the agent (management) will make optimal decisions only if appropriate incentives are given and only if the agent is monitored. Incentives include stock options, bonuses, and perquisites, and they are directly related to how close management decisions come to the interests of stockholders. Monitoring can be done by bonding the agent, systematically reviewing management perquisites, auditing financial statements, and explicitly limiting management decisions. These monitoring activities necessarily involve costs, or agency costs as an inevitable result of the separation of ownership and control of a corporation.

To reduce agency costs, one way is to increase managers' common stock ownership in the firm, so managers can better align their interests with those of stockholders. The less the ownership percentage of the managers, the less the likelihood that they will behave in a manner consistent with maximizing shareholder wealth, and the greater the need for outside stockholders to monitor their activities.
Throughout the 1980s, there was an increasing separation between management and ownership in the lodging industry (Trice, 1992). Management made decisions that were good for management, including the enhancement of a chain label, pursuing managerial power by overbuilding hotels to cause oversupply in the 1980s. Those decisions were not always in the best interests of ownership. A large number of hotels were developed and syndicated with the primary objectives of producing development fees and management fees with no on-going balance sheet liabilities. Return to the investor was a secondary objective here. Somewhere along the way, managers almost forgot the interests of ownership. This separation of decision-making and risk-bearing function also caused agency conflicts, and, therefore, may have raised the agency costs.

Therefore it is important to investigate the role of managers' stock ownership in limiting agency conflicts and maximizing the stockholders' wealth in the lodging industry. It is also necessary to determine the relationship between managers' stock ownership and lodging corporations' financial performance.

Thus far, research on the relationship between managers' stock ownership and firm performance has yielded
inconclusive results. Some studies (Kim, Lee, and Francis, 1988; Hudson, Jahera and Lloyd, 1992) showed that there was a significantly positive relationship between managers' common stock ownership and firm performance, while some studies failed to discover a relationship between them (Demesetz, 1983; Lloyd, Jahera, and Goldstein, 1986; Tsetsekos and Defusco, 1990). Other studies concluded that stock ownership did not have the same effect on firm performance in low-growth industries and high-growth industries (Kesner, 1987). Still other researchers (Morck, Shleifer, and Vishny, 1988) found a significant nonmonotonic relationship between managers' stock ownership and firm performance.

There are a number of problems inherent in previous ownership/performance relationship studies which may explain the inconclusive results. First, some studies (Lloyd, Jahera and Goldstein, 1986) used multi-industry samples instead of investigating a single industry. Since industry-specific effects were not controlled for, their results could be distorted. Second, some studies have used a single measure of performance, either accounting or market measure (Morck, Shleifer, and Vishny, 1988) instead of using both measures.
The purpose of this study is to examine the relationship between managers' common stock ownership and financial performance of firms, using only the lodging industry data. To date, no study on the managers' common stock ownership and performance relationship has been conducted for the lodging industry. This study will investigate such relationship in the lodging industry. The results of this study will reveal whether and how managers' stock ownership may lead to improved hotels financial performance.

This study will be different from previous studies in the following ways. First, the focus of this study will be on a single industry, i.e. the lodging industry, in order to avoid inter-industries effects. Second, this study will use a set of accounting measures of performance, such as return on assets, return on equity, return on investment, operating return and profit margin, and a market measure, stock return, and compare the results of different measures. Third, this study will use size-adjusted managers' ownership percentage instead of directly using ownership percentage. Size effect through ownership was found in previous empirical studies. The managers in companies with different sizes (measured by market value of shareholders' equity)
were found to have different levels of incentive even though the manager ownership percentage were the same.

This study will separate regular hotels and casino hotels to examine if the ownership and performance relationship is different in the sectors. Casino hotels are a special sector in the lodging industry. They have many features different from regular hotels. Casino hotels' profits come mainly from gaming operation, rather than room operation. Besides, they belong to the fast-growth sector while regular hotels are in the slow-growth sector of the lodging industry.

Recently the lodging industry is experiencing a strong recovery after a long downward slide since the 1980s. To prevent the 1980s' problem from reoccurring, separation between management and ownership of hotels as one of the important causes of the slide in the 1980s still needs to be investigated (Trice, 1992). How to better align the interests of decision-making managers with those of risk-bearing shareholders in the further needs to be explored in the lodging industry. Since no previous study on managers' common stock ownership and performance has been documented in the hospitality industry, this study attempts to extend previous research on managers' stock ownership and
performance relationship into the lodging industry. By choosing the lodging industry to investigate the managers' ownership/performance relationship, this study hopefully will enable researchers, stockholders and managers in the hospitality industry to determine if increasing managers' stock ownership can better align the interests between managers and stockholders, and therefore may provide some clues for enhancing the hotel performance in the days to come.

Research Questions

The purpose of this study is to investigate if the managers' ownership can improve hotel performance. Research questions related to the purpose include:

1. Is there a significant relationship between managers' ownership and hotel performance? If there is a significant relationship, how performance is related to managers' ownership?

2. If managers' ownership does have an impact on performance, does the impact differ across the slow-growing hotel sector and the fast-growing casino sector? Is managers' ownership more effective in
owner/manager interests alignment in one sector than in the other sector?

Finding the answers to these questions could assist in reducing the interest conflict between managers and shareholders, and hence lead to lower agency cost and better performance.

**Potential Contributions of Study**

The potential contribution of this study to the hospitality industry and agency theory research are:

1. Finance theory states that managers' ownership affects firm's performance. Many lodging companies have practice in managers' common stock ownership. Research on the hotel managerial stock ownership, however, has not been documented. This research will be an exploratory study that extends previous research on other industries into the lodging industry.

2. Most of the previous empirical studies of managers' common stock ownership used a single measure, either accounting or market measure. This study will use both and compare the results.
3. Previous empirical studies on the managerial ownership /performance relationship used data mainly from manufacturing industries. By using the data from the lodging industry, a major service industry in the United States, this study could provide important additional empirical evidence for the agency theory.

4. Previous studies used the managers stock percentage as a measure of ownership, without any adjustment. This study uses managerial stock percentage adjusted by firm size as the measure of ownership. Therefore, the size impact will be controlled.

5. Previous studies have found that, for both slow-growing industries and fast-growing industries, stock ownership do not appear to influence performance in the same way. Since within the lodging industry, regular hotels are a slow-growing sector whereas casino hotels are a fast-growing sector. This study will investigate the impact of growth within a service industry.
Delimitation of Study

This study will investigate publicly traded lodging corporations. Those corporations are further divided into two sectors: regular hotels and casino hotels. Those companies with a small scale hotel operation but a large scale of other industrial operations are not covered in the study. Casino equipment, software development companies are not included in the study. Riverboat casino companies are not a part of the study, since they don't provide accommodations. In this study, managers' ownership refers to shares held by officers and directors at the corporate level. Ownership by lower levels of managers is not treated as managerial ownership.

Organization of the Study

This study is composed of five chapters. Chapter 1 provides a background of the study, including the problem statement and objectives. Specific research questions are presented and terms defined. Chapter 2 reviews the agency theory and empirical studies on the relationship between managers' common stock ownership and performance. Chapter 3 is a discussion of the research methodology. Chapter 4 analyzes the data and the statistical results of hypotheses.
testing. Finally, Chapter 5 concludes the studies and provides recommendations for further research.

**Definition of the Terms**

The following is a list of the definitions of some specific terms used in this research study:

**Financial Performance:** It refers to a firm's accounting profitability such as Return on Assets (ROA), and Return on Equity (ROE), as well as a firm's market performance or stock return.

**Return On Assets:** Return on assets measures the firm's ability to utilize its assets to create profits. It is the return on total investment. It is calculated as the net income after taxes divided by total assets.

**Return on Equity:** This is another profitability ratio that relates profits to investments. It is expressed as net income after taxes minus preferred stock dividend then divided by common shareholders' equity. It is the return to owners' equity.

**Profit Margin:** Profit margin is a profitability ratio focusing on activity, which is calculated as net income divided by total sales.
**Return on Investment:** Return on investment measures the relationship between the income earned and the capital invested. It is calculated as net income divided by average long-term liabilities plus equity.

**Operating Return:** It is the ratio of operating cash flow to total operating assets. Operating assets is defined as total assets minus invest & advance to subsidies.

**Stock Return:** is the percentage of price change in certain period. It is calculated as: \( R = (P_t - P_0)/P_0 \). If a company pays dividend, the return is \( R = (P_t + \text{Div} - P_0)/P_0 \). In this study, it is the first nine months of 1996 stock price change adjusted by dividends and stock split effect.

**Casino Hotels:** The hotels that house a gambling casino, which includes games of chance using cards, dice, and slot machines.

**Regular Hotels:** The hotels that provide accommodation and may operate other functions such as entertainment and food and beverage as business.

**Firm Size Index:** The log to the base 10 of the market value of the firms (Lnsize) is selected for calculating the index. The smallest Lnsize is used as the benchmark.
The size index is created by dividing each company's Lnsize by the benchmark.

**Size Adjusted Managers' Ownership Percentage:** size adjusted MOP is obtained by multiplying the original MOP by the size index.
CHAPTER 2

REVIEW OF THE RELATED LITERATURE

Introduction

The previous chapter briefly discussed the background of the ownership and performance relationship. Research questions were formulated and terms defined. This chapter provides a detailed review of the literature.

Since the ownership and performance relationship is derived from agency theory. This study will first review the literature about the agency theory. The literature in this area has grown quite large. This section of review contains three parts. (1) three important researchers, (2) agency theory and agency cost, and (3) solutions to agency problem.

The second section of the review specifically focuses on three parts. The first part focuses on empirical studies about managerial ownership/performance relationship. Variety of methods and different results will be reviewed. The reasons for diverse findings will be investigated. In the second part, employee stock ownership plans will be

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reviewed as an well-known strategy of using ownership as an incentive to enhance corporation performance. The third part will review the importance of managerial ownership as an incentive in the hospitality industry.

The last section of the chapter is a summary of the review of the theory and empirical studies.

Theoretical Background ---Agency Theory.

Three important researchers:

Adam Smith (1776)

Agency theory dates back to 1776, when Adam Smith recognized the inevitable conflicts that arise between the interests of owners and managers of a company in his classic economics book "The Wealth of Nations".

The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore,
must always prevail, more or less, in the management of
the affairs of such a company.

As the first person to discover the conflicts between
the interests of owners and managers of a company, Adam
Smith inspired a lot of economists who later conducted
extensive further researches in this area.

**Berle and Means (1932)**

The agency problem, caused by the separation of
ownership and control in the modern corporation, is an issue
brought to the force so effectively by Berle and
Means (1932). It remains a central position in recent
writings about the economic theory of the firm. The problem
is stated succinctly by Berle and means (1932):

The separation of ownership from control produces
a condition where the interests of owner and of
ultimate manager may, and often do, diverge, and where
many of the checks which formerly operated to limit the
use of power disappear....

In creating these new relationships, the quasi-
public corporation may fairly be said to work a
revolution. It... has divided ownership into nominal
ownership and the power formerly joined to it. Thereby
the corporation has changed the nature of profit-
seeking enterprise.
The holder of corporate stock experiences a loss of control over his resources because ownership is so broadly dispersed across large numbers of shareholders that the typical shareholder cannot exercise real power to oversee managerial performance in modern corporations. Management exercises more freedom in the use of the firm's resources than would exist if the firm were managed by its owner(s), or at least, if ownership interests were more concentrated. Because management and ownership interests do not naturally coincide when not housed in the same person, Berle and Means (1932) perceive a conflict of interest, which, with ownership dispersed, is resolved in management's favor. When managers hold little equity in the firm and shareholders are too dispersed to enforce value maximization, corporate assets may be deployed to benefit managers rather than shareholders. Such managerial benefits can include shirking and perquisite-taking, but also encompass pursuit of such non-value-maximizing objectives as sales growth, empire building, and employee welfare.
Jensen and Meckling (1976)

This stream of research has implications for economic theory and policy because it examines a fundamental premise of classic economic theory, that the management of a firm does and should reflect the interests of its owners. If we assume a difference between the interests of owners and management, it follows logically that with great separation of control, the making of polices and decisions will not adequately reflect the interests of the owners. An important early study by Berle (1959) concluded that shareholders controlled only 34 percent of the 200 largest nonfinancial corporations in the U.S. Larner (1970) reported that this figure had dropped to 12 percent. Such a finding strikes at a core idea of classic economics because owners, interested in profitability, may lose control of their assets to management who may have different intentions.

Jensen and Meckling (1976) are the researchers who systematically developed a theory of the ownership structure of the firm from the theory of agency, the theory of property rights and the theory of finance. They define the concept of agency cost, show its relationship to the "separation and control" issue, investigate the nature of
the agency costs generated by the existence of debt and outside equity, demonstrate who bears these costs and why, and provide a new definition of the firm.

They defined an agency relationship as a contract under which one or more persons, or the principal(s), engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

They defined agency costs as the sum of (1) the monitoring expenditures by the principal, (2) the bonding expenditures by the agent, (3) the residual cost-- the dollar equivalent of the reduction in wealth experienced by the principal due to this divergence.

**Agency theory and Agency cost**

In its simplest form, agency theory attempts to explain the divergence of interests of various stakeholders in a company. These stakeholders include not only owners and managers but also creditors, employees, and suppliers. A corporation can be viewed as the nexus for a set of contracting relationships among these constituents. Agency theory supports understanding into the divergence of
interests among the stakeholders of a firm and the problems and costs that emerge from this divergence.

Agency theory is important whenever there is separation of ownership and control. The principals of an organization are the owners or stockholder, and the agents are the managers who control most aspects of the organization. In small proprietorships, the goals and desires of management are one in the same with the owners since both roles are filled by one person. But as a company increases in size and complexity, the owners may become separated from the day to day decisions of the company. Management may act in its own best interest and not the interests of the owners. The principal can limit divergence from his interests by establishing appropriate incentives for agents and by incurring monitoring costs designed to limit the unwanted behavior of an agent.

Managers have a propensity to pursue their own interests when that conflict with those of the stockholders. This conflict gives rise to equity agency costs. For example, managers may seek to consume excessive perquisites at shareholders' expense, they may make short-run operating decisions that benefit themselves but hurt stockholders, and they may make operating decisions that reduce their personal
risk despite stockholders’ preferences for more corporate risk taking.

**Solutions to Agency problems**

There are several ways to reduce equity agency costs. One way in which equity agency costs may be reduced is for managers to increase their common stock ownership in the firm, better aligning their interests with stockholders’ interests (Jensen and Meckling, 1976). In the extreme case of 100% ownership, managers can reduce equity agency costs to zero. However, as managers increase their ownership in the firm, their personal wealth becomes less diversified. For example, to achieve 100% ownership of a large corporation, managers’ diversification costs would become exorbitant, since they would have to resort to large personal borrowings to finance the larger outlays. Thus, using increased managerial stock ownership to control agency costs is not costless. As managers’ wealth becomes more poorly diversified, they will require increasing amounts of compensation.

A second way to reduce equity agency costs is to increase dividends (Rozeff, 1982 and Easterbrook, 1984). Paying larger dividends increases the chance that external
equity capital will have to be raised. When new equity is raised, managers are monitored by the Exchanges, the Securities and Exchange Commission, investment bankers, and providers of new capital. This monitoring induces managers who seek to retain their employment to act more in line with stockholders' interests. However, the use of dividends is not costless. When external capital is raised to pay for the dividends, substantial flotation costs will be paid to investment bankers.

A third way to reduce equity agency costs is to use more debt financing (Jensen and Meckling, 1976). Using more debt reduces total equity financing, reducing in turn the scope of the manager-stockholder conflict. However, debt financing introduces conflicts of interest between stockholders and creditors that gives rise to debt agency costs. One concern of bondholders is that stockholders may seek to expropriate their wealth by increasing their risk through risky corporate investment decisions, or perhaps through inducing unanticipated priority dilution. Myers (1977) points out another conflict will arise if the firm has discretionary investments. When managers have discretion over some investments, they may forgo those investments for which the main benefit is to increase
bondholders' wealth rather than stockholders' wealth. Other more obvious debt agency costs include bankruptcy costs and the costs incurred as bondholders seek contractual protection (Smith and Warner, 1979).

A fourth way to reduce equity agency costs is to use institutional investors as monitoring agents (Bathala, Moon, and Rao, 1994). Historically, institutional investors dissatisfied with managerial or stock performance simply sold their holdings. i.e., followed an "exit" policy. However, this has become increasingly difficult for many institutions because they must accept substantial discounts in order to liquidate their significant holdings. Coffee (1991) provides an insight into the changing behavior of institutional investors from being passive investors to active monitors. The institutional investors put pressure on corporations, sought special "institutional investor seat" on the board to protect their interests, or set up shareholder committees to monitor their financial performance.

Equity and debt agency costs reduce firm value. To reduce these costs, managers can choose the least costly financial policy mix, trading off the benefits and costs of personal stock ownership with the benefits and costs of
In this way, management adopts a policy mix that is uniquely related to their firm's respective policy benefits and costs. Managers' incentive to seek the least-cost policy mix comes from potential increases in their personal wealth and from external competitive market forces. Insider ownership, debt and dividend policies might be related directly through agency theories. Three stakeholder groups are most relevant: firm managers, external shareholders, and creditors. Jenson and Meckling (1976) provide an analysis of the effects of agency conflicts among the three groups. Their analysis suggests that the proportion of equity controlled by insiders should influence the firm's policies. Jensen, Solberg, and Zorn (1992) did research to examine the determinants of cross-sectional differences in insider ownership, debt, and dividend policies. They found the level of insider ownership has a negative influence on a firm's debt and dividend levels. Firms with a high level of insider ownership have a low level of debt and dividend.
Managers' Ownership and Performance Relationship

Because the role of managers' common stock ownership is central to the Jensen and Meckling agency theory (1976), an increasing body of literature has indicated that managerial stock ownership helps in aligning managerial interests with those of the external stockholders.

Research focusing on the influence of ownership structure is plentiful. The following is a review of some major studies in this field.

Kim, Lee, and Francis (1988) discovered there was a relation between insider ownership and returns. More specifically, they examined a sample of 157 firms over a four-year period (1975-78) using size, ownership, and E/P determined portfolios. Their conclusions supported the hypothesis that there was an agency effect on performance. That is, returns were related to insider ownership.

Hudson, Jahera and Lloyd (1992) using piecewise regression model also obtained the result that there was a significantly positive relationship between the degree of insider ownership and performance.
An interesting finding from the management literature is the conclusion of Salancik and Pfeffer (1980) that "the capital markets impose a discipline on management controlled firms in that tenure is related to the firm's share price performance."

An interesting finding from the management literature is the conclusion of Salancik and Pfeffer (1980) that "the capital markets impose a discipline on management controlled firms in that tenure is related to the firm's share price performance."

In contrast, Demsetz (1983) found that the ownership structure of the firm that "emerges as an endogenous outcome of competitive selection in which various cost advantages and disadvantages are balanced to arrive at an equilibrium organization of the firm". Accordingly, Demsetz concluded that there was no relation between ownership structure and accounting profitability.

The study by Tsetsekos and DeFusco (1990) also concluded that managerial ownership did not have an effect on market returns and that the size effect was independent of ownership.

An earlier work by Lloyd, Jahera, and Goldstein (1986) also found no significant relationship between managerial
ownership and performance. Their performance measure was mean monthly portfolio return. In their study the ownership structure was measured by the percent of stock held by the largest holder. A total sample of 779 firms from the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and over the counter (OTC) was included. No significant ownership effect was found when controlling for the size of the firm.

Another study by Kesner (1987) focused on the stock ownership of members of the board of directors for 250 of the Fortune 500 companies. That study showed the managerial ownership/performance relationship differed among different industries. They found that in rapid growth industries, managers might see a greater opportunity for increasing the value of their investment at a rapid pace through aligning their interests with other shareholders interests. This, in turn, might enhance organizational performance. Conversely, in low growth or more stable industries, managers might feel there was less opportunity for rapid increase of their returns due to the nature of the industry, and as a result, managerial ownership might give less incentive. Their empirical results indicated that, for low-growth industries, stock ownership did not appear to influence either current
or future performance. Alternatively, high-growth industries did reveal a positive and significant relationship between stock ownership of the board and performance.

Morck, Shleifer, and Vishny (1988) examined the relationship between management ownership and the market valuation for a sample of large firms. They found there was a significant nonmonotonic relationship between management ownership and market valuation of the firm, as measured by Tobin's Q. They concluded that Demsetz and Lehn's (1985) failure to find a relationship between ownership concentration and profitability was probably due to their use of a linear specification that did not capture an important nonmonotonicity. In Morck, Shleifer and Vishny's research (1988), they estimated a variety of piecewise linear regressions. The results suggested a positive relation between ownership and Q in the 0% to 5% board ownership range, a negative and less pronounced relation in the 5% to 25% range, and a further positive relation beyond 25%. These results were consistent with both the convergence-of-interests and entrenchment effects. The initial rise in Q as ownership rose might reflect managers' greater incentives to maximize value as their stakes rose.
Beyond the 5% ownership level, however, increases in managerial ownership may be associated with conditions conducive to the entrenchment of incumbent management such as status as a founder, increased voting power, increased tenure with and attachment to the firm, lower employment of professional managers, and dominance of inside over outside directors on the board. Some form of entrenchment might explain the declining valuation of corporate assets as board ownership rose from 5% to 25%. Throughout this range, the incentive effect could still be operative; it was just dominated by the entrenchment effect. As board ownership reached the neighborhood of 25%, managers with even higher board ownership might not be significantly more entrenched than those with 25% ownership. With 25-30% ownership, the board might be effectively free to reject any outside challenge. The increase in Q for the very highest ownership levels then might reflect a pure convergence-of-interest effect.

McConnell and Servaes (1990) also investigated the relation between Tobin’s Q and the structure of equity ownership for a sample of 1,173 firms for 1976 and 1093 firms for 1986. They found a significant curvilinear relation between Q and the fraction of common stock owned by
corporate insiders. The curve slopes upward until insider ownership reached approximately 40% to 50% and then slopes slightly downward. The results were consistent with the hypothesis that corporate value was a function of the structure of equity ownership.

Managers' ownership percentage and firm size

Demsetz and Lehn (1985) found that ownership concentration and firm size, measured by the market value of equity, are inversely related. Large firms exhibit a distinct separation between ownership and control. Low levels of managerial ownership often exist. The large market value of those firms and the wide dispersion of shareholdings mean that managers cannot hold a sizable percentage of shares. The more concentrated ownership structure of small firms may involve substantial managerial ownership percentage.

Tsetsekos and Defusco (1990) realized it was not accurate to use managers' ownership percentage as a proxy without controlling size effect. They explored the interrelationship among portfolio returns, managerial ownership, and size. To isolate the effect of managerial ownership on portfolio returns, the impact of size was
controlled for. They held size constantly, and treated managerial ownership as a proxy for the convergence of interest between managers and shareholders, and found the positive significant managerial ownership/performance relationship.

**Employee Stock Ownership Plan (ESOP) and Corporate Performance**

ESOP is a employee benefit plan. Unlike other benefit plans, the employees have a chance to make a difference for the firm. Although many employees own stocks in a wide variety of other companies through their pension funds, there is nothing they can do to improve the financial health of those companies and thereby increase the value of the stocks in their accounts. With an ESOP, employees can work to improve the profitability of the company they work for and thereby increase the value of the stock in their individual accounts. Right now there are more than ten thousand employee stock ownership plans and over 11 million ESOP employee-owners. America has a healthy and growing employee-owner sector.

The primary purpose of ESOPs is and always has been to widen the ownership base of substantial capital estates. No
other goals are mentioned in any of the legislation governing ESOPs. Nonetheless, many advocates of employee ownership predicted that one of its benefits would be to improve corporate performance by linking the financial interests of employees and companies (Mcallister and Marsh, 1980).

The first effort to address the issue more systematically was a comprehensive survey undertaken by the NCEO of twenty-seven hundred employees in thirty-seven ESOP firms (Rosen, Klein, and Young, 1991). The purpose was to discover whether ownership really did have an impact on employees' attitudes. The answer was clearly yes. The more stock employees owned in their company, the more committed they were to the firm, the more satisfied they were with their work, the less likely they were to look for other jobs, and the more they liked being owners. The positive effects of ownership were magnified when active programs were adopted for sharing information and soliciting employees' input into decisions at all levels of the company.

According to Rosen, Klein, and Young (1991), overall, the ESOP firms grew 3 to 4 percent per year faster than they would have without the ESOP, depending on the measure used.
Over a ten-year period, this growth would create almost 50 percent more jobs in the ESOP companies. A closer look at the data showed that most of the growth occurred in the most participative one-third of the companies, those that allowed for relatively high degrees of employee input into job-level decision making. These firms performed 11 to 17 percent per year better. Participation was measured by asking managers to tell how much influence nonmanagement employees had over issues ranging from social events to corporate policy. Firms were considered to be participative if employees at least had the opportunity to share decision making with management on issues affecting the organization and performance of their jobs.

One might interpret this finding to mean that it is participation, not ownership, that makes the difference, but that did not turn out to be the case. According to Rosen, Klein, and Young (1991), many other studies have found that participation alone has only an ambiguous and generally very short-lived impact on performance. Ownership motivates employees; participation gives them an opportunity to use this motivation to contribute their ideas, knowledge, and experience to help the company grow.
This relationship between ownership, participation, and performance has become the conventional wisdom, backed by a growing number of examples from companies that have used this approach. Both the critics of ESOPs and most of its advocates agree that participative management is essential to assuring that employee ownership will improve corporate performance (Rosen and Young, 1991). The relationship between manager ownership and performance of the firms also need to be investigated, since managers are a special section of employee.

The Importance of Managerial Ownership as an Incentive in the Hospitality Industry

A survey of general managers of more than 80 four- and five star hotels in the United States (Dingman, 1995) found that their mean annual base salary was $111,000, although bonuses typically added another 25 percent to that amount. Survey respondents thought that the prospect of larger bonuses would motivate them to greater performance.

From the result of the survey, the proportion of GMs holding equity in their property was found rising from hardly any in 1992 survey to 13 in the 1995 survey. One-fifth of those managing a hotel with room rates between $101
and $200 held stock, and one in ten GMs in hotels with rates above $200 did so, but none of the GMs managing hotels in the low-price category (under $100 room rate) held stock or stock options. Marriott is in third place of the lists of companies for which these GMs would prefer to work. It is because they offer managers stock options and profit sharing. The survey results show that there may be an intention to use ownership and stock option to motivate hotel managers for better performance in the high end of the hotel industry.

As the lodging industry continues to stabilize and recover from the downturn, relationships between managers and owners continue to be in flux with new patterns of ownership, finance and management emerging (Sheridan, 1995). Years ago, management got long-term, non-cancelable, full-free contracts. With the downturn, owners saw managers getting fees for running hotels, and expanding hotels supply blindly only for serving their own interests, with no money flowing to owners. They finally woke up and sought changes. According to Sheridan (1995), owners were looking for two things—profitability and asset appreciation. They wanted to make money, and they wanted their asset to increase in value. This was the new owners/managers relationship.
Owners tried to reduce the agency cost and improve hotels performance. The classic 5% of gross management fee disappeared. Fees are now basically a smaller percentage of the gross and larger percentage of profit or improved profit. Today, management fees, depending on the size, can be 2% to 4% of the gross revenue, but they may run as much as 10% to 12% of net operating profit before debt service. Beyond those, some owners require management company have the ownership percentage to insure their acting for maximizing stockholders wealth.

In the new owner/manager relationship, hotels owners have been more active to monitor their agent-managers. This new agency relationship can align managers’ interests to the owner’s objective. For example, the days of ego-driven managers who load their properties with services and facilities, such as: expensive exotic flowers, that make guests happy but owners poorer are numbered (Sheridan, 1995). Managers’ ownership along with performance-based compensation have been used by owners to force hotels managers to reduce cost and align their interests with those of owners.
Summary

This chapter has given a wide literature support for my research questions. The first section of the literature review indicates the importance of aligning the interests of managers with those of owners, thus providing the basis of this study.

The second section of the literature review provides the support for my test hypotheses. The results from previous studies on managerial ownership/performance relationship have been mixed, inconclusive and inconsistent. Most of the previous studies have used data from manufacturing industries, rather than from service industries. Market and accounting measures have been alternately used, rather than being used together consistently. Further research to provide evidence from service industries with both market and accounting performance measures is therefore needed. In the last part of this section, hotel managers compensation and incentive surveys were reviewed. Those surveys' results imply that managerial ownership could be a tool for better aligning hotel managers' interests with those of owners and reduce agency conflicts in the lodging industry.
CHAPTER 3

METHODOLOGY OF THE STUDY

Introduction

The objective of this study is to investigate the relationship between managers' ownership and performance in lodging industry. Findings of the study may enable the lodging industry to determine if increasing managers' ownership is an effective way to align interests of managers with that of stockholders. This chapter discusses the methodology used to investigate managerial ownership/performance relationship. It is divided into four major sections:

1. Research hypotheses
2. Statistical testing methods
3. Data
4. Variables
Research Hypotheses

Specific null hypotheses designed to answer the research questions raised in chapter 1 are presented below:

**Hypothesis 1:**

There is no relationship between managers' ownership and financial performance of hotels.

This null hypothesis is related to the first research question and a part of the second research question. To test the relationship between ownership and performance, size-adjusted managers' stock holding percentage will be used as a measure of managers' ownership. Measures of performance include five accounting ratios: return on assets (ROA), return on equity (ROE), profit margin (PM), operating return (OR), return on investment (ROI), and a market ratio: return on stock (SR). The relationship between ownership and performance will be first tested for the lodging industry as a whole. Separate tests on the fast-growing casino hotel sector and slow-growing regular hotel sector will follow up. The following is a list of the sub-
hypotheses testing each performance variable for hypothesis

Sub-Hypotheses for $H_1$:

- $H_{i<a}$: There is no relationship between managers' ownership and profit margin of hotels.
- $H_{i<b}$: There is no relationship between managers' ownership and return on assets of hotels.
- $H_{i<e}$: There is no relationship between managers' ownership and return on equity of hotels.
- $H_{i<d}$: There is no relationship between managers' ownership and return on investment of hotels.
- $H_{i<o}$: There is no relationship between managers' ownership and operating return of hotels.
- $H_{i<s}$: There is no relationship between managers' ownership and stock return of hotels.

Hypothesis 2:

There is no difference on financial performance between hotels which have different levels of managers' ownership.
This null hypothesis is designed to further answer the first research question. To test this hypothesis, hotels with same level of relative ownership percentages will be grouped together. Then the financial performance between each group will be compared to determine if any significant differences in performance exist.

The sub-hypotheses for each performance variable of hypothesis 2 are:

\( H_{2a} \): There is no difference on profit margin between hotels which have different managers' ownership levels.

\( H_{2b} \): There is no difference on return on assets between hotels which have different managers' ownership levels.

\( H_{2c} \): There is no difference on return on equity between hotels which have different managers' ownership levels.

\( H_{2d} \): There is no difference on return on investment between hotels which have different managers' ownership levels.
H$_{2_{e}}$: There is no difference on operating return between hotels which have different managers' ownership levels.

H$_{2_{s}}$: There is no difference on stock return between hotels which have different managers' ownership levels.

Hypothesis 3:

There is no significant difference on 5-year sales growth between regular hotels and casino hotels.

This null hypothesis is designed to answer the second research question. It is well known that the casino hotel sector has grown fast recently. The difference in growth between the regular and casino hotel sectors, however, needs to be tested before the regular hotel sector can be defined as the slow-growing sector, and the casino sector, the fast-growing sector of the lodging industry.
Statistical Testing Methods

To test the hypotheses and answer the research questions proposed in Chapter 1, The SPSS statistical software package was used to conduct regression and perform Mann-Whitney and Kruskal Wallis tests.

The regression was used to test the first hypothesis. The result of this test would indicate if positive or negative relationship exists between the managers’ ownership and the financial performance, and how strong this relationship is. The regression was also run separately for regular hotels and casino hotels to see if the managerial ownership/performance relationship would differ across the two different sectors, slow-growing hotels and fast-growing casinos.

Kruskal-Wallis test was used to test the second hypothesis. The result of this test would indicate whether or not the mean ranks of financial performance in different adjusted MOP groups are significantly different from one another. As some variables failed to show normal distribution, the non-parametric Kruskal-Wallis test, which requires no normal distribution, was utilized to test this hypothesis.
The Mann-Whitney test was used to test the third hypothesis, the difference in growth between the two sectors. The Mann-Whitney test, a non-parametric substitute for the parametric t-test, is often used to test the difference between two groups. The Mann-Whitney test was used to test the third hypothesis because the data of the 5-year sales growth of two sectors were not normally distributed. The result of the test will indicate if casino hotels can be treated as fast-growth sectors while the regular hotels can be treated as slow-growth sectors.

Data

This study concentrates on the lodging industry. All data were drawn from the lodging industry that includes regular and casino hotels.

The research is limited to publicly traded hotel, motel and casino firms which provide accommodation. The hotel/motel and casino hotel data were obtained from Compact Disclosure database. Some thinly traded small firms, which were not listed in the database, are not included in this study. The casino hotels are the firms with a primary SIC code of 7011 (hotel and motel) and a secondary SIC code of 7993 (coin-amusement), or the firms with a primary SIC code
of 7993 and a secondary SIC code of 7011. The regular hotels are the firms with only one primary SIC code of 7011.

Stock return data were obtained from the Wall Street Journal. Those hotels and casinos that are traded in non-national systems are not included in this study due to the difficulty to get their data. Stock Return is defined as the percentage price change between Jan. 2, 1996 to Sep. 6, 1996. The formula is:

\[ R = \frac{(P_I - P_0)}{P_0} \]

\[ R = \text{Stock Return} \]
\[ P_I = \text{Closing Price on Sep. 6, 1996} \]
\[ P_0 = \text{Closing Price on Jan. 2, 1996} \]

If a company pays dividend, then the formula is

\[ R = \frac{(P_I + D - P_0)}{P_0} \]

\[ D = \text{dividend amount during the holding period} \]

The final sample for this study includes 20 regular hotels and 25 casino hotels which have all the necessary data available. Tables 1 and 2 list the regular hotel firms and casino hotel firms used in this study.
**Table 1**

**List Of Regular Hotels**

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Buckhead America Corp.</td>
</tr>
<tr>
<td>2</td>
<td>Sonesta International Hotels Corp.</td>
</tr>
<tr>
<td>3</td>
<td>Jameson Inns Inc.</td>
</tr>
<tr>
<td>4</td>
<td>Amerihost Properties Inc.</td>
</tr>
<tr>
<td>5</td>
<td>John Q Hammons Hotels Inc.</td>
</tr>
<tr>
<td>6</td>
<td>Kahler Realty Corp.</td>
</tr>
<tr>
<td>7</td>
<td>Studio Plus Hotels Inc.</td>
</tr>
<tr>
<td>8</td>
<td>Supertel Hospitality Inc.</td>
</tr>
<tr>
<td>9</td>
<td>Suburban Lodges Of America Inc.</td>
</tr>
<tr>
<td>10</td>
<td>Wyndham Hotel Corp.</td>
</tr>
<tr>
<td>11</td>
<td>Marriott International Inc.</td>
</tr>
<tr>
<td>12</td>
<td>Servico Inc.</td>
</tr>
<tr>
<td>13</td>
<td>Bristol Hotel Corp.</td>
</tr>
<tr>
<td>14</td>
<td>Extended Stay America Inc.</td>
</tr>
<tr>
<td>15</td>
<td>Doubletree Corp.</td>
</tr>
<tr>
<td>16</td>
<td>Starwood Lodging Corp.</td>
</tr>
<tr>
<td>17</td>
<td>Sholodge Inc.</td>
</tr>
<tr>
<td>18</td>
<td>La Quinta Inns Inc.</td>
</tr>
<tr>
<td>19</td>
<td>Host Marriott Corp.</td>
</tr>
<tr>
<td>20</td>
<td>Renaissance Hotel Group N V</td>
</tr>
</tbody>
</table>

**Table 2**

**List of Casino Hotels**

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Casino Resource Corp.</td>
</tr>
<tr>
<td>2</td>
<td>Black Hawk Gaming &amp; Development</td>
</tr>
<tr>
<td>3</td>
<td>Monarch Casino &amp; Resort Inc.</td>
</tr>
<tr>
<td>4</td>
<td>Pratt Hotel Corp.</td>
</tr>
<tr>
<td>5</td>
<td>Boomtown Inc.</td>
</tr>
<tr>
<td>6</td>
<td>President Casinos Inc.</td>
</tr>
<tr>
<td>7</td>
<td>Lady Luck Gaming Corp.</td>
</tr>
<tr>
<td>8</td>
<td>Gaylord Entertainment Corp.</td>
</tr>
<tr>
<td>9</td>
<td>Hollywood Casino Corp.</td>
</tr>
<tr>
<td>10</td>
<td>Casino Magic Corp.</td>
</tr>
<tr>
<td>11</td>
<td>Harveys Casino Resorts</td>
</tr>
<tr>
<td>12</td>
<td>Ameristar Casinos Inc.</td>
</tr>
</tbody>
</table>
13 Trump Hotels & Casino Resorts
14 Rio Hotel & Casino Inc.
15 Aztar Corp.
16 Showboat Inc.
17 Station Casinos Inc.
18 Primadonna Resorts Inc.
19 Boyd Gaming Corp.
20 Bally Entertainment Corp.
21 MGM Grand Inc.
22 Mirage Resorts Inc.
23 Griffin Gaming & Entertainment
24 Circus Circus Enterprises Inc.
25 Hilton Hotels Corp.

Variables

The dependent variables in this study are the hotel performance ratios. For the purposes of this study, five profitability ratios, return on assets (ROA), operating return (OR), return on equity (ROE), total return to investors (ROI), and profit margin (PM) were used as accounting performance measures. Stock return (SR) was used as a market measure of performance. Different profitability ratios, reflecting return in different dimensions, were used in the study as performance measures. Return on assets (ROA), a ratio of net income to total assets, measures the return to the total financing provided by shareholders, long-term and short-term creditors. Return on investment (ROI), a ratio of net income to long-term debt, preferred equity and common equity, measures the return to capital or
long-term and permanent financing. Return on equity (ROE), or net income divided by equity, is an indicator of the return to the owners or the shareholders of a lodging firm. Profit margin (PM), which is net income divided by net revenue, was also used. The ratio shows the return in terms of a lodging firms operation activity or sales, rather than in terms of financing activity. Operating return (OR) is defined as the ratio of operating cash flow to the operating assets of a lodging firm. This ratio excludes the effect of depreciation and interest expenses. Therefore, it can be a better measure of managerial performance in comparison with other profitability ratios. Further, excluding non-operational assets investments from the denominator and the impact of depreciation and interest expenses from the numerator makes the ratio a better reflection of operating results. Using multiple ratios will provide performance measures from different aspects of a lodging firm's activities.

In most of previous research on the relationship between managerial ownership and performance, the independent variable for regression was managers' ownership percentage. In a preliminary trial test of this study, the managers' ownership percentage (MOP) was first derived by
dividing the shares held by officers or directors by the total number of outstanding shares. Managers' ownership percentage was regressed against different performance variables.

The preliminary test shows that there is no significant relationship between managerial ownership measured in percentage and firm performance relationship (Table 3). Figure 1 is a plot of managers' ownership versus operating return (OR).

Table 3

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>MOP Coefficient</th>
<th>R square</th>
<th>Sig. T (Sig. F)</th>
<th>Reject H₀</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM</td>
<td>.246264</td>
<td>.02654</td>
<td>.2793</td>
<td>No</td>
</tr>
<tr>
<td>OR</td>
<td>.035080</td>
<td>.02563</td>
<td>.2379</td>
<td>No</td>
</tr>
<tr>
<td>ROI</td>
<td>.030959</td>
<td>.00935</td>
<td>.5226</td>
<td>NO</td>
</tr>
<tr>
<td>ROE</td>
<td>.098285</td>
<td>.01223</td>
<td>.3395</td>
<td>No</td>
</tr>
<tr>
<td>ROA</td>
<td>.154988</td>
<td>.08017</td>
<td>.5541</td>
<td>NO</td>
</tr>
<tr>
<td>SR</td>
<td>.247504</td>
<td>.14594</td>
<td>.1574</td>
<td>NO</td>
</tr>
</tbody>
</table>
The scatter plot does not demonstrate a linear relationship between the dependent and independent variables. Similarly, none of the other performance measures has shown any linear pattern when plotted against the managers' ownership measured by percentage.
Table 4
Relationship between Original Managers' Ownership Percentage and Regular Hotel Performance

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>MOP Coefficient</th>
<th>R square</th>
<th>Sig. T (Sig. F)</th>
<th>Rejected Ho</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM</td>
<td>.347519</td>
<td>.09145</td>
<td>.1950</td>
<td>No</td>
</tr>
<tr>
<td>OR</td>
<td>.067071</td>
<td>.11270</td>
<td>.1479</td>
<td>No</td>
</tr>
<tr>
<td>ROI</td>
<td>.064976</td>
<td>.06592</td>
<td>.2745</td>
<td>No</td>
</tr>
<tr>
<td>ROE</td>
<td>2.053374</td>
<td>.34820</td>
<td>.1969</td>
<td>No</td>
</tr>
<tr>
<td>ROA</td>
<td>.014206</td>
<td>.01109</td>
<td>.6586</td>
<td>No</td>
</tr>
<tr>
<td>SR</td>
<td>-.254388</td>
<td>.06746</td>
<td>.2688</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 5
Relationship between Original Managers' Ownership percentage and Casino Hotels Performance

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Mop Coefficient</th>
<th>R square</th>
<th>Sig. T (Sig. F)</th>
<th>Rejected Ho</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM</td>
<td>.260900</td>
<td>.02157</td>
<td>.4740</td>
<td>No</td>
</tr>
<tr>
<td>OR</td>
<td>.007170</td>
<td>.00088</td>
<td>.8854</td>
<td>No</td>
</tr>
<tr>
<td>ROI</td>
<td>.017745</td>
<td>.00226</td>
<td>.8176</td>
<td>No</td>
</tr>
<tr>
<td>ROE</td>
<td>.197794</td>
<td>.00414</td>
<td>.7548</td>
<td>No</td>
</tr>
<tr>
<td>ROA</td>
<td>-.001534</td>
<td>.00005</td>
<td>.9714</td>
<td>No</td>
</tr>
<tr>
<td>SR</td>
<td>.430597</td>
<td>.03830</td>
<td>.3380</td>
<td>No</td>
</tr>
</tbody>
</table>
The same preliminary test was also conducted for the regular hotel sector and the casino hotel sector respectively. Results from linear regression using MOP as the independent variable show there is no significant relationship between managers' ownership and performance (Table 4-5) in either regular hotels or casino hotels. The plots of MOP against other performance variables, like Figure 1, do not show any linear pattern.

Previous studies found the size of firms has an impact on the incentive that is created by the managers' ownership percentage. With the same ownership percentage, the bigger the company, the larger the incentive. Therefore, to investigate the ownership/performance relationship, the independent variable, MOP need to be adjusted for the size effect. In this study, to control for the impact of size, the original MOP was multiplied by size index to obtain the adjusted MOP.

The observed market value of the firm cannot be used as a size measure to derive the adjustment index because there are huge differences in the sizes of the sample firms. Using observed market value to adjust ownership could enlarge the real size effect. For example, the biggest
size is the 885 times of the smallest size, but the size effect on ownership cannot be 885 times. According to the theory of data transformation, for larger numbers it takes a great increase in X to produce a small increase in log X. Therefore, the logarithmic transformation has the effect of stretching small value of X and condensing large value of X (Clark, 1984).

The logarithmic transformation of the observed market value can well serve the size adjustment need in this study. Thus the log to the base 10 of the size (called Lnsize) was selected for calculating the adjusted index. The company with the smallest Lnsize or logarithmic market value was identified as the benchmark. The size index was then created by dividing each company’s Lnsize by the benchmark. Finally, the new independent variable, or the size-adjusted ownership percentage was obtained by multiplying the original MOP by the size index. The size-adjusted MOPs of the 45 sample firms are displayed in Table 6.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Original MOP</th>
<th>Size Index</th>
<th>Adjusted Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASINO RESOURCE CORP</td>
<td>0.42401</td>
<td>1.00000</td>
<td>0.424010</td>
</tr>
<tr>
<td>BUCKHEAD AMERICA CORP</td>
<td>0.1159</td>
<td>1.04334</td>
<td>0.120899</td>
</tr>
<tr>
<td>SONESTA INTERNATIONAL HOTELS C</td>
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<td>0.223162</td>
</tr>
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<td>SUPERTEL HOSPITALITY INC</td>
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<td>0.380768</td>
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<tr>
<td>LADY LUCK GAMING CORP</td>
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<td>0.552416</td>
</tr>
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<td>GAYLORD ENTERTAINMENT CO</td>
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<td>1.19746</td>
<td>0.754398</td>
</tr>
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<td>0.601601</td>
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<td>1.088256</td>
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<tr>
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</tr>
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</tr>
<tr>
<td>AZTAR CORP</td>
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<td>0.072928</td>
</tr>
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<td>0.238158</td>
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<td>STATION CASINOS INC</td>
<td>0.42415</td>
<td>1.28821</td>
<td>0.546396</td>
</tr>
<tr>
<td>SERVICO INC</td>
<td>0.0827</td>
<td>1.28942</td>
<td>0.106614</td>
</tr>
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<td>BRISTOL HOTEL CO</td>
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<td>1.29201</td>
<td>0.171583</td>
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<tr>
<td>PRIMADONNA RESORTS INC</td>
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<td>1.30885</td>
<td>0.517129</td>
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<tr>
<td>EXTENDED STAY AMERICA INC</td>
<td>0.5237</td>
<td>1.31068</td>
<td>0.686341</td>
</tr>
<tr>
<td>DOUBLETREE CORP</td>
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<td>1.31625</td>
<td>0.177575</td>
</tr>
<tr>
<td>BOYD GAMING CORP</td>
<td>0.59375</td>
<td>1.32187</td>
<td>0.78486</td>
</tr>
</tbody>
</table>
Same size adjustments are done separately for regular and casino hotels. The size-adjusted MOPs for these two sectors are displayed in Table 7 and Table 8.

Table 7

**Compare Casino Hotels' Management Ownership Percentage with Adjusted Management Ownership Percentage**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Original MOP</th>
<th>Size Index</th>
<th>Adjusted Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASINO RESOURCE CORP</td>
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<td>1.000000</td>
<td>0.424010</td>
</tr>
<tr>
<td>BLACK HAWK GAMING &amp; DEVELOPMENT</td>
<td>0.32382</td>
<td>1.080068</td>
<td>0.349747</td>
</tr>
<tr>
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<td>0.65320</td>
<td>1.116051</td>
<td>0.729005</td>
</tr>
<tr>
<td>PRATT HOTEL CORP</td>
<td>0.80767</td>
<td>1.120423</td>
<td>0.904931</td>
</tr>
<tr>
<td>BOOMTOWN INC</td>
<td>0.16753</td>
<td>1.126693</td>
<td>0.188759</td>
</tr>
<tr>
<td>PRESIDENT CASINOS INC</td>
<td>0.32474</td>
<td>1.134580</td>
<td>0.368441</td>
</tr>
<tr>
<td>LADY LUCK GAMING CORP</td>
<td>0.46266</td>
<td>1.187783</td>
<td>0.549542</td>
</tr>
<tr>
<td>GAYLORD ENTERTAINMENT CO</td>
<td>0.63</td>
<td>1.191228</td>
<td>0.750473</td>
</tr>
<tr>
<td>HOLLYWOOD CASINO CORP</td>
<td>0.51682</td>
<td>1.211572</td>
<td>0.626159</td>
</tr>
<tr>
<td>CASINO MAGIC CORP</td>
<td>0.32502</td>
<td>1.220306</td>
<td>0.396619</td>
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<td>0.598471</td>
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<td>1.082594</td>
</tr>
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<td>0.834039</td>
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<td>0.326594</td>
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<tr>
<td>AZTAR CORP</td>
<td>0.05701</td>
<td>1.272547</td>
<td>0.072549</td>
</tr>
<tr>
<td>Company Name</td>
<td>Original MOP</td>
<td>Size Index</td>
<td>Adjusted Index</td>
</tr>
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<td>--------------</td>
<td>--------------</td>
<td>------------</td>
<td>----------------</td>
</tr>
<tr>
<td>BUCKHEAD AMERICA CORP</td>
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<td>1.0000</td>
<td>0.1159</td>
</tr>
<tr>
<td>SONESTA INTERNATIONAL HOTELS</td>
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<td>1.0268</td>
<td>0.6571</td>
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<td>0.2186</td>
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<td>1.0930</td>
<td>0.3480</td>
</tr>
<tr>
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<td>1.1117</td>
<td>0.4447</td>
</tr>
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<td>0.2121</td>
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<td>1.1364</td>
<td>0.2139</td>
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<td>0.3650</td>
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<td>0.9579</td>
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<td>1.2139</td>
<td>1.0717</td>
</tr>
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<td>MARRIOTT INTERNATIONAL INC</td>
<td>0.1851</td>
<td>1.2350</td>
<td>0.2283</td>
</tr>
<tr>
<td>SERVICO INC</td>
<td>0.0827</td>
<td>1.2359</td>
<td>0.1022</td>
</tr>
<tr>
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<td>0.1328</td>
<td>1.2383</td>
<td>0.1645</td>
</tr>
<tr>
<td>EXTENDED STAY AMERICA INC</td>
<td>0.5237</td>
<td>1.2562</td>
<td>0.6578</td>
</tr>
<tr>
<td>DOUBLETREE CORP</td>
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<td>1.2616</td>
<td>0.1702</td>
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<td>1.3024</td>
<td>0.5280</td>
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<td>0.1580</td>
<td>1.3101</td>
<td>0.2069</td>
</tr>
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<td>HOST MARRIOTT CORP</td>
<td>0.1142</td>
<td>1.3336</td>
<td>0.1523</td>
</tr>
<tr>
<td>RENAISSANCE HOTEL GROUP N V</td>
<td>0.61</td>
<td>1.3951</td>
<td>0.8510</td>
</tr>
</tbody>
</table>

Table 8

Compare Regular Hotels’ Management Ownership Percentage

With Adjusted Management Ownership Percentage

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The smallest index is one, for the smallest company, casino Resources corporate itself. As the indexes of other companies are larger than one. The size adjusted MOPs of the companies are all greater than the original MOP. Choosing the smallest Lnsize as the benchmark is pure personal preference. The median and the largest Lnsize can also be chosen as the benchmark without affecting the results.

Previous studies created different groups for firms with different size ranges, then regression was conducted for different size groups. In this study, regression for different size groups are not appropriate because of the small sample size.

**Summary**

In this chapter, the data and research methodology for this study have been discussed. The selection of the dependent variables, performance, and the independent variable, adjusted MOP, have been presented. The results of statistical testing will be presented in Chapter 4.
CHAPTER 4

RESULTS AND FINDINGS

Introduction

In chapter 3, the methodology and procedures for data selection and data analysis have been discussed. In this chapter, an overview of the mean financial performances of the lodging industry is first presented before the results of the statistical testing are discussed.

Overview of Performance

The descriptive statistics of the financial performances of the lodging industry as a whole, and the two sub-groups of hotel and casino sectors are shown in Tables 9-11. A comparison of Table 10 and Table 11 shows that hotels outperformed casinos on ROA, ROI and ROE, while casinos outperformed hotels on SR and PM based on the mean values.
Table 9

**Descriptive Statistics of Performance Measures**

**for all Hotels**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Minimum</th>
<th>Maximum</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>.03</td>
<td>.04</td>
<td>-.05</td>
<td>.09</td>
<td>45</td>
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<tr>
<td>ROI</td>
<td>.04</td>
<td>.05</td>
<td>-.05</td>
<td>.23</td>
<td>45</td>
</tr>
<tr>
<td>OR</td>
<td>.09</td>
<td>.04</td>
<td>-.01</td>
<td>.19</td>
<td>45</td>
</tr>
<tr>
<td>SR</td>
<td>.16</td>
<td>.32</td>
<td>-.27</td>
<td>1.42</td>
<td>45</td>
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<tr>
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<tr>
<td>PM</td>
<td>.43</td>
<td>.14</td>
<td>.05</td>
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Table 10

**Descriptive Statistics of Performance Measures**

**for Regular Hotels**

<table>
<thead>
<tr>
<th>measure</th>
<th>Mean</th>
<th>std Dev</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR</td>
<td>.06</td>
<td>.08</td>
<td>-.10</td>
<td>.20</td>
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<tr>
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<td>.04</td>
<td>.03</td>
<td>-.04</td>
<td>.09</td>
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<tr>
<td>ROI</td>
<td>.06</td>
<td>.06</td>
<td>-.05</td>
<td>.23</td>
</tr>
<tr>
<td>OR</td>
<td>.09</td>
<td>.05</td>
<td>-.01</td>
<td>.19</td>
</tr>
<tr>
<td>ROE</td>
<td>.20</td>
<td>.39</td>
<td>-.42</td>
<td>1.37</td>
</tr>
<tr>
<td>PM</td>
<td>.42</td>
<td>.20</td>
<td>.05</td>
<td>.79</td>
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Table 11

Descriptive Statistics of Performance Measures for Casino Hotels

<table>
<thead>
<tr>
<th>measure</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>.04</td>
<td>-.05</td>
<td>.08</td>
</tr>
<tr>
<td>ROI</td>
<td>.02</td>
<td>.04</td>
<td>-.03</td>
<td>.09</td>
</tr>
<tr>
<td>OR</td>
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<td>.12</td>
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<tr>
<td>ROE</td>
<td>.07</td>
<td>.07</td>
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<tr>
<td>PM</td>
<td>.44</td>
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Test Results

Hypothesis 1

The purpose of this hypothesis was to examine the relationship between managers' ownership and performance of lodging firms. Results from linear regression which used the size adjusted MOP as the independent variable were presented in Table 10. From the linear regression, the results show positive linear relationship between managers' ownership and three of the six measures of performance. The null
hypothesis that there is no significant relationship between managers' ownership and performance is rejected for half of the performance measures with a significant level of 0.05 level. Table 12 demonstrates the regression results.

Table 12

Relationship Between Adjusted Managers' Ownership Percentage And All Hotels Performance

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Adju. MOP Coefficient</th>
<th>R square</th>
<th>Sig. T (Sig. F)</th>
<th>Reject H₀</th>
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</thead>
<tbody>
<tr>
<td>PM</td>
<td>.303838</td>
<td>.39982</td>
<td>.0000</td>
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</tr>
<tr>
<td>OR</td>
<td>.057639</td>
<td>.19486</td>
<td>.0024</td>
<td>YES*</td>
</tr>
<tr>
<td>ROI</td>
<td>.041798</td>
<td>.05582</td>
<td>.1182</td>
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<tr>
<td>ROE</td>
<td>.422057</td>
<td>.20802</td>
<td>.0016</td>
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<td>.00290</td>
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<td>.03338</td>
<td>.2297</td>
<td>NO</td>
</tr>
</tbody>
</table>

* significant at 0.05 level

The relationship between ownership and profit margin of hotels is significant at extremely high significant level (F=0.0000). Figure 2 demonstrates a positive linear relationship between the two variables. Therefore null sub-
hypothesis $h_{id}$, that there is no relationship between managers’ ownership and profit margin of hotels is strongly rejected.

Same positive linear relationship is shown between adjusted MOP and operating return, and between managers’ ownership and return on equity at the 0.05 significant level. When adjusted MOP is plotted against performance variables, a linear pattern is obvious (see Figure 3-4). Therefore the null sub-hypotheses $H_{id}$, $H_{ie}$ are rejected.

The relationships between managers’ ownership and other measures of performance: return on assets, return on investment and stock return are not significant at the 0.05 level. Their plots do not suggest a linear pattern (see Figure 5-7). Therefore, null sub-hypotheses $H_{ia}$, $H_{id}$, $H_{ie}$ are accepted.
Figure 2: Scatter Plot for Relationship between Adjusted Managers' Ownership and Hotels Profit Margin.

Figure 3: Scatter Plot For Relationship Between Adjusted Managers' Ownership And Hotels Operating Return
Figure 4: Scatter Plot for Relationship between Adjusted Managers' Ownership and Hotels Return on Equity

Figure 5: Scatter Plot for Relationship between Adjusted Managers' Ownership and Hotels Return on Assets
Figure 6: Scatter Plot for Relationship between Adjusted Managers' Ownership and Hotels Return on Investment

Figure 7: Scatter Plot for Relationship between Adjusted Managers' Ownership and Hotels Stock Return

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The regression was further conducted for the regular hotel sector and the casino hotel sector separately. Results show that there is significant relationship between the adjusted MOP and some performance measures (Table 13-14). Some are significant at the 0.05 level, such as PM (in regular hotels and in casino hotels), OR (in regular hotels), ROE (in regular hotels). Some are significant at the 0.1 level, such as ROI (in regular hotels), OR (in casino hotels) and ROE (in casino hotels).

Table 13

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Adju. MOP Coefficient</th>
<th>R square</th>
<th>Sig. T (Sig. F)</th>
<th>Rejected</th>
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<tbody>
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<td>PM</td>
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</tr>
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<td>OR</td>
<td>.092861</td>
<td>.30768</td>
<td>.0111</td>
<td>Yes*</td>
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<tr>
<td>ROI</td>
<td>.074054</td>
<td>.14384</td>
<td>.0991</td>
<td>Yes**</td>
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<tr>
<td>ROE</td>
<td>.885969</td>
<td>.45728</td>
<td>.0011</td>
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<tr>
<td>ROA</td>
<td>.017944</td>
<td>.03138</td>
<td>.4550</td>
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</tr>
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<td>SR</td>
<td>.033525</td>
<td>.01435</td>
<td>.6150</td>
<td>No</td>
</tr>
</tbody>
</table>

* significant at 0.05 level ** significant at 0.1 level
Table 14

Relationship between Adjusted Managers' Ownership Percentage and casinos Hotels Performance

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Adju. MOP Coefficient</th>
<th>R square</th>
<th>Sig. T (Sig. F)</th>
<th>Rejected H0</th>
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<tbody>
<tr>
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<td>.12468</td>
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</tr>
<tr>
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<td>.10820</td>
<td>.1084</td>
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<td>.098601</td>
<td>.13924</td>
<td>.0662</td>
<td>Yes**</td>
</tr>
<tr>
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<td>.009200</td>
<td>.00371</td>
<td>.7723</td>
<td>no</td>
</tr>
<tr>
<td>SR</td>
<td>.274797</td>
<td>.07487</td>
<td>.1857</td>
<td>no</td>
</tr>
</tbody>
</table>

* significant at 0.05 level ** significant at 0.1 level

The relationship between the adjusted MOP and profit margin is highly significant in both regular hotels and casino hotels (at the 0.05 level). The relationship between the adjusted MOP and return on equity is significant at the 0.05 level in regular hotels, and at the 0.1 level in casino hotels. The relationship between the adjusted MOP and operating return is significant at 0.05 level in regular hotels, and at 0.1 level in casino hotels. The relationship between the adjusted MOP and return on investment is marginally significant for regular hotels (at the 0.1 level),
but slightly below the 0.1 level for casino hotels. The relationship between the adjusted MOP and ROA is not significant in either regular or casino hotel groups. Likewise the relationship between the adjusted MOP and stock return is not significant in either regular or casino hotels.

The regression results show that there are some differences in the managerial ownership/performance relationship between regular hotels and casino hotels. The ownership/performance relationship is found to be more significant for regular hotels than for casino hotels in terms of statistical significant level, the adjusted MOP coefficients and the R^2's.

**Hypothesis 2:**

This hypothesis was developed to examine the performance differences between hotels which have different ownership percentage levels. The non-paramatric Kruskal-Wallis one way Anova test was used because of the small sample size and non-normal distribution of data.

The 45 hotels were divided into 3 sub groups. Firms which have adjusted MOP at 33.3% or below were classified into group 1. Those with 34%-66% adjusted MOP were
classified into group 2, and those with above 67% adjusted MOP into group 3. The test results were presented in Table 15. The results show that profit margin and operating return have significant differences between different groups at the 0.05 and the 0.1 significant levels respectively. So the null sub-hypotheses $H_{2a}$ and $H_{2e}$, are rejected for these two performance ratios.

Table 15

Kruskal-Wallis 1-way ANOVA Test for Testing Performance Differences in Hotels which have Different Ownership Levels.

<table>
<thead>
<tr>
<th>Performance</th>
<th>Group 1 Mean Rank</th>
<th>Group 2 Mean Rank</th>
<th>Group 3 Mean Rank</th>
<th>Sig.</th>
<th>Reject $H_2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM</td>
<td>15.39</td>
<td>22.53</td>
<td>35.00</td>
<td>.0003</td>
<td>YES*</td>
</tr>
<tr>
<td>ROA</td>
<td>24.31</td>
<td>21.23</td>
<td>23.25</td>
<td>.7952</td>
<td>NO</td>
</tr>
<tr>
<td>ROE</td>
<td>20.83</td>
<td>21.60</td>
<td>28.00</td>
<td>.3006</td>
<td>NO</td>
</tr>
<tr>
<td>ROI</td>
<td>22.94</td>
<td>19.67</td>
<td>27.25</td>
<td>.3266</td>
<td>NO</td>
</tr>
<tr>
<td>OR</td>
<td>18.56</td>
<td>23.30</td>
<td>29.29</td>
<td>.0894</td>
<td>YES**</td>
</tr>
<tr>
<td>SR</td>
<td>23.19</td>
<td>24.47</td>
<td>20.88</td>
<td>.7766</td>
<td>NO</td>
</tr>
</tbody>
</table>

* significant at 0.05 level  ** significant at 0.1 level
Other measures of performance, return on assets, return on equity, return on investment and stock return have not shown any significant differences, so those null sub-hypotheses \( H_{2b}, H_{2c}, H_{2d}, \text{ and } H_{2e} \) are accepted.

As the cut off point for grouping may affect the real difference between groups, different cut off percentages were tried in the Kruskal-Wallis test. The results were similar.

**Hypothesis 3**

The purpose of testing Hypothesis 3 is to examine the difference in the growth between the two sectors, i.e. regular hotels and casino hotels. The test result is presented in Table 14. The result shows that there is a significant difference in sales growth between the regular and casino hotel sector at the 0.1 significant level. Therefore the null hypothesis \( H_1 \) of no difference in growth is rejected. The casino hotel sector is really a fast-growth sector while regular hotels can be regarded as a slow growth sector of the lodging industry.
Table 16

**Mann-Whitney test for 5-years sales growth difference between regular hotels and casino hotels.**

<table>
<thead>
<tr>
<th>Mean Rank</th>
<th>cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.88</td>
<td>17 variable 1= regular hotels</td>
</tr>
<tr>
<td>23.17</td>
<td>23 variable 2 = casino hotels</td>
</tr>
</tbody>
</table>

corrected for ties

<table>
<thead>
<tr>
<th>U</th>
<th>Z</th>
<th>2-Tailed P</th>
</tr>
</thead>
<tbody>
<tr>
<td>134.0</td>
<td>-1.6831</td>
<td>.0924*</td>
</tr>
</tbody>
</table>

* significant at 0.1 level

Summary and Discussion of Findings

The purpose of this study is twofold. First, this study intends to investigate if there is a significant relationship between managers' ownership and hotels'/casinos' performance and how performance is related to managers' ownership. Further, it intends to find out if there is significant performance difference between firms with different MOP levels. Second, this study examines if the managers' ownership/performance relationship differs across the slow-growing hotel sector and the fast-growing casino hotel sector.

In the linear regression, the test rejected three of six of the null sub-hypotheses of the tested performance measures. The null hypotheses of ROI ratio was barely
rejected at the 0.1 level. In particular, the three performance measures with Ho rejected at high significance level, ROE, PM, and OR, are ratios more relevant to shareholders, or more operational and managerial in nature. Therefore, the linear regression results lean towards the rejection of the null hypothesis.

The manager's ownership has the positive linear relationship with most of the performance measures since the coefficients of adjusted MOP are all positive. Increasing managers' ownership seems a way to better converge the interests of managers and stockholders. Increasing managers' ownership can improve hotels' profit margin, operating return, and return on equity in particular.

In the linear regression, the performance measures of ROA and ROI were not found having significant relationship with MOP. The test results reveal a pattern that shows when the ratio becomes more relevant to equity owners or the shareholders, the relationship is more significant. Table 15 is a comparison of the test results of ROE, ROI and ROA for the lodging industry as a whole. The ROA ratio is a ratio of net income to total assets or total financing which includes financing provided by shareholders and by both short- and long-term creditors. When ROA was reduced to ROI
with the short-term liabilities removed from the denominator, the relationship between MOP and performance became barely significant. When ROI was further reduced to ROE with the removal of all liabilities from the denominator, the relationship between the MOP and performance becomes highly significant. The same pattern appears in the linear regression results of the two sectors (see Tables 11 and 12). This pattern strongly suggests that MOP can better converge the interests of management and the shareholders, rather than the interests of management and those of shareholders and creditors combined.

Table 17

Comparing relationship between relative ownership and three measures of performance

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Financing Provider in the denominator of the ratio</th>
<th>R square</th>
<th>Sig. t</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>all financing providers</td>
<td>.00290</td>
<td>.7255</td>
</tr>
<tr>
<td>ROI</td>
<td>long-term creditors and shareholders</td>
<td>.05582</td>
<td>.1182</td>
</tr>
<tr>
<td>ROE</td>
<td>Shareholders</td>
<td>.20802</td>
<td>.0016*</td>
</tr>
</tbody>
</table>

* significant at 0.05 level
The stock return was found not significantly related to the ownership. This finding is consistent with the findings of Tsetsekos and DeFusco's study (1990). There are two possible reasons for the insignificant relationship. First, the market factors may have distorted the results. Stock prices are very sensitive to external events that may have little to do with how efficiently a hotel is run and that are totally beyond management's control (Deckop, 1987). Second, the time frame of the performance ratios may be too short to cause market reaction. The stock price measures indicate what investors think of a company's past performance and future prospects (Brigham, 1985). Probably a quarter's performance is not sufficient to cause significant reaction from the market.

The Kruskal-Wallis one way Anova test shows that PM and OR at different managers' ownership level differ significantly. This finding is consistent with the linear regression results. ROE was not significant in the test. A possible reason may be the non-parametric method itself. The advantage of the non-parametric Kruskal-Wallis test is that it requires fewer assumptions than other tests. The disadvantage is that it is less powerful or less sensitive in finding differences when they exist in the population.
(Norusis, 1995). Therefore, using non-parametric tests may fail to display some important differences.

The empirical result of Kesner (1987) indicated that, for low-growth industries, managers' stock ownership did not appear to influence either current or future performance. Alternatively, high-growth industries did reveal a positive and significant relationship between stock ownership of the board and performance. In this study, regressions were performed separately for the slow-growing hotel sector and fast-growing casino sector. The finding is quite different from Kesner's result (1987). A comparison between Table 13 and 14 show that the slow-growing hotel sector obtained even higher statistical significance levels in the test of the relationship between adjusted MOP and performances (PM, OR, ROE and ROI). The higher significance level associated with the regular hotels' tests suggest that there is a stronger relationship between MOP and performance in the slow-growing hotel sector than in the fast-growing casino hotel sector. Increasing MOP may be a more effective tool for regular hotels to improve performance. There are two reasons that may explain the findings. First, in casino hotels the major part of profits comes from gambling operation rather than from lodging or food and beverage operations. There are more
other factors that may have influence on casino hotels' performance than on regular hotels', such as high rollers' winning or losing, gaming legalization in other states, merger and consolidation of large gaming companies, etc. Those other factors may have distorted the fast-growing casino hotel sector's MOP/performance relationship. Second, the data used for this study is from 1995-1996. Since later 1995, the regular hotel sector has been booming. Room occupancy has achieved the highest level since 1989. Therefore, this "slow-growing" sector may be experiencing a fast growth phase recently. On the other hand, the rapid expansion of the casino hotels has recently slowed because of market saturation, particularly in emerging markets. Therefore, the regular hotel may be relatively fast-growing as compared with the casino hotels in the 1995-96 period.
CHAPTER 5

SUMMARY AND CONCLUSIONS

This chapter summarizes the findings of the study and makes some conclusions based on the empirical findings. Limitations of the study and recommendations for further research are also discussed.

Summary

To answer the first research question, linear regression was used to investigate the relationship between managers ownership and lodging firms' performance. After the adjustment for size effect, the results revealed that management ownership had a significant relationship with sample firms' performance in terms of operational and managerial activities and shareholder's relevance, such as profit margin, hotels operating return and hotels return on equity. Performances measured by those ratios are positively and linearly related to managers' ownership. Kruskal-Wallis test was further used to look for performance differences between different ownership levels. The results of profit margin and operating return did show significant difference between different groups. To answer the second
research question, two separate regressions were performed. The results indicated that managers' ownership may be a more effective tool in interests alignment for regular hotels than for casino hotels.

Conclusions

In this study, significant relationship between MOP and performance measures that are operational, managerial and shareholder-relevant has been found. The findings have provided an important empirical evidence for the agency theory from a service industry. The results are consistent with those of Kim, Lee, and Francis (1988), and Hudson, Jahera and Lloyd (1992). Managers' ownership in the lodging industry could provide managers with long-term incentive, could better align their interests with shareholders', reduce agency cost, and therefore enhance hotels performance. The MOP may be more effective for the regular hotels to improve performance. The lodging industry may use ESOPs with an emphasize on managerial ownership as a tool to improve regular hotels performance in its continuing recovery.
Limitations of the Study

This study did not control other factors which could effect the ownership/performance relationship in lodging industry, particularly in casino hotel sector.

This study considers hotel performance only in a short time frame. Which means that MOP effect on performance may not be fully displayed and that the market may not react quickly enough to the performance change.

Recommendations for Future Research

(1) In order to overcome the small sample size limitation, future research should use other databases to obtain a larger sample size. A larger sample size could provide more reliable results that can be generalized to the whole industry.

(2) In further research, the financial performance should be examined for a longer time horizon instead of three months.

(3) Debt use could have an impact on managers’ ownership and on stock return. Future study can use debt ratio as another independent variable to investigate the relationship.
(4) Future study can separate the management companies from the holding companies and further investigate the effect of different business types on the MOP/performance relationship.

(5) This study is focused on the lodging industry. There are a lot of managers' ownership practice in other service industries. The restaurant industry, for example, has large MOP but few of restaurant firms are successful. Further studies can extend the investigation into other hospitality industries, such as food service industry and non-gaming entertainment industry for more evidence from service industries.

(6) Future research can investigate the relationship between managers' ownership and performance for hospitality firms at different corporation development stages.
BIBLIOGRAPHY


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